AUDITED
COMBINED FINANCIAL STATEMENTS

VIRGINIA OPERA ASSOCIATION, INC.
AND VIRGINIA OPERA FOUNDATION

MAY 31, 2009

BURRUS PAUL & TURNBULL, PLC
Certified Public Accountants

VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION
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BURRUS PAUL & TURNBULL, PLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Virginia Opera Association, Inc.
Norfolk, Virginia

We have audited the accompanying combined statements of financial position of the **Virginia Opera Association, Inc. (the Association) and the Virginia Opera Foundation (the Foundation)** as of May 31, 2009 and 2008, and the related combined statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's and the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the **Virginia Opera Association, Inc. and the Virginia Opera Foundation** as of May 31, 2009 and 2008, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Burrus, Paul & Turnbull, PLC
CERTIFIED PUBLIC ACCOUNTANTS

January 12, 2010

World Trade Center, 101 W. Main Street, Suite 820 • Norfolk, VA 23510-1694 • (757) 623-3236 • Fax: (757) 627-8603
780 Pilot House Drive, Suite 300C • Newport News, VA 23606-1993 • (757) 873-1086 • Fax: (757) 873-6805

Member: American Institute of Certified Public Accountants - Private Companies Practice Section • Virginia Society of Certified Public Accountants

VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION
COMBINED STATEMENTS OF FINANCIAL POSITION
MAY 31, 2009 AND 2008

ASSETS

	2009	2008
CURRENT ASSETS		
Cash	$ 47,311	$ 183,516
Current portion of contributions receivable, net	472,157	643,864
Accounts receivable	21,978	26,747
Inventory	4,790	1,607
Prepaid expenses	48,397	116,238
TOTAL CURRENT ASSETS	594,633	971,972
INVESTMENTS	3,124,728	3,872,466
PROPERTY AND EQUIPMENT		
Leasehold improvements	4,593,271	4,593,271
Equipment and software	1,355,688	1,339,174
	5,948,959	5,932,445
Less: accumulated depreciation and amortization	4,779,650	4,431,129
NET PROPERTY AND EQUIPMENT	1,169,309	1,501,316
OTHER ASSETS		
Contributions receivable, net	96,831	129,776
Other noncurrent assets	26,110	33,270
TOTAL OTHER ASSETS	122,941	163,046
TOTAL ASSETS	$ 5,011,611	$ 6,508,800

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Note payable - current portion	$ 45,918	$ 38,103
Line of credit	850,000	850,000
Accounts payable	98,758	155,393
Accrued salaries and withholdings	49,445	53,794
Accrued vacation	35,553	37,135
Deferred revenue	698,645	799,509
TOTAL CURRENT LIABILITIES	1,778,319	1,933,934
NOTE PAYABLE - LONG-TERM	418,802	450,039
TOTAL LIABILITIES	2,197,121	2,383,973
NET ASSETS		
Unrestricted	(809,590)	(60,681)
Temporarily restricted	174,506	735,934
Permanently restricted	3,449,574	3,449,574
TOTAL NET ASSETS	2,814,490	4,124,827
TOTAL LIABILITIES AND NET ASSETS	$ 5,011,611	$ 6,508,800

***NOTE**: The accompanying notes are an integral part of the financial statements.*

VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2009

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
PROGRAM REVENUE				
Mainstage subscriptions	$ 929,861	$ -	$ -	$ 929,861
Mainstage single tickets	382,889	-	-	382,889
Mainstage touring	368,195	-	-	368,195
Education programs	139,388	-	-	139,388
TOTAL PROGRAM REVENUE	1,820,333	-	-	1,820,333
OTHER REVENUE				
Production sales and rentals	231,211	-	-	231,211
Merchandise and concessions, net	24,393	-	-	24,393
Program advertising	35,808	-	-	35,808
Investment income (loss), net	(449,400)	(165,987)	-	(615,387)
Fundraising special events, net	184,300	-	-	184,300
Other income	66,013	-	-	66,013
TOTAL OTHER REVENUE	92,325	(165,987)	-	(73,662)
CONTRIBUTED REVENUE				
Individual	1,287,090	17,793	-	1,304,883
Corporate	380,756	141,000	-	521,756
Grants	420,926	-	-	420,926
Foundations	182,750	5,000	-	187,750
TOTAL CONTRIBUTED REVENUE	2,271,522	163,793	-	2,435,315
NET ASSETS RELEASED FROM RESTRICTIONS	559,234	(559,234)	-	-
TOTAL REVENUES	4,743,414	(561,428)	-	4,181,986
EXPENSES				
PROGRAM SERVICES				
Mainstage production	2,745,249	-	-	2,745,249
Education	270,758	-	-	270,758
TOTAL PROGRAM SERVICES	3,016,007	-	-	3,016,007
SUPPORT SERVICES				
Management and general	967,760	-	-	967,760
Development and fundraising	461,808	-	-	461,808
Marketing, box office and concessions	400,326	-	-	400,326
Set rentals	244,523	-	-	244,523
Production marketing	270,411	-	-	270,411
Harrison Opera House	131,488	-	-	131,488
TOTAL SUPPORT SERVICES	2,476,316	-	-	2,476,316
TOTAL EXPENSES	5,492,323	-	-	5,492,323
CHANGES IN NET ASSETS	(748,909)	(561,428)	-	(1,310,337)
NET ASSETS AT BEGINNING OF YEAR	(60,681)	735,934	3,449,574	4,124,827
NET ASSETS AT END OF YEAR	$ (809,590)	$ 174,506	$ 3,449,574	$ 2,814,490

NOTE: The accompanying notes are an integral part of the financial statements.

VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2008

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
PROGRAM REVENUE				
Mainstage subscriptions	$ 915,815	$ -	$ -	$ 915,815
Mainstage single tickets	525,789	-	-	525,789
Mainstage touring	396,626	-	-	396,626
Education programs	212,358	-	-	212,358
TOTAL PROGRAM REVENUE	2,050,588	-	-	2,050,588
OTHER REVENUE				
Production sales and rentals	242,026	-	-	242,026
Merchandise and concessions, net	32,159	-	-	32,159
Program advertising	64,679	-	-	64,679
Investment income (loss), net	5,277	44,937	-	50,214
Fundraising special events, net	212,524	-	-	212,524
Other income	64,690	-	-	64,690
TOTAL OTHER REVENUE	621,355	44,937	-	666,292
CONTRIBUTED REVENUE				
Individual	1,499,618	77,434	-	1,577,052
Corporate	494,734	86,000	-	580,734
Grants	591,034	32,600	-	623,634
Foundations	217,327	5,000	-	222,327
TOTAL CONTRIBUTED REVENUE	2,802,713	201,034	-	3,003,747
NET ASSETS RELEASED FROM RESTRICTIONS	195,059	(195,059)	-	-
TOTAL REVENUES	5,669,715	50,912	-	5,720,627
EXPENSES				
PROGRAM SERVICES				
Mainstage production	3,157,059	-	-	3,157,059
Education	553,457	-	-	553,457
TOTAL PROGRAM SERVICES	3,710,516	-	-	3,710,516
SUPPORT SERVICES				
Management and general	1,025,611	-	-	1,025,611
Development and fundraising	385,660	-	-	385,660
Marketing, box office and concessions	504,266	-	-	504,266
Set rentals	162,163	-	-	162,163
Production marketing	245,164	-	-	245,164
Harrison Opera House	126,118	-	-	126,118
TOTAL SUPPORT SERVICES	2,448,982	-	-	2,448,982
TOTAL EXPENSES	6,159,498	-	-	6,159,498
CHANGES IN NET ASSETS	(489,783)	50,912	-	(438,871)
NET ASSETS AT BEGINNING OF YEAR	429,102	685,022	3,449,574	4,563,698
NET ASSETS AT END OF YEAR	$ (60,681)	$ 735,934	$ 3,449,574	$ 4,124,827

NOTE: The accompanying notes are an integral part of the financial statements.

VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,310,337)	$ (438,871)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	386,227	413,388
Gain on sale of equipment	(2,774)	-
Realized (gains) losses, net	283,812	(76,897)
Unrealized (gains) losses, net	416,339	141,077
Changes to assets and liabilities:		
Contributions receivable, net	204,652	4,578
Accounts receivable	4,769	36,804
Inventory	(3,183)	1,855
Prepaid expenses	67,841	26,305
Accounts payable and accrued expenses	(62,566)	(60,303)
Deferred revenue	(100,864)	(29,355)
TOTAL ADJUSTMENTS	1,194,253	457,452
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(116,084)	18,581
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(40,666)	(123,110)
Proceeds from sale of equipment	2,774	-
Purchase of investments	(2,116,496)	(1,442,021)
Proceeds from sale of investments	2,164,083	1,183,448
Additions to other noncurrent assets	(6,394)	(33,399)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	3,301	(415,082)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in line of credit	-	50,000
Payments on notes payable	(23,422)	(18,576)
Proceeds from notes payable	-	450,000
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(23,422)	481,424
NET INCREASE (DECREASE) IN CASH	(136,205)	84,923
CASH - BEGINNING OF YEAR	183,516	98,593
CASH - END OF YEAR	$ 47,311	$ 183,516
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 57,159	$ 57,383

NOTE: The accompanying notes are an integral part of the financial statements.

NOTE 1 - NATURE OF ORGANIZATION

The Virginia Opera Association, Inc. (the Association) is a nonprofit organization founded in 1974 with operating offices in Norfolk and Richmond, Virginia. The vision of the Association is to enrich lives through opera. The mission of the Association is to create high quality productions of a broad range of opera, provide training to qualified persons in the production and performance of opera, promote appreciation and understanding of opera through performances, education and community outreach, and assure fiscal stability. In March of 1994, by unanimous vote of the Virginia General Assembly, the Association was named "The Official Opera Company of the Commonwealth of Virginia."

The Virginia Opera Foundation (the Foundation) was founded in December 1992 specifically for the benefit of and to carry out the purposes of the Association.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Presentation

The Association's and the Foundation's combined financial statements are prepared on the accrual basis of accounting. Revenues are recorded as income in the fiscal year in which the related productions are held. These financial statements have been prepared to focus on the Association and the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Association and the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. A portion of unrestricted net assets is designated by the Board of Directors for specific purposes and does not represent a donor-imposed restriction.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Association or the Foundation and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Association or the Foundation.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period the assets are acquired or placed in service. Donor restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted net assets.

Contributions Receivable

Contributions receivable are recognized as revenue in the period the promise is made by the donor. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based on management's judgment, including such factors as prior collection history and type of contribution. Contributions of assets other than cash are recorded at their estimated fair value.

Contributed Materials and Services

Contributed materials and services are reflected in the financial statements at estimated fair value of materials provided and services performed. For the years ended May 31, 2009 and 2008, the Association received donated materials and services totaling $140,457 and $166,694, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory includes items held for sale in the gift shop and are stated at the lower of cost or market with cost determined on the first-in, first-out (FIFO) basis.

Prepaid Expenses

Prepaid expenses represent items paid for future performances.

Investments

Investments are stated at market value and consist of cash and cash equivalents, corporate stocks and bonds and U.S. Government obligations. Cash and cash equivalents that are held as part of a long-term strategy are included in investments. The unrealized gains and losses are reflected in net investment income, in the combined statements of activities.

Property and Equipment

Property and equipment are stated at cost or fair value at the date of gift if acquired by gift. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	10 years
Equipment and software	3 to 10 years

Depreciation totaled $372,673 and $396,585 for the years ended May 31, 2009 and 2008, respectively.

Other Noncurrent Assets

Included in other noncurrent assets are the capitalized portion of opera sets, which are used for future shows or are rented to others. The Association's policy is to expense 80% of the cost of constructing sets and capitalize 20% to be amortized over a life of four years. Amortization expense related to such sets totaled $13,554 and $16,803 for the years ended May 31, 2009 and 2008, respectively.

Deferred Revenue

Deferred revenue consists primarily of ticket sales and subscriptions for future seasons' shows.

Program Expenses

The Association has two categories of program expenses - main stage production expenses and education expenses. Main stage production expenses are those that relate to the production of operas performed in the Harrison Opera House, Norfolk, Virginia; Richmond, Virginia and the Northern Virginia area. Education expenses are those that relate to the Education Touring Program that conducts in-school and community performances and the Community Outreach Program.

Volunteer Services

A number of volunteers have made contributions of time to the Association's and the Foundation's program and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services contained in the Statement of Financial Accounting Standards No. 116, and accordingly, is not reflected in the accompanying combined financial statements.

Income Taxes

The Association and the Foundation have each been recognized by the Internal Revenue Service as tax exempt under Section 501(c)(3) of the Internal Revenue Code (IRC). However, income from certain activities not directly related to the Association's tax exempt purpose is subject to taxation as unrelated business income. Income taxes for such unrelated business income totaled $2,475 and $136 in 2009 and 2008, respectively.

Cash

For purposes of the statement of cash flows, the Association and the Foundation consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Association and the Foundation to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosures of contingencies at the date of the combined financial statements, and revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

NOTE 3 - RECLASSIFICATION

The Financial Accounting Standards Board (FASB) has issued FASB Staff Position (FSP) FAS 117-1, "Endowments for Not for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds". The Association, in accordance with this pronouncement, has reclassified certain accumulated earnings on endowment funds from unrestricted net assets to temporarily restricted net assets in accoundance with this pronouncement. Additionally, certain investment income and release of restrictions have been reclassified as a result of these changes. There was no change in the total change in net assets as a result of this reclassification.

The effects of such reclassifications on beginning net assets as of June 1, 2007 are as follows:

Beginning Net Assets:	Unrestricted Net Assets	Temporarily Restricted Net Assets
As previously stated	$ 659,985	$ 454,139
Restated	429,102	685,022
CHANGE IN ADJUSTED NET ASSETS AS OF JUNE 1, 2007	$ (230,883)	$ 230,883

NOTE 4 - FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at May 31 are as follows:

	2009			
	Fair Value	Quoted Prices in an Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 471,611	$ 471,611	$ -	$ -
Corporate stocks	1,128,274	1,128,274	-	-
Corporate bonds	531,518	-	531,518	-
Municipal funds	275,033	-	275,033	-
Mutual funds	160,314	-	160,314	-
U.S. Government obligations	557,978	557,978	-	-
Total	$ 3,124,728	$ 2,157,863	$ 966,865	$ -

	2008			
	Fair Value	Quoted Prices in an Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 854,313	$ 854,313	$ -	$ -
Corporate stocks	1,576,692	1,576,692	-	-
Corporate bonds	80,559	-	80,559	-
Municipal funds	-	-	-	-
Mutual funds	196,574	-	196,574	-
U.S. Government obligations	1,164,328	1,164,328	-	-
Total	$ 3,872,466	$ 3,595,333	$ 277,133	$ -

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based on quoted prices for similar assets in active or inactive markets.

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at May 31 consisted of the following:

	2009	2008
Less than one year	$ 496,029	$ 644,364
One to five years	110,000	145,000
Thereafter	-	10,000
	606,029	799,364
Less: allowance for uncollectible contributions and 5% discount	(37,041)	(25,724)
	568,988	773,640
Current portion	472,157	643,864
Long-term portion	$ 96,831	$ 129,776

The allowance for uncollectible contributions totaled $23,873 and $500 for 2009 and 2008, respectively.

NOTE 6 - INVESTMENTS

Investments at May 31 consisted of the following:

	2009		2008	
	COST	CARRYING VALUE	COST	CARRYING VALUE
Cash and cash equivalents	$ 471,611	$ 471,611	$ 854,314	$ 854,313
Corporate stocks	1,183,351	1,128,274	1,294,112	1,576,692
Corporate bonds	513,380	531,518	68,963	80,559
Municipal bonds	276,393	275,033	-	-
Mutual funds	138,739	160,314	118,533	196,574
U.S. Government obligations	530,888	557,978	1,133,409	1,164,328
TOTAL	$ 3,114,362	$ 3,124,728	$ 3,469,331	$ 3,872,466

Investment income (loss) consisted of the following:

	2009	2008
Interest and dividend income	$ 98,969	$ 123,672
Realized gains (losses), net	(283,812)	76,897
Unrealized gains (losses), net	(416,339)	(141,077)
Investment expenses	(14,205)	(9,278)
TOTAL	$ (615,387)	$ 50,214

NOTE 7 - ENDOWMENT FUNDS

The Association's endowment consists of individual investment funds established from permanently restricted gifts for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 7 - ENDOWMENT FUNDS (Continued)

Interpretation of Relevant Law

The Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified to permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fun
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

Endowment Loan

On October 18, 2002, the Association's board of directors approved a loan between the Association and the Foundation in the amount of $800,000. Interest on the loan was at the prime rate plus 2% and the loan was to be paid in full on February 28, 2010. As of May 31, 2009 and 2008, the balance on this loan was $277,375 and $317,000, respectively. However, due to economic conditions, payment of the principal on this loan has been temporarily suspended.

Endowment Fund Activity and Net Asset Composition

The following schedule presents the activity in Endowment Funds as of May 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning Endowment Funds	$ 71,932	$ 326,419	$ 3,449,574	$ 3,847,925
Add: new endowments	29,603	-	-	29,603
Add: loan repayment	1,161	38,464	-	39,625
Less: endowment spending	(3,334)	(198,896)	-	(202,230)
Add (Less): endowment earnings	(449,400)	(165,987)	-	(615,387)
Ending Endowment Funds	$ (350,038)	$ -	$ 3,449,574	$ 3,099,536

Endowment net asset composition by type of fund is as follows as of May 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (431,368)	$ -	$ 3,449,574	$ 3,018,206
Board-designated endowment funds	81,330	-	-	81,330
Total Funds	$ (350,038)	$ -	$ 3,449,574	$ 3,099,536

The following schedule presents the activity in endowment funds as of May 31, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning Endowment Funds	$ (26,747)	$ 230,883	$ 3,449,574	$ 3,653,710
Add: new endowments	15,753	-	-	15,753
Add: loan and interest payment	82,401	50,599	-	133,000
Less: endowment spending*	-	-	-	-
Add (Less): endowment earnings	525	44,937	-	45,462
Ending Endowment Funds	$ 71,932	$ 326,419	$ 3,449,574	$ 3,847,925

* Endowment spending was transferred as of May 31, 2007.

NOTE 7 - ENDOWMENT FUNDS (Continued)

Endowment net asset composition by type of fund is as follows as of May 31, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 326,419	$ 3,449,574	$ 3,775,993
Board-designated endowment funds	71,932	-	-	71,932
Total Funds	$ 71,932	$ 326,419	$ 3,449,574	$ 3,847,925

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $431,368 and $0 as of May 31, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization just hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that equal or exceed the spending rate plus inflation over a market cycle and equal or exceed the average return of applicable market indices over a rolling five year period.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association's spending policy is equal to 5% of the fair market value of the fund for the prior three years; however, no spending is allowed if the fair market value of the fund is below historical dollar value at the beginning of the year.

NOTE 8 - LINE OF CREDIT

The Association has a line of credit with BB&T for short-term working capital and short-term financing of contributions receivable in the amount of $850,000. The line of credit is secured by a first priority interest in the Jean O. Chrysler Endowment, the Inge Schumacher Student Endowment, and other accounts. The line of credit expires December 26, 2009. Interest on the line is based on LIBOR plus 2.5%, which was approximately 4.5% and 7.25% at May 31, 2009 and 2008, respectively. The line of credit has an outstanding balance of $850,000 as of May 31, 2009 and 2008.

NOTE 9 - NOTES PAYABLE

Notes payable consisted of the following:

	2009	2008
BB&T - ten year term loan, interest only for the first sixteen months followed by 104 months of principal and interest payments. Interest payable at LIBOR plus 2.5%. Secured by a first priority interest in the Jean O. Chrysler Endowment, the Inge Shumacher Student Endowment and other assets.	$ 447,411	$ 450,000
BB&T - $654 payable monthly, including interest at 9.84%, due December of 2010, secured by a vehicle.	10,796	17,333
Citi Capital - $1,342 payable monthly, including interest at 12%, due October of 2009, secured by computer software.	6,513	20,809
	464,720	488,142
Less: current portion	45,918	38,103
Non-current notes payable	$ 418,802	$ 450,039

NOTE 9 - NOTES PAYABLE (Continued)

Future minimum principal payments under these notes are as follows:

2010	$	45,918
2011		38,563
2012		37,345
2013		40,144
2014		43,154
Thereafter		259,596
TOTAL	$	464,720

NOTE 10- LEASES

The Association is currently a lessee under various noncancelable operating leases for space to house the administrative offices and performance space in the Harrison Opera House, Norfolk, VA, administrative offices in Richmond, VA and set production and storage in Portsmouth, VA. In addition, the Association is a lessee under several office equipment and automobile operating leases, which expire at various times through May 31, 2010. Rent expense was approximately $200,000 for the years ended May 31, 2009 and 2008.

The City of Norfolk leases the Harrison Opera House to the Association. The current lease agreement expired May 31, 2008. The City has confirmed a desire to extend the lease through 2012; however, there has been no formal lease signed. Additionally, the portion of free rent will decrease to 25% by 2012. The amount of free rent was $85,944, for the years ended May 31, 2009 and 2008. Such rent was included in contributed revenue in the Statement of Activities. Future minimum lease payments, exclusive of the lease with the City of Norfolk, are as follows:

2010	$	109,107
2011		105,406
TOTAL	$	214,513

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

The Association and the Foundation maintain cash in demand deposit accounts at one financial institution. At various times throughout the year, cash balances may exceed the Federal Deposit Insurance Corporation (FDIC) insured amount. At May 31, 2009 and 2008, cash balances exceeded the federally insured amounts by $0 and $136,014, respectively.

Investments in marketable securities potentially expose the Association and the Foundation to concentrations of credit and market risk.

NOTE 12 - MERCHANDISING AND CONCESSIONS

Merchandising and concessions for the years ended May 31 consisted of the following:

	2009		
	Revenue	Expense	Net
Gift Shop	$ 28,147	$ 13,193	$ 14,954
Bar	34,450	25,011	9,439
TOTAL	$ 62,597	$ 38,204	$ 24,393

	2008		
	Revenue	Expense	Net
Gift Shop	$ 43,935	$ 21,524	$ 22,411
Bar	33,052	23,304	9,748
TOTAL	$ 76,987	$ 44,828	$ 32,159

NOTE 13 - FUNDRAISING SPECIAL EVENTS

Components of unrestricted fundraising special events for the years ended May 31 consisted of the following:

	2009		
	Revenue	Expense	Net
Norfolk Opera Ball	$ 94,464	$ 39,971	$ 54,493
Peter's 100th Anniversary	30,195	21,435	8,760
Richmond Spring Dinner	165,435	48,136	117,299
Other Events	22,586	18,838	3,748
TOTAL	$ 312,680	$ 128,380	$ 184,300

	2008		
	Revenue	Expense	Net
Norfolk Opera Ball	$ 104,796	$ 108,493	$ (3,697)
Opera In The Vineyards	54,058	1,076	52,982
Richmond Spring Dinner	126,786	13,865	112,921
Northern Virginia Gala	51,276	17,526	33,750
Other Events	25,000	8,432	16,568
TOTAL	$ 361,916	$ 149,392	$ 212,524

NOTE 14 - PENSION PLAN

The Association provides employees a Defined Contribution Pension Plan (the Plan) under Section 403(b)/401(a) of the IRC. Under the Plan, all non-highly compensated employees, as defined by the IRC, of the Association are eligible to participate. After two years of service, the Association contributes a matching percentage of each eligible employee's contribution depending on the months of service. During 2009 and 2008, the Association contributed $42,679 and $26,766 to the Plan, respectively. These expenses have been allocated to the various functions on the accompanying statements of activities.

NOTE 15 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of May 31 consisted of the following:

	2009	2008
Future season contributions	174,506	409,515
Accumulated endowment earnings	-	326,419
TOTAL	$ 174,506	$ 735,934

NOTE 16 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of May 31 consisted of the following:

	2009	2008
Jean O. Chrysler Endowment	$ 1,289,019	$ 1,289,019
Carol S. Keenan Endowment	1,109,371	1,109,371
Virginia Opera Foundation	537,477	537,477
Inge Schumacher Student Endowment	261,957	261,957
Artist Patrons Program	251,750	251,750
TOTAL	$ 3,449,574	$ 3,449,574

Such funds are held as follows:

	2009	2008
Virginia Opera Association, Inc.	$ 1,550,976	$ 1,550,976
Virginia Opera Foundation	1,898,598	1,898,598
TOTAL	$ 3,449,574	$ 3,449,574

NOTE 17 - COMMITMENTS

The Association has an employment agreement through May 31, 2012 with its Artistic Director. Such employment agreement commits the Association to compensation of approximately $170,000 per year.

The Association has an employment agreement through May 31, 2011 with its Executive Director. Such employment agreement commits the Association to compensation of approximately $140,000 per year.

Certain commitments are made to artists, directors and musicians in advance of the upcoming season based on the Opera's planned repertoire.

NOTE 18 - GOING CONCERN

The following conditions create uncertainty about the Association's ability to continue as a going concern:

1. The Association's trends indicate declining program revenue and operating losses over the prior three years.

2. Due to significant declines in the market value of investments, the Association was required to pledge additional assets to secure existing loans. The Association's line of credit is drawn to its maximum and there appears to be no additional resources to obtain financing.

3. As a result of the decline in market value of investments and the Association's spending policy, the Association cannot allocate spending of its endowment, which is an essential source of cash flow.

Management, along with the Board, has developed a strategic plan, which includes a monthly scorecard that enables management and the Board to respond quickly to anticipated budget shortfalls. Late in 2008, management and the Board quickly implemented a 10% ($500,000) reduction in its budget, because of the developing economic conditions at that time. For 2010, managment developed - and the Board approved - a balanced budget at a level equal to where fiscal year 2009 ended. The fiscal year 2010 budget excludes spending transfers, includes required debt payments and anticipated capital expenditures as well as additional cost cutting in all areas. For fiscal year 2011, managment anticipates keeping its expense budget at or below the fiscal year 2009 and fiscal year 2010 levels.