



MEROLA OPERA PROGRAM

Financial Statements

For the Fiscal Year Ended
SEPTEMBER 30, 2018

MEROLA OPERA PROGRAM

(A California Not-For-Profit Corporation)
September 30, 2018

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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, 2018 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Merola Opera Program as of September 30, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*December 20, 2018
Danville, California*

MEROLA OPERA PROGRAM

Statement of Financial Position September 30, 2018

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:				
Cash and cash equivalents	\$ 730,247	\$ -	\$ -	\$ 730,247
Contributions receivable	54,858	137,683	-	192,541
Accounts receivable	22,608	-	-	22,608
Prepaid expenses and deposits	321,912	-	-	321,912
Investments	13,470,715	2,442,422	13,584,471	29,497,608
Assets held in charitable remainder trusts	-	-	563,199	563,199
Property and equipment, net	16,620	-	-	16,620
	\$ 14,616,960	\$ 2,580,105	\$ 14,147,670	\$ 31,344,735

LIABILITIES AND NET ASSETS

Liabilities:				
Accounts payable and accrued liabilities	\$ 6,640	\$ -	\$ -	\$ 6,640
Accrued payroll liabilities	27,722	-	-	27,722
Fiscal sponsorship payable	14,026	-	-	14,026
Total liabilities	48,388	-	-	48,388
Net assets:				
Unrestricted:				
Undesignated operating fund	1,239,762	-	-	1,239,762
Board designated endowment funds	13,328,810	-	-	13,328,810
Total unrestricted net assets	14,568,572	-	-	14,568,572
Temporarily restricted:				
Operating	-	698,519	-	698,519
Endowment funds	-	1,881,586	-	1,881,586
Total temporarily restricted net assets	-	2,580,105	-	2,580,105
Permanently restricted:				
Charitable remainder trusts	-	-	563,199	563,199
Endowment funds	-	-	13,584,471	13,584,471
Total permanently restricted net assets	-	-	14,147,670	14,147,670
Total net assets	14,568,572	2,580,105	14,147,670	31,296,347
	\$ 14,616,960	\$ 2,580,105	\$ 14,147,670	\$ 31,344,735

MEROLA OPERA PROGRAM

Statement of Activities and Changes in Net Assets For the Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<i>Revenue, Support, and Other Income</i>				
<i>Earned Revenue:</i>				
Production, performance and other programs	\$ 165,973	\$ -	\$ -	\$ 165,973
Appropriation of endowment assets	1,480,811	-	-	1,480,811
Total earned revenue	1,646,784	-	-	1,646,784
<i>Contributed Income:</i>				
Contributions, sponsorships and memberships	2,317,073	422,684	114,539	2,854,296
In-kind contributions	296,274	-	-	296,274
Net assets released from restrictions	21,750	(21,750)	-	-
Total contributed income	2,635,097	400,934	114,539	3,150,570
<i>Events:</i>				
Ticket and auction revenue	323,240	-	-	323,240
Less costs of direct benefits to attendees	(106,992)	-	-	(106,992)
Net event income	216,248	-	-	216,248
<i>Other Income:</i>				
Change in value of charitable remainder trust	-	-	23,629	23,629
Investment income, net of fees	571,195	133,131	-	704,326
Realized gains on investments (net)	422,983	195,551	788,386	1,406,920
Unrealized gains (losses) on investments (net)	170,569	105,770	(747,229)	(470,890)
Appropriation of endowment assets	(1,154,483)	(326,328)	-	(1,480,811)
Total other income	10,264	108,124	64,786	183,174
Total revenue, support, and other income	4,508,393	509,058	179,325	5,196,776
<i>Expenses:</i>				
Programs and performances	2,597,387	-	-	2,597,387
Fundraising and special events	399,189	-	-	399,189
General and administrative	319,967	-	-	319,967
Total expenses	3,316,543	-	-	3,316,543
Increase in net assets	1,191,850	509,058	179,325	1,880,233
Reclassifications - Endowment	(37,570)	37,570	-	-
Prior period adjustment	(95,000)	152,421	-	57,421
Net assets at beginning of year	13,509,292	1,881,056	13,968,345	29,358,693
Net assets at end of year	\$ 14,568,572	\$ 2,580,105	\$ 14,147,670	\$ 31,296,347

MEROLA OPERA PROGRAM

Statement of Cash Flows For the Year Ended September 30, 2018

Operating activities:

Increase in net assets	\$ 1,880,233
Adjustments to reconcile to cash provided by operating activities:	
Depreciation	8,933
Unrealized losses, net	470,890
Realized gains, net	(1,406,920)
Change in value of assets held in charitable remainder trusts	(23,629)
Contributions received restricted for long-term investment	(114,539)
Changes in:	
Contributions receivable	(192,541)
Accounts receivable	105,222
Prepaid expenses and deposits	(114,938)
Accounts payable and accrued liabilities	(33,867)
Deferred revenue	(62,808)
Cash provided by operating activities	<u>516,036</u>

Investing activities:

Purchase of investments	(1,146,725)
Disposition of investments	1,274,181
Dividends and earnings reinvested into investments	(704,326)
Cash used for investing activities	<u>(576,870)</u>

Financing activities:

Contributions received restricted for long-term investments	114,539
Cash provided by financing activities	<u>114,539</u>

Increase in cash and cash equivalents	53,705
Cash and equivalents at beginning of year	<u>676,542</u>
Cash and equivalents at end of year	<u>\$ 730,247</u>

Additional cash flow information:

Taxes paid	<u>\$ 150</u>
Interest paid	<u>\$ -</u>

MEROLA OPERA PROGRAM

Statement of Functional Expenses For the Year Ended September 30, 2018

	Programs and Performances	Fundraising and Special Events	General and Admin- istrative	Total
Advertising and promotion	\$ -	\$ 38,086	\$ -	\$ 38,086
Contracted artist development	2,059,246	-	-	2,059,246
Depreciation	-	-	8,933	8,933
Grants and awards	182,064	-	-	182,064
Hospitality	23,972	33,595	154	57,721
Miscellaneous	6,137	11,437	60,820	78,394
Occupancy	4,379	7,137	30,451	41,967
Postage	3,154	8,402	259	11,815
Printing and graphic design	46,557	24,771	6	71,334
Professional services and other fees	-	15,000	255	15,255
Rental expense	37,556	33,496	-	71,052
Salaries, taxes and benefits	228,629	203,912	185,375	617,916
Service charges	-	18,275	7,079	25,354
Utilities and minor equipment	5,693	5,078	7,110	17,881
Totals	\$ 2,597,387	\$ 399,189	\$ 319,967	\$ 3,316,543

MEROLA OPERA PROGRAM

Notes to Financial Statements

September 30, 2018

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.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of Merola have been prepared on the accrual basis of accounting in accordance with the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, Merola is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Merola has also adopted the provisions of ASC 958.205.55.31 thru 958.205.55.53, *Presentation of Financial Statements-Endowment Disclosures*.

Support and Revenue Recognition

Merola records contributions in accordance with ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a 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 on the statement of activities and changes in net assets as net assets released from restrictions.

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 disclosures. Accordingly, actual results could differ from those estimates.

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.

Contributions and Accounts Receivable

Contributions and accounts receivable are recorded when Merola receives formal written notification of the funding commitments and are stated at estimated net realizable value.

MEROLA OPERA PROGRAM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Unearned Revenue

Subscriptions for the subsequent season are recorded as unearned revenue and are recognized as revenue in the subsequent fiscal year.

Advertising

Advertising revenues and expenses are recognized in the periods in which advertising appears in the performance programs.

Property and Equipment

Property and equipment purchased by Merola is stated at cost. Property and equipment donated to Merola is recorded at estimated fair value as of the date of the gift. The cost of additions and major improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Components of property and equipment are depreciated using the straight-line method over the estimated useful lives of five years.

Investments and Endowment

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 the 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, 2018. 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.

Investments principally include cash, certificates of deposit, stocks, and mutual funds. Purchased investments are initially stated at cost. Investments received by gift are recorded at market value at the date of contribution. Investments in mutual fund securities with readily determinable fair values are reported at fair value with gains and losses included on the statement of activities and changes in net assets.

Contributed Services and Costs

Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs 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. A substantial number of unpaid volunteers have made significant contributions of time to various departments or programs of Merola. The value of this contributed time is not reflected in the financial statements because it is not susceptible to objective measurement or valuation and therefore did not meet the criteria for recognition under ASC 958.605.30-11 "*Revenue Recognition of Not-For-Profit Entities*."

Functional Allocation of Expenses

The costs of providing Merola's various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The costs of operating the various programs of Merola have been detailed in the statement of functional expenses.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Net Assets

In accordance with accounting principles generally accepted in the United States of America, financial statements must present classes of net assets based on the following categories: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Grants and contributions are classified in the appropriate net asset category based on the absence or existence of donor-imposed restrictions that limit the use of the donated assets if they are designated as support for future periods or future projects when they are received.

Merola reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Income Taxes

Financial statement presentation follows the recommendations of ASC 740, Income Taxes, *Income Taxes*. Under ASC 740, Merola is required to report information regarding its exposure to various tax positions taken by Merola and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that Merola has adequately evaluated its current tax positions and has concluded that as of September 30, 2018, Merola does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

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. This exemption is 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. Merola may periodically receive unrelated business income requiring Merola to file separate tax returns under federal and state statutes. Under such conditions, Merola calculates and accrues the applicable taxes payable.

Fiscal Sponsor

During the year ended September 30, 2018, Merola acted as a fiscal sponsor for an award-winning theater artist. The unpaid liability related to this project amounted to \$14,026 as of September 30, 2018 and is reflected as a liability on the statement of financial position.

MEROLA OPERA PROGRAM

Notes to Financial Statements

3. Cash and Equivalents

Cash and cash equivalents of \$730,247 at September 30, 2018 consist of funds in multiple accounts at local financial institutions as follows:

Checking and petty cash (noninterest-bearing)	\$ 504,595
Money market (bearing interest at 0.35% per annum at September 30, 2018)	225,652
Total cash and cash equivalents	<u>\$ 730,247</u>

4. Contributions and Accounts Receivable

Contributions receivable of \$192,541 at September 30, 2018 represent funds due from various individuals, foundations, and other organizations. Accounts receivable of \$22,607 at September 30, 2018 represent refunds due from San Francisco Opera Association (SFOA) for excess amounts paid by Merola to SFOA under the contractual arrangement between the two organizations. Contributions and accounts receivable are classified as Level 2 hierarchy as of September 30, 2018. See Note 9 for further information regarding the relationship with SFOA.

5. Assets Held in Charitable Remainder Trusts

During the years ended September 30, 1995 and September 30, 2002, 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 \$563,199 at September 30, 2018.

MEROLA OPERA PROGRAM

Notes to Financial Statements

6. Investments and Endowment

Investments consist of the following at September 30 2018:

Cash and equivalents	\$ 1,635,888
Equities	16,237,217
Fixed income	10,620,478
Alternative asset - real estate	1,004,025
Total investments	\$ 29,497,608

The cost basis of all investments at September 30, 2018 amount to \$26,883,667.

Changes in endowment net assets for the year ended September 30, 2018 and net asset composition by type of fund at September 30, 2018 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ 12,329,262	\$ 1,735,892	\$ 13,968,345	\$ 28,033,499
<i>Investment return:</i>				
Investment income, net of fees	566,187	133,131	-	699,318
Net realized gains	422,983	195,551	788,386	1,406,920
Net unrealized gains	170,243	105,770	(747,229)	(471,216)
Total investment return	1,159,413	434,452	41,157	1,635,022
Contributions	1,032,187	-	114,539	1,146,726
Change in value of assets held in CRTs	-	-	23,629	23,629
Appropriation of endowment assets	(1,154,482)	(326,328)	-	(1,480,810)
Reclassifications	(37,570)	37,570	-	-
Endowment net assets - end of year	\$ 13,328,810	\$ 1,881,586	\$ 14,147,670	\$ 29,358,066

Endowment net assets by type of fund:

Board designated	\$ 13,328,810	\$ -	\$ 13,584,471	\$ 26,913,281
Donor restricted	-	1,881,586	-	1,881,586
Charitable remainder trusts	-	-	563,199	563,199
Total endowment net assets	\$ 13,328,810	\$ 1,881,586	\$ 14,147,670	\$ 29,358,066

During the year ended September 30, 2018, earnings on investments were reinvested. Investment income, net of fees, amounted to \$704,326 for the year ended September 30, 2018. Net realized gains amounted to \$1,406,920 for the year ended September 30, 2018. Net unrealized losses amounted to \$470,890 for the year ended September 30, 2018. The change in value of assets held in charitable remainder trusts amounted to \$23,629 for the year ended September 30, 2018. *(continued)*

Notes to Financial Statements

6. Investments and Endowment *(continued)*

Merola has a Finance Committee which has the responsibility for establishing Merola's return objectives (generally lower rates of return associated with more stable and safer investments) 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 individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires Merola to retain as a fund of perpetual duration. In accordance with ASC 958.205.55.31, there are no deficiencies of this nature that are required to be reported in unrestricted net assets at September 30, 2018. Such future deficiencies could result from unfavorable market fluctuations occurring after the investment of new restricted contributions and continued appropriation for certain programs which are deemed prudent by the Board of Directors.

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. Although there were none at September 30, 2018, future deficiencies of this nature (if applicable) would be reported in unrestricted net assets.

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 Investment 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 (c) 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 of 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.

MEROLA OPERA PROGRAM

Notes to Financial Statements

7. Fair Value Measurements

Composition of assets utilizing fair value measurements at September 30, 2018 is as follows:

	Totals	Level 1	Level 2	Level 3
Cash and equivalents	\$ 1,635,888	\$ 1,635,888	\$ -	\$ -
Equities	16,237,217	16,237,217	-	-
Fixed income	10,620,478	10,620,478	-	-
Alternative asset - real estate	1,004,025	-	-	1,004,025
Assets held in charitable remainder trust	563,199	-	-	563,199
Contributions and accounts receivable	215,149	-	215,149	-
Total investments	<u>\$ 30,275,956</u>	<u>\$ 28,493,583</u>	<u>\$ 215,149</u>	<u>\$ 1,567,224</u>

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.

Assets Classified as Level 3

The significant unobservable inputs used in the fair value measurement of level 3 assets are: (a) charitable remainder trust: management's calculation utilizing present value formulas; (b) alternative asset - real estate: calculation from a real estate investment management advisor.

8. Property and Equipment

Property and equipment consist of the following at September 30, 2018:

Furniture and equipment	\$ 87,011
Less: accumulated depreciation	(70,391)
Property and equipment, net	<u>\$ 16,620</u>

Depreciation expense amounted to \$8,933 for the year ended September 30, 2018.

9. 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 \$2,039,426 (including \$230,601 of in-kind services) for the year ended September 30, 2018.

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Notes to Financial Statements

10. Lease and Other Commitments

Merola leases its corporate office premises in San Francisco under an operating lease agreement which expires May 31, 2020, with an option to extend for an additional three years. The lease requires a monthly payment of \$8,578 as of September 30, 2018. The lease payment increases by 3% each year. At September 30, 2018, minimum future lease payments for all operating leases with terms of one year or more are as follows: \$103,964 for the year ending September 30, 2019; and \$70,682 for the year ending September 30, 2020.

11. Net Assets

The composition of unrestricted net assets consist of the following at September 30, 2018:

Undesignated net assets from operating activities	\$ 1,239,762
Board designated endowment funds	13,328,810
Total unrestricted net assets	<u>\$ 14,568,572</u>

Unrestricted net assets of \$14,568,572 at September 30, 2018 represents the cumulative retained surpluses of the organization's operating activities since its inception.

The composition of temporarily restricted net assets consist of the following at September 30, 2018:

Individuals for "If I Were You" Commission	\$ 478,519
Getty Foundation for "If I Were You" Commission	200,000
Board member restricted for following fiscal year	15,000
Fee for acting as fiscal sponsor	5,000
Endowment funds	1,881,586
Total temporarily restricted net assets	<u>\$ 2,580,105</u>

Merola recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. During the year ended September 30, 2018, contributions to temporarily restricted net assets amounted to \$422,684 and net assets released from restrictions amounted to \$21,750.

The composition of permanently restricted net assets consist of the following at September 30, 2018:

Charitable remainder trusts	\$ 563,199
Endowment funds	13,584,471
Total permanently restricted net assets	<u>\$ 14,147,670</u>

Endowment funds, classified as permanently restricted net assets, represent donor contributions which are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. Earnings from investments (interest, dividends, realized and unrealized gains) may be transferred to unrestricted and temporarily restricted net assets and used for general operating purposes.

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Notes to Financial Statements

12. 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 Statements of Financial Position based on hourly rates in effect at the end of the fiscal year. At September 30, 2018, Merola reflected \$27,721 in accrued payroll and related benefits.

13. 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, 2018 Merola was the recipient of \$296,274 in various in-kind contributions. These donated items were recorded at their estimated fair market value as in-kind expenses on the statement of functional expenses.

14. 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. During the year ended September 30, 2018, contributions to the plan amounted to \$25,620.

15. Commitments and Contingencies

In the normal course of business there are various commitments outstanding and contingent liabilities such as commitments to enter into contracts and provide future services not 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 and operating 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 granting entities.

16. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, Merola has evaluated subsequent events through December 20, 2018, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which need to be disclosed.