

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

July 31, 2009 and 2008

NASHVILLE OPERA ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Nashville Opera Association
Nashville, Tennessee

We have audited the accompanying consolidated statements of financial position of Nashville Opera Association (a nonprofit organization) as of July 31, 2009 and 2008, and the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nashville Opera Association as of July 31, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

November 20, 2009

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
July 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 598,887	\$ 434,484
Contributions receivable	1,585,706	1,988,160
Accounts receivable	1,000	55
Prepaid expenses and other	30,393	55,924
Total current assets	2,215,986	2,478,623
Investments	292,693	290,488
Noncurrent contributions receivable, net of discount	2,215,034	3,122,544
Deposits	5,000	7,010
Building, equipment and leasehold improvements, net	7,371,208	6,126,264
Deferred loan cost, net	-	459
Total assets	<u>\$ 12,099,921</u>	<u>\$ 12,025,388</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 17,624	\$ 11,121
Accounts payable-building	-	487,940
Unearned revenue	155,697	233,524
Lines of credit	239,469	115,000
Note payable-building and building improvements	430,129	-
Total current liabilities	842,919	847,585
Note payable-building and building improvements, noncurrent	1,600,000	839,709
Total liabilities	<u>2,442,919</u>	<u>1,687,294</u>
Net assets:		
Unrestricted	5,500,596	4,936,689
Temporarily restricted	3,748,241	4,993,240
Permanently restricted	408,165	408,165
Total net assets	<u>9,657,002</u>	<u>10,338,094</u>
Total liabilities and net assets	<u>\$ 12,099,921</u>	<u>\$ 12,025,388</u>

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended July 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted Operating</u>	<u>Temporarily Restricted Capital</u>	<u>Total Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:						
Contributions	\$ 768,505	\$ 37,500	\$ -	\$ 37,500	\$ -	\$ 806,005
Ticket sales	487,262	-	-	-	-	487,262
Grants from governmental agencies	235,833	-	-	-	-	235,833
Association fundraiser	139,420	-	-	-	-	139,420
Capital campaign contributions	111,910	-	24,610	24,610	-	136,520
Special events	136,237	-	-	-	-	136,237
Investment income, net	11,101	-	-	-	-	11,101
Other income	7,847	-	-	-	-	7,847
Membership dues	7,340	-	-	-	-	7,340
Rental income	5,480	-	-	-	-	5,480
Interest income	1,623	-	-	-	-	1,623
Net assets released from restrictions	<u>1,307,109</u>	<u>(88,119)</u>	<u>(1,218,990)</u>	<u>(1,307,109)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,219,667</u>	<u>(50,619)</u>	<u>(1,194,380)</u>	<u>(1,244,999)</u>	<u>-</u>	<u>1,974,668</u>
Expenses:						
Production	1,017,843	-	-	-	-	1,017,843
Administrative	535,694	-	-	-	-	535,694
Subcontract labor	370,489	-	-	-	-	370,489
Building expenses	338,735	-	-	-	-	338,735
Development and fundraising	145,092	-	-	-	-	145,092
Marketing	120,530	-	-	-	-	120,530
Special events	78,738	-	-	-	-	78,738
Public relations	36,700	-	-	-	-	36,700
Other	<u>11,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,939</u>
Total expenses	<u>2,655,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,655,760</u>
Change in net assets	<u>\$ 563,907</u>	<u>\$ (50,619)</u>	<u>\$ (1,194,380)</u>	<u>\$ (1,244,999)</u>	<u>\$ -</u>	<u>\$ (681,092)</u>

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended July 31, 2008

	Unrestricted	Temporarily Restricted Operating	Temporarily Restricted Capital	Total Temporarily Restricted	Permanently Restricted	Total
Support and revenue:						
Capital campaign contributions	\$ 2,134,981	\$ -	\$ 4,283,202	\$ 4,283,202	\$ -	\$ 6,418,183
Contributions	1,011,218	40,000	-	40,000	-	1,051,218
Ticket sales	526,331	-	-	-	-	526,331
Grants from governmental agencies	276,785	-	-	-	-	276,785
Special events	215,633	-	-	-	-	215,633
Interest income	65,562	-	-	-	-	65,562
Association fundraiser	30,690	-	-	-	-	30,690
Other income	25,990	-	-	-	-	25,990
Membership dues	10,415	-	-	-	-	10,415
Investment income, net	3,965	-	-	-	-	3,965
Net assets released from restrictions	2,810,555	(106,508)	(2,704,047)	(2,810,555)	-	-
Total support and revenue	7,112,125	(66,508)	1,579,155	1,512,647	-	8,624,772
Expenses:						
Production	1,033,894	-	-	-	-	1,033,894
Subcontract labor	465,198	-	-	-	-	465,198
Administrative	342,269	-	-	-	-	342,269
Building expenses	225,004	-	-	-	-	225,004
Development and fundraising	199,346	-	-	-	-	199,346
Marketing	192,428	-	-	-	-	192,428
Public relations	142,947	-	-	-	-	142,947
Special events	77,045	-	-	-	-	77,045
Other	20,854	-	-	-	-	20,854
Total expenses	2,698,985	-	-	-	-	2,698,985
Change in net assets	\$ 4,413,140	\$ (66,508)	\$ 1,579,155	\$ 1,512,647	\$ -	\$ 5,925,787

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended July 31, 2009 and 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted Operating</u>	<u>Temporarily Restricted Capital</u>	<u>Total Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at July 31, 2007	\$ 523,549	\$ 204,627	\$ 3,275,966	\$ 3,480,593	\$ 408,165	\$ 4,412,307
Change in net assets	<u>4,413,140</u>	<u>(66,508)</u>	<u>1,579,155</u>	<u>1,512,647</u>	<u>-</u>	<u>5,925,787</u>
Net assets at July 31, 2008	4,936,689	138,119	4,855,121	4,993,240	408,165	10,338,094
Change in net assets	<u>563,907</u>	<u>(50,619)</u>	<u>(1,194,380)</u>	<u>(1,244,999)</u>	<u>-</u>	<u>(681,092)</u>
Net assets at July 31, 2009	<u>\$ 5,500,596</u>	<u>\$ 87,500</u>	<u>\$ 3,660,741</u>	<u>\$ 3,748,241</u>	<u>\$ 408,165</u>	<u>\$ 9,657,002</u>

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended July 31, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Production expense	\$ 956,763	\$ -	\$ -	\$ 956,763
Salaries	283,297	337,308	-	620,605
Building expense	-	208,309	-	208,309
Fundraising events	-	-	196,776	196,776
Depreciation and amortization	-	134,503	-	134,503
Miscellaneous	75,362	34,267	16,374	126,003
Marketing	-	95,117	-	95,117
Employee benefits	27,084	22,760	-	49,844
Payroll taxes	23,620	26,166	-	49,786
Printing and publications	-	27,813	8,846	36,659
Loss on disposal of property	-	25,020	-	25,020
Public relations	-	18,233	-	18,233
Postage	-	15,937	1,854	17,791
Pension	5,625	10,266	-	15,891
Capital campaign	6,280	-	6,718	12,998
Telephone	9,274	3,150	-	12,424
Interest	-	12,184	-	12,184
Dues and subscriptions	-	12,120	-	12,120
Legal and professional	-	11,535	-	11,535
Bank fees	-	10,362	-	10,362
Equipment maintenance	-	9,484	-	9,484
Utilities	-	8,877	-	8,877
Supplies	-	8,713	-	8,713
Conferences	-	2,921	-	2,921
Occupancy	-	2,842	-	2,842
Total expenses	<u>\$ 1,387,305</u>	<u>\$ 1,037,887</u>	<u>\$ 230,568</u>	<u>\$ 2,655,760</u>

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended July 31, 2008

	Program Services	Management and General	Fund Raising	Total
Production expense	\$ 1,168,835	\$ -	\$ -	\$ 1,168,835
Salaries	198,343	330,562	112,808	641,713
Capital campaign	30,762	-	109,163	139,925
Marketing	-	105,895	-	105,895
Miscellaneous	51,697	27,141	25,537	104,375
Fundraising events	-	-	100,765	100,765
Building expense	-	59,110	-	59,110
Depreciation and amortization	-	55,131	-	55,131
Employee benefits	18,018	21,618	13,526	53,162
Payroll taxes	16,536	25,611	7,784	49,931
Printing and publications	-	35,379	7,863	43,242
Scenery and costume storage	22,567	-	-	22,567
Postage	-	18,788	1,855	20,643
Public relations	-	17,055	-	17,055
Pension	4,260	6,000	6,472	16,732
Occupancy	-	13,444	-	13,444
Rehearsal hall rent	12,004	-	-	12,004
Interest	-	11,437	-	11,437
Dues and subscriptions	-	10,783	-	10,783
Bank fees	-	10,671	-	10,671
Legal and professional	-	9,700	-	9,700
Telephone	6,832	2,172	-	9,004
Conferences	-	7,407	-	7,407
Equipment maintenance	-	7,212	-	7,212
Supplies	-	4,150	4	4,154
Utilities	-	2,388	-	2,388
Bad debt	-	1,700	-	1,700
Total expenses	<u>\$ 1,529,854</u>	<u>\$ 783,354</u>	<u>\$ 385,777</u>	<u>\$ 2,698,985</u>

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended July 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (681,092)	\$ 5,925,787
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	134,503	55,131
Discount on contributions receivable	(39,593)	151,600
Unrealized losses (gains) on investments	438	16,591
Loss on disposal of property	25,020	-
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(945)	2,275
Decrease (increase) in prepaid expenses and other	25,531	(1,722)
Decrease (increase) in contributions receivable	1,349,557	(3,794,059)
Decrease in deposits	2,010	-
Increase in accounts payable and accrued expenses	6,503	6,389
Decrease in unearned revenue	(77,827)	(23,491)
Net cash provided by operating activities	<u>744,105</u>	<u>2,338,501</u>
Cash flows from investing activities:		
Purchase of building and equipment	(1,404,008)	(5,073,076)
Purchases of investments, net	(17,643)	(71,874)
Proceeds from sales of investments, net	<u>15,000</u>	<u>68,750</u>
Net cash used in investing activities	<u>(1,406,651)</u>	<u>(5,076,200)</u>
Cash flows from financing activities:		
Payment on accounts payable for additions to building and equipment	(487,940)	-
Borrowings on lines of credit	215,000	380,000
Payments on lines of credit	(90,531)	(265,000)
Borrowing on note payable	1,440,420	839,709
Payments on notes payable	<u>(250,000)</u>	<u>-</u>
Net cash provided by financing activities	<u>826,949</u>	<u>954,709</u>
Net increase (decrease) in cash and cash equivalents	164,403	(1,782,990)
Cash and cash equivalents, beginning of year	<u>434,484</u>	<u>2,217,474</u>
Cash and cash equivalents, end of year	<u><u>\$ 598,887</u></u>	<u><u>\$ 434,484</u></u>
Supplemental information:		
Accounts payable for building additions	<u>\$ -</u>	<u>\$ 487,940</u>
Interest paid	<u><u>\$ 65,959</u></u>	<u><u>\$ 15,912</u></u>

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nashville Opera Association (the “Organization”) was organized in 1981 to make a difference by creating legendary productions and programs and providing exceptional service. The Nashville Opera Association is supported primarily through donor contributions.

During fiscal 2002, the Nashville Opera Guild, an organization created to support the Nashville Opera Association primarily through volunteer efforts, merged with the Nashville Opera Association. The accompanying consolidated financial statements include the activities of both the Nashville Opera Association and the Nashville Opera Guild.

The Nashville Opera Association also owns a 100 percent membership interest in three single member limited liability companies, Nashville Opera Company, LLC, (which comprises the operating activities of the Organization, including the operatic productions); Noah Liff Opera Center, LLC, (which comprises the Organization’s building); and NOA Foundation, LLC (which comprises the Organization’s restricted net assets and other investments). The limited liability companies were formed on January 1, 2008.

Principles of Consolidation

The financial statements include the accounts of the Nashville Opera Association, Nashville Opera Guild, Nashville Opera Company, LLC, Noah Liff Opera Center, LLC, and NOA Foundation, LLC, referred herein as the “Organization”. Prior to January 1, 2008, the Organization’s activities and net assets were reflected in accounts of the Nashville Opera Association, Inc. and the Nashville Opera Guild. All significant inter-entity transactions and balances have been eliminated in consolidation.

Accounting Method

The Organization’s accounting records are maintained in accordance with requirements as stated in Not-for-Profit Organizations, as published by the American Institute of Certified Public Accountants. In that respect, the Organization reports on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows. Net assets of the Organization are presented as follows:

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

Unrestricted

Represents unrestricted contributions that are available for the Organization's operations.

Temporarily Restricted

Operating—Represents net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Capital—Represents net assets subject to donor-imposed stipulations that they be used for acquisition or improvement of a long-lived asset or the Fund for Artistic Excellence.

Permanently Restricted

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes. In accordance with SFAS 117-1, the Board of Directors of the Organization has interpreted the 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. As of July 31, 2009 and 2008, the Organization does not maintain significant balances of permanently restricted net assets.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. See Note 4 for discussion on fair value measurements. Gains or losses on such investments are reported as a change in net assets in the period they occur. The Organization's policy is to allocate investments between fixed income securities (70% to 90% of the total investment balance) and equity securities (10% to 30% of the total investment balance).

Contributions Receivable (Promises to Give)

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. Management considers contributions receivable to be fully collectible as of July 31, 2009 and 2008, and accordingly, no allowance for uncollectible pledges has been provided.

Building, Equipment and Leasehold Improvements

Building, furniture, equipment and building improvements are recorded at cost or at fair value as of the date purchased or contributed. Expenditures for ordinary maintenance and repair are charged to operations. Renewals and betterments that materially extend the life of the asset are capitalized. Depreciation is provided in amounts necessary to allocate the costs of the various classes of assets using straight-line methods over the estimated useful lives of the respective assets, generally ranging from 5 to 40 years.

Deferred Loan Costs

Costs relating to debt financing are amortized over the term of the debt agreement using the straight-line method. Amortization expense totaled \$459 and \$1,836 for the years ended July 31, 2009 and 2008, respectively.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

The Organization has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted amounts received and expended in the same year are reflected as unrestricted contributions.

Support and Revenue

The Organization receives grants and support from the National Endowment for the Arts, Tennessee Arts Commission and Metropolitan Nashville Arts Commission. The Organization also receives foundation, individual, board and corporate contributions as well as ticket sale proceeds for its performances.

Unearned revenue represents amounts received or receivable from advance ticket sales. These advance ticket sales and related expenses are reflected in operations in the year the production is performed.

Donated Assets

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Contributed Services and Facilities

Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (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 provided by donation. Contributed services include the value of production services, advertising and professional services donated by individuals in the estimated amount of \$21,407 and \$1,070,451 in 2009 and 2008, respectively. In 2008 \$1,043,795 of the contributed services related to building the Noah Liff Opera Center.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising costs are expensed as incurred and are reflected in marketing in the accompanying consolidated statements of activities. Advertising expense totaled \$73,530 and \$81,558 for fiscal 2009 and 2008, respectively.

Income Taxes

The Organization has qualified for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation. Accordingly, no provision for taxes has been made in the consolidated financial statements.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

At various times during the year, the Organization's cash and cash equivalent balances exceeded federally insured limits. In management's opinion, the risks relating to these deposits is minimal based on the credit rating of its financial institutions.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

The Organization's contributions receivable consist of the following at July 31:

	<u>2009</u>	<u>2008</u>
Receivable in less than one year	\$ 1,585,706	\$ 1,988,160
Receivable in one to five years	<u>2,368,256</u>	<u>3,315,359</u>
Total contributions receivable	3,953,962	5,303,519
Less discounts to net present value (2-5%)	<u>(153,222)</u>	<u>(192,815)</u>
Net contributions receivable	<u>\$ 3,800,740</u>	<u>\$ 5,110,704</u>

Approximately 60% of contributions receivable at July 31, 2009 consist of amounts due from three donors, while approximately 42% of contributions receivable at July 31, 2008 consists of amounts due from two donors.

Approximately 35% of contributions in fiscal 2009 were made by two donors, while approximately 33% of contributions in fiscal 2008 were made by two donors.

Included in the contributions receivable is \$3,660,741 and \$4,855,121 net receivable at July 31, 2009 and 2008, respectively, to be used for payment of the building acquisition and renovation cost or the Fund for Artistic Excellence. This fund will be used to expand the Organization's educational programs outside of Nashville and enhance the quality of the productions.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2009 and 2008

NOTE 4 – INVESTMENTS

Investments, at fair value, consist of the following at July 31:

	<u>2009</u>	<u>2008</u>
Mutual Funds:		
Bond funds (fixed income)	\$ 196,481	\$ 204,945
Common stock funds (equities)	89,972	85,543
Money Market	<u>6,240</u>	<u>-</u>
Total Mutual Funds:	<u>\$ 292,693</u>	<u>\$ 290,488</u>

The Organization adopted SFAS No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include the following:

- 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;
- 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 to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. A description of the valuation methodologies used for assets measured at fair value is as follows:

Mutual funds – valued at the net asset values of shares held by the Organization at year end

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2009 and 2008

NOTE 4 – INVESTMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the investments at fair value as of July 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 292,693	\$ -	\$ -	\$ 292,693

NOTE 5 – BUILDING, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Building, equipment and leasehold improvements at July 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Building	\$ 600,000	\$ 600,000
Building improvements	6,402,002	-
Furniture and equipment	563,021	340,511
Computer equipment	-	48,438
Leasehold improvements	-	215,301
Construction in progress	-	5,232,178
	<u>7,565,023</u>	<u>6,436,428</u>
Accumulated depreciation and amortization	<u>(193,815)</u>	<u>(310,164)</u>
	<u>\$ 7,371,208</u>	<u>\$ 6,126,264</u>

NOTE 6 – LINES OF CREDIT

The Organization maintains three lines of credit with local financial institutions allowing for maximum borrowings of \$75,000, maturing April 2010, \$300,000, maturing March 2010, and \$200,000, maturing February 2010, with interest computed at a variable rate consisting of the bank's prime rate plus 1.5%, 2.25% and 1.0%, respectively. As of July 31, 2009 and 2008, borrowings outstanding were \$239,469 and \$115,000, respectively. The third line of credit noted above is secured by the Organization's cash and investments. The other lines of credit are unsecured.

NOTE 7 – NOTE PAYABLE-BUILDING AND BUILDING IMPROVEMENTS

On January 30, 2008, the Organization entered into a note payable agreement with the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County, which allows the Organization to borrow up to \$3,000,000. The related note was subsequently assigned to a financial institution under the original terms of the note. The interest rate is 79% of the 30-day LIBOR plus 1.59%, to be paid monthly. The note matures February 2012 and is secured by a negative pledge on the Organization's building and building improvements. As of July 31, 2009 and 2008, borrowings outstanding were \$2,030,129 and \$839,709, respectively.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2009 and 2008

NOTE 8 – RESTRICTED NET ASSETS

Temporarily restricted net assets – operating consist of the following at July 31:

	<u>2009</u>	<u>2008</u>
Young Artist Program	\$ 50,000	\$ 97,619
Promises to give for future periods	<u>37,500</u>	<u>40,500</u>
	<u><u>\$ 87,500</u></u>	<u><u>\$ 138,119</u></u>

Temporarily restricted net assets – capital consist of the following at July 31:

	<u>2009</u>	<u>2008</u>
Promises to give for building acquisition and renovation or the Fund for Artistic Excellence	\$ 3,660,741	\$ 4,855,121

Permanently restricted net assets consist of assets held for the following purposes at July 31:

	<u>2009</u>	<u>2008</u>
Endowment fund for operating expenses	\$ 308,165	\$ 308,165
Young Artist Scholarship program	<u>100,000</u>	<u>100,000</u>
	<u><u>\$ 408,165</u></u>	<u><u>\$ 408,165</u></u>

NOTE 9 – LEASE AGREEMENT

The Organization leased office space through November 2008. The lease term extended through August 2009 at a base rental of \$3,625 per month. During November 2008, a lease termination agreement was executed, resulting in payment to the lessor of \$29,000 to end the Organization's commitment under the lease.

NOTE 10 – COMMUNITY FOUNDATION OF MIDDLE TENNESSEE

The Community Foundation of Middle Tennessee (the "Foundation") maintains investments on behalf of the Organization. The Foundation has ultimate authority and control over the investments; accordingly, the net assets of the Organization do not include these investments.

The Organization does anticipate receiving periodic investment earnings on its pro-rata share of the Foundation's assets. The balance of the endowment fund held for the benefit of the Organization totals \$1,663,309 and \$2,214,975 at July 31, 2009 and 2008, respectively.

The Organization received contributions from the Foundation of \$112,000 and \$91,550 in fiscal 2009 and 2008, respectively.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2009 and 2008

NOTE 11 – EMPLOYEE BENEFIT PLAN

Effective January 1, 2005, the Organization established a defined contribution benefit plan (the “Plan”) in which all qualified employees 21 years of age and over may participate. The Plan provides for participants’ pretax contributions to the Plan pursuant to Section 401(k) of the Internal Revenue Code. The Organization will make a matching contribution equal to 100% of employee salary deferrals that do not exceed 4% of salary. Both employee and employer contributions are 100% vested. The Organization’s contribution to the Plan was approximately \$15,891 and \$16,732 for the years ended July 31, 2009 and 2008, respectively.

SUPPLEMENTAL INFORMATION



FRASIER, DEAN & HOWARD, PLLC

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

The Board of Directors of
Nashville Opera Association
Nashville, Tennessee

Our report on our audit of the consolidated financial statements of Nashville Opera Association appears on page 2. That audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating statements of activities that follow on pages 20 and 21, are presented for purposes of additional analysis, and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Frasier, Dean + Howard, PLLC

November 20, 2009

NASHVILLE OPERA ASSOCIATION
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended July 31, 2009

	Nashville Opera Company, LLC	Noah Liff Opera Center, LLC	NOA Foundation, LLC	Nashville Opera Guild	Eliminations Dr. (Cr.)	Consolidated
Support and revenue:						
Contributions	\$ 1,056,005	\$ -	\$ -	\$ -	\$ 250,000	\$ 806,005
Ticket sales	487,262	-	-	-	-	487,262
Grants from governmental agencies	235,833	-	-	-	-	235,833
Association fundraiser	139,420	-	-	-	-	139,420
Capital campaign contributions	-	136,520	-	-	-	136,520
Special events	-	-	-	136,237	-	136,237
Investment income, net	-	-	11,101	-	-	11,101
Other income	2,315	-	-	5,532	-	7,847
Membership dues	-	-	-	7,340	-	7,340
Rental income	5,480	-	-	-	-	5,480
Interest income	-	1,613	-	10	-	1,623
Total support and revenue	<u>1,926,315</u>	<u>138,133</u>	<u>11,101</u>	<u>149,119</u>	<u>250,000</u>	<u>1,974,668</u>
Expenses:						
Production	1,017,843	-	-	-	-	1,017,843
Administrative	535,694	-	-	-	-	535,694
Subcontract labor	370,489	-	-	-	-	370,489
Building expenses	-	338,735	-	-	-	338,735
Development and fundraising	145,092	-	-	-	-	145,092
Marketing	120,530	-	-	-	-	120,530
Special events	-	-	-	78,738	-	78,738
Public relations	36,700	-	-	-	-	36,700
Other	-	-	624	11,315	-	11,939
Contributions	-	175,000	15,000	60,000	(250,000)	-
Total expenses	<u>2,226,348</u>	<u>513,735</u>	<u>15,624</u>	<u>150,053</u>	<u>(250,000)</u>	<u>2,655,760</u>
Change in net assets	<u>\$ (300,033)</u>	<u>\$ (375,602)</u>	<u>\$ (4,523)</u>	<u>\$ (934)</u>	<u>\$ -</u>	<u>\$ (681,092)</u>

**NASHVILLE OPERA ASSOCIATION
CONSOLIDATING STATEMENT OF ACTIVITIES**

	<u>Year ended July 31, 2008</u>		<u>Seven months ended July 31, 2008</u>				
	<u>Nashville Opera Association</u>	<u>Nashville Opera Guild</u>	<u>Nashville Opera Company, LLC</u>	<u>Noah Liff Opera Center, LLC</u>	<u>NOA Foundation, LLC</u>	<u>Eliminations Dr. (Cr.)</u>	<u>Consolidated</u>
Support and revenue:							
Capital campaign contributions	\$ 4,208,481	\$ -	\$ -	\$ 2,209,702	\$ -	\$ -	\$ 6,418,183
Contributions	433,727	-	796,241	-	-	178,750	1,051,218
Ticket sales	360,605	-	165,726	-	-	-	526,331
Grants from governmental agencies	274,285	-	2,500	-	-	-	276,785
Special events	-	215,633	-	-	-	-	215,633
Interest income	48,298	12	-	17,252	-	-	65,562
Association fundraiser	1,300	-	29,390	-	-	-	30,690
Other income	11,373	12,848	1,769	-	-	-	25,990
Membership dues	-	10,415	-	-	-	-	10,415
Investment income, net	13,136	-	-	-	(9,171)	-	3,965
Total support and revenue	<u>5,351,205</u>	<u>238,908</u>	<u>995,626</u>	<u>2,226,954</u>	<u>(9,171)</u>	<u>178,750</u>	<u>8,624,772</u>
Expenses:							
Production	372,812	-	661,082	-	-	-	1,033,894
Subcontract labor	370,367	-	94,831	-	-	-	465,198
Administrative	125,093	-	217,176	-	-	-	342,269
Building expenses	84,736	-	-	140,268	-	-	225,004
Development and fundraising	89,884	-	109,462	-	-	-	199,346
Marketing	125,511	-	66,917	-	-	-	192,428
Public relations	61,920	-	81,027	-	-	-	142,947
Special events	-	77,045	-	-	-	-	77,045
Other	284	18,369	-	-	2,201	-	20,854
Contributions	-	145,000	-	15,000	18,750	(178,750)	-
Total expenses	<u>1,230,607</u>	<u>240,414</u>	<u>1,230,495</u>	<u>155,268</u>	<u>20,951</u>	<u>(178,750)</u>	<u>2,698,985</u>
Change in net assets	<u>\$ 4,120,598</u>	<u>\$ (1,506)</u>	<u>\$ (234,869)</u>	<u>\$ 2,071,686</u>	<u>\$ (30,122)</u>	<u>\$ -</u>	<u>\$ 5,925,787</u>