

EISNERAMPER

OPERA AMERICA, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017



INDEPENDENT AUDITORS' REPORT

The Board of Directors
OPERA America, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of OPERA America, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Organization's management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of OPERA America, Inc., as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



EISNERAMPER LLP
New York, New York
November 12, 2018



OPERA AMERICA, INC.**Statements of Financial Position**

	June 30,	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 2,044,778	\$ 927,037
Contributions receivable, net	3,576,081	5,193,327
Other receivables	538,762	336,319
Investments	12,286,218	12,483,244
Prepaid expenses and other current assets	115,571	84,925
Security deposit	132,170	132,170
Property and equipment, net	<u>3,926,963</u>	<u>4,281,754</u>
	<u>\$ 22,620,543</u>	<u>\$ 23,438,776</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other liabilities	\$ 279,940	\$ 133,873
Grants payable	2,232,012	2,251,326
Deferred revenue	39,056	26,076
Loan payable, under line-of-credit	999,500	1,544,141
Loan payable, Mellon Co-Production Funding	500,000	
Deferred rent obligation	<u>1,588,237</u>	<u>1,544,959</u>
Total liabilities	<u>5,638,745</u>	<u>5,500,375</u>
Commitments and contingency (See Note M)		
Net assets:		
Unrestricted:		
Core operating fund	68,614	57,622
Board-designated funds (See Note I)	<u>649,851</u>	<u>564,851</u>
Total unrestricted net assets	<u>718,465</u>	<u>622,473</u>
Temporarily restricted:		
Projects	4,442,602	5,811,998
National Opera Center	<u>901,957</u>	<u>603,723</u>
Total temporarily restricted net assets	<u>5,344,559</u>	<u>6,415,721</u>
Permanently restricted:		
Opera Fund	5,518,774	5,500,207
National Opera Center	<u>5,400,000</u>	<u>5,400,000</u>
Total permanently restricted net assets	<u>10,918,774</u>	<u>10,900,207</u>
Total net assets	<u>16,981,798</u>	<u>17,938,401</u>
	<u>\$ 22,620,543</u>	<u>\$ 23,438,776</u>

See notes to financial statements.

OPERA AMERICA, INC.

Statement of Activities

Year Ended June 30, 2018

(with summarized financial information for June 30, 2017)

	Unrestricted		Temporarily Restricted			Permanently Restricted			Total		
	Operations	Board- Designated Funds	Total	Projects	National Opera Center	Total	Opera Fund	National Opera Center	Total	2018	2017
Revenue:											
Contributions and grants	\$ 1,195,238		\$ 1,195,238	\$ 1,089,553	\$ 737,388	\$ 1,826,941	\$ 18,567		\$ 18,567	\$ 3,040,746	\$ 8,217,066
Membership dues	759,354		759,354							759,354	716,978
Seminars, workshops, registration and annual meeting	333,758		333,758							333,758	304,523
Publications and advertising	82,731		82,731							82,731	72,036
Investment income, net	3,972		3,972	327,123	224,741	551,864				555,836	641,219
National Opera Center operations	973,108		973,108							973,108	939,119
Return of grant funds previously expended	127,453		127,453							127,453	
Miscellaneous income	22,488		22,488							22,488	13,015
Total revenue before net assets released from restrictions	3,498,102		3,498,102	1,416,676	962,129	2,378,805	18,567		18,567	5,895,474	10,903,956
Net assets released from restrictions	3,449,967		3,449,967	(2,786,072)	(663,895)	(3,449,967)			0	0	0
Total revenue	6,948,069		6,948,069	(1,369,396)	298,234	(1,071,162)	18,567		18,567	5,895,474	10,903,956
Expenses:											
Program services:											
Membership	253,057		253,057							253,057	310,574
Public affairs	75,962		75,962							75,962	84,349
Public relations/marketing	240,724		240,724							240,724	170,150
Innovations and civic practice	1,395,625		1,395,625							1,395,625	2,588,131
Information services/publications	343,208		343,208							343,208	351,582
Education	137,496		137,496							137,496	87,187
Annual conference	474,133		474,133							474,133	260,082
Opera Fund and artistic initiatives	958,837		958,837							958,837	1,051,852
National Opera Center	1,898,266		1,898,266							1,898,266	1,864,831
Total program services	5,777,308		5,777,308							5,777,308	6,768,738
Supporting services:											
General and finance administration	555,180		555,180							555,180	538,225
Fund-raising activities	519,589		519,589							519,589	472,059
Total supporting services	1,074,769		1,074,769							1,074,769	1,010,284
Total expenses	6,852,077		6,852,077							6,852,077	7,779,022
Change in net assets	95,992		95,992	(1,369,396)	298,234	(1,071,162)	18,567		18,567	(956,603)	3,124,934
Inter-fund transfer (See Note I)	(85,000)	\$ 85,000	0							0	0
Net assets, beginning of year	57,622	564,851	622,473	5,811,998	603,723	6,415,721	5,500,207	\$ 5,400,000	10,900,207	17,938,401	14,813,467
Net assets, end of year	\$ 68,614	\$ 649,851	\$ 718,465	\$ 4,442,602	\$ 901,957	\$ 5,344,559	\$ 5,518,774	\$ 5,400,000	\$ 10,918,774	\$ 16,981,798	\$ 17,938,401

See notes to financial statements.

OPERA AMERICA, INC.

**Statement of Activities
Year Ended June 30, 2017**

	Unrestricted		Temporarily Restricted			Permanently Restricted			Total
	Operations	Board-Designated Funds	Total	Projects	National Opera Center	Total	Opera Fund	National Opera Center	
Revenue:									
Contributions and grants	\$ 929,524		\$ 929,524	\$ 7,159,580	\$ 111,287	\$ 7,270,867	\$ 16,675		\$ 8,217,066
Membership dues	716,978		716,978						716,978
Seminars, workshops, registration and annual meeting	304,523		304,523						304,523
Publications, advertising and world wide web	72,036		72,036						72,036
Investment income, net	6,708		6,708	276,207	358,304	634,511			641,219
National Opera Center operations	939,119		939,119						939,119
Miscellaneous income	13,015		13,015						13,015
Total revenue before net assets released from restrictions	2,981,903		2,981,903	7,435,787	469,591	7,905,378	16,675		10,903,956
Net assets released from restrictions	4,873,403		4,873,403	(4,121,680)	(751,723)	(4,873,403)		0	0
Total revenue	7,855,306		7,855,306	3,314,107	(282,132)	3,031,975	16,675	16,675	10,903,956
Expenses:									
Program services:									
Membership	310,574		310,574						310,574
Public affairs	84,349		84,349						84,349
Public relations/marketing	170,150		170,150						170,150
Innovations and civic practice	2,588,131		2,588,131						2,588,131
Information services/publications	351,582		351,582						351,582
Education	87,187		87,187						87,187
Annual conference	260,082		260,082						260,082
Opera Fund and artistic initiatives	1,051,852		1,051,852						1,051,852
National Opera Center	1,864,831		1,864,831						1,864,831
Total program services	6,768,738		6,768,738						6,768,738
Supporting services:									
General and finance administration	538,225		538,225						538,225
Fund-raising activities	472,059		472,059						472,059
Total supporting services	1,010,284		1,010,284						1,010,284
Total expenses	7,779,022		7,779,022						7,779,022
Change in net assets	76,284		76,284	3,314,107	(282,132)	3,031,975	16,675	16,675	3,124,934
Inter-fund transfer (See Note I)	(60,000)	\$ 60,000	0						0
Net assets, beginning of year	41,338	504,851	546,189	2,497,891	885,855	3,383,746	5,483,532	\$ 5,400,000	10,883,532
Net assets, end of year	\$ 57,622	\$ 564,851	\$ 622,473	\$ 5,811,998	\$ 603,723	\$ 6,415,721	\$ 5,500,207	\$ 5,400,000	\$ 10,900,207

See notes to financial statements.

OPERA AMERICA, INC.**Statements of Cash Flows**

	Year Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (956,603)	\$ 3,124,934
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	358,095	403,370
Amortization of deferred rent obligation	43,278	88,170
Net realized and unrealized gains on investments	(256,186)	(437,310)
Permanently restricted contributions	(18,567)	(16,675)
Bad debts expense	79,344	76,170
Changes in:		
Contributions receivable	1,617,246	(4,022,144)
Other receivables	(281,787)	(100,244)
Prepaid expenses and other current assets	(30,646)	12,345
Accounts payable and other liabilities	146,067	(35,135)
Grants payable	(19,314)	1,299,980
Deferred revenue	12,980	(8,189)
Net cash provided by operating activities	<u>693,907</u>	<u>385,272</u>
Cash flows from investing activities:		
Purchases of property and equipment	(3,304)	(70,660)
Purchases of investments	(4,687,126)	(4,855,470)
Proceeds from sales of investments	<u>5,140,338</u>	<u>4,326,162</u>
Net cash provided by (used in) investing activities	<u>449,908</u>	<u>(599,968)</u>
Cash flows from financing activities:		
Payments on loan under line-of-credit	(544,641)	(305,859)
Proceeds from loan, Mellon Co-Production Funding	500,000	
Permanently restricted contributions	<u>18,567</u>	<u>16,675</u>
Net cash used in by investing activities	<u>(26,074)</u>	<u>(289,184)</u>
Change in cash	1,117,741	(503,880)
Cash, beginning of year	<u>927,037</u>	<u>1,430,917</u>
Cash, end of year	<u>\$ 2,044,778</u>	<u>\$ 927,037</u>
Supplementary disclosures of cash flow information:		
Interest paid	\$ 50,225	\$ 61,198
Unrelated business income taxes	\$ 250	\$ 250

See notes to financial statements.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

OPERA America, Inc. (the "Organization"), originally incorporated in Delaware and then re-incorporated in New York, is a not-for-profit organization founded in 1970 (i) to promote growth and expansion of the operatic art form; (ii) to foster and improve the education, training, and development of operatic composers, singers, and allied talents; (iii) to assist in developing resident professional opera companies through cooperative artistic and management services to its membership; (iv) to encourage and assist in the improvement of quality of operatic presentation; and (v) encourage greater appreciation and enjoyment of opera by all segments of society. It is an organization the members of which include opera companies, affiliated organizations, and individuals in the United States, Canada and several other countries.

New York City is home to the nation's largest concentration of performing and creative artists, professional training institutions, and music businesses. A majority of the Organization's professional company members hold or attend auditions in New York City, and opera leaders from Europe and around the world are regular visitors. In response to the pressing need for appropriate audition, practice and meeting space, the Organization constructed the "National Opera Center." The National Opera Center, which opened in September 2012, in addition to the space it provides, was built (i) to support more frequent and direct contact between members and Organization staff; (ii) to encourage greater involvement of members in Organization activities; (iii) to create the potential for broader and deeper collaboration among members; and (iv) to facilitate work with traditional partners and potential new allies.

The Organization is a not-for-profit corporation exempt from federal taxes pursuant to Section 501(c)(3) of the Internal Revenue Code (the "Code") and from state and local taxes under comparable laws.

[2] Basis of accounting:

The financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") as applicable to not-for-profit entities.

[3] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

[4] Investments:

The Organization's investments in equity securities, mutual funds, and fixed income securities are reported at their fair values in the statements of financial position based on quoted market prices. Cash and cash equivalents held as part of the investment portfolio are also included in the balances reported as investments.

The Organization's investments, in general, are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment vehicles, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] Investments: (continued)

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is restricted on a temporary or permanent basis through donor stipulation. Realized gains and losses on investments are determined by comparison of the cost at the time of acquisition to proceeds at the time of disposition. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the end of each year. The earnings from dividends and interest are recognized when earned.

Donated securities are recorded at their estimated fair values, as determined by the proceeds received on the dates of donation. The Organization's policy is to sell donated securities immediately, and, accordingly, for purposes of the statements of cash flows, donated securities and the proceeds generated from their sales are included within operating activities.

Investment expenses include the services of bank trustees, investment managers and custodians. The balances of investment management fees disclosed in Note C are those specific fees charged by the Organization's various investment managers in each fiscal year; however, they do not include those fees that may be embedded in various other investment accounts and transactions.

[5] Property and equipment:

Property and equipment are stated at their original costs at the dates of acquisition or, if contributed, at their fair values at the dates of donation. The Organization capitalizes as assets those items of property and equipment that have a cost of \$2,500 or more and have useful lives greater than one year, whereas minor costs for repairs and maintenance are expensed as incurred. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the respective assets, which range from three to ten years. Likewise, leasehold improvements are amortized over the remaining lease term, or over the useful lives of the improvements, whichever is shorter.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2018 and 2017, respectively, and in the opinion of management, there were no impairments. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[6] Accrued vacation:

A liability for the accrued vacation of Organization employees is included as part of "accounts payable and other liabilities" in the statements of financial position and represents the Organization's total obligation for the cost of unused employee vacation time that would be payable in the event that all employees were to leave the Organization's employ; the obligation is recalculated every year. At June 30, 2018 and 2017, this accrued vacation obligation was approximately \$39,000 and \$53,000, respectively.

[7] Grants payable:

Grants are recognized as an obligation to the Organization at the time they are approved for payment by the Board of Directors. Grants approved, but not yet paid, were approximately \$2,232,000 and \$2,251,000 at June 30, 2018 and 2017, respectively. Grants are generally paid within one year of approval. During fiscal year-end 2018 several grants were discontinued, cancelled, or forfeited due to economic conditions. The balances in the aforementioned grants payable amounts have been reported on the accompanying statement of activities as return of grant funds previously expensed in the amount of \$127,453.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Deferred revenue:

As further described in Note E and Note F, the National Opera Center is a performance space, the rental activities of which are recognized as revenue in the fiscal year the service takes place. The National Opera Center's rental revenue that is received in advance for future fiscal years' service is deferred and recognized when the service is rendered.

[9] Deferred rent obligation:

The difference between rent expense recorded under the lease agreement (see Note M[1]) and the rental amounts actually paid, which results from scheduled rent increases and abatements, is reported as a "deferred rent" obligation in the statements of financial position. This obligation is then amortized over the term of the lease using the straight-line method.

[10] Net assets:

The net assets of the Organization and the changes therein are reported as follows:

(i) *Unrestricted:*

Core operating fund:

This portion of unrestricted net assets represents those resources that are not subject to donor restrictions and are available for current operations.

Board-designated funds:

- a. The Opera Center Facilities Fund represents those resources that are generated from surplus facility operations and that have been designated by the Board of Directors as a reserve to address future escalating maintenance costs.
- b. In June, 2016, The Reserve Fund (the "Reserve") was established by transferring \$275,000 from core operating net assets and represents an unrestricted Board-designated fund that is also to be funded from surplus operations. The purpose of the Reserve is to protect core operations in the event of business interruptions or narrow operating deficits, as well as to serve as an asset for short-term financing. An ongoing balance objective for the Reserve is 10% of the Organization's budget, excluding grant making.
- c. The National Opera Center Endowment Fund (the "Endowment") has been funded from donor contributions and is intended for future escalating occupancy costs. Transfers from and to the Endowment are reviewed by the Organization's Finance Committee and are approved by the Board.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] Net assets: (continued)

(ii) Temporarily restricted:

The Projects Fund and National Opera Center:

Temporarily restricted net assets represent those resources that are subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") as well as the uses which have been restricted by donors or state law for specific purposes and/or by the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, a purpose restriction is accomplished, or the funds are appropriated through an action of the Board of Directors, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as "net assets released from restrictions."

The temporarily restricted net assets of the Projects Fund are used by the Organization to serve and strengthen the field of opera through programs supporting the creation, presentation, and enjoyment of opera throughout North America.

The temporarily restricted net assets of the National Opera Center are used to support the construction, maintenance, and operation of the National Opera Center.

(iii) Permanently restricted:

Opera Fund and National Opera Center:

Permanently restricted net assets represent those resources the principals of which is originally restricted in perpetuity by their donors. The purposes for which the income and net capital appreciation arising from the underlying assets may be used depend on the wishes of those donors. Under the terms of NYPMIFA, those earnings are initially classified as temporarily restricted in the statements of activities, pending appropriation by the Board of Directors.

[11] Revenue recognition:

(i) Contributions and grants:

Contributions to the Organization are recognized as revenue upon the receipt of cash or other assets or of unconditional pledges. Contributions are recorded as either temporarily or permanently restricted if they are received with donor stipulations or time considerations as to their use. Conditional contributions are recorded when the conditions have been met, and, if received in advance, are included in "accounts payable and other liabilities" in the statements of financial position. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

Grant revenue is based on the terms of each individual grant, and is considered available for unrestricted use unless the donor or grantor restricts the use thereof, either on a temporary or permanent basis.

(ii) Membership dues:

The Organization receives dues from both professional opera companies and individuals. Dues received for the current-fiscal year are recognized as revenue in the statements of activities, whereas dues received for a future fiscal-year's membership are deferred and recognized as revenue during the applicable period.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] Revenue recognition: (continued)

(iii) Seminars, workshops, registrations and annual meeting:

Seminars, workshops and annual meetings represent income from opera-related programs that are recognized in the statements of activities as the services are provided.

[12] Donated services:

For recognition of donated services in financial statements, such services must (i) create or enhance non-financial assets, (ii) typically need to be acquired if not provided by donation, (iii) require specialized skills, and (iv) be provided by individuals possessing these skills. Any services donated to the Organization would be recorded at their estimated fair values at the dates of donation and would be subsequently reported as unrestricted support in the statements of activities. The Organization received no donated services in fiscal-years 2018 and 2017.

[13] Functional allocation of expenses:

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated by management among the programs and supporting services based on the nature of each expense. Indirect costs have been functionalized on the basis of time-allocation for the various operating departments.

[14] Advertising costs:

The Organization expenses the costs of advertising as they are incurred. Advertising expenses were approximately \$22,000 and \$30,000 during fiscal-years 2018 and 2017, respectively.

[15] Income tax uncertainties:

The Organization is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, relating to accounting and reporting for uncertainty in income taxes. The Organization is subject to potential unrelated business income taxes relating to its advertising and rental income activities; however, because of the Organization's general not-for-profit status, ASC Topic 740 has not had, and is not expected to have, a material impact on the Organization's financial statements.

[16] Upcoming accounting change:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, and (iv) liquidity and availability of resources. The new standard will be effective for fiscal-years beginning after December 15, 2017. The Organization will adopt this accounting pronouncement for fiscal-year 2019.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[17] Reclassifications:

Certain information in the prior-year's financial statements has been reclassified to conform to the current year's presentation.

[18] Subsequent events:

The Organization evaluated subsequent events through November 12, 2018, the date on which the financial statements were available to be issued.

NOTE B - RECEIVABLES

[1] Contributions receivable:

Pledges of future contributions as of each fiscal year-end, but not yet collected as of that date, were recorded as pledges receivable. Outstanding pledges are expected to be collected as follows:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Less than one year	\$ 2,585,618	\$ 2,513,361
One to five years	<u>1,155,113</u>	<u>2,950,136</u>
	3,740,731	5,463,497
Allowance for uncollectible grants and pledges	<u>(109,342)</u>	<u>(133,874)</u>
	3,631,389	5,329,623
Present value discount at 2% annually	<u>(55,308)</u>	<u>(136,296)</u>
	<u>\$ 3,576,081</u>	<u>\$ 5,193,327</u>

The Organization periodically assesses the financial strength of its trade partners and donors and provides allowances for anticipated losses on amounts due.

[2] Other receivables:

At each fiscal year-end, other receivables consisted of amounts due to the Organization for exchange-type transactions. All amounts are due within one year. Based on management's past experience, the receivables are expected to be fully collected, and, accordingly, no allowance for doubtful accounts has been established.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE C - INVESTMENTS

At each fiscal year-end, investments consisted of the following:

	June 30,			
	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	\$ 519,144	\$ 519,144	\$ 207,786	\$ 207,786
Equity securities	4,580,271	4,233,849	5,210,319	4,870,100
U.S. government obligations	681,007	697,455	638,103	645,202
Corporate obligations	361,036	376,426	381,199	381,346
Fixed-income mutual funds	6,144,760	5,829,218	6,045,837	5,796,122
	<u>\$ 12,286,218</u>	<u>\$ 11,656,092</u>	<u>\$ 12,483,244</u>	<u>\$ 11,900,556</u>

As disclosed above, the concentrations of the Organization's investments in excess of 10% of the fair values of the total investment portfolio included approximately (i) 50% and 48% invested in fixed-income-mutual funds, and (ii) 37% and 42% invested in equity securities at each fiscal year-end June 30, 2018 and 2017, respectively.

During each fiscal year, investment income consisted of the following:

	Year Ended June 30,	
	2018	2017
Dividends and interest (net of investment fees of \$126,406 and \$122,148 in 2018 and 2017, respectively)	\$ 299,650	\$ 203,909
Net realized gains on sale of investments	208,748	129,990
Net unrealized gains on investments	47,438	307,320
	<u>\$ 555,836</u>	<u>\$ 641,219</u>

The FASB's ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1 Valuations are based on observable inputs that reflect quoted market prices in active markets for identical assets and liabilities, at the reporting date.
- Level 2 Valuations are based on (i) quoted prices for similar investments in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.
- Level 3 Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued.

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. For fiscal-years 2018 and 2017, there were no transfers among fair-value-hierarchy levels, as the Organization's investments were classified entirely within Level 1 for fiscal-years 2018 and 2017.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE D - PROPERTY AND EQUIPMENT

At each fiscal year-end, property and equipment consisted of the following:

	June 30,	
	2018	2017
Furniture and equipment	\$ 1,022,611	\$ 1,019,307
Leasehold improvements	<u>5,324,035</u>	<u>5,324,035</u>
	6,346,646	6,343,342
Less accumulated depreciation and amortization	<u>(2,419,683)</u>	<u>(2,061,588)</u>
	<u>\$ 3,926,963</u>	<u>\$ 4,281,754</u>

NOTE E - THE NATIONAL OPERA CENTER

The goal of the National Opera Center campaign is to raise approximately \$14,500,000, with approximately \$2,000,000 of that amount to cover relocation costs, \$6,500,000 to cover the costs of design, construction, and related expenses, and \$6,000,000 to fund an endowment.

NOTE F - LINE-OF-CREDIT AGREEMENT

In order to finance the costs of the National Opera Center project, the Organization entered into an agreement with a bank for a line-of-credit in an amount not to exceed \$2,800,000, with a variable interest rate that is based on the bank's base rate which historically has been adjusted in tandem with changes to the U.S. Federal Funds rate. During each fiscal-year ended June 30, 2018 and 2017, the Organization paid interest on the line of credit at a rate of 4.25 to 4.50% and 3.50 to 3.75%, respectively. There is no expiration date on the line-of-credit, as long as sufficient collateral is maintained. The line-of-credit is collateralized by certain of the Organization's securities, which must maintain a minimum fair-value of \$3,166,667. At June 30, 2018 and 2017, the outstanding principal balance on the borrowings made under the line-of-credit was \$999,500 and \$1,544,141, respectively. Interest expense during fiscal-years ending 2018 and 2017, on the loans drawn down under the agreement amounted to approximately \$50,000 and \$56,000, respectively.

NOTE G - MELLON CO-PRODUCTION FUNDING

During fiscal year-end 2018, the Organization entered into a collaborative production funding agreement with the Andrew W. Mellon Foundation (the "Foundation") for the purpose of creating a lending-bank program that will provide loans to Professional Company Members of Opera America to finance the collaborative production of American operas. In addition to proceeds from the loan, the Organization received additional grant funding of \$360,000 in connection with the loan and loan program in order to administer the loan program. The Foundation will disburse funds in the amount of \$500,000 to the Organization as indicated in the loan agreement. Additional funds of up to \$500,000 totaling a maximum of \$1,000,000 for the entire loan program may be available upon written request of the Organization by the President and Chief Executive Officer. The loan is unsecured, bears no interest, with a maturity date of December 31, 2022. As of the fiscal-year ended June 30, 2018, the Organization received \$500,000 of loan proceeds and is reported as loan payable, Mellon Co-Production Funding, within the accompanying statement of financial position.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE H - EMPLOYEE-BENEFIT PLANS

[1] Defined-contribution retirement plan:

The Organization maintains a defined-contribution retirement plan, established under Section 403(b) of the Code, for all eligible employees. The Organization remits matching contributions up to 5% of an employee's salary after one year of full-time employment. The Organization's contribution for fiscal-years 2018 and 2017 was approximately \$45,000 and \$59,000, respectively.

[2] Deferred compensation 457(f) retirement plan:

During fiscal year 2017, the Organization established a non-qualified, deferred compensation plan under section 457(f) of the Code for its President. The Plan is funded by the organization which made contributions to the plan of \$14,004 and \$14,983 for the fiscal years ended June 30, 2018 and 2017, respectively.

NOTE I - UNRESTRICTED NET ASSETS

At each fiscal year-end, unrestricted net assets were composed of the following:

	June 30,	
	2018	2017
Operations:		
Balance, beginning of year:	\$ 57,622	\$ 41,338
Increase from operations	95,992	76,284
Transfer to Board-designated Opera Center Facilities Fund	(10,000)	(10,000)
Transfer to Board-designated Reserve Fund	(75,000)	(50,000)
Balance, end of year	<u>68,614</u>	<u>57,622</u>
Unrestricted board-designated funds:		
National Opera Center Fund:		
Balance, beginning of year	76,527	66,527
Transfer from operations	10,000	10,000
Balance, end of year	<u>86,527</u>	<u>76,527</u>
Reserve Fund:		
Balance, beginning of year	325,000	275,000
Transfer from operations	75,000	50,000
Balance, end of year	<u>400,000</u>	<u>325,000</u>
National Opera Center Endowment (see Note K):		
Balance, beginning of year	163,324	163,324
Transfer from operations	0	0
Balance, end of year	<u>163,324</u>	<u>163,324</u>
Unrestricted board-designated funds balance, end of year	<u>649,851</u>	<u>564,851</u>
Total unrestricted net assets	<u>\$ 718,465</u>	<u>\$ 622,473</u>

OPERA AMERICA, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets (including transfer of investment gains from permanently restricted net assets) were available for the following purposes:

	Year Ended June 30,	
	2018	2017
Time and purpose restricted:		
Projects:		
American Express Foundation: Leadership intensive	\$ 50,000	\$ 35,000
Bank of America: Trustee recognition program	50,000	50,000
Getty Foundation: Innovations Program	1,407,228	2,798,200
Gilman Foundation: Professional development programs for artists	35,000	35,000
Gunn West Coast Initiative		75,000
Mellon Foundation: New works projects	500,000	750,000
Mellon Foundation: Co-Production Loan Initiative	325,000	
National Endowment for the Arts		22,000
Opera Fund	1,671,353	1,643,436
Patricia Scimeca Fund for Emerging Singers	4,021	3,362
Virginia B. Toulmin Foundation: Grants for female composers	300,000	300,000
Wallace Foundation: Communications partnership	<u>100,000</u>	<u>100,000</u>
	<u>4,442,602</u>	<u>5,811,998</u>
National Opera Center:		
Opera Center Endowment	13,532	18,791
Opera Center	<u>888,425</u>	<u>584,932</u>
	<u>901,957</u>	<u>603,723</u>
Total temporarily restricted net assets	<u>\$ 5,344,559</u>	<u>\$ 6,415,721</u>

The Opera Fund, Patricia Scimeca Fund for Emerging Singers, and the Opera Center Endowment, together, represent accumulated endowment income reserved for appropriation by the Board of Directors.

OPERA AMERICA, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

NOTE J - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

During each fiscal year, net assets released from restrictions consisted of the following:

	Year Ended June 30,	
	2018	2017
Time and purpose restrictions satisfied:		
Projects:		
Aaron Copland Fund: General operations	\$ 6,500	\$ 6,500
American Express: Leadership intensive	35,000	30,000
Amphion Foundation: Salon series	3,000	3,000
Bank of America: Trustee recognition program		60,000
Frances Goelet Charitable Trust	5,000	
Getty Foundation: Innovations Program	1,390,972	2,608,100
Getty Foundation: General operations	16,000	16,000
Gilman Foundation: Professional development programs	75,000	90,000
Gunn West Coast Initiative	75,000	
Mellon Foundation: New works projects	250,000	410,000
Mellon Foundation: Co-Production Initiative	35,000	
National Endowment for the Arts	112,000	118,000
New York City Department of Cultural Affairs	17,100	19,080
NYSCA: Regional programming	12,000	10,000
Opera Fund	310,000	260,000
Patricia Scimeca Emerging Singers	3,500	3,500
Penates Foundation	10,000	10,000
Fan Fox & Leslie R. Samuels Foundation	5,000	7,500
Tobin Theater Arts Fund: Director-Designer Showcase		30,000
Virginia B. Toulmin Foundation	325,000	340,000
Wallace Foundation: Communications partnership	100,000	100,000
	<u>2,786,072</u>	<u>4,121,680</u>
National Opera Center:		
Opera Center	<u>663,895</u>	<u>751,723</u>
	<u>663,895</u>	<u>751,723</u>
	<u>\$ 3,449,967</u>	<u>\$ 4,873,403</u>

NOTE K - ACCOUNTING AND REPORTING FOR ENDOWMENT

[1] The endowment:

At June 30, 2018 and 2017, respectively, the endowment consisted of permanently restricted funds of \$10,918,774 and \$10,900,207, respectively and Board-designated funds of \$163,324 for both years 2018 and 2017 (intended for the purpose of funding the National Opera Center and Opera Fund). The Opera Fund represents accumulated endowment income and permanently restricted gifts reserved for appropriation by the Board of Directors according to a spending policy adopted by the Board.

OPERA AMERICA, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

NOTE K - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[2] Interpretation of relevant law:

NYPMIFA is applicable to all of the Organization's institutional funds, including its donor-restricted and board-designated funds. The Board of Directors adheres to NYPMIFA's requirements.

[3] Changes in endowment net assets, during each fiscal year:

	Year Ended June 30, 2018			
	Board- Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 163,324	\$ 1,665,589	\$ 10,900,207	\$ 12,729,120
Contributions		14,953	18,567	33,520
Investment income, net	1,898	189,623		191,521
Net appreciation (realized and unrealized)	2,035	362,241		364,276
Appropriation of endowment assets for expenditure	<u>(3,933)</u>	<u>(543,500)</u>		<u>(547,433)</u>
Endowment net assets, end of year	<u>\$ 163,324</u>	<u>\$ 1,688,906</u>	<u>\$ 10,918,774</u>	<u>\$ 12,771,004</u>

	Year Ended June 30, 2017			
	Board- Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 163,324	\$ 1,609,091	\$ 10,883,532	\$ 12,655,947
Contributions			16,675	16,675
Investment income, net	2,273	210,128		212,401
Net appreciation (realized and unrealized)	4,326	449,383		453,709
Appropriation of endowment assets for expenditure	<u>(6,599)</u>	<u>(603,013)</u>		<u>(609,612)</u>
Endowment net assets, end of year	<u>\$ 163,324</u>	<u>\$ 1,665,589</u>	<u>\$ 10,900,207</u>	<u>\$ 12,729,120</u>

[4] Return objectives and risk parameters:

The Organization has adopted investment and spending policies for endowment assets that attempt to provide funding to programs by the endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets are those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce acceptable rates of return, with an appropriate level of investment risk.

[5] Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Organization relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization will target a diversified asset allocation to achieve its long-term return objectives with prudent risk constraints.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE K - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[6] Spending policy and relation to the endowment:

The Organization evaluates its program needs on an annual basis and draws from its endowment appreciation in order to fund programs accordingly. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns.

[7] Funds with deficiencies:

Due to unfavorable market fluctuations, from time to time, the fair value of assets associated with individual donor-restricted endowment funds may decline below the historic dollar-value of the donor's original, permanently restricted contribution. Under the terms of NYPMIFA, the Organization has no responsibility to restore such a decrease in value. At June 30, 2018 and 2017, there were no deficiencies of this nature.

NOTE L - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash accounts deposited in financial institutions in amounts which, from time to time, may exceed federal insurance limits. However, management believes that the Organization does not face a significant risk of loss on these accounts that would result from failures of these institutions.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE M - COMMITMENTS AND CONTINGENCY

[1] Lease obligations:

In February 2012, in order to develop its National Opera Center (see Note F), the Organization entered into an operating lease for 25,000 square feet on the two floors that house the Organization's offices. The term of the lease is 20 years, with the option to extend for five years and a provision for a rent abatement of seven months. Rental payments were originally scheduled to commence in September 2012; however, as a result of a landlord delay in delivery of the space for construction, the Organization received an additional rent abatement of approximately \$590,000. Rental payments began in November 2013.

Annual rental payments, rent expense and deferred rent adjustments (exclusive of escalation charges and real estate taxes) are as follows:

<u>Year Ending June 30,</u>	<u>Rent Paid</u>	<u>Rent Expense</u>	<u>Deferred Rent Adjustment</u>	<u>Cumulative Deferred Rent</u>
2012		\$ 224,692	\$ 224,692	\$ 224,692
2013		674,076	674,076	898,768
2015	\$ 358,839	674,076	315,237	1,214,005
2016	547,212	674,076	126,864	1,340,869
2016	558,156	674,076	115,920	1,456,789
2017	585,906	674,076	88,170	1,544,959
2018	630,798	674,076	43,278	1,588,237
2019	643,414	674,076	30,662	1,618,899
2020	656,282	674,076	17,794	1,636,693
2021	669,407	674,076	4,669	1,641,362
2022	699,382	674,076	(25,306)	1,616,056
2023	746,543	674,076	(72,467)	1,543,589
2024	761,474	674,076	(87,398)	1,456,191
2025	776,704	674,076	(102,628)	1,353,563
2026	792,238	674,076	(118,162)	1,235,401
2027	824,669	674,076	(150,593)	1,084,808
2028	874,336	674,076	(200,260)	884,548
2029	891,822	674,076	(217,746)	666,802
2030	909,659	674,076	(235,583)	431,219
2031	927,852	674,076	(253,776)	177,443
2032	626,761	449,318	(177,443)	

[2] Employment agreements:

The Organization is obligated under employment agreements with its President and Chief Executive Officer through January 1, 2027.

[3] Government contracts:

Government grants and contracts are subject to audit by the funding sources. Such audit might result in disallowances of costs submitted for reimbursement. Management believes that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been reserved in the accompanying financial statements for potential disallowances.