

NASHVILLE OPERA ASSOCIATION

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

***As of and for the Years Ended July 31, 2018
and 2017***

And Report of Independent Auditor

NASHVILLE OPERA ASSOCIATION
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR..... 1-2

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 the Consolidated Financial Statements..... 10-20

SUPPLEMENTAL INFORMATION

Report of Independent Auditor on Supplemental Information 21
Consolidating Statements of Activities 22-23

Report of Independent Auditor

To the Board of Directors
Nashville Opera Association
Nashville, Tennessee

We have audited the accompanying consolidated financial statements of Nashville Opera Association (a nonprofit organization), which comprise the consolidated statement of financial position as of July 31, 2018 and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Financial Statements

The financial statements of Nashville Opera Association, as of December 31, 2017, were audited by other auditors whose report dated November 17, 2017, expressed an unmodified opinion on those statements.

A handwritten signature in blue ink that reads "Chung BeKaant LLP". The signature is written in a cursive, flowing style.

Nashville, Tennessee
November 23, 2018

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JULY 31, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 537,131	\$ 543,549
Contributions receivable	133,160	174,476
Accounts receivable	7,130	26,305
Prepaid expenses and other	29,420	25,654
Total Current Assets	706,841	769,984
Investments	2,344,745	2,301,303
Noncurrent contributions receivable, net of discount	141,054	185,479
Land, building, and equipment, net	5,494,134	5,709,515
Total Assets	\$ 8,686,774	\$ 8,966,281
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ -	\$ 52
Unearned revenue	188,654	255,332
Total Current Liabilities	188,654	255,384
Net Assets:		
Unrestricted	7,389,970	7,517,006
Temporarily restricted	339,869	425,610
Permanently restricted	768,281	768,281
Total Net Assets	8,498,120	8,710,897
Total Liabilities and Net Assets	\$ 8,686,774	\$ 8,966,281

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JULY 31, 2018

	Unrestricted	Temporarily Restricted			Permanently Restricted	Total
		Operating	Capital	Total		
Support and Revenue:						
Contributions from individuals	\$ 588,415	\$ -	\$ -	\$ -	\$ -	\$ 588,415
Contributions from corporations and foundations (including in-kind of \$71,680)	537,740	32,784	-	32,784	-	570,524
Rental income	274,401	-	-	-	-	274,401
Grants from governmental agencies	195,100	-	-	-	-	195,100
Guild special events	194,961	-	-	-	-	194,961
Single ticket sales and tour fees	175,070	-	-	-	-	175,070
Investment income, net	150,996	-	-	-	-	150,996
Subscription ticket sales	134,784	-	-	-	-	134,784
Fundraising revenue	84,016	-	-	-	-	84,016
Other income	15,251	-	-	-	-	15,251
Membership dues	10,610	-	-	-	-	10,610
Capital campaign contributions	5,575	-	-	-	-	5,575
Interest income	570	-	-	-	-	570
Net assets released from restrictions	118,525	(52,445)	(66,080)	(118,525)	-	-
Total Support and Revenue	2,486,014	(19,661)	(66,080)	(85,741)	-	2,400,273
Expenses:						
Production	903,620	-	-	-	-	903,620
Administrative	580,570	-	-	-	-	580,570
Subcontract labor	439,406	-	-	-	-	439,406
Building expenses	368,836	-	-	-	-	368,836
Marketing	114,257	-	-	-	-	114,257
Special events	92,197	-	-	-	-	92,197
Development and fundraising	44,762	-	-	-	-	44,762
Other	45,632	-	-	-	-	45,632
Public relations	23,770	-	-	-	-	23,770
Total Expenses	2,613,050	-	-	-	-	2,613,050
Change in Net Assets	\$ (127,036)	\$ (19,661)	\$ (66,080)	\$ (85,741)	\$ -	\$ (212,777)

The accompanying notes to the financial statements are an integral part of these statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JULY 31, 2017

	Unrestricted	Temporarily Restricted			Permanently Restricted	Total
		Operating	Capital	Total		
Support and Revenue:						
Contributions from individuals	\$ 624,511	\$ -	\$ -	\$ -	\$ -	\$ 624,511
Contributions from corporations and foundations (including in-kind of \$86,905)	556,662	52,445	-	52,445	-	609,107
Single ticket sales and tour fees	229,513	-	-	-	-	229,513
Grants from governmental agencies	228,069	-	-	-	-	228,069
Rental income	225,712	-	-	-	-	225,712
Guild special events	199,648	-	-	-	-	199,648
Investment income, net	191,304	-	-	-	-	191,304
Subscription ticket sales	171,633	-	-	-	-	171,633
Fundraising revenue	36,369	-	-	-	-	36,369
Capital campaign contributions	20,534	-	2,000	2,000	-	22,534
Other income	20,469	-	-	-	-	20,469
Membership dues	8,210	-	-	-	-	8,210
Interest income	111	-	-	-	-	111
Net assets released from restrictions	235,648	(172,083)	(38,565)	(210,648)	(25,000)	-
Total Support and Revenue	2,748,393	(119,638)	(36,565)	(156,203)	(25,000)	2,567,190
Expenses:						
Production	929,296	-	-	-	-	929,296
Administrative	596,853	-	-	-	-	596,853
Subcontract labor	493,894	-	-	-	-	493,894
Building expenses	363,368	-	-	-	-	363,368
Marketing	121,021	-	-	-	-	121,021
Special events	68,337	-	-	-	-	68,337
Development and fundraising	61,732	-	-	-	-	61,732
Public relations	42,116	-	-	-	-	42,116
Other	25,328	-	-	-	-	25,328
Total Expenses	2,701,945	-	-	-	-	2,701,945
Change in Net Assets	\$ 46,448	\$ (119,638)	\$ (36,565)	\$ (156,203)	\$ (25,000)	\$ (134,755)

The accompanying notes to the financial statements are an integral part of these statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED JULY 31, 2018 AND 2017

	Unrestricted	Temporarily Restricted			Permanently Restricted	Total
		Operating	Capital	Total		
Net assets at July 31, 2016	\$ 7,470,558	\$ 172,083	\$ 409,730	\$ 581,813	\$ 793,281	\$ 8,845,652
Change in net assets	46,448	(119,638)	(36,565)	(156,203)	(25,000)	(134,755)
Net assets at July 31, 2017	7,517,006	52,445	373,165	425,610	768,281	8,710,897
Change in net assets	(127,036)	(19,661)	(66,080)	(85,741)	-	(212,777)
Net assets at July 31, 2018	<u>\$ 7,389,970</u>	<u>\$ 32,784</u>	<u>\$ 307,085</u>	<u>\$ 339,869</u>	<u>\$ 768,281</u>	<u>\$ 8,498,120</u>

The accompanying notes to the financial statements are an integral part of these statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JULY 31, 2018

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 304,371	\$ 245,678	\$ 97,244	\$ 647,293
Production subcontract labor	446,606	-	-	446,606
Production expense (including in-kind of \$29,668)	386,017	-	-	386,017
Depreciation and amortization	184,401	59,951	-	244,352
Building expense	86,863	97,169	-	184,032
Miscellaneous (including in-kind of \$14,031)	30,119	70,275	32,397	132,791
Fundraising events	-	-	98,024	98,024
Marketing (including in-kind of \$12,981)	-	84,685	-	84,685
Employee benefits	27,495	35,802	11,669	74,966
Utilities	41,280	13,831	-	55,111
Payroll taxes	24,467	19,710	7,439	51,616
Printing and publications	-	24,034	6,477	30,511
Legal and professional	-	27,472	-	27,472
Insurance	15,523	11,417	-	26,940
Bad debt	-	21,655	-	21,655
Equipment maintenance (including in-kind of \$15,000)	-	19,317	-	19,317
Postage	-	16,284	2,061	18,345
Public relations	-	14,408	-	14,408
Dues and subscriptions	6,500	6,430	-	12,930
Bank fees	-	10,576	-	10,576
Pension	6,179	2,396	1,459	10,034
Telephone	6,799	1,989	-	8,788
Supplies	-	3,421	-	3,421
Conferences	-	3,160	-	3,160
Total Expenses	<u>\$ 1,566,620</u>	<u>\$ 789,660</u>	<u>\$ 256,770</u>	<u>\$ 2,613,050</u>

The accompanying notes to the financial statements are an integral part of these statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JULY 31, 2017

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 305,223	\$ 244,616	\$ 112,101	\$ 661,940
Production subcontract labor	488,894	-	-	488,894
Production expense (including in-kind of \$28,855)	429,413	-	-	429,413
Depreciation and amortization	186,380	60,610	-	246,990
Building expense	81,777	73,905	-	155,682
Miscellaneous (including in-kind of \$31,727)	32,555	97,666	34,333	164,554
Fundraising events (including in-kind of \$7,998)	-	-	89,637	89,637
Marketing (including in-kind of \$8,325)	-	87,174	-	87,174
Employee benefits	25,840	30,041	19,057	74,938
Utilities	38,745	12,915	-	51,660
Payroll taxes	24,937	20,295	8,576	53,808
Printing and publications (including in-kind of \$10,000)	-	42,839	5,505	48,344
Legal and professional	-	27,999	-	27,999
Insurance	13,522	13,523	-	27,045
Bad debt	-	5,300	-	5,300
Equipment maintenance	-	4,254	-	4,254
Postage	-	17,219	2,594	19,813
Public relations	-	17,547	-	17,547
Dues and subscriptions	6,500	6,157	-	12,657
Bank fees	-	11,058	-	11,058
Pension	5,083	2,839	2,125	10,047
Telephone	6,524	2,264	-	8,788
Supplies	-	2,501	-	2,501
Conferences	-	450	-	450
Interest	-	1,452	-	1,452
Total Expenses	<u>\$ 1,645,393</u>	<u>\$ 782,624</u>	<u>\$ 273,928</u>	<u>\$ 2,701,945</u>

The accompanying notes to the financial statements are an integral part of these statements.

NASHVILLE OPERA ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JULY 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (212,777)	\$ (134,755)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	244,352	246,990
Donated investments	-	(130,075)
Net realized and unrealized gain on investments	(86,915)	(143,636)
Contributions restricted for long-term purposes	-	(2,000)
Changes in operating assets and liabilities:		
Contributions receivable	19,661	119,638
Accounts receivable	19,175	5,575
Prepaid expenses and other	(3,766)	14,982
Accounts payable and accrued expenses	(52)	(5,660)
Unearned revenue	(66,678)	(6,952)
Net cash used in operating activities	<u>(87,000)</u>	<u>(35,893)</u>
Cash flows from investing activities:		
Purchases of building and equipment	(28,971)	(5,126)
Purchases of investments, net	(58,297)	(88,522)
Proceeds from sales of investments, net	101,770	269,548
Net cash provided by investing activities	<u>14,502</u>	<u>175,900</u>
Cash flows from financing activities:		
Collections of contributions restricted for long-term purposes	66,080	38,566
Borrowings on line of credit	-	85,000
Payments on line of credit	-	(85,000)
Net cash provided by financing activities	<u>66,080</u>	<u>38,566</u>
Net (decrease) increase in cash and cash equivalents	(6,418)	178,573
Cash and cash equivalents, beginning of year	543,549	364,976
Cash and cash equivalents, end of year	<u>\$ 537,131</u>	<u>\$ 543,549</u>
Supplemental information:		
Interest paid	\$ -	\$ 1,452
Taxes paid	\$ -	\$ 18,425

NASHVILLE OPERA ASSOCIATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

Note 1—Nature of operations and 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% 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 consolidated 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.

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.

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.

NASHVILLE OPERA ASSOCIATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

Note 1—Nature of operations and summary of significant accounting policies (continued)

Restricted Endowment Funds – The Financial Accounting Standards Board (“FASB”) 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 of 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 9.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. 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, except for cash held in investment accounts.

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. Contributions receivable due in the next year are reflected as current contributions receivable and are recorded at their net realizable value. Contributions receivable due in subsequent years are reflected as noncurrent contributions receivable and are recorded at the present value of their net realizable value, by discounting the contributions receivable at an appropriate rate commensurate with the risk involved.

The Organization uses the allowance method to determine uncollectible unconditional contributions 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, 2018 and 2017 and, accordingly, no allowance for uncollectible contributions receivable has been provided at July 31, 2018 and 2017.

Land, Building, and Equipment – Land, building, and equipment 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 THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

Note 1—Nature of operations and 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, membership levels of the Organization, 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 and deposits for future rental agreements. These advance ticket sales and related expenses are reflected in operations in the year the production is performed. The facility and production set rental income is reflected in the year the rental occurs.

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 consolidated 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 amounts of \$71,680 and \$86,905 in fiscal 2018 and 2017, respectively.

Advertising Costs – Advertising costs are expensed as incurred and are reflected in marketing in the accompanying consolidated statements of activities. Advertising expense totaled \$60,168 and \$78,483 for fiscal 2018 and 2017, 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 income 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 guidance 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 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying consolidated financial statements.

NASHVILLE OPERA ASSOCIATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

Note 1—Nature of operations and summary of significant accounting policies (continued)

Subsequent Events – The Organization evaluated subsequent events through November 23, 2018, when these consolidated 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.

Recently Issued Accounting Standards – In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under accounting principles generally accepted in the United States (“GAAP”) under which an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2014-09 will be effective for the Organization on August 1, 2019. The Organization is currently evaluating the effect of the implementation of this new standard.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the lease guidance in Accounting Standards Codification (“ASC”) 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified either as finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for the Organization year ending July 31, 2020. A modified retrospective transition approach is required for leases for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirement for not-for-profit entities. The primary changes are a decrease in the number of net asset classes from three to two, reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring disclosure of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks, and requiring reporting of expenses by function and nature, as well as enhanced endowment disclosures. This standard is effective for all fiscal years beginning after December 31, 2017.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*, which requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The new standard will be effective for the Organization on August 1, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The new standard is effective for annual periods beginning after December 15, 2018. The Organization is evaluating the impact of this ASU on the financial statements.

NASHVILLE OPERA ASSOCIATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

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.

Note 3—Contributions receivable

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

	2018	2017
Receivable in less than one year	\$ 133,160	\$ 174,476
Receivable in one to five years	150,000	200,000
Total contributions receivable	283,160	374,476
Less discounts to net present value (2% to 5%)	(8,946)	(14,521)
Net contributions receivable	<u>\$ 274,214</u>	<u>\$ 359,955</u>

At July 31, 2018, approximately 88% of contributions receivable consists of amounts due from one donor, while at July 31, 2017, approximately 79% of contributions receivable consists of amounts due from one donor.

Included in contributions receivable is \$241,430 and \$307,510 net receivable 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.

At July 31, 2018, approximately 14% of contributions revenue came from one donor. At July 31, 2017, approximately 17% of contributions revenue came from one donor.

Note 4—Investments

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

	2018	2017
Mutual funds	\$ 1,682,029	\$ 1,219,068
Exchange-traded funds	102,140	513,137
Money market	560,576	569,098
	<u>\$ 2,344,745</u>	<u>\$ 2,301,303</u>

NASHVILLE OPERA ASSOCIATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

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 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 quoted market prices 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, 2018:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 560,576	\$ -	\$ -	\$ 560,576
Mutual funds:				
Bond funds - fixed income	60,148	-	-	60,148
Bond funds - intermediate term	329,125	-	-	329,125
Common stock funds - growth funds	598,237	-	-	598,237
Common stock funds - value funds	439,155	-	-	439,155
Common stock funds - blend funds	255,364	-	-	255,364
Total mutual funds	1,682,029	-	-	1,682,029
Exchange-traded funds:				
Common stock funds - growth funds	36,321	-	-	36,321
Common stock funds - blend funds	65,819	-	-	65,819
Total exchange-traded funds	102,140	-	-	102,140
Total investments	\$ 2,344,745	\$ -	\$ -	\$ 2,344,745

NASHVILLE OPERA ASSOCIATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

Note 5—Fair value measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the investments at fair value as of July 31, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 569,098	\$ -	\$ -	\$ 569,098
Mutual funds:				
Bond funds-fixed income	331,071	-	-	331,071
Common stock funds - growth funds	290,795	-	-	290,795
Common stock funds - value funds	226,708	-	-	226,708
Common stock funds - blend funds	370,494	-	-	370,494
Total mutual funds	1,219,068	-	-	1,219,068
Exchange-traded funds:				
Common stock funds - growth funds	167,890	-	-	167,890
Common stock funds - value funds	192,708	-	-	192,708
Common stock funds - blend funds	152,539	-	-	152,539
Total exchange-traded funds	513,137	-	-	513,137
Total investments	\$ 2,301,303	\$ -	\$ -	\$ 2,301,303

Note 6—Land, building, and equipment

Land, building, and equipment at July 31 consist of the following:

	2018	2017
Building, land, and land improvements	\$ 623,400	\$ 623,400
Building improvements	6,521,042	6,498,547
Furniture and equipment	734,359	727,883
Production scenery	113,717	113,717
	7,992,518	7,963,547
Accumulated depreciation and amortization	(2,498,384)	(2,254,032)
	\$ 5,494,134	\$ 5,709,515

Note 7—Line of credit

The Organization maintained a line of credit with local financial institutions allowing for maximum borrowings of \$300,000. The first line of credit was amended in February 2016 to extend maturity to February 2019 with required monthly interest payments computed at the bank's prime rate plus 1.75% (minimum 5.25%). As of July 31, 2018 and 2017, total borrowings outstanding under this arrangement was \$-0-.

NASHVILLE OPERA ASSOCIATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

Note 8—Restrictions on net assets

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

	2018	2017
Promises to give for future periods	\$ 32,784	\$ 52,445

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

	2018	2017
Promises to give for building acquisition, renovation, and maintenance	\$ 241,430	\$ 307,510
Endowment fund for building renovation and maintenance	65,655	65,655
	<u>\$ 307,085</u>	<u>\$ 373,165</u>

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

	2018	2017
Endowment fund for operating expenses	\$ 668,281	\$ 668,281
Young Artist Scholarship Program	100,000	100,000
	<u>\$ 768,281</u>	<u>\$ 768,281</u>

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

Note 9—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 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 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.

NASHVILLE OPERA ASSOCIATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

Note 9—Endowment fund (continued)

Endowment Net Asset Composition by Type of Fund as of July 31, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment fund	\$ 303,555	\$ -	\$ 768,281	\$ 1,071,836
Unrestricted Fund for Artistic Excellence	741,190	-	-	741,190
Donor restricted building maintenance funds	8,174	65,655	-	73,829
	<u>\$ 1,052,919</u>	<u>\$ 65,655</u>	<u>\$ 768,281</u>	<u>\$ 1,886,855</u>

Changes in Endowment Net Assets for the fiscal year ended July 31, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 989,152	\$ 65,655	\$ 768,281	\$ 1,823,088
Investment income, net	54,752	-	-	54,752
Net appreciation	86,915	-	-	86,915
Contributions and transfers into endowment	-	-	-	-
Amounts appropriated for expenditure	(77,900)	-	-	(77,900)
Endowment net assets, end of year	<u>\$ 1,052,919</u>	<u>\$ 65,655</u>	<u>\$ 768,281</u>	<u>\$ 1,886,855</u>

Endowment Net Asset Composition by Type of Fund as of July 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment fund	\$ 267,325	\$ -	\$ 768,281	\$ 1,035,606
Unrestricted Fund for Artistic Excellence	716,144	-	-	716,144
Donor restricted building maintenance funds	5,683	65,655	-	71,338
	<u>\$ 989,152</u>	<u>\$ 65,655</u>	<u>\$ 768,281</u>	<u>\$ 1,823,088</u>

NASHVILLE OPERA ASSOCIATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

Note 9—Endowment fund (continued)

Changes in Endowment Net Assets for the fiscal year ended July 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 823,182	\$ 65,655	\$ 793,281	\$ 1,682,118
Investment income, net	39,134	-	-	39,134
Net appreciation	143,636	-	-	143,636
Contributions and transfers into endowment	154,053	-	-	154,053
Amounts appropriated for expenditure	(170,853)	-	(25,000)	(195,853)
Endowment net assets, end of year	<u>\$ 989,152</u>	<u>\$ 65,655</u>	<u>\$ 768,281</u>	<u>\$ 1,823,088</u>

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 Association.

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 as follows:

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.

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 generally to appropriate 5% of the market value, defined as the 3-year rolling average of the December 31 balance. Additional withdrawals may be requested for approval by the NOA Foundation, LLC Board of Directors.

NASHVILLE OPERA ASSOCIATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

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 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 \$10,034 and \$10,047 for the years ended July 31, 2018 and 2017, respectively.

Note 11—Commitments

The Organization’s bank had issued a standby letter of credit in the approximate amount of \$8,400 for the benefit of the Tennessee Performing Arts Center, the Organization’s primary venue for its operatic productions. This arrangement was not renewed upon expiration in September 2017.

Note 12—Operating lease commitment

During fiscal years 2018 and 2017, the Organization maintained a lease agreement for certain warehouse space accounted for as an operating lease. Rent expense for the years ended July 31, 2018 and 2017, was \$40,000 and \$39,600, respectively. Future minimum lease payments required under this operating lease that have remaining noncancelable lease terms in excess of one year as of July 31, 2018, are as follows:

2019	\$ 41,400
2020	<u>31,500</u>
	<u>\$ 72,900</u>

SUPPLEMENTAL INFORMATION

Report of Independent Auditor on Supplemental Information

To the Board of Directors
Nashville Opera Association
Nashville, Tennessee

We have audited the consolidated financial statements of Nashville Opera Association as of and for the year ended July 31, 2018, and our report thereon dated November 23, 2018, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1-2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating statement of activities that follow on page 22 is presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The consolidating statement of activities on page 23 was subjected to the auditing procedures applied in the fiscal year ended 2017 audit of the consolidated financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.



Nashville, Tennessee
November 23, 2018

NASHVILLE OPERA ASSOCIATION
CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED JULY 31, 2018

	Nashville Opera Company, LLC	Noah Liff Opera Center, LLC	NOA Foundation, LLC	Nashville Opera Guild	Eliminations	Consolidated
Support and Revenue:						
Contributions from individuals	\$ 588,415	\$ -	\$ -	\$ -	\$ -	\$ 588,415
Contributions from corporations and foundations	570,524	-	-	-	-	570,524
Rental income	274,401	-	-	-	-	274,401
Grants from governmental agencies	195,100	-	-	-	-	195,100
Guild special events	-	-	-	194,961	-	194,961
Single ticket sales and tour fees	175,070	-	-	-	-	175,070
Investment income, net	-	-	150,996	-	-	150,996
Subscription ticket sales	134,784	-	-	-	-	134,784
Fundraising revenue	84,016	-	-	-	-	84,016
Other income	12,095	-	-	3,156	-	15,251
Membership dues	-	-	-	10,610	-	10,610
Capital campaign contributions	-	-	5,575	-	-	5,575
Interest income	497	-	-	73	-	570
Other contributions	177,847	-	-	-	(177,847)	-
Total Support and Revenue	2,212,749	-	156,571	208,800	(177,847)	2,400,273
Expenses:						
Production	903,620	-	-	-	-	903,620
Administrative	580,570	-	-	-	-	580,570
Subcontract labor	439,406	-	-	-	-	439,406
Building expenses	126,456	242,380	-	-	-	368,836
Marketing	114,257	-	-	-	-	114,257
Special events	-	-	-	92,197	-	92,197
Development and fundraising	44,762	-	-	-	-	44,762
Public relations	23,770	-	-	-	-	23,770
Other	10,421	7,736	9,329	18,146	-	45,632
Contributions	-	-	77,900	99,947	(177,847)	-
Total Expenses	2,243,262	250,116	87,229	210,290	(177,847)	2,613,050
Change in Net Assets	\$ (30,513)	\$ (250,116)	\$ 69,342	\$ (1,490)	\$ -	\$ (212,777)

NASHVILLE OPERA ASSOCIATION
CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED JULY 31, 2017

	Nashville Opera Company, LLC	Noah Liff Opera Center, LLC	NOA Foundation, LLC	Nashville Opera Guild	Eliminations	Consolidated
Support and Revenue:						
Contributions from individuals	\$ 624,511	\$ -	\$ -	\$ -	\$ -	\$ 624,511
Contributions from corporations and foundations	609,107	-	-	-	-	609,107
Single ticket sales and tour fees	229,513	-	-	-	-	229,513
Grants from governmental agencies	228,069	-	-	-	-	228,069
Rental income	225,712	-	-	-	-	225,712
Guild special events	-	-	-	199,648	-	199,648
Investment income, net	-	-	191,304	-	-	191,304
Subscription ticket sales	171,633	-	-	-	-	171,633
Fundraising revenue	36,369	-	-	-	-	36,369
Capital campaign contributions	-	-	22,534	-	-	22,534
Other income	13,709	-	-	6,760	-	20,469
Membership dues	-	-	-	8,210	-	8,210
Interest income	-	-	-	111	-	111
Other contributions	201,800	-	-	-	(201,800)	-
Total Support and Revenue	2,340,423	-	213,838	214,729	(201,800)	2,567,190
Expenses:						
Production	929,296	-	-	-	-	929,296
Administrative	596,853	-	-	-	-	596,853
Subcontract labor	493,894	-	-	-	-	493,894
Building expenses	118,714	244,654	-	-	-	363,368
Marketing	121,021	-	-	-	-	121,021
Special events	-	-	-	68,337	-	68,337
Development and fundraising	61,732	-	-	-	-	61,732
Public relations	42,116	-	-	-	-	42,116
Other	-	-	8,533	16,795	-	25,328
Contributions	-	-	91,800	110,000	(201,800)	-
Total Expenses	2,363,626	244,654	100,333	195,132	(201,800)	2,701,945
Change in Net Assets	\$ (23,203)	\$ (244,654)	\$ 113,505	\$ 19,597	\$ -	\$ (134,755)