

PITTSBURGH OPERA, INC.
Pittsburgh, Pennsylvania

Financial Statements
For the years ended June 30, 2021 and 2020
and Independent Auditor's Report Thereon



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INDEPENDENT AUDITOR’S 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, 2021 and 2020 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.

Auditor’s 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, 2021 and 2020, and the changes in its net assets, functional expenses and 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 1, 2021

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PITTSBURGH OPERA, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30, 2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
ASSETS			
CASH AND CASH EQUIVALENTS	\$ 354,810	\$ 1,128,429	\$ 1,483,239
CONTRIBUTIONS RECEIVABLE, NET	770,721	2,616,021	3,386,742
INVESTMENTS	1,176,736	19,503,992	20,680,728
INVESTMENTS HELD BY TRUST	-	868,279	868,279
DEFERRED CHARGES AND OTHER	140,348	-	140,348
PROPERTY AND EQUIPMENT, NET	4,101,711	-	4,101,711
Total Assets	<u>\$ 6,544,326</u>	<u>\$ 24,116,721</u>	<u>\$ 30,661,047</u>
LIABILITIES AND NET ASSETS			
LINE OF CREDIT	-	-	-
ACCOUNTS PAYABLE	\$ 55,373	-	\$ 55,373
ACCRUED EXPENSES	156,534	-	156,534
DEFERRED SUBSCRIPTIONS	350,799	-	350,799
NOTE PAYABLE	645,872	-	645,872
Total Liabilities	1,208,578	-	1,208,578
NET ASSETS	<u>5,335,748</u>	<u>\$ 24,116,721</u>	<u>29,452,469</u>
Total Liabilities And Net Assets	<u>\$ 6,544,326</u>	<u>\$ 24,116,721</u>	<u>\$ 30,661,047</u>

June 30, 2020		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 118,781	\$ 177,277	\$ 296,058
576,248	3,246,200	3,822,448
654,733	15,576,703	16,231,436
-	708,069	708,069
67,222	-	67,222
4,242,269	-	4,242,269
<u>\$ 5,659,253</u>	<u>\$ 19,708,249</u>	<u>\$ 25,367,502</u>
\$ 1,000,000	-	\$ 1,000,000
76,936	-	76,936
91,121	-	91,121
452,437	-	452,437
-	-	-
1,620,494	-	1,620,494
4,038,759	\$ 19,708,249	23,747,008
<u>\$ 5,659,253</u>	<u>\$ 19,708,249</u>	<u>\$ 25,367,502</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
REVENUE AND OTHER SUPPORT			
Season subscriptions	\$ 907	-	\$ 907
Single ticket sales	33,778	-	33,778
Group ticket sales	393	-	393
	<u>35,078</u>	<u>-</u>	<u>35,078</u>
Net assets released from restrictions:			
For operations	990,374	\$ (990,374)	-
For building fund	-	-	-
For investment income spending	313,416	(313,416)	-
	<u>1,303,790</u>	<u>(1,303,790)</u>	<u>-</u>
Investment income, net	250,805	4,355,327	4,606,132
Other	-	-	-
	<u>250,805</u>	<u>4,355,327</u>	<u>4,606,132</u>
PUBLIC SUPPORT	<u>3,969,724</u>	<u>1,356,935</u>	<u>5,326,659</u>
Total Revenue, Other Support And Public Support			
	5,559,397	4,408,472	9,967,869
OPERATING EXPENSES			
Production	6,733	-	6,733
Outreach and education	1,727,528	-	1,727,528
General and administrative	1,816,430	-	1,816,430
Fundraising	551,665	-	551,665
	<u>4,102,356</u>	<u>-</u>	<u>4,102,356</u>
Changes In Net Assets Before Depreciation			
	1,457,041	4,408,472	5,865,513
DEPRECIATION EXPENSE	<u>(160,052)</u>	<u>-</u>	<u>(160,052)</u>
Changes In Net Assets			
	1,296,989	4,408,472	5,705,461
NET ASSETS			
Beginning of year	<u>4,038,759</u>	<u>19,708,249</u>	<u>23,747,008</u>
End of year	<u>\$ 5,335,748</u>	<u>\$ 24,116,721</u>	<u>\$ 29,452,469</u>

2020		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 371,855	-	\$ 371,855
204,147	-	204,147
65,825	-	65,825
<u>641,827</u>	<u>-</u>	<u>641,827</u>
843,361	\$ (843,361)	-
124,728	(124,728)	-
733,538	(733,538)	-
<u>1,701,627</u>	<u>(1,701,627)</u>	<u>-</u>
(11,379)	47,060	35,681
125,586	-	125,586
<u>114,207</u>	<u>47,060</u>	<u>161,267</u>
<u>4,293,192</u>	<u>2,896,323</u>	<u>7,189,515</u>
6,750,853	1,241,756	7,992,609
3,051,198	-	3,051,198
835,739	-	835,739
1,589,890	-	1,589,890
656,421	-	656,421
<u>6,133,248</u>	<u>-</u>	<u>6,133,248</u>
617,605	1,241,756	1,859,361
<u>(161,010)</u>	<u>-</u>	<u>(161,010)</u>
456,595	1,241,756	1,698,351
<u>3,582,164</u>	<u>18,466,493</u>	<u>22,048,657</u>
<u>\$ 4,038,759</u>	<u>\$ 19,708,249</u>	<u>\$ 23,747,008</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

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

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

See notes to financial statements.

PITTSBURGH OPERA, INC.

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	Total 2020
\$ 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
\$ 1,750,900	\$ 656,421	\$ 6,294,258

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 5,705,461	\$ 1,698,351
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	160,052	161,010
Contributions restricted for investment in endowment and capital	(40,000)	(31,588)
Net realized and unrealized (gain) loss on investments	(4,265,000)	402,023
Charge for uncollectible contribution	7,083	32,075
Changes in operating assets and liabilities:		
Contributions receivable	428,623	(2,257,707)
Deferred charges and other	(73,126)	109,995
Accounts payable	(21,563)	(210,981)
Accrued expenses	65,413	35,331
Deferred subscriptions	(101,638)	(219,134)
Net Cash Provided By (Used In) Operating Activities	1,865,305	(280,625)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,761,882)	(3,493,402)
Proceeds from sale of investments	2,417,380	4,434,693
Purchases of property and equipment	(19,494)	(86,613)
Net Cash (Used In) Provided By Investing Activities	(363,996)	854,678
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit, net	(1,000,000)	(500,000)
Proceeds from note payable	645,872	-
Proceeds from contributions restricted for investment in endowment	40,000	31,588
Net Cash Used In Financing Activities	(314,128)	(468,412)
Net Increase In Cash And Cash Equivalents	1,187,181	105,641
CASH AND CASH EQUIVALENTS		
Beginning of year	296,058	190,417
End of year	\$ 1,483,239	\$ 296,058
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 15,000	\$ 58,000

See notes to financial statements.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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 24 performances during its 2021 season as part of its Resident Artist Program of the Pittsburgh Opera (Program), an artist-training program that prepares young artists for operatic careers. The Program is a major source of outreach and education for the Opera. During the 2020 season, the Opera produced two mainstage productions with eight performances and two resident artist program productions with eight performances. 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, 2021 AND 2020

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, 2021 and 2020. Receipts of conditional promises to give, which depend on the occurrence of a specified future and uncertain event, are recognized when the conditions on which they depend are substantially met.

The Opera maintains cash that at times might exceed the federally insured amount. The Opera has not experienced any losses on such accounts. For purposes of the statements of cash flows, the Opera considers all interest-bearing certificates of deposit and noninterest-bearing accounts to be cash equivalents.

Investments are carried at fair value, which is the price that would be received to sell an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. Accordingly, the change in net unrealized appreciation or depreciation for the year is included in the statements of activities. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in net assets without donor restrictions unless the income is restricted by donor or law. Investment income is reported net of internal and external expenses. The cost of investment securities sold is determined using the specific identification method.

The Opera defers advertising costs related to specific productions and expenses until the period in which the related productions take place. There were no amounts deferred at June 30, 2021 or 2020. Other general advertising costs are expensed in the period incurred. Advertising expenses approximated \$11,000 and \$272,000 for the years ended June 30, 2021 and 2020, respectively.

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

Property and equipment are recorded at the lower of cost or fair value. Donated equipment is stated at fair market value at the date of donation. Depreciation and amortization are computed on a straight-line basis over estimated useful lives. Repairs and maintenance costs that do not extend the lives of the applicable assets are charged to expense as incurred. Gain or loss resulting from the retirement or other disposition of assets is included in the 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 on historical results and expectations. In cases where the expected future cash flows and fair value are less than the carrying amount of the assets, the assets are considered to be impaired and are written down to fair value, based on appraisals or other methods to estimate value. There were no impairment losses recorded in 2021 or 2020.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effective July 1, 2020, the Opera adopted Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Opera adopted Topic 606 using the modified retrospective method and determined there was no cumulative effect to net assets as of July 1, 2020 required as a result of adopting the standard. The Opera's revenues are derived from the sale of tickets to attend performances, either through subscription (group) or single ticket sales. Revenue is recognized when the Opera satisfies its performance obligation under the contract by transferring the promised service (performance) to the customer. Ticket sales are recognized at the point in time in which the related performance occurs. Revenue is measured as the amount of consideration the Opera expects to receive in exchange for transferring the services to the customer. Payment terms are either payment in advance or immediate payment.

Based on the nature of the Opera's contracts, there were no contract assets recorded at June 30, 2021 or 2020. Contract liabilities consist of payments received before ticket sales are earned. Contract liabilities were approximately \$351,000 and \$452,000 and are included in deferred subscriptions in the statements of financial position at June 30, 2021 and 2020, respectively.

The Opera organizes benefit and fundraising events during the year that are recorded net of revenues received. Included in public support on the statements of activities and changes in net assets are net benefits and fundraising public support of approximately \$39,000 and \$223,000 for 2021 and 2020, respectively. Had the Opera recorded revenues and expenses at their gross amount, revenues and expenses would have been greater by approximately \$21,000 and \$190,000, for 2021 and 2020, 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 2017 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 1, 2021, the date that the financial statements were available to be issued and determined that there have been no events that have occurred that would require adjustments to the disclosures in the financial statements.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements - 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 adopted the provisions of ASU 2018-13 with no significant impact to its financial statements.

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

NOTE 3 - LIQUIDITY AND AVAILABILITY

The Opera has approximately \$4,127,000 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 10, both the endowment and the building fund have a spending rate of 5%. Appropriations from these funds will be available within the next 12 months. Certain contributions receivable are subject to implied time and other donor restrictions, are not expected to be collected within one year, or are restricted for specific purposes and are removed from the table below. The Opera has access to a \$907,000 cash reserve fund that has been established to provide short-term liquidity, which is available at June 30, 2021 and 2020, the assets of which are included as a component of investments with donor restrictions.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 3 - LIQUIDITY AND AVAILABILITY (Continued)

The table below presents financial assets available for general expenditures within one year of financial position date as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 981,000	\$ 296,000
Contributions receivable, net	1,026,000	1,470,000
Investments not subject to donor restriction	1,138,000	655,000
Distributions from investments held by trust	36,000	29,000
Endowment - spending rate appropriation	795,000	714,000
Building fund - spending rate appropriation	<u>151,000</u>	<u>121,000</u>
	<u>\$ 4,127,000</u>	<u>\$ 3,285,000</u>

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which continues to spread throughout the United States and the world. The Opera is closely monitoring the impact of the pandemic on all aspects of its operations, including the impact on performers, faculty and staff. The Opera focused on mitigating the adverse impacts of the outbreak by cancelling live performances from March 28, 2020 through October 17, 2020, when the Opera resumed live performances that were held at its headquarters with reduced capacity and in accordance with government recommended protocols. For the 2021-2022 season, the Opera will hold live performances at the Benedum Center, the August Wilson Center and its headquarters.

Financial efforts to mitigate the disruptions of the pandemic included securing a Paycheck Protection Program Loan (PPP Loan 1). 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. PPP Loan 1 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 PPP, the Opera had incurred qualifying costs in excess of the principal amount of PPP Loan 1 and the loan was fully forgiven by the SBA and recognized the full amount within contributed revenue during the year ended June 30, 2020.

During 2021, additional financial efforts to mitigate the disruptions of the pandemic included securing another unsecured promissory note with an unrelated bank for a loan in the principal amount of \$646,000 under the Paycheck Protection Program (PPP Loan 2), administered by the SBA as part of the CARES Act. As of June 30, 2021, the Opera has not yet incurred qualifying costs applicable to PPP Loan 2. The Opera anticipates operating costs within the 2021-2022 season to be incurred and to qualify under the provisions of the PPP to allow for full forgiveness of PPP Loan 2. (See Note 7)

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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, 2021 and 2020 are summarized as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	\$ 9,161,000	\$ 13,835,000	\$ 9,586,000	\$ 10,533,000
Bond mutual funds	6,359,000	6,619,000	5,163,000	5,430,000
Money market funds	227,000	227,000	268,000	268,000
	\$ 15,747,000	\$ 20,681,000	\$ 15,017,000	\$ 16,231,000

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

	2021	2020
Interest and dividends	\$ 441,000	\$ 562,000
Net realized gain (loss)	365,000	(627,000)
Net unrealized gain	3,900,000	187,000
Net realized and unrealized gain (loss)	4,265,000	(440,000)
Investment fees	(100,000)	(86,000)
	\$ 4,606,000	\$ 36,000

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

NOTE 5 - INVESTMENTS HELD BY TRUST

The Opera is a partial beneficiary of the trust of Pauline Beamer Pickens. The trustee holds title to the assets, and the Opera records its share of the assets at fair value. Distributions are made at the discretion of the trustee in accordance with the trust and are included within net assets without donor restrictions. Distributions approximated \$38,000 and \$48,000 during the years ended June 30, 2021 and 2020, 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, 2021 and 2020.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Building and building improvements	\$ 5,609,000	\$ 5,502,000
Equipment	<u>519,000</u>	<u>519,000</u>
	6,128,000	6,021,000
Less - Accumulated depreciation	<u>2,350,000</u>	<u>2,190,000</u>
	3,778,000	3,831,000
Construction-in-progress	-	87,000
Land	<u>324,000</u>	<u>324,000</u>
	<u>\$ 4,102,000</u>	<u>\$ 4,242,000</u>

NOTE 7 - LINE OF CREDIT AND NOTE PAYABLE

The Opera maintains an unsecured line-of-credit agreement with a bank for which maximum allowed borrowings are \$1,000,000, and interest accrues at the bank's prime lending rate (3.25% at June 30, 2021) plus 50 basis points (0.50%). At June 30, 2021 and 2020, there was an outstanding balance of \$0 and \$1,000,000, respectively. The agreement expires on December 31, 2021.

On March 12, 2021, the Opera entered into an unsecured promissory note with an unrelated bank for a loan in the principal amount of \$646,000 under the Paycheck Protection Program (PPP Loan 2), administered by the SBA as part of the CARES Act. PPP Loan 2 bears interest at a rate of 1% per annum and matures on March 12, 2023. Principal and interest payments on the loan are deferred until November 15, 2021, at which time equal installments of principal and interest will be due and payable monthly through the maturity date. Pursuant to 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. As forgiveness has not been obtained by the SBA and the Opera has not yet fulfilled all of the qualifying costs to ascertain adherence to forgiveness stipulations, management has accounted for PPP Loan 2 as a note payable. As of June 30, 2021, approximately \$646,000 is recorded within note payable on the statement of financial position.

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>2021</u>	<u>2020</u>
Due in less than one year	\$ 1,026,000	\$ 1,470,000
Due in one to five years	<u>2,379,000</u>	<u>2,370,000</u>
	3,405,000	3,840,000
Allowance for doubtful accounts	<u>(18,000)</u>	<u>(18,000)</u>
	<u>\$ 3,387,000</u>	<u>\$ 3,822,000</u>

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 9 - NET ASSETS

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

Campaigns include:

- 1990 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 surplus (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:

	2021	2020
Accumulated Operating Surplus (Deficit)	\$ 1,061,000	\$ (172,000)
Building Fund Assets	3,975,000	3,911,000
Board Reserve Fund	300,000	300,000
	\$ 5,336,000	\$ 4,039,000

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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:

	2021	2020
Subject to expenditure for specified purpose or to the passage of time:		
Annual Fund (Operations)	\$ 3,745,000	\$ 3,423,000
21st Century and Renaissance Campaigns	907,000	907,000
Building Fund	3,163,000	2,419,000
Olga Barry Fund	121,000	85,000
Endowments:		
21st Century and Renaissance Campaigns	14,923,000	11,875,000
Bernadette G. Callery Endowed Fund (formerly Joseph M. Newcomer Fund)	281,000	202,000
John H. Hill Fund	109,000	89,000
Investments held by trust (Note 5)	868,000	708,000
	\$ 24,117,000	\$ 19,708,000

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

NOTE 10 - ENDOWMENT

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

Interpretation of Relevant Law - The board of directors of the Opera has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141), a total return policy that allows a nonprofit organization to choose to treat a percentage of the average market value of its endowment's permanently restricted investments as unrestricted income each year. The long-term preservation of the real value of the assets, however, must be taken into consideration when the board elects the amount. On an annual basis, the Board must elect a spending rate of between 2% and 7%.

The Opera classifies as permanently restricted net assets the original and subsequent value of gifts donated to the permanent endowment. In accordance with Act 141, the Opera has adopted a written investment policy, of which a section specifically relates to the endowment fund.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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
2021	\$	<u>300,000</u>	\$ <u>16,181,000</u>	\$ <u>16,481,000</u>
2020	\$	<u>300,000</u>	\$ <u>12,874,000</u>	\$ <u>13,174,000</u>

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

		Board- Designated	Restricted	Total
Endowment net assets, beginning of year	\$	300,000	\$ 12,874,000	\$ 13,174,000
Investment return:				
Investment income		-	340,000	340,000
Net realized and unrealized gains		-	3,336,000	3,336,000
		<u>300,000</u>	<u>16,550,000</u>	<u>16,850,000</u>
Contribution		-	40,000	40,000
Appropriation of endowment assets for expenditure		-	(313,000)	(313,000)
Investment management fees		-	(96,000)	(96,000)
		<u>300,000</u>	<u>16,181,000</u>	<u>16,481,000</u>
Endowment net assets, end of year	\$	<u>300,000</u>	\$ <u>16,181,000</u>	\$ <u>16,481,000</u>

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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, 2020:

	Board- Designated	Restricted	Total
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)
	-	13,662,000	13,962,000
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	\$ 300,000	\$ 12,874,000	\$ 13,174,000

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, 2021 and 2020, the spendable return totaled \$270,000 and \$734,000, 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, 2021 and 2020. The original corpus of the endowment funds is \$8,025,000.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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 \$0 and \$168,000 for the years ended June 30, 2021 and 2020, respectively.

The Opera has also entered into noncancelable leases for office equipment and off site storage. Total office equipment and storage expense was approximately \$44,000 and \$43,000 for the years ended June 30, 2021 and 2020, respectively. The approximate aggregate annual payments due subsequent to June 30, 2021 for noncancelable leases for office equipment and storage are as follows:

Year Ending June 30	Amount
2022	\$ 46,000
2023	46,000
2024	42,000
2025	43,000
2026	44,000
Thereafter	<u>60,000</u>
	<u>\$ 281,000</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 \$28,000 and \$14,000 for the years ended June 30, 2021 and 2020, 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, 2021 AND 2020

NOTE 13 - FAIR VALUE MEASUREMENT (Continued)

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

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

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

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

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

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

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

The Opera has evaluated the significant transfers between levels based on the nature of the financial instruments and size of the transfer relative to total net assets.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 13 - FAIR VALUE MEASUREMENT (Continued)

The valuation of the Opera's investments and investment held in trust at June 30, 2021 and 2020 according to the fair value hierarchy is summarized as follows:

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

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:

	2021	2020
Balance, beginning of year	\$ 708,000	\$ 744,000
Interest and dividends	13,000	14,000
Realized and unrealized gain, net	193,000	4,000
Investment fees	(8,000)	(6,000)
Distributions	(38,000)	(48,000)
Balance, end of year	\$ 868,000	\$ 708,000