

PITTSBURGH OPERA, INC.
Pittsburgh, Pennsylvania

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2015 and 2014

and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pittsburgh Opera, Inc.
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of the Pittsburgh Opera, Inc. (Opera), which comprise the statements of financial position as of June 30, 2015 and 2014 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
September 15, 2015

PITTSBURGH OPERA, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
ASSETS				
CASH AND CASH EQUIVALENTS	\$ 26,606	\$ 84,247	-	\$ 110,853
CONTRIBUTIONS RECEIVABLE, NET	578,842	503,411	-	1,082,253
INVESTMENTS	551,471	3,908,596	\$13,428,686	17,888,753
INVESTMENTS HELD BY TRUST	-	-	750,640	750,640
DEFERRED CHARGES AND OTHER	215,035	-	-	215,035
PROPERTY AND EQUIPMENT, NET	4,554,354	300,785	-	4,855,139
Total Assets	<u>\$ 5,926,308</u>	<u>\$ 4,797,039</u>	<u>\$14,179,326</u>	<u>\$24,902,673</u>
LIABILITIES AND NET ASSETS				
LINE OF CREDIT	\$ 350,000	-	-	\$ 350,000
ACCOUNTS PAYABLE	104,312	-	-	104,312
ACCRUED EXPENSES	74,149	-	-	74,149
DEFERRED SUBSCRIPTIONS	827,072	-	-	827,072
Total Liabilities	1,355,533	-	-	1,355,533
NET ASSETS	4,570,775	\$ 4,797,039	\$14,179,326	23,547,140
Total Liabilities And Net Assets	<u>\$ 5,926,308</u>	<u>\$ 4,797,039</u>	<u>\$14,179,326</u>	<u>\$24,902,673</u>

June 30, 2014

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 288,448	\$ 150,794	-	\$ 439,242
234,119	761,098	\$ 65,272	1,060,489
583,434	4,115,913	13,713,454	18,412,801
-	-	776,940	776,940
186,554	-	-	186,554
<u>4,663,638</u>	<u>270,699</u>	<u>-</u>	<u>4,934,337</u>
<u>\$ 5,956,193</u>	<u>\$ 5,298,504</u>	<u>\$ 14,555,666</u>	<u>\$ 25,810,363</u>
-	-	-	-
\$ 86,946	-	-	\$ 86,946
56,625	-	-	56,625
<u>817,768</u>	<u>-</u>	<u>-</u>	<u>817,768</u>
961,339	-	-	961,339
<u>4,994,854</u>	<u>\$ 5,298,504</u>	<u>\$ 14,555,666</u>	<u>24,849,024</u>
<u>\$ 5,956,193</u>	<u>\$ 5,298,504</u>	<u>\$ 14,555,666</u>	<u>\$ 25,810,363</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND OTHER SUPPORT				
Season subscriptions	\$ 906,251	-	-	\$ 906,251
Single ticket sales	405,195	-	-	405,195
Group ticket sales	129,373	-	-	129,373
	<u>1,440,819</u>	<u>-</u>	<u>-</u>	<u>1,440,819</u>
Net assets released from restrictions:				
For operations	498,052	\$ (498,052)	-	-
For building campaign	203,940	(203,940)	-	-
For investment income spending	652,677	-	\$ (652,677)	-
	<u>1,354,669</u>	<u>(701,992)</u>	<u>(652,677)</u>	<u>-</u>
Investment income (loss), net	18,037	(15,455)	306,579	309,161
Other	205,416	-	-	205,416
Charge for uncollectible contribution	-	(11,520)	(65,272)	(76,792)
	<u>223,453</u>	<u>(26,975)</u>	<u>241,307</u>	<u>437,785</u>
PUBLIC SUPPORT	<u>2,562,319</u>	<u>303,212</u>	<u>35,030</u>	<u>2,900,561</u>
Total Revenue, Other Support And Public Support	5,581,260	(425,755)	(376,340)	4,779,165
OPERATING EXPENSES				
Production	3,447,107	-	-	3,447,107
Outreach/education	770,006	-	-	770,006
General, administrative and fundraising	1,692,883	-	-	1,692,883
	<u>5,909,996</u>	<u>-</u>	<u>-</u>	<u>5,909,996</u>
Changes In Net Assets Before Capital Expenditure Releases and Depreciation	(328,736)	(425,755)	(376,340)	(1,130,831)
NET ASSETS RELEASED FROM RESTRICTIONS FOR CAPITAL EXPENDITURES	75,710	(75,710)	-	-
DEPRECIATION EXPENSE	(171,053)	-	-	(171,053)
Changes In Net Assets	(424,079)	(501,465)	(376,340)	(1,301,884)
NET ASSETS				
Beginning of year	4,994,854	5,298,504	14,555,666	24,849,024
End of year	<u>\$ 4,570,775</u>	<u>\$ 4,797,039</u>	<u>\$14,179,326</u>	<u>\$ 23,547,140</u>

2014

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,208,948	-	-	\$ 1,208,948
612,734	-	-	612,734
157,316	-	-	157,316
<u>1,978,998</u>	<u>-</u>	<u>-</u>	<u>1,978,998</u>
341,171	\$ (341,171)	-	-
149,171	(149,171)	-	-
617,601	-	\$ (617,601)	-
<u>1,107,943</u>	<u>(490,342)</u>	<u>(617,601)</u>	<u>-</u>
21,810	436,386	2,208,702	2,666,898
84,840	-	-	84,840
-	-	-	-
<u>106,650</u>	<u>436,386</u>	<u>2,208,702</u>	<u>2,751,738</u>
<u>3,690,589</u>	<u>872,881</u>	<u>101,886</u>	<u>4,665,356</u>
6,884,180	818,925	1,692,987	9,396,092
4,211,443	-	-	4,211,443
719,305	-	-	719,305
1,708,584	-	-	1,708,584
<u>6,639,332</u>	<u>-</u>	<u>-</u>	<u>6,639,332</u>
244,848	818,925	1,692,987	2,756,760
-	-	-	-
(164,775)	-	-	(164,775)
<u>80,073</u>	<u>818,925</u>	<u>1,692,987</u>	<u>2,591,985</u>
<u>4,914,781</u>	<u>4,479,579</u>	<u>12,862,679</u>	<u>22,257,039</u>
<u>\$ 4,994,854</u>	<u>\$ 5,298,504</u>	<u>\$ 14,555,666</u>	<u>\$ 24,849,024</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (1,301,884)	\$ 2,591,985
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	171,053	164,775
Contributions restricted for investment in endowment and capital	(97,030)	(101,886)
Net realized and unrealized loss (gain) on investments	276,945	(2,176,808)
Charge for uncollectible contribution	76,792	-
(Decrease) increase in allowance for doubtful accounts	(520)	12,258
Changes in operating assets and liabilities:		
Contributions receivable	(55,505)	261,978
Deferred charges and other	(28,481)	(30,998)
Accounts payable	17,366	(155,945)
Accrued expenses	17,524	5,539
Deferred subscriptions	9,304	(226,356)
Net Cash (Used In) Provided By Operating Activities	<u>(914,436)</u>	<u>344,542</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,147,015)	(1,829,118)
Proceeds from sale of investments	1,420,418	1,726,687
Purchases of property and equipment	(91,855)	(219,447)
Net Cash Provided By (Used In) Investing Activities	<u>181,548</u>	<u>(321,878)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit, net	350,000	-
Proceeds from contributions restricted for investment in capital project	19,469	235,658
Proceeds from contributions restricted for investment in endowment	35,030	101,886
Net Cash Provided by Financing Activities	<u>404,499</u>	<u>337,544</u>
Net (Decrease) Increase In Cash And Cash Equivalents	(328,389)	360,208
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>439,242</u>	<u>79,034</u>
End of year	<u>\$ 110,853</u>	<u>\$ 439,242</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 2,600</u>	<u>-</u>

See notes to financial statements.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 - ORGANIZATION

Pittsburgh Opera, Inc. (Opera) is a Pennsylvania not-for-profit corporation formed for the primary purpose of producing operatic and other musical performances for the benefit of the public. The Opera produced three operas and a concert with a total of 13 performances during its 2015 season and four operas with a total of 16 performances during its 2014 season. In addition, the Opera produced one student matinee during each of its seasons. The Opera also administers the Resident Artist Program of the Pittsburgh Opera (Program), which is an artist-training program that prepares young artists for operatic careers. The Program is a major source of outreach and education for the Opera. The Program produced two operas with a total of eight performances in each of the years 2015 and 2014. 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 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 requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Unrestricted Net Assets - Net assets not subject to donor-imposed restrictions or stipulations as to purpose or use.

Temporarily Restricted Net Assets - Net assets that are subject to donor-imposed restrictions or stipulations that may or will be met either by actions of the Opera or the passage of time.

Permanently Restricted Net Assets - Net assets that are subject to donor-imposed restrictions of investing the principal contribution in perpetuity and only using the investment income for the Opera's operations and programs.

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

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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 \$23,000 at June 30, 2015 and 2014. 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, at various financial institutions, cash that might exceed the federally insured amount at times. For purposes of the statement of cash flows, the Opera considers all 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 gains and losses on investments, interest and dividends) is included in unrestricted net assets unless the income is restricted by donor or law. The cost of investment securities sold is determined using the specific identification method.

The Opera defers advertising costs related to specific productions and expenses such costs in the period in which the related productions take place. Amounts deferred at June 30, 2015 and 2014 were approximately \$53,000 and \$82,000, respectively. Other general advertising costs are expensed in the period incurred. Advertising expenses approximated \$351,000 and \$386,000 for the years ended June 30, 2015 and 2014, respectively.

Property and equipment are recorded at the lower of cost or fair value. Donated equipment is stated at fair market value at the date of donation. Depreciation and amortization are computed on a straight-line basis over estimated useful lives. Repairs and maintenance costs that do not extend the lives of the applicable assets are charged to expense as incurred. Gain or loss resulting from the retirement or other disposition of assets is included in the statement of activities.

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 2015 or 2014.

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 and expensed in the year in which the productions occur.

PITTSBURGH OPERA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Opera is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code 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. The Opera has not identified any material uncertain tax positions requiring an accrual or disclosure in the financial statements. The statutory tax years remain open to examination.

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

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through September 15, 2015, which is the date that the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Investments, which include the permanently restricted endowment, temporarily restricted capital funds, and a portion of the unrestricted operating fund, consist of money market funds, marketable equity mutual funds and fixed-income mutual funds. The cost and market values at June 30, 2015 and 2014 are summarized as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Equity mutual funds	\$ 8,276,000	\$ 11,597,000	\$ 8,173,000	\$ 12,265,000
Bond mutual funds	5,314,000	5,322,000	5,319,000	5,462,000
Corporate bonds	401,000	408,000	306,000	308,000
Money market funds	562,000	562,000	378,000	378,000
	<u>\$ 14,553,000</u>	<u>\$ 17,889,000</u>	<u>\$ 14,176,000</u>	<u>\$ 18,413,000</u>

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 680,000	\$ 579,000
Net realized gains	650,000	437,000
Net unrealized (losses) gains	<u>(927,000)</u>	<u>1,741,000</u>
Net realized and unrealized (losses) gains	(277,000)	2,178,000
Investment fees	<u>(94,000)</u>	<u>(90,000)</u>
	<u>\$ 309,000</u>	<u>\$ 2,667,000</u>

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 3 - INVESTMENTS (Continued)

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

NOTE 4 - INVESTMENTS HELD BY TRUST

The Opera is a partial beneficiary of the trust of Pauline Beamer Pickens. The trustee holds title to the assets and the Opera records their 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 \$38,000 during the years ended June 30, 2015 and 2014 and are included in net assets released from restriction for investment income spending. The cost (or donated value) was approximately \$616,000 as of June 30, 2015 and 2014.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Building and building improvements	\$ 5,366,000	\$ 5,289,000
Equipment	<u>499,000</u>	<u>477,000</u>
	5,865,000	5,766,000
Less - Accumulated depreciation	<u>1,344,000</u>	<u>1,173,000</u>
	4,521,000	4,593,000
Construction in progress	10,000	17,000
Land	<u>324,000</u>	<u>324,000</u>
Property and equipment, net	\$ <u>4,855,000</u>	\$ <u>4,934,000</u>

NOTE 6 - LINE OF CREDIT

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, 2015). At June 30, 2015, there was an outstanding balance of \$350,000. There was no balance outstanding as of June 30, 2014. The agreement expires on May 29, 2016. As of September 15, 2015, the outstanding balance of the line of credit was approximately \$100,000.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 7 - CONTRIBUTIONS RECEIVABLE

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

	2015	2014
Due in less than 1 year	\$ 649,000	\$ 624,000
Due in 1 to 5 years	456,000	459,000
	1,105,000	1,083,000
Allowance for doubtful accounts	(23,000)	(23,000)
	\$ 1,082,000	\$ 1,060,000

NOTE 8 - NET ASSETS

The Opera has recorded net assets based on use restrictions imposed by the donor. These funds have originated from past and present fund-raising 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

In addition to specific fund-raising campaigns, the Opera raises funds for operating support through its Annual Fund efforts. Funds raised for future purposes include multiyear grants, funds restricted to future educational programming and donations with specific donor restrictions.

Unrestricted Fund Summary

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

	2015	2014
Accumulated Operating Deficit	\$ (389,000)	\$ (100,000)
Building Fund Assets	4,660,000	4,794,000
Board Designated as Endowment	300,000	300,000
	\$ 4,571,000	\$ 4,994,000

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 8 - NET ASSETS (Continued)

Temporarily Restricted Fund Summary

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

	<u>2015</u>	<u>2014</u>
Capital Projects	\$ 343,000	\$ 291,000
21st Century and Renaissance Campaigns	907,000	907,000
Building Fund	3,016,000	3,211,000
Annual Fund	<u>531,000</u>	<u>890,000</u>
	<u>\$ 4,797,000</u>	<u>\$ 5,229,000</u>

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

Permanently Restricted Fund Summary

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

	<u>2015</u>	<u>2014</u>
21st Century and Renaissance Campaigns	\$ 13,292,000	\$ 13,679,000
Joseph M. Newcomer Fund	36,000	-
John H. Hill Fund	100,000	100,000
Investments held by trust (Note 4)	<u>751,000</u>	<u>777,000</u>
	<u>\$ 14,179,000</u>	<u>\$ 14,556,000</u>

During the year ended June 30, 2015, the Opera received \$35,000 to establish the Joseph M. Newcomer Fund which is expected to reach \$300,000 in subsequent periods. During the year ended June 30, 2014, the Opera received \$97,000 to establish the John H. Hill Fund, which is included in the Opera's general endowment.

NOTE 9 - ENDOWMENT

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

Interpretation of Relevant Law - The Board of Directors of the Opera has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141). Act 141 is a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of its endowment's permanently restricted investments as 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, 2015 AND 2014

NOTE 9 - ENDOWMENT (Continued)

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

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

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

		<u>Board- Designated Unrestricted</u>		<u>Permanently Restricted</u>		<u>Total</u>
2015	\$	<u>300,000</u>	\$	<u>14,179,000</u>	\$	<u>14,479,000</u>
2014	\$	<u>300,000</u>	\$	<u>14,556,000</u>	\$	<u>14,856,000</u>

The following represents the change in board-designated and donor-restricted endowment funds by net asset type for the year ended June 30, 2015:

		<u>Board- Designated Unrestricted</u>		<u>Permanently Restricted</u>		<u>Total</u>
Endowment net assets, beginning of year	\$	300,000	\$	14,556,000	\$	14,856,000
Investment return:						
Investment income		-		490,000		490,000
Net realized and unrealized losses		-		(109,000)		(109,000)
		<u>300,000</u>		<u>14,937,000</u>		<u>15,237,000</u>
Contribution		-		35,000		35,000
Appropriation of endowment assets for expenditure		-		(653,000)		(653,000)
Uncollectible contribution receivable		-		(65,000)		(65,000)
Investment management fees		-		(75,000)		(75,000)
Endowment net assets, end of year	\$	<u>300,000</u>	\$	<u>14,179,000</u>	\$	<u>14,479,000</u>

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 9 - ENDOWMENT (Continued)

The following represents the change in board-designated and donor-restricted endowment funds by net asset type for the year ended June 30, 2014:

	Board- Designated Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 300,000	\$ 12,863,000	\$ 13,163,000
Investment return:			
Investment income	-	445,000	445,000
Net realized and unrealized gains	-	1,836,000	1,836,000
	<u>300,000</u>	<u>15,144,000</u>	<u>15,444,000</u>
Contributions	-	102,000	102,000
Appropriation of endowment assets for expenditure	-	(618,000)	(618,000)
Investment management fees	-	(72,000)	(72,000)
	<u>-</u>	<u>(690,000)</u>	<u>(690,000)</u>
Endowment net assets, end of year	\$ <u>300,000</u>	\$ <u>14,556,000</u>	\$ <u>14,856,000</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. Income and appreciation on the invested funds are available to support current operations and new initiatives as recommended by the Finance Committee and approved by the Board of Directors.

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, 2015 and 2014, the spendable return totaled \$653,000 and \$618,000, respectively. The Opera believes that this spending policy is consistent with the Commonwealth of Pennsylvania’s guidelines and with the Opera’s objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

NOTE 10 - LEASES

The Opera leases theater space under a renewable annual operating lease. Total theater lease expense for the main stage performances was approximately \$238,000 and \$300,000 for the years ended June 30, 2015 and 2014, respectively.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 10 - LEASES (Continued)

The Opera has also entered into noncancelable leases for office equipment and off-site storage. Total office equipment and storage expense was approximately \$37,000 and \$34,000 for the years ended June 30, 2015 and 2014, respectively. The approximate aggregate annual payments due subsequent to June 30, 2015 for noncancelable leases for office equipment and storage are as follows:

Year Ending June 30	Amount
2016	\$ 37,000
2017	26,000
2018	10,000
2019	<u>4,000</u>
	<u>\$ 77,000</u>

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Opera has a defined contribution plan that covers substantially all employees. The Opera's policy is that it may contribute up to 5% of gross salaries to the plan for employees who have more than two years of employment. Employees may elect to contribute additional funds subject to the maximum amount allowed by law. Effective March 2009, the Opera suspended its employer contributions; however, the employer contribution was reinstated effective July 1, 2015.

NOTE 12 - FAIR VALUE MEASUREMENTS

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

The fair value hierarchy is defined as follows:

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

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

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

The Opera's financial instruments consist primarily of cash and cash equivalents, deferred charges, pledges receivable, investments, investment held in trust, accounts payable, accrued expenses, deferred subscriptions and line of credit. The carrying amount of cash and cash equivalents, deferred charges, pledges receivable, accounts payable and accrued expenses and deferred subscriptions approximate their fair value due to their nature and respective relatively short maturity dates or durations. The carrying amount of the line of credit approximates fair value since interest rates are market based and generally adjusted periodically.

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 12 - FAIR VALUE MEASUREMENTS (Continued)

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.

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.

Corporate Bonds - Valued using pricing models maximizing the use of observable inputs for similar securities, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

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 trusts themselves are 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 Codification, 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, 2014 and 2013, there were not significant transfers in or out of Levels 1, 2 or 3.

The valuation of the Opera's investments and investment held in trust at June 30, 2015 according to the fair value hierarchy is summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 562,000	-	-	\$ 562,000
Corporate bonds	-	\$ 401,000	-	401,000
Mutual funds:				
Equity	11,597,000	-	-	11,597,000
Bond	5,329,000	-	-	5,329,000
Investment held by trust	-	-	\$ 751,000	751,000
Total	\$ <u>17,488,000</u>	\$ <u>401,000</u>	\$ <u>751,000</u>	\$ <u>18,640,000</u>

PITTSBURGH OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 12 - FAIR VALUE MEASUREMENTS (Continued)

The valuation of the Opera's investments and investment held by trust at June 30, 2014 according to the fair value hierarchy is summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 408,000	-	-	\$ 408,000
Corporate bonds	-	\$ 306,000	-	306,000
Mutual funds:				
Equity	12,235,000	-	-	12,235,000
Bond	5,464,000	-	-	5,464,000
Investment held by trust	-	-	\$ 777,000	777,000
Total	<u>\$ 18,107,000</u>	<u>\$ 306,000</u>	<u>\$ 777,000</u>	<u>\$ 19,190,000</u>

The changes in those items measured at fair value for which the Opera has used Level 3 inputs to determine fair value are as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 777,000	\$ 723,000
Interest and dividends	18,000	33,000
Realized and unrealized gains, net	1,000	77,000
Investment fees	(7,000)	(8,000)
Distributions	(38,000)	(48,000)
Balance, end of year	<u>\$ 751,000</u>	<u>\$ 777,000</u>

NOTE 13 - COMMITMENTS AND CONTINGENCIES

At June 30, 2015 and 2014, the Opera had unrecorded commitments in the normal course of business approximating \$652,000 and \$574,000, respectively, relating to performances for future opera seasons. The majority of these commitments at June 30, 2015 extend through the 2016 opera seasons, and are, for the most part, noncancelable; however, one contract of approximately \$170,000 per year extends through the 2016 - 2017 opera seasons.

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SUPPLEMENTARY FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY FINANCIAL INFORMATION

Board of Directors
Pittsburgh Opera, Inc.
Pittsburgh, Pennsylvania

We have audited the financial statements of the Pittsburgh Opera, Inc. as of and for the years ended June 30, 2015 and 2014, and have issued our report thereon dated September 15, 2015, which contained an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of production expenses; general, administrative and fundraising expenses; occupancy costs included in operating and depreciation expenses; and public support on Pages 20-23 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepared the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
September 15, 2015

PITTSBURGH OPERA, INC.

SCHEDULES OF PRODUCTION EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ARTISTIC PERSONNEL		
Orchestra	\$ 526,519	\$ 529,250
Cast	411,811	658,712
Chorus	230,528	209,350
Stage and artistic direction	135,597	144,906
Music staff	144,056	141,790
Conductors	112,728	137,040
Dancers and choreographers	16,400	18,000
Supernumeraries	2,700	15,400
	<u>1,580,339</u>	<u>1,854,448</u>
TECHNICAL PERSONNEL		
Stage hands	500,751	613,026
Costume design and wardrobe	164,012	174,586
Stage and operations management	155,103	183,762
Makeup/wigs, design and staff	50,607	66,417
Set design and supervision	35,449	44,948
	<u>905,922</u>	<u>1,082,739</u>
DIRECT MATERIAL		
Sets and scenery	145,381	216,325
Stage equipment	53,660	84,738
Costumes	61,260	114,581
	<u>260,301</u>	<u>415,644</u>
THEATER OVERHEAD		
Theater rental	243,895	307,180
Rents and royalties for music and instruments	11,788	33,052
Box office/theater staff	30,487	36,941
Recording fees	1,490	1,445
	<u>287,660</u>	<u>378,618</u>
ADVERTISING AND OTHER		
Advertising	351,127	386,068
Travel	43,113	69,913
Other	18,645	24,013
	<u>412,885</u>	<u>479,994</u>
	<u>\$ 3,447,107</u>	<u>\$ 4,211,443</u>

The independent auditors' report on supplementary financial information should be read with these schedules.

PITTSBURGH OPERA, INC.

SCHEDULES OF GENERAL, ADMINISTRATIVE AND FUNDRAISING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Salaries and employee benefits	\$ 1,200,835	\$ 1,140,985
Facility rent and maintenance	92,925	94,516
Contract services	62,323	92,468
Promotion	73,737	84,385
Utilities	65,967	73,863
Service charges	31,266	34,705
Insurance	40,155	30,474
Travel	22,168	26,472
Dues and subscriptions	25,764	25,240
Professional fees	21,530	24,546
Other	3,113	21,984
Office supplies	17,369	20,070
Uncollectible pledges	9,895	18,363
Telephone	10,010	12,844
Printing and postage	5,711	5,908
Auditions	300	901
Equipment rental and maintenance	7,253	860
Interest	2,562	-
	<u>\$ 1,692,883</u>	<u>\$ 1,708,584</u>

The independent auditors' report on supplementary financial information should be read with these schedules.

PITTSBURGH OPERA, INC.

SCHEDULES OF OCCUPANCY COSTS INCLUDED
IN OPERATING AND DEPRECIATION EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Depreciation - Building fund related	\$134,274	\$137,146
Salaries	65,986	71,020
Utilities	65,967	73,863
Facility maintenance	64,041	67,283
Insurance	15,992	15,157
Depreciation - Capital projects related	19,715	9,333
Professional fees	<u>250</u>	<u>250</u>
	<u>\$366,225</u>	<u>\$374,052</u>

The independent auditors' report on supplementary financial information should be read with these schedules.

PITTSBURGH OPERA, INC.

SCHEDULES OF PUBLIC SUPPORT
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Foundations	\$ 839,763	\$ 1,558,286
Individuals	622,653	896,990
Individuals - memberships	540,943	552,891
Benefits and fundraisers, net of direct costs of approximately \$435,000 and \$342,000, respectively	301,789	326,219
Corporations	229,500	556,191
Allegheny County Regional Asset District grants	207,000	145,000
Pennsylvania Council on the Arts grant	63,172	60,164
In-kind Donations	39,626	57,576
Other State Funding	25,000	25,000
National Endowment for the Arts	25,000	20,000
Allegheny County grant	5,500	5,500
Bequests	<u>615</u>	<u>461,539</u>
Public Support - Contributions and Grants, net of Direct Cost of Fundraising Events	<u>\$ 2,900,561</u>	<u>\$ 4,665,356</u>

The independent auditors' report on supplementary financial information should be read with these schedules.

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