



OPERA AMERICA, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016 and 2015

INDEPENDENT AUDITORS' REPORT

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, 2016 and 2015, 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.

Auditors' 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 auditors' judgments, 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 auditors consider internal control relevant to the organization'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 organization'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, 2016 and 2015, 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.



New York, New York
November 10, 2016

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

| | June 30, | |
|---|----------------------|----------------------|
| | <u>2016</u> | <u>2015</u> |
| ASSETS | | |
| Cash | \$ 1,430,917 | \$ 1,620,399 |
| Investments | 11,516,626 | 10,698,634 |
| Contributions receivable, net | 1,171,183 | 1,743,537 |
| Other receivables | 312,245 | 366,688 |
| Prepaid expenses and other current assets | 97,270 | 62,036 |
| Security deposit | 132,170 | 132,170 |
| Property and equipment, net | <u>4,614,464</u> | <u>4,983,491</u> |
| | <u>\$ 19,274,875</u> | <u>\$ 19,606,955</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and other liabilities | \$ 169,008 | \$ 204,373 |
| Grants payable | 951,346 | 825,680 |
| Deferred revenue | 34,265 | 13,256 |
| Line-of-credit payable | 1,850,000 | 1,850,000 |
| Deferred rent obligation | <u>1,456,789</u> | <u>1,340,869</u> |
| Total liabilities | <u>4,461,408</u> | <u>4,234,178</u> |
| Commitments and contingency (see Note M) | | |
| Net assets: | | |
| Unrestricted: | | |
| Core operating | 41,338 | 290,405 |
| Board-designated funds (See Note G) | <u>504,851</u> | <u>146,527</u> |
| Total unrestricted net assets | <u>546,189</u> | <u>436,932</u> |
| Temporarily restricted: | | |
| Projects | 2,497,891 | 3,241,470 |
| National Opera Center | <u>885,855</u> | <u>2,724,293</u> |
| Total temporarily restricted net assets | <u>3,383,746</u> | <u>5,965,763</u> |
| Permanently restricted: | | |
| Opera Fund | 5,483,532 | 5,470,082 |
| National Opera Center | <u>5,400,000</u> | <u>3,500,000</u> |
| Total permanently restricted net assets | <u>10,883,532</u> | <u>8,970,082</u> |
| Total net assets | <u>14,813,467</u> | <u>15,372,777</u> |
| | <u>\$ 19,274,875</u> | <u>\$ 19,606,955</u> |

See notes to financial statements.

OPERA AMERICA, INC.

Statements of Activities
 Year Ended June 30, 2016
 (with summarized financial information for June 30, 2015)

| | Unrestricted | | Temporarily Restricted | | | Permanently Restricted | | | Total | |
|--|------------------|-------------------|------------------------|-----------------------|--------------------|------------------------|-----------------------|---------------------|----------------------|----------------------|
| | Operations | Board- | Projects | National Opera Center | Total | Opera Fund | National Opera Center | Total | 2016 | 2015 |
| | | Designated Funds | | | | | | | Total | |
| Revenue: | | | | | | | | | | |
| Contributions and grants | \$ 762,863 | \$ 762,863 | \$ 1,401,772 | \$ 290,179 | \$ 1,691,951 | \$ 13,450 | \$ 500,000 | \$ 513,450 | \$ 2,968,264 | \$ 4,599,414 |
| Membership dues | 711,658 | 711,658 | | | | | | | 711,658 | 696,956 |
| Seminars, workshops, registration and annual meeting | 304,638 | 304,638 | | | | | | | 304,638 | 310,907 |
| Publications, advertising and world wide web | 70,360 | 70,360 | | | | | | | 70,360 | 61,899 |
| Investment (loss) income, net | | | (74,079) | 116,968 | 42,889 | | | | 42,889 | 99,661 |
| National Opera Center operations | 887,732 | 887,732 | | | | | | | 887,732 | 835,404 |
| Donated goods and services | | | | | | | | | | 45,215 |
| Miscellaneous income | <u>1,021</u> | <u>1,021</u> | | | | | | | <u>1,021</u> | <u>15,784</u> |
| Total revenue before net assets released from restrictions | 2,738,272 | 2,738,272 | 1,327,693 | 407,147 | 1,734,840 | 13,450 | 500,000 | 513,450 | 4,986,562 | 6,665,240 |
| Net assets reclassified (see Note F) | | | | (1,400,000) | (1,400,000) | | 1,400,000 | 1,400,000 | 0 | 0 |
| Net assets released from restrictions | <u>2,916,857</u> | <u>2,916,857</u> | <u>(2,071,272)</u> | <u>(845,585)</u> | <u>(2,916,857)</u> | | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total revenue | <u>5,655,129</u> | <u>5,655,129</u> | <u>(743,579)</u> | <u>(1,838,438)</u> | <u>(2,582,017)</u> | <u>13,450</u> | <u>1,900,000</u> | <u>1,913,450</u> | <u>4,986,562</u> | <u>6,665,240</u> |
| Expenses: | | | | | | | | | | |
| Program services: | | | | | | | | | | |
| Membership | 225,988 | 225,988 | | | | | | | 225,988 | 201,157 |
| Public affairs | 73,008 | 73,008 | | | | | | | 73,008 | 68,242 |
| Public relations/marketing | 265,044 | 265,044 | | | | | | | 265,044 | 193,331 |
| Audience development | 426,915 | 426,915 | | | | | | | 426,915 | 566,948 |
| Information services/publications | 292,080 | 292,080 | | | | | | | 292,080 | 313,725 |
| Education | 125,806 | 125,806 | | | | | | | 125,806 | 156,126 |
| Annual conference | 151,978 | 151,978 | | | | | | | 151,978 | 163,339 |
| Opera Fund and artistic initiatives | 1,047,689 | 1,047,689 | | | | | | | 1,047,689 | 927,602 |
| National Opera Center | <u>1,818,904</u> | <u>1,818,904</u> | | | | | | | <u>1,818,904</u> | <u>1,819,587</u> |
| Total program services | <u>4,427,412</u> | <u>4,427,412</u> | | | | | | | <u>4,427,412</u> | <u>4,410,057</u> |
| Supporting services: | | | | | | | | | | |
| General and finance administration | 645,933 | 645,933 | | | | | | | 645,933 | 550,747 |
| Fund-raising activities | <u>472,527</u> | <u>472,527</u> | | | | | | | <u>472,527</u> | <u>469,820</u> |
| Total supporting services | <u>1,118,460</u> | <u>1,118,460</u> | | | | | | | <u>1,118,460</u> | <u>1,020,567</u> |
| Total expenses | <u>5,545,872</u> | <u>5,545,872</u> | | | | | | | <u>5,545,872</u> | <u>5,430,624</u> |
| Change in net assets | 109,257 | 109,257 | (743,579) | (1,838,438) | (2,582,017) | 13,450 | 1,900,000 | 1,913,450 | (559,310) | 1,234,616 |
| Inter-fund transfer (see Note G) | (358,324) | \$ 358,324 | 0 | | | | | | 0 | 0 |
| Net assets, beginning of year | <u>290,405</u> | <u>146,527</u> | <u>436,932</u> | <u>3,241,470</u> | <u>2,724,293</u> | <u>5,965,763</u> | <u>5,470,082</u> | <u>3,500,000</u> | <u>8,970,082</u> | <u>15,372,777</u> |
| Net assets, end of year | <u>\$ 41,338</u> | <u>\$ 504,851</u> | <u>\$ 546,189</u> | <u>\$ 2,497,891</u> | <u>\$ 885,855</u> | <u>\$ 3,383,746</u> | <u>\$ 5,483,532</u> | <u>\$ 5,400,000</u> | <u>\$ 10,883,532</u> | <u>\$ 14,813,467</u> |

See notes to financial statements.

OPERA AMERICA, INC.

**Statement of Activities
Year Ended June 30, 2015**

| | Unrestricted | | | Temporarily Restricted | | | Permanently Restricted | | | Total |
|--|-------------------|--------------------------|-------------------|------------------------|-----------------------|---------------------|------------------------|-----------------------|---------------------|----------------------|
| | Operations | Board - Designated Funds | Total | Projects | National Opera Center | Total | Opera Fund | National Opera Center | Total | |
| Revenue: | | | | | | | | | | |
| Contributions and grants | \$ 867,370 | | \$ 867,370 | \$ 1,916,684 | \$ 1,540,193 | \$ 3,456,877 | \$ 25,167 | \$ 250,000 | \$ 275,167 | \$ 4,599,414 |
| Membership dues | 696,956 | | 696,956 | | | | | | | 696,956 |
| Seminars, workshops, registration and annual meeting | 310,907 | | 310,907 | | | | | | | 310,907 |
| Publications, advertising and world wide web | 61,899 | | 61,899 | | | | | | | 61,899 |
| Investment income | | | | 53,087 | 46,574 | 99,661 | | | | 99,661 |
| National Opera Center operations | 835,404 | | 835,404 | | | | | | | 835,404 |
| Donated goods and services | 45,215 | | 45,215 | | | | | | | 45,215 |
| Miscellaneous income | 15,784 | | 15,784 | | | | | | | 15,784 |
| Total revenue before net assets released from restrictions | 2,833,535 | | 2,833,535 | 1,969,771 | 1,586,767 | 3,556,538 | 25,167 | 250,000 | 275,167 | 6,665,240 |
| Net assets reclassified (see Note F) | | | | | (750,000) | (750,000) | | 750,000 | 750,000 | |
| Net assets released from restrictions | <u>2,755,908</u> | | <u>2,755,908</u> | <u>(2,026,650)</u> | <u>(729,258)</u> | <u>(2,755,908)</u> | | | | <u>0</u> |
| Total revenue | <u>5,589,443</u> | | <u>5,589,443</u> | <u>(56,879)</u> | <u>107,509</u> | <u>50,630</u> | <u>25,167</u> | <u>1,000,000</u> | <u>1,025,167</u> | <u>6,665,240</u> |
| Expenses: | | | | | | | | | | |
| Program services: | | | | | | | | | | |
| Membership | 201,157 | | 201,157 | | | | | | | 201,157 |
| Public affairs | 68,242 | | 68,242 | | | | | | | 68,242 |
| Public relations/marketing | 193,331 | | 193,331 | | | | | | | 193,331 |
| Audience development | 566,948 | | 566,948 | | | | | | | 566,948 |
| Information services/publications | 313,725 | | 313,725 | | | | | | | 313,725 |
| Education | 156,126 | | 156,126 | | | | | | | 156,126 |
| Annual conference | 163,339 | | 163,339 | | | | | | | 163,339 |
| Opera Fund program and artistic initiative | 927,602 | | 927,602 | | | | | | | 927,602 |
| National Opera Center | <u>1,819,587</u> | | <u>1,819,587</u> | | | | | | | <u>1,819,587</u> |
| Total program services | <u>4,410,057</u> | | <u>4,410,057</u> | | | | | | | <u>4,410,057</u> |
| Supporting services: | | | | | | | | | | |
| General and finance administration | 550,747 | | 550,747 | | | | | | | 550,747 |
| Fund-raising activities | <u>469,820</u> | | <u>469,820</u> | | | | | | | <u>469,820</u> |
| Total supporting services | <u>1,020,567</u> | | <u>1,020,567</u> | | | | | | | <u>1,020,567</u> |
| Total expenses | <u>5,430,624</u> | | <u>5,430,624</u> | | | | | | | <u>5,430,624</u> |
| Change in net assets | 158,819 | | 158,819 | (56,879) | 107,509 | 50,630 | 25,167 | 1,000,000 | 1,025,167 | 1,234,616 |
| Inter-fund transfer (see Note G) | (146,527) | \$ 146,527 | 0 | | | | | | | |
| Net assets, beginning of year | <u>278,113</u> | | <u>278,113</u> | <u>3,298,349</u> | <u>2,616,784</u> | <u>5,915,133</u> | <u>5,444,915</u> | <u>2,500,000</u> | <u>7,944,915</u> | <u>14,138,161</u> |
| Net assets, end of year | <u>\$ 290,405</u> | <u>\$ 146,527</u> | <u>\$ 436,932</u> | <u>\$ 3,241,470</u> | <u>\$ 2,724,293</u> | <u>\$ 5,965,763</u> | <u>\$ 5,470,082</u> | <u>\$ 3,500,000</u> | <u>\$ 8,970,082</u> | <u>\$ 15,372,777</u> |

See notes to financial statements.

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

| | Year Ended June 30, | |
|---|----------------------------|----------------------------|
| | <u>2016</u> | <u>2015</u> |
| Cash flows from operating activities: | | |
| Change in net assets | \$ (559,310) | \$ 1,234,616 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 395,537 | 397,698 |
| Amortization of deferred rent obligation | 115,920 | 126,864 |
| Net realized and unrealized losses (gains) on investments | 126,049 | (112,137) |
| Donated equipment | | (14,065) |
| Permanently restricted contributions | (500,000) | (250,000) |
| Bad debts expense | 42,559 | 12,243 |
| Changes in: | | |
| Contributions receivable | 572,354 | (53,348) |
| Other receivables | 11,884 | 38,107 |
| Prepaid expenses and other current assets | (35,234) | (49,133) |
| Accounts payable and other liabilities | (35,365) | (348,747) |
| Grants payable | 125,666 | 92,974 |
| Deferred revenue | <u>21,009</u> | <u>(8,152)</u> |
| Net cash provided by operating activities | <u>281,069</u> | <u>1,066,920</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (26,510) | (128,924) |
| Purchases of investments | (9,146,261) | (10,155,746) |
| Proceeds from sales of investments | <u>8,202,220</u> | <u>9,947,526</u> |
| Net cash used in investing activities | <u>(970,551)</u> | <u>(337,144)</u> |
| Cash flows from financing activities: | | |
| Permanently restricted contributions | <u>500,000</u> | <u>250,000</u> |
| Change in cash | (189,482) | 979,776 |
| Cash, beginning of year | <u>1,620,399</u> | <u>640,623</u> |
| Cash, end of year | <u>\$ 1,430,917</u> | <u>\$ 1,620,399</u> |
| Supplementary disclosures of cash flow information: | | |
| Interest paid | <u>\$ 59,695</u> | <u>\$ 48,527</u> |
| Unrelated business income taxes | <u>\$ 250</u> | <u>\$ 250</u> |
| Donated equipment | | <u>\$ 14,065</u> |
| Donated services | | <u>\$ 31,150</u> |

See notes to financial statements.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2016 and 2015

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 to (i) promote growth and expansion of the operatic art form; (ii) foster and improve the education, training and development of operatic composers, singers and allied talents; (iii) assist in developing resident professional opera companies through cooperative artistic and management services to its membership; (iv) 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 whose members include opera companies, affiliated organizations and individuals in the United States, Canada and several of other countries.

The Organization is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local taxes under comparable laws.

[2] Basis of accounting:

The accompanying 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 as applicable to not-for-profit entities.

[3] Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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:

Cash and cash equivalents held as part of the Organization's investment portfolio, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the accompanying statements of financial position, with realized and unrealized gains and losses included in the accompanying statements of activities. The Organization's mutual bond funds are also reported at their fair values, as determined by management with the assistance of the related investment manager or advisor.

Investment transactions are recorded on a trade-date basis. Realized gains or losses on investments are determined by comparison of the average cost of acquisition to proceeds at the time of disposition. The earnings from dividends and interest are recognized when earned.

Investment expenses include the investment manager and custodial fees. The balances of investment management fees disclosed in Note B 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.

Donated securities are recorded at their fair values at the dates of donation. The Organization's policy, generally, is to sell donated securities immediately upon receipt. Accordingly, for purposes of the accompanying statements of cash flows, donated securities and the proceeds generated from their sales are included as operating activities.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2016 and 2015

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

[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 items of property and equipment that have a cost of \$2,500 or more and useful lives greater than one year. 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 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 recognized any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2016 and 2015, 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:

Accrued vacation is included as a liability in the accompanying financial statements and represents the Organization's obligation for the cost of unused employee vacation time payable in the event of employee departures; the obligation is recalculated every year. At June 30, 2016 and 2015, this accrued vacation obligation was approximately \$49,000 and \$29,000, respectively, and was reported as part of accounts payable and other liabilities in the accompanying statements of financial position.

[7] Grants payable:

Grants are recognized as an obligation to the Organization at the time they are approved. Grants approved but unpaid, were approximately \$951,000 and \$826,000 at June 30, 2016 and 2015, respectively. Grants are generally payable within one year of approval.

[8] Deferred revenue:

As further described in Note I, 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. National Opera Center's rental revenues received for future fiscal years' service is deferred and recognized when the service is rendered.

[9] Deferred rent obligation:

Total rent expense under the lease agreement is amortized, using the straight-line method over the term of the lease. The difference between rent expense incurred and the rental amounts paid, which is attributed to scheduled rent increases and abatements, is reported as a "deferred rent" obligation in the accompanying statements of financial position.

[10] Net assets:

(i) *Unrestricted:*

Core Operating:

Unrestricted net assets represent those resources that are not subject to donor restrictions and are available for current operations.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2016 and 2015

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

[10] Net assets: (continued)

Board Designated Funds:

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

(ii) *Temporarily restricted:*

Projects 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") and the use of which has been restricted by donors or state law to specific purposes and/or 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 accompanying statements of activities as "net assets released from restrictions." The National Opera Center temporarily restricted net assets are used to support the construction, maintenance and operation of the Opera Center. The Projects temporarily net assets 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.

(iii) *Permanently restricted:*

Opera Fund and National Opera Center:

Permanently restricted net assets represent those resources the principal of which is originally restricted in perpetuity by 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 classified as temporarily restricted in the accompanying statements of activities, pending appropriation by the Board of Directors.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2016 and 2015

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

[11] Revenue recognition:

(i) Contributions and grants:

Contributions to the Organization are recognized as revenue upon the receipt of cash, 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 recognized in the statements of financial position as funds received in advance. 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 professional opera companies and individuals alike. Dues received for the current-fiscal year are recognized as revenue in the accompanying statements of activities, whereas dues received for a future fiscal-year's membership are deferred and recognized during the applicable period.

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

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

[12] Donated services:

For recognition of donated services in the financial statements, such services (i) must require specialized skills, (ii) must be provided by individuals possessing those skills, and (iii) would typically need to be purchased if not provided by donation. Donated services are recorded as support at their estimated fair values at the dates of donation and are reported as unrestricted support. There were no donated services in fiscal-year 2016. During fiscal-year 2015, the Organization received approximately \$31,000 in legal services.

[13] Functional allocation of expenses:

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated by management among the program, management and fund-raising areas using appropriate and consistent measurement methodologies. Indirect costs have been functionalized on the basis of time allocation of the various departments.

[14] Advertising costs:

Advertising costs are expensed as they are incurred. Advertising expenses were approximately \$70,000 and \$60,000 during fiscal-years 2016 and 2015, respectively.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2016 and 2015

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

[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*, as it relates 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 tax-exempt status, ASC Topic 740 has not had, and is not expected to have, a material impact on the Organization's financial statements.

[16] New accounting pronouncement:

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 will amend 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, (iv) liquidity and availability of resources, and (v) the presentation of operating cash flows. The new standard will be effective for fiscal-years beginning after December 15, 2017.

The Organization has chosen not to early adopt the new accounting pronouncement.

[17] Subsequent events:

The Organization considers the accounting treatments, and the related disclosures in the current fiscal-year's financial statements, that may be required as the result of all events or transactions that occur after the fiscal year-end through November 10, 2016, the date on which the financial statements were available to be issued.

NOTE B - INVESTMENTS

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

| | June 30, | | | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2016 | | 2015 | |
| | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> |
| Cash and cash equivalents | \$ 715,834 | \$ 715,834 | \$ 581,233 | \$ 581,233 |
| Equity securities | 4,860,832 | 4,561,502 | 2,857,228 | 2,865,183 |
| U.S. government obligations | 677,171 | 665,870 | | |
| Corporate obligations | 323,794 | 315,198 | | |
| Mutual funds - fixed-income | <u>4,938,995</u> | <u>4,982,854</u> | <u>7,260,173</u> | <u>7,202,094</u> |
| | <u>\$ 11,516,626</u> | <u>\$ 11,241,258</u> | <u>\$ 10,698,634</u> | <u>\$ 10,648,510</u> |

As disclosed above, concentration of the Organization's investments in excess of 10% of the fair values included approximately (i) 43% invested in mutual funds, and (ii) 42% invested in equity securities.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE B - INVESTMENTS (CONTINUED)

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

| | Year Ended June 30, | |
|--|---------------------|------------------|
| | 2016 | 2015 |
| Dividends and interest (net of investment fees of \$119,806 and \$206,763 in 2016 and 2015, respectively) | \$ 168,938 | \$ (12,476) |
| Net realized (loss) gain on sale of investments | (351,293) | 1,084,218 |
| Change in unrealized gains (losses) on investments | <u>225,244</u> | <u>(972,081)</u> |
| | <u>\$ 42,889</u> | <u>\$ 99,661</u> |

The FASB's ASC Topic 820, *Fair Value Measurements and Disclosures*, 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 there is little, if any, market activity for the investments, or 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 2016 and 2015, there were no transfers among fair-value-hierarchy levels.

The Organization's investments were classified entirely within Level 1 for fiscal-years 2016 and 2015.

NOTE C - 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:

| | June 30, | |
|--|---------------------|---------------------|
| | 2016 | 2015 |
| Less than one year | \$ 762,819 | \$ 1,064,072 |
| One to five years | <u>504,061</u> | <u>818,535</u> |
| | <u>1,266,880</u> | <u>1,882,607</u> |
| Allowance for uncollectible grants and pledges | <u>(63,344)</u> | <u>(94,130)</u> |
| | <u>1,203,536</u> | <u>1,788,477</u> |
| Present value discount at 2% annually | <u>(32,353)</u> | <u>(44,940)</u> |
| | <u>\$ 1,171,183</u> | <u>\$ 1,743,537</u> |

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE C - RECEIVABLES (CONTINUED)

[1] Contributions receivable: (continued)

The Organization assesses periodically 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.

NOTE D - PROPERTY AND EQUIPMENT

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

| | <u>June 30,</u> | |
|--|----------------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Furniture and equipment | \$ 963,918 | \$ 943,661 |
| Leasehold improvements | <u>5,308,764</u> | <u>5,302,511</u> |
| | 6,272,682 | 6,246,172 |
| Less accumulated depreciation and amortization | <u>(1,658,218)</u> | <u>(1,262,681)</u> |
| | <u>\$ 4,614,464</u> | <u>\$ 4,983,491</u> |

During fiscal-year 2015, the Organization received approximately \$14,000, of audio-visual equipment under a capital equipment agreement with the New York City Department of Cultural Affairs.

NOTE E - EMPLOYEE-BENEFIT PLAN

The Organization maintains a defined-contribution retirement plan, established under Section 403(b) of the Internal Revenue 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 2016 and 2015 was approximately \$51,000 and \$33,000, respectively.

NOTE F - COMMITMENT RECEIVED

In December 2010, the Organization received a \$1,500,000 conditional matching grant restricted to the National Opera Center Endowment. Under this arrangement, the Organization must meet certain fund-raising goals to obtain the matching funds within a five-year period. Funds donated toward the National Opera Center are submitted to the donor to support a request for matching funds they are reclassified as permanently restricted endowment to satisfy the terms of the agreement. As of June 30, 2016, the Organization has received \$1,500,000 of matching funds through this grant, which have been reported in the accompanying statements of activities.

OPERA AMERICA, INC.**Notes to Financial Statements
June 30, 2016 and 2015****NOTE G - UNRESTRICTED NET ASSETS**

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

| | June 30, | |
|--|-------------------|-------------------|
| | 2016 | 2015 |
| Operations: | | |
| Balance, beginning of year | \$ 290,405 | \$ 278,113 |
| Increase from operations | 109,257 | 158,819 |
| Transfer to Board-designated Opera Center Facilities Fund | (20,000) | (46,527) |
| Transfer to Board-designated Reserve Fund | (275,000) | |
| Transfer to Board-designated National Opera Center Endowment | (63,324) | (100,000) |
| Balance, end of year | <u>41,338</u> | <u>290,405</u> |
| Unrestricted board-designated funds | | |
| National Opera Center Fund | | |
| Balance, beginning of year | 46,527 | 36,527 |
| Transfer from operations | <u>20,000</u> | <u>10,000</u> |
| Balance, end of year | <u>66,527</u> | <u>46,527</u> |
| Reserve Fund: | | |
| Transfer from operations | <u>275,000</u> | <u>0</u> |
| Unrestricted endowment: | | |
| National Opera Center Endowment (Note I) | | |
| Balance, beginning of year | 100,000 | |
| Transfer from operations | <u>63,324</u> | <u>100,000</u> |
| Balance, end of year | <u>163,324</u> | <u>100,000</u> |
| Unrestricted board-designated funds balance, end of year | <u>504,851</u> | <u>146,527</u> |
| Total unrestricted net assets | <u>\$ 546,189</u> | <u>\$ 436,932</u> |

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

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

| | Year Ended June 30, | |
|--|------------------------|---------------------|
| | 2016 | 2015 |
| Time and purpose restricted: | | |
| Projects: | | |
| American Express Foundation: Leadership intensive | \$ 25,000 | \$ 34,800 |
| Bank of America: Trustee recognition program | 55,000 | 50,000 |
| Booth Ferris Foundation: Marketing and business development | | 75,000 |
| Getty Foundation: Audience development | 6,300 | |
| Gilman Foundation: Professional development programs for artists | 50,000 | 35,000 |
| Hearst Foundation: Online resource center for teachers | | 10,000 |
| Mellon Foundation: New works projects | 410,000 | 750,000 |
| National Endowment for the Arts | 90,000 | |
| New York Department of Cultural Affairs | 2,500 | |
| Opera Fund | 1,609,091 | 1,936,670 |
| Virginia B. Toulmin Foundation: Grants for female composers | 150,000 | 150,000 |
| Wallace Foundation: Communications partnership | 100,000 | 200,000 |
| | <u>2,497,891</u> | <u>3,241,470</u> |
| National Opera Center: | | |
| Construction (excluding \$1,400,000 and \$750,000 of reclassified donor gifts in 2016 and 2015, respectively) | 885,855 | 2,661,188 |
| Operations | | 63,105 |
| | <u>885,855</u> | <u>2,724,293</u> |
| Total temporarily restricted net assets | <u>\$ 3,383,746</u> | <u>\$ 5,965,763</u> |

The Opera Fund represents accumulated endowment income reserved for appropriation by the Board of Directors.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE H - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

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

| | Year Ended June 30, | |
|--|------------------------|---------------------|
| | 2016 | 2015 |
| Time and purpose restrictions satisfied: | | |
| Projects: | | |
| Aaron Copland Fund: General operations | \$ 6,500 | \$ 6,500 |
| American Express: Leadership intensive | 59,800 | 15,200 |
| Amphion Foundation: Salon series | 3,000 | |
| Bank of America: Trustee recognition program | 95,000 | 75,000 |
| Boosey & Hawkes Annual Conference | 5,000 | 5,000 |
| Booth Ferris Foundation | 75,000 | 75,000 |
| Frances Goelet Charitable Trust | 7,500 | 7,500 |
| Getty Foundation: Audience development | 575,000 | 500,000 |
| Getty Foundation: General operations | 16,000 | 16,000 |
| Gilman Foundation: Professional development programs | 60,000 | 40,000 |
| Hearst Foundation: Online resource center for teachers | 10,000 | 40,000 |
| Knight Foundation | | 62,000 |
| Mellon Foundation: New works projects | 340,000 | 425,000 |
| NEA: Access | 80,000 | 100,000 |
| NYC Department of Cultural Affairs: Project FIND | 15,000 | 15,800 |
| NYSCA: Regional programming | 10,000 | 10,000 |
| Opera Fund | 300,000 | 215,000 |
| Patricia Scimecca Emerging Singers | 3,472 | 3,650 |
| Penates Foundation | 5,000 | 10,000 |
| Fan Fox & Leslie R. Samuels Foundation | 5,000 | |
| Tobin Theater Arts Fund: Director-Designer Showcase | | 30,000 |
| Virginia B. Toulmin Foundation | 300,000 | 300,000 |
| Wallace Foundation: Communications partnership | 100,000 | 75,000 |
| | <u>2,071,272</u> | <u>2,026,650</u> |
| National Opera Center: | | |
| Construction | 840,585 | 724,258 |
| Hyde & Watson: Opera Center equipment | 5,000 | 5,000 |
| | <u>845,585</u> | <u>729,258</u> |
| | <u>\$ 2,916,857</u> | <u>\$ 2,755,908</u> |

NOTE I - ACCOUNTING AND REPORTING FOR ENDOWMENTS

At June 30, 2016 and 2015, respectively, net assets of \$10,946,856 and \$8,970,082 were permanently restricted, and board-designated funds of \$163,324 and \$100,000 with investments earning to be used to support the National Opera Center and artistic programs.

[1] The endowment:

The Organization's endowment consists of various donor-restricted funds, board-designated fund, established by the donors for the purpose of funding the National Opera Center and artistic programs.

OPERA AMERICA, INC.

**Notes to Financial Statements
June 30, 2016 and 2015**

NOTE I - 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:

| | June 30, 2016 | | | |
|---|-------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ 100,000 | \$ 1,936,670 | \$ 8,970,082 | \$ 11,006,752 |
| Contributions | | | 513,450 | 513,450 |
| Contributions (reclassified) | | | 1,400,000 | 1,400,000 |
| Investment income, net | | 168,938 | | 168,938 |
| Net depreciation (realized and unrealized) | | (126,049) | | (126,049) |
| Transfer from operations | 63,324 | | | 63,324 |
| Appropriation of endowment assets for expenditure | | (370,468) | | (370,468) |
| Endowment net assets, end of year | <u>\$ 163,324</u> | <u>\$ 1,609,091</u> | <u>\$ 10,883,532</u> | <u>\$ 12,655,947</u> |
| | | | | |
| | June 30, 2015 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | | \$ 2,160,322 | \$ 7,944,915 | \$ 10,105,237 |
| Contributions | | | 275,167 | 275,167 |
| Contributions (reclassified) | | | 750,000 | 750,000 |
| Investment loss, net | | (12,476) | | (12,476) |
| Net appreciation (realized and unrealized) | | 112,137 | | 112,137 |
| Transfer from operations | \$ 100,000 | | | 100,000 |
| Appropriation of endowment assets for expenditure | | (323,313) | | (323,313) |
| Endowment net assets, end of year | <u>\$ 100,000</u> | <u>\$ 1,936,670</u> | <u>\$ 8,970,082</u> | <u>\$ 11,006,752</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, 2016 and 2015

NOTE I - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[6] Spending policy and relation to the endowment:

The Organization evaluates its funding requirements on an annual basis and, accordingly, draws from its endowment appreciation on an as-needed basis. 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, 2016 and 2015, there were no deficiencies of this nature.

NOTE J - NATIONAL OPERA CENTER

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

NOTE K - LINE-OF-CREDIT

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 at a fixed interest rate of 2.75%. There is no maturity 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, 2016 and 2015, the outstanding principal balance of the line of credit was \$1,850,000.

NOTE L - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash and cash equivalents investments with high-credit-quality financial institutions. At times, the balances in such accounts may exceed federally insured limits. The Organization's management believes there is no substantial risk of loss associated with the failure of these financial institutions.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE M - COMMITMENTS AND CONTINGENCY

[1] Lease obligations:

In February 2012, in order to develop its National Opera Center (see Note I), 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 obliged 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.

OPERA AMERICA, INC.

**Notes to Financial Statements
June 30, 2016 and 2015**

NOTE M - COMMITMENTS AND CONTINGENCY (CONTINUED)

[4] Other contracts:

In the normal course of business, the Organization enters into various contracts for professional and other services, which are typically renewable on a year-to-year basis.