

PITTSBURGH OPERA, INC.
Pittsburgh, Pennsylvania

Financial Statements
For the years ended June 30, 2016 and 2015
and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pittsburgh Opera, Inc.
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of the Pittsburgh Opera, Inc. (Opera) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Opera at June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
September 21, 2016

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PITTSBURGH OPERA, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
ASSETS				
CASH AND CASH EQUIVALENTS	\$ 45,401	\$ 161,702	-	\$ 207,103
CONTRIBUTIONS RECEIVABLE, NET	643,806	1,016,820	-	1,660,626
INVESTMENTS	329,703	3,584,055	\$12,458,697	16,372,455
INVESTMENTS HELD BY TRUST	-	-	694,373	694,373
DEFERRED CHARGES AND OTHER	217,905	-	-	217,905
PROPERTY AND EQUIPMENT, NET	4,448,478	280,870	-	4,729,348
Total Assets	\$ 5,685,293	\$ 5,043,447	\$13,153,070	\$23,881,810
LIABILITIES AND NET ASSETS				
LINE OF CREDIT	\$ 500,000	-	-	\$ 500,000
ACCOUNTS PAYABLE	82,329	-	-	82,329
ACCRUED EXPENSES	66,789	-	-	66,789
DEFERRED SUBSCRIPTIONS	769,207	-	-	769,207
Total Liabilities	1,418,325	-	-	1,418,325
NET ASSETS	4,266,968	\$ 5,043,447	\$13,153,070	22,463,485
Total Liabilities And Net Assets	\$ 5,685,293	\$ 5,043,447	\$13,153,070	\$23,881,810

June 30, 2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 26,606	\$ 84,247	-	\$ 110,853
578,842	503,411	-	1,082,253
551,471	3,908,596	\$ 13,428,686	17,888,753
-	-	750,640	750,640
215,035	-	-	215,035
<u>4,554,354</u>	<u>300,785</u>	<u>-</u>	<u>4,855,139</u>
<u>\$ 5,926,308</u>	<u>\$ 4,797,039</u>	<u>\$ 14,179,326</u>	<u>\$ 24,902,673</u>
\$ 350,000	-	-	\$ 350,000
104,312	-	-	104,312
74,149	-	-	74,149
<u>827,072</u>	<u>-</u>	<u>-</u>	<u>827,072</u>
1,355,533	-	-	1,355,533
<u>4,570,775</u>	<u>\$ 4,797,039</u>	<u>\$ 14,179,326</u>	<u>23,547,140</u>
<u>\$ 5,926,308</u>	<u>\$ 4,797,039</u>	<u>\$ 14,179,326</u>	<u>\$ 24,902,673</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND OTHER SUPPORT				
Season subscriptions	\$ 975,682	-	-	\$ 975,682
Single ticket sales	343,958	-	-	343,958
Group ticket sales	105,715	-	-	105,715
	<u>1,425,355</u>	<u>-</u>	<u>-</u>	<u>1,425,355</u>
Net assets released from restrictions:				
For operations	441,939	\$ (441,939)	-	-
For building campaign	193,279	(193,279)	-	-
For investment income spending	694,182	-	\$ (694,182)	-
	<u>1,329,400</u>	<u>(635,218)</u>	<u>(694,182)</u>	<u>-</u>
Investment income (loss), net	32,094	(134,109)	(357,104)	(459,119)
Other	176,925	-	-	176,925
Charge for uncollectible contribution	-	-	-	-
	<u>209,019</u>	<u>(134,109)</u>	<u>(357,104)</u>	<u>(282,194)</u>
PUBLIC SUPPORT	<u>3,361,651</u>	<u>1,060,650</u>	<u>25,030</u>	<u>4,447,331</u>
Total Revenue, Other Support And Public Support				
	6,325,425	291,323	(1,026,256)	5,590,492
OPERATING EXPENSES				
Production	3,945,856	-	-	3,945,856
Outreach and education	800,051	-	-	800,051
General and administrative	1,296,607	-	-	1,296,607
Fundraising	459,772	-	-	459,772
	<u>6,502,286</u>	<u>-</u>	<u>-</u>	<u>6,502,286</u>
Changes In Net Assets Before Capital Expenditure Releases and Depreciation				
	(176,861)	291,323	(1,026,256)	(911,794)
NET ASSETS RELEASED FROM RESTRICTIONS FOR CAPITAL EXPENDITURES				
	44,915	(44,915)	-	-
DEPRECIATION EXPENSE				
	(171,861)	-	-	(171,861)
Changes In Net Assets				
	(303,807)	246,408	(1,026,256)	(1,083,655)
NET ASSETS				
Beginning of year	<u>4,570,775</u>	<u>4,797,039</u>	<u>14,179,326</u>	<u>23,547,140</u>
End of year	<u>\$ 4,266,968</u>	<u>\$ 5,043,447</u>	<u>\$13,153,070</u>	<u>\$ 22,463,485</u>

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 906,251	-	-	\$ 906,251
405,195	-	-	405,195
129,373	-	-	129,373
<u>1,440,819</u>	<u>-</u>	<u>-</u>	<u>1,440,819</u>
498,052	\$ (498,052)	-	-
203,940	(203,940)	-	-
652,677	-	\$ (652,677)	-
<u>1,354,669</u>	<u>(701,992)</u>	<u>(652,677)</u>	<u>-</u>
18,037	(15,455)	306,579	309,161
205,416	-	-	205,416
-	(11,520)	(65,272)	(76,792)
<u>223,453</u>	<u>(26,975)</u>	<u>241,307</u>	<u>437,785</u>
<u>2,562,319</u>	<u>303,212</u>	<u>35,030</u>	<u>2,900,561</u>
5,581,260	(425,755)	(376,340)	4,779,165
3,447,107	-	-	3,447,107
770,006	-	-	770,006
1,187,498	-	-	1,187,498
505,385	-	-	505,385
<u>5,909,996</u>	<u>-</u>	<u>-</u>	<u>5,909,996</u>
(328,736)	(425,755)	(376,340)	(1,130,831)
75,710	(75,710)	-	-
(171,053)	-	-	(171,053)
(424,079)	(501,465)	(376,340)	(1,301,884)
<u>4,994,854</u>	<u>5,298,504</u>	<u>14,555,666</u>	<u>24,849,024</u>
<u>\$ 4,570,775</u>	<u>\$ 4,797,039</u>	<u>\$ 14,179,326</u>	<u>\$ 23,547,140</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (1,083,655)	\$ (1,301,884)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	171,861	171,053
Contributions restricted for investment in endowment and capital	(25,030)	(97,030)
Net realized and unrealized loss on investments	884,795	276,945
Charge for uncollectible contribution	-	76,792
Decrease in allowance for doubtful accounts	(4,940)	(520)
Changes in operating assets and liabilities:		
Contributions receivable	(573,433)	(55,505)
Deferred charges and other	(2,870)	(28,481)
Accounts payable	(21,983)	17,366
Accrued expenses	(7,360)	17,524
Deferred subscriptions	(57,865)	9,304
Net Cash Used In Operating Activities	<u>(720,480)</u>	<u>(914,436)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,683,782)	(1,147,015)
Proceeds from sale of investments	2,371,552	1,420,418
Purchases of property and equipment	(46,070)	(91,855)
Net Cash Provided By Investing Activities	<u>641,700</u>	<u>181,548</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit, net	150,000	350,000
Proceeds from contributions restricted for investment in capital project	-	19,469
Proceeds from contributions restricted for investment in endowment	25,030	35,030
Net Cash Provided by Financing Activities	<u>175,030</u>	<u>404,499</u>
Net Increase (Decrease) In Cash And Cash Equivalents	96,250	(328,389)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>110,853</u>	<u>439,242</u>
End of year	<u>\$ 207,103</u>	<u>\$ 110,853</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 4,400</u>	<u>2,600</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 - ORGANIZATION

Pittsburgh Opera, Inc. (Opera) is a Pennsylvania not-for-profit corporation formed for the primary purpose of producing operatic and other musical performances for the benefit of the public. The Opera produced four operas and a concert with a total of 16 performances during its 2016 season and three operas with a total of 13 performances during its 2015 season. In addition, the Opera produced one student matinee during each of its seasons. The Opera also administers the Resident Artist Program of the Pittsburgh Opera (Program), which is an artist-training program that prepares young artists for operatic careers. The Program is a major source of outreach and education for the Opera. The Program produced two operas with a total of eight performances in each of the years 2016 and 2015. A component organization of the Opera is Friends of Pittsburgh Opera, which provides valuable support to the Opera both financially and as a liaison within the community.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements follows:

The accompanying financial statements have been prepared on the accrual basis of accounting.

The financial statements include the accounts of the Pittsburgh Opera, Inc., and the component organization (collectively, the Opera). All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of American (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Opera classifies resources for accounting and reporting purposes into separate net asset classes based on the absence or existence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories. A description of the Opera's net asset categories is as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed restrictions or stipulations as to purpose or use.

Temporarily Restricted Net Assets - Net assets that are subject to donor-imposed restrictions or stipulations that may or will be met either by actions of the Opera or the passage of time.

Permanently Restricted Net Assets - Net assets that are subject to donor-imposed restrictions of investing the principal contribution in perpetuity and only using the investment income for the Opera's operations and programs.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Opera reports gifts of cash and other assets as restricted support if they are received with donor-imposed restrictions that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Certain temporarily restricted funds were received and expended during the same year. These funds are classified on the statement of activities and changes in net assets as unrestricted funds.

Receipts of unconditional promises to give with payments due in future periods are recorded as pledges receivable and recognized as increases to net assets at the date of promise. Provisions are made for estimated uncollectible unconditional promises to give based on historical collection experience, a review of the current status of unconditional promises to give and judgment. Decisions to charge-off receivables are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts. It is reasonably possible that the Opera's estimate of the allowance for doubtful accounts will change. The total allowance for doubtful accounts was approximately \$18,000 and \$23,000 at June 30, 2016 and 2015, respectively. Receipts of conditional promises to give, which depend on the occurrence of a specified future and uncertain event, will be recognized when the conditions on which they depend are substantially met.

The Opera maintains, at various financial institutions, cash that might exceed the federally insured amount at times. The Opera has not experienced any losses on such accounts. For purposes of the statement of cash flows, the Opera considers all noninterest-bearing accounts to be cash equivalents.

Investments are carried at fair value, which is the price that would be received to sell an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. Accordingly, the change in net unrealized appreciation or depreciation for the year is included in the statements of activities. Investment income (including realized gains and losses on investments, interest and dividends) is included in unrestricted net assets unless the income is restricted by donor or law. The cost of investment securities sold is determined using the specific identification method.

The Opera defers advertising costs related to specific productions and expenses such costs in the period in which the related productions take place. Amounts deferred at June 30, 2016 and 2015 were approximately \$71,000 and \$53,000, respectively. Other general advertising costs are expensed in the period incurred. Advertising expenses approximated \$400,000 and \$351,000 for the years ended June 30, 2016 and 2015, respectively.

Property and equipment are recorded at the lower of cost or fair value. Donated equipment is stated at fair market value at the date of donation. Depreciation and amortization are computed on a straight-line basis over estimated useful lives. Repairs and maintenance costs that do not extend the lives of the applicable assets are charged to expense as incurred. Gain or loss resulting from the retirement or other disposition of assets is included in the statement of activities.

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the asset might not be recoverable. The carrying amount of the assets is compared to the related expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the primary asset. Cash flows are projected based upon historical results and expectations. In the cases where the expected future cash flows and fair value are less than the carrying amount of the assets, the assets are considered to be impaired and are written down to fair value, based on appraisals or other methods to estimate value. There were no impairment losses recorded in 2016 or 2015.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues from season tickets, which are subscribed in advance of the opera season, are deferred and recognized in the year the productions occur. Production and other costs incurred for the ensuing opera seasons are deferred as current or long-term deferred charges which are included as a component of deferred charges and other on the statements of financial position and expensed in the year in which the productions occur.

The Opera is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from Pennsylvania state taxes. Accordingly, no provision for income taxes is recorded in the financial statements. The Opera's policy is to accrue interest and penalties related to unrecognized tax benefits in income tax expense as a component of general, administrative and fundraising expense. The Opera has not identified any material uncertain tax positions requiring an accrual or disclosure in the financial statements. The statutory tax years remain open to examination.

Although Board members have donated a substantial amount of time to the operation of the Opera, no amounts have been reflected in the accompanying financial statements for donated services because no objective basis is available to measure the value of such services.

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through September 21, 2016, which is the date that the financial statements were available to be issued.

Recent accounting pronouncements - In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14 - Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this ASU require organizations to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period (net assets with restrictions and net assets without restrictions), rather than for the currently required three classes, to present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes and report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses. Additionally, organizations will continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer will be required to present or disclose the indirect method (reconciliation) if using the direct method. The ASU eliminates the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset. The amendments of this ASU also provide enhanced disclosures over amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period, composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources, qualitative information that communicates how an not-for-profit organization manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, amounts of expenses by both their natural classification and their functional classification (either on the face of the statement of activities, as a separate statement or in the notes to the financial statements), method(s) used to allocate costs among program and support functions and underwater endowment funds. The amendments of this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption of the amendments is permitted. The amendments in this ASU should be applied on a retrospective basis in the year that the ASU is first applied. However, if presenting comparative financial statements, a not-for-profit organization has the option to omit the certain information for any periods presented before the period of adoption. The Opera is currently assessing the impact that this ASU will have on its financial statements.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 - INVESTMENTS

Investments include the permanently restricted endowment, temporarily restricted capital funds, and a portion of the unrestricted operating fund. The cost and fair values at June 30, 2016 and 2015 are summarized as follows:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	\$ 8,992,000	\$ 11,074,000	\$ 8,276,000	\$ 11,597,000
Bond mutual funds	5,051,000	5,064,000	5,314,000	5,322,000
Corporate bonds	-	-	401,000	408,000
Money market funds	234,000	234,000	562,000	562,000
	\$ 14,277,000	\$ 16,372,000	\$ 14,553,000	\$ 17,889,000

Net investment income related to investments and investments held by trust for the years ended June 30 consists of the following:

	2016	2015
Interest and dividends	\$ 513,000	\$ 680,000
Net realized gains	416,000	650,000
Net unrealized losses	(1,301,000)	(927,000)
Net realized and unrealized losses	(885,000)	(277,000)
Investment fees	(87,000)	(94,000)
	\$ (459,000)	\$ 309,000

Investment securities are exposed to various risks caused by changes in interest rates, general market volatility, credit risk, etc. Due to the level of risk associated with certain investment securities, it is possible that changes in risks in the near term could materially affect account balances and the amounts reported in the statements of financial position and activities and changes in net assets.

NOTE 4 - INVESTMENTS HELD BY TRUST

The Opera is a partial beneficiary of the trust of Pauline Beamer Pickens. The trustee holds title to the assets and the Opera records their share of the assets at fair value. Distributions are made at the discretion of the trustee in accordance with the trust and are unrestricted. Distributions approximated \$38,000 during the years ended June 30, 2016 and 2015 and are included in net assets released from restriction for investment income spending. The cost (or donated value) was approximately \$616,000 as of June 30, 2016 and 2015.

PITTSBURGH OPERA, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 are summarized as follows:

	2016	2015
Building and building improvements	\$ 5,402,000	\$ 5,366,000
Equipment	519,000	499,000
	5,921,000	5,865,000
Less - Accumulated depreciation	1,516,000	1,344,000
	4,405,000	4,521,000
Construction in progress	-	10,000
Land	324,000	324,000
	\$ 4,729,000	\$ 4,855,000

NOTE 6 - LINE OF CREDIT

The Opera maintains an unsecured line-of-credit agreement with a bank for which maximum allowed borrowings are \$1,000,000, and interest accrues at the bank's prime lending rate (3.50% at June 30, 2016). At June 30, 2016 and 2015, there was an outstanding balance of \$500,000 and \$350,000, respectively. The agreement expires on May 29, 2017. As of September 21, 2016, the outstanding balance of the line of credit was approximately \$200,000.

NOTE 7 - CONTRIBUTIONS RECEIVABLE

The Opera has recorded annual and capital fund pledges receivable at June 30 consisting of the receipt of unconditional promises to give, which are summarized as follows:

	2016	2015
Due in less than 1 year	\$ 1,184,000	\$ 649,000
Due in 1 to 5 years	495,000	456,000
	1,679,000	1,105,000
Allowance for doubtful accounts	(18,000)	(23,000)
	\$ 1,661,000	\$ 1,082,000

NOTE 8 - NET ASSETS

The Opera has recorded net assets based on use restrictions imposed by the donor. These funds have originated from past and present fundraising campaigns for the purpose of providing for the long-term and short-term stability of the organization. The significant outcomes include the establishment of an endowment and the creation of a permanent home for the Opera.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 - NET ASSETS (Continued)

Campaigns include:

1990	21st Century for establishing a solid endowment base
1997	Renaissance for debt reduction and endowment growth
2007	Bold New Home for the purchase and sustenance of the Opera headquarters (Building Fund)
2013	Capital Projects for the upkeep of the Opera's headquarters

The 21st Century Campaign (Campaign) that concluded in 1990 stated that 85% of the principal collected would be held as a permanent endowment (permanently restricted net assets), and 15% will be available to support operations and new initiatives as approved by the Board of Directors, with the stipulation that all amounts used for such purposes are intended to be repaid to the campaign fund by the end of the fiscal year (temporarily restricted net assets.) Investment earnings are available for use in operations.

In addition to specific fund-raising campaigns, the Opera raises funds for operating support through its Annual Fund efforts. Funds raised for future purposes include multiyear grants, funds restricted to future educational programming and donations with specific donor restrictions.

Unrestricted Fund Summary

Unrestricted net assets include an accumulated operating deficit, Building Funds (released since 2008), and funds designated by the Board to be treated as endowment funds. The balance of the unrestricted funds by campaign, as designated by management, as of June 30 is as follows:

	2016	2015
	<u> </u>	<u> </u>
Accumulated Operating Deficit	\$ (559,000)	\$ (389,000)
Building Fund Assets	4,526,000	4,660,000
Board Designated as Endowment	<u>300,000</u>	<u>300,000</u>
	<u>\$ 4,267,000</u>	<u>\$ 4,571,000</u>

Temporarily Restricted Fund Summary

The balance of the temporarily restricted funds by campaign as of June 30 is as follows:

	2016	2015
	<u> </u>	<u> </u>
Capital Projects	\$ 323,000	\$ 343,000
21st Century and Renaissance Campaigns	907,000	907,000
Building Fund	2,677,000	3,016,000
Annual Fund	<u>1,136,000</u>	<u>531,000</u>
	<u>\$ 5,043,000</u>	<u>\$ 4,797,000</u>

Temporarily restricted net assets were released from restrictions primarily due to the passage of time and building-related expenses.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 - NET ASSETS (Continued)

Permanently Restricted Fund Summary

The balance of the permanently restricted funds by campaign as of June 30 is as follows:

	2016	2015
21st Century and Renaissance Campaigns	\$ 12,307,000	\$ 13,292,000
Joseph M. Newcomer Fund	61,000	36,000
John H. Hill Fund	91,000	100,000
Investments held by trust (Note 4)	694,000	751,000
	\$ 13,153,000	\$ 14,179,000

During the year ended June 30, 2015, the Opera received \$35,000 to establish the Joseph M. Newcomer Fund which is expected to reach \$300,000 in subsequent periods. During the year ended June 30, 2016, the Opera received an additional \$25,000 for the Joseph M. Newcomer Fund.

NOTE 9 - ENDOWMENT

The Opera's endowment consists of board-designated and donor-restricted investment funds established for perpetual support of the organization's mission. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Opera to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Building Fund is not a part of the endowment.

Interpretation of Relevant Law - The Board of Directors of the Opera has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141). Act 141 is a total return policy that allows a nonprofit organization to choose to treat a percentage of the average market value of its endowment's permanently restricted investments as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. On an annual basis, the Board, must elect a spending rate of between 2% and 7%. The Opera classifies as permanently restricted net assets the original and subsequent value of gifts donated to the permanent endowment. In accordance with Act 141, the Opera has adopted a written investment policy, of which a section specifically relates to the endowment fund.

The Opera considers the following factors in making a determination to set a spending rate:

1. Protecting the corpus of the endowment fund.
2. Preserving the spending power of the assets.
3. Obtaining maximum investment return with reasonable risk and operational consideration.
4. Complying with applicable laws.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 - ENDOWMENT (Continued)

Net endowment funds by asset type as of June 30 comprise the following:

	Board- Designated Unrestricted	Permanently Restricted	Total
2016	\$ 300,000	\$ 13,153,000	\$ 13,453,000
2015	\$ 300,000	\$ 14,179,000	\$ 14,479,000

The following represents the change in board-designated and donor-restricted endowment funds by net asset type for the year ended June 30, 2016:

	Board- Designated Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 300,000	\$ 14,179,000	\$ 14,479,000
Investment return:			
Investment income	-	350,000	350,000
Net realized and unrealized losses	-	(637,000)	(637,000)
	-	(287,000)	(287,000)
Contribution	-	25,000	25,000
Appropriation of endowment assets for expenditure	-	(694,000)	(694,000)
Investment management fees	-	(70,000)	(70,000)
Endowment net assets, end of year	\$ 300,000	\$ 13,153,000	\$ 13,453,000

The following represents the change in board-designated and donor-restricted endowment funds by net asset type for the year ended June 30, 2015:

	Board- Designated Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 300,000	\$ 14,556,000	\$ 14,856,000
Investment return:			
Investment income	-	490,000	490,000
Net realized and unrealized gains	-	(109,000)	(109,000)
	-	381,000	381,000
Contributions	-	35,000	35,000
Appropriation of endowment assets for expenditure	-	(653,000)	(653,000)
Uncollectible contribution receivable	-	(65,000)	(65,000)
Investment management fees	-	(75,000)	(75,000)
Endowment net assets, end of year	\$ 300,000	\$ 14,179,000	\$ 14,479,000

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 - ENDOWMENT (Continued)

Return Objectives and Risk Parameters - The principal objective of the investment policy is to provide a secure source of income to support operations and new initiatives on an ongoing basis. Investments are managed for "total return" to provide, in addition to current income for operations, growth of principal modestly greater than inflation. Income and appreciation on the invested funds are available to support current operations and new initiatives as recommended by the Finance Committee and approved by the Board of Directors.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Opera 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 Opera targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and Investment Objectives Related to Spending Policy - In accordance with Act 141 and donor-specified restrictions, the Opera annually transfers no more than 5% of the previous three years' average market value of the permanently restricted endowment fund to unrestricted net assets for use in current and future operations. For the years ended June 30, 2016 and 2015, the spendable return totaled \$693,000 and \$653,000, respectively. The Opera believes that this spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with the Opera's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

NOTE 10 - LEASES

The Opera leases theater space under a renewable annual operating lease. Total theater lease expense for the main stage performances was approximately \$318,000 and \$238,000 for the years ended June 30, 2016 and 2015, respectively.

The Opera has also entered into noncancelable leases for office equipment and off-site storage. Total office equipment and storage expense was approximately \$42,000 and \$37,000 for the years ended June 30, 2016 and 2015, respectively. The approximate aggregate annual payments due subsequent to June 30, 2016 for noncancelable leases for office equipment and storage are as follows:

Year Ending June 30	Amount
2017	\$ 26,000
2018	10,000
2019	<u>4,000</u>
	<u>\$ 40,000</u>

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Opera has a defined contribution plan that covers substantially all employees. The Opera's policy is that it may contribute up to 5% of gross salaries to the plan for employees who have more than two years of employment. Employees may elect to contribute additional funds subject to the maximum amount allowed by law. Employer contributions related to the discretionary plan contributions approximated \$9,000 for the year ended June 30, 2016.

PITTSBURGH OPERA, INC.
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JUNE 30, 2016 AND 2015

NOTE 12 - FAIR VALUE MEASUREMENT

The Opera categorizes assets and liabilities measured at fair value into one of three different levels depending on the assumptions (i.e., inputs) used in the valuation. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement.

The fair value hierarchy is defined as follows:

Level 1 - Valuations are based on unadjusted quoted prices in an active market for identical assets or liabilities.

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

The Opera's financial instruments consist primarily of cash and cash equivalents, deferred charges, pledges receivable, investments, investment held by trust, accounts payable, accrued expenses, deferred subscriptions and line of credit. The carrying amount of the investments and investment held by trust is at fair value using the methods below. The carrying amount of the line of credit approximates fair value, since the interest rate is market based and generally adjusted periodically. The carrying amount of the Opera's other instruments approximates their fair value due to their nature and respective relatively short maturity dates or durations.

The following section describes the valuation methodologies used by the Opera to measure investments and investment held in trust at fair value:

Money Market Funds - Carrying value approximates fair value due to the short-term nature of the investments.

Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the Opera are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Opera are deemed to be actively traded.

Corporate Bonds - Valued using pricing models maximizing the use of observable inputs for similar securities, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Investment Held by Trust - Investments held by trust primarily include underlying investments, which are readily quoted in active markets. The majority of the underlying investments use Level 1 and 2 inputs, but since the trust itself is not readily tradable, significant inputs are considered to be unobservable in active markets. Since the Opera's ownership in this trust is represented by an undivided interest in these investments, not in the underlying assets themselves, and the undivided interests are not publicly traded themselves nor can they be valued based on observable direct or indirect inputs as defined by the Codification, the Opera has reported the instrument held by trust as a Level 3 asset.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 12 - FAIR VALUE MEASUREMENT (Continued)

The preceding methods described might produce a fair value calculation that might not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Opera believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Opera has evaluated the significant transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total net assets. For the years ended June 30, 2016 and 2015, there were not significant transfers in or out of Levels 1, 2 or 3.

The valuation of the Opera's investments and investment held in trust at June 30, 2016 and 2015 according to the fair value hierarchy is summarized as follows:

	2016			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 234,000	-	-	\$ 234,000
Corporate bonds	-	-	-	-
Mutual funds:				
Equity	11,074,000	-	-	11,074,000
Bond	5,064,000	-	-	5,064,000
Investment held by trust	-	-	\$ 694,000	694,000
Total	\$ 16,372,000	-	\$ 694,000	\$ 17,066,000

	2015			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 562,000	-	-	\$ 562,000
Corporate bonds	-	\$ 401,000	-	401,000
Mutual funds:				
Equity	11,597,000	-	-	11,597,000
Bond	5,329,000	-	-	5,329,000
Investment held by trust	-	-	\$ 751,000	751,000
Total	\$ 17,488,000	\$ 401,000	\$ 751,000	\$ 18,640,000

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 12 - FAIR VALUE MEASUREMENT (Continued)

The changes in those items measured at fair value for which the Opera has used Level 3 inputs to determine fair value are as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 751,000	\$ 777,000
Interest and dividends	24,000	18,000
Realized and unrealized gains, net	(37,000)	1,000
Investment fees	(6,000)	(7,000)
Distributions	<u>(38,000)</u>	<u>(38,000)</u>
Balance, end of year	<u>\$ 694,000</u>	<u>\$ 751,000</u>

NOTE 13 - COMMITMENTS AND CONTINGENCIES

At June 30, 2016 and 2015, the Opera had unrecorded commitments in the normal course of business approximating \$870,000 and \$652,000, respectively, relating to performances for future opera seasons. The majority of these commitments at June 30, 2016 extend through the 2017 opera seasons, and are, for the most part, noncancelable; however, one contract of approximately \$170,000 per year extends through the 2016 - 2017 opera seasons.