

**NASHVILLE OPERA ASSOCIATION
AND AFFILIATES**

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

July 31, 2008 and 2007

NASHVILLE OPERA ASSOCIATION AND AFFILIATES

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities.....	4 – 5
Statements of Changes in Net Assets	6
Statements of Functional Expenses	7 – 8
Statements of Cash Flows	9
Notes to Financial Statements	10 – 17
Supplemental Information:	
Independent Auditor's Report on Additional Information	18
Consolidating Statement of Activities	19
Combining Statement of Activities	20



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Nashville Opera Association and Affiliates (a nonprofit organization) as of July 31, 2008 and 2007, and the related statements of activities, changes in net assets, functional expenses 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 and Affiliates as of July 31, 2008 and 2007, 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

November 26, 2008

NASHVILLE OPERA ASSOCIATION AND AFFILIATES
STATEMENTS OF FINANCIAL POSITION
July 31, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 434,484	\$ 2,217,474
Contributions receivable	1,988,160	846,520
Accounts receivable	55	2,330
Prepaid expenses and other	55,924	54,202
Total current assets	2,478,623	3,120,526
Investments	290,488	303,955
Noncurrent contributions receivable, net of discount	3,122,544	621,725
Deposits	7,010	7,010
Building, equipment and leasehold improvements, net	6,126,264	618,543
Deferred loan cost, net	459	2,295
Total assets	<u>\$ 12,025,388</u>	<u>\$ 4,674,054</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 11,121	\$ 4,732
Accounts payable-building	487,940	-
Unearned revenue	233,524	257,015
Lines of credit	115,000	-
Total current liabilities	847,585	261,747
Note payable-building, noncurrent	839,709	-
Total liabilities	1,687,294	261,747
Net assets:		
Unrestricted	4,936,689	523,549
Temporarily restricted	4,993,240	3,480,593
Permanently restricted	408,165	408,165
Total net assets	10,338,094	4,412,307
Total liabilities and net assets	<u>\$ 12,025,388</u>	<u>\$ 4,674,054</u>

See notes to financial statements.

NASHVILLE OPERA ASSOCIATION AND AFFILIATES
STATEMENT OF ACTIVITIES
Year ended July 31, 2008

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

See notes to financial statements.

NASHVILLE OPERA ASSOCIATION
STATEMENT OF ACTIVITIES
Year ended July 31, 2007

	Unrestricted	Temporarily Restricted Operating	Temporarily Restricted Capital	Total Temporarily Restricted	Permanently Restricted	Total
Support and revenue:						
Contributions	\$ 1,274,113	\$ 48,750	\$ 2,586,554	\$ 2,635,304	\$ 57,930	\$ 3,967,347
Ticket sales	644,499	-	-	-	-	644,499
Grants from governmental agencies	201,052	-	-	-	-	201,052
Special events	200,475	-	-	-	-	200,475
Association fundraiser	92,100	-	-	-	-	92,100
Investment income, net	38,652	-	-	-	-	38,652
Interest income	30,035	-	-	-	-	30,035
Other income	20,005	-	-	-	-	20,005
Rental income	-	-	8,460	8,460	-	8,460
Membership dues	6,915	-	-	-	-	6,915
Net assets released from restrictions	716,705	(449,131)	(267,574)	(716,705)	-	-
Total support and revenue	3,224,551	(400,381)	2,327,440	1,927,059	57,930	5,209,540
Expenses:						
Production	902,005	-	-	-	-	902,005
Subcontract labor	488,485	-	-	-	-	488,485
Administrative	371,878	-	-	-	-	371,878
Development and fundraising	199,804	-	-	-	-	199,804
Marketing	195,296	-	-	-	-	195,296
Public relations	134,562	-	-	-	-	134,562
Building expenses	123,620	-	-	-	-	123,620
Special events	82,105	-	-	-	-	82,105
Other	64,670	-	-	-	-	64,670
Total expenses	2,562,425	-	-	-	-	2,562,425
Change in net assets	\$ 662,126	\$ (400,381)	\$ 2,327,440	\$ 1,927,059	\$ 57,930	\$ 2,647,115

See notes to financial statements.

NASHVILLE OPERA ASSOCIATION AND AFFILIATES
STATEMENTS OF CHANGES IN NET ASSETS
Years ended July 31, 2008 and 2007

	<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, 2006	\$ (138,577)	\$ 605,008	\$ 948,526	\$ 1,553,534	\$ 350,235	\$ 1,765,192
Change in net assets	<u>662,126</u>	<u>(400,381)</u>	<u>2,327,440</u>	<u>1,927,059</u>	<u>57,930</u>	<u>2,647,115</u>
Net assets at July 31, 2007	523,549	204,627	3,275,966	3,480,593	408,165	4,412,307
Change in net assets	<u>4,413,140</u>	<u>(66,508)</u>	<u>1,579,155</u>	<u>1,512,647</u>	<u>-</u>	<u>5,925,787</u>
Net assets at July 31, 2008	<u>\$ 4,936,689</u>	<u>\$ 138,119</u>	<u>\$ 4,855,121</u>	<u>\$ 4,993,240</u>	<u>\$ 408,165</u>	<u>\$ 10,338,094</u>

See accompanying notes.

NASHVILLE OPERA ASSOCIATION AND AFFILIATES
STATEMENT OF FUNCTIONAL EXPENSES
Year ended July 31, 2008

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

NASHVILLE OPERA ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
Year ended July 31, 2007

	Program Services	Management and General	Fund Raising	Total
Production expense	\$ 1,095,826	\$ -	\$ -	\$ 1,095,826
Salaries	174,124	315,512	98,734	588,370
Fundraising events	-	-	129,000	129,000
Marketing	-	119,872	-	119,872
Miscellaneous	43,840	36,980	25,161	105,981
Bad debt	-	63,570	-	63,570
Depreciation and amortization	-	54,082	-	54,082
Capital campaign	53,273	-	-	53,273
Employee benefits	16,840	21,456	9,376	47,672
Payroll taxes	15,327	24,418	7,050	46,795
Printing and publications	-	32,925	6,052	38,977
Interest	-	33,564	-	33,564
Building expense	-	28,673	-	28,673
Scenery and costume storage	22,662	-	-	22,662
Public relations	-	16,428	-	16,428
Postage	-	13,837	2,034	15,871
Pension	4,238	5,142	4,502	13,882
Occupancy	-	13,446	-	13,446
Rehearsal hall rent	12,005	-	-	12,005
Dues and subscriptions	-	11,840	-	11,840
Bank fees	-	11,198	-	11,198
Supplies	-	9,453	-	9,453
Legal and professional	-	9,101	-	9,101
Telephone	6,727	2,109	-	8,836
Equipment maintenance	-	5,911	-	5,911
Conferences	-	4,156	-	4,156
Utilities	-	1,981	-	1,981
Total expenses	<u>\$ 1,444,862</u>	<u>\$ 835,654</u>	<u>\$ 281,909</u>	<u>\$ 2,562,425</u>

NASHVILLE OPERA ASSOCIATION AND AFFILIATES
STATEMENTS OF CASH FLOWS
Years ended July 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,925,787	\$ 2,647,115
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	55,131	54,082
Discount on contributions receivable	151,600	(33,000)
Unrealized losses (gains) on investments	16,591	(21,978)
Contributions restricted for financing activities	-	(57,930)
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	2,275	(2,330)
Increase in prepaid expenses and other	(1,722)	(3,193)
(Increase) decrease in contributions receivable	(3,794,059)	186,650
Increase (decrease) in accounts payable and accrued expenses	6,389	(5,941)
Decrease in unearned revenue	(23,491)	(21,829)
Net cash provided by operating activities	<u>2,338,501</u>	<u>2,741,646</u>
Cash flows from investing activities:		
Purchase of building, equipment and furniture	(5,073,076)	(8,298)
Purchases of investments, net	(71,874)	(71,950)
Proceeds from sales of investments, net	68,750	147,060
Net cash (used in) provided by investing activities	<u>(5,076,200)</u>	<u>66,812</u>
Cash flows from financing activities:		
Borrowings on lines of credit	380,000	108,000
Payments on lines of credit	(265,000)	(198,000)
Borrowing on note payable	839,709	50,000
Payments on notes payable	-	(650,000)
Contributions to permanently restricted endowment	-	57,930
Net cash provided by (used in) financing activities	<u>954,709</u>	<u>(632,070)</u>
Net (decrease) increase in cash and cash equivalents	(1,782,990)	2,176,388
Cash and cash equivalents, beginning of year	<u>2,217,474</u>	<u>41,086</u>
Cash and cash equivalents, end of year	<u>\$ 434,484</u>	<u>\$ 2,217,474</u>
Supplemental information:		
Accounts payable for building additions	<u>\$ 487,940</u>	<u>\$ -</u>
Interest paid	<u>\$ 15,912</u>	<u>\$ 33,564</u>

See notes to financial statements.

NASHVILLE OPERA ASSOCIATION AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
July 31, 2008 and 2007

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

Accounting Method

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

Financial Statement Presentation

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

NASHVILLE OPERA ASSOCIATION AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

Unrestricted

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

Temporarily Restricted

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

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

Permanently Restricted

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.

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.

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 AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable (Promises to Give)

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

The Organization uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. Management considers contributions receivable to be fully collectible as of July 31, 2008 and 2007, and accordingly, no allowance for doubtful receivables has been provided.

Building, Equipment and Leasehold Improvements

Building, equipment and leasehold improvements are recorded at cost or at fair value as of the date purchased or contributed. Expenditures for ordinary maintenance and repair are charged to operations. Renewals and betterments that materially extend the life of the asset are capitalized. Depreciation is provided in amounts necessary to allocate the costs of the various classes of assets using straight-line methods over the estimated useful lives of the respective assets, generally ranging from 5 to 25 years. Building depreciation will begin upon occupancy. See Note 12. Leasehold improvements are amortized over the relative lease term.

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 \$1,836 and \$1,837 for fiscal 2008 and 2007, respectively.

Contributions

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

Support and Revenue

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

NASHVILLE OPERA ASSOCIATION AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support and Revenue (Continued)

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

Donated Assets

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

Contributed Services and Facilities

Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services include the value of production services, advertising and professional services donated by individuals in the estimated amount of \$1,070,451 and \$22,445 in 2008 and 2007, respectively. In 2008 \$1,043,795 of the contributed services related to building the Noah Liff Opera Center.

Advertising Costs

Advertising costs are expensed as incurred and are reflected in marketing in the accompanying statements of activities. Advertising expense totaled \$81,558 and \$74,696 for fiscal 2008 and 2007, 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 financial statements.

NASHVILLE OPERA ASSOCIATION AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2008 and 2007

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 – CONTRIBUTIONS RECEIVABLE

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

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 1,988,160	\$ 846,520
Receivable in one to five years	<u>3,315,359</u>	<u>662,940</u>
Total contributions receivable	5,303,519	1,509,460
Less discounts to net present value (3-5%)	<u>(192,815)</u>	<u>(41,215)</u>
Net contributions receivable	<u>\$ 5,110,704</u>	<u>\$ 1,468,245</u>

Approximately 42% of contributions receivable at July 31, 2008 consist of amounts due from two donors, while approximately 78% of contributions receivable at July 31, 2007 consists of amounts due from four donors.

Approximately 33% of contributions in fiscal 2008 were made by two donors, while approximately 66% of contributions in fiscal 2007 were made by one donor.

Included in the contributions receivable is \$4,855,121 and \$1,189,458 net receivable at July 31, 2008 and 2007, 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>2008</u>	<u>2007</u>
Bond funds (fixed income)	\$ 204,945	\$ 143,393
Common stock funds (equities)	<u>85,543</u>	<u>160,562</u>
	<u>\$ 290,488</u>	<u>\$ 303,955</u>

The Organization's 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).

NASHVILLE OPERA ASSOCIATION AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2008 and 2007

NOTE 5 – BUILDING, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Building, equipment and leasehold improvements at July 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Building	\$ 600,000	\$ 600,000
Furniture and equipment	340,511	11,673
Computer equipment	48,439	48,439
Leasehold improvements	215,301	215,301
Construction in progress	<u>5,232,178</u>	<u>-</u>
	6,436,429	875,413
Accumulated depreciation and amortization	<u>(310,165)</u>	<u>(256,870)</u>
	<u>\$6,126,264</u>	<u>\$ 618,543</u>

During 2006, the Organization acquired a building for the purpose of relocating its operations, which occurred in September 2006. Through September 2006, the Organization leased the building to a tenant for \$4,230 per month.

NOTE 6 – LINES OF CREDIT

The Organization maintains two lines of credit arrangements with local financial institutions allowing for maximum borrowings of \$75,000, maturing April 2009, and \$200,000, maturing February 2009, with interest computed at a variable rate consisting of the bank's prime rate plus 1.5% and 1.0%, respectively. The Organization maintains a third line of credit arrangement with a local financial institution allowing for a maximum borrowing of \$200,000, maturing November 2008, with interest computed at a fixed rate of 5.9%. As of July 31, 2008 and 2007, borrowings outstanding were \$115,000 and \$0, respectively. The second line of credit noted above is secured by the Organization's cash and investments.

NOTE 7 – NOTE PAYABLE-BUILDING

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 30-day LIBOR plus 1.59% to be paid monthly and the note matures February 2012. The loan is secured by a negative pledge on the Organization's building. As of July 31, 2008, borrowings outstanding were \$839,709.

NASHVILLE OPERA ASSOCIATION AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2008 and 2007

NOTE 8 – RESTRICTED NET ASSETS

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

	<u>2008</u>	<u>2007</u>
Young Artist Program	\$ 97,619	\$ 142,971
Promises to give for future periods	<u>40,500</u>	<u>61,656</u>
	<u>\$ 138,119</u>	<u>\$ 204,627</u>

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

	<u>2008</u>	<u>2007</u>
Promises to give for building acquisition and renovation or the Fund for Artistic Excellence	\$4,855,121	\$ 1,189,458
Contributions for building renovation	<u>-</u>	<u>2,086,508</u>
	<u>\$4,855,121</u>	<u>\$3,275,966</u>

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

	<u>2008</u>	<u>2007</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

In July 1999, the Organization entered into a lease for office space. The original lease term extended 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. 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 AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2008 and 2007

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 \$2,214,975 and \$2,427,189 at July 31, 2008 and 2007, respectively.

The Organization received contributions from the Foundation of \$91,550 and \$111,550 in fiscal 2008 and 2007, 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 \$16,732 and \$13,882 for the years ended July 31, 2008 and 2007, respectively.

NOTE 12 – COMMITMENTS

The Organization entered into an agreement with a contractor to renovate the Organization’s building. The contract is a cost of work plus a fee with a maximum guaranteed cost of \$5,468,808. Work began in October 2007 and is scheduled to be completed in December 2008. At July 31, 2008, total contract cost incurred was approximately \$4,200,000. Capital contributions as well as bank debt, described in Note 7, were used to fund the renovation. Subsequent to year-end, the Organization moved into the building while final renovations were being completed.

SUPPLEMENTAL INFORMATION