

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

July 31, 2012 and 2011

NASHVILLE OPERA ASSOCIATION

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report | 2 |
| Consolidated Financial Statements: | |
| Consolidated Statements of Financial Position..... | 3 |
| Consolidated Statements of Activities | 4 – 5 |
| Consolidated Statements of Changes in Net Assets..... | 6 |
| Consolidated Statements of Functional Expenses | 7 – 8 |
| Consolidated Statements of Cash Flows | 9 |
| Notes to Consolidated Financial Statements | 10 – 22 |



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, 2012 and 2011, 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, 2012 and 2011, 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.

As discussed in Note 14 to the financial statements, the Organization restated certain net assets previously reported as unrestricted and temporarily restricted to permanently restricted in order to properly report such net assets as of August 1, 2010. Accordingly, the financial statements as of and for the year ended July 31, 2011 have been restated.

Frasier, Dean & Howard, PLLC

November 19, 2012

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
July 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> (Restated) |
|--|---------------------|---------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 230,226 | \$ 236,093 |
| Contributions receivable | 1,161,227 | 1,671,733 |
| Prepaid expenses and other | <u>35,986</u> | <u>20,792</u> |
| Total current assets | 1,427,439 | 1,928,618 |
| Investments | 440,746 | 265,434 |
| Noncurrent contributions receivable, net of discount | 1,215,849 | 1,033,180 |
| Building, equipment and building improvements, net | <u>6,728,996</u> | <u>6,976,639</u> |
| Total assets | <u>\$ 9,813,030</u> | <u>\$ 10,203,871</u> |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 18,147 | \$ 17,426 |
| Unearned revenue | 277,283 | 162,235 |
| Lines of credit | 200,000 | 481,500 |
| Note payable-furniture and fixtures | 19,000 | 25,000 |
| Note payable-building and building improvements | <u>-</u> | <u>600,000</u> |
| Total current liabilities | <u>514,430</u> | <u>1,286,161</u> |
| Net assets: | | |
| Unrestricted | 6,383,745 | 5,696,570 |
| Temporarily restricted | 2,306,690 | 2,612,975 |
| Permanently restricted | <u>608,165</u> | <u>608,165</u> |
| Total net assets | <u>9,298,600</u> | <u>8,917,710</u> |
| Total liabilities and net assets | <u>\$ 9,813,030</u> | <u>\$ 10,203,871</u> |

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended July 31, 2012

| | Unrestricted | Operating | Temporarily Restricted Capital | Total | Permanently Restricted | Total |
|---|--------------|------------|--------------------------------|--------------|------------------------|--------------|
| Support and revenue: | | | | | | |
| Capital campaign contributions | \$ 486,315 | \$ - | \$ 728,804 | \$ 728,804 | \$ - | \$ 1,215,119 |
| Contributions from corporations and foundations | 198,019 | 180,700 | - | 180,700 | - | 378,719 |
| Contributions from individuals | 299,654 | 20,000 | - | 20,000 | - | 319,654 |
| Grants from governmental agencies | 229,400 | 67,500 | - | 67,500 | - | 296,900 |
| Guild special events | 263,844 | - | - | - | - | 263,844 |
| Subscription ticket sales | 199,883 | - | - | - | - | 199,883 |
| Single ticket sales and tour fees | 169,392 | - | - | - | - | 169,392 |
| Other contributions | 121,120 | - | - | - | - | 121,120 |
| Rental income | 83,030 | - | - | - | - | 83,030 |
| Fundraising revenue | 9,133 | - | - | - | - | 9,133 |
| Investment income, net | 8,677 | - | - | - | - | 8,677 |
| Membership dues | 6,255 | - | - | - | - | 6,255 |
| Other income | 2,456 | - | - | - | - | 2,456 |
| Interest income | 29 | - | - | - | - | 29 |
| Net assets released from restrictions | 1,303,289 | (269,500) | (1,033,789) | (1,303,289) | - | - |
| Total support and revenue | 3,380,496 | (1,300) | (304,985) | (306,285) | - | 3,074,211 |
| Expenses: | | | | | | |
| Production | 914,433 | - | - | - | - | 914,433 |
| Administrative | 622,439 | - | - | - | - | 622,439 |
| Subcontract labor | 352,733 | - | - | - | - | 352,733 |
| Building expenses | 341,627 | - | - | - | - | 341,627 |
| Other | 192,873 | - | - | - | - | 192,873 |
| Special events | 142,582 | - | - | - | - | 142,582 |
| Marketing | 67,665 | - | - | - | - | 67,665 |
| Public relations | 32,687 | - | - | - | - | 32,687 |
| Development and fundraising | 26,282 | - | - | - | - | 26,282 |
| Total expenses | 2,693,321 | - | - | - | - | 2,693,321 |
| Change in net assets | \$ 687,175 | \$ (1,300) | \$ (304,985) | \$ (306,285) | \$ - | \$ 380,890 |

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended July 31, 2011

| | Unrestricted | Operating | Temporarily Restricted | Capital | Total | Permanently Restricted | Total |
|---|--------------|------------|------------------------|--------------|--------------|------------------------|--------------|
| Support and revenue: | | | | | | | |
| Contributions from corporations and foundations | \$ 377,433 | \$ 217,500 | \$ - | 293,800 | 217,500 | \$ - | \$ 594,933 |
| Capital campaign contributions | 155,985 | - | - | - | 293,800 | - | 449,785 |
| Contributions from individuals | 267,829 | 52,000 | - | - | 52,000 | - | 319,829 |
| Single ticket sales and tour fees | 282,642 | - | - | - | - | - | 282,642 |
| Subscription ticket sales | 237,597 | - | - | - | - | - | 237,597 |
| Grants from governmental agencies | 216,250 | - | - | - | - | - | 216,250 |
| Guild special events | 165,775 | - | - | - | - | - | 165,775 |
| Other contributions | 162,034 | - | - | - | - | - | 162,034 |
| Rental income | 81,490 | - | - | - | - | - | 81,490 |
| Investment income, net | 25,698 | - | - | - | - | - | 25,698 |
| Fundraising revenue | 24,594 | - | - | - | - | - | 24,594 |
| Other income | 10,681 | - | - | - | - | - | 10,681 |
| Membership dues | 6,465 | - | - | - | - | - | 6,465 |
| Interest income | 263 | - | - | - | - | - | 263 |
| Net assets released from restrictions | 890,083 | (90,672) | (799,411) | - | (890,083) | - | - |
| Total support and revenue | 2,904,819 | 178,828 | (505,611) | (326,783) | (326,783) | - | 2,578,036 |
| Expenses: | | | | | | | |
| Production | 1,046,382 | - | - | - | - | - | 1,046,382 |
| Administrative | 656,737 | - | - | - | - | - | 656,737 |
| Subcontract labor | 415,145 | - | - | - | - | - | 415,145 |
| Building expenses | 369,968 | - | - | - | - | - | 369,968 |
| Marketing | 86,880 | - | - | - | - | - | 86,880 |
| Special events | 69,530 | - | - | - | - | - | 69,530 |
| Other | 50,708 | - | - | - | - | - | 50,708 |
| Public relations | 36,055 | - | - | - | - | - | 36,055 |
| Development and fundraising | 27,324 | - | - | - | - | - | 27,324 |
| Total expenses | 2,758,729 | - | - | - | - | - | 2,758,729 |
| Change in net assets | \$ 146,090 | \$ 178,828 | \$ (505,611) | \$ (326,783) | \$ (326,783) | \$ - | \$ (180,693) |

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended July 31, 2012 and 2011

| | Unrestricted | Operating | Temporarily Restricted Capital | Total | Permanently Restricted | Total |
|--|--------------|------------|-----------------------------------|--------------|---------------------------|--------------|
| Net assets at July 31, 2010, as previously stated | \$ 5,657,480 | \$ 90,672 | \$ 2,942,086 | \$ 3,032,758 | \$ 408,165 | \$ 9,098,403 |
| Adjustment for reclassification of contribution (Note 14) | (107,000) | - | (93,000) | (93,000) | 200,000 | - |
| Net assets at July 31, 2010, as restated | 5,550,480 | 90,672 | 2,849,086 | 2,939,758 | 608,165 | 9,098,403 |
| Change in net assets | 146,090 | 178,828 | (505,611) | (326,783) | - | (180,693) |
| Net assets at July 31, 2011 | 5,696,570 | 269,500 | 2,343,475 | 2,612,975 | 608,165 | 8,917,710 |
| Change in net assets | 687,175 | (1,300) | (304,985) | (306,285) | - | 380,890 |
| Net assets at July 31, 2012 | \$ 6,383,745 | \$ 268,200 | \$ 2,038,490 | \$ 2,306,690 | \$ 608,165 | \$ 9,298,600 |

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended July 31, 2012

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fund Raising</u> | <u>Total</u> |
|-------------------------------|-----------------------------|-----------------------------------|-------------------------|---------------------|
| Salaries | \$ 290,283 | \$ 296,092 | \$ 139,262 | \$ 725,637 |
| Production expense | 477,850 | - | - | 477,850 |
| Production subcontract labor | 354,733 | - | - | 354,733 |
| Depreciation and amortization | 203,445 | 67,815 | - | 271,260 |
| Bad debt expense | - | 178,837 | - | 178,837 |
| Fundraising events | - | - | 149,020 | 149,020 |
| Building expense | 66,144 | 17,285 | - | 83,429 |
| Employee benefits | 32,552 | 23,490 | 9,145 | 65,187 |
| Miscellaneous | 14,953 | 34,693 | 11,432 | 61,078 |
| Payroll taxes | 25,172 | 24,175 | 10,654 | 60,001 |
| Marketing | - | 49,318 | - | 49,318 |
| Utilities | 30,246 | 10,082 | - | 40,328 |
| Interest | - | 27,389 | - | 27,389 |
| Printing and publications | - | 21,448 | 5,828 | 27,276 |
| Insurance | 11,351 | 11,351 | - | 22,702 |
| Public relations | - | 17,049 | - | 17,049 |
| Postage | - | 13,276 | 2,584 | 15,860 |
| Legal and professional | - | 12,750 | - | 12,750 |
| Bank fees | - | 12,448 | - | 12,448 |
| Pension | 7,241 | 2,609 | 1,610 | 11,460 |
| Telephone | 8,498 | 2,854 | - | 11,352 |
| Equipment maintenance | - | 6,568 | - | 6,568 |
| Dues and subscriptions | - | 6,111 | - | 6,111 |
| Supplies | - | 3,985 | - | 3,985 |
| Conferences | - | 1,693 | - | 1,693 |
| Total expenses | <u>\$ 1,522,468</u> | <u>\$ 841,318</u> | <u>\$ 329,535</u> | <u>\$ 2,693,321</u> |

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended July 31, 2011

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fund Raising</u> | <u>Total</u> |
|-------------------------------|-----------------------------|-----------------------------------|-------------------------|---------------------|
| Salaries | \$ 290,655 | \$ 309,935 | \$ 136,825 | \$ 737,415 |
| Production expense | 580,882 | - | - | 580,882 |
| Production subcontract labor | 428,145 | - | - | 428,145 |
| Depreciation and amortization | 202,481 | 67,494 | - | 269,975 |
| Building expense | 90,402 | 25,323 | - | 115,725 |
| Miscellaneous | 25,015 | 40,703 | 12,806 | 78,524 |
| Fundraising events | - | - | 72,942 | 72,942 |
| Employee benefits | 34,103 | 25,935 | 8,869 | 68,907 |
| Marketing | - | 61,887 | - | 61,887 |
| Payroll taxes | 26,190 | 25,175 | 10,467 | 61,832 |
| Utilities | 35,308 | 11,769 | - | 47,077 |
| Bad debt expense | - | 37,000 | - | 37,000 |
| Postage | - | 20,202 | 4,354 | 24,556 |
| Printing and publications | - | 18,567 | 5,252 | 23,819 |
| Insurance | 10,949 | 10,949 | - | 21,898 |
| Pension | 7,594 | 11,290 | 2,675 | 21,559 |
| Interest | - | 19,457 | - | 19,457 |
| Public relations | - | 14,908 | - | 14,908 |
| Dues and subscriptions | 6,500 | 7,475 | - | 13,975 |
| Bank fees | - | 12,781 | - | 12,781 |
| Legal and professional | - | 12,100 | - | 12,100 |
| Telephone | 8,254 | 2,813 | - | 11,067 |
| Conferences | - | 8,741 | - | 8,741 |
| Equipment maintenance | - | 8,266 | - | 8,266 |
| Supplies | - | 5,291 | - | 5,291 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total expenses | <u>\$ 1,746,478</u> | <u>\$ 758,061</u> | <u>\$ 254,190</u> | <u>\$ 2,758,729</u> |

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended July 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|--------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 380,890 | \$ (180,693) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 271,260 | 269,975 |
| Unrealized losses on investments | (621) | (10,096) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | - | 4,050 |
| Prepaid expenses and other | (15,194) | 94,078 |
| Contributions receivable | (20,148) | (227,766) |
| Accounts payable and accrued expenses | 721 | (1,525) |
| Unearned revenue | 115,048 | (78,173) |
| Contributions restricted for long-term purposes | (728,804) | (449,785) |
| Net cash provided by (used in) operating activities | <u>3,152</u> | <u>(579,935)</u> |
| Cash flows from investing activities: | | |
| Purchase of building and equipment | (23,617) | (113,046) |
| Purchases of investments, net | (174,691) | (13,923) |
| Proceeds from sales of investments, net | - | 63,500 |
| Net cash used in investing activities | <u>(198,308)</u> | <u>(63,469)</u> |
| Cash flows from financing activities: | | |
| Collections of contributions restricted for long-term purposes | 1,076,789 | 1,005,396 |
| Borrowings on lines of credit | 340,000 | 581,500 |
| Payments on lines of credit | (621,500) | (264,469) |
| Borrowing on note payable-furniture and equipment | - | 25,000 |
| Payments on notes payable | (606,000) | (880,129) |
| Net cash provided by financing activities | <u>189,289</u> | <u>467,298</u> |
| Net decrease in cash and cash equivalents | (5,867) | (176,106) |
| Cash and cash equivalents, beginning of year | 236,093 | 412,199 |
| Cash and cash equivalents, end of year | <u>\$ 230,226</u> | <u>\$ 236,093</u> |
| Supplemental information: | | |
| Interest paid | <u>\$ 33,540</u> | <u>\$ 39,669</u> |
| Taxes paid | <u>\$ 2,871</u> | <u>\$ 3,028</u> |
| Noncash financing transactions: | | |
| Decrease in discount on contributions receivable | <u>\$ -</u> | <u>\$ (43,010)</u> |
| Change in provision for doubtful pledges receivable | <u>\$ -</u> | <u>\$ (25,000)</u> |

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2012 and 2011

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 to herein collectively as the “Organization.” All significant inter-entity transactions and balances have been eliminated in consolidation.

Accounting Method

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, whereby revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Financial Statement Presentation

The Organization reports 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. Net assets of the Organization are presented as follows:

Unrestricted

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

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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, renovation and maintenance 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.

Restricted Endowment Funds

The Financial Accounting Standards Board Accounting Standards Codification provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management Institutional Funds Act (“UPMIFA”). The guidance requires that the amount of permanently restricted net assets cannot be reduced by losses on investments of the funds or by an organization’s expenditures from the fund unless the donor required the gift to be held in specific investments. It also requires disclosure of a description of the governing board’s interpretation of the law that underlies the organization’s net asset classification of donor-restricted endowment funds, a description of the organization’s policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization’s endowment investment policies, and additional disclosures, which are disclosed in Note 10.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

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 5 for discussion of 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 and equity securities.

Contributions Receivable (Promises to Give)

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Pledges due in the next year are reflected as current pledges receivable and are recorded at their net realizable value. Pledges due in subsequent years are reflected as noncurrent pledges receivable and are recorded at the present value of their net realizable value, by discounting pledges at an appropriate rate commensurate with the risk involved.

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, 2012 and 2011, and accordingly no allowance for uncollectible pledges has been provided at July 31, 2012 and 2011.

Building, Equipment and Building Improvements

Building, furniture, equipment and building improvements are recorded at cost as of the date purchased or at fair value as of the date 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.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a 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 consolidated statements of activities as net assets released from restrictions. Contributions whose restrictions are met in the same reporting period are shown as increases in unrestricted net assets. The Organization recognizes revenue received related to the Impresario Council as an annual unrestricted contribution.

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 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

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Services and Facilities

include the value of production services, advertising and professional services donated by individuals in the estimated amounts of \$28,270 and \$61,134 in fiscal 2012 and 2011, respectively.

Advertising Costs

Advertising costs are expensed as incurred and are reflected in marketing in the accompanying consolidated statements of activities. Advertising expense totaled \$40,413 and \$37,675 for fiscal 2012 and 2011, 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.

The Organization follows guidance clarifying the accounting for uncertainty in income taxes recognized in an entity's financial statements. This interpretation prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying consolidated financial statements. Tax years that remain open for examination include years ended July 31, 2009 through July 31, 2012.

Subsequent Events

The Organization evaluated subsequent events through November 19, 2012, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the consolidated statement of financial position date but prior to the filing of this report that would have a material impact on the accompanying 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 ratings of its financial institutions.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

NOTE 3 – CONTRIBUTIONS RECEIVABLE

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

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Receivable in less than one year | \$ 1,161,227 | \$ 1,671,733 |
| Receivable in one to five years | <u>1,265,389</u> | <u>1,082,720</u> |
| Total contributions receivable | 2,426,616 | 2,754,453 |
| Less discounts to net present value (2-5%) | <u>(49,540)</u> | <u>(49,540)</u> |
| Net contributions receivable | <u>\$ 2,377,076</u> | <u>\$ 2,704,913</u> |

Approximately 69% of contributions receivable at July 31, 2012 consist of amounts due from three donors, while approximately 61% of contributions receivable at July 31, 2011 consists of amounts due from two donors.

Approximately 34% of contributions in fiscal 2012 were made by two donors, while approximately 23% of contributions in fiscal 2011 were made by one donor.

Included in the contributions receivable is \$2,038,490 and \$2,386,475 net receivable at July 31, 2012 and 2011, respectively, to be used for 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.

NOTE 4 – INVESTMENTS

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

| | <u>2012</u> | <u>2011</u> |
|-----------------------|-------------------|-------------------|
| Mutual funds | \$ 95,534 | \$ 107,694 |
| Exchange-traded funds | 166,521 | 152,422 |
| Money market | <u>178,691</u> | <u>5,318</u> |
| Total investments | <u>\$ 440,746</u> | <u>\$ 265,434</u> |

NOTE 5 – FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United State of America establish a fair value measurement hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs and have the lowest priority. The Organization uses the higher priority valuation techniques based on available inputs to measure fair values. A description of the valuation methodologies used for assets measured at fair value is as follows:

Money market funds and mutual funds: Valued at the net asset value of shares held by the fund at year end.

Exchange-traded funds: Valued at the closing price reported on the active market on which the securities are traded.

The following table sets forth by level, within the fair value hierarchy, the investments at fair value as of July 31, 2012:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------|-------------------|----------------|----------------|-------------------|
| Money market funds | \$ 178,691 | \$ - | \$ - | \$ 178,691 |
| Mutual funds: | | | | |
| Bond funds-fixed income | 22,313 | - | - | 22,313 |
| Common stock funds-growth funds | <u>73,221</u> | <u>-</u> | <u>-</u> | <u>73,221</u> |
| Total mutual funds | <u>95,534</u> | <u>-</u> | <u>-</u> | <u>95,534</u> |
| Exchange-traded funds: | | | | |
| Bond funds-fixed income | 68,408 | - | - | 68,408 |
| Common stock funds-growth funds | <u>98,113</u> | <u>-</u> | <u>-</u> | <u>98,113</u> |
| Total exchange-traded funds | <u>166,521</u> | <u>-</u> | <u>-</u> | <u>166,521</u> |
| Total investments | <u>\$ 440,746</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 440,746</u> |

The following table sets forth by level, within the fair value hierarchy, the investments at fair value as of July 31, 2011:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------|-------------------|----------------|----------------|-------------------|
| Money market funds | \$ 5,318 | \$ - | \$ - | \$ 5,318 |
| Mutual funds: | | | | |
| Bond funds-fixed income | 13,407 | - | - | 13,407 |
| Common stock funds-growth funds | <u>94,287</u> | <u>-</u> | <u>-</u> | <u>94,287</u> |
| Total mutual funds | <u>107,694</u> | <u>-</u> | <u>-</u> | <u>107,694</u> |
| Exchange-traded funds: | | | | |
| Bond funds-fixed income | 73,566 | - | - | 73,566 |
| Common stock funds-growth funds | <u>78,856</u> | <u>-</u> | <u>-</u> | <u>78,856</u> |
| Total exchange-traded funds | <u>152,422</u> | <u>-</u> | <u>-</u> | <u>152,422</u> |
| Total investments | <u>\$ 265,434</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 265,434</u> |

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

NOTE 6 – BUILDING, EQUIPMENT AND BUILDING IMPROVEMENTS

Building, equipment and building improvements at July 31, 2012 and 2011 consist of the following:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Building | \$ 600,000 | \$ 600,000 |
| Building improvements | 6,489,164 | 6,489,164 |
| Furniture and equipment | <u>639,435</u> | <u>615,818</u> |
| | 7,728,599 | 7,704,982 |
| Accumulated depreciation and amortization | <u>(999,603)</u> | <u>(728,343)</u> |
| | <u>\$ 6,728,996</u> | <u>\$ 6,976,639</u> |

NOTE 7 – LINES OF CREDIT

The Organization maintains two lines of credit with local financial institutions allowing for maximum borrowings of \$300,000, maturing April 2013, and \$200,000, maturing February 2013, with interest computed at a variable rate consisting of the bank's prime rate plus 3.35% and 1.0%, respectively. As of July 31, 2012 and 2011, borrowings outstanding were \$200,000 and \$481,500, respectively. The second line of credit noted above is secured by the Organization's cash and investments. The other line of credit is unsecured.

NOTE 8 – NOTES PAYABLE

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 is secured by a negative pledge on the Organization's building and building improvements. The note was paid in full prior to the loan maturity in February 2012. As of July 31, 2012 and 2011, borrowings outstanding were \$0 and \$600,000, respectively.

During May 2011, the Organization entered into a demand note payable with a board member in the amount of \$25,000 in order to purchase furniture. The interest rate is 2% to be paid annually in arrears. The demand note is unsecured. As of July 31, 2012 and 2011, borrowings outstanding were \$19,000 and \$25,000, respectively.

Principal payments on the notes payable and the lines of credit described in Note 7 are all classified as current due to the maturity date or type of notes payable.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

NOTE 9 – RESTRICTIONS ON NET ASSETS

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

| | <u>2012</u> | <u>2011</u> |
|-------------------------------------|-------------|-------------|
| Promises to give for future periods | \$ 268,200 | \$ 269,500 |

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

| | <u>2012</u> | <u>2011</u> |
|---|--------------|--------------|
| Promises to give for building acquisition, renovation and maintenance or the Fund for Artistic Excellence | \$ 2,038,490 | \$ 2,343,475 |

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

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------|-------------------|-------------------|
| Endowment fund for operating expenses | \$ 508,165 | \$ 508,165 |
| Young Artist Scholarship program | 100,000 | 100,000 |
| | <u>\$ 608,165</u> | <u>\$ 608,165</u> |

The dividend and interest income earned on permanently restricted net assets is available to the Organization on an unrestricted basis.

NOTE 10 – ENDOWMENT FUND

The Organization's endowment consists of unrestricted and donor restricted gifts held in investment accounts. As required, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

NOTE 10 – ENDOWMENT FUND (Continued)

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. The endowment also includes unrestricted assets for the Fund for Artistic Excellence from contributions receivable as disclosed in Note 3.

Endowment Net Asset Composition by Type of Fund as of July 31, 2012:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Donor restricted endowment funds | \$ (336,422) | \$ - | \$ 608,165 | \$ 271,743 |
| Unrestricted Fund for Artistic Excellence | <u>169,003</u> | <u>-</u> | <u>-</u> | <u>169,003</u> |
| Total | <u>\$ (167,419)</u> | <u>\$ -</u> | <u>\$ 608,165</u> | <u>\$ 440,746</u> |

Changes in Endowment Net Assets for the fiscal year ended July 31, 2012:

| | | | | |
|--|---------------------|-------------|-------------------|-------------------|
| Endowment net assets, beginning of year | \$ (342,731) | \$ - | \$ 608,165 | \$ 265,434 |
| Investment income, net | 6,747 | - | - | 6,747 |
| Net appreciation | 621 | - | - | 621 |
| Contributions | <u>167,944</u> | <u>-</u> | <u>-</u> | <u>167,944</u> |
| Endowment net assets, end of year | <u>\$ (167,419)</u> | <u>\$ -</u> | <u>\$ 608,165</u> | <u>\$ 440,746</u> |

Endowment Net Asset Composition by Type of Fund as of July 31, 2011:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Donor restricted endowment funds | <u>\$ (342,731)</u> | <u>\$ -</u> | <u>\$ 608,165</u> | <u>\$ 265,434</u> |

Changes in Endowment Net Assets for the fiscal year ended July 31, 2011:

| | | | | |
|--|---------------------|-------------|-------------------|-------------------|
| Endowment net assets, beginning of year | \$ (303,250) | \$ - | \$ 608,165 | \$ 304,915 |
| Investment income, net | 13,923 | - | - | 13,923 |
| Net appreciation | 10,096 | - | - | 10,096 |
| Amounts appropriated for expenditure | <u>(63,500)</u> | <u>-</u> | <u>-</u> | <u>(63,500)</u> |
| Endowment net assets, end of year | <u>\$ (342,731)</u> | <u>\$ -</u> | <u>\$ 608,165</u> | <u>\$ 265,434</u> |

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

NOTE 10 – ENDOWMENT FUND (Continued)

Funds with Deficiencies

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 the Organization to retain as a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$167,419 and \$342,731 as of July 31, 2012 and 2011, respectively.

Endowment Investment Policy and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a secure source of sufficient income to enable the Organization to underwrite the majority of its operating cost. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity and unrestricted funds. The unrestricted funds are the Fund for Artistic Excellence which is created to support the mission of the Nashville Opera.

Under this policy, as approved by the Board of Directors, the general policy is to diversify investments through a portfolio of stocks, bonds and other investments so as to enhance total return while avoiding undue risk concentration in any investment class. It is expected that the allocations will fall within the ranges below:

| | |
|--------------------|--------|
| Equities | 50-75% |
| Fixed income | 20-40% |
| Non-Traditional | 0-25% |
| Cash or equivalent | 5-15% |

Investments of a single issuer may not exceed 5% of the total market value of the endowment.

Strategies Employed for Achieving Investment Objectives

To satisfy its long term objectives, the Organization's investment strategy for the donor restricted funds and the Fund for Artistic Excellence is to invest in moderately aggressive funds with an emphasis on long-term growth. The objective is for the funds to realize a reasonable level of income. The goal for growth of the endowment funds is to grow in excess of the inflation rate over a full market cycle, after distributions for spending and management fees.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

NOTE 10 – ENDOWMENT FUND (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's policy for the donor restricted fund is to appropriate dividend and interest income from the endowment fund annually. Appropriations will be equal to 5% of the market value, defined as the 3 year rolling average of the December 31 balance.

The Organization's policy for the Fund for Artistic Excellence is to appropriate 5% of the market value, defined as the 3 year rolling average of the December 31 balance, plus an annual amount of approximately \$150,000 for operating purposes. Additional withdrawals may be requested for approval by the NOA Foundation, LLC Board of Directors.

NOTE 11 – 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 \$1,860,173 and \$2,019,715 at July 31, 2012 and 2011, respectively.

The Organization received contributions from the Foundation of \$97,750 and \$92,800 in fiscal 2012 and 2011, respectively.

NOTE 12 – 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 can make a discretionary matching contribution. Both employee and employer contributions are 100% vested. The Organization's contribution to the Plan was \$11,460 and \$21,559 for the years ended July 31, 2012 and 2011, respectively.

NOTE 13 – RELATED PARTY TRANSACTIONS

As discussed in Note 8, during 2011, the Organization received a loan of \$25,000 from a member of the Board of Directors. At July 31, 2012, the outstanding balance on the loan was \$19,000.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2012 and 2011

NOTE 14 – RESTATEMENT

During 2012, the Organization noted that a donor contribution made in 2008 through the Raise Your Glasses campaign was permanently restricted. This contribution had previously been classified in unrestricted and temporarily restricted net assets. Therefore a restatement of the net asset balances at July 31, 2010 was made to properly show this contribution as permanently restricted.

The restatement had no effect on total change in net assets for the year ended July 31, 2010. The restatement decreased unrestricted net assets by \$107,000, decreased temporarily restricted net assets by \$93,000, and increased permanently restricted net assets by \$200,000. The restatement is reflected on the consolidated statements of changes in net assets.