



**SAN DIEGO OPERA ASSOCIATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2014**



Leaf & Cole, LLP  
*Certified Public Accountants*

**SAN DIEGO OPERA ASSOCIATION  
FINANCIAL STATEMENTS  
JUNE 30, 2014**

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## **Independent Auditor's Report**

To the Board of Directors  
San Diego Opera Association  
San Diego, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of San Diego Opera Association, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Opera Association as of June 30, 2014, 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.

***Report on Summarized Comparative Information***

We have previously audited San Diego Opera Association's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Leaf & Cole LLP

San Diego, California  
November 17, 2014

**SAN DIEGO OPERA ASSOCIATION**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2014**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)**

**ASSETS**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
<b><u>Current Assets:</u></b> (Notes 1, 2, 3 and 4)					
Cash and cash equivalents	\$ 596,828	\$ 5,620,606	\$ -	\$ 6,217,434	\$ 1,668,620
Receivables, net:					
Ticket sales	438,184	-	-	438,184	935,147
Contributions	1,794,811	1,107,179	-	2,901,990	2,979,268
Other	101,946	-	-	101,946	175,907
Grants	94,276	-	-	94,276	184,100
Prepaid production and other costs	249,606	-	-	249,606	274,720
Investments	-	-	-	-	2,229,209
Total Current Assets	3,275,651	6,727,785	-	10,003,436	8,446,971
<b><u>Noncurrent Assets:</u></b> (Notes 1, 2, 4 to 11 and 14)					
Contributions receivable, net	-	253,209	-	253,209	3,992,561
Property and equipment, net	1,034,952	-	-	1,034,952	1,245,240
Charitable Remainder Unitrusts	-	10,324	298,340	308,664	821,110
Pooled Income Fund	-	143,206	96,185	239,391	236,637
Charitable Gift Annuities	279,161	-	-	279,161	287,398
San Diego Opera Endowment Trust	-	-	3,650,038	3,650,038	2,941,616
San Diego Foundation Fund	-	-	1,422,149	1,422,149	1,293,140
Jewish Community Foundation Fund	-	-	-	-	21,349
Other noncurrent assets	595,464	-	-	595,464	466,398
Total Noncurrent Assets	1,909,577	406,739	5,466,712	7,783,028	11,305,449
<b>TOTAL ASSETS</b>	<b>\$ 5,185,228</b>	<b>\$ 7,134,524</b>	<b>\$ 5,466,712</b>	<b>\$ 17,786,464</b>	<b>\$ 19,752,420</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b><u>Current Liabilities:</u></b> (Note 1)					
Accounts payable and accrued expenses	\$ 1,324,755	\$ -	\$ -	\$ 1,324,755	\$ 448,815
Deferred revenue	1,936,569	-	-	1,936,569	3,046,639
Total Current Liabilities	3,261,324	-	-	3,261,324	3,495,454
<b><u>Noncurrent Liabilities:</u></b> (Notes 7, 8 and 14)					
Pooled Income Fund liability	-	52,339	24,053	76,392	78,967
Charitable Gift Annuities liability	55,837	-	-	55,837	58,442
Other noncurrent liabilities	595,464	-	-	595,464	466,398
Total Noncurrent Liabilities	651,301	52,339	24,053	727,693	603,807
<b><u>Commitments</u></b> (Notes 14 and 15)					
<b><u>Net Assets</u></b> (Notes 1, 12 and 13)	1,272,603	7,082,185	5,442,659	13,797,447	15,653,159
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,185,228</b>	<b>\$ 7,134,524</b>	<b>\$ 5,466,712</b>	<b>\$ 17,786,464</b>	<b>\$ 19,752,420</b>

The accompanying notes are an integral part of the financial statements.

**SAN DIEGO OPERA ASSOCIATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
<b><u>Operating Revenues:</u></b>					
Ticket revenue	\$ 4,799,236	\$ -	\$ -	\$ 4,799,236	\$ 5,057,423
Special event revenue	391,708	-	-	391,708	447,796
Appropriations of endowment assets	223,441	-	-	223,441	258,330
Other income	103,039	-	-	103,039	76,051
Scenic studio revenue, net	89,993	-	-	89,993	36,060
Interest and dividend income	34,233	-	-	34,233	168,429
Total Operating Revenues	<u>5,641,650</u>	<u>-</u>	<u>-</u>	<u>5,641,650</u>	<u>6,044,089</u>
<b><u>Operating Expenses:</u></b>					
International season	7,183,857	-	-	7,183,857	8,170,866
General management	3,369,840	-	-	3,369,840	2,742,645
Development overhead	1,953,622	-	-	1,953,622	1,982,153
Marketing overhead	1,437,017	-	-	1,437,017	1,376,275
Production overhead and scenic studio	1,074,573	-	-	1,074,573	1,183,842
Special event expenses	493,603	-	-	493,603	399,093
Educational program	441,221	-	-	441,221	447,145
Total Operating Expenses	<u>15,953,733</u>	<u>-</u>	<u>-</u>	<u>15,953,733</u>	<u>16,302,019</u>
Deficiency of Operating Revenues Over Operating Expenses	<u>(10,312,083)</u>	<u>-</u>	<u>-</u>	<u>(10,312,083)</u>	<u>(10,257,930)</u>
<b><u>Contributions and Public Support:</u></b>					
Contributions	5,207,211	5,193,383	-	10,400,594	8,123,713
Provision for uncollectible pledges	(55,850)	(1,898,479)	(1,066,576)	(3,020,905)	(158,000)
Grants	512,820	-	-	512,820	681,359
Fundraising events and other activities, net	179,004	-	-	179,004	171,458
Net assets released from restriction	4,416,831	(4,395,549)	(21,282)	-	-
Total Contributions and Public Support	<u>10,260,016</u>	<u>(1,100,645)</u>	<u>(1,087,858)</u>	<u>8,071,513</u>	<u>8,818,530</u>
Deficiency of Operating Revenues, Contributions and Public Support Over Operating Expenses	<u>(52,067)</u>	<u>(1,100,645)</u>	<u>(1,087,858)</u>	<u>(2,240,570)</u>	<u>(1,439,400)</u>
<b><u>Other Changes in Net Assets:</u></b>					
Realized and unrealized investment gains, net	60,271	-	-	60,271	142,122
Charitable Remainder Unitrusts	-	340	65,330	65,670	171,120
Pooled Income Fund	-	3,197	2,132	5,329	14,709
Charitable Gift Annuities	(5,660)	-	-	(5,660)	231,295
San Diego Opera Endowment Trust, net	-	-	130,306	130,306	51,208
San Diego Foundation Fund, net	-	-	129,009	129,009	58,703
Jewish Community Foundation Fund	-	-	(67)	(67)	(67)
Total Other Changes in Net Assets	<u>54,611</u>	<u>3,537</u>	<u>326,710</u>	<u>384,858</u>	<u>669,090</u>
Change in Net Assets	2,544	(1,097,108)	(761,148)	(1,855,712)	(770,310)
Net Assets at Beginning of Year	<u>1,270,059</u>	<u>8,179,293</u>	<u>6,203,807</u>	<u>15,653,159</u>	<u>16,423,469</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 1,272,603</u>	<u>\$ 7,082,185</u>	<u>\$ 5,442,659</u>	<u>\$ 13,797,447</u>	<u>\$ 15,653,159</u>

The accompanying notes are an integral part of the financial statements.

**SAN DIEGO OPERA ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)**

	<u>2014</u>	<u>2013</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ (1,855,712)	\$ (770,310)
<b>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</b>		
Depreciation	205,681	261,914
(Gain) loss on sale of property and equipment	(25,817)	1,942
Net realized and unrealized gains on investments	(82,499)	(169,259)
Permanently restricted contributions, net of uncollectible	1,066,576	(151,233)
Permanently restricted gains	(326,710)	(293,156)
Permanently restricted net assets released	21,282	-
<b>Changes in assets and liabilities:</b>		
Receivables, net	4,477,378	(2,685,555)
Prepaid production and other costs	25,114	165,276
Other noncurrent assets	(129,066)	(96,110)
Accounts payable and accrued expenses	875,940	122,258
Deferred revenue	(1,110,070)	132,863
Other noncurrent liabilities	129,066	96,110
Net Cash Provided by (Used in) Operating Activities	<u>3,271,163</u>	<u>(3,385,260)</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment (purchases)/sales/maturities, net	2,311,708	3,699,868
Purchase of property and equipment	(17,573)	(257,960)
Proceeds from sale of property and equipment	47,997	-
Charitable Remainder Unitrusts	512,446	(171,120)
Pooled Income Fund	(5,329)	56,517
Charitable Gift Annuities	5,632	(259,648)
San Diego Opera Endowment Trust	(708,422)	(234,136)
San Diego Foundation Fund	(129,009)	(58,703)
Jewish Community Foundation Fund	21,349	67
Net Cash Provided by Investing Activities	<u>2,038,799</u>	<u>2,774,885</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Permanently restricted contributions, net of uncollectible	(1,066,576)	151,233
Permanently restricted gains	326,710	293,156
Permanently restricted net assets released	(21,282)	-
Net Cash (Used in) Provided by Financing Activities	<u>(761,148)</u>	<u>444,389</u>
Increase (Decrease) in Cash and Cash Equivalents	4,548,814	(165,986)
Cash and Cash Equivalents at Beginning of Year	<u>1,668,620</u>	<u>1,834,606</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 6,217,434</u>	<u>\$ 1,668,620</u>

The accompanying notes are an integral part of the financial statements.

**SAN DIEGO OPERA ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)**

**Note 1 - Organization and Significant Accounting Policies:**

**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 producing and presenting opera and other vocal arts. In 2014, San Diego Opera produced four productions for a total of sixteen performances throughout the five-month season (January - May) along with a special concert event in San Diego’s downtown Civic Theatre. 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 trade shows around the country. 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.

San Diego Opera announced its 2014-2015 season on May 19, 2014, after nearly two months of careful deliberations and analysis since the Company announced it was going to close at the end of the 2014 season. During this time, the Company launched a crowd funding campaign that resulted in \$2.2 million in public donations from more than 2,600 supporters and reduced the budget for the 2014-2015 season. These were two key factors, among many, which led the Board of Directors to rescind the original vote to close.

**Significant Accounting Policies**

**Method of Accounting**

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 (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.



**SAN DIEGO OPERA ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**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 ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Fair Value Measurements (Continued)**

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 mutual funds 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, Northern Trust and Jewish Community Foundation, since these funds are valued monthly by the fund manager and are not traded in an active market. Investments in municipal bonds are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for similar assets at the measurement date.
- Beneficial interest in split interest agreements (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.
- Beneficial interests in endowment assets (San Diego Foundation Fund and Jewish Community Foundation Fund) are considered Level 3 assets and are reported at fair value based on the fair value of the underlying assets which approximates the future discounted cash flows.

**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 \$50,000 at June 30, 2014 and 2013. The provision for uncollectible contributions receivable totaled \$1,991,576 and \$770,000 at June 30, 2014 and 2013, 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.

**SAN DIEGO OPERA ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**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 \$205,681 and \$261,914 for the years ended June 30, 2014 and 2013, 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.

**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 2014 or 2013.

**Compensated Absences**

Accumulated unpaid vacation totaling \$181,110 and \$176,418 at June 30, 2014 and 2013, respectively, is accrued when incurred and included in accounts payable and accrued expenses.

**SAN DIEGO OPERA ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**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 \$1,894,758 and \$3,020,577 at June 30, 2014 and 2013, respectively.

**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 totaled \$155,810 and \$180,497 at June 30, 2014 and 2013, 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 \$34,760 and \$-0- for the years ended June 30, 2014 and 2013, respectively.

San Diego Opera received in-kind donations totaling \$534,196 and \$483,461 for the years ended June 30, 2014 and 2013, 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.

**SAN DIEGO OPERA ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**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, 2014 and 2013. 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, 2014, 2013, 2012 and 2011 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.

**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.

**Comparative Totals for June 30, 2013**

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted principles. Accordingly, such information should be read in conjunction with the San Diego Opera's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

**Subsequent Events**

San Diego Opera has evaluated subsequent events through November 17, 2014, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed which are not already disclosed in these notes.

**SAN DIEGO OPERA ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)**

**Note 2 - Fair Value Measurements:**

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

	2014			Balance as of June 30, 2014
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual, index and exchange traded funds:				
Short term funds	\$ -	\$ 35,212	\$ -	\$ 35,212
Balanced funds	595,464	-	-	595,464
Equity funds	-	2,180,730	-	2,180,730
Fixed income funds	-	1,344,159	-	1,344,159
Real estate funds	-	147,601	-	147,601
Commodity funds	-	181,727	-	181,727
Charitable remainder unitrusts (Note 6)	-	-	308,664	308,664
San Diego Foundation Fund (Note 10)	-	-	1,422,149	1,422,149
	<u>\$ 595,464</u>	<u>\$ 3,889,429</u>	<u>\$ 1,730,813</u>	<u>\$ 6,215,706</u>

	2013			Balance as of June 30, 2013
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents	\$ -	\$ 182,928	\$ -	\$ 182,928
Municipal bonds	49,811	-	-	49,811
Mutual, index and exchange traded funds:				
Short term funds	-	4,952	-	4,952
Balanced funds	466,398	-	-	466,398
Equity funds	-	2,222,493	-	2,222,493
Fixed income funds	-	2,779,304	-	2,779,304
Real estate funds	-	145,673	-	145,673
Commodity funds	-	22,302	-	22,302
Charitable remainder unitrusts (Note 6)	-	-	821,110	821,110
San Diego Foundation Fund (Note 10)	-	-	1,293,140	1,293,140
Jewish Community Foundation Fund (Note 11)	-	-	21,349	21,349
	<u>\$ 516,209</u>	<u>\$ 5,357,652</u>	<u>\$ 2,135,599</u>	<u>\$ 8,009,460</u>

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.

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**Note 3 - Investments:**

Investments consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Mutual, index and exchange traded funds	\$ -	\$ 2,174,446
Municipal bonds	-	49,811
Jewish Community Foundation - Short term fund	-	4,952
Total Investments	<u>\$ -</u>	<u>\$ 2,229,209</u>

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

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 34,233	\$ 168,429
Realized and unrealized gains	82,499	169,259
Investment fees	(9,903)	(22,663)
Total Investment Return	<u>\$ 106,829</u>	<u>\$ 315,025</u>

**Note 4 - Contributions Receivable:**

Contributions receivable consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Current:		
Due in less than one year	\$ 3,254,490	\$ 3,569,268
Less: Provision for uncollectible accounts	(352,500)	(590,000)
Total Current, Net	<u>2,901,990</u>	<u>2,979,268</u>
Noncurrent:		
Due in one to five years	943,984	3,566,430
Due in more than five years	2,000,000	2,000,000
Less: Discounts to present value	(1,051,699)	(1,393,869)
Provision for uncollectible accounts	(1,639,076)	(180,000)
Total Noncurrent, Net	<u>253,209</u>	<u>3,992,561</u>
Total Contributions Receivable, Net	<u>\$ 3,155,199</u>	<u>\$ 6,971,829</u>

The contributions receivable have been discounted to their present value using a discount rate of 5% at June 30, 2014 and 2013.

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**Note 5 - Property and Equipment:**

Property and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 78,025	\$ 78,025
Building and improvements	1,679,968	1,699,619
Production equipment	1,464,097	1,538,787
Office equipment and computers	558,651	591,647
Motor vehicles	170,850	254,029
Subtotal	<u>3,951,591</u>	<u>4,162,107</u>
Less: Accumulated depreciation	<u>(2,916,639)</u>	<u>(2,916,867)</u>
Property and Equipment, Net	<u>\$ 1,034,952</u>	<u>\$ 1,245,240</u>

**Note 6 - 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 \$377,204 and \$894,056 at June 30, 2014 and 2013, respectively, have been discounted to their present values of the remainder interest using discount rates of 5% to 7% at June 30, 2014 and 2013 as stipulated in the Unitrusts.

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

	<u>2014</u>			<u>2013</u> <u>Total</u>
	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Total</u>	
Balance at Beginning of Year	\$ 9,984	\$ 811,126	\$ 821,110	\$ 649,990
Change in discount and fair value	340	65,330	65,670	171,120
Distributions	-	<u>(578,116)</u>	<u>(578,116)</u>	<u>-</u>
Balance at End of Year	<u>\$ 10,324</u>	<u>\$ 298,340</u>	<u>\$ 308,664</u>	<u>\$ 821,110</u>

**Note 7 - 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 \$239,391 and \$236,637 at June 30, 2014 and 2013, 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, 2014 and 2013. The Pooled Income Fund liability totaled \$76,392 and \$78,967 at June 30, 2014 and 2013, respectively.



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**Note 8 - 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 \$279,161 and \$287,398 at June 30, 2014 and 2013, respectively, consisting of San Diego Opera reserve deposits totaling \$279,161 and \$285,768, respectively, and donor funds totaling \$-0- and \$1,630, 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 8.3% and a discount rate of 6% at June 30, 2014 and 2013. The Charitable Gift Annuities liability totaled \$55,837 and \$58,442 at June 30, 2014 and 2013, respectively.

**Note 9 - San Diego Opera 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 Northern 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 beneficial interest in 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:

	<u>2014</u>	<u>2013</u>
Balance at Beginning of Year	\$ 2,941,616	\$ 2,707,480
Contributions received	578,116	182,928
Distributions to San Diego Opera	(167,890)	(204,872)
Investment gains	298,196	256,080
Balance at End of Year	<u>\$ 3,650,038</u>	<u>\$ 2,941,616</u>

**Note 10 - San Diego Foundation Fund:**

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 San Diego Foundation is invested in a portfolio of equity and debt securities which is structured for long-term total return consisting of 27% domestic equities, 6% global equities, 24% international equities, 20% alternative investment funds, 10% domestic fixed income, 6% real assets and 7% international fixed income as of June 30, 2014.

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**Note 10 - San Diego Foundation Fund: (Continued)**

The activity of the San Diego Foundation Fund consisted of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Balance at Beginning of Year	\$ 1,293,140	\$ 1,234,437
Distributions to San Diego Opera	(55,551)	(53,458)
Investment gains	184,560	112,161
Balance at End of Year	<u>\$ 1,422,149</u>	<u>\$ 1,293,140</u>

**Note 11 - Jewish Community Foundation Fund:**

San Diego Opera has established a charitable endowment fund, San Diego Opera Endowment Fund at the Jewish Community Foundation, an unrelated not-for-profit California corporation in 2003. The beneficial interest in Jewish Community Foundation are invested in the Short Term Pool which is a cash equivalent pool that seeks principal preservation by investing in certificates of deposit, securities issued or guaranteed by the United States government and other cash equivalents. Per the terms of the Endowment Fund agreement with Jewish Community Foundation, at the end of ten years, the fund shall become a custodial fund in San Diego Opera's name and ownership and control shall transfer to San Diego Opera.

The activity of the Jewish Community Foundation Fund consisted of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Balance at Beginning of Year	\$ 21,349	\$ 21,416
Investment loss	(67)	(67)
Release of Restriction	(21,282)	-
Balance at End of Year	<u>\$ -</u>	<u>\$ 21,349</u>

**Note 12 - Temporarily Restricted Net Assets:**

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

	<u>2014</u>	<u>2013</u>
For future periods	\$ 3,502,175	\$ 976,283
Production Reserve Fund	2,299,613	2,299,613
Producer's Circle donations and receivables	1,179,206	4,749,493
Pooled Income Fund	90,867	87,671
Charitable reminder unitrusts	10,324	9,984
Purpose restricted	-	56,249
Total Temporarily Restricted Net Assets	<u>\$ 7,082,185</u>	<u>\$ 8,179,293</u>

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**Note 12 - Temporarily Restricted Net Assets: (Continued)**

Net assets totaling \$4,395,549 were released from donor restrictions due to the satisfaction of purpose or time restrictions during the year ended June 30, 2014. There was no release from the Production Reserve Fund during the year ended June 30, 2014 primarily due to accelerated Producer's Circle pledge payments and the amount of bequests received being greater than recent years.

**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"), San Diego Foundation Fund ("SDF") and Jewish Community Foundation Fund ("JCF").

**San Diego Opera Managed Funds:**

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:

1. The duration and preservation of the fund
2. The purposes of San Diego Opera and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of San Diego Opera
7. The investment policies of San Diego Opera

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

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

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**Note 13 - Endowment Net Assets: (Continued)**

**San Diego Opera Managed Funds: (Continued)**

The endowment funds in the Trust are held and administered by Northern Trust 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 and Jewish Community Foundation Managed Funds:**

In regards to the endowment funds held by SDF and JCF, 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 and JCF are comprised of:

1. The original value of gifts donated to the fund
2. The original value of San Diego Opera funds transferred to the fund
3. The original value of subsequent gifts donated to the fund
4. Investment income and realized and unrealized gains and losses on investments
5. 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.

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.

JCF endowment funds were invested in the Short Term Pool which is a cash equivalent pool that seeks principal preservation by investing in certificates of deposit, securities issued or guaranteed by the United States government and other cash equivalents.

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**Note 13 - Endowment Net Assets: (Continued)**

**San Diego Foundation and Jewish Community Foundation Managed Funds: (Continued)**

JCF's spending policy is to disburse 5% of the value of the fund annually, based on a historical average value of the fund. The calculation is based on the average value of the fund for twelve quarters prior to the date of the distribution.

JCF's Endowment Fund agreement stipulated that at the end of ten years, the fund became a custodial fund in San Diego Opera's name and ownership was transferred to San Diego Opera. During the year ended June 30, 2014, the restriction on the JCF Endowment Fund was released and the account was liquidated.

Endowment composition by type of fund at of June 30:

	<u>2014</u>	<u>2013</u>
Donor restricted endowment funds:		
San Diego Opera Endowment Trust	\$ 3,650,038	\$ 2,941,616
San Diego Foundation Fund	1,422,149	1,293,140
Endowment pledge, net	-	1,066,576
Charitable remainder unitrusts	298,340	811,126
Pooled Income Fund, net	72,132	70,000
Jewish Community Foundation Fund	-	21,349
Total Endowment Net Assets	<u>\$ 5,442,659</u>	<u>\$ 6,203,807</u>

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

	<u>2014</u>	<u>2013</u>
Endowment Net Assets at Beginning Of Year	\$ 6,203,807	\$ 5,759,418
Net realized and unrealized appreciation	550,150	591,017
Contributions	-	111,702
Appropriation of endowment assets for expenditure	(223,440)	(258,330)
Provision for uncollectible pledges	(1,066,576)	-
Release of restriction	(21,282)	-
Endowment Net Assets at End of Year	<u>\$ 5,442,659</u>	<u>\$ 6,203,807</u>

**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 \$146,339 and \$151,019 for the years ended June 30, 2014 and 2013, respectively.

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**Note 14 - Pension Plans: (Continued)**

**Other Pension Plans**

San Diego Opera also participates in three pension plans subject to collective bargaining agreements. Amounts contributed to these plans totaled \$164,818 and \$176,016 for the years ended June 30, 2014 and 2013, respectively.

**Supplemental Executive Retirement Plan (SERP)**

San Diego Opera has a SERP Plan (the "Plan") on behalf of an executive employee. The Plan provides for annual contributions which are 100% vested after ten years of employment. Contributions totaled \$56,103 for the years ended June 30, 2014 and 2013. The Plan liability totaled \$595,464 and \$466,398 at June 30, 2014 and 2013, respectively, and is fully funded with mutual fund investments held at Vanguard. The Plan assets are reported at fair value and totaled \$595,464 and \$466,398 at June 30, 2014 and 2013, respectively. Subsequent to June 30, 2014, the Plan assets were liquidated and distributed to the executive employee who participated in the Plan as part of a separation of employment, in accordance with the terms of the Plan.

**Note 15 - Commitments:**

**Lease Agreements**

San Diego Opera has a 77-month lease agreement for office space which expires in July 2014. Office rent expense totaled \$442,793 and \$417,333 for the years ended June 30, 2014 and 2013, respectively. Subsequent to June 30, 2014, San Diego Opera relocated its administrative offices and entered into a three year lease for the space. Office rent expense for the year ending June 30, 2015 is expected to be approximately \$69,000. All future rents for this space 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 agreement and contracts are as follows:

Years Ended June 30	
2015	\$ 3,376,577
2016	2,134,824
2017	1,682,606
2018	1,321,158
2019	1,321,158
Total	<u>\$ 9,836,323</u>

**License Agreement**

San Diego Opera entered into a contract to license use of the San Diego Civic Theatre and Balboa Theatre for its 2015 performance season. The future payment obligation is \$368,900.