

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

July 31, 2010 and 2009

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 – 19
Supplemental Information:	
Independent Auditor's Report on Supplemental Information.....	20
Consolidating Statement of Activities	21 – 22



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

3310 WEST END AVENUE, SUITE 550
NASHVILLE, TENNESSEE 37203
PHONE 615-383-6592, FAX 615-383-7094

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, 2010 and 2009, 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, 2010 and 2009, 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 10, 2010

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
July 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 412,199	\$ 598,887
Contributions receivable	1,440,694	1,585,706
Accounts receivable	4,050	1,000
Prepaid expenses and other	114,870	30,393
Total current assets	1,971,813	2,215,986
Investments	304,915	292,693
Noncurrent contributions receivable, net of discount	1,592,064	2,215,034
Deposits	-	5,000
Building, equipment and leasehold improvements, net	7,133,568	7,371,208
Total assets	<u>\$ 11,002,360</u>	<u>\$ 12,099,921</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 18,951	\$ 17,624
Unearned revenue	240,408	155,697
Lines of credit	164,469	239,469
Note payable-building and building improvements	880,129	430,129
Total current liabilities	1,303,957	842,919
Note payable-building and building improvements, noncurrent	600,000	1,600,000
Total liabilities	<u>1,903,957</u>	<u>2,442,919</u>
Net assets:		
Unrestricted	5,657,480	5,500,596
Temporarily restricted	3,032,758	3,748,241
Permanently restricted	408,165	408,165
Total net assets	<u>9,098,403</u>	<u>9,657,002</u>
Total liabilities and net assets	<u>\$ 11,002,360</u>	<u>\$ 12,099,921</u>

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended July 31, 2010

	Unrestricted	Temporarily Restricted Operating	Temporarily Restricted Capital	Total Temporarily Restricted	Permanently Restricted	Total
Support and revenue:						
Contributions from corporations and foundations	\$ 340,440	\$ 37,500	\$ -	\$ 37,500	\$ -	\$ 377,940
Contributions from individuals	239,164	53,172	-	53,172	-	292,336
Grants from governmental agencies	254,284	-	-	-	-	254,284
Subscription ticket sales	223,439	-	-	-	-	223,439
Guild special events	198,381	-	-	-	-	198,381
Single ticket sales	195,608	-	-	-	-	195,608
Other contributions	135,309	-	-	-	-	135,309
Capital campaign contributions	45,600	-	25,100	25,100	-	70,700
Rental income	62,275	-	-	-	-	62,275
Other income	30,369	-	-	-	-	30,369
Investment income, net	27,897	-	-	-	-	27,897
Membership dues	6,400	-	-	-	-	6,400
Interest income	897	-	-	-	-	897
Net assets released from restrictions	831,255	(87,500)	(743,755)	(831,255)	-	-
Total support and revenue	<u>2,591,318</u>	<u>3,172</u>	<u>(718,655)</u>	<u>(715,483)</u>	<u>-</u>	<u>1,875,835</u>
Expenses:						
Production	905,395	-	-	-	-	905,395
Administrative	607,709	-	-	-	-	607,709
Subcontract labor	324,978	-	-	-	-	324,978
Building expenses	314,888	-	-	-	-	314,888
Marketing	103,166	-	-	-	-	103,166
Special events	90,905	-	-	-	-	90,905
Public relations	44,463	-	-	-	-	44,463
Development and fundraising	26,675	-	-	-	-	26,675
Other	16,255	-	-	-	-	16,255
Total expenses	<u>2,434,434</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,434,434</u>
Change in net assets	<u>\$ 156,884</u>	<u>\$ 3,172</u>	<u>\$ (718,655)</u>	<u>\$ (715,483)</u>	<u>\$ -</u>	<u>\$ (558,599)</u>

See notes to consolidated financial statements.

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

	Unrestricted	Temporarily Restricted Operating	Temporarily Restricted Capital	Total Temporarily Restricted	Permanently Restricted	Total
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	1,307,109	(88,119)	(1,218,990)	(1,307,109)	-	-
Total support and revenue	3,219,667	(50,619)	(1,194,380)	(1,244,999)	-	1,974,668
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	11,939	-	-	-	-	11,939
Total expenses	2,655,760	-	-	-	-	2,655,760
Change in net assets	\$ 563,907	\$ (50,619)	\$ (1,194,380)	\$ (1,244,999)	\$ -	\$ (681,092)

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended July 31, 2010 and 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>
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	5,500,596	87,500	3,660,741	3,748,241	408,165	9,657,002
Change in net assets	<u>156,884</u>	<u>3,172</u>	<u>(718,655)</u>	<u>(715,483)</u>	<u>-</u>	<u>(558,599)</u>
Net assets at July 31, 2010	<u><u>\$ 5,657,480</u></u>	<u><u>\$ 90,672</u></u>	<u><u>\$ 2,942,086</u></u>	<u><u>\$ 3,032,758</u></u>	<u><u>\$ 408,165</u></u>	<u><u>\$ 9,098,403</u></u>

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended July 31, 2010

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 287,562	\$ 291,519	\$ 109,582	\$ 688,663
Production expense	469,494	-	-	469,494
Production subcontract labor	324,978	-	-	324,978
Depreciation and amortization	198,414	66,138	-	264,552
Building expense	68,871	18,114	-	86,985
Fundraising events	-	-	102,257	102,257
Marketing	-	77,311	-	77,311
Employee benefits	30,549	24,454	9,706	64,709
Miscellaneous	20,553	32,012	10,953	63,518
Payroll taxes	24,850	24,043	8,377	57,270
Printing and publications	-	27,564	6,731	34,295
Insurance	10,062	10,112	-	20,174
Pension	5,461	12,355	1,282	19,098
Public relations	-	18,173	-	18,173
Interest	-	17,482	-	17,482
Postage	-	15,160	2,261	17,421
Legal and professional	-	13,184	-	13,184
Dues and subscriptions	6,500	6,248	-	12,748
Telephone	8,643	2,926	-	11,569
Utilities	33,693	11,231	-	44,924
Bank fees	-	10,331	-	10,331
Equipment maintenance	-	5,660	-	5,660
Conferences	-	5,256	-	5,256
Supplies	-	4,382	-	4,382
Total expenses	<u>\$ 1,489,630</u>	<u>\$ 693,655</u>	<u>\$ 251,149</u>	<u>\$ 2,434,434</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 STATEMENTS OF CASH FLOWS
For the Years Ended July 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ (558,599)	\$ (681,092)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	264,552	134,503
Discount on contributions receivable	(60,672)	(39,593)
Provision for doubtful pledges receivable	25,000	-
Unrealized (gains) losses on investments	(18,068)	438
Loss on disposal of property	-	25,020
Changes in operating assets and liabilities:		
Increase in accounts receivable	(3,050)	(945)
(Increase) decrease in prepaid expenses and other	(84,477)	25,531
Decrease in contributions receivable	803,654	1,349,557
Decrease in deposits	5,000	2,010
Increase in accounts payable and accrued expenses	1,327	6,503
Increase (decrease) in unearned revenue	84,711	(77,827)
Net cash provided by operating activities	<u>459,378</u>	<u>744,105</u>
Cash flows from investing activities:		
Purchase of building and equipment	(26,912)	(1,404,008)
Purchases of investments, net	(9,154)	(17,643)
Proceeds from sales of investments, net	<u>15,000</u>	<u>15,000</u>
Net cash used in investing activities	<u>(21,066)</u>	<u>(1,406,651)</u>
Cash flows from financing activities:		
Payment on accounts payable for additions to building and equipment	-	(487,940)
Borrowings on lines of credit	138,171	215,000
Payments on lines of credit	(213,171)	(90,531)
Borrowing on note payable	-	1,440,420
Payments on notes payable	<u>(550,000)</u>	<u>(250,000)</u>
Net cash (used in) provided by financing activities	<u>(625,000)</u>	<u>826,949</u>
Net (decrease) increase in cash and cash equivalents	(186,688)	164,403
Cash and cash equivalents, beginning of year	<u>598,887</u>	<u>434,484</u>
Cash and cash equivalents, end of year	<u>\$ 412,199</u>	<u>\$ 598,887</u>
Supplemental information:		
Interest paid	<u>\$ 44,824</u>	<u>\$ 65,959</u>
Taxes paid	<u>\$ 377</u>	<u>\$ -</u>

See notes to consolidated financial statements.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2010 and 2009

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”. All significant inter-entity transactions and balances have been eliminated in consolidation.

Accounting Standards Codification

The Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC has no effect on the Organization’s financial statements.

Accounting Method

The accompanying 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.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. In accordance with FASB ASC guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization, 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.

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, 2010 and 2009

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. 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 non current pledges receivable and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the pledges are received to discount the amounts.

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.

Building, Equipment and Leasehold 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, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$0 and \$459 for the years ended July 31, 2010 and 2009, respectively.

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 statement 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.

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.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$42,959 and \$21,407 in fiscal 2010 and 2009, respectively.

Advertising Costs

Advertising costs are expensed as incurred and are reflected in marketing in the accompanying consolidated statements of activities. Advertising expense totaled \$43,609 and \$73,530 for fiscal 2010 and 2009, 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.

On January 1, 2009, the Organization adopted FASB ASC 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. This guidance must be applied to all existing tax positions upon initial adoption. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended June 30, 2007 through June 30, 2010. Adoption of this pronouncement had no impact on the Organization's accompanying financial statements.

Subsequent Events

The Organization evaluated subsequent events through November 10, 2010, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the accompanying financial statements.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2010 and 2009

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>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 1,465,694	\$ 1,585,706
Receivable in one to five years	<u>1,684,614</u>	<u>2,368,256</u>
Total contributions receivable	3,150,308	3,953,962
Less allowance for doubtful accounts	(25,000)	-
Less discounts to net present value (2-5%)	<u>(92,550)</u>	<u>(153,222)</u>
Net contributions receivable	<u>\$ 3,032,758</u>	<u>\$ 3,800,740</u>

Approximately 64% of contributions receivable at July 31, 2010 consist of amounts due from two donors, while approximately 60% of contributions receivable at July 31, 2009 consists of amounts due from three donors.

Approximately 36% of contributions in fiscal 2010 were made by two donors, while approximately 35% of contributions in fiscal 2009 were made by two donors.

Included in the contributions receivable is \$2,942,086 and \$3,660,741 net receivable at July 31, 2010 and 2009, 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.

NOTE 4 – INVESTMENTS

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

	<u>2010</u>	<u>2009</u>
Mutual Funds:		
Bond funds (fixed income)	\$ 205,102	\$ 196,481
Common stock funds (equities)	97,384	89,972
Money Market	<u>2,429</u>	<u>6,240</u>
Total Mutual Funds:	<u>\$ 304,915</u>	<u>\$ 292,693</u>

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2010 and 2009

NOTE 4 – INVESTMENTS (Continued)

The Organization adopted the provisions of the Fair Value Measurement Topic of the FASB ASC, 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 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

The following table sets forth by level, within the fair value hierarchy, the investments at fair value as of July 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Money market funds	\$ 2,429	\$ -	\$ -	\$ 2,429
Bond funds: intermediate term	205,102	-	-	205,102
Common stock funds-growth funds	<u>97,384</u>	<u>-</u>	<u>-</u>	<u>97,384</u>
Total mutual funds	<u>\$ 304,915</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 304,915</u>

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2010 and 2009

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, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Building	\$ 600,000	\$ 600,000
Building improvements	6,402,002	6,402,002
Furniture and equipment	<u>589,934</u>	<u>563,021</u>
	7,591,936	7,565,023
Accumulated depreciation and amortization	<u>(458,368)</u>	<u>(193,815)</u>
	<u>\$ 7,133,568</u>	<u>\$ 7,371,208</u>

NOTE 6 – 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 2011, with interest computed at a variable rate consisting of the bank's prime rate plus 2.25% and 1.0%, respectively. As of July 31, 2010 and 2009, borrowings outstanding were \$164,469 and \$239,469, 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 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, 2010 and 2009, borrowings outstanding were \$1,480,129 and \$2,030,129, respectively.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2010 and 2009

NOTE 7 – NOTE PAYABLE-BUILDING AND BUILDING IMPROVEMENTS (Continued)

Principal payments on the note payable and the lines of credit described in Note 6 are as follows:

Year ending		
<u>July 31,</u>		
2011	\$	1,044,598
2012		<u>600,000</u>
	\$	<u><u>1,644,598</u></u>

NOTE 8 – RESTRICTED NET ASSETS

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

	<u>2010</u>	<u>2009</u>
Young Artist Program	\$ -	\$ 50,000
Promises to give for future periods	<u>90,672</u>	<u>37,500</u>
	<u>\$ 90,672</u>	<u>\$ 87,500</u>

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

	<u>2010</u>	<u>2009</u>
Promises to give for building acquisition, renovation and maintenance or the Fund for Artistic Excellence	<u>\$ 2,942,086</u>	<u>\$ 3,660,741</u>

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

	<u>2010</u>	<u>2009</u>
Endowment fund for operating expenses	\$ 308,165	\$ 308,165
Young Artist Scholarship program	<u>100,000</u>	<u>100,000</u>
	<u>\$ 408,165</u>	<u>\$ 408,165</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.

NASHVILLE OPERA ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2010 and 2009

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 \$1,762,154 and \$1,663,309 at July 31, 2010 and 2009, respectively.

The Organization received contributions from the Foundation of \$93,450 and \$112,000 in fiscal 2010 and 2009, respectively.

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 \$19,098 and \$15,891 for the years ended July 31, 2010 and 2009, respectively.

SUPPLEMENTAL INFORMATION



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

3310 WEST END AVENUE, SUITE 550
NASHVILLE, TENNESSEE 37203
PHONE 615-383-6592, FAX 615-383-7094

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 21 and 22, 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 10, 2010

NASHVILLE OPERA ASSOCIATION
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended July 31, 2010

	Nashville Opera Company, LLC	Noah Liff Opera Center, LLC	NOA Foundation, LLC	Nashville Opera Guild	Eliminations	Consolidated
Support and revenue:						
Contributions from corporations and foundations	\$ 377,940	\$ -	\$ -	\$ -	\$ -	\$ 377,940
Contributions from individuals	292,336	-	-	-	-	292,336
Grants from governmental agencies	254,284	-	-	-	-	254,284
Subscription ticket sales	223,439	-	-	-	-	223,439
Guild special events	-	-	-	198,381	-	198,381
Single ticket sales	195,608	-	-	-	-	195,608
Other contributions	517,309	15,000	131,250	-	(528,250)	135,309
Capital campaign contributions	-	70,700	-	-	-	70,700
Rental income	62,275	-	-	-	-	62,275
Other income	22,593	-	-	7,776	-	30,369
Investment income, net	-	-	27,897	-	-	27,897
Membership dues	-	-	-	6,400	-	6,400
Interest income	-	884	-	13	-	897
Total support and revenue	<u>1,945,784</u>	<u>86,584</u>	<u>159,147</u>	<u>212,570</u>	<u>(528,250)</u>	<u>1,875,835</u>
Expenses:						
Production	905,395	-	-	-	-	905,395
Administrative	607,709	-	-	-	-	607,709
Subcontract labor	324,978	-	-	-	-	324,978
Building expenses	-	314,888	-	-	-	314,888
Marketing	103,166	-	-	-	-	103,166
Special events	-	-	-	90,905	-	90,905
Public relations	44,463	-	-	-	-	44,463
Development and fundraising	26,675	-	-	-	-	26,675
Other	-	-	675	15,580	-	16,255
Contributions	-	275,000	146,250	107,000	(528,250)	-
Total expenses	<u>2,012,386</u>	<u>589,888</u>	<u>146,925</u>	<u>213,485</u>	<u>(528,250)</u>	<u>2,434,434</u>
Change in net assets	<u>\$ (66,602)</u>	<u>\$ (503,304)</u>	<u>\$ 12,222</u>	<u>\$ (915)</u>	<u>\$ -</u>	<u>\$ (558,599)</u>

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	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
Public relations	78,738	-	-	-	-	78,738
Special events	-	-	-	36,700	-	36,700
Other	-	-	624	11,315	-	11,939
Contributions	-	175,000	15,000	60,000	(250,000)	-
Total expenses	<u>2,268,386</u>	<u>513,735</u>	<u>15,624</u>	<u>108,015</u>	<u>(250,000)</u>	<u>2,655,760</u>
Change in net assets	<u>\$ (342,071)</u>	<u>\$ (375,602)</u>	<u>\$ (4,523)</u>	<u>\$ 41,104</u>	<u>\$ -</u>	<u>\$ (681,092)</u>