



Merola Opera Program

Financial Statements

**For the Year Ended
September 30, 2023**
With Independent Auditors' Report Thereon

Merola Opera Program

(A California Not-for-Profit Corporation)

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INDEPENDENT AUDITORS' REPORT

Management Committee Merola Opera Program

Opinion

We have audited the accompanying financial statements of Merola Opera Program (a California nonprofit organization) which comprise the statements of financial position as of September 30, 2023 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Merola Opera Program as of September 30, 2023 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Merola Opera Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Merola Opera Program's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Merola Opera Program

(A California Not-for-Profit Corporation)

INDEPENDENT AUDITORS' REPORT *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Merola Opera Program's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Merola Opera Program's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Merola Opera Program's financial statements as of and for the year ended September 30, 2022, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 12, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

April 24, 2024
Danville, California

Regalia & Associates

Merola Opera Program

Statement of Financial Position

September 30, 2023

(with Summarized Financial Information for the Year Ended September 30, 2022)

ASSETS

| | 2023 | | | Total 2023 | Total 2022 |
|--|----------------------------------|--|---|---------------|---------------|
| | Without Donor Restrictions | With Donor Restrictions - Time/purpose | With Donor Restrictions - In perpetuity | | |
| | Current assets: | | | | |
| Cash and cash equivalents | \$ 2,228,669 | \$ 10,000 | \$ - | \$ 2,238,669 | \$ 2,425,978 |
| Contributions receivable | 138,487 | - | - | 138,487 | 12,677 |
| Prepaid expenses | 22,875 | - | - | 22,875 | 103,681 |
| Investments | 604,895 | - | - | 604,895 | 540,739 |
| Total current assets | 2,994,926 | 10,000 | - | 3,004,926 | 3,083,075 |
| Noncurrent assets: | | | | | |
| Endowment investments | 17,481,065 | 1,497,951 | 16,654,717 | 35,633,733 | 31,875,910 |
| Beneficial interest in charitable remainder trusts | - | - | 451,602 | 451,602 | 425,039 |
| Property and equipment, net | 7,836 | - | - | 7,836 | 6,320 |
| Deposits | 15,700 | - | - | 15,700 | 16,050 |
| Operating right of use asset - premises | 199,007 | - | - | 199,007 | 311,821 |
| Total noncurrent assets | 17,703,608 | 1,497,951 | 17,106,319 | 36,307,878 | 32,635,140 |
| Total assets | \$ 20,698,534 | \$ 1,507,951 | \$ 17,106,319 | \$ 39,312,804 | \$ 35,718,215 |

LIABILITIES AND NET ASSETS

| | | | | | |
|--|---------------|--------------|---------------|---------------|---------------|
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 30,413 | \$ - | \$ - | \$ 30,413 | \$ 88,329 |
| Accrued payroll liabilities | 55,960 | - | - | 55,960 | 50,969 |
| Operating lease payable - current portion | 126,678 | - | - | 126,678 | 116,865 |
| Total current liabilities | 213,051 | - | - | 213,051 | 256,163 |
| Noncurrent liability: | | | | | |
| Operating lease payable - noncurrent portion | 89,556 | - | - | 89,556 | 216,234 |
| Total liabilities | 302,607 | - | - | 302,607 | 472,397 |
| Net assets: | | | | | |
| Without donor restrictions: | | | | | |
| Undesignated operating fund | 2,010,683 | - | - | 2,010,683 | 2,036,883 |
| Board-designated endowment funds | 18,385,244 | - | - | 18,385,244 | 15,825,003 |
| Total | 20,395,927 | - | - | 20,395,927 | 17,861,886 |
| With donor restrictions - time/purpose: | | | | | |
| Operating | - | 10,000 | - | 10,000 | 19,000 |
| Endowment funds | - | 1,497,951 | - | 1,497,951 | 744,557 |
| Total | - | 1,507,951 | - | 1,507,951 | 763,557 |
| With donor restrictions - in perpetuity: | | | | | |
| Beneficial interest in charitable remainder trusts | - | - | 451,602 | 451,602 | 425,039 |
| Endowment funds | - | - | 16,654,717 | 16,654,717 | 16,195,336 |
| Total | - | - | 17,106,319 | 17,106,319 | 16,620,375 |
| Total net assets | 20,395,927 | 1,507,951 | 17,106,319 | 39,010,197 | 35,245,818 |
| Total liabilities and net assets | \$ 20,698,534 | \$ 1,507,951 | \$ 17,106,319 | \$ 39,312,804 | \$ 35,718,215 |

See accompanying Independent Auditors' Report and notes to financial statements

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Merola Opera Program

Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2023
(with Summarized Financial Information for the Year Ended September 30, 2022)

| | 2023 | | | Total 2023 | Total 2022 |
|---|---|---|--|---------------|---------------|
| | <i>Without Donor Restrictions</i> | <i>With Donor Restrictions - Time/purpose</i> | <i>With Donor Restrictions - In perpetuity</i> | | |
| <i>Revenue, Support, and Other Income:</i> | | | | | |
| <i>Earned Revenue:</i> | | | | | |
| Production, performance, and other programs | \$ 123,688 | \$ - | \$ - | \$ 123,688 | \$ 130,087 |
| Appropriation of endowment assets | 1,706,641 | - | - | 1,706,641 | 1,653,497 |
| Total earned revenue | 1,830,329 | - | - | 1,830,329 | 1,783,584 |
| <i>Contributed Income:</i> | | | | | |
| Contributions | 2,893,990 | 10,000 | 518,866 | 3,422,856 | 2,113,026 |
| Contributions of nonfinancial assets | 21,257 | - | - | 21,257 | 10,872 |
| Appropriation of endowment assets | (1,231,804) | (474,837) | - | (1,706,641) | (1,653,497) |
| Net assets released from restrictions | 19,000 | (19,000) | - | - | - |
| Total contributed income | 1,702,443 | (483,837) | 518,866 | 1,737,472 | 470,401 |
| <i>Events:</i> | | | | | |
| Ticket and auction earned revenue | 62,573 | - | - | 62,573 | 38,590 |
| Contributions | 65,281 | - | - | 65,281 | 116,245 |
| Contributions of nonfinancial assets | 24,480 | - | - | 24,480 | - |
| Less costs of direct benefits to attendees | (68,959) | - | - | (68,959) | (58,846) |
| Net event income | 83,375 | - | - | 83,375 | 95,989 |
| <i>Other Income (Loss):</i> | | | | | |
| Change in value of charitable remainder trusts | - | - | 26,563 | 26,563 | (283,378) |
| Investment income, net of fees | 824,960 | 203,929 | (62,754) | 966,135 | 901,397 |
| Realized gains (losses) on investments (net) | 223,724 | 130,226 | 76,311 | 430,261 | (130,796) |
| Unrealized gains (losses) on investments (net) | 1,485,382 | 796,951 | (73,042) | 2,209,291 | (7,570,995) |
| Total other income (loss) | 2,534,066 | 1,131,106 | (32,922) | 3,632,250 | (7,083,772) |
| Total revenue, support, and other income (loss) | 6,150,213 | 647,269 | 485,944 | 7,283,426 | (4,733,798) |
| <i>Expenses:</i> | | | | | |
| Training | 1,637,117 | - | - | 1,637,117 | 1,643,919 |
| Productions | 901,053 | - | - | 901,053 | 1,121,441 |
| Fundraising and special events | 664,633 | - | - | 664,633 | 597,425 |
| General and administrative | 316,244 | - | - | 316,244 | 303,581 |
| Total expenses | 3,519,047 | - | - | 3,519,047 | 3,666,366 |
| Increase (decrease) in net assets | 2,631,166 | 647,269 | 485,944 | 3,764,379 | (8,400,164) |
| Reclassifications - endowment | (97,125) | 97,125 | - | - | - |
| Net assets at beginning of year | 17,861,886 | 763,557 | 16,620,375 | 35,245,818 | 43,558,737 |
| Net assets at end of year | \$ 20,395,927 | \$ 1,507,951 | \$ 17,106,319 | \$ 39,010,197 | \$ 35,158,573 |

Merola Opera Program

Statements of Cash Flows For the Years Ended September 30, 2023 and 2022

| | 2023 | 2022 |
|---|--------------|---------------|
| <i>Operating activities:</i> | | |
| Increase (decrease) in net assets | \$ 3,764,379 | \$(8,312,919) |
| Adjustments to reconcile to cash used for operating activities: | | |
| Depreciation | 2,584 | 2,455 |
| Unrealized (gains) losses, net | (2,209,291) | 7,570,995 |
| Realized (gains) losses, net | (430,261) | 130,796 |
| Change in value of beneficial interest in charitable remainder trusts | (26,563) | 283,378 |
| Contributions received restricted for endowment | (518,866) | (619,590) |
| Changes in: | | |
| Contributions receivable | (125,810) | 142,923 |
| Prepaid expenses | 80,806 | (7,382) |
| Deposits | 350 | 29,650 |
| Operating right of use asset and operating lease liabilities | (4,051) | 905 |
| Accounts payable and accrued liabilities | (57,916) | 85,745 |
| Accrued payroll liabilities | 4,991 | (15,366) |
| Cash provided by (used for) operating activities | 480,352 | (708,410) |
| <i>Investing activities:</i> | | |
| Purchase of investments | (10,526,751) | (17,266,409) |
| Disposition of investments | 9,344,324 | 17,152,072 |
| Acquisition of property and equipment | (4,100) | - |
| Cash used for investing activities | (1,186,527) | (114,337) |
| <i>Financing activities:</i> | | |
| Contributions received restricted for endowment | 518,866 | 619,590 |
| Cash provided by financing activities | 518,866 | 619,590 |
| Decrease in cash and cash equivalents | (187,309) | (203,157) |
| Cash and equivalents at beginning of year | 2,425,978 | 2,629,135 |
| Cash and equivalents at end of year | \$ 2,238,669 | \$ 2,425,978 |
| <i>Additional cash flow information:</i> | | |
| Taxes paid | \$ 400 | \$ 400 |
| Interest paid | \$ - | \$ - |

Merola Opera Program

Statement of Functional Expenses
For the Year Ended September 30, 2023
(with Summarized Financial Information for the Year Ended September 30, 2022)

| | | Training | Productions | Fundraising and Special Events | General and Admin- istrative | Total Expenses 2023 | Total Expenses 2022 |
|--------------------------------------|-----------|------------------|--------------------|---|---|------------------------------------|------------------------------------|
| Contracted artist development | \$ | 782,255 | \$ 901,053 | \$ 17,757 | \$ - | \$ 1,701,065 | \$ 1,879,734 |
| Salaries, taxes and benefits | | 308,709 | - | 361,631 | 211,686 | 882,026 | 996,163 |
| Grants and awards | | 187,553 | - | - | - | 187,553 | 148,959 |
| Printing and graphic design | | 46,474 | - | 29,201 | - | 75,675 | 90,939 |
| Advertising and promotion | | - | - | 121,034 | - | 121,034 | 65,178 |
| Rental expense | | 5,130 | - | 6,009 | 3,518 | 14,657 | 5,175 |
| Hospitality | | 73,457 | - | 15,426 | 192 | 89,075 | 62,248 |
| Lodging | | 155,687 | - | - | - | 155,687 | 154,390 |
| Miscellaneous | | 3,710 | - | 4,545 | 20,459 | 28,714 | 36,076 |
| Occupancy | | 43,661 | - | 54,976 | 29,939 | 128,576 | 131,678 |
| Utilities and minor equipment | | 17,628 | - | 15,367 | 13,141 | 46,136 | 29,431 |
| Service charges | | - | - | 5,872 | 8,292 | 14,164 | 17,898 |
| Accounting | | - | - | - | 21,678 | 21,678 | 20,882 |
| Professional services and other fees | | 12,775 | - | 30,476 | 4,711 | 47,962 | 18,442 |
| Depreciation | | - | - | - | 2,584 | 2,584 | 2,455 |
| Postage | | 78 | - | 2,339 | 44 | 2,461 | 6,718 |
| Totals | \$ | 1,637,117 | \$ 901,053 | \$ 664,633 | \$ 316,244 | \$ 3,519,047 | \$ 3,666,366 |

Notes to Financial Statements September 30, 2023

1. Organization

Merola Opera Program ("Merola") was organized in 1957 as a California tax-exempt, nonprofit 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 emerging singers, pianists, and stage directors 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

Merola returned to its standard program in 2023, after several years of being seriously affected by COVID-19. The program was 12-weeks long for 29 young artists (23 singers, 5 pianists, 1 stage director), and all lessons and classes took place at the San Francisco Conservatory of Music. The program included intensive one-on-one coachings and lessons with world-class teaching artists, six live master classes with artist teachers, one recital with piano accompaniment, two performances of a semi-staged concert of standard and contemporary opera scenes with full orchestra, two performances of a fully staged production of the Benjamin Britten's *The Rape of Lucretia* with professional orchestra (performed at Herbst Theatre in the Veteran's Building), and the Merola Grand Finale of opera arias and scenes with full orchestra in the War Memorial Opera House. Also included in the program were classes in languages, finance, career coaching, and yoga.

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.

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* (US GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended September 30, 2022, from which the summarized information was derived.

Use of Estimates – The preparation of financial statements in conformity with US GAAP 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.

Notes to Financial Statements
September 30, 2023

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

Reclassifications – Certain prior year amounts have been reclassified to conform to fiscal year 2023 presentation. These changes had no impact on previously reported changes in net assets

Cash and Cash Equivalents – Cash and cash equivalents include all monies in FDIC-insured bank accounts and highly liquid investments with maturity dates of three months or less from the date of purchase. 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. Cash and cash equivalents held temporarily in the investment portfolio are excluded from cash and cash equivalents available for current use.

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.

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.

Contributions of Nonfinancial Assets – Contributed services and costs are reflected at the fair value of the contribution received in accordance with *ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. 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.

Volunteers contribute significant amounts of time to Merola's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Merola Opera Program

Notes to Financial Statements September 30, 2023

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

Functional Allocation of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statement of activities in accordance with *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. Every natural expense must be broken out into individual functional categories on an analysis of expenses by their nature and function. 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, taxes and benefits, occupancy, and other overhead) 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.

Advertising – Advertising and promotion costs are expensed as incurred. Advertising and promotion expenses amounted to \$121,034 and \$65,178 for the years ended September 30, 2023 and 2022, respectively, and are reflected on the statement of functional expenses.

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, 2023 and 2022.

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), qualifies 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, 2023 and 2022.

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.

Notes to Financial Statements
September 30, 2023

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 discussed in Note 16.

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 such 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)*. Revenue from performances and productions is recognized at the time the performance is held. 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. Special events revenue is recognized as the fair value of the direct benefits to the donors when the event takes place. The contribution element of special event revenue is recognized when received.

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.

Notes to Financial Statements
September 30, 2023

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 Merola's 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, 2023 and 2022. 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.

Notes to Financial Statements
September 30, 2023

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

Investments and Endowment *(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:

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) 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.

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 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 April 24, 2024 (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.

ASU 2016-02, Leases (Topic 842) Accounting for Leases requires lessees to recognize long-term operating leases on the statement of financial position and disclose key information about leasing arrangements. This 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 classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of activities and changes in net assets.

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Notes to Financial Statements September 30, 2023

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

Recent and Relevant Accounting Pronouncements *(continued)* – ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* 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.

ASU 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* was issued 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.

ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* increases transparency around contributed nonfinancial assets (also known as “gifts-in-kind”) received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. The Update requires that an organization present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The Update also requires certain enhanced disclosures for contributed nonfinancial assets.

3. Cash and Cash Equivalents

Cash and cash equivalents at September 30, 2023 and 2022 consist of funds in accounts at various financial institutions. The composition of cash and cash equivalents is as follows at September 30:

| | 2023 | 2022 |
|---|---------------------|---------------------|
| Checking (noninterest-bearing) | \$ 391,152 | \$ 601,529 |
| Money market (bearing interest at 5.34% at September 30, 2023) | 1,588,362 | 1,814,410 |
| Insured sweep (bearing interest at 0.10% at September 30, 2023) | 259,155 | 10,039 |
| Total cash and cash equivalents | <u>\$ 2,238,669</u> | <u>\$ 2,425,978</u> |

4. Contributions Receivable

Contributions receivable of \$138,487 and \$12,677 at September 30, 2023 and 2022, respectively, represent funds due within one year from various individuals, foundations, and other organizations. Merola uses the direct write-off method regarding receivables deemed uncollectible. Management has evaluated the receivables as of September 30, 2023 and determined that such amounts are fully collectible based on a variety of factors, including collection experience, the financial health of the donors, and other analyses. Accordingly, there is no allowance for doubtful accounts as of September 30, 2023 and 2022.

Merola Opera Program

Notes to Financial Statements September 30, 2023

5. 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 most years, providing the organization with stable reserves to ensure continued operations. 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 date of the statement of financial position to meet general expenditures:

| | 2023 | | 2022 |
|--|--------------|----|-----------|
| Cash and cash equivalents | \$ 2,238,669 | \$ | 2,425,978 |
| Contributions receivable | 138,487 | | 12,677 |
| Investments – current portion | 604,895 | | 540,739 |
| Financial assets available to meet general expenditures over the next twelve months | \$ 2,982,051 | \$ | 2,979,394 |

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, 2023 and 2022, funds held in reserve accounts (and classified within cash and cash equivalents) amounted to \$1,588,362 and \$1,814,410, respectively.

6. Investments and Endowment

Investments consist of the following at September 30:

| | 2023 | | 2022 | |
|--|---------------|---------------|---------------|---------------|
| | Cost Basis | Fair Value | Cost Basis | Fair Value |
| Investment cash and money market funds | \$ 796,767 | \$ 796,767 | \$ 884,590 | \$ 884,590 |
| Equities | 12,240,089 | 14,221,236 | 12,201,216 | 12,307,652 |
| Fixed income securities | 7,820,755 | 6,879,436 | 6,791,206 | 5,847,696 |
| Mutual funds | 11,588,849 | 12,048,883 | 12,129,753 | 11,984,917 |
| Alternative investments – real estate fund | 2,261,582 | 2,292,306 | 1,000,000 | 1,391,794 |
| Totals | \$ 34,708,042 | \$ 36,238,628 | \$ 33,006,765 | \$ 32,416,649 |

Merola Opera Program

Notes to Financial Statements September 30, 2023

6. Investments and Endowment *(continued)*

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.

Changes in endowment net assets is summarized as follows:

| | Net Assets <i>Without</i> Donor Restrictions | Net Assets <i>With</i> Donor Restrictions | | |
|--|---|--|----------------------|----------------------|
| | | Time / Purpose | Perpetual | Total |
| Endowment net assets at October 1, 2021 | \$ 20,108,347 | \$ 3,450,668 | \$ 17,426,711 | \$ 40,985,726 |
| <u>Investment return:</u> | | | | |
| Investment income, net of fees | 785,809 | 183,426 | (66,925) | 902,310 |
| Net realized (losses) gains | (139,558) | (75,570) | 84,332 | (130,796) |
| Net unrealized losses | (4,269,781) | (2,141,259) | (1,159,955) | (7,570,995) |
| Total investment return | (3,623,530) | (2,033,403) | (1,142,548) | (6,799,481) |
| Contributions | 320,975 | - | 619,590 | 940,565 |
| Change in value of CRTs [1] | - | - | (283,378) | (283,378) |
| Appropriation of endowment assets | (1,229,072) | (424,425) | - | (1,653,497) |
| Reclassifications and transfers | 248,283 | (248,283) | - | - |
| Endowment net assets at September 30, 2022 | \$ 15,825,003 | \$ 744,557 | \$ 16,620,375 | \$ 33,189,935 |
| <u>Investment return:</u> | | | | |
| Investment income, net of fees | 754,489 | 203,929 | (62,754) | 895,664 |
| Net realized gains | 223,724 | 130,226 | 76,311 | 430,261 |
| Net unrealized gains (losses) | 1,484,894 | 796,951 | (73,042) | 2,208,803 |
| Total investment return | 2,463,107 | 1,131,106 | (59,485) | (3,534,728) |
| Contributions | 1,426,063 | - | 518,866 | 1,944,929 |
| Change in value of CRTs [1] | - | - | 26,563 | 26,563 |
| Appropriation of endowment assets | (1,231,804) | (474,837) | - | (1,706,641) |
| Reclassifications and transfers | (97,125) | 97,125 | - | - |
| Endowment net assets at September 30, 2023 | \$ 18,385,244 | \$ 1,497,951 | \$ 17,106,319 | \$ 36,989,514 |

[1] Beneficial interests in charitable remainder trusts

Notes to Financial Statements
September 30, 2023

6. Investments and Endowment *(continued)*

During the years ended September 30, 2023 and 2022, earnings on investments were reinvested. Endowment investment income, net of fees, amounted to \$895,664 and \$902,310 for the years ended September 30, 2023 and 2022, respectively. Endowment net realized gains and losses amounted to \$430,261 and (\$130,796) for the years ended September 30, 2023 and 2022, respectively. Endowment net unrealized gains and losses amounted to \$2,208,803 and (\$7,570,995) for the years ended September 30, 2023 and 2022, respectively. The change in value of assets held in charitable remainder trusts amounted to \$26,563 and (\$283,378) for the years ended September 30, 2023 and 2022, respectively. Operating investment income amounted to \$70,471 and \$12,952 for the years ended September 30, 2023 and 2022, 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 reported in net assets with donor restrictions – time/purpose amounted to (\$407,594) and (\$581,816) at September 30, 2023 and 2022, respectively.

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.

Merola Opera Program

Notes to Financial Statements September 30, 2023

7. Fair Value Measurements

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. 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, 2023 is as follows:

| | Totals | Level 1 | Level 2 | Level 3 | NAV |
|---|----------------------|---------------------|---------------------|-------------------|---------------------|
| Investment cash and money market funds | \$ 796,767 | \$ 796,767 | \$ - | \$ - | \$ - |
| Equities | 14,221,236 | 14,221,236 | - | - | - |
| Fixed income securities | 6,879,436 | - | 6,879,436 | - | - |
| Mutual funds | 12,048,883 | 12,048,883 | - | - | - |
| Real Estate Investment Trusts (REIT's) | 2,292,306 | - | - | - | 2,292,306 |
| Beneficial interest in charitable remainder trusts held by others | 451,602 | - | - | 451,602 | - |
| Totals | \$ 36,690,230 | \$27,066,866 | \$ 6,879,436 | \$ 451,602 | \$ 2,292,306 |

Composition of assets utilizing fair value measurements at September 30, 2022 is as follows:

| | Totals | Level 1 | Level 2 | Level 3 | NAV |
|---|----------------------|---------------------|--------------------|-------------------|--------------------|
| Investment cash and money market funds | \$ 884,590 | \$ 884,590 | \$ - | \$ - | \$ - |
| Equities | 12,307,652 | 12,307,652 | - | - | - |
| Fixed income securities | 5,847,696 | - | 5,847,696 | - | - |
| Mutual funds | 11,984,917 | 11,984,917 | - | - | - |
| Real Estate Investment Trusts (REIT's) | 1,391,794 | - | - | - | 1,391,794 |
| Beneficial interest in charitable remainder trusts held by others | 425,039 | - | - | 425,039 | - |
| Totals | \$ 32,841,688 | \$25,177,159 | \$5,847,696 | \$ 425,039 | \$1,391,794 |

Assets Classified as Level 3

The significant unobservable inputs used in the fair value measurement of Level 3 assets (charitable remainder trusts) are the actuarially determined life expectancies of the donors and the assumed discount rates used by management. The change in value of the underlying assets in Merola's beneficial interest in charitable trusts held by others amounted to \$26,563 and (\$283,378) for the years ended September 30, 2023 and 2022, respectively.

Merola has investments in two REIT's which are measured at fair value using NAV per share as a practical expedient. One of these investments has a monthly redemption frequency upon a 30-day notice, is valued at \$954,531 and \$1,391,794 at September 30, 2023 and 2022, respectively. The other REIT was purchased during the year ended September 30, 2023. This REIT has limited liquidity and is valued at \$1,337,775 at September 30, 2023.

Merola Opera Program

Notes to Financial Statements September 30, 2023

8. Property and Equipment

Property and equipment consist of the following at September 30:

| | 2023 | 2022 |
|--------------------------------|-----------------|-----------------|
| Furniture and equipment | \$ 103,388 | \$ 99,288 |
| Less: accumulated depreciation | (95,552) | (92,968) |
| Property and equipment, net | <u>\$ 7,836</u> | <u>\$ 6,320</u> |

Depreciation expense amounted to \$2,584 and \$2,455 for the years ended September 30, 2023 and 2022, respectively.

9. Beneficial Interests in Charitable Remainder Trusts Held by Others

Merola has been named as a beneficiary of certain irrevocable charitable remainder trusts. These trusts were created independently by donors and are held and administered by independent trustees. Therefore, Merola has neither possession nor control over the assets of the 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 2.4% and 8.6% (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 net assets with donor restrictions in the statement of activities and changes in net assets.

Merola has determined that the estimated fair value of the beneficial interest in charitable remainder trusts held by others amounted to \$451,602 and \$425,039 at September 30, 2023 and 2022, respectively.

Merola Opera Program

Notes to Financial Statements September 30, 2023

10. 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, 2023 and 2022, Merola reflected \$55,960 and \$50,969, respectively, in accrued payroll and related benefits on the statement of financial position.

11. Related Party Transactions

Certain Merola Board members made monetary contributions totaling \$185,160 and \$177,832 during the years ended September 30, 2023 and 2022, respectively.

Certain Merola Board members are also members of the Board of Directors of San Francisco Opera Association (SFOA), which under a contractual arrangement, annually 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 \$1,683,301 and \$1,872,362 for the years ended September 30, 2023 and 2022, respectively.

12. Contributions of Nonfinancial Assets

Merola received the following contributions of nonfinancial assets during the years ended September 30:

| | 2023 | 2022 |
|---------------------------------------|------------------|------------------|
| Technology and related services | \$ 3,500 | \$ 3,500 |
| Food and wine | 42,237 | 7,372 |
| Total contributed nonfinancial assets | <u>\$ 45,737</u> | <u>\$ 10,872</u> |

Merola received \$42,237 and \$7,372 of contributed food and wine for various events held during the years ended September 30, 2023 and 2022. These items were immediately placed in service for fundraising activities. Merola values the contributed food and wine at prices that would be received for selling similar products. None of the contributed food and wine had donor-imposed restrictions.

Contributed services are recognized as revenue at their estimated fair values if they create or enhance nonfinancial assets or require specialized skills that would need to be purchased if they were not donated. Merola received contributed technology related services valued at \$3,500 during each of the years ended September 30, 2023 and 2022, respectively. These contributed services are reported in the financial statements at the estimated fair value based on current rates for similar services. None of the contributed services had donor-imposed restrictions.

Merola Opera Program

Notes to Financial Statements September 30, 2023

13. Operating Right of Use Asset and Leases

Merola leases its corporate office premises in San Francisco under an operating lease agreement expiring in May 2025. The lease requires a monthly payment of \$10,949 as of September 30, 2023, with a stipulated annual increase of 4% every June 1st. In accordance with *ASU 2016-02, Leases*, Merola has reflected the present value of all future operating lease payments as an “Operating Right of Use” asset and a corresponding operating lease liability. The weighted average discount rate associated with the calculation of the present value of the future lease payments as of the lease inception was 4.0%, which represents an estimate of Merola’s incremental borrowing rate.

Merola has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on the straight-line basis. Merola had no finance leases in effect during the years ended July 31, 2023 and 2022.

Total operating right of use asset and operating lease liability on the statement of financial position consist of the following at September 30:

| | 2023 | 2022 |
|--|-------------|-------------|
| Gross operating right of use asset – premises | \$ 627,047 | \$ 627,047 |
| Accumulated amortization operating right of use asset – premises | (428,040) | (315,226) |
| Total operating right of use asset, net | \$ 199,007 | \$ 311,821 |
| | | |
| | 2023 | 2022 |
| Operating lease liability – short term | \$ 126,678 | \$ 116,865 |
| Operating lease liability – long term | 89,556 | 216,234 |
| Total lease liability | \$ 216,234 | \$ 333,099 |

Total operating lease cost recognized within occupancy expense on the statement of functional expenses is summarized as follows at July 31:

| | 2023 | 2022 |
|---------------------------------------|-------------|-------------|
| Amortization of operating lease asset | \$ 112,814 | \$ 108,345 |
| Interest on lease liability | 11,219 | 15,688 |
| Lease expense | 26,949 | 28,499 |
| | \$ 150,982 | \$ 152,532 |

The following summarizes cash flow information related to operating leases as of September 30:

| | 2023 | 2022 |
|--|-------------|-------------|
| Principal payments applied to lease liability | \$ 112,814 | \$ 108,345 |
| Interest on lease liability | 11,219 | 15,688 |
| Total cash paid for amounts included in measurement of lease liabilities | \$ 124,032 | \$ 124,033 |

Merola Opera Program

Notes to Financial Statements September 30, 2023

13. Operating Right of Use Asset and Leases *(continued)*

As of September 30, 2023, minimum future lease payments for all operating leases with terms of one year or more are as follows:

| Year Ending: | Total |
|---|-------------------|
| September 30, 2024 | \$ 133,044 |
| September 30, 2025 | 90,901 |
| Total Lease Payments | 223,948 |
| Less: Interest | (7,714) |
| Present value of lease liabilities | \$ 216,234 |

The following table represents the weighted-average remaining lease term and discount rate for the operating lease as of September 30, 2023:

| | 2023 |
|--|-------------|
| Weighted average remaining lease terms (years) | 2 |
| Weighted average discount rate | 4.0% |

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. Contributions to the plan amounted to \$38,193 and \$33,848 during the years ended September 30, 2023 and 2022, respectively.

15. Commitments and Contingencies

In the normal course of business, Merola could be subject to certain 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.

Merola Opera Program

Notes to Financial Statements September 30, 2023

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 and are summarized as follows at September 30:

| | <u>2023</u> | <u>2022</u> |
|---|----------------------|----------------------|
| Undesignated net assets from operating activities | \$ 2,010,683 | \$ 2,036,883 |
| Board-designated endowment funds | 18,385,244 | 15,825,003 |
| Total net assets without donor restrictions | <u>\$ 20,395,927</u> | <u>\$ 17,861,886</u> |

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:

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|-------------------|
| Donations restricted for following fiscal year | \$ 10,000 | \$ 19,000 |
| Endowment funds | 1,497,951 | 744,557 |
| Total net assets with donor restrictions – time/purpose | <u>\$ 1,507,951</u> | <u>\$ 763,557</u> |

During the years ended September 30, 2023 and 2022, contributions of net assets with donor restrictions – time/purpose amounted to \$10,000 and \$19,000, respectively. Net assets released from restriction amounted to \$19,000 and \$20,000 during the years ended September 30, 2023 and 2022, 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:

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| Charitable remainder trusts | \$ 451,602 | \$ 425,039 |
| Endowment funds | 16,654,717 | 16,195,336 |
| Total net assets with donor restrictions – perpetual | <u>\$ 17,106,319</u> | <u>\$ 16,620,375</u> |

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, 2023 and 2022, contributions of net assets with donor restrictions – perpetual amounted to \$518,866 and \$619,590, 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. Subsequent Events

In compliance with *ASC 855, Subsequent Events*, Merola has evaluated subsequent events through April 24, 2024, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which necessitate disclosure.