



OPERA AMERICA, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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
October 14, 2017

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

	June 30,	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 927,037	\$ 1,430,917
Investments	12,483,244	11,516,626
Contributions receivable, net	5,193,327	1,171,183
Other receivables	336,319	312,245
Prepaid expenses and other current assets	84,925	97,270
Security deposit	132,170	132,170
Property and equipment, net	<u>4,281,754</u>	<u>4,614,464</u>
	<u>\$ 23,438,776</u>	<u>\$ 19,274,875</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other liabilities	\$ 133,873	\$ 169,008
Grants payable	2,251,326	951,346
Deferred revenue	26,076	34,265
Loan payable, under line-of-credit	1,544,141	1,850,000
Deferred rent obligation	<u>1,544,959</u>	<u>1,456,789</u>
Total liabilities	<u>5,500,375</u>	<u>4,461,408</u>
Commitments and contingency (See Note L)		
Net assets:		
Unrestricted:		
Core operating fund	57,622	41,338
Board-designated funds (See Note F)	<u>564,851</u>	<u>504,851</u>
Total unrestricted net assets	<u>622,473</u>	<u>546,189</u>
Temporarily restricted:		
Projects	5,811,998	2,497,891
National Opera Center	<u>603,723</u>	<u>885,855</u>
Total temporarily restricted net assets	<u>6,415,721</u>	<u>3,383,746</u>
Permanently restricted:		
Opera Fund	5,500,207	5,483,532
National Opera Center	<u>5,400,000</u>	<u>5,400,000</u>
Total permanently restricted net assets	<u>10,900,207</u>	<u>10,883,532</u>
Total net assets	<u>17,938,401</u>	<u>14,813,467</u>
	<u>\$ 23,438,776</u>	<u>\$ 19,274,875</u>

OPERA AMERICA, INC.

Statement of Activities

Year Ended June 30, 2017

(with summarized financial information for June 30, 2016)

	Unrestricted		Temporarily Restricted			Permanently Restricted			Total		
	Operations	Board- Designated Funds	Total	Projects	National Opera Center	Total	Opera Fund	National Opera Center	Total	2017	2016
Revenue:											
Contributions and grants	\$ 929,524		\$ 929,524	\$ 7,159,580	\$ 111,287	\$ 7,270,867	\$ 16,675		\$ 16,675	\$ 8,217,066	\$ 2,968,264
Membership dues	716,978		716,978							716,978	711,658
Seminars, workshops, registration and annual meeting	304,523		304,523							304,523	304,638
Publications, advertising and world wide web	72,036		72,036							72,036	70,360
Investment income, net	6,708		6,708	276,207	358,304	634,511				641,219	42,889
National Opera Center operations	939,119		939,119							939,119	887,732
Miscellaneous income	13,015		13,015							13,015	1,021
Total revenue before net assets released from restrictions	2,981,903		2,981,903	7,435,787	469,591	7,905,378	16,675		16,675	10,903,956	4,986,562
Net assets released from restrictions	4,873,403		4,873,403	(4,121,680)	(751,723)	(4,873,403)			0	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	4,986,562
Expenses:											
Program services:											
Membership	310,574		310,574							310,574	225,988
Public affairs	84,349		84,349							84,349	73,008
Public relations/marketing	170,150		170,150							170,150	265,044
Audience development	2,588,131		2,588,131							2,588,131	426,915
Information services/publications	351,582		351,582							351,582	292,080
Education	87,187		87,187							87,187	125,806
Annual conference	260,082		260,082							260,082	151,978
Opera Fund and artistic initiatives	1,051,852		1,051,852							1,051,852	1,047,689
National Opera Center	1,864,831		1,864,831							1,864,831	1,818,904
Total program services	6,768,738		6,768,738							6,768,738	4,427,412
Supporting services:											
General and finance administration	538,225		538,225							538,225	645,933
Fund-raising activities	472,059		472,059							472,059	472,527
Total supporting services	1,010,284		1,010,284							1,010,284	1,118,460
Total expenses	7,779,022		7,779,022							7,779,022	5,545,872
Change in net assets	76,284		76,284	3,314,107	(282,132)	3,031,975	16,675		16,675	3,124,934	(559,310)
Inter-fund transfer (See Note F)	(60,000)	\$ 60,000	0							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	14,813,467	15,372,777
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	\$ 17,938,401	\$ 14,813,467

See notes to financial statements.

OPERA AMERICA, INC.

Statement of Activities Year Ended June 30, 2016

	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	\$ 762,863		\$ 762,863	\$ 1,401,772	\$ 290,179	\$ 1,691,951	\$ 13,450	\$ 500,000	\$ 513,450	\$ 2,968,264
Membership dues	711,658		711,658							711,658
Seminars, workshops, registration and annual meeting	304,638		304,638							304,638
Publications, advertising and world wide web	70,360		70,360							70,360
Investment (loss) income, net				(74,079)	116,968	42,889				42,889
National Opera Center operations	887,732		887,732							887,732
Miscellaneous income	1,021		1,021							1,021
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
Net assets reclassified					(1,400,000)	(1,400,000)		1,400,000	1,400,000	0
Net assets released from restrictions	2,916,857		2,916,857	(2,071,272)	(845,585)	(2,916,857)			0	0
Total revenue	5,655,129		5,655,129	(743,579)	(1,838,438)	(2,582,017)	13,450	1,900,000	1,913,450	4,986,562
Expenses:										
Program services:										
Membership	225,988		225,988							225,988
Public affairs	73,008		73,008							73,008
Public relations/marketing	265,044		265,044							265,044
Audience development	426,915		426,915							426,915
Information services/publications	292,080		292,080							292,080
Education	125,806		125,806							125,806
Annual conference	151,978		151,978							151,978
Opera Fund and artistic initiatives	1,047,689		1,047,689							1,047,689
National Opera Center	1,818,904		1,818,904							1,818,904
Total program services	4,427,412		4,427,412							4,427,412
Supporting services:										
General and finance administration	645,933		645,933							645,933
Fund-raising activities	472,527		472,527							472,527
Total supporting services	1,118,460		1,118,460							1,118,460
Total expenses	5,545,872		5,545,872							5,545,872
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)
Inter-fund transfer (See Note F)	(358,324)	\$ 358,324	0							0
Net assets, beginning of year	290,405	146,527	436,932	3,241,470	2,724,293	5,965,763	5,470,082	3,500,000	8,970,082	15,372,777
Net assets, end 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	\$ 14,813,467

See notes to financial statements.

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

	Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,124,934	\$ (559,310)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	403,370	395,537
Amortization of deferred rent obligation	88,170	115,920
Net realized and unrealized (gains) losses on investments	(437,310)	126,049
Permanently restricted contributions	(16,675)	(500,000)
Bad debts expense	76,170	42,559
Changes in:		
Contributions receivable	(4,022,144)	572,354
Other receivables	(100,244)	11,884
Prepaid expenses and other current assets	12,345	(35,234)
Accounts payable and other liabilities	(35,135)	(35,365)
Grants payable	1,299,980	125,666
Deferred revenue	(8,189)	21,009
Net cash provided by operating activities	<u>385,272</u>	<u>281,069</u>
Cash flows from investing activities:		
Purchases of property and equipment	(70,660)	(26,510)
Purchases of investments	(4,855,470)	(9,146,261)
Proceeds from sales of investments	<u>4,326,162</u>	<u>8,202,220</u>
Net cash used in investing activities	<u>(599,968)</u>	<u>(970,551)</u>
Cash flows from financing activities:		
Payments on loan under line-of-credit	(305,859)	0
Permanently restricted contributions	<u>16,675</u>	<u>500,000</u>
Net cash (used in) provided by investing activities	<u>(289,184)</u>	<u>500,000</u>
Change in cash	(503,880)	(189,482)
Cash, beginning of year	<u>1,430,917</u>	<u>1,620,399</u>
Cash, end of year	\$ <u>927,037</u>	\$ <u>1,430,917</u>
Supplementary disclosures of cash flow information:		
Interest paid	\$ 61,198	\$ 59,695
Unrelated business income taxes	\$ 250	\$ 250

See notes to financial statements.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2017 and 2016

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 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 investments in mutual funds are also reported at their fair values, as determined by management with the assistance of the related investment managers or advisors.

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.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2017 and 2016

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

[4] Investments: (continued)

Investment expenses include 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.

[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 losses at the determination of any impairment. Long-lived assets were tested for impairment as of June 30, 2017 and 2016, 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 accompanying 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, 2017 and 2016, this accrued vacation obligation was approximately \$53,000 and \$49,000, 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 \$2,251,000 and \$951,000 at June 30, 2017 and 2016, respectively. Grants are generally paid within one year of approval.

[8] Deferred revenue:

As further described in Note J and 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. 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.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2017 and 2016

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

[9] Deferred rent obligation:

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

[10] Net assets:

(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.
- c. The National Opera Center Endowment Fund (the "Endowment") has been funded from surplus 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.

(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") 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 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.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2017 and 2016

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

[10] Net assets: (continued)

(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 initially classified as temporarily restricted in the accompanying 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 accompanying 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 accompanying statements of activities, whereas dues received for a future fiscal-year's membership are deferred and recognized as revenue 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 donated services to be reported in 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. 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 2017 and 2016.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2017 and 2016

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

[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 for the various operating departments.

[14] Advertising costs:

Advertising costs are expensed as they are incurred. Advertising expenses were approximately \$30,000 and \$35,000 during fiscal-years 2017 and 2016, 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*, 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 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. Management is currently evaluating the effect that this new guidance will have on the Organization's financial statements and related disclosures.

[17] Subsequent events:

The Organization has considered 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 June 30, 2017 through October 14, 2017, the date on which the financial statements were available to be issued.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE B - INVESTMENTS

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

	June 30,			
	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	\$ 207,786	\$ 207,786	\$ 715,834	\$ 715,834
Equity securities	5,210,319	4,870,100	4,860,832	4,561,502
U.S. government obligations	638,103	645,202	677,171	665,870
Corporate obligations	381,199	381,346	323,794	315,198
Fixed-income mutual funds	6,045,837	5,796,122	4,938,995	4,982,854
	<u>\$ 12,483,244</u>	<u>\$ 11,900,556</u>	<u>\$ 11,516,626</u>	<u>\$ 11,241,258</u>

As disclosed above, concentration of the Organization's investments in excess of 10% of the fair values of the total portfolio included approximately (i) 48% invested in fixed-income-mutual funds, and (ii) 42% invested in equity securities.

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

	Year Ended June 30,	
	2017	2016
Dividends and interest (net of investment fees of \$122,148 and \$119,806 in 2017 and 2016, respectively)	\$ 203,909	\$ 168,938
Net realized gain (losses) on sale of investments	129,990	(351,293)
Change in unrealized gains on investments	307,320	225,244
	<u>\$ 641,219</u>	<u>\$ 42,889</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 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 2017 and 2016, there were no transfers among fair-value-hierarchy levels, as the Organization's investments were classified entirely within Level 1 for fiscal-years 2017 and 2016.

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2017 and 2016

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:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Less than one year	\$ 2,513,361	\$ 762,819
One to five years	<u>2,950,136</u>	<u>504,061</u>
	5,463,497	1,266,880
Allowance for uncollectible grants and pledges	<u>(133,874)</u>	<u>(63,344)</u>
	5,329,623	1,203,536
Present value discount at 2% annually	<u>(136,296)</u>	<u>(32,353)</u>
	<u>\$ 5,193,327</u>	<u>\$ 1,171,183</u>

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>2017</u>	<u>2016</u>
Furniture and equipment	\$ 1,019,307	\$ 963,918
Leasehold improvements	<u>5,324,035</u>	<u>5,308,764</u>
	6,343,342	6,272,682
Less accumulated depreciation and amortization	<u>(2,061,588)</u>	<u>(1,658,218)</u>
	<u>\$ 4,281,754</u>	<u>\$ 4,614,464</u>

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE E - EMPLOYEE-BENEFIT PLANS

[1] Defined-contribution retirement 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 2017 and 2016 was approximately \$59,000 and \$51,000, 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 Internal Revenue Code for its President. The Plan does not contain a matching contribution from the Organization.

NOTE F - UNRESTRICTED NET ASSETS

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

	June 30,	
	<u>2017</u>	<u>2016</u>
Operations:		
Balance, beginning of year:	\$ 41,338	\$ 290,405
Increase from operations	76,284	109,257
Transfer to Board-designated Opera Center Facilities Fund	0	(20,000)
Transfer to Board-designated Reserve Fund	(60,000)	(275,000)
Transfer to Board-designated National Opera Center Endowment	<u>0</u>	<u>(63,324)</u>
Balance, end of year	<u>57,622</u>	<u>41,338</u>
Unrestricted board-designated funds:		
National Opera Center Fund:		
Balance, beginning of year	66,527	46,527
Transfer from operations	<u>10,000</u>	<u>20,000</u>
Balance, end of year	<u>76,527</u>	<u>66,527</u>
Reserve Fund:		
Balance, beginning of year	275,000	0
Transfer from operations	<u>50,000</u>	<u>275,000</u>
Balance, end of year	<u>325,000</u>	<u>275,000</u>
National Opera Center Endowment (see Note H):		
Balance, beginning of year	163,324	100,000
Transfer from operations	<u>0</u>	<u>63,324</u>
Balance, end of year	<u>163,324</u>	<u>163,324</u>
Unrestricted board-designated funds balance, end of year	<u>564,851</u>	<u>504,851</u>
Total unrestricted net assets	<u>\$ 622,473</u>	<u>\$ 546,189</u>

OPERA AMERICA, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE G - 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,	
	2017	2016
Time and purpose restricted:		
Projects:		
American Express Foundation: Leadership intensive	\$ 35,000	\$ 25,000
Bank of America: Trustee recognition program	50,000	55,000
Getty Foundation: Innovations Program	2,798,200	6,300
Gilman Foundation: Professional development programs for artists	35,000	50,000
Gunn West Coast Initiative	75,000	
Mellon Foundation: New works projects	750,000	410,000
National Endowment for the Arts	22,000	90,000
New York City Department of Cultural Affairs		2,500
Opera Fund	1,643,436	1,609,091
Patricia Scimeca Fund for Emerging Singers	3,362	
Virginia B. Toulmin Foundation: Grants for female composers	300,000	150,000
Wallace Foundation: Communications partnership	<u>100,000</u>	<u>100,000</u>
	<u>5,811,998</u>	<u>2,497,891</u>
National Opera Center:		
Construction (excluding \$1,400,000 of reclassified donor gifts in 2016)	<u>603,723</u>	<u>885,855</u>
Total temporarily restricted net assets	<u>\$ 6,415,721</u>	<u>\$ 3,383,746</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, 2017 and 2016

NOTE G - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

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

	Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
Time and purpose restrictions satisfied:		
Projects:		
Aaron Copland Fund: General operations	\$ 6,500	\$ 6,500
American Express: Leadership intensive	30,000	59,800
Amphion Foundation: Salon series	3,000	3,000
Bank of America: Trustee recognition program	60,000	95,000
Boosey & Hawkes Annual Conference		5,000
Booth Ferris Foundation		75,000
Frances Goelet Charitable Trust		7,500
Getty Foundation: Innovations Program	2,608,100	575,000
Getty Foundation: General operations	16,000	16,000
Gilman Foundation: Professional development programs	90,000	60,000
Hearst Foundation: Online resource center for teachers		10,000
Mellon Foundation: New works projects	410,000	340,000
National Endowment for the Arts	118,000	80,000
New York City Department of Cultural Affairs	19,080	15,000
NYSCA: Regional programming	10,000	10,000
Opera Fund	260,000	300,000
Patricia Scimeca Emerging Singers	3,500	3,472
Penates Foundation	10,000	5,000
Fan Fox & Leslie R. Samuels Foundation	7,500	5,000
Tobin Theater Arts Fund: Director-Designer Showcase	30,000	
Virginia B. Toulmin Foundation	340,000	300,000
Wallace Foundation: Communications partnership	100,000	100,000
	<u>4,121,680</u>	<u>2,071,272</u>
National Opera Center:		
Construction	751,723	840,585
Hyde & Watson: Opera Center equipment		5,000
	<u>751,723</u>	<u>845,585</u>
	<u>\$ 4,873,403</u>	<u>\$ 2,916,857</u>

NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENT

[1] The endowment:

At June 30, 2017 and 2016, respectively, the endowment consisted of permanently restricted funds of \$10,900,207 and \$10,883,532 and Board-designated funds of \$169,923 and \$163,324 (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, 2017 and 2016**

NOTE H - 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, 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		203,909		203,909
Net appreciation (realized and unrealized)		437,310		437,310
Appropriation of endowment assets for expenditure		<u>(603,512)</u>		<u>(603,512)</u>
Endowment net assets, end of year	<u>\$ 163,324</u>	<u>\$ 1,646,798</u>	<u>\$ 10,900,207</u>	<u>\$ 12,710,329</u>

	Year Ended June 30, 2016			
	Board- Designated	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		<u>(370,468)</u>		<u>(370,468)</u>
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>

[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, 2017 and 2016

NOTE H - 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, 2016 and 2015, there were no deficiencies of this nature.

NOTE I - 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 J - 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, at a variable interest rate of LIBOR plus the margin interest rate floor of 2.75%. 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, 2017 and 2016, the outstanding principal balance on the borrowings made under the line-of-credit was \$1,544,141 and \$1,850,000, respectively. Interest expense during fiscal-years ending 2017 and 2016, on the loans drawn down under the agreement amounted to approximately \$56,000 and \$55,000, respectively.

NOTE K - 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, 2017 and 2016

NOTE L - COMMITMENTS AND CONTINGENCY

[1] Lease obligations:

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

OPERA AMERICA, INC.

**Notes to Financial Statements
June 30, 2017 and 2016**

NOTE L - 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.