Merola Opera Program

Financial Statements

For the year ended
September 30, 2021
With Independent Auditors' Report Thereon

(A California Not-for-Profit Corporation)

Contents

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Merola Opera Program

We have audited the accompanying financial statements of Merola Opera Program (a California nonprofit organization) which comprise the statement of financial position as of September 30, 2021 and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year 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 audit. We conducted our audit 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 Merola Opera Program as of September 30, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have previously audited Merola Opera Program's September 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 23, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Regalia & Associates

Danville, California
February 7, 2022

Statement of Financial Position
September 30, 2021
(with Summarized Financial Information for the Year Ended September 30, 2020)

ASSETS

	2021				
	Without Donor Restrictions	*With Donor* Restrictions - Time/purpose	*With Donor* Restrictions - In perpetuity	Total 2021	Total 2020
Current assets:					
Cash and cash equivalents	$ 815,624	$ 20,000	$ -	**$ 835,624**	$ 1,382,604
Contributions receivable	155,600	-	-	**155,600**	10,121
Prepaid expenses	96,299	-	-	**96,299**	36,376
Investments	2,485,595	-	-	**2,485,595**	2,836,311
Total current assets	3,553,118	20,000	-	**3,573,118**	4,265,412
Noncurrent assets:					
Investments	19,143,057	3,450,668	16,718,294	**39,312,019**	32,488,506
Assets held in charitable remainder trusts	-	-	708,417	**708,417**	602,314
Property and equipment, net	8,775	-	-	**8,775**	4,804
Deposits	45,700	-	-	**45,700**	15,700
Right of use asset - premises	420,166	-	-	**420,166**	524,410
Total noncurrent assets	19,617,698	3,450,668	17,426,711	**40,495,077**	33,635,734
Total assets	$ 23,170,816	$ 3,470,668	$ 17,426,711	**$ 44,068,195**	$ 37,901,146

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions - Time/purpose	With Donor Restrictions - In perpetuity	Total 2021	Total 2020
Current liabilities:					
Accounts payable and accrued liabilities	$ 2,584	$ -	$ -	**$ 2,584**	$ 23,272
Accrued payroll liabilities	66,335	-	-	**66,335**	57,064
Lease payable - current portion	107,440	-	-	**107,440**	98,384
Total current liabilities	176,359	-	-	**176,359**	178,720
Noncurrent Liability:					
Lease payable - noncurrent portion	333,099	-	-	**333,099**	440,539
Total liabilities	509,458	-	-	**509,458**	619,259
Net assets:					
Without donor restrictions:					
Undesignated operating fund	2,553,011	-	-	**2,553,011**	3,029,402
Board-designated endowment funds	20,108,347	-	-	**20,108,347**	17,196,281
Total	22,661,358	-	-	**22,661,358**	20,225,683
With donor restrictions - time/purpose:					
Operating	-	20,000	-	**20,000**	99,904
Endowment funds	-	3,450,668	-	**3,450,668**	2,391,057
Total	-	3,470,668	-	**3,470,668**	2,490,961
With donor restrictions - in perpetuity:					
Charitable remainder trusts	-	-	708,417	**708,417**	602,314
Endowment funds	-	-	16,718,294	**16,718,294**	13,962,929
Total	-	-	17,426,711	**17,426,711**	14,565,243
Total net assets	22,661,358	3,470,668	17,426,711	**43,558,737**	37,281,887
Total liabilities and net assets	$ 23,170,816	$ 3,470,668	$ 17,426,711	**$ 44,068,195**	$ 37,901,146

Merola Opera Program

Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2021
(with Summarized Financial Information for the Year Ended September 30, 2020)

	2021				
	Without Donor Restrictions	*With Donor* Restrictions - Time/purpose	*With Donor* Restrictions - In perpetuity	Total 2021	Total 2020
Revenue, Support, and Other Income:					
Earned Revenue:					
Production, performance and other programs	$ 7,010	$ -	$ -	**$ 7,010**	$ 49,143
Appropriation of endowment assets	1,408,080	-	-	**1,408,080**	1,326,056
Total earned revenue	1,415,090	-	-	**1,415,090**	1,375,199
Contributed Income:					
Contributions	1,883,698	20,000	2,026,276	**3,929,974**	5,395,713
In-kind contributions	4,156	-	-	**4,156**	26,045
Appropriation of endowment assets	(1,093,477)	(314,603)	-	**(1,408,080)**	(1,326,056)
Net assets released from restrictions	99,904	(99,904)	-	**-**	-
Total contributed income	894,281	(394,507)	2,026,276	**2,526,050**	4,095,702
Events:					
Ticket and auction revenue	22,254	-	-	**22,254**	2,600
Less costs of direct benefits to attendees	(57,487)	-	-	**(57,487)**	(747)
Net event income (loss)	(35,233)	-	-	**(35,233)**	1,853
Other Income:					
Change in value of charitable remainder trust	-	-	106,103	**106,103**	50,317
Investment income, net of fees	640,097	140,149	(63,117)	**717,129**	841,109
Realized gains on investments (net)	1,305,219	536,196	278,196	**2,119,611**	452,929
Unrealized gains on investments (net)	1,381,493	520,560	514,010	**2,416,063**	1,407,252
Total other income	3,326,809	1,196,905	835,192	**5,358,906**	2,751,607
Total revenue, support, and other income	5,600,947	802,398	2,861,468	**9,264,813**	8,224,361
Expenses:					
Training	1,482,621	-	-	**1,482,621**	942,724
Productions	806,717	-	-	**806,717**	512,951
Fundraising and special events	402,733	-	-	**402,733**	371,094
General and administrative	295,892	-	-	**295,892**	325,761
Total expenses	2,987,963	-	-	**2,987,963**	2,152,530
Increase in net assets	2,612,984	802,398	2,861,468	**6,276,850**	6,071,831
Reclassifications - Endowment	(177,309)	177,309	-	**-**	-
Net assets at beginning of year	20,225,683	2,490,961	14,565,243	**37,281,887**	31,210,056
Net assets at end of year	$ 22,661,358	$ 3,470,668	$ 17,426,711	**$ 43,558,737**	$ 37,281,887

Statements of Cash Flows
For the Years Ended September 30, 2021 and 2020

	2021	2020
Operating activities:		
Increase in net assets	**$ 6,276,850**	$ 6,071,831
Adjustments to reconcile to cash provided by (used for) operating activities:		
Depreciation	**2,750**	7,970
Unrealized gains, net	**(2,416,063)**	(1,407,252)
Realized gains, net	**(2,119,611)**	(452,929)
Change in value of assets held in charitable remainder trusts	**(106,103)**	(50,317)
Contributions received restricted for long-term investment	**(2,026,276)**	(112,804)
Changes in:		
Contributions receivable	**(145,479)**	13,721
Prepaid expenses	**(59,923)**	74,241
Right of use asset - premises	**104,244**	91,060
Accounts payable and accrued liabilities	**(20,688)**	7,283
Accrued payroll liabilities	**9,271**	17,904
Unearned revenue	**-**	(3,206)
Cash provided by (used for) operating activities	**(501,028)**	4,257,502
Investing activities:		
Purchase of investments	**(2,658,074)**	(4,225,546)
Disposition of investments	**1,408,080**	1,333,152
Dividends and earnings reinvested into investments	**(717,129)**	(841,109)
Acquisition of property and equipment	**(6,721)**	-
Cash used for investing activities	**(1,973,844)**	(3,733,503)
Financing activities:		
Principal payments applied to lease payable	**(98,384)**	(76,547)
Contributions received restricted for long-term investments	**2,026,276**	112,804
Cash provided by financing activities	**1,927,892**	36,257
Increase (decrease) in cash and cash equivalents	**(546,980)**	560,256
Cash and equivalents at beginning of year	**1,382,604**	822,348
Cash and equivalents at end of year	**$ 835,624**	$ 1,382,604
Additional cash flow information:		
Taxes paid	**$ 150**	$ 150
Interest paid	**$ -**	$ -

Statement of Functional Expenses
For the Year Ended September 30, 2021
(with Summarized Financial Information for the Year Ended September 30, 2020)

	Training	Productions	Fundraising and Special Events	General and Admin-istrative	Total Expenses 2021	Total Expenses 2020
Contracted artist development	$ 548,820	$ 806,717	$ -	$ -	**$ 1,355,537**	**$ 544,749**
Salaries, taxes and benefits	423,749	-	249,252	190,498	**863,499**	**788,903**
Grants and awards	335,836	-	-	-	**335,836**	**397,679**
Printing and graphic design	25,373	-	28,386	-	**53,759**	**93,243**
Advertising and promotion	-	-	30,791	-	**30,791**	**18,617**
Rental expense	61,156	-	35,972	-	**97,128**	**90,473**
Hospitality	31,986	-	13,858	80	**45,924**	**19,160**
Miscellaneous	42,761	-	26,662	33,942	**103,365**	**65,889**
Occupancy	-	-	1,100	27,493	**28,593**	**46,425**
Utilities and minor equipment	12,940	-	8,569	11,184	**32,693**	**26,996**
Service charges	-	-	5,601	6,767	**12,368**	**13,828**
Accounting	-	-	-	17,797	**17,797**	**16,335**
Professional services and other fees	-	-	400	5,328	**5,728**	**17,033**
Depreciation	-	-	-	2,750	**2,750**	**7,970**
Postage	-	-	2,142	53	**2,195**	**5,230**
Totals	$ 1,482,621	$ 806,717	$ 402,733	$ 295,892	**$ 2,987,963**	**$ 2,152,530**

1. Organization

Merola Opera Program ("Merola") was organized in 1957 as a California tax-exempt, non-profit corporation. Merola was established to develop young operatic talent. Merola provides operatic training in 11-week and 12-week summer programs based in the San Francisco Bay Area to young singers, apprentice stage directors, and apprentice coaches selected through a series of rigorous nationwide auditions. Merola derives its support from contributions received from government agencies along with support from individuals and foundations located primarily in the greater San Francisco Bay Area.

Management Discussion & Analysis

Changes were made to the program for the summer of 2021 due to continued COVID-19 restrictions in San Francisco, as well as for stringent restrictions required for higher education (all lessons and classes took place at the San Francisco Conservatory of Music). The program was slightly reduced to a 7-week duration for 27 young artists (21 singers, 5 pianist/coaches, 1 stage director). The program included intensive (in person) one-on-one coachings and lessons with world class teaching artists, five live masterclasses with artist teachers, one recital with piano accompaniment, a professional digital video project that included all 27 young artists, and a Grand Finale in Golden Gate Park with piano rather than orchestra. Also included in the program were online classes in languages, finance, career coaching, yoga, and Zoom seminars with renowned artists in the opera field. In addition, there were robust health and safety protocols implemented, with bi-weekly COVID testing led by a professionally trained safety manager.

2. Summary of Significant Accounting Policies

Basis of Presentation – The financial statements of Merola have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

Measure of Operations – The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Merola's ongoing operations, which include a variety of programmatic activities. Nonoperating activities are limited to resources that generate return from interest-bearing deposits and other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents – Cash and cash equivalents include all monies in FDIC-insured bank accounts and highly liquid investments with maturity dates of less than three months. Cash equivalents include short-term interest-bearing investments in money market and liquid asset accounts. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Concentrations of Credit Risk – Financial instruments that potentially subject Merola to concentrations of credit risk consist principally of cash and cash equivalents and deposits. Merola maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. Merola manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy.

2. Summary of Significant Accounting Policies *(continued)*

Concentrations of Credit Risk *(continued)* – To date, Merola has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and grants receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from reputable organizations and foundations supportive of Merola's mission.

Contributions Receivable – Receivables consist primarily of amounts due from individuals and foundations. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization, if applicable, is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

Merola determined that no allowance for doubtful uncollectible receivables is needed based on historical experience, an assessment of economic conditions, and a review of subsequent collections. It is the policy of the organization to periodically assess receivables to determine proper carrying value.

Comparative Financial Information – The accompanying financial statements include certain prior-year summarized comparative information in total but not by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended September 30, 2020, from which the summarized information was derived.

In-Kind Contributions – In-kind contributions are reflected at the fair value of the contribution received in accordance with *ASC 958.605.30-11*. The contributions of services, equipment, and other materials are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Contributed Services – Volunteers donate a substantial amount of time to Merola. While significant in value, these services are not recorded in the financial statements since they are not susceptible of objective measurement or valuation.

Functional Allocation of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities in accordance with the requirements of *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities,* which requires Merola to report expenses by their natural classification. Accordingly, certain costs have been allocated among services and supporting services benefited. Such allocations are determined by management on an equitable basis. A majority of expenses (such as salaries and wages, occupancy, telephone and other utilities) have been allocated based on time and effort using Merola's payroll allocations. Other expenses (such as professional services, advertising, and promotion and other direct costs) have been allocated in accordance with the specific services received from vendors.

2. Summary of Significant Accounting Policies *(continued)*

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Reclassifications – Certain prior year amounts have been reclassified to conform to fiscal year 2021 presentation. These changes had no impact on previously reported changes in net assets.

Advertising – Advertising and promotion costs are expensed as incurred. Advertising and promotion expenses amounted to $30,791 and $18,617 for the years ended September 30, 2021 and 2020, respectively, and are reflected on the statement of functional expenses.

Unearned Revenue – Audition fees for the subsequent season are recorded as unearned revenue and are recognized as revenue in the subsequent fiscal year.

Property and Equipment – Merola's policy is to record acquisitions of property and equipment at cost or, if donated, at fair market value on the date of donation. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts and any resulting gain or loss is included in the statements of activities.

Costs of maintenance and repairs are expensed currently. Merola reviews the carrying values of all assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated economic utility and/or future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. Merola has determined that no long-lived assets were impaired during the years ended September 30, 2021 and 2020.

Income Taxes – Merola is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under IRC Sections 509(a)(1) and (3), respectively. Merola is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. Merola is not required to file an Exempt Organization Business Income Tax Return (Form 990-T) because it had no unrelated business taxable income for the years ended September 30, 2021 and 2020.

Merola has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities, and management is confident that Merola continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status.

2. Summary of Significant Accounting Policies *(continued)*

Net Assets – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Thus, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions
Net assets without donor restrictions represent funds which are available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment and it has opted to do so as of September 30, 2021 and 2020.

Net Assets With Donor Restrictions
Net assets with donor restrictions represent funds which are subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions can be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition – Revenue is recognized in accordance with authoritative guidance, including *ASU 2018-08, Not-for-Profit Entities (Topic 605)* and *ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)*.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. A transfer of funds with a conditional promise to contribute are accounted for as a refundable advance until the conditions have been substantially met. Certain payments received include both elements of contributed income and earned income, and management evaluates such transactions to determine the proper revenue rules to apply and to bifurcate the revenue components. When applicable, revenue earned under a contractual arrangement (an “exchange transaction”) is recognized when earned and therefore measured as services are provided in accordance with Topic 606.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

2. Summary of Significant Accounting Policies *(continued)*

Fair Value Measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Merola groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1
Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2
Other observable inputs, either directly or indirectly, including:
- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3
Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

Investments and Endowment – Investments are reported at fair value with gains and losses included in the statement of activities and changes in net assets. Merola follows the provisions of *ASC 958.320, Investments – Debt and Equity Securities of Not-for-Profit Entities* and has estimated the fair value of its investments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that Merola could realize in a current market exchange.

The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of September 30, 2021 and 2020. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented, especially in light of the impact on financial markets as a result of COVID-19.

2. Summary of Significant Accounting Policies *(continued)*

Merola's endowment consists of a diverse mixture of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by ASC 958.320, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Merola has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, Merola classifies as net assets with donor restrictions – in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions – in perpetuity is classified as net assets with donor restrictions – time/purpose until those amounts are appropriated for expenditure by Merola in a manner consistent with the standard of prudence prescribed by UPMIFA.

Recent and Relevant Accounting Pronouncements – The following pronouncements represent relevant current accounting guidance applicable to nonprofit organizations:

In May 2014, the FASB completed its Revenue Recognition project by issuing *ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)*. This guidance establishes the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The guidance (1) Removes inconsistencies and weaknesses in existing revenue requirements, (2) Provides a more robust framework for addressing revenue issues, (3) Improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (4) Provides more useful information to users of financial statements through improved disclosure requirements, and (5) Simplifies the preparation of financial statements by reducing the number of requirements to which an organization must refer.

In August 2014, the FASB issued *ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires an organization's management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). As of February 7, 2022 (the date of the Independent Auditors' Report), management has made this evaluation and has determined that Merola has the ability to continue as a going concern.

In February 2016, the FASB issued *ASU 2016-02, Leases (Topic 842) Accounting for Leases*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by *ASU No. 2018-01*, *ASU No. 2018-10*, and *ASU No. 2018-11*. This pronouncement is effective for fiscal years beginning after December 15, 2021, but Merola has elected early implementation.

2. Summary of Significant Accounting Policies *(continued)*

Recent and Relevant Accounting Pronouncements *(continued)* – The standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. Leases are required to be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statements of activities and changes in net assets.

In August 2016, the FASB issued *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Merola has adjusted the presentation of these statements accordingly.

In June 2018, the FASB issued *ASU 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update 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. Accordingly, Merola has incorporated these clarifying standards within the audited financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents at September 30, 2021 and 2020 consist of funds in multiple accounts at local financial institutions. The composition of cash and cash equivalents is as follows at September 30:

		2021		**2020**
Checking and petty cash (noninterest-bearing)	**$**	**825,977**	$	623,013
Money market (bearing interest at 0.00% at September 30, 2021)		**9,647**		759,591
Total cash and cash equivalents	**$**	**835,624**	$	1,382,604

4. Contributions Receivable

Contributions receivable of $155,600 and $10,121 at September 30, 2021 and 2020, respectively, represent funds due from various individuals, foundations, and other organizations. Contributions receivable are classified as Level 2 hierarchy as of September 30, 2021 and 2020.

Merola uses the direct write-off method with regards to receivables deemed uncollectible. Management has evaluated the receivables as of September 30, 2021 and determined that such amounts are fully collectible based on the financial health of the donors. Accordingly, there is no allowance for doubtful accounts as of September 30, 2021.

Notes to Financial Statements
September 30, 2021

5. Investments and Endowment

Investments consist of the following at September 30:

	2021	2020
Investments: cash equivalents	**$ 2,485,599**	$ 2,836,311
Equities	**22,847,605**	19,072,740
Fixed Income	**15,308,844**	12,389,172
Alternative Asset – Real Estate	**1,155,566**	1,026,594
Total investments	**$ 41,797,614**	$ 35,324,817

Investments in equity securities with readily determinable fair value and all investments in debt securities are reported at fair value or amounts that approximate fair value. Cash and cash equivalents include funds held in highly liquid investments with maturity dates of three months or less.

Merola has a Finance Committee which has the responsibility for establishing the organization's return objectives and to define the risk parameters. The committee routinely oversees investment performance and reviews cash flows necessary to sustain Merola's operating activities.

Endowment net asset composition by type of fund is summarized as follows as of September 30, 2021:

		Net Assets *With* Donor Restrictions		
	Net Assets *Without* Donor Restrictions	Time / Purpose	Perpetual	Total
Donor-restricted endowment funds	$ -	$ 3,450,668	$ 16,718,294	$ 20,168,962
Board-designated endowment funds	20,108,347	-	-	20,108,347
Charitable remainder trusts	-	-	708,417	708,417
Total funds	**$ 20,108,347**	**$ 3,450,668**	**$ 17,426,711**	**$ 40,985,726**

5. Investments and Endowment *(continued)*

Changes in endowment net assets for the fiscal year ended September 30, 2021 is summarized as follows:

	Net Assets *Without* Donor Restrictions	Net Assets *With* Donor Restrictions: Time / Purpose	Net Assets *With* Donor Restrictions: Perpetual	Total
Endowment net assets at beginning of year	$ 17,196,281	$ 2,391,057	$ 14,565,243	$ 34,152,581
Investment return:				
Investment income, net of fees	639,762	140,149	(63,117)	716,794
Net realized gains	1,305,219	536,196	278,196	2,119,611
Net unrealized gains	1,381,424	520,560	514,010	2,415,994
Total investment return	3,326,405	1,196,905	729,089	5,252,399
Contributions	856,447	-	2,026,276	2,882,723
Change in value of assets held in CRTs [1]	-	-	106,103	106,103
Appropriation of endowment assets	(1,093,477)	(314,603)	-	(1,408,080)
Reclassifications	(177,309)	177,309	-	-
Endowment net assets at end of year	**$ 20,108,347**	**$ 3,450,668**	**$ 17,426,711**	**$ 40,985,726**

Endowment net asset composition by type of fund is summarized as follows as of September 30, 2020:

	Net Assets *Without* Donor Restrictions	Net Assets *With* Donor Restrictions: Time / Purpose	Net Assets *With* Donor Restrictions: Perpetual	Total
Donor-restricted endowment funds	$ -	$ 2,391,057	$ 13,962,929	$ 16,353,986
Board-designated endowment funds	17,196,281	-	-	17,196,281
Charitable remainder trusts	-	-	602,314	602,314
Total funds	**$ 17,196,281**	**$ 2,391,057**	**$ 14,565,243**	**$ 34,152,581**

[1] Charitable remainder trusts

5. Investments and Endowment *(continued)*

Changes in endowment net assets for the fiscal year ended September 30, 2020 is summarized as follows:

	Net Assets *Without* Donor Restrictions	Net Assets *With* Donor Restrictions: Time / Purpose	Net Assets *With* Donor Restrictions: Perpetual	Total
Endowment net assets at beginning of year	$ 13,308,197	$ 1,841,422	$ 14,434,671	$ 29,584,290
Investment return:				
Investment income, net of fees	719,183	167,169	(58,116)	828,236
Net realized gains	310,248	137,807	4,874	452,929
Net unrealized gains	966,385	419,678	20,693	1,406,756
Total investment return	1,995,816	724,654	(32,549)	2,687,921
Contributions	3,043,305	-	112,804	3,156,109
Change in value of assets held in CRTs	-	-	50,317	50,317
Appropriation of endowment assets	(1,063,712)	(262,344)	-	(1,326,056)
Reclassifications	(87,325)	87,325	-	-
Endowment net assets at end of year	**$ 17,196,281**	**$ 2,391,057**	**$ 14,565,243**	**$ 34,152,581**

During the years ended September 30, 2021 and 2020, earnings on investments were reinvested. Endowment investment income, net of fees, amounted to $716,794 and $828,236 for the years ended September 30, 2021 and 2020, respectively. Endowment net realized gains amounted to $2,119,611 and $452,929 for the years ended September 30, 2021 and 2020, respectively. Endowment net unrealized gains amounted to $2,415,994 and $1,406,756 for the years ended September 30, 2021 and 2020, respectively. The change in value of assets held in charitable remainder trusts amounted to $106,103 and $50,317 for the years ended September 30, 2021 and 2020, respectively.

Operating investment income, net of fees, amounted to $335 and $12,873 for the years ended September 30, 2021 and 2020, respectively.

Merola has a Finance Committee which has the responsibility for establishing Merola's return objectives and to define the risk parameters. The committee routinely oversees investment performances and reviews cash flows necessary to sustain Merola's operating activities.

Funds with Deficiencies
From time to time, the fair value of assets associated with some individual donor-restricted endowment funds may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires Merola to retain as a fund of perpetual duration. Merola's investments may decline below their original basis due to market fluctuations and unrealized losses which are beyond the control of Merola's management. In accordance with *ASC 958.205.55.31*, deficiencies of this nature that are required to be reported in net assets with donor restrictions – time/purpose at September 30, 2021 amounted to ($17,322).

5. Investments and Endowment *(continued)*

Return Objectives and Risk Parameters
Merola has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets consist of donor- and board-designated funds. Under this policy, as approved by the Finance Committee and the Board of Directors, the endowment assets are invested in a manner that is intended to (1) produce results that approximate the price and yield results of the general market conditions, (2) subject Merola to a moderate level of investment risk, and (3) maintain sufficient liquidity to meet planned expenditures.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, Merola 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). Merola targets a diversified asset allocation that places a greater emphasis on equity-based investments (mutual funds) to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy
The Spending Policy for Investments is set by the Board. The amount of the annual draw is analyzed, calculated, and then recommended by the Finance Committee for approval by the Board as part of the annual budgeting process for the forthcoming year. Under the provisions of UPMIFA, annual endowment spending may exceed 100% of the endowment income accumulated since the last distribution plus any income not distributed in the preceding years.

6. Liquidity

Merola regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. Merola has various sources of liquidity at its disposal, including cash and cash equivalents, access to potential lines of credit (if necessary), and other sources (including funds held in reserves).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Merola considers all expenditures related to its ongoing activities of providing opera training, including support, performance, and individualized coaching, to be general expenditures. In addition to financial assets available to meet general expenditures over the next 12 months, Merola operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

Merola utilizes a multi-year strategy to ensure financial liquidity. When operating revenues exceed expenses during a given fiscal year, these revenues are placed in reserves to be utilized if the subsequent fiscal year is budgeted with an operating deficit. Merola's expenditures and revenues tend to be on a three-year cycle. Merola's reserves and endowment continue to grow each year, providing the organization with stable reserves to ensure continued operations.

6. Liquidity *(continued)*

The following table shows the total financial assets held by Merola and the amounts of those financial assets readily available within one year of the balance sheet date to meet general expenditures:

		2021		2020
Cash and cash equivalents	**$**	**835,624**	$	1,382,604
Contributions receivable		**155,600**		10,121
Investments – current portion		**2,485,595**		2,836,311
Less: amounts not available to be used within one year:				
Net assets with donor restrictions for programs		**-**		-
Financial assets available to meet general expenditures over the next twelve months	**$**	**3,476,819**	$	4,229,036

Merola's goal is generally to maintain financial assets equal to or in excess of 90 days of operating expenses. As part of its liquidity plan, 30% of all undesignated bequests (not included in the operating budget) are routinely transferred to reserve accounts. As of September 30, 2021, funds held in reserve accounts (and classified within investments: cash equivalents in Note 5) amounted to $1,793,511.

7. Property and Equipment

Property and equipment consist of the following at September 30:

		2021		2020
Furniture and equipment	**$**	**99,288**	$	92,567
Less: accumulated depreciation		**(90,513)**		(87,763)
Property and equipment, net	**$**	**8,775**	$	4,804

Depreciation expense amounted to $2,750 and $7,970 for the years ended September 30, 2021 and 2020, respectively.

8. Contractual Arrangement with San Francisco Opera Association

Under a contractual arrangement, the San Francisco Opera Association (SFOA) performs certain services for Merola's programs and performances, including production of performances, providing faculty and guest artists for the summer programs, and conducting auditions. The fees for these services amounted to $1,355,537 and $542,589 for the years ended September 30, 2021 and 2020, respectively.

9. Related Party Transactions

Certain Merola board members made monetary contributions totaling $232,238 and $296,505 during the years ended September 30, 2021 and 2020, respectively.

10. Assets Held in Charitable Remainder Trusts

During the years ended September 30, 1995, September 30, 2002, and September 30, 2017, Merola was the named remainder beneficiary of certain irrevocable charitable remainder trusts. During the lifetimes of the income beneficiaries, a certain percentage of the fair market value of the trusts will be paid annually by the trustees to such income beneficiaries as designated by the donors. The amounts paid to the income beneficiaries may be different than the income earned by the trusts during any given year, with any difference being added to or subtracted from the trusts' corpus. The trusts terminate upon the death of the income beneficiaries and remaining corpus at that time will be distributed to Merola for establishment of permanent endowment funds in the names of the donors.

The value of the gifts at the time of donation was based on the then-present values of the estimated benefits to be received by Merola at the termination of the trusts. The present values were calculated based on the fair values of the trust assets at the time of donation, the actuarially determined life expectancies of the income beneficiaries, the income distribution percentage rates as specified in the trust instruments (ranging between 6% and 7%), and the assumed discount rates ranging between 6% and 7% (as determined by IRS tables). The present value of the estimated benefits to be received by Merola are recalculated annually based on the current value of the trust assets as provided by the trustees, discounted using the current actuarially determined life expectancies of the income beneficiaries and income distribution percentages and discount rates as originally determined. Annual changes in the value of the trusts are reported as increases or decreases in permanently restricted net assets.

Merola has estimated that the present value of the receivables from remainder trusts amounted to $708,417 and $602,314 at September 30, 2021 and 2020, respectively.

11. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of *ASC 710.25, Compensated Absences.* Under ASC 710.25, Merola is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the statement of financial position based on hourly rates in effect at the end of the fiscal year. At September 30, 2021 and 2020, Merola reflected $66,335 and $57,064, respectively, in accrued payroll and related benefits on the statement of financial position.

12. In-Kind Contributions

Merola recognizes donated services which create and enhance non-financial assets or that require specialized skills (such as professional services which would otherwise need to be purchased if not provided by donation). During the years ended September 30, 2021 and 2020, Merola was the recipient of $4,156 and $26,045, respectively, in various in-kind contributions. These donated items were recorded at their estimated fair market values as in-kind expenses on the statement of functional expenses.

13. Fair Value Measurements

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments; (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves; and (c) Level 3 assets and liabilities are valued based on “unobservable inputs," such as a company’s own estimates and pricing models. Net asset value (NAV) per share, or its equivalent, is used as a practical expedient to estimate the fair market value of certain hedge funds, private equity funds, funds of funds, and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

Composition of assets utilizing fair value measurements at September 30, 2021 is as follows:

	Totals	Level 1	Level 2	Level 3	NAV
Investments: cash equivalents	**$ 2,485,599**	$ 2,485,599	$ -	$ -	$ -
Equities	**22,847,605**	22,847,605	-	-	-
Fixed income	**15,308,844**	15,308,844	-	-	-
Alternative asset – real estate	**1,155,566**	-	-	-	1,155,566
Assets held in charitable remainder trusts	**708,417**	-	-	708,417	-
Contributions receivable	**155,600**	-	155,600	-	-
Totals	**$ 42,661,631**	$40,642,048	$ 155,600	$ 708,417	$1,155,566

Composition of assets utilizing fair value measurements at September 30, 2020 is as follows:

	Totals	Level 1	Level 2	Level 3	NAV
Investments: cash equivalents	**$ 2,836,311**	$ 2,836,311	$ -	$ -	$ -
Equities	**19,072,740**	19,072,740	-	-	-
Fixed income	**12,389,172**	12,389,172	-	-	-
Alternative asset – real estate	**1,026,594**	-	-	-	1,026,594
Assets held in charitable remainder trusts	**602,314**	-	-	602,314	-
Contributions receivable	**10,121**	-	10,121	-	-
Totals	**$ 35,937,252**	$34,298,223	$ 10,121	$ 602,314	$1,026,594

Assets Classified as Level 3

The significant unobservable inputs used in the fair value measurement of Level 3 assets (charitable remainder trusts) are management’s calculation utilizing present value formulas.

14. Right of Use Asset and Leases

Merola leases its corporate office premises in San Francisco under an operating lease agreement expiring in May 2025, with an option to extend for an additional three years. The lease requires a monthly payment of $10,123 as of September 30, 2021. The lease payment increases by 4% each year.

In accordance with *ASU 2016-02, Leases*, Merola is required to reflect the present value of future operating lease payments (discounted at an appropriate borrowing rate) as a “Right of Use” asset and a corresponding lease liability. As of September 30, 2021, Merola has a total lease liability in the amount of $440,539 for its office space (split between current amount of $107,440 and noncurrent amount of $333,099) and a corresponding right of use asset for the premises in the amount of $420,166. As of September 30, 2020, Merola had a total lease liability in the amount of $538,923 (split between current amount of $98,384 and noncurrent amount of $440,539) and a corresponding right of use asset for the premises in the amount of $524,410. The weighted average discount rate associated with the calculation of the present value of the future lease payments as of September 30, 2021 was 4.0%, which represents an estimate of Merola’s incremental borrowing rate.

Occupancy and rental expense for all facilities amounted to $125,721 and $136,898 for the years ended September 30, 2021 and 2020, respectively. At September 30, 2021, minimum future lease payments for operating leases with terms of one year or more are as follows:

Year ending September 30, 2022	$	123,128
Year ending September 30, 2023		128,084
Year ending September 30, 2024		133,044
Year ending September 30, 2025		90,904

15. Retirement Plan

Merola offers employees the opportunity for participation in a retirement plan qualified under Internal Revenue Code Section 401(k). The plan is discretionary but permits employees to contribute pre-tax earnings subject to statutory limitations. Contributions to the plan amounted to $30,509 and $22,315 during the years ended September 30, 2021 and 2020, respectively.

16. Net Assets

Net Assets without Donor Restrictions

Net assets without donor restrictions represent the cumulative retained surpluses of the organization’s operating activities since its inception. Net assets without donor restrictions consist of the following as of September 30:

		2021		**2020**
Undesignated net assets from operating activities	**$**	**2,553,011**	$	3,029,402
Board-designated endowment funds		**20,108,347**		17,196,281
Total net assets without donor restrictions	**$**	**22,661,358**	$	20,225,683

16. Net Assets *(continued)*

Net Assets with Donor Restrictions – Time/Purpose
Merola recognizes support from net assets with donor restrictions imposed by the donors have been satisfied or expired. Net assets with donor restrictions – time/purpose consist of the following as of September 30:

	2021	2020
Board member restricted for following fiscal year	**$ 20,000**	$ 18,025
Membership and sponsorship contributions for following fiscal year	**-**	66,340
Gala donations for following fiscal year	**-**	15,539
Endowment funds	**3,450,668**	2,391,057
Total net assets with donor restrictions – time/purpose	**$ 3,470,668**	$ 2,490,961

During the years ended September 30, 2021 and 2020, contributions of net assets with donor restrictions – time/purpose amounted to $20,000 and $99,904, respectively. Net assets released from restriction amounted to $99,904 and $9,000 during the years ended September 30, 2021 and 2020, respectively. Such amounts are reflected on the statement of activities and changes in net assets as transfers from net assets with donor restrictions to net assets without donor restrictions.

Net Assets with Donor Restrictions – Perpetual
Net assets with donor restrictions – perpetual consist of the following as of September 30:

	2021	2020
Charitable remainder trusts	**$ 708,417**	$ 602,314
Endowment funds	**16,718,294**	13,962,929
Total net assets with donor restrictions – perpetual	**$ 17,426,711**	$ 14,565,243

Endowment funds, classified as net assets with donor restrictions – perpetual, represent donor contributions which are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. During the years ended September 30, 2021 and 2020, contributions of net assets with donor restrictions – perpetual amounted to $2,026,276 and $112,804, respectively. Earnings from investments (interest, dividends, realized and unrealized gains) may be transferred to net assets without donor restrictions and net assets with donor restrictions – time/purpose and used for general operating purposes.

17. COVID-19

As a result of COVID-19 and its variants, the worldwide threat continues to (a) impact financial markets, (b) threaten revenue streams, and (c) impact private enterprises with which Merola conducts business. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, continues to present challenges. Management monitors and evaluates its options. These financial statements do not contain any adjustments related to economic losses which may or may not be realized.

18. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingencies which might not be fully reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate Merola to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond Merola's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts. Management believes that such commitments, contingencies, and risks will not have a material adverse effect on the financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the various granting agencies. Management believes that such commitments, contingencies, and risks will not have a material adverse effect on the financial statements.

19. Subsequent Events

In compliance with *ASC 855, Subsequent Events*, Merola has evaluated subsequent events through February 7, 2022, the date the financial statements were available to be issued, and, in the opinion of management, there are no subsequent events which are required to be disclosed.