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</tr>
<tr>
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<td>21</td>
</tr>
</tbody>
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Independent Auditor’s Report

To the Board of Directors
San Diego Opera Association

Report on the Financial Statements

We have audited the accompanying financial statements of San Diego Opera Association, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Opera Association as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of functional expenses for the year ended June 30, 2018 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Leafs, Cole LLP

San Diego, California
January 16, 2019
## SAN DIEGO OPERA ASSOCIATION

### STATEMENTS OF FINANCIAL POSITION

#### JUNE 30, 2018 AND 2017

### CURRENT ASSETS:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2018</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$3,292,264</td>
<td>$778,521</td>
<td>$-</td>
<td>$4,070,785</td>
<td>$997,440</td>
<td>$1,062,049</td>
<td>$-</td>
<td>$2,059,489</td>
</tr>
<tr>
<td>Investments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25,025</td>
<td>-</td>
<td>-</td>
<td>25,025</td>
<td>-</td>
</tr>
<tr>
<td>Receivables, net:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ticket sales</td>
<td>315,317</td>
<td>-</td>
<td>-</td>
<td>315,317</td>
<td>267,993</td>
<td>-</td>
<td>267,993</td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>299,869</td>
<td>291,669</td>
<td>-</td>
<td>591,538</td>
<td>162,326</td>
<td>382,668</td>
<td>544,994</td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>79,252</td>
<td>30,600</td>
<td>-</td>
<td>109,852</td>
<td>21,030</td>
<td>-</td>
<td>21,030</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>138,069</td>
<td>-</td>
<td>-</td>
<td>138,069</td>
<td>145,040</td>
<td>-</td>
<td>145,040</td>
<td></td>
</tr>
<tr>
<td>Prepaid production and other assets</td>
<td>353,162</td>
<td>-</td>
<td>-</td>
<td>353,162</td>
<td>304,526</td>
<td>-</td>
<td>304,526</td>
<td></td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$4,477,933</td>
<td>$1,100,790</td>
<td>-</td>
<td>$5,578,723</td>
<td>$1,923,380</td>
<td>$1,444,717</td>
<td>-</td>
<td>$3,368,097</td>
</tr>
</tbody>
</table>

### NONCURRENT ASSETS:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions receivable, net</td>
<td>-</td>
<td>768,775</td>
<td>-</td>
<td>1,112,806</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>2,683</td>
<td>-</td>
<td>2,683</td>
<td>706,692</td>
</tr>
<tr>
<td>Pooled income fund</td>
<td>-</td>
<td>130,915</td>
<td>49,592</td>
<td>180,507</td>
</tr>
<tr>
<td>Charitable gift annuities</td>
<td>49,797</td>
<td>-</td>
<td>49,797</td>
<td>56,704</td>
</tr>
<tr>
<td>Charitable remainder unitrusts</td>
<td>-</td>
<td>11,560</td>
<td>386,279</td>
<td>397,839</td>
</tr>
<tr>
<td>San Diego Opera endowment trust</td>
<td>-</td>
<td>-</td>
<td>3,456,952</td>
<td>3,456,952</td>
</tr>
<tr>
<td>Beneficial interest in endowment funds</td>
<td>-</td>
<td>-</td>
<td>1,393,719</td>
<td>1,393,719</td>
</tr>
<tr>
<td>Total Noncurrent Assets</td>
<td>52,480</td>
<td>911,250</td>
<td>5,286,542</td>
<td>7,234,453</td>
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</tbody>
</table>

**TOTAL ASSETS:**

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$4,530,413</td>
<td>$2,012,040</td>
<td>$5,286,542</td>
<td>$10,602,550</td>
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### CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$507,942</td>
<td>-</td>
<td>-</td>
<td>$418,377</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>$1,831,213</td>
<td>-</td>
<td>-</td>
<td>1,734,611</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>2,339,155</td>
<td>-</td>
<td>-</td>
<td>2,152,988</td>
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</table>

### NONCURRENT LIABILITIES:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pooled income fund liability</td>
<td>-</td>
<td>28,651</td>
<td>6,767</td>
<td>35,418</td>
</tr>
<tr>
<td>Charitable gift annuities liability</td>
<td>42,925</td>
<td>-</td>
<td>42,925</td>
<td>45,121</td>
</tr>
<tr>
<td>Total Noncurrent Liabilities</td>
<td>42,925</td>
<td>28,651</td>
<td>6,767</td>
<td>78,343</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>2,382,080</td>
<td>28,651</td>
<td>6,767</td>
<td>2,417,498</td>
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</tbody>
</table>

### COMMITMENTS:

<table>
<thead>
<tr>
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<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets</td>
<td>2,148,333</td>
<td>1,983,389</td>
<td>5,279,775</td>
<td>5,194,795</td>
</tr>
<tr>
<td>TOTAL LIABILITIES AND NET ASSETS</td>
<td>$4,530,413</td>
<td>$2,012,040</td>
<td>$5,286,542</td>
<td>$10,602,550</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
SAN DIEGO OPERA ASSOCIATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Operating Revenues:

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2018</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main stage ticket revenue</td>
<td>$ 2,825,614</td>
<td>-</td>
<td>-</td>
<td>$ 2,825,614</td>
<td>$ 2,833,828</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Scenic studio direct activity, net</td>
<td>204,011</td>
<td>-</td>
<td>-</td>
<td>204,011</td>
<td>135,548</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Added events ticket revenue</td>
<td>353,800</td>
<td>-</td>
<td>-</td>
<td>353,800</td>
<td>516,206</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Appropriations of endowment assets</td>
<td>227,274</td>
<td>-</td>
<td>-</td>
<td>227,274</td>
<td>227,578</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other income</td>
<td>152,622</td>
<td>-</td>
<td>-</td>
<td>152,622</td>
<td>61,221</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>10,685</td>
<td>-</td>
<td>-</td>
<td>10,685</td>
<td>8,099</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>3,774,006</td>
<td>-</td>
<td>-</td>
<td>3,774,006</td>
<td>3,782,480</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Contributions and Public Support:

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2018</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>4,182,276</td>
<td>510,719</td>
<td>-</td>
<td>4,692,995</td>
<td>2,942,188</td>
<td>2,324,244</td>
<td>-</td>
</tr>
<tr>
<td>Provision for uncollectible pledges</td>
<td>(7,698)</td>
<td>59,656</td>
<td>-</td>
<td>51,958</td>
<td>(29,200)</td>
<td>(10,000)</td>
<td>-</td>
</tr>
<tr>
<td>Grants</td>
<td>570,100</td>
<td>-</td>
<td>-</td>
<td>570,100</td>
<td>550,408</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fundraising events and other activities, net</td>
<td>179,767</td>
<td>-</td>
<td>-</td>
<td>179,767</td>
<td>140,910</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net assets released from restriction</td>
<td>1,258,333</td>
<td>(1,258,333)</td>
<td>-</td>
<td>-</td>
<td>3,593,320</td>
<td>(3,593,320)</td>
<td>-</td>
</tr>
<tr>
<td>Total Contributions and Public Support</td>
<td>6,182,778</td>
<td>(687,958)</td>
<td>-</td>
<td>5,494,820</td>
<td>7,197,626</td>
<td>(1,279,076)</td>
<td>-</td>
</tr>
</tbody>
</table>

Total Operating Revenues, Contributions and Public Support

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>9,956,784</td>
<td>(687,958)</td>
<td>-</td>
<td>9,268,826</td>
</tr>
</tbody>
</table>

Operating Expenses:

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2018</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productions</td>
<td>8,421,310</td>
<td>-</td>
<td>-</td>
<td>8,421,310</td>
<td>9,118,454</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Educational program</td>
<td>261,954</td>
<td>-</td>
<td>-</td>
<td>261,954</td>
<td>444,875</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Program Services</td>
<td>8,683,264</td>
<td>-</td>
<td>-</td>
<td>8,683,264</td>
<td>9,563,329</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Management and general</td>
<td>980,163</td>
<td>-</td>
<td>-</td>
<td>980,163</td>
<td>1,441,284</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fundraising</td>
<td>794,985</td>
<td>-</td>
<td>-</td>
<td>794,985</td>
<td>819,098</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Supporting Services</td>
<td>1,775,148</td>
<td>-</td>
<td>-</td>
<td>1,775,148</td>
<td>2,260,382</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>10,458,412</td>
<td>-</td>
<td>-</td>
<td>10,458,412</td>
<td>11,823,711</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Deficiency of Operating Expenses Over Operating Revenues, Contributions and Public Support

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2018</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>(501,628)</td>
<td>(687,958)</td>
<td>-</td>
<td>(1,189,586)</td>
<td>(843,605)</td>
<td>(1,279,076)</td>
<td>-</td>
<td>(2,122,681)</td>
</tr>
</tbody>
</table>

(Continued)

The accompanying notes are an integral part of the financial statements.
### SAN DIEGO OPERA ASSOCIATION
### STATEMENTS OF ACTIVITIES (CONTINUED)
### FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

#### Other Changes in Net Assets:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realized and unrealized investment losses, net</td>
<td>$ (4,313)</td>
<td>-</td>
<td>-</td>
<td>$ (4,313)</td>
</tr>
<tr>
<td>Gain on sale of property and equipment</td>
<td>$2,170,846</td>
<td>$2,170,846</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charitable remainder unitrusts</td>
<td>-</td>
<td>319</td>
<td>77,791</td>
<td>78,110</td>
</tr>
<tr>
<td>Pooled income fund</td>
<td>-</td>
<td>3,790</td>
<td>6,193</td>
<td>9,983</td>
</tr>
<tr>
<td>Charitable gift annuities</td>
<td>(5,239)</td>
<td>-</td>
<td>-</td>
<td>(5,239)</td>
</tr>
<tr>
<td>San Diego Opera endowment trust, net</td>
<td>-</td>
<td>-</td>
<td>(26,034)</td>
<td>(26,034)</td>
</tr>
<tr>
<td>Beneficial interest in endowment funds</td>
<td>-</td>
<td>-</td>
<td>27,030</td>
<td>27,030</td>
</tr>
<tr>
<td>Total Other Changes in Net Assets</td>
<td>$2,161,294</td>
<td>$4,109</td>
<td>$84,980</td>
<td>$2,250,383</td>
</tr>
</tbody>
</table>

#### Change in Net Assets

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets at Beginning of Year</td>
<td>$488,667</td>
<td>$2,667,238</td>
<td>$5,194,795</td>
<td>$8,350,700</td>
</tr>
<tr>
<td>NET ASSETS AT END OF YEAR</td>
<td>$2,148,333</td>
<td>$1,983,389</td>
<td>$5,279,775</td>
<td>$9,411,497</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
SAN DIEGO OPERA ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Cash Flows From Operating Activities:
Change in net assets $1,060,797 $ (1,835,334)

Adjustments to reconcile change in net assets to net cash used in operating activities:
Depreciation 72,862 136,178
Donated stock - (25,025)
Gain on disposal of property and equipment (2,170,846) -
Net realized and unrealized losses on investments 4,313 6,517
Permanently restricted gains (84,980) (294,287)

Changes in assets and liabilities:
Receivables, net 168,312 (645,461)
Prepaid production and other assets (48,636) 30,231
Accounts payable and accrued expenses 89,565 (245,906)
Deferred revenue 96,602 (123,117)

Net Cash Used in Operating Activities (812,011) (2,996,204)

Cash Flows From Investing Activities:
Investment sales/maturities/(purchases), net 20,712 (6,517)
Proceeds from sale of property and equipment 2,801,993 -
Purchase of property and equipment - (20,323)
Changes in noncurrent investments:
Pooled income fund 22,250 7,281
Charitable gift annuities 4,711 204,781
Charitable remainder unitrusts (78,110) 3,694
San Diego Opera endowment trust (6,199) (201,206)
Beneficial interest in endowment funds (27,030) (86,858)

Net Cash Provided by (Used in) Investing Activities 2,738,327 (121,098)

Cash Flows From Financing Activities:
Permanently restricted gains 84,980 294,287

Net Cash Provided by Financing Activities 84,980 294,287

Net Increase (Decrease) in Cash and Cash Equivalents 2,011,296 (2,823,015)
Cash and Cash Equivalents at Beginning of Year 2,059,489 4,882,504

CASH AND CASH EQUIVALENTS AT END OF YEAR $4,070,785 $2,059,489

Supplemental Disclosure of Cash Flow Information:
Cash paid for interest $30,603 $ -

The accompanying notes are an integral part of the financial statements.
Note 1 - Organization:

San Diego Opera Association ("San Diego Opera") is a not-for-profit corporation incorporated in the State of California and organized for the primary purpose of delivering exceptional vocal performances and exciting, accessible programs to diverse audiences, focusing on community engagement and the transformative power of live performance. As part of its mission to make opera accessible to all, San Diego Opera offers extensive opera education and outreach programs, which serve adults and school children in San Diego County and Northern Mexico, with a special emphasis on disadvantaged children.

During the year ended June 30, 2018, San Diego Opera produced three main stage productions for a total of twelve performances. San Diego Opera also presented one recital and two productions in their new series, “Detour” for a total of six performances of works outside of traditional grand opera, all at the Balboa Theatre. During the year ending June 30, 2017, San Diego Opera produced three main stage productions for a total of twelve performances throughout the eight-month season (October - May). San Diego Opera also presented two “Detour” performances and a special concert event at the Balboa Theater. Operas are produced and staged completely by San Diego Opera and feature internationally renowned artists. The chorus and stage crew are drawn from the local community, and San Diego Symphony is contracted as the orchestra.

San Diego Opera has a scenic studio that builds sets and costumes for many of its productions and for theatrical arts organizations and commercial purposes around the country.

Note 2 - Significant Accounting Policies:

Accounting Method

The financial statements of San Diego Opera have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted - Resources that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

- Temporarily restricted - Include net assets subject to donor-imposed restrictions that are satisfied either by the passage of time or by actions of San Diego Opera in accordance with those specified by the donor. Restricted contributions, investment gains or investment income whose restrictions are met in the same reporting period are reported as increases in unrestricted net assets. Temporarily restricted net assets are increased by gifts for which the donor-imposed restrictions have not yet been met.

- Permanently restricted - Includes net assets restricted by donors for investment in perpetuity. San Diego Opera is permitted to expend part or all of the income and appreciation. Once appropriated for spending, investment returns increase unrestricted net assets.
Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation (Continued)

The FASB has issued reporting standards for endowments of not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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 reporting period. Actual results could differ from those estimates.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

San Diego Opera’s statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in equities (common stock) are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.
- Investments in certain cash equivalents and mutual, index and exchange traded funds are considered Level 2 assets and are reported at fair value based on the fair value of the underlying assets in the funds as reported by the fund managers, since these funds are valued monthly by the fund manager and are not traded in an active market.
Note 2 - Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

- The charitable remainder unitrusts are considered Level 3 assets and are reported at fair value based on management’s assumptions about the expected investment return on the underlying trust assets, an applicable discount rate and the life expectancy of the donor. (Note 7)

- Beneficial interest in endowment funds held at San Diego Foundation are considered Level 3 assets and are reported at fair value based on the underlying assets as reported by the fund manager. (Note 11)

Provision for Uncollectible Accounts

Bad debts are recognized on the allowance method based on historical experience and management’s evaluation of outstanding receivables. The provision for uncollectible ticket sales, grants and other receivables totaled $0- and $50,083 at June 30, 2018 and 2017, respectively. The provision for uncollectible contributions receivable totaled $96,042 and $1,214,576 at June 30, 2018 and 2017, respectively.

Capitalization and Depreciation

San Diego Opera capitalizes all expenditures in excess of $1,500 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, San Diego Opera reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. San Diego Opera reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

- Building and improvements: 5 - 25 years
- Production equipment: 3 - 5 years
- Office equipment and computers: 2 - 5 years
- Motor vehicles: 5 years

Depreciation totaled $72,862 and $136,178 for the years ended June 30, 2018 and 2017, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.
Note 2 - Significant Accounting Policies: (Continued)

**Impairment of Real Estate**

San Diego Opera reviews its investment in real estate for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 and 2017.

**Compensated Absences**

Accumulated unpaid vacation totaling $128,806 and $134,488 at June 30, 2018 and 2017, respectively, is accrued when incurred and included in accounts payable and accrued expenses.

**Revenue and Expense Recognition**

**Ticket Sales**

Ticket sales are recognized in the statement of activities on a specific-performance basis. Revenues from ticket sales associated with future productions are deferred until the fiscal year in which the production is presented. Deferred revenue from advanced ticket sales totaled $1,831,213 and $1,676,966 at June 30, 2018 and 2017, respectively.

**Scenic Studio**

Scenic studio revenue is recognized when contracted jobs have been completed. Deferred scenic studio revenue totaled $-0- and $57,645 at June 30, 2018 and 2017, respectively.

**Contributions**

Contributions are recognized when the donor makes a promise to give in writing to the San Diego Opera that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets. When the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.
Note 2 - Significant Accounting Policies:(Continued)

Revenue and Expense Recognition (Continued)

Operating Expenses

Costumes and scenery costs for recurring productions are charged to expense when incurred. Production costs (labor and materials) relating to future productions are deferred until the year in which the production is presented. Marketing expenses for San Diego Opera’s programs are charged to expense as incurred, except for direct response marketing and other expenses related to the following season, which are deferred until the related revenues are recognized. Prepaid production expenses which is included in prepaid production and other assets totaled $247,322 and $213,293 at June 30, 2018 and 2017, respectively.

Donated Services and Support

San Diego Opera utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services meeting the requirements above, totaled $37,193 and $69,747 for the years ended June 30, 2018 and 2017, respectively, which have been recorded as contributions revenue and operating expenses in the statement of activities.

San Diego Opera received in-kind donations totaling $301,099 and $354,227 for the years ended June 30, 2018 and 2017, respectively, which have been recorded as contributions revenue and operating expenses in the statement of activities.

Allocated Expenses

Expenses by function have been allocated among program and supporting service classifications on the basis of internal records and estimates made by San Diego Opera’s management.

Income Taxes

San Diego Opera is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code except on net income derived from unrelated business activities. San Diego Opera’s unrelated business activity did not generate taxable income and no tax liability has been recorded at June 30, 2018 and 2017. San Diego Opera believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. San Diego Opera is not a private foundation.

San Diego Opera’s Return of Organization Exempt from Income Tax and Exempt Organization Business Income Tax Returns for Tax for the years ended June 30, 2018, 2017, 2016 and 2015 are subject to examination by Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Cash and Cash Equivalents

For purposes of the statement of cash flows, San Diego Opera considers all highly liquid investments available for current use to be cash equivalents.
Note 2 - Significant Accounting Policies (Continued)

Risks and Uncertainties

San Diego Opera maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. San Diego Opera has not experienced any losses in such accounts. San Diego Opera believes it is not exposed to any significant credit risk on cash and cash equivalents.

San Diego Opera invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

Subsequent Events

In preparing these financial statements, San Diego Opera has evaluated events and transactions for potential recognition or disclosure through January 16, 2019, the date the financial statements were available to be issued and concluded that there were no events or transactions that needed to be disclosed.

Note 3 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at June 30:

<table>
<thead>
<tr>
<th></th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
<th>Balance at June 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments and Split-Interest Agreements:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash equivalents</td>
<td>$</td>
<td>$ 624,634</td>
<td>$</td>
<td>$ 624,634</td>
</tr>
<tr>
<td>Mutual, index and exchange traded funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity funds</td>
<td>-</td>
<td>1,840,390</td>
<td>-</td>
<td>1,840,390</td>
</tr>
<tr>
<td>Fixed income funds</td>
<td>-</td>
<td>1,222,232</td>
<td>-</td>
<td>1,222,232</td>
</tr>
<tr>
<td>Charitable remainder unitrusts (Note 7)</td>
<td>-</td>
<td>-</td>
<td>397,839</td>
<td>397,839</td>
</tr>
<tr>
<td>Beneficial Interest in endowment funds (Note 11)</td>
<td>-</td>
<td>-</td>
<td>1,393,719</td>
<td>1,393,719</td>
</tr>
<tr>
<td>Total Investments and Split-Interest Agreements</td>
<td>$</td>
<td>$ 3,687,256</td>
<td>$ 1,791,558</td>
<td>$ 5,478,814</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pooled income fund liabilities (Note 8)</td>
<td>$</td>
<td>$ 35,418</td>
<td>$</td>
<td>$ 35,418</td>
</tr>
<tr>
<td>Charitable gift liabilities (Note 9)</td>
<td>-</td>
<td>42,925</td>
<td>-</td>
<td>42,925</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$</td>
<td>$ 78,343</td>
<td>$</td>
<td>$ 78,343</td>
</tr>
</tbody>
</table>
Note 3 - Fair Value Measurements: (Continued)

The reconciliation for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are included in the Notes as indicated above.

The following table represents The San Diego Opera’s Level 3 financial instruments, the valuation techniques used to measure the fair value of the financial instruments, and the significant unobservable inputs and the range of values for those inputs for the years ended June 30:
Note 3 - Fair Value Measurements: (Continued)

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Fair Value</th>
<th>Principal Valuation Technique</th>
<th>Unobservable Inputs</th>
<th>Significant Input Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable remainder unitrusts</td>
<td>$319,729</td>
<td>Present value of expected cash flows</td>
<td>Investment yield</td>
<td>5 - 7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Discount rate</td>
<td>5 - 7%</td>
</tr>
<tr>
<td>Beneficial interest in endowment funds</td>
<td>$1,366,689</td>
<td>Valuation of underlying assets as provided by San Diego Foundation</td>
<td>Base price</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Note 4 - Investments:

Investments consist of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>-</td>
<td>$25,025</td>
</tr>
<tr>
<td>Total Investments</td>
<td>-</td>
<td>$25,025</td>
</tr>
</tbody>
</table>

The following schedule summarizes the investment return for the years ended June 30:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividend income</td>
<td>$10,685</td>
<td>$8,099</td>
</tr>
<tr>
<td>Net realized and unrealized losses</td>
<td>$(4,313)</td>
<td>$(6,517)</td>
</tr>
<tr>
<td>Total Investment Return</td>
<td>$6,372</td>
<td>$1,582</td>
</tr>
</tbody>
</table>

Note 5 - Contributions Receivable:

Contributions receivable consist of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due in less than one year</td>
<td>$665,534</td>
<td>$624,494</td>
</tr>
<tr>
<td>Less: Provision for uncollectible accounts</td>
<td>$(73,996)</td>
<td>$(79,500)</td>
</tr>
<tr>
<td>Total Current, Net</td>
<td>$591,538</td>
<td>$544,994</td>
</tr>
<tr>
<td>Noncurrent:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due in one to five years</td>
<td>908,275</td>
<td>1,367,376</td>
</tr>
<tr>
<td>Due in more than five years</td>
<td>-</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Less: Discounts to present value</td>
<td>$(117,454)</td>
<td>$(1,119,494)</td>
</tr>
<tr>
<td>Provision for uncollectible accounts</td>
<td>$(22,046)</td>
<td>$(1,135,076)</td>
</tr>
<tr>
<td>Total Noncurrent, Net</td>
<td>768,775</td>
<td>1,112,806</td>
</tr>
<tr>
<td>Total Contributions Receivable, Net</td>
<td>$1,360,313</td>
<td>$1,657,806</td>
</tr>
</tbody>
</table>

The contributions receivable have been discounted to their present value using a discount rate of 5% at June 30, 2018 and 2017.
Note 6 - Property and Equipment:

Property and equipment consist of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production equipment</td>
<td>$396,504</td>
<td>$1,233,920</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>145,681</td>
<td>145,681</td>
</tr>
<tr>
<td>Office equipment and computers</td>
<td>23,725</td>
<td>456,090</td>
</tr>
<tr>
<td>Land</td>
<td>-</td>
<td>78,025</td>
</tr>
<tr>
<td>Building and improvements</td>
<td>-</td>
<td>1,475,448</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$565,910</td>
<td>3,389,164</td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>$(563,227)</td>
<td>$(2,682,472)</td>
</tr>
<tr>
<td>Property and Equipment, Net</td>
<td>$2,683</td>
<td>$706,692</td>
</tr>
</tbody>
</table>

Note 7 - Charitable Remainder Unitrusts:

San Diego Opera has been named as the remainder beneficiary of charitable remainder unitrusts (“Unitrusts”) which are reported at fair value. These Unitrusts are established and funded by the donors and provide for a distribution annually to the donors during their lifetimes. Upon the death of the donors, the remaining value of the Unitrusts will be distributed to San Diego Opera subject to donor restrictions. The assets held in the Unitrusts totaling $463,155 and $377,204 at June 30, 2018 and 2017, respectively, have been discounted to their present values of the remainder interest using discount rates ranging from 5% to 7% at June 30, 2018 and 2017, as stipulated in the Unitrusts.

The activity of the Unitrusts consisted of the following for the years ended June 30:

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at June 30, 2016</td>
<td>$10,916</td>
<td>$305,119</td>
<td>$316,035</td>
</tr>
<tr>
<td>Change in discount and fair value</td>
<td>325</td>
<td>3,369</td>
<td>3,694</td>
</tr>
<tr>
<td>Balance at June 30, 2017</td>
<td>$11,241</td>
<td>$308,488</td>
<td>$319,729</td>
</tr>
<tr>
<td>Change in discount and fair value</td>
<td>319</td>
<td>77,791</td>
<td>78,110</td>
</tr>
<tr>
<td>Balance at June 30, 2018</td>
<td>$11,560</td>
<td>$386,279</td>
<td>$397,839</td>
</tr>
</tbody>
</table>

Note 8 - Pooled Income Fund:

San Diego Opera’s pooled income fund is administered by Union Bank as the Trustee. Assets donated to the pooled income fund by donors provide income to the donors for the remainder of the donor’s life. Upon the death of the donors, the assets are transferred to San Diego Opera subject to the donor’s restrictions, if any. The assets held in the pooled income fund totaled $180,507 and $221,080 at June 30, 2018 and 2016, respectively. The pooled income fund has been discounted to the present value of remainder interest using a discount rate of 5.4% at June 30, 2018 and 2017. The pooled income fund liability totaled $35,418 and $53,741 at June 30, 2018 and 2017, respectively.
Note 9 - Charitable Gift Annuities:

San Diego Opera accepts assets donated under charitable gift annuity contracts which provide income to donors for their life. Upon the death of a donor, the remaining assets are transferred to San Diego Opera subject to donor restrictions, if any. San Diego Opera has adopted the income payout rate to donors as recommended by the American Council on Gift Annuities. The assets related to the charitable gift annuities are held and managed by the trust department of Wells Fargo Bank and are fully regulated by the California Department of Insurance. The assets held at Wells Fargo Bank totaled $49,797 and $56,704 at June 30, 2018 and 2017, respectively, consisting of San Diego Opera reserve deposits totaling $49,797 and $56,704, respectively. The charitable gift annuities have been discounted to their present value of remainder interest using payout rates established in the individual annuity contracts ranging from 6.2% to 7.7% and a discount rate of 6% at June 30, 2018 and 2017. The charitable gift annuities liability totaled $42,925 and $45,121 at June 30, 2018 and 2017, respectively.

Note 10 - San Diego Opera Association Endowment Trust:

The San Diego Opera Association endowment trust (“Trust”) was established as a means of creating and funding a permanent endowment fund held by U.S. Trust for the benefit of San Diego Opera. Investment direction is provided by the finance committee appointed by the San Diego Opera’s Board of Directors. The Trust assets are invested in a portfolio of mutual, index and exchange traded funds structured for long-term return.

The activity of the Trust consisted of the following for the years ended June 30:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at Beginning of Year</td>
<td>$3,450,753</td>
<td>$3,249,547</td>
</tr>
<tr>
<td>Contributions</td>
<td>32,233</td>
<td>-</td>
</tr>
<tr>
<td>Distributions to San Diego Opera</td>
<td>(168,843)</td>
<td>(168,008)</td>
</tr>
<tr>
<td>Investment gain</td>
<td>142,809</td>
<td>369,214</td>
</tr>
<tr>
<td>Balance at End of Year</td>
<td>$3,456,952</td>
<td>$3,450,753</td>
</tr>
</tbody>
</table>

Note 11 - Beneficial Interest in Endowment Funds:

San Diego Opera has established a charitable endowment fund, San Diego Opera Permanent Endowment Fund at the San Diego Foundation, an unrelated not-for-profit California corporation. The beneficial interest in endowment funds held at San Diego Foundation is invested in a portfolio of equity and debt securities, which is structured for long-term total return, consisting of 27% international equities, 25% domestic equities, 21% alternative investments, 17% fixed income, 7% real estate and 3% commodities.

The activity in the beneficial interest in endowment funds held at of the San Diego Foundation consisted of the following for the years ended June 30:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at Beginning of Year</td>
<td>$1,366,689</td>
<td>$1,279,831</td>
</tr>
<tr>
<td>Distributions to San Diego Opera</td>
<td>(58,431)</td>
<td>(59,570)</td>
</tr>
<tr>
<td>Investment gain</td>
<td>85,461</td>
<td>146,428</td>
</tr>
<tr>
<td>Balance at End of Year</td>
<td>$1,393,719</td>
<td>$1,366,689</td>
</tr>
</tbody>
</table>
Note 12 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions with time restrictions</td>
<td>$1,838,965</td>
<td>$2,547,522</td>
</tr>
<tr>
<td>Pooled income fund</td>
<td>102,264</td>
<td>98,475</td>
</tr>
<tr>
<td>Contributions with purpose restrictions</td>
<td>30,600</td>
<td>10,000</td>
</tr>
<tr>
<td>Charitable reminder unitrusts</td>
<td>11,560</td>
<td>11,241</td>
</tr>
<tr>
<td><strong>Total Temporarily Restricted Net Assets</strong></td>
<td><strong>$1,983,389</strong></td>
<td><strong>$2,667,238</strong></td>
</tr>
</tbody>
</table>

Net assets totaling $1,258,333 and $3,593,320 were released from donor restrictions due to the satisfaction of purpose or time restrictions during the years ended June 30, 2018 and 2017, respectively.

Note 13 - Endowment Net Assets:

San Diego Opera’s endowment was established to provide general support. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. San Diego Opera holds its endowment funds in the San Diego Opera endowment trust ("Trust") and San Diego Foundation Fund ("SDF").

**San Diego Opera Managed Fund:**

In regards to the endowment funds held in the Trust, San Diego Opera has interpreted the enacted version of the 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, San Diego Opera classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (3) 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the San Diego Opera in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, San Diego Opera considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of San Diego Opera and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of San Diego Opera
- The investment policies of San Diego Opera
Note 13 - Endowment Net Assets: (Continued)

San Diego Opera Managed Fund: (Continued)

San Diego Opera has adopted investment and spending policies for endowment funds held in the Trust that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a minimum level
- Comply with applicable laws

The endowment funds in the Trust are held at and administered by MUFG Union Bank, N.A. with investment direction from the Finance Committee members who are appointed by the Board of Directors of San Diego Opera pursuant to the Trust document. The funds are invested in a portfolio of mutual, index and exchange traded funds structured for long-term return. The Trust relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Trust’s spending policy provides that distributions may be made from the cumulative total return (capital gains and current income) rather than being limited to interest and dividend income. A default distribution amount is distributed each calendar year if a distribution rate is not authorized by San Diego Opera’s Board of Directors. The default distribution is calculated as 5% of the average fair value of the Trust’s assets on the last business day of each of the prior 12 quarters. The current distribution authorized by San Diego Opera’s Board of Directors is 5% of the fair value of the Trust as of December 31 of the prior year. Distributions cannot reduce the value of the Trust assets below the historic dollar value of the Trust.

San Diego Foundation Managed Fund:

In regards to the endowment funds held at SDF, these funds are managed in accordance with the UPMIFA. The investment objectives are to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in the endowment fund may fall below the level that the donors require San Diego Opera to retain as a fund of perpetual duration. Permanently restricted net assets held by SDF are comprised of:

- The original value of gifts donated to the fund
- The original value of San Diego Opera funds transferred to the fund
- The original value of subsequent gifts donated to the fund
- Investment income and realized and unrealized gains and losses on investments
- Less: Distributions from the fund in accordance with the spending policy

SDF endowment funds are invested in a portfolio of equity and debt securities which is structured for long-term total return. To provide diversification and to moderate risk, the investments are divided into carefully defined asset classes. Funding available for each asset classification is invested by professional money managers hired by SDF through a competitive process. The investment performance of each money manager is monitored by an independent consultant hired by SDF.
Note 13 - Endowment Net Assets: (Continued)

San Diego Foundation Managed Fund: (Continued)

SDF’s spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the market value of the endowment principal of any fund, at the end of each month, is less than the initial value of all contributions made to the endowment principal, then distributions will be limited to interest and dividends received.

Endowment composition by type of fund at June 30:

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor restricted endowment funds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Diego Opera endowment trust</td>
<td>$3,456,952</td>
<td>$3,450,753</td>
</tr>
<tr>
<td>Beneficial interest in endowment funds held at San Diego Foundation</td>
<td>1,393,719</td>
<td>1,366,689</td>
</tr>
<tr>
<td>Charitable remainder unitrusts</td>
<td>386,279</td>
<td>308,488</td>
</tr>
<tr>
<td>Pooled income fund, net</td>
<td>42,825</td>
<td>68,865</td>
</tr>
<tr>
<td>Total Endowment Net Assets</td>
<td>$5,279,775</td>
<td>$5,194,795</td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the years ended June 30:

<table>
<thead>
<tr>
<th>Endowment Net Assets</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>at Beginning of Year</td>
<td>$5,194,795</td>
<td>$4,900,508</td>
</tr>
<tr>
<td>Net realized and unrealized appreciation</td>
<td>312,254</td>
<td>521,865</td>
</tr>
<tr>
<td>Appropriation of endowment assets for expenditure</td>
<td>(227,274)</td>
<td>(227,578)</td>
</tr>
<tr>
<td>at End of Year</td>
<td>$5,279,775</td>
<td>$5,194,795</td>
</tr>
</tbody>
</table>

Note 14 - Pension Plans:

403(b) Pension Plan

San Diego Opera sponsors a 403(b) pension plan covering substantially all of its nonunion employees. Each employee’s total contribution may not exceed the maximum allowable under current regulations. San Diego Opera matches the first 4% of eligible compensation contributed by the employee. San Diego Opera also pays all administrative costs of this plan. All beneficiaries of the 403(b) plan are responsible for their own plan investment decisions. Matching contributions under this plan totaled $51,687 and $100,811 for the years ended June 30, 2018 and 2017, respectively.

Other Pension Plans

San Diego Opera also participates in three pension plans subject to collective bargaining agreements. Amounts contributed to these plans totaled $200,602 and $228,757 for the years ended June 30, 2018 and 2017, respectively.
Note 15 - Commitments:

License Agreement

San Diego Opera entered into contracts to license use of various theaters for its 2019 performance season. The future payment obligation is $407,125.

Lease Agreements

San Diego Opera leases its administrative offices through June 30, 2020 and costume shop through August 31, 2021. Rent expense for these spaces totaled $111,429 and $135,166 for the years ended June 30, 2018 and 2017, respectively. San Diego Opera leases its scenic studio through December 18, 2019. Rent expenses totaled $76,198 and $-0- for the years ended June 30, 2018 and 2017, respectively. All future rents are included in the future annual payments schedule in this note.

Contracts

San Diego Opera has entered into various contracts for services with employees and independent contractors for future productions and services.

Future annual payment requirements to fulfill the lease agreements and contracts are as follows:

<table>
<thead>
<tr>
<th>Years Ended June 30</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$2,303,267</td>
</tr>
<tr>
<td>2020</td>
<td>$2,050,746</td>
</tr>
<tr>
<td>2021</td>
<td>$1,431,984</td>
</tr>
<tr>
<td>Total</td>
<td>$5,785,997</td>
</tr>
</tbody>
</table>
### SAN DIEGO OPERA ASSOCIATION
### SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
### FOR THE YEAR ENDED JUNE 30, 2018

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Supporting Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Productions</td>
<td>Program</td>
<td>Program</td>
</tr>
<tr>
<td>Total Salaries and Related Expenses:</td>
<td>4,403,159</td>
<td>192,869</td>
<td>4,596,028</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>$3,528,513</td>
<td>$177,165</td>
<td>$3,705,678</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>514,697</td>
<td>1,249</td>
<td>515,946</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>359,949</td>
<td>14,455</td>
<td>374,404</td>
</tr>
<tr>
<td>Total Salaries and Related Expenses</td>
<td>4,403,159</td>
<td>192,869</td>
<td>4,596,028</td>
</tr>
<tr>
<td>Operating Expenses:</td>
<td>4,018,151</td>
<td>69,085</td>
<td>4,087,236</td>
</tr>
<tr>
<td>Advertising and marketing</td>
<td>840,444</td>
<td>-</td>
<td>840,444</td>
</tr>
<tr>
<td>Bank and other fees</td>
<td>181,603</td>
<td>-</td>
<td>181,603</td>
</tr>
<tr>
<td>Conferences and meetings</td>
<td>7,728</td>
<td>3,187</td>
<td>10,915</td>
</tr>
<tr>
<td>Depreciation</td>
<td>72,276</td>
<td>586</td>
<td>72,862</td>
</tr>
<tr>
<td>Events</td>
<td>16,751</td>
<td>1,583</td>
<td>18,334</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Membership and dues</td>
<td>1,695</td>
<td>-</td>
<td>1,695</td>
</tr>
<tr>
<td>Occupancy</td>
<td>334,515</td>
<td>1,583</td>
<td>336,098</td>
</tr>
<tr>
<td>Office</td>
<td>27,094</td>
<td>343</td>
<td>27,437</td>
</tr>
<tr>
<td>Outside services</td>
<td>119,282</td>
<td>320</td>
<td>119,602</td>
</tr>
<tr>
<td>Production costs</td>
<td>2,207,650</td>
<td>19,883</td>
<td>2,227,533</td>
</tr>
<tr>
<td>Professional fees</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Telephone and internet</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Travel and parking</td>
<td>209,113</td>
<td>43,769</td>
<td>252,882</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>4,018,151</td>
<td>69,085</td>
<td>4,087,236</td>
</tr>
<tr>
<td>Total Program and Supporting Services Expenses</td>
<td>$8,421,310</td>
<td>$261,954</td>
<td>$8,683,264</td>
</tr>
</tbody>
</table>