



Merola Opera Program

Financial Statements

For the Year Ended
September 30, 2024
With Independent Auditors' Report Thereon

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Merola Opera Program

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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 statement of financial position as of September 30, 2024 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, 2024 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 audit in accordance with auditing standards generally accepted in the United States of America. 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.

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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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, 2023, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

April 24, 2025
Danville, California

Regalia Berger & Berger

Merola Opera Program

Statement of Financial Position

September 30, 2024

(with Summarized Financial Information for the Year Ended September 30, 2023)

ASSETS

	2024			Total 2024	Total 2023
	Without Donor Restrictions	With Donor Restrictions Time/purpose	With Donor Restrictions In perpetuity		
Current assets:					
Cash and cash equivalents	\$ 2,079,208	\$ 5,000	\$ -	\$ 2,084,208	\$ 2,238,669
Contributions receivable	4,250	-	-	4,250	138,487
Prepaid expenses and other current assets	146,095	-	-	146,095	22,875
Investments	-	-	-	-	604,895
Total current assets	2,229,553	5,000	-	2,234,553	3,004,926
Noncurrent assets:					
Endowment investments	21,308,519	3,339,077	17,995,686	42,643,282	35,633,733
Beneficial interest in charitable remainder trusts	-	-	563,591	563,591	451,602
Property and equipment, net	38,479	-	-	38,479	7,836
Deposits	15,700	-	-	15,700	15,700
Operating right of use asset - premises	81,340	-	-	81,340	199,007
Total noncurrent assets	21,444,038	3,339,077	18,559,277	43,342,392	36,307,878
Total assets	\$ 23,673,591	\$ 3,344,077	\$ 18,559,277	\$ 45,576,945	\$ 39,312,804

LIABILITIES AND NET ASSETS

Current liabilities:					
Accounts payable and accrued liabilities	\$ 80,591	\$ -	\$ -	\$ 80,591	\$ 30,413
Accrued payroll liabilities	42,604	-	-	42,604	55,960
Operating lease payable - current portion	89,555	-	-	89,555	126,678
Total current liabilities	212,750	-	-	212,750	213,051
Noncurrent liability:					
Operating lease payable - noncurrent portion	-	-	-	-	89,556
Total liabilities	212,750	-	-	212,750	302,607
Net assets:					
Without donor restrictions:					
Undesignated operating fund	1,867,349	-	-	1,867,349	2,010,683
Board-designated endowment funds	21,593,492	-	-	21,593,492	18,385,244
Total	23,460,841	-	-	23,460,841	20,395,927
With donor restrictions - time/purpose:					
Operating	-	5,000	-	5,000	10,000
Endowment funds	-	3,339,077	-	3,339,077	1,497,951
Total	-	3,344,077	-	3,344,077	1,507,951
With donor restrictions - in perpetuity:					
Beneficial interest in charitable remainder trusts	-	-	563,591	563,591	451,602
Endowment funds	-	-	17,995,686	17,995,686	16,654,717
Total	-	-	18,559,277	18,559,277	17,106,319
Total net assets	23,460,841	3,344,077	18,559,277	45,364,195	39,010,197
Total liabilities and net assets	\$ 23,673,591	\$ 3,344,077	\$ 18,559,277	\$ 45,576,945	\$ 39,312,804

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, 2024
(with Summarized Financial Information for the Year Ended September 30, 2023)

	2024				
	Without Donor Restrictions	With Donor Restrictions Time/purpose	With Donor Restrictions In perpetuity	Total 2024	Total 2023
Revenue, Support, and Other Income:					
Earned Revenue:					
Production, performance, and other programs	\$ 113,728	\$ -	\$ -	\$ 113,728	\$ 123,688
Appropriation of endowment assets	1,878,748	-	-	1,878,748	1,706,641
Total earned revenue	1,992,476	-	-	1,992,476	1,830,329
Contributed Income:					
Contributions	1,565,374	5,000	511,589	2,081,963	3,422,856
Contributions of nonfinancial assets	79,531	-	-	79,531	21,257
Appropriation of endowment assets	(1,372,406)	(506,342)	-	(1,878,748)	(1,706,641)
Net assets released from restrictions	10,000	(10,000)	-	-	-
Total contributed income	282,499	(511,342)	511,589	282,746	1,737,472
Events:					
Ticket and auction earned revenue	19,350	-	-	19,350	23,013
Contributions	285,854	-	-	285,854	104,841
Contributions of nonfinancial assets	8,220	-	-	8,220	24,480
Less costs of direct benefits to attendees	(74,197)	-	-	(74,197)	(68,959)
Net event income	239,227	-	-	239,227	83,375
Other Income:					
Change in value of charitable remainder trusts	-	-	111,989	111,989	26,563
Investment income, net of fees	895,801	233,640	(52,758)	1,076,683	966,135
Realized gains on investments (net)	2,361,166	1,248,465	462,201	4,071,832	430,261
Unrealized gains on investments (net)	1,333,537	653,926	419,937	2,407,400	2,209,291
Total other income	4,590,504	2,136,031	941,369	7,667,904	3,632,250
Total revenue, support, and other income	7,104,706	1,624,689	1,452,958	10,182,353	7,283,426
Expenses:					
Training	1,531,699	-	-	1,531,699	1,449,564
Productions	974,235	-	-	974,235	901,053
Career grants	230,943	-	-	230,943	187,553
Fundraising and special events	492,842	-	-	492,842	664,633
General and administrative	598,636	-	-	598,636	316,244
Total expenses	3,828,355	-	-	3,828,355	3,519,047
Increase in net assets	3,276,351	1,624,689	1,452,958	6,353,998	3,764,379
Reclassifications - endowment	(211,437)	211,437	-	-	-
Net assets at beginning of year	20,395,927	1,507,951	17,106,319	39,010,197	35,245,818
Net assets at end of year	\$ 23,460,841	\$ 3,344,077	\$ 18,559,277	\$ 45,364,195	\$ 39,010,197

Merola Opera Program

Statements of Cash Flows For the Years Ended September 30, 2024 and 2023

	2024	2023
<i>Operating activities:</i>		
Increase in net assets	\$ 6,353,998	\$ 3,764,379
Adjustments to reconcile cash provided by (used for) operating activities:		
Depreciation	6,285	2,584
Unrealized gains, net	(2,407,400)	(2,209,291)
Realized gains, net	(4,071,832)	(430,261)
Change in value of beneficial interest in charitable remainder trusts	(111,989)	(26,563)
Contributions received restricted for endowment	(511,589)	(518,866)
Changes in:		
Contributions receivable	134,237	(125,810)
Prepaid expenses and other current assets	(123,220)	80,806
Deposits	-	350
Operating lease assets and liabilities	(9,012)	(4,051)
Accounts payable and accrued liabilities	50,178	(57,916)
Accrued payroll liabilities	(13,356)	4,991
Cash (used for) provided by operating activities	(703,700)	480,352
<i>Investing activities:</i>		
Purchase of investments	(40,220,221)	(10,526,751)
Disposition of investments	40,294,799	9,344,324
Acquisition of property and equipment	(36,928)	(4,100)
Cash provided by (used for) investing activities	37,650	(1,186,527)
<i>Financing activities:</i>		
Contributions received restricted for endowment	511,589	518,866
Cash provided by financing activities	511,589	518,866
Decrease in cash and cash equivalents	(154,461)	(187,309)
Cash and equivalents at beginning of year	2,238,669	2,425,978
Cash and equivalents at end of year	\$ 2,084,208	\$ 2,238,669
<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, 2024

(with Summarized Financial Information for the Year Ended September 30, 2023)

	Programs			Fundraising and Special Events	General and Admin- istrative	
	Training	Productions	Career Grants			
Contracted artist development	\$ 931,775	\$ 974,235	\$ -	\$ -	\$ -	\$
Salaries, taxes, and benefits	292,462	-	58,492	250,682	233,969	
Grants and awards	783	-	164,111	-	-	
Printing and graphic design	53,529	-	-	26,782	226	
Advertising and promotion	8,869	-	-	138,175	-	
Rental expense	5,504	-	1,101	4,717	4,403	
Hospitality	60,768	-	-	45,855	4,268	
Lodging	155,164	-	-	782	-	
Miscellaneous	1,872	-	-	7,946	20,129	
Occupancy	2,358	-	472	2,021	126,745	
Utilities and minor equipment	17,256	-	6,495	6,687	14,036	
Service charges	-	-	-	5,995	10,080	
Accounting	-	-	-	-	24,044	
Professional services and other fees	-	-	-	2,035	153,364	
Depreciation	-	-	-	-	6,285	
Postage	1,359	-	272	1,165	1,087	
Totals	\$ 1,531,699	\$ 974,235	\$ 230,943	\$ 492,842	\$ 598,636	\$

See accompanying Independent Auditors' Report and notes to financial statements

REGALIA BERGER & BERGER
CERTIFIED PUBLIC ACCOUNTANTS

Merola Opera Program

Notes to Financial Statements September 30, 2024

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 a multi-week summer program 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 individuals and foundations located primarily in the greater San Francisco Bay Area, as well as some government agencies.

Management Discussion

Merola held its world-renowned training program over 12 weeks 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, five live master classes with artist teachers, one recital with piano and instrumental 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 Mozart's *Don Giovanni* with professional orchestra 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, mental and physical health, 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"); consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred regardless of the timing of the cash flows.

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, 2023, 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 of 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, 2024

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

Reclassifications – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported 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.

Financial Instruments and Credit Risk – Deposit concentration risk is managed by placing cash and money market funds with financial institutions believed by Merola to be creditworthy. At times, amounts on deposit may exceed insured limits. Insured accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. Money market mutual funds are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable and promises to give is limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from 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.

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 \$147,478 and \$121,034 for the years ended September 30, 2024 and 2023, respectively, and are reflected on the statement of functional expenses.

Notes to Financial Statements
September 30, 2024

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

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 and changes in net assets.

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, 2024 and 2023.

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 14.

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.

Income Taxes – Merola is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under IRC Sections 509(a)(1) and (3), respectively. Merola is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. Merola is not required to file an Exempt Organization Business Income Tax Return (Form 990-T) because it had no unrelated business taxable income for the years ended September 30, 2024 and 2023.

Merola Opera Program

Notes to Financial Statements September 30, 2024

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

Income Taxes *(continued)* – 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.

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)*. Merola's significant revenue streams and the related revenue recognition policies are as follows:

- **Contributions** – Merola receives contributions primarily from individuals and foundations. These contributions are generally recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. However, conditional promises to give are not recognized until the conditions on which they depend have been substantially met. 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.
- **Productions, Performance, and Other Programs** – Revenue from productions and performances are recognized when the performance or event occurs. Revenue from audition fees are recognized when the audition cycle begins for the applicable production year.
- **Ticket and Auction** – Revenue from the annual fundraising gala is recognized when the event takes place. Certain payments received (both tickets and auction) may include elements of contributed income and earned income. These transactions are evaluated to determine the proper revenue rules to apply and to bifurcate the revenue components.
- **Contributions of Nonfinancial Assets** – Contributed services and costs are reflected at the fair value of the contribution received (Note 12) at the date of donation 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 and assets 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. Merola does not sell donated gifts in kind. In addition to contributed nonfinancial assets, volunteers contribute significant amounts of time to 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.

Notes to Financial Statements
September 30, 2024

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, 2024 and 2023. 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, 2024

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 2016-02, Leases (Topic 842) Accounting for Leases requires lessees to recognize leases on the balance sheets and to 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.

ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments addresses impairment of financial instruments. The ASU adds to U.S. GAAP an impairment model known as the current expected credit loss (CECL), which is based on expected losses rather than incurred losses. This pronouncement became effective during the year ended September 30, 2024, in accordance with [Topic 326’s](#) implementation date.

Merola Opera Program

Notes to Financial Statements September 30, 2024

3. Cash and Cash Equivalents

Cash and cash equivalents at September 30, 2024 and 2023 consist of funds in accounts at various financial institutions. The composition of cash and cash equivalents is as follows at September 30:

	2024	2023
Checking (noninterest-bearing)	\$ 452,616	\$ 391,152
Money market (bearing interest at 4.72% at September 30, 2024)	1,597,238	1,588,362
Insured sweep (bearing interest at 0.20% at September 30, 2024)	34,354	259,155
Total cash and cash equivalents	\$ 2,084,208	\$ 2,238,669

At September 30, 2024, certain accounts exceeded the FDIC insured limit and SIPC coverage for money market funds, resulting in \$1,299,854 in funds that were not covered by insurance. Such financial instruments potentially subject Merola to concentrations of credit risk. It is the opinion of management that the solvencies of the referenced financial institutions are satisfactorily strong and that Merola's financial position will not be compromised. Merola attempts to limit its credit risk associated with cash and cash equivalents by placing all deposits with highly rated corporate and financial institutions.

4. Contributions Receivable

Contributions receivable of \$4,250 and \$138,487 at September 30, 2024 and 2023, respectively, represent funds due within one year from various individuals, foundations, and other organizations. Merola uses the direct write-off method regarding contributions receivable deemed uncollectible. Management has evaluated the contributions receivable as of September 30, 2024 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, 2024 and 2023.

5. Investments and Endowment

Investments consist of the following at September 30:

	2024		2023	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Investment cash and money market funds	\$ 172,725	\$ 172,725	\$ 796,767	\$ 796,767
Equities	2,600	229	12,240,089	14,221,236
Fixed income securities	-	-	7,820,755	6,879,436
Mutual funds	2,629,584	5,771,564	11,588,849	12,048,883
Exchange traded funds	33,662,447	34,446,401	-	-
Alternative investments – real estate fund	2,318,690	2,252,363	2,261,582	2,292,306
Totals	\$ 38,786,046	\$ 42,643,282	\$ 34,708,042	\$ 36,238,628

Merola Opera Program

Notes to Financial Statements September 30, 2024

5. Investments and Endowment

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, 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
<u>Investment return:</u>				
Investment income, net of fees	794,076	233,640	(52,758)	974,958
Net realized gains	2,361,179	1,248,465	462,201	4,071,845
Net unrealized gains	1,326,998	653,926	419,937	2,400,861
Total investment return	4,482,253	2,136,031	829,380	7,447,664
Contributions	309,838	-	511,589	821,427
Change in value of CRTs [1]	-	-	111,989	111,989
Appropriation of endowment assets	(1,372,406)	(506,342)	-	(1,878,748)
Reclassifications and transfers	(211,437)	211,437	-	-
Endowment net assets at September 30, 2024	\$ 21,593,492	\$ 3,339,077	\$ 18,559,277	\$ 43,491,846

[1] Beneficial interests in charitable remainder trusts

During the years ended September 30, 2024 and 2023, earnings on investments were reinvested. Endowment investment income, net of fees, amounted to \$974,958 and \$895,664 for the years ended September 30, 2024 and 2023, respectively. Endowment net realized gains amounted to \$4,071,845 and \$430,261 for the years ended September 30, 2024 and 2023, respectively. Endowment net unrealized gains amounted to \$2,400,861 and \$2,208,803 for the years ended September 30, 2024 and 2023, respectively. The change in value of assets held in charitable remainder trusts amounted to \$111,989 and \$26,563 for the years ended September 30, 2024 and 2023, respectively. Operating investment income amounted to \$101,725 and \$70,471 for the years ended September 30, 2024 and 2023, respectively.

Notes to Financial Statements
September 30, 2024

5. Investments and Endowment *(continued)*

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 (\$18,682) and (\$407,594) at September 30, 2024 and 2023, 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 and exchange traded funds) to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

6. 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.

Merola Opera Program

Notes to Financial Statements September 30, 2024

6. Fair Value Measurements *(continued)*

Composition of assets utilizing fair value measurements at September 30, 2024 is as follows:

	Totals	Level 1	Level 2	Level 3	NAV
Investment cash and money market funds	\$ 172,725	\$ 172,725	\$ -	\$ -	\$ -
Equities	229	229	-	-	-
Mutual funds	5,771,564	5,771,564	-	-	-
Exchange traded funds	34,446,401	34,446,401	-	-	-
Real Estate Investment Trusts (REITs)	2,252,363	-	-	-	2,252,363
Beneficial interest in charitable remainder trusts held by others	563,591	-	-	563,591	-
Totals	\$ 43,206,873	\$40,390,919	\$ -	\$ 563,591	\$ 2,252,363

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 (REITs)	2,292,306	-	-	-	2,292,306
Beneficial interest in charitable remainder trusts held by others	451,602	-	-	451,602	-
Totals	\$ 36,690,230	\$27,066,886	\$6,879,436	\$ 451,602	\$2,292,306

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 \$111,989 and \$26,563 for the years ended September 30, 2024 and 2023, respectively.

Merola has investments in two REITs 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 and is valued at \$737,788 and \$954,531 at September 30, 2024 and 2023, respectively. The other REIT has limited liquidity and is valued at \$1,514,575 and \$1,337,775 at September 30, 2024 and 2023, respectively.

Merola Opera Program

Notes to Financial Statements September 30, 2024

7. 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:

	2024	2023
Cash and cash equivalents	\$ 2,084,208	\$ 2,238,669
Contributions receivable	4,250	138,487
Investments – current portion	-	604,895
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 2,088,458</u>	<u>\$ 2,982,051</u>

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, 2024 and 2023, funds held in reserve accounts (and classified within cash and cash equivalents) amounted to \$1,631,592 and \$1,588,362, respectively.

8. Property and Equipment

Property and equipment consist of the following at September 30:

	2024	2023
Furniture and equipment	\$ 140,316	\$ 103,388
Less: accumulated depreciation	(101,837)	(95,552)
Property and equipment, net	<u>\$ 38,479</u>	<u>\$ 7,836</u>

Depreciation expense amounted to \$6,285 and \$2,584 for the years ended September 30, 2024 and 2023, respectively.

Notes to Financial Statements
September 30, 2024

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 \$563,591 and \$451,602 at September 30, 2024 and 2023, respectively.

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, 2024 and 2023, the total annual leave accrual amounted to \$41,031 and \$47,641 respectively, and is included in accrued payroll liabilities on the statement of financial position.

Merola Opera Program

Notes to Financial Statements September 30, 2024

11. Related Party Transactions

Certain Merola Board members made monetary contributions totaling \$255,927 and \$185,160 during the years ended September 30, 2024 and 2023, 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 \$1,906,010 and \$1,683,301 for the years ended September 30, 2024 and 2023, respectively.

12. Contributions of Nonfinancial Assets

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

	2024	2023
Technology and related services	\$ -	\$ 3,500
Food and wine	33,973	42,237
Legal	53,778	-
Total contributed nonfinancial assets	<u>\$ 87,751</u>	<u>\$ 45,737</u>

Merola received \$33,973 and \$42,237 of contributed food and wine for various events held during the years ended September 30, 2024 and 2023. 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 legal services valued at \$53,778 during the year ended September 30, 2024. Merola received contributed technology related services valued at \$3,500 during the year ended September 30, 2023. 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.

13. 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 \$11,363 as of September 30, 2024. Merola is in negotiations to extend the lease but the amendment has not been finalized as of the date the financial statements were available to be issued, April 24, 2025.

From time to time, Merola rents performance halls and practice space under specific usage agreements and is obligated to pay rent based upon the contracts.

Merola Opera Program

Notes to Financial Statements September 30, 2024

13. Leases (continued)

In accordance with [ASU 2016-02, Leases](#), Merola is required to reflect the present value of future operating lease payments (discounted at an appropriate borrowing rate) as an "Operating Right of Use" asset with a corresponding lease liability. The weighted-average discount rate is based on the discount rate implicit in the lease. Merola has elected the option to use an estimate of the organization's incremental borrowing rate of 4.0% as the discount rate as the implicit rate is not readily determinable.

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 September 30, 2024 and 2023.

Total operating right of use assets and operating lease liabilities at September 30 are as follows:

<u>Lease Assets – Statement of Financial Position</u>	<u>2024</u>	<u>2023</u>
Operating right of use asset – office space	\$ 81,340	\$ 199,007
<u>Lease Liabilities – Statement of Financial Position</u>	<u>2024</u>	<u>2023</u>
Operating lease liabilities – office space	\$ 89,555	\$ 216,234

During the years ended September 30, 2024 and 2023, operating cash flows from operating leases were \$133,044 and \$128,084, respectively.

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

	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term (in months)	8	20
Weighted-average discount rate	4.0%	4.0%

The scheduled minimum lease payments under the lease term are as follows:

	<u>Total</u>
Year ending September 30, 2025	\$ 90,904
Less: Interest	(1,349)
Present value of lease liabilities	\$ 89,555

Merola Opera Program

Notes to Financial Statements September 30, 2024

14. 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:

	2024	2023
Undesignated net assets from operating activities	\$ 1,867,349	\$ 2,010,683
Board-designated endowment funds	21,593,492	18,385,244
Total net assets without donor restrictions	<u>\$ 23,460,841</u>	<u>\$ 20,395,927</u>

Net Assets with Donor Restrictions – Time/Purpose

Merola recognizes support from net assets when 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:

	2024	2023
Donations restricted for following fiscal year	\$ 5,000	\$ 10,000
Endowment funds	3,339,077	1,497,951
Total net assets with donor restrictions – time/purpose	<u>\$ 3,344,077</u>	<u>\$ 1,507,951</u>

During the years ended September 30, 2024 and 2023, contributions of net assets with donor restrictions – time/purpose amounted to \$5,000 and \$10,000, respectively. Net assets released from restriction amounted to \$10,000 and \$19,000 during the years ended September 30, 2024 and 2023, 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:

	2024	2023
Charitable remainder trusts	\$ 563,591	\$ 451,602
Endowment funds	17,995,686	16,654,717
Total net assets with donor restrictions – perpetual	<u>\$ 18,559,277</u>	<u>\$ 17,106,319</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, 2024 and 2023, contributions of net assets with donor restrictions – perpetual amounted to \$511,589 and \$518,866, 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.

Notes to Financial Statements
September 30, 2024

15. Retirement Plan

Merola offers employees the opportunity for participation in a retirement plan qualified under Internal Revenue Code Section 401(k). The plan is discretionary but permits employees to contribute pre-tax earnings subject to statutory limitations. Contributions to the plan amounted to \$35,657 and \$38,193 during the years ended September 30, 2024 and 2023, respectively.

16. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into and/or renew contracts related to ongoing operational activities, 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 might 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. 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.

17. Subsequent Events

In compliance with [*ASC 855, Subsequent Events*](#), Merola has evaluated subsequent events through April 24, 2025, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which necessitate disclosure.