PITTSBURGH OPERA, INC.
Pittsburgh, Pennsylvania

Financial Statements
For the years ended June 30, 2018 and 2017

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, 2018 and 2017 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Opera at June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
September 20, 2018

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PITTSBURGH OPERA, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
CASH AND CASH EQUIVALENTS	$ 20,393	$ 124,557	$ 29,515	$ 174,465
CONTRIBUTIONS RECEIVABLE, NET	784,845	919,034	-	1,703,879
INVESTMENTS	173,428	3,590,986	13,951,992	17,716,406
INVESTMENTS HELD BY TRUST	-	-	758,233	758,233
DEFERRED CHARGES AND OTHER	125,267	-	-	125,267
PROPERTY AND EQUIPMENT, NET	4,217,917	241,040	-	4,458,957
Total Assets	$ 5,321,850	$ 4,875,617	$ 14,739,740	$ 24,937,207
LIABILITIES AND NET ASSETS				
LINE OF CREDIT	$ 1,500,000	-	-	$ 1,500,000
ACCOUNTS PAYABLE	249,794	-	-	249,794
ACCRUED EXPENSES	53,861	-	-	53,861
DEFERRED SUBSCRIPTIONS	727,278	-	-	727,278
Total Liabilities	2,530,933	-	-	2,530,933
NET ASSETS	2,790,917	$ 4,875,617	$ 14,739,740	22,406,274
Total Liabilities And Net Assets	$ 5,321,850	$ 4,875,617	$ 14,739,740	$ 24,937,207

June 30, 2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 327,436	$ 239,999	$ 30,000	$ 597,435
459,588	1,852,747	-	2,312,335
344,549	3,742,546	13,560,535	17,647,630
-	-	729,003	729,003
210,623	-	-	210,623
4,365,336	260,955	-	4,626,291
$ 5,707,532	$ 6,096,247	$ 14,319,538	$ 26,123,317
$ 1,300,000	-	-	$ 1,300,000
174,374	-	-	174,374
37,580	-	-	37,580
725,348	-	-	725,348
2,237,302	-	-	2,237,302
3,470,230	$ 6,096,247	$ 14,319,538	23,886,015
$ 5,707,532	$ 6,096,247	$ 14,319,538	$ 26,123,317

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Season subscriptions	$ 840,157	-	-	$ 840,157
Single ticket sales	348,286	-	-	348,286
Group ticket sales	115,721	-	-	115,721
	1,304,164	-	-	1,304,164
Net assets released from restrictions:				
For operations	1,231,535	$ (1,231,535)	-	-
For building fund	238,605	(238,605)	-	-
For investment income spending	700,516	-	$ (700,516)	-
	2,170,656	(1,470,140)	(700,516)	-
Investment income, net	130,405	26,571	1,061,173	1,218,149
Other	263,420	-	-	263,420
	393,825	26,571	1,061,173	1,481,569
PUBLIC SUPPORT	2,784,307	242,854	59,545	3,086,706
Total Revenue, Other Support And Public Support	6,652,952	(1,200,715)	420,202	5,872,439
OPERATING EXPENSES				
Production	4,227,375	-	-	4,227,375
Outreach and education	892,460	-	-	892,460
General and administrative	1,269,303	-	-	1,269,303
Fundraising	788,330	-	-	788,330
	7,177,468	-	-	7,177,468
Changes In Net Assets Before Capital Expenditure Releases and Depreciation	(524,516)	(1,200,715)	420,202	(1,305,029)
NET ASSETS RELEASED FROM RESTRICTIONS FOR CAPITAL EXPENDITURES	19,915	(19,915)	-	-
DEPRECIATION EXPENSE	(174,712)	-	-	(174,712)
Changes In Net Assets	(679,313)	(1,220,630)	420,202	(1,479,741)
NET ASSETS				
Beginning of year	3,470,230	6,096,247	14,319,538	23,886,015
End of year	$ 2,790,917	$ 4,875,617	$ 14,739,740	$ 22,406,274

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 913,865	-	-	$ 913,865
507,936	-	-	507,936
170,953	-	-	170,953
1,592,754	-	-	1,592,754
635,138	$ (635,138)	-	-
142,177	(142,177)	-	-
703,181	-	$ (703,181)	-
1,480,496	(777,315)	(703,181)	-
63,425	332,658	1,839,649	2,235,732
198,700	-	-	198,700
262,125	332,658	1,839,649	2,434,432
3,919,811	1,517,372	30,000	5,467,183
7,255,186	1,072,715	1,166,468	9,494,369
5,138,080	-	-	5,138,080
869,101	-	-	869,101
1,348,374	-	-	1,348,374
544,138	-	-	544,138
7,899,693	-	-	7,899,693
(644,507)	1,072,715	1,166,468	1,594,676
19,915	(19,915)	-	-
(172,146)	-	-	(172,146)
(796,738)	1,052,800	1,166,468	1,422,530
4,266,968	5,043,447	13,153,070	22,463,485
$ 3,470,230	$ 6,096,247	$ 14,319,538	$ 23,886,015

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (1,479,741)	$ 1,422,530
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	174,712	172,146
Contributions restricted for investment in endowment and capital	(59,545)	(30,000)
Net realized and unrealized gain on investments	(484,042)	(1,830,152)
Charge for uncollectible contribution	8,825	7,803
Changes in operating assets and liabilities:		
Contributions receivable	599,631	(659,512)
Deferred charges and other	85,356	7,282
Accounts payable	75,420	92,045
Accrued expenses	16,281	(29,209)
Deferred subscriptions	1,930	(43,859)
Net Cash Used In Operating Activities	(1,061,173)	(890,926)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(8,595,812)	2,676,097
Proceeds from sale of investments	8,981,393	(2,155,750)
Purchases of property and equipment	(7,378)	(69,089)
Net Cash Provided By Investing Activities	378,203	451,258
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit, net	200,000	800,000
Proceeds from contributions restricted for investment in endowment	60,000	30,000
Net Cash Provided by Financing Activities	260,000	830,000
Net (Decrease) Increase In Cash And Cash Equivalents	(422,970)	390,332
CASH AND CASH EQUIVALENTS		
Beginning of year	597,435	207,103
End of year	$ 174,465	$ 597,435
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 50,000	18,000

See notes to financial statements.

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 2018 and 2017 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 2018 and 2017. A component organization of the Opera is Friends of Pittsburgh Opera, which provides valuable support to the Opera both financially and as a liaison within the community.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

> Unrestricted Net Assets - Net assets not subject to donor-imposed restrictions or stipulations as to purpose or use.
>
> Temporarily Restricted Net Assets - Net assets that are subject to donor-imposed restrictions or stipulations that may or will be met either by actions of the Opera or the passage of time.
>
> Permanently Restricted Net Assets - Net assets that are subject to donor-imposed restrictions of investing the principal contribution in perpetuity and only using the investment income for the Opera's operations and programs.

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

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, 2018 and 2017. 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 2017, 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 64% and 60% of contributions receivable in 2018 and 2017, 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. 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, 2018 and 2017 were approximately $54,000 and $64,000, respectively. Other general advertising costs are expensed in the period incurred. Advertising expenses approximated $330,000 and $454,000 for the years ended June 30, 2018 and 2017, respectively.

Property and equipment are recorded at the lower of cost or fair value. Donated equipment is stated at fair market value at the date of donation. Depreciation and amortization are computed on a straight-line basis over estimated useful lives. Repairs and maintenance costs that do not extend the lives of the applicable assets are charged to expense as incurred. Gain or loss resulting from the retirement or other disposition of assets is included in the statement of activities. The Opera capitalizes all additions greater than or equal to $2,000. For those assets included in building improvements related to the HVAC system upgrade, the net asset related to donations received for the upgrade is released over the life of the assets from temporarily restricted to unrestricted net assets. The net book value of the assets at June 30, 2018 and 2017 approximated $241,000 and $261,000, respectively.

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 2018 or 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Opera 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 $197,000 and $343,000 for 2018 and 2017, respectively. Had the Opera recorded revenues and expenses at their gross amount, revenues and expenses would have been greater by approximately $356,000 and $440,000, for 2018 and 2017, 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 2014 remain open to examination.

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

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through September 20, 2018, which is the date that the financial statements were available to be issued.

Recent 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. 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. The Opera is currently assessing the impact ASU 2014-09 will have on its financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 2016-14 - Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of this ASU require organizations to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period (net assets with restrictions and net assets without restrictions), rather than for the currently required three classes, to present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes and report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses. Additionally, organizations will continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer will be required to present or disclose the indirect method (reconciliation) if using the direct method. The ASU eliminates the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset.

The amendments of this ASU also provide enhanced disclosures over amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period, composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources, qualitative information that communicates how a not-for-profit organization manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, amounts of expenses by both their natural classification and their functional classification (either on the face of the statement of activities, as a separate statement or in the notes to the financial statements), method(s) used to allocate costs among program and support functions and underwater endowment funds. The amendments of this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption of the amendments is permitted. The amendments in this ASU should be applied on a retrospective basis in the year that the ASU is first applied. However, if presenting comparative financial statements, a not-for-profit organization has the option to omit the certain information for any periods presented before the period of adoption. The Opera is currently assessing the impact ASU 2016-14 will have on its financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 3 - INVESTMENTS

Investments include the permanently restricted endowment, temporarily restricted capital funds and a portion of the unrestricted operating fund. The cost and fair values at June 30, 2018 and 2017 are summarized as follows:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	$ 9,875,000	$ 11,267,000	$ 8,363,000	$ 11,900,000
Bond mutual funds	5,783,000	5,719,000	5,447,000	5,465,000
Money market funds	730,000	730,000	283,000	283,000
	$ 16,388,000	$ 17,716,000	$ 14,093,000	$ 17,648,000

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

	2018	2017
Interest and dividends	$ 823,000	$ 490,000
Net realized gains	2,649,000	365,000
Net unrealized gain (loss)	(2,165,000)	1,465,000
Net realized and unrealized gains	1,307,000	1,830,000
Investment fees	(89,000)	(84,000)
	$ 1,218,000	$ 2,236,000

NOTE 3 - INVESTMENTS (Continued)

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

NOTE 4 - INVESTMENTS HELD BY TRUST

The Opera is a partial beneficiary of the trust of Pauline Beamer Pickens. The trustee holds title to the assets, and the Opera records 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 and $38,000 during the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 are summarized as follows:

	2018	2017
Building and building improvements	$ 5,476,000	$ 5,471,000
Equipment	519,000	519,000
	5,995,000	5,990,000
Less - Accumulated depreciation	1,863,000	1,688,000
	4,132,000	4,302,000
Construction-in-progress	3,000	-
Land	324,000	324,000
	$ 4,459,000	$ 4,626,000

NOTE 6 - LINE OF CREDIT

The Opera maintains an unsecured line-of-credit agreement with a bank for which maximum allowed borrowings are $1,500,000, and interest accrues at the bank’s prime lending rate (5.00% at June 30, 2018). At June 30, 2018 and 2017, there was an outstanding balance of $1,500,000 and $1,300,000, respectively. The agreement expires on March 31, 2019.

NOTE 7 - CONTRIBUTIONS RECEIVABLE

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

	2018	2017
Due in less than 1 year	$ 768,000	$ 1,527,000
Due in 1 to 5 years	954,000	851,000
Adjustment to net present value	-	(48,000)
	1,722,000	2,330,000
Allowance for doubtful accounts	(18,000)	(18,000)
	$ 1,704,000	$ 2,312,000

NOTE 8 - NET ASSETS

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

Campaigns include:

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

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

In addition to specific 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.

Unrestricted Fund Summary

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

	2018	2017
Accumulated Operating Deficit	$ (1,736,000)	$ (1,214,000)
Building Fund Assets	4,227,000	4,384,000
Board Designated as Endowment	300,000	300,000
	$ 2,791,000	$ 3,470,000

NOTE 8 - NET ASSETS (Continued)

Temporarily Restricted Fund Summary

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

	2018	2017
Annual Fund (Operations)	$ 1,044,000	$ 2,088,000
21st Century and Renaissance Campaigns	907,000	907,000
Building Fund	2,684,000	2,836,000
Capital Projects	241,000	265,000
	$ 4,876,000	$ 6,096,000

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

Permanently Restricted Fund Summary

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

	2018	2017
21st Century and Renaissance Campaigns	$ 13,745,000	$ 13,423,000
Joseph M. Newcomer Fund	135,000	69,000
John H. Hill Fund	102,000	99,000
Investments held by trust (Note 4)	758,000	729,000
	$ 14,740,000	$ 14,320,000

During the year ended June 30, 2018, the Opera received an additional $30,000 for the Joseph M. Newcomer Fund.

NOTE 9 - ENDOWMENT

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

Interpretation of Relevant Law - The Board of Directors of the Opera has elected to be governed by the Commonwealth of Pennsylvania’s Act 141 (Act 141). Act 141 is a total return policy that allows a nonprofit organization to choose to treat a percentage of the average market value of its endowment’s permanently restricted investments as 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.

NOTE 9 - 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	Permanently Restricted	Total
2018	$ 300,000	$ 14,740,000	$ 15,040,000
2017	$ 300,000	$ 14,320,000	$ 14,620,000

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 Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 300,000	$ 14,320,000	$ 14,620,000
Investment return:			
Investment income	-	693,000	693,000
Net realized and unrealized gains	-	440,000	440,000
	-	15,453,000	15,453,000
Contribution	-	60,000	60,000
Appropriation of endowment assets for expenditure	-	(701,000)	(701,000)
Investment management fees	-	(72,000)	(72,000)
Endowment net assets, end of year	$ 300,000	$ 14,740,000	$ 15,040,000

NOTE 9 - 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, 2017:

	Board-Designated Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 300,000	$ 13,153,000	$ 13,453,000
Investment return:			
Investment income	-	401,000	401,000
Net realized and unrealized losses	-	1,506,000	1,506,000
	-	1,907,000	1,907,000
Contribution	-	30,000	30,000
Appropriation of endowment assets for expenditure	-	(703,000)	(703,000)
Investment management fees	-	(67,000)	(67,000)
Endowment net assets, end of year	$ 300,000	$ 14,320,000	$ 14,620,000

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, 2018 and 2017, the spendable return totaled $701,000 and $703,000, respectively. The Opera believes that this spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with the Opera's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

NOTE 10 - LEASES

The Opera leases theater space under a renewable annual operating lease. Total theater lease expense for the main stage performances was approximately $327,000 for the years ended June 20, 2018 and 2017, respectively.

NOTE 10 - LEASES (Continued)

The Opera has also entered into noncancelable leases for office equipment and off-site storage. Total office equipment and storage expense was approximately $45,000 and $40,000 for the years ended June 30, 2018 and 2017, respectively. The approximate aggregate annual payments due subsequent to June 30, 2018 for noncancelable leases for office equipment and storage are as follows:

Year Ending June 30	Amount
2019	$ 42,000
2020	43,000
2021	44,000
2022	45,000
2023	46,000
Thereafter	155,000
	$ 375,000

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Opera has a defined contribution plan that covers substantially all employees. The Opera's policy is that it may contribute up to 5% of gross salaries to the plan for employees who have more than two years of employment. Employees may elect to contribute additional funds subject to the maximum amount allowed by law. Employer contributions related to the discretionary plan contributions approximated $13,000 and $8,000 for the years ended June 30, 2018 and 2017, respectively.

NOTE 12 - FAIR VALUE MEASUREMENT

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

The fair value hierarchy is defined as follows:

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

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

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

NOTE 12 - FAIR VALUE MEASUREMENT (Continued)

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.

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, 2018 and 2017, 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, 2018 and 2017 according to the fair value hierarchy is summarized as follows:

	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

NOTE 12 - FAIR VALUE MEASUREMENT (Continued)

	2017			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 283,000	-	-	$ 283,000
Mutual funds:				
Equity	11,900,000	-	-	11,900,000
Bond	5,465,000	-	-	5,465,000
Investment held by trust	-	-	$ 729,000	729,000
Total	$ 17,648,000	-	$ 729,000	$ 18,377,000

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:

	2018	2017
Balance, beginning of year	$ 729,000	$ 694,000
Interest and dividends	10,000	12,000
Realized and unrealized gain (loss), net	50,000	64,000
Investment fees	(2,000)	(3,000)
Distributions	(29,000)	(38,000)
Balance, end of year	$ 758,000	$ 729,000

NOTE 13 - COMMITMENTS AND CONTINGENCIES

At June 30, 2018 and 2017, the Opera had unrecorded commitments in the normal course of business approximating $647,000 and $794,000, respectively, relating to performances for future opera seasons. The majority of these commitments at June 30, 2018 extend through the 2019 opera seasons, and are, for the most part, noncancelable.

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