

PITTSBURGH OPERA, INC.  
Pittsburgh, Pennsylvania

Financial Statements  
For the years ended June 30, 2022 and 2021  
and Independent Auditor's Report Thereon



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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Pittsburgh Opera, Inc.  
Pittsburgh, Pennsylvania

**Opinion**

We have audited the accompanying financial statements of Pittsburgh Opera, Inc. (Opera) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Opera as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Opera and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Opera's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Opera's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Opera's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Schneider Downs & Co., Inc.*

Pittsburgh, Pennsylvania  
October 21, 2022

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PITTSBURGH OPERA, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30, 2022		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
ASSETS			
CASH AND CASH EQUIVALENTS	\$ 7,932	\$ 651,726	\$ 659,658
CONTRIBUTIONS RECEIVABLE, NET	600,471	6,615,632	7,216,103
INVESTMENTS	1,319,338	19,365,944	20,685,282
INVESTMENTS HELD BY TRUST	-	708,267	708,267
DEFERRED CHARGES AND OTHER	223,770	-	223,770
PROPERTY AND EQUIPMENT, NET	<u>4,191,976</u>	<u>-</u>	<u>4,191,976</u>
Total Assets	<u>\$ 6,343,487</u>	<u>\$ 27,341,569</u>	<u>\$ 33,685,056</u>
LIABILITIES AND NET ASSETS			
ACCOUNTS PAYABLE	\$ 294,076	-	\$ 294,076
ACCRUED EXPENSES	43,001	-	43,001
DEFERRED SUBSCRIPTIONS	449,749	-	449,749
NOTE PAYABLE	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	786,826	-	786,826
NET ASSETS	<u>5,556,661</u>	<u>\$ 27,341,569</u>	<u>32,898,230</u>
Total Liabilities And Net Assets	<u>\$ 6,343,487</u>	<u>\$ 27,341,569</u>	<u>\$ 33,685,056</u>

June 30, 2021		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 354,810	\$ 1,128,429	\$ 1,483,239
770,721	2,616,021	3,386,742
1,176,736	19,503,992	20,680,728
-	868,279	868,279
140,348	-	140,348
4,101,711	-	4,101,711
<u>\$ 6,544,326</u>	<u>\$ 24,116,721</u>	<u>\$ 30,661,047</u>
\$ 55,373	-	\$ 55,373
156,534	-	156,534
350,799	-	350,799
645,872	-	645,872
1,208,578	-	1,208,578
5,335,748	\$ 24,116,721	29,452,469
<u>\$ 6,544,326</u>	<u>\$ 24,116,721</u>	<u>\$ 30,661,047</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022		Total
	Without Donor Restrictions	With Donor Restrictions	
<b>REVENUE AND OTHER SUPPORT</b>			
Season subscriptions	\$ 372,635	-	\$ 372,635
Single ticket sales	404,500	-	404,500
Group ticket sales	96,902	-	96,902
	<u>874,037</u>	<u>-</u>	<u>874,037</u>
Net assets released from restrictions:			
For operations	1,913,923	\$ (1,913,923)	-
For investment income spending	325,021	(325,021)	-
	<u>2,238,944</u>	<u>(2,238,944)</u>	<u>-</u>
Investment (loss) income, net	(175,249)	(3,342,802)	(3,518,051)
Other	68,763	-	68,763
	<u>(106,486)</u>	<u>(3,342,802)</u>	<u>(3,449,288)</u>
<b>PUBLIC SUPPORT</b>	<u>4,471,864</u>	<u>8,806,594</u>	<u>13,278,458</u>
Total Revenue, Other Support And Public Support	7,478,359	3,224,848	10,703,207
<b>OPERATING EXPENSES</b>			
Production	3,350,807	-	3,350,807
Outreach and education	1,017,944	-	1,017,944
General and administrative	2,047,688	-	2,047,688
Fundraising	660,082	-	660,082
	<u>7,076,521</u>	<u>-</u>	<u>7,076,521</u>
Changes In Net Assets Before Depreciation	401,838	3,224,848	3,626,686
<b>DEPRECIATION EXPENSE</b>	<u>(180,925)</u>	<u>-</u>	<u>(180,925)</u>
Changes In Net Assets	220,913	3,224,848	3,445,761
<b>NET ASSETS</b>			
Beginning of year	<u>5,335,748</u>	<u>24,116,721</u>	<u>29,452,469</u>
End of year	<u>\$ 5,556,661</u>	<u>\$ 27,341,569</u>	<u>\$ 32,898,230</u>



2021		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 907	-	\$ 907
33,778	-	33,778
393	-	393
<u>35,078</u>	<u>-</u>	<u>35,078</u>
990,374	\$ (990,374)	-
313,416	(313,416)	-
<u>1,303,790</u>	<u>(1,303,790)</u>	<u>-</u>
250,805	4,355,327	4,606,132
-	-	-
<u>250,805</u>	<u>4,355,327</u>	<u>4,606,132</u>
<u>3,969,724</u>	<u>1,356,935</u>	<u>5,326,659</u>
5,559,397	4,408,472	9,967,869
6,733	-	6,733
1,727,528	-	1,727,528
1,816,430	-	1,816,430
551,665	-	551,665
<u>4,102,356</u>	<u>-</u>	<u>4,102,356</u>
1,457,041	4,408,472	5,865,513
<u>(160,052)</u>	<u>-</u>	<u>(160,052)</u>
1,296,989	4,408,472	5,705,461
<u>4,038,759</u>	<u>19,708,249</u>	<u>23,747,008</u>
<u>\$ 5,335,748</u>	<u>\$ 24,116,721</u>	<u>\$ 29,452,469</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services			Total
	Production	Education	Resident Artist	
Salaries and wages	\$ 1,793,390	\$ 123,823	\$ 526,925	\$ 2,444,138
Pension	56,509	1,258	18,460	76,227
Other employee benefits	71,600	7,625	13,132	92,357
Payroll taxes	93,169	6,682	19,278	119,129
Accounting	-	-	-	-
Subcontractor expenses	276,975	12,657	84,149	373,781
Advertising and promotion	372,866	-	43,000	415,866
Office	(43)	1,140	19,245	20,342
Information technology	-	-	-	-
Royalties	14,608	-	10,761	25,369
Occupancy	213,703	-	-	213,703
Travel	19,332	-	7,999	27,331
Interest	-	-	-	-
Depreciation	-	-	-	-
Insurance	29,333	-	-	29,333
Production sets and costumes	337,502	8,504	94,090	440,096
Cast housing	71,455	-	19,075	90,530
Fundraising	-	-	-	-
Other	408	-	141	549
	<u>\$ 3,350,807</u>	<u>\$ 161,689</u>	<u>\$ 856,255</u>	<u>\$ 4,368,751</u>

Management and General	Fundraising	<u>Total</u> <u>2022</u>
\$ 899,863	\$ 409,150	\$ 3,753,151
12,894	2,964	92,085
129,676	23,067	245,100
108,978	33,467	261,574
28,321	-	28,321
51,341	110,731	535,853
4,881	2,813	423,560
123,692	23,793	167,827
82,152	26,660	108,812
-	-	25,369
494,850	-	708,553
36,877	1,786	65,994
-	-	-
180,925	-	180,925
54,332	-	83,665
13,412	-	453,508
-	-	90,530
6,419	25,651	32,070
-	-	549
\$ 2,228,613	\$ 660,082	\$ 7,257,446

See notes to financial statements.

PITTSBURGH OPERA, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2021

	Program Services			Total
	Production	Education	Resident Artist	
Salaries and wages	\$ 790	\$ 115,622	\$ 1,115,478	\$ 1,231,890
Pension	-	1,514	32,884	34,398
Other employee benefits	-	6,786	41,473	48,259
Payroll taxes	60	6,876	29,214	36,150
Accounting	-	-	-	-
Subcontractor expenses	5,883	12,650	102,117	120,650
Advertising and promotion	-	-	16,048	16,048
Office	-	1,405	3,096	4,501
Information technology	-	-	-	-
Royalties	-	-	8,044	8,044
Occupancy	-	-	80	80
Travel	-	-	5,779	5,779
Interest	-	-	-	-
Depreciation	-	-	-	-
Insurance	-	-	-	-
Production sets and costumes	-	10,062	171,229	181,291
Cast housing	-	-	37,171	37,171
Fundraising	-	-	-	-
Other	-	-	10,000	10,000
	<u>\$ 6,733</u>	<u>\$ 154,915</u>	<u>\$ 1,572,613</u>	<u>\$ 1,734,261</u>

Management and General	Fundraising	<u>Total</u> 2021
\$ 882,408	\$ 383,599	\$ 2,497,897
21,178	4,279	59,855
99,547	28,278	176,084
103,121	30,850	170,121
27,363	-	27,363
39,759	80,085	240,494
18,446	227	34,721
69,988	6,790	81,279
192,951	8,603	201,554
-	-	8,044
266,556	-	266,636
2,800	-	8,579
15,451	-	15,451
160,052	-	160,052
65,343	-	65,343
11,519	-	192,810
-	-	37,171
-	1,869	1,869
-	7,085	17,085
\$ 1,976,482	\$ 551,665	\$ 4,262,408

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 3,445,761	\$ 5,705,461
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	180,925	160,052
Forgiveness of note payable	(645,872)	-
Contributions restricted for investment in endowment and capital	(136,000)	(40,000)
Net realized and unrealized loss (gain) on investments	4,181,000	(4,265,000)
Charge for uncollectible contribution	-	7,083
Changes in operating assets and liabilities:		
Contributions receivable	(3,829,361)	428,623
Deferred charges and other	(83,422)	(73,126)
Accounts payable	238,703	(21,563)
Accrued expenses	(113,533)	65,413
Deferred subscriptions	98,950	(101,638)
Net Cash Provided By Operating Activities	<u>3,337,151</u>	<u>1,865,305</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(7,155,563)	(2,761,882)
Proceeds from sale of investments	3,130,021	2,417,380
Purchases of property and equipment	(271,190)	(19,494)
Net Cash Used In Investing Activities	<u>(4,296,732)</u>	<u>(363,996)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Line of credit, net	-	(1,000,000)
Proceeds from note payable	-	645,872
Proceeds from contributions restricted for investment in endowment	136,000	40,000
Net Cash Provided By (Used In) Financing Activities	<u>136,000</u>	<u>(314,128)</u>
Net (Decrease) Increase In Cash And Cash Equivalents	(823,581)	1,187,181
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,483,239</u>	<u>296,058</u>
End of year	<u>\$ 659,658</u>	<u>\$ 1,483,239</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>-</u>	<u>\$ 15,000</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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 three operas with a total of 12 performances during its 2022 season. Due to the impact of the COVID-19 pandemic, there were no such main performances during the 2021 season.

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 14 performances in 2022. During 2021, the Opera produced four operas with a total of 24 performances during its season as part of the Program. 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 America (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:

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed restrictions or stipulations as to purpose or use.

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed restrictions. Some donor-imposed stipulations are temporary in nature, such as those that may or will be satisfied either by actions of the Opera and/or the passage of time. Other donor-imposed stipulations are perpetual in nature of investing the principal contribution in perpetuity and only using the investment income for the Opera's operations and programs.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Certain restricted funds were received and expended during the same year. These funds are classified on the statements of activities and changes in net assets without donor restrictions.

PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 at both June 30, 2022 and 2021. Receipts of conditional promises to give, which depend on the occurrence of a specified future and uncertain event, are recognized when the conditions on which they depend are substantially met.

The Opera maintains cash that at times might exceed the federally insured amount. The Opera has not experienced any losses on such accounts. For purposes of the statements of cash flows, the Opera considers all interest-bearing certificates of deposit and 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 and changes in net assets. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in net assets without donor restrictions unless the income is restricted by donor or law. Investment income is reported net of internal and external expenses. The cost of investment securities sold is determined using the specific identification method.

The Opera defers advertising costs related to specific productions and expenses until the period in which the related productions take place. There were no amounts deferred at June 30, 2022 or 2021. Other general advertising costs are expensed in the period incurred. Advertising expenses approximated \$374,000 and \$11,000 for the years ended June 30, 2022 and 2021, respectively.

Functional Expenses - Expenses are summarized and categorized based on their functional classification as either program or supporting expenses. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function and allocated based on analysis of personnel time. All other expenses are allocated based on actual usage. These expenses are allocated on a reasonable basis that is consistently applied.

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 statements of activities and changes in net assets. The Opera capitalizes all additions greater than or equal to \$2,000.

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 on historical results and expectations. In 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 2022 or 2021.



PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Opera follows Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (Topic 606). The Opera adopted Topic 606 during the year ended June 30, 2021 using the modified retrospective method and determined there was no cumulative effect to net assets as of July 1, 2020 required as a result of adopting the standard. The Opera's revenues are derived from the sale of tickets to attend performances, either through subscription (group) or single ticket sales. Revenue is recognized when the Opera satisfies its performance obligation under the contract by transferring the promised service (performance) to the customer. Ticket sales are recognized at the point in time in which the related performance occurs. Revenue is measured as the amount of consideration the Opera expects to receive in exchange for transferring the services to the customer. Payment terms are either payment in advance or immediate payment.

Based on the nature of the Opera's contracts, there were no contract assets recorded at June 30, 2022 or 2021. Contract liabilities consist of payments received before ticket sales are earned. Contract liabilities were approximately \$450,000 and \$351,000 and are included in deferred subscriptions in the statements of financial position at June 30, 2022 and 2021, respectively.

The Opera organizes benefit and fundraising events during the year that are recorded net of revenues received. Included in public support on the statements of activities and changes in net assets are net benefits and fundraising public support of approximately \$71,000 and \$39,000 for 2022 and 2021, respectively. Had the Opera recorded revenues and expenses at their gross amount, revenues and expenses would have been greater by approximately \$309,000 and \$21,000, for 2022 and 2021, respectively.

The Opera is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) 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 tax years ending after 2018 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 - 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 October 21, 2022, the date that the financial statements were available to be issued and determined that there have been no events that have occurred that would require adjustments to the disclosures in the financial statements.

PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements - In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842) (ASU 2016-02), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASU 2016-02 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 is expected to impact the Opera's financial statements, since the Opera has certain operating lease arrangements for which it is the lessee. ASU 2016-02 supersedes the previous leases standard Leases (Topic 840) and is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Opera is currently assessing the impact ASU 2016-02 will have on its financial statements.

NOTE 3 - LIQUIDITY AND AVAILABILITY

The Opera has approximately \$4,524,000 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures. Certain investments with donor restriction are subject to the Opera's spending policy, which, as described in Note 10, both the endowment and the building fund have a spending rate of 5%. Appropriations from these funds will be available within the next 12 months. Certain contributions receivable are subject to implied time and other donor restrictions, are not expected to be collected within one year, or are restricted for specific purposes and are removed from the table below. The Opera has access to a \$907,000 cash reserve fund that has been established to provide short-term liquidity, which is available at June 30, 2022 and 2021, the assets of which are included as a component of investments with donor restrictions.

The table below presents financial assets available for general expenditures within one year of the financial position date as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 560,000	\$ 981,000
Contributions receivable, net	1,875,000	1,026,000
Investments not subject to donor restriction	1,002,000	1,138,000
Distributions from investments held by trust	36,000	36,000
Endowment - spending rate appropriation	722,000	795,000
The Henry J. & Mary Louise Gailliot Fund - spending rate appropriation	185,000	-
Building fund - spending rate appropriation	<u>144,000</u>	<u>151,000</u>
	<u>\$ 4,524,000</u>	<u>\$ 4,127,000</u>

PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 4 - INVESTMENTS

Investments include the restricted endowment, restricted capital funds and a portion of the operating fund. The cost and fair values at June 30, 2022 and 2021 are summarized as follows:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	\$ 12,390,000	\$ 13,688,000	\$ 9,161,000	\$ 13,835,000
Bond mutual funds	7,136,000	6,612,000	6,359,000	6,619,000
Money market funds	385,000	385,000	227,000	227,000
	<u>\$ 19,911,000</u>	<u>\$ 20,685,000</u>	<u>\$ 15,747,000</u>	<u>\$ 20,681,000</u>

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

	2022	2021
Interest and dividends	\$ 777,000	\$ 441,000
Net realized gain	120,000	365,000
Net unrealized (loss) gain	(4,301,000)	3,900,000
Net realized and unrealized (loss) gain	(4,181,000)	4,265,000
Investment fees	(114,000)	(100,000)
	<u>\$ (3,518,000)</u>	<u>\$ 4,606,000</u>

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 5 - 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 its share of the assets at fair value. Distributions are made at the discretion of the trustee in accordance with the trust and are included within net assets without donor restrictions. Distributions approximated \$38,000 during the years ended June 30, 2022 and 2021, and are included in net assets released from restriction for investment income spending. The Opera's portion of cost (or donated value) was approximately \$799,000 and \$802,000 as of both June 30, 2022 and 2021, respectively.

PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Building and building improvements	\$ 5,707,000	\$ 5,609,000
Equipment	<u>583,000</u>	<u>519,000</u>
	6,290,000	6,128,000
Less - Accumulated depreciation	<u>2,538,000</u>	<u>2,350,000</u>
	3,752,000	3,778,000
Construction-in-progress	116,000	-
Land	<u>324,000</u>	<u>324,000</u>
	<u>\$ 4,192,000</u>	<u>\$ 4,102,000</u>

NOTE 7 - LINE OF CREDIT AND NOTE PAYABLE

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 (4.75% at June 30, 2022) plus 50 basis points (0.50%). At June 30, 2022 and 2021, there were no amounts drawn and outstanding under this agreement. The agreement expires on December 31, 2022.

On March 12, 2021, the Opera entered into an unsecured promissory note with an unrelated bank for a loan in the principal amount of \$646,000 under the Paycheck Protection Program (PPP) (PPP Loan 2), administered by the Small Business Administration (SBA) as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). PPP Loan 2 bore interest at a rate of 1% per annum and was set to mature on March 12, 2023. Pursuant to terms of the PPP, the full amount of the loan was forgiven during the year ending June 30, 2022, since proceeds were used for qualifying expenses as described in the CARES Act. Forgiveness of this note was recorded through public support in the accompanying statement of activities and changes in net assets.

NOTE 8 - 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:

	<u>2022</u>	<u>2021</u>
Due in less than one year	\$ 890,000	\$ 1,026,000
Due in one to five years	<u>6,712,000</u>	<u>2,379,000</u>
	7,602,000	3,405,000
Less - Discount on long-term receivables (2.21% in 2022)	(368,000)	-
Allowance for doubtful accounts	<u>(18,000)</u>	<u>(18,000)</u>
	<u>\$ 7,216,000</u>	<u>\$ 3,387,000</u>

During the year ended June 30, 2022, the Opera received significant gifts from two donors, which represented approximately 45% of total public support on the statement of activities and changes in net assets. At June 30, 2022, amounts outstanding on these two donations represented approximately 41% of contributions receivable on the statement of financial position. There were no such concentrations for the year ending June 30, 2021.

PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 9 - NET ASSETS

The Opera has recorded net assets based on use restrictions imposed by the donor. These funds 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.

Campaigns include:

- 1990 21<sup>st</sup> 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 21<sup>st</sup> Century Campaign (Campaign) that concluded in 1990 stated that 85% of the principal collected would be held as a permanent endowment (net assets with donor restrictions) 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 (net assets with donor restrictions that are temporary in nature). Investment earnings are available for use in operations.

In addition to specific fundraising 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.

Net Assets Without Donor Restrictions Summary

Net assets without donor restrictions include an accumulated operating surplus, Building Funds (released since 2008), and funds designated by the Board to be treated as endowment funds. The balance of the funds without donor restrictions by campaign, as designated by management, as of June 30 is as follows:

	2022	2021
Accumulated Operating Surplus	\$ 1,132,000	\$ 1,061,000
Building Fund Assets	4,125,000	3,975,000
Board Reserve Fund	300,000	300,000
	\$ 5,557,000	\$ 5,336,000

PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 9 - NET ASSETS (Continued)

Net Assets With Donor Restrictions Summary

The balance of the net assets with donor restrictions by campaign as of June 30 is as follows:

	2022	2021
Subject to expenditure for specified purpose or to the passage of time:		
Annual Fund (Operations)	\$ 7,077,000	\$ 3,745,000
21st Century and Renaissance Campaigns	907,000	907,000
Building Fund	2,800,000	3,163,000
Olga Barry Fund	100,000	121,000
The Henry J. & Mary Louise Gailliot Fund	3,259,000	-
Endowments:		
21st Century and Renaissance Campaigns	12,160,000	14,923,000
Bernadette G. Callery Endowed Fund (formerly Joseph M. Newcomer Fund)	239,000	281,000
John H. Hill Fund	92,000	109,000
Investments held by trust (Note 5)	708,000	868,000
	\$ 27,342,000	\$ 24,117,000

Net assets with donor restrictions were released from restrictions primarily due to the passage of time and building-related expenses.

NOTE 10 - 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), 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 unrestricted income each year. The long-term preservation of the real value of the assets, however, 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.

PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 10 - ENDOWMENT (Continued)

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.

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

		Board- Designated Unrestricted	Restricted	Total
2022	\$	<u>300,000</u>	\$ <u>13,199,000</u>	\$ <u>13,499,000</u>
2021	\$	<u>300,000</u>	\$ <u>16,181,000</u>	\$ <u>16,481,000</u>

The following represents the change in board-designated and donor-restricted endowment funds by net asset type for the year ended June 30, 2022:

		Board- Designated	Restricted	Total
Endowment net assets, beginning of year	\$	300,000	\$ 16,181,000	\$ 16,481,000
Investment return:				
Investment income		-	586,000	586,000
Net realized and unrealized losses		-	(3,287,000)	(3,287,000)
		<u>-</u>	<u>(2,701,000)</u>	<u>(2,701,000)</u>
Contribution		-	136,000	136,000
Appropriation of endowment assets for expenditure		-	(325,000)	(325,000)
Investment management fees		<u>-</u>	<u>(92,000)</u>	<u>(92,000)</u>
Endowment net assets, end of year	\$	<u>300,000</u>	\$ <u>13,199,000</u>	\$ <u>13,499,000</u>

PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 10 - ENDOWMENT (Continued)

The following represents the change in board-designated and donor-restricted endowment funds by net asset type for the year ended June 30, 2021:

	Board- Designated	Restricted	Total
Endowment net assets, beginning of year	\$ 300,000	\$ 12,874,000	\$ 13,174,000
Investment return:			
Investment income	-	340,000	340,000
Net realized and unrealized gains	-	3,336,000	3,336,000
	-	3,676,000	3,676,000
Contribution	-	40,000	40,000
Appropriation of endowment assets for expenditure	-	(313,000)	(313,000)
Investment management fees	-	(96,000)	(96,000)
Endowment net assets, end of year	\$ 300,000	\$ 16,181,000	\$ 16,481,000

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.

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, 2022 and 2021, the spendable return totaled \$325,000 and \$313,000, 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.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Opera has interpreted Act 141 to permit spending from underwater endowments in accordance with prudent measures required under law. The Opera has no underwater endowment funds at June 30, 2022 and 2021. The original corpus of the endowment funds is \$8,025,000.



PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 11 - LEASES

The Opera leases theater space under a renewable annual operating lease. Total theater lease expense for the main stage performances was approximately \$214,000 and \$0 for the years ended June 30, 2022 and 2021, respectively.

The Opera has also entered into noncancelable leases for office equipment and off site storage. Total office equipment and storage expense was approximately \$46,000 and \$44,000 for the years ended June 30, 2022 and 2021, respectively. The approximate aggregate annual payments due subsequent to June 30, 2022 for noncancelable leases for office equipment and storage are as follows:

Year Ending June 30	Amount
2023	\$ 46,000
2024	42,000
2025	43,000
2026	44,000
2027	46,000
Thereafter	<u>14,000</u>
	<u>\$ 235,000</u>

NOTE 12 - 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 \$17,000 and \$28,000 for the years ended June 30, 2022 and 2021, respectively.

NOTE 13 - 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.

PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 13 - FAIR VALUE MEASUREMENT (Continued)

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, a line of credit, and a note payable. 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 and to transact at that price. The mutual funds held by the Opera are deemed to be actively traded.

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 IRC, the Opera has reported the instrument held by trust as a Level 3 asset.

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. Further, 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 on the nature of the financial instruments and size of the transfer relative to total net assets.

PITTSBURGH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 13 - FAIR VALUE MEASUREMENT (Continued)

The valuation of the Opera's investments and investment held in trust at June 30, 2022 and 2021 according to the fair value hierarchy is summarized as follows:

	2022			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 385,000	-	-	\$ 385,000
Mutual funds:				
Equity	13,688,000	-	-	13,688,000
Bond	6,612,000	-	-	6,612,000
Investment held by trust	-	-	\$ 708,000	708,000
Total	\$ 20,685,000	-	\$ 708,000	\$ 21,393,000
	2021			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 227,000	-	-	\$ 227,000
Mutual funds:				
Equity	13,835,000	-	-	13,835,000
Bond	6,619,000	-	-	6,619,000
Investment held by trust	-	-	\$ 868,000	868,000
Total	\$ 20,681,000	-	\$ 868,000	\$ 21,549,000

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:

	2022	2021
Balance, beginning of year	\$ 868,000	\$ 708,000
Interest and dividends	17,000	13,000
Realized and unrealized (loss) gain, net	(132,000)	193,000
Investment fees	(7,000)	(8,000)
Distributions	(38,000)	(38,000)
Balance, end of year	\$ 708,000	\$ 868,000

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