

NASHVILLE OPERA ASSOCIATION

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

July 31, 2005 and 2004

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nashville Opera Association
Nashville, Tennessee

We have audited the accompanying statements of financial position of Nashville Opera Association (a nonprofit organization) as of July 31, 2005 and 2004, and the related statements of activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of Nashville Opera Association as of July 31, 2005 and 2004, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

December 6, 2005

NASHVILLE OPERA ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
July 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 107,721	\$ 55,775
Contributions receivable	96,060	262,621
Accounts receivable	-	806
Prepaid expenses and other	<u>75,530</u>	<u>82,193</u>
Total current assets	279,311	401,395
Investments	318,474	297,453
Noncurrent contributions receivable, net of discount	241,217	304,714
Deposits	7,010	7,010
Equipment and leasehold improvements, net	<u>105,577</u>	<u>123,779</u>
Total assets	<u><u>\$ 951,589</u></u>	<u><u>\$ 1,134,351</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,057	\$ 11,904
Unearned revenue	194,470	246,097
Line of credit	<u>-</u>	<u>55,000</u>
Total current liabilities	<u>202,527</u>	<u>313,001</u>
Net assets:		
Unrestricted	65,629	30,046
Temporarily restricted	358,291	514,939
Permanently restricted	<u>325,142</u>	<u>276,365</u>
Total net assets	<u>749,062</u>	<u>821,350</u>
Total liabilities and net assets	<u><u>\$ 951,589</u></u>	<u><u>\$ 1,134,351</u></u>

See notes to financial statements.

NASHVILLE OPERA ASSOCIATION
STATEMENT OF ACTIVITIES
Year ended July 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 1,041,827	\$ 45,000	\$ 48,777	\$ 1,135,604
Ticket sales	492,282	-	-	492,282
Grants from governmental agencies	181,649	-	-	181,649
Special events	172,248	-	-	172,248
Association fundraiser	80,920	-	-	80,920
Other income	20,179	-	-	20,179
Membership dues	6,915	-	-	6,915
Investment income	32,383	-	-	32,383
Net assets released from restrictions	201,648	(201,648)	-	-
Total support and revenue	<u>2,230,051</u>	<u>(156,648)</u>	<u>48,777</u>	<u>2,122,180</u>
Expenses:				
Production	692,538	-	-	692,538
Administrative	530,257	-	-	530,257
Subcontract labor	370,676	-	-	370,676
Marketing	242,614	-	-	242,614
Development and fundraising	194,920	-	-	194,920
Public relations	78,377	-	-	78,377
Special events	74,936	-	-	74,936
Other	10,150	-	-	10,150
Total expenses	<u>2,194,468</u>	<u>-</u>	<u>-</u>	<u>2,194,468</u>
Change in net assets	<u>\$ 35,583</u>	<u>\$ (156,648)</u>	<u>\$ 48,777</u>	<u>\$ (72,288)</u>

See notes to financial statements.

NASHVILLE OPERA ASSOCIATION
STATEMENT OF ACTIVITIES
Year ended July 31, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 807,578	\$ 199,240	\$ 49,912	\$ 1,056,730
Ticket sales	602,584	-	-	602,584
Grants from governmental agencies	203,773	-	-	203,773
Association fundraiser	147,656	49,225	-	196,881
Special events	123,840	-	-	123,840
Investment income - net	16,066	-	-	16,066
Other income	12,225	-	-	12,225
Membership dues	7,750	-	-	7,750
Net assets released from restrictions	<u>120,142</u>	<u>(108,642)</u>	<u>(11,500)</u>	<u>-</u>
Total support and revenue	<u>2,041,614</u>	<u>139,823</u>	<u>38,412</u>	<u>2,219,849</u>
Expenses:				
Production	624,028	-	-	624,028
Administrative	479,683	-	-	479,683
Subcontract labor	369,330	-	-	369,330
Marketing	242,823	-	-	242,823
Development and fundraising	233,265	-	-	233,265
Public relations	71,701	-	-	71,701
Special events	56,264	-	-	56,264
Other	<u>16,747</u>	<u>-</u>	<u>-</u>	<u>16,747</u>
Total expenses	<u>2,093,841</u>	<u>-</u>	<u>-</u>	<u>2,093,841</u>
Change in net assets	<u>\$ (52,227)</u>	<u>\$ 139,823</u>	<u>\$ 38,412</u>	<u>\$ 126,008</u>

See notes to financial statements.

NASHVILLE OPERA ASSOCIATION
STATEMENTS OF CHANGES IN NET ASSETS
Years ended July 31, 2005 and 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at July 31, 2003	\$ 82,273	\$ 375,116	\$ 237,953	\$ 695,342
Change in net assets	<u>(52,227)</u>	<u>139,823</u>	<u>38,412</u>	<u>126,008</u>
Net assets at July 31, 2004	30,046	514,939	276,365	821,350
Change in net assets	<u>35,583</u>	<u>(156,648)</u>	<u>48,777</u>	<u>(72,288)</u>
Net assets at July 31, 2005	<u>\$ 65,629</u>	<u>\$ 358,291</u>	<u>\$ 325,142</u>	<u>\$ 749,062</u>

See accompanying notes.

NASHVILLE OPERA ASSOCIATION
STATEMENTS OF CASH FLOWS
Years ended July 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ (72,288)	\$ 126,008
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	25,373	28,282
Discount on contributions receivable	(14,730)	(37,649)
Unrealized gains on investments	(25,175)	(10,466)
Contributions restricted for financing activities	(48,777)	(38,412)
Changes in operating assets and liabilities:		
Decrease in receivables	806	3,278
Decrease (increase) in prepaid expenses and other	6,663	(28,937)
Decrease (increase) in contributions receivable	244,788	(90,647)
(Decrease) increase in accounts payable and accrued expenses	(3,848)	11,904
Decrease in unearned revenue	(51,627)	(6,372)
Net cash provided (used) by operating activities	<u>61,185</u>	<u>(43,011)</u>
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(7,171)	(4,397)
Purchases of investments - net	(12,547)	(73,795)
Proceeds from sales of investments - net	<u>16,702</u>	<u>16,109</u>
Net cash used in investing activities	<u>(3,016)</u>	<u>(62,083)</u>
Cash flows from financing activities:		
Borrowings on lines of credit	160,000	255,073
Payments on lines of credit	(215,000)	(200,073)
Contributions to permanently restricted endowment	<u>48,777</u>	<u>38,412</u>
Net cash (used) provided by financing activities	<u>(6,223)</u>	<u>93,412</u>
Net increase (decrease) in cash and cash equivalents	51,946	(11,682)
Cash and cash equivalents, beginning of year	<u>55,775</u>	<u>67,457</u>
Cash and cash equivalents, end of year	<u>\$ 107,721</u>	<u>\$ 55,775</u>
Supplemental information:		
Interest paid	<u>\$ 5,431</u>	<u>\$ 5,330</u>

See notes to financial statements.

NASHVILLE OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nashville Opera Association (the "Organization") was organized in 1981 to present quality operatic and musical productions featuring casts of nationally and internationally known singers to Nashville audiences. 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 financial statements include the activities of both the Nashville Opera Association and the Nashville Opera Guild. Significant transactions between the organizations have been eliminated.

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:

Unrestricted

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

Temporarily Restricted

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.

Permanently Restricted

Represents net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, donors of these assets may permit the Organization to use all or part of the income earned for general or specific purposes.

NASHVILLE OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)
July 31, 2005 and 2004

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.

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 receivable. 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, 2005 and 2004, and accordingly, no allowance for doubtful receivables has been provided.

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.

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 quoted market values. Gains or losses on such investments are reported as a change in net assets in the period they occur.

NASHVILLE OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)
July 31, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Equipment and Leasehold Improvements

Equipment and leasehold improvements are recorded at cost. Donated equipment is recorded at estimated fair market value on the date of donation. 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 over their estimated useful lives using straight-line methods. The estimated useful life of the Organization's furniture and equipment is five years. Leasehold improvements are amortized over the relative lease term.

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 \$118,044 and \$68,887 in 2005 and 2004, respectively.

Advertising Costs

Advertising costs are expensed as incurred and are reflected in marketing in the accompanying statement of activities.

Reclassifications

Certain reclassifications have been made to the 2004 financial statements in order to conform with the 2005 presentation.

NASHVILLE OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)
July 31, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Estimates

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

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 financial statements.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

At various times during the fiscal 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 – PROMISES TO GIVE

The Organization's contributions receivable as of July 31, 2005 and 2004 consist of unconditional promises to give due as follows:

	<u>2005</u>	<u>2004</u>
Receivable in less than one year	\$ 96,060	\$ 262,621
Receivable in one to five years	<u>268,023</u>	<u>346,250</u>
Total unconditional promises to give	364,083	608,871
Less discounts to net present value (5%)	<u>(26,806)</u>	<u>(41,536)</u>
Net unconditional promises to give	<u>\$ 337,277</u>	<u>\$ 567,335</u>

Approximately 69% of contributions receivable at July 31, 2005 consists of amounts due from one donor, while approximately 49% of contributions receivable consisted of amounts due from this same donor at July 31, 2004.

Approximately 19% of contributions were made by one donor in 2005.

NASHVILLE OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)
July 31, 2005 and 2004

NOTE 4 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements at July 31, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Furniture and equipment	\$ 11,673	\$ 21,105
Computer equipment	39,248	43,178
Leasehold improvements	<u>215,301</u>	<u>215,301</u>
	266,222	279,584
Accumulated depreciation and amortization	<u>(160,645)</u>	<u>(155,805)</u>
	<u>\$ 105,577</u>	<u>\$ 123,779</u>

NOTE 5 – INVESTMENTS

Investments consists of the following at July 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Bond funds (fixed income)	\$ 143,976	\$ 168,089
Common stock funds (equities)	<u>174,498</u>	<u>129,364</u>
	<u>\$ 318,474</u>	<u>\$ 297,453</u>

The Organization policy is to allocate investments between fixed income securities (40% to 75% of the total investment balance) and equity securities (25% to 60% of the total investment balance).

NOTE 6 – LINES OF CREDIT

The Organization maintains two line of credit arrangements with local financial institutions allowing for maximum borrowings of \$75,000 and \$200,000 and maturing April 2006 and January 2006, respectively, with interest computed at a variable rate consisting of the bank's prime rate plus 1.5% and 1.0%, respectively. As of July 31, 2005 and 2004, borrowings outstanding were \$0 and \$55,000, respectively. The second line of credit noted above is secured by the Organization's cash, receivables and investments.

NASHVILLE OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)
July 31, 2005 and 2004

NOTE 7 – RESTRICTED NET ASSETS

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

	<u>2005</u>	<u>2004</u>
Young Artist Program	\$ 227,298	\$ 266,474
Ballo del Opera	-	49,225
Promises to give for future periods	104,993	188,240
Opera Net	11,000	11,000
Future performances	<u>15,000</u>	<u>-</u>
	<u>\$ 358,291</u>	<u>\$ 514,939</u>

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

	<u>2005</u>	<u>2004</u>
Endowment fund for operating expenses	\$ 225,142	\$ 176,365
Young Artist Scholarship program	<u>100,000</u>	<u>100,000</u>
	<u>\$ 325,142</u>	<u>\$ 276,365</u>

During fiscal 2004, amounts totaling \$11,500 were released by donors of permanently restricted assets for use in operations.

NOTE 8 – LEASE AGREEMENT

In July 1999, the Organization entered into a lease for office space. The original lease term extends through August 2004 and was renewed for an additional five-year period through August 2009 at a base rental of \$3,625 per month. The lease contains certain escalation clauses that increase the base rentals for annual increases in taxes and insurance above specified amounts.

NASHVILLE OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)
July 31, 2005 and 2004

NOTE 8 – LEASE AGREEMENT (Continued)

Minimum rentals for the lease commitment as extended are as follows:

Year ending July 31	
2006	\$ 43,500
2007	43,500
2008	43,500
2009	43,500
2010	<u>3,625</u>
	<u>\$ 177,625</u>

NOTE 9 – 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 \$2,121,124 and \$2,063,546 at July 31, 2005 and 2004, respectively.

The Organization received contributions from Nashville Community Foundation of \$101,002 and \$86,729 in fiscal 2005 and fiscal 2004, respectively.

NOTE 10 – 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 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. This contribution is 100% vested. The Organization's contribution to the Plan was \$1,988 for the year ended July 31, 2005.

NASHVILLE OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)
July 31, 2005 and 2004

NOTE 11 – SUBSEQUENT EVENTS

Subsequent to July 31, 2005, the Organization entered into an agreement to purchase a building for the Organization's offices. The agreement was finalized and the property purchased for \$600,000 on November 15, 2005. The financing for the transaction was provided by two banks who share equally in the loan in which the Organization may borrow up to \$1,000,000 but may not re-borrow amounts that have been repaid. Interest payments are due monthly beginning December 15, 2005 at a fixed rate of 5.9% per annum, with the final principal payment due at maturity on November 15, 2008.

Subsequent to July 31, 2005, the Organization obtained pledge commitments approximating \$1,000,000 for purchase price, renovations and moving expenses relating to the new building.

In connection with the building purchase, the Organization was assigned the lease of a tenant who occupies the property until July 2006 at a monthly rental of \$4,230.



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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

The Board of Directors
Nashville Opera Association
Nashville, Tennessee

Our report on our audit of the financial statements of Nashville Opera Association appears on page 2. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining statement of activities that follows on page 17 is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Frasier, Dean + Howard, PLLC

December 6, 2005

NASHVILLE OPERA ASSOCIATION
COMBINING STATEMENT OF ACTIVITIES
Year ended July 31, 2005

	<u>Nashville Opera Association</u>	<u>Nashville Opera Guild</u>	<u>Eliminations Dr. (Cr.)</u>	<u>Combined</u>
Support and revenue:				
Contributions	\$ 1,235,604	\$ -	\$ 100,000	\$ 1,135,604
Ticket sales	492,282	-	-	492,282
Grants from governmental agencies	181,649	-	-	181,649
Association fundraiser	80,920	-	-	80,920
Special events	-	172,248	-	172,248
Investment Income	32,358	25	-	32,383
Other income	13,928	6,251	-	20,179
Membership dues	-	6,915	-	6,915
	<u>2,036,741</u>	<u>185,439</u>	<u>100,000</u>	<u>2,122,180</u>
Total support and revenue				
Expenses:				
Production	692,538	-	-	692,538
Administrative	516,273	13,984	-	530,257
Subcontract labor	370,676	-	-	370,676
Marketing	242,614	-	-	242,614
Development and fundraising	194,920	-	-	194,920
Public relations	78,377	-	-	78,377
Special events	-	74,936	-	74,936
Other	10,150	-	-	10,150
Contributions	-	100,000	(100,000)	-
	<u>2,105,548</u>	<u>188,920</u>	<u>(100,000)</u>	<u>2,194,468</u>
Total expenses				
Change in net assets	<u>\$ (68,807)</u>	<u>\$ (3,481)</u>	<u>\$ -</u>	<u>\$ (72,288)</u>