

PITTSBURGH OPERA, INC.
Pittsburgh, Pennsylvania

Financial Statements
For the years ended June 30, 2019 and 2018
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, 2019 and 2018 and the related statements of activities and changes in net assets and cash flows for the years then ended and the statement of functional expenses for the year ended June 30, 2019, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2019, the Opera adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). Our opinion is not modified with respect to this matter.

Additionally, as discussed in Note 3 to the financial statements, the 2018 financial statements have been restated as a result of the adoption of ASU 2016-14 and an adjustment to Opera's net assets without donor restrictions for investment income previously recorded as investment income with donor restriction.

Report on Summarized Comparative Information

We have previously audited the Opera's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 20, 2018. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
October 21, 2019

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PITTSBURGH OPERA, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30, 2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
ASSETS			
CASH AND CASH EQUIVALENTS	\$ 44,056	\$ 146,361	\$ 190,417
CONTRIBUTIONS RECEIVABLE, NET	354,816	1,242,000	1,596,816
INVESTMENTS	1,204,687	16,333,809	17,538,496
INVESTMENTS HELD BY TRUST	-	744,323	744,323
DEFERRED CHARGES AND OTHER	177,217	-	177,217
PROPERTY AND EQUIPMENT, NET	<u>4,316,666</u>	<u>-</u>	<u>4,316,666</u>
Total Assets	<u>\$ 6,097,442</u>	<u>\$ 18,466,493</u>	<u>\$ 24,563,935</u>
LIABILITIES AND NET ASSETS			
LINE OF CREDIT	\$ 1,500,000	-	\$ 1,500,000
ACCOUNTS PAYABLE	287,917	-	287,917
ACCRUED EXPENSES	55,790	-	55,790
DEFERRED SUBSCRIPTIONS	<u>671,571</u>	<u>-</u>	<u>671,571</u>
Total Liabilities	2,515,278	-	2,515,278
NET ASSETS	<u>3,582,164</u>	<u>\$ 18,466,493</u>	<u>22,048,657</u>
Total Liabilities And Net Assets	<u>\$ 6,097,442</u>	<u>\$ 18,466,493</u>	<u>\$ 24,563,935</u>

June 30, 2018 (As restated)		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 20,393	\$ 154,072	\$ 174,465
784,845	919,034	1,703,879
1,207,980	16,508,426	17,716,406
-	758,233	758,233
125,267	-	125,267
4,458,957	-	4,458,957
<u>\$ 6,597,442</u>	<u>\$ 18,339,765</u>	<u>\$ 24,937,207</u>
\$ 1,500,000	-	\$ 1,500,000
249,794	-	249,794
53,861	-	53,861
727,278	-	727,278
2,530,933	-	2,530,933
4,066,509	\$ 18,339,765	22,406,274
<u>\$ 6,597,442</u>	<u>\$ 18,339,765</u>	<u>\$ 24,937,207</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
REVENUE AND OTHER SUPPORT			
Season subscriptions	\$ 817,064	-	\$ 817,064
Single ticket sales	511,688	-	511,688
Group ticket sales	147,149	-	147,149
	<u>1,475,901</u>	<u>-</u>	<u>1,475,901</u>
Net assets released from restrictions:			
For operations	440,826	\$ (440,826)	-
For building fund	186,146	(186,146)	-
For investment income spending	711,145	(711,145)	-
	<u>1,338,117</u>	<u>(1,338,117)</u>	<u>-</u>
Investment income, net	(8,956)	670,274	661,318
Other	149,685	-	149,685
	<u>140,729</u>	<u>670,274</u>	<u>811,003</u>
PUBLIC SUPPORT	<u>3,740,001</u>	<u>794,571</u>	<u>4,534,572</u>
Total Revenue, Other Support And Public Support			
	6,694,748	126,728	6,821,476
OPERATING EXPENSES			
Production	3,847,738	-	3,847,738
Outreach and education	866,141	-	866,141
General and administrative	1,618,074	-	1,618,074
Fundraising	681,145	-	681,145
	<u>7,013,098</u>	<u>-</u>	<u>7,013,098</u>
Changes In Net Assets Before Depreciation			
	(318,350)	126,728	(191,622)
DEPRECIATION EXPENSE	<u>(165,995)</u>	<u>-</u>	<u>(165,995)</u>
Changes In Net Assets			
	(484,345)	126,728	(357,617)
NET ASSETS			
Beginning of year, as restated	<u>4,066,509</u>	<u>18,339,765</u>	<u>22,406,274</u>
End of year, as restated	<u>\$ 3,582,164</u>	<u>\$ 18,466,493</u>	<u>\$ 22,048,657</u>

2018 (As restated)		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 840,157	-	\$ 840,157
348,286	-	348,286
115,721	-	115,721
<u>1,304,164</u>	<u>-</u>	<u>1,304,164</u>
1,231,535	\$ (1,231,535)	-
238,605	(238,605)	-
700,516	(700,516)	-
<u>2,170,656</u>	<u>(2,170,656)</u>	<u>-</u>
130,405	1,087,744	1,218,149
263,420	-	263,420
<u>393,825</u>	<u>1,087,744</u>	<u>1,481,569</u>
<u>2,784,307</u>	<u>302,399</u>	<u>3,086,706</u>
6,652,952	(780,513)	5,872,439
4,227,375	-	4,227,375
892,460	-	892,460
1,503,242	-	1,503,242
554,391	-	554,391
<u>7,177,468</u>	<u>-</u>	<u>7,177,468</u>
(524,516)	(780,513)	(1,305,029)
<u>(174,712)</u>	<u>-</u>	<u>(174,712)</u>
(699,228)	(780,513)	(1,479,741)
<u>4,765,737</u>	<u>19,120,278</u>	<u>23,886,015</u>
<u>\$ 4,066,509</u>	<u>\$ 18,339,765</u>	<u>\$ 22,406,274</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

(With Comparative Totals for the Year Ended June 30, 2018)

	Program Services			
	<u>Production</u>	<u>Education</u>	<u>Resident Artist</u>	<u>Total</u>
Salaries and wages	\$ 2,135,445	\$ 142,830	\$ 402,309	\$ 2,680,584
Pension	119,844	736	6,622	127,202
Other employee benefits	23,235	7,827	20,741	51,803
Payroll taxes	117,562	8,121	18,707	144,390
Legal	-	-	-	-
Accounting	-	-	-	-
Production expenses	376,213	26,844	38,589	441,646
Advertising and promotion	333,965	-	71,300	405,265
Office	-	6,987	17,084	24,071
Information technology	-	-	-	-
Royalties	3,566	-	2,758	6,324
Occupancy	331,000	-	1,500	332,500
Travel	12,917	1,450	1,864	16,231
Conference and seminars	200	-	-	200
Interest	-	-	-	-
Depreciation	-	-	-	-
Insurance	-	-	-	-
Production sets and costumes	332,099	28,523	49,073	409,695
Cast housing	47,536	-	2,980	50,516
Fundraising	-	-	-	-
Other	14,156	6,863	2,433	23,452
	<u>\$ 3,847,738</u>	<u>\$ 230,181</u>	<u>\$ 635,960</u>	<u>\$ 4,713,879</u>

Management and General	Fundraising	Total	
		2019	2018
\$ 789,890	\$ 378,422	\$ 3,848,896	\$ 3,822,523
11,820	420	139,442	137,846
115,733	24,295	191,831	174,360
99,998	36,287	280,675	284,671
6,145	-	6,145	-
24,475	-	24,475	23,704
20,852	149,578	612,076	723,121
2,054	3,148	410,467	388,425
120,177	28,234	172,482	132,031
15,225	5,494	20,719	16,115
-	-	6,324	51,503
179,962	-	512,462	558,549
24,761	2,643	43,635	71,490
-	-	200	
82,850	-	82,850	49,700
165,995	-	165,995	174,712
78,652	-	78,652	65,011
21,263	-	430,958	530,920
-	-	50,516	83,960
1,292	42,032	43,324	-
22,925	10,592	56,969	63,539
<u>\$ 1,784,069</u>	<u>\$ 681,145</u>	<u>\$ 7,179,093</u>	<u>\$ 7,352,180</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (357,617)	\$ (1,479,741)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	165,995	174,712
Contributions restricted for investment in endowment and capital	(28,412)	(59,545)
Net realized and unrealized gain on investments	(43,286)	(484,042)
Charge for uncollectible contribution	-	8,825
Changes in operating assets and liabilities:		
Contributions receivable	107,063	599,631
Deferred charges and other	(51,950)	85,356
Accounts payable	38,123	75,420
Accrued expenses	1,929	16,281
Deferred subscriptions	(55,707)	1,930
Net Cash Used In Operating Activities	<u>(223,862)</u>	<u>(1,061,173)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,670,033)	(8,595,812)
Proceeds from sale of investments	2,905,139	8,981,393
Purchases of property and equipment	(23,704)	(7,378)
Net Cash Provided By Investing Activities	<u>211,402</u>	<u>378,203</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit, net	-	200,000
Proceeds from contributions restricted for investment in endowment	28,412	60,000
Net Cash Provided by Financing Activities	<u>28,412</u>	<u>260,000</u>
Net Increase (Decrease) In Cash And Cash Equivalents	15,952	(422,970)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>174,465</u>	<u>597,435</u>
End of year	<u>\$ 190,417</u>	<u>\$ 174,465</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 83,000</u>	<u>\$ 50,000</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 with a total of 16 performances during each of its 2019 and 2018 seasons. 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 2019 and 2018. 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.

Reclassifications - Certain prior year amounts have been reclassified to conform to the 2019 presentation and the adoption of ASU 2016-14.

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 statement 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 statement of activities and changes in net assets without donor restrictions.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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, 2019 and 2018. 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.

During 2018, the Opera had one donor that accounted for approximately 13% of total revenue, other support and public support. In addition, the Opera had two donors that accounted for approximately 51% and 64% of contributions receivable in 2019 and 2018, respectively.

The Opera maintains 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 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. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in unrestricted net assets 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 such costs in the period in which the related productions take place. Amounts deferred at June 30, 2019 and 2018 were approximately \$26,000 and \$54,000, respectively. Other general advertising costs are expensed in the period incurred. Advertising expenses approximated \$329,000 and \$330,000 for the years ended June 30, 2019 and 2018, respectively.

Functional Expenses - Expenses are summarized and categorized based upon 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 upon 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 statement of activities. 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 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 2019 or 2018.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2019 or 2018.

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 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 \$248,000 and \$197,000 for 2019 and 2018, respectively. Had the Opera recorded revenues and expenses at their gross amount, revenues and expenses would have been greater by approximately \$426,000 and \$356,000, for 2019 and 2018, 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 2015 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 October 21, 2019, which is the date that the financial statements were available to be issued.

Recently Issued Accounting Pronouncements - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 is the result of a joint project of FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for use in the U.S. and internationally. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605 of the FASB Codification and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09 enhances comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, reduces the number of requirements an entity must consider for recognizing revenue, and requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. ASU 2014-09 requires either retrospective application by restating each prior period presented in the financial statements, or retrospective application by recording the cumulative effect on prior reporting periods to beginning retained earnings in the year that the standard becomes effective. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date by one year.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Principal Versus Agent Considerations), to clarify the implementation guidance on principal versus agent considerations. The standard will be effective for annual reporting periods beginning after December 15, 2018. Additionally, the FASB has issued other narrow scope improvements and technical corrections since the issuance of ASU 2014-09 that will be effective with the adoption. The Opera is currently assessing the impact ASU 2014-09 will have on its financial statements.

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). ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Opera is currently assessing the impact ASU 2016-02 will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The specific cash issues addressed include the following: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018 and should be applied retrospectively. Early adoption is permitted. The Opera is currently assessing the impact that the adoption of 2016-15 will have on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendments in ASU 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for transactions in which the entity serves as the resource recipient for annual periods beginning after December 15, 2018. For transactions in which the entity serves as the resource provider, ASU 2018-08 is effective for annual periods beginning after December 15, 2019. The Opera is currently assessing the impact that the adoption of 2018-08 will have on its financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement - Disclosure Framework (Topic 820), which improves the disclosure requirements on fair value measurements and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures. The Opera is currently assessing the impact that the adoption of 2018-13 will have on its financial statements.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncement - In 2019 the Opera ASU No. 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14), which improves the net asset classification requirements and the information presented in the financial statements and notes about a the organization's liquidity, financial performance and cash flows. The main provisions of ASU 2016-14 include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. ASU 2016-14 also enhances disclosures for board-designated amounts, composition of net assets without donor restrictions, liquidity and expenses by both their natural and functional classification.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 follows:

Net Asset Classifications	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	\$ 2,790,917	-	\$ 2,790,917
Temporarily restricted	-	\$ 4,875,617	4,875,617
Permanently restricted	-	14,739,740	14,739,740
Net assets as previously presented	2,790,917	19,615,357	22,406,274
Restatements:			
Implementation of ASU 2016-14 related to capital gift for long-lived asset	241,040	(241,040)	-
Investment income (See Note 3)	1,034,552	(1,034,552)	-
Net assets, as reclassified	\$ 4,066,509	\$ 18,339,765	\$ 22,406,274

NOTE 3 - RESTATEMENT

Net assets without donor restrictions at July 1, 2017 have been adjusted for gifts restricted to capital improvements previously reported as net assets with donor restrictions. The restatement has no effect on the results of the current year's activities; however, the cumulative effect increases beginning net assets without donor restrictions for 2018 by approximately \$241,000. Previously issued financial statements have been restated.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 - RESTATEMENT (Continued)

Net assets without donor restrictions at July 1, 2017 have also been adjusted for investment income previously classified as an increase in net assets with donor restriction. Prior to 2018, the organization maintained in one account donor restricted and unrestricted investments and did not allocate the investment income to unrestricted investments. Previously issued financial statements have been restated. The table below presents a recap of the restated accounts as of June 30, 2018:

	As Previously Presented	As Restated		Difference
		Without Donor Restrictions	With Donor Restrictions	
Property and Equipment:				
Unrestricted	\$ 4,217,917	\$ 4,458,957	-	\$ 241,040
Temporarily restricted	241,040	-	-	(241,040)
	<u>\$ 4,458,957</u>	<u>\$ 4,458,957</u>	<u>-</u>	<u>-</u>
Investments:				
Unrestricted	\$ 173,428	\$ 1,207,980	-	\$ 1,034,552
Temporarily restricted	3,590,986	-	\$ 3,590,986	-
Permanently restricted	13,951,992	-	12,917,440	(1,034,552)
	<u>\$ 17,716,406</u>	<u>\$ 1,207,980</u>	<u>\$ 16,508,426</u>	<u>-</u>

NOTE 4 - LIQUIDITY AND AVAILABILITY

The Opera has approximately \$3,299,000 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 organization's spending 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. The organization has access to a \$907,000 cash reserve fund that has been established to provide short-term liquidity which is available at June 30, 2019, 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 at June 30, 2019:

Total financial assets:	
Cash and cash equivalents	\$ 160,000
Contributions receivable, net	1,092,000
Investments not subject to donor restriction	1,205,000
Distributions from investments held by Trust	29,000
Endowment - spending rate appropriation	683,000
Building fund - spending rate appropriation	130,000
	<u>3,299,000</u>
Financial assets available to meet general expenditures	<u>\$ 3,299,000</u>

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 - INVESTMENTS

Investments include the restricted endowment, restricted capital funds and a portion of the operating fund. The cost and fair values at June 30, 2019 and 2018 are summarized as follows:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	\$ 9,649,000	\$ 10,701,000	\$ 9,875,000	\$ 11,267,000
Bond mutual funds	5,700,000	5,847,000	5,783,000	5,719,000
Money market funds	990,000	990,000	730,000	730,000
	\$ 16,339,000	\$ 17,538,000	\$ 16,388,000	\$ 17,716,000

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

	2019	2018
Interest and dividends	\$ 708,000	\$ 823,000
Net realized gains	174,000	2,649,000
Net unrealized loss	(131,000)	(2,165,000)
Net realized and unrealized gains	43,000	484,000
Investment fees	(90,000)	(89,000)
	\$ 661,000	\$ 1,218,000

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 6 - 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 unrestricted. Distributions approximated \$29,000 during the years ended June 30, 2019 and 2018, respectively, and are included in net assets released from restriction for investment income spending. The cost (or donated value) was approximately \$617,000 as of both June 30, 2019 and 2018.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Building and building improvements	\$ 5,502,000	\$ 5,476,000
Equipment	519,000	519,000
	<u>6,021,000</u>	<u>5,995,000</u>
Less - Accumulated depreciation	2,028,000	1,863,000
	<u>3,993,000</u>	<u>4,132,000</u>
Construction-in-progress	-	3,000
Land	324,000	324,000
	<u>\$ 4,317,000</u>	<u>\$ 4,459,000</u>

NOTE 8 - LINE OF CREDIT

The Opera maintains an unsecured line-of-credit agreement with a bank for which maximum allowed borrowings are \$1,500,000, and interest accrues at the bank's prime lending rate (5.50% at June 30, 2019). At June 30, 2019 and 2018, there was an outstanding balance of \$1,500,000, respectively. The agreement expires on March 31, 2020.

NOTE 9 - 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>2019</u>	<u>2018</u>
Due in less than 1 year	\$ 1,110,000	\$ 768,000
Due in 1 to 5 years	505,000	954,000
	<u>1,615,000</u>	<u>1,722,000</u>
Allowance for doubtful accounts	(18,000)	(18,000)
	<u>\$ 1,597,000</u>	<u>\$ 1,704,000</u>

NOTE 10 - 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.

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

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 10 - NET ASSETS (Continued)

The 21st 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 deficit, 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:

	2019	2018 (As restated)
Accumulated Operating Deficit	\$ (787,000)	\$ (460,000)
Building Fund Assets	4,069,000	4,227,000
Board Designated as Endowment	300,000	300,000
	\$ 3,582,000	\$ 4,067,000

Net Assets With Donor Restrictions Summary

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

	2019	2018 (As restated)
Subject to expenditure for specified purpose:		
Annual Fund (Operations)	\$ 1,358,000	\$ 1,044,000
21st Century and Renaissance Campaigns	907,000	907,000
Building Fund	2,557,000	2,684,000
Olga Barry Fund	75,000	57,000
Endowments:		
21st Century and Renaissance Campaigns	12,556,000	12,653,000
Bernadette G. Callery Endowed Fund (formerly Joseph M. Newcomer Fund)	171,000	135,000
John H. Hill Fund	98,000	102,000
Investments held by trust (Note 5)	744,000	758,000
	\$ 18,466,000	\$ 18,340,000

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

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 11 - 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 unrestricted 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.

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

		Board- Designated Unrestricted		Restricted (As Restated)		Total
2019	\$	300,000	\$	13,569,000	\$	13,869,000
2018	\$	300,000	\$	13,648,000	\$	13,948,000

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 11 - 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, 2019:

	Board- Designated	Restricted	Total
Endowment net assets, beginning of year, as restated	\$ 300,000	\$ 13,648,000	\$ 13,948,000
Investment return:			
Investment income	-	680,000	680,000
Net realized and unrealized gains	-	12,000	12,000
	<u>-</u>	<u>14,340,000</u>	<u>14,640,000</u>
Contribution	-	30,000	30,000
Appropriation of endowment assets for expenditure	-	(711,000)	(711,000)
Investment management fees	-	(90,000)	(90,000)
Endowment net assets, end of year	<u>\$ 300,000</u>	<u>\$ 13,569,000</u>	<u>\$ 13,869,000</u>

The following represents the change in board-designated and donor-restricted endowment funds by net asset type for the year ended June 30, 2018:

	Board- Designated	Restricted (As restated)	Total
Endowment net assets, beginning of year, as restated	\$ 300,000	\$ 13,285,000	\$ 13,585,000
Investment return:			
Investment income	-	693,000	693,000
Net realized and unrealized losses	-	440,000	440,000
	<u>-</u>	<u>14,418,000</u>	<u>14,718,000</u>
Contribution	-	60,000	60,000
Transfers	-	(57,000)	(57,000)
Appropriation of endowment assets for expenditure	-	(701,000)	(701,000)
Investment management fees	-	(72,000)	(72,000)
Endowment net assets, end of year, as restated	<u>\$ 300,000</u>	<u>\$ 13,648,000</u>	<u>\$ 13,948,000</u>

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.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 11 - ENDOWMENT (Continued)

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, 2019 and 2018, the spendable return totaled \$711,000 and \$701,000, 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, 2019 and 2018. The original corpus of the endowment funds is \$7,995,000.

NOTE 12 - LEASES

The Opera leases theater space under a renewable annual operating lease. Total theater lease expense for the main stage performances was approximately \$331,000 and \$327,000 for the years ended June 30, 2019 and 2018, 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 \$45,000 for the years ended June 30, 2019 and 2018, respectively. The approximate aggregate annual payments due subsequent to June 30, 2019 for noncancelable leases for office equipment and storage are as follows:

Year Ending	Amount
June 30	
2020	\$ 43,000
2021	44,000
2022	46,000
2023	46,000
2024	42,000
Thereafter	<u>114,000</u>
	<u>\$ 335,000</u>

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 13 - 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 \$13,000 for the years ended June 30, 2019 and 2018.

NOTE 14 - 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.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 14 - FAIR VALUE MEASUREMENT (Continued)

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. 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, 2019 and 2018, 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, 2019 and 2018 according to the fair value hierarchy is summarized as follows:

	2019			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 990,000	-	-	\$ 990,000
Mutual funds:				
Equity	10,702,000	-	-	10,702,000
Bond	5,847,000	-	-	5,847,000
Investment held by trust	-	-	\$ 744,000	744,000
Total	\$ 17,539,000	-	\$ 744,000	\$ 18,283,000

	2018			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 730,000	-	-	\$ 730,000
Mutual funds:				
Equity	11,267,000	-	-	11,267,000
Bond	5,719,000	-	-	5,719,000
Investment held by trust	-	-	\$ 758,000	758,000
Total	\$ 17,716,000	-	\$ 758,000	\$ 18,474,000

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 14 - 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>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 758,000	\$ 729,000
Interest and dividends	32,000	10,000
Realized and unrealized (loss) gain, net	(15,000)	50,000
Investment fees	(2,000)	(2,000)
Distributions	<u>(29,000)</u>	<u>(29,000)</u>
Balance, end of year	<u>\$ 744,000</u>	<u>\$ 758,000</u>

NOTE 15 - COMMITMENTS AND CONTINGENCIES

At June 30, 2019 and 2018, the Opera had unrecorded commitments in the normal course of business approximating \$772,000 and \$647,000, respectively, relating to performances for future opera seasons. The majority of these commitments at June 30, 2019 extend through the 2020 opera seasons, and are, for the most part, noncancelable.

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