

PITTSBURGH OPERA, INC.
Pittsburgh, Pennsylvania

Financial Statements
For the years ended June 30, 2020 and 2019
and Independent Auditors' Report Thereon



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CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position, June 30, 2020 and 2019	2
Statements for the years ended June 30, 2020 and 2019:	
Activities and Changes in Net Assets	4
Functional Expenses	6
Cash Flows	10
Notes to Financial Statements	11

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, 2020 and 2019 and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2020 and 2019, and the changes in its net assets, functional expenses 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
October 9, 2020

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PITTSBURGH OPERA, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30, 2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
ASSETS			
CASH AND CASH EQUIVALENTS	\$ 118,781	\$ 177,277	\$ 296,058
CONTRIBUTIONS RECEIVABLE, NET	576,248	3,246,200	3,822,448
INVESTMENTS	654,733	15,576,703	16,231,436
INVESTMENTS HELD BY TRUST	-	708,069	708,069
DEFERRED CHARGES AND OTHER	67,222	-	67,222
PROPERTY AND EQUIPMENT, NET	<u>4,242,269</u>	<u>-</u>	<u>4,242,269</u>
Total Assets	<u>\$ 5,659,253</u>	<u>\$ 19,708,249</u>	<u>\$ 25,367,502</u>
LIABILITIES AND NET ASSETS			
LINE OF CREDIT	\$ 1,000,000	-	\$ 1,000,000
ACCOUNTS PAYABLE	76,936	-	76,936
ACCRUED EXPENSES	91,121	-	91,121
DEFERRED SUBSCRIPTIONS	<u>452,437</u>	<u>-</u>	<u>452,437</u>
Total Liabilities	1,620,494	-	1,620,494
NET ASSETS	<u>4,038,759</u>	<u>\$ 19,708,249</u>	<u>23,747,008</u>
Total Liabilities And Net Assets	<u>\$ 5,659,253</u>	<u>\$ 19,708,249</u>	<u>\$ 25,367,502</u>

June 30, 2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 44,056	\$ 146,361	\$ 190,417
354,816	1,242,000	1,596,816
1,204,687	16,333,809	17,538,496
-	744,323	744,323
177,217	-	177,217
<u>4,316,666</u>	<u>-</u>	<u>4,316,666</u>
<u>\$ 6,097,442</u>	<u>\$ 18,466,493</u>	<u>\$ 24,563,935</u>
\$ 1,500,000	-	\$ 1,500,000
287,917	-	287,917
55,790	-	55,790
<u>671,571</u>	<u>-</u>	<u>671,571</u>
2,515,278	-	2,515,278
<u>3,582,164</u>	<u>\$ 18,466,493</u>	<u>22,048,657</u>
<u>\$ 6,097,442</u>	<u>\$ 18,466,493</u>	<u>\$ 24,563,935</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
REVENUE AND OTHER SUPPORT			
Season subscriptions	\$ 371,855	-	\$ 371,855
Single ticket sales	204,147	-	204,147
Group ticket sales	65,825	-	65,825
	641,827	-	641,827
Net assets released from restrictions:			
For operations	843,361	\$ (843,361)	-
For building fund	124,728	(124,728)	-
For investment income spending	733,538	(733,538)	-
	1,701,627	(1,701,627)	-
Investment income, net	(11,379)	47,060	35,681
Other	125,586	-	125,586
	114,207	47,060	161,267
PUBLIC SUPPORT	4,293,192	2,896,323	7,189,515
Total Revenue, Other Support And Public Support	6,750,853	1,241,756	7,992,609
OPERATING EXPENSES			
Production	3,051,198	-	3,051,198
Outreach and education	835,739	-	835,739
General and administrative	1,589,890	-	1,589,890
Fundraising	656,421	-	656,421
	6,133,248	-	6,133,248
Changes In Net Assets Before Depreciation	617,605	1,241,756	1,859,361
DEPRECIATION EXPENSE	(161,010)	-	(161,010)
Changes In Net Assets	456,595	1,241,756	1,698,351
NET ASSETS			
Beginning of year	3,582,164	18,466,493	22,048,657
End of year	\$ 4,038,759	\$19,708,249	\$ 23,747,008

2019

Without Donor Restrictions	With Donor Restrictions	Total
\$ 817,064	-	\$ 817,064
511,688	-	511,688
147,149	-	147,149
1,475,901	-	1,475,901
440,826	\$ (440,826)	-
186,146	(186,146)	-
711,145	(711,145)	-
1,338,117	(1,338,117)	-
(8,956)	670,274	661,318
149,685	-	149,685
140,729	670,274	811,003
3,740,001	794,571	4,534,572
6,694,748	126,728	6,821,476
3,847,738	-	3,847,738
866,141	-	866,141
1,618,074	-	1,618,074
681,145	-	681,145
7,013,098	-	7,013,098
(318,350)	126,728	(191,622)
(165,995)	-	(165,995)
(484,345)	126,728	(357,617)
4,066,509	18,339,765	22,406,274
\$ 3,582,164	\$18,466,493	\$ 22,048,657

See notes to financial statements.

PITTSBURGH OPERA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services			Total
	Production	Education	Resident Artist	
Salaries and wages	\$ 1,677,651	\$ 106,775	\$ 430,416	\$ 2,214,842
Pension	72,266	750	11,581	84,597
Other employee benefits	73,367	6,511	13,515	93,393
Payroll taxes	97,838	6,250	17,938	122,026
Accounting	-	-	-	-
Subcontractor expenses	288,438	13,025	34,979	336,442
Advertising and promotion	245,967	-	66,093	312,060
Office	-	4,765	15,372	20,137
Information technology	-	-	-	-
Royalties	64,774	-	3,780	68,554
Occupancy	167,872	-	12,221	180,093
Travel	8,754	111	6,233	15,098
Interest	-	-	-	-
Depreciation	-	-	-	-
Insurance	-	-	-	-
Production sets and costumes	313,061	17,296	56,792	387,149
Cast housing	40,012	-	8,178	48,190
Fundraising	-	-	-	-
Other	1,198	3,158	-	4,356
	<u>\$ 3,051,198</u>	<u>\$ 158,641</u>	<u>\$ 677,098</u>	<u>\$ 3,886,937</u>

Management and General	Fundraising	<u>Total 2020</u>
\$ 811,501	\$ 425,974	\$ 3,452,317
12,326	260	97,183
111,042	30,319	234,754
100,459	34,709	257,194
27,148	-	27,148
80,299	70,533	487,274
32,134	2,280	346,474
65,008	20,445	105,590
43,173	4,595	47,768
-	-	68,554
160,900	-	340,993
18,858	494	34,450
58,472	-	58,472
161,010	-	161,010
61,306	-	61,306
5,643	-	392,792
-	-	48,190
1,621	34,661	36,282
-	32,151	36,507
<u>\$ 1,750,900</u>	<u>\$ 656,421</u>	<u>\$ 6,294,258</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services			Total
	Production	Education	Resident Artist	
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	-	-	-	-
Subcontractor 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	<u>Total</u> <u>2019</u>
\$ 789,890	\$ 378,422	\$ 3,848,896
11,820	420	139,442
115,733	24,295	191,831
99,998	36,287	280,675
6,145	-	6,145
24,475	-	24,475
20,852	149,578	612,076
2,054	3,148	410,467
120,177	28,234	172,482
15,225	5,494	20,719
-	-	6,324
179,962	-	512,462
24,761	2,643	43,635
-	-	200
82,850	-	82,850
165,995	-	165,995
78,652	-	78,652
21,263	-	430,958
-	-	50,516
1,292	42,032	43,324
22,925	10,592	56,969
<u>\$ 1,784,069</u>	<u>\$ 681,145</u>	<u>\$ 7,179,093</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,698,351	\$ (357,617)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	161,010	165,995
Contributions restricted for investment in endowment and capital	(31,588)	(28,412)
Net realized and unrealized loss (gain) on investments	402,023	(43,286)
Charge for uncollectible contribution	32,075	-
Changes in operating assets and liabilities:		
Contributions receivable	(2,257,707)	107,063
Deferred charges and other	109,995	(51,950)
Accounts payable	(210,981)	38,123
Accrued expenses	35,331	1,929
Deferred subscriptions	(219,134)	(55,707)
Net Cash Used In Operating Activities	<u>(280,625)</u>	<u>(223,862)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,493,402)	(2,670,033)
Proceeds from sale of investments	4,434,693	2,905,139
Purchases of property and equipment	(86,613)	(23,704)
Net Cash Provided By Investing Activities	<u>854,678</u>	<u>211,402</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit, net	(500,000)	-
Proceeds from contributions restricted for investment in endowment	31,588	28,412
Net Cash (Used In) Provided by Financing Activities	<u>(468,412)</u>	<u>28,412</u>
Net Increase In Cash And Cash Equivalents	105,641	15,952
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>190,417</u>	<u>174,465</u>
End of year	<u>\$ 296,058</u>	<u>\$ 190,417</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 58,000</u>	<u>\$ 83,000</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 two operas with a total of eight performances during its 2020 season and four operas with a total of 16 performances during its 2019 season. In addition, the Opera produced one student matinee during its 2019 season. There were no student matinees produced during its 2020 season. The Opera also administers the Resident Artist Program of the Pittsburgh Opera (Program), which is an artist-training program that prepares young artists for operatic careers. The Program is a major source of outreach and education for the Opera. The Program produced two operas with a total of eight performances in each of the years 2020 and 2019. A component organization of the Opera is Friends of Pittsburgh Opera, which provides valuable support to the Opera both financially and as a liaison within the community.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

The Opera reports gifts of cash and other assets as restricted support if they are received with donor-imposed restrictions that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the 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, 2020 AND 2019

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, 2020 and 2019. Receipts of conditional promises to give, which depend on the occurrence of a specified future and uncertain event, will be recognized when the conditions on which they depend are substantially met.

The Opera maintains 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. There were no amounts deferred at June 30, 2020. Amounts deferred at June 30, 2019 were approximately \$26,000. Other general advertising costs are expensed in the period incurred. Advertising expenses approximated \$272,000 and \$329,000 for the years ended June 30, 2020 and 2019, 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 2020 or 2019.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 \$223,000 and \$248,000 for 2020 and 2019, respectively. Had the Opera recorded revenues and expenses at their gross amount, revenues and expenses would have been greater by approximately \$190,000 and \$426,000, for 2020 and 2019, 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 2016 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 9, 2020, the date that the financial statements were available to be issued and determined that there have been no events that have occurred that would require adjustments to the disclosures in the financial statements.

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. 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, 2019. 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.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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, 2020, with early adoption permitted. The Opera is currently assessing the impact ASU 2016-02 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 adopted the provisions of ASU 2018-08 on its financial statements in the current year with no significant impact.

In August 2018, the FASB issued ASU No. 2018-13 Fair Value Measurement (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which clarifies that entities should disclose information about the uncertainty of fair value measurements as of the reporting date. ASU 2018-13 removes the requirement to disclose the amount and reasons for transfers between Level 1 and 2 of the fair value hierarchy table, the policy for timing of transfers between levels, the valuation processes for Level 3 fair value measurements, and the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. ASU 2018-13 requires transfers out of and into Level 3 and purchases and issues of Level 3 assets and liabilities to be disclosed. Also required to be disclosed is liquidation timing of an investee's assets and the date when restrictions from redemption might lapse. ASU 2018-13 is effective for nonpublic entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. A reporting entity should apply amendments retrospectively to all periods presented. Early application is permitted. The Opera is currently assessing the impact ASU 2018-13 will have on its financial statements.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 3 - LIQUIDITY AND AVAILABILITY

The Opera has approximately \$3,285,000 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures. Certain investments with donor restriction are subject to the Opera’s spending, which, as described in Note 9, 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 Opera has access to a \$907,000 cash reserve fund that has been established to provide short-term liquidity, which is available at June 30, 2020, the assets of which are included as a component of investments with donor restrictions.

The table below presents financial assets available for general expenditures within one year of financial position date as of June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 296,000	\$ 160,000
Contributions receivable, net	1,470,000	1,092,000
Investments not subject to donor restriction	655,000	1,205,000
Distributions from investments held by trust	29,000	29,000
Endowment – spending rate appropriation	714,000	683,000
Building fund – spending rate appropriation	121,000	130,000
	\$ 3,285,000	\$ 3,299,000

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which continues to spread throughout the United States and world. The Opera is closely monitoring the impact of the COVID-19 pandemic on all aspects of its operations, including the impact on performers, faculty and staff. At the onset of the COVID-19 outbreak, the Opera began focusing on mitigating the adverse impacts of the outbreak by cancelling live performances scheduled to begin on March 28, 2020 and for the remainder of the 2019-2020 season. The Opera will resume live performances on October 17, 2020. Governmental and regulatory responses to the pandemic may include quarantines, shutdowns or other governmental or regulatory actions, including closures or other restrictions that limit or close performing arts venues. These actions could restrict faculty and staff’s ability to perform necessary business functions and a patron’s ability to travel or attend performances in-person, all of which could adversely impact operating results.

The Opera has made efforts to identify, manage and mitigate the economic disruption of the COVID-19 pandemic; however, there are factors beyond the Opera’s knowledge or control, including the duration and severity of this outbreak, as well as further governmental and regulatory actions. Financial efforts to mitigate the disruptions of the pandemic included securing a Paycheck Protection Program Loan (PPP Loan). On April 14, 2020, the Opera entered into an unsecured promissory note with an unrelated bank for a loan in the principal amount of \$666,000. The PPP Loan is administered by the United States Small Business Administration (SBA) as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Pursuant to the terms of the note, the loan bears interest at a rate of 1% per annum and matures on April 14, 2022. Principal and interest payments on the loan are deferred until December 7, 2020, at which time equal installments of principal and interest will be due and payable monthly through the maturity date. Pursuant to the terms of the PPP, the full amount of the loan, or portion thereof, may be forgiven if loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, costs used to continue group health care benefits, mortgage interest payments, rent and utilities.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 3 - LIQUIDITY AND AVAILABILITY (Continued)

The Opera has incurred qualifying costs in excess of the principal amount of the PPP Loan in the year ended June 30, 2020. Pursuant to the terms of the PPP Loan, the principal sum of the agreement shall be forgiven, and accordingly, the PPP Loan has been accounted for as a conditional grant. Conditional grants are recognized as revenue upon the Opera meeting all contractual stipulations. Management is in the process of submitting its application for forgiveness and believes that all of the conditions required for forgiveness have been met and adhered to during the year ended June 30, 2020. While the PPP Loan conditions were met, since the SBA has not formally approved, the forgiveness amount can change. During the year ended June 30 2020, the entire amount of the PPP Loan of \$666,000 was recognized as contributed revenue.

NOTE 4 - INVESTMENTS

Investments include the restricted endowment, restricted capital funds and a portion of the operating fund. The cost and fair values at June 30, 2020 and 2019 are summarized as follows:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	\$ 9,586,000	\$ 10,533,000	\$ 9,649,000	\$ 10,701,000
Bond mutual funds	5,163,000	5,430,000	5,700,000	5,847,000
Money market funds	180,000	268,000	990,000	990,000
	\$ 14,929,000	\$ 16,231,000	\$ 16,339,000	\$ 17,538,000

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

	2020	2019
Interest and dividends	\$ 562,000	\$ 708,000
Net realized (loss) gain	(627,000)	174,000
Net unrealized gain (loss)	187,000	(131,000)
Net realized and unrealized (loss) gain	(440,000)	43,000
Investment fees	(86,000)	(90,000)
	\$ 36,000	\$ 661,000

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.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 5 - INVESTMENTS HELD BY TRUST

The Opera is a partial beneficiary of the trust of Pauline Beamer Pickens. The trustee holds title to the assets, and the Opera records its share of the assets at fair value. Distributions are made at the discretion of the trustee in accordance with the trust and are unrestricted. Distributions approximated \$48,000 and \$29,000 during the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Building and building improvements	\$ 5,502,000	\$ 5,502,000
Equipment	<u>519,000</u>	<u>519,000</u>
	6,021,000	6,021,000
Less - Accumulated depreciation	<u>2,190,000</u>	<u>2,028,000</u>
	3,831,000	3,993,000
Construction-in-progress	87,000	-
Land	<u>324,000</u>	<u>324,000</u>
	<u>\$ 4,242,000</u>	<u>\$ 4,317,000</u>

NOTE 7 - 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 (3.25% at June 30, 2020). At June 30, 2020 and 2019, there was an outstanding balance of \$1,000,000 and \$1,500,000, respectively. The agreement expires on December 31, 2020.

NOTE 8 - CONTRIBUTIONS RECEIVABLE

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

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ 1,470,000	\$ 1,110,000
Due in one to five years	<u>2,370,000</u>	<u>505,000</u>
	3,840,000	1,615,000
Allowance for doubtful accounts	<u>(18,000)</u>	<u>(18,000)</u>
	<u>\$ 3,822,000</u>	<u>\$ 1,597,000</u>

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 9 - 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 (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:

	2020	2019
Accumulated Operating Deficit	\$ (94,000)	\$ (787,000)
Building Fund Assets	3,911,000	4,069,000
Board Designated as Endowment	300,000	300,000
	\$ 4,117,000	\$ 3,582,000

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 9 - NET ASSETS (Continued)

Net Assets With Donor Restrictions Summary

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

	2020	2019
Subject to expenditure for specified purpose:		
Annual Fund (Operations)	\$ 3,423,000	\$ 1,358,000
21st Century and Renaissance Campaigns	907,000	907,000
Building Fund	2,419,000	2,557,000
Olga Barry Fund	85,000	75,000
Endowments:		
21st Century and Renaissance Campaigns	11,875,000	12,556,000
Bernadette G. Callery Endowed Fund (formerly Joseph M. Newcomer Fund)	202,000	171,000
John H. Hill Fund	89,000	98,000
Investments held by trust (Note 5)	708,000	744,000
	\$ 19,708,000	\$ 18,466,000

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

NOTE 10 - ENDOWMENT

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

Interpretation of Relevant Law - The Board of Directors of the Opera has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141). 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.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 10 - ENDOWMENT (Continued)

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

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

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

		Board- Designated Unrestricted		Restricted		Total
	\$	<u> </u>	\$	<u> </u>	\$	<u> </u>
2020	\$	<u>300,000</u>	\$	<u>12,874,000</u>	\$	<u>13,174,000</u>
2019	\$	<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, 2020:

		Board- Designated		Restricted		Total
	\$	<u> </u>	\$	<u> </u>	\$	<u> </u>
Endowment net assets, beginning of year	\$	300,000	\$	13,569,000	\$	13,869,000
Investment return:						
Investment income		-		405,000		405,000
Net realized and unrealized losses		-		(312,000)		(312,000)
		<u>-</u>		<u>13,662,000</u>		<u>13,962,000</u>
Contribution		-		30,000		30,000
Appropriation of endowment assets for expenditure		-		(734,000)		(734,000)
Investment management fees		-		(84,000)		(84,000)
Endowment net assets, end of year	\$	<u>300,000</u>	\$	<u>12,874,000</u>	\$	<u>13,174,000</u>

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 10 - ENDOWMENT (Continued)

The following represents the change in board-designated and donor-restricted endowment funds by net asset type for the year ended June 30, 2019:

	Board- Designated	Restricted	Total
Endowment net assets, beginning of year	\$ 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>

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, 2020 and 2019, the spendable return totaled \$734,000 and \$711,000, 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, 2020 and 2019. The original corpus of the endowment funds is \$8,025,000.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 - LEASES

The Opera leases theater space under a renewable annual operating lease. Total theater lease expense for the main stage performances was approximately \$168,000 and \$331,000 for the years ended June 30, 2020 and 2019, respectively.

The Opera has also entered into noncancelable leases for office equipment and off-site storage. Total office equipment and storage expense was approximately \$43,000 and \$42,000 for the years ended June 30, 2020 and 2019, respectively. The approximate aggregate annual payments due subsequent to June 30, 2020 for noncancelable leases for office equipment and storage are as follows:

Year Ending	Amount
<u>June 30</u>	<u>Amount</u>
2021	\$ 44,000
2022	46,000
2023	46,000
2024	42,000
2025	43,000
Thereafter	<u>104,000</u>
	<u>\$ 325,000</u>

NOTE 12 - EMPLOYEE BENEFIT PLAN

The Opera has a defined contribution plan that covers substantially all employees. The Opera's policy is that it may contribute up to 5% of gross salaries to the plan for employees who have more than two years of employment. Employees may elect to contribute additional funds subject to the maximum amount allowed by law. Employer contributions related to the discretionary plan contributions approximated \$14,000 and \$13,000 for the years ended June 30, 2020 and 2019, respectively.

NOTE 13 - FAIR VALUE MEASUREMENT

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

The fair value hierarchy is defined as follows:

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

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

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 13 - FAIR VALUE MEASUREMENT (Continued)

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

The Opera's financial instruments consist primarily of cash and cash equivalents, deferred charges, pledges receivable, investments, investment held by trust, accounts payable, accrued expenses, deferred subscriptions 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, 2020 and 2019, there were not significant transfers in or out of Levels 1, 2 or 3.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 13 - FAIR VALUE MEASUREMENT (Continued)

The valuation of the Opera's investments and investment held in trust at June 30, 2020 and 2019 according to the fair value hierarchy is summarized as follows:

	2020			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 268,000	-	-	\$ 268,000
Mutual funds:				
Equity	10,533,000	-	-	10,533,000
Bond	5,430,000	-	-	5,430,000
Investment held by trust	-	-	\$ 708,000	708,000
Total	\$ 16,231,000	-	\$ 708,000	\$ 16,939,000

	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

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:

	2020	2019
Balance, beginning of year	\$ 744,000	\$ 758,000
Interest and dividends	14,000	32,000
Realized and unrealized gain (loss), net	4,000	(15,000)
Investment fees	(6,000)	(2,000)
Distributions	(48,000)	(29,000)
Balance, end of year	\$ 708,000	\$ 744,000