

SD OPERA

FINANCIAL STATEMENTS

JUNE 30, 2016



Leaf & Cole, LLP
Certified Public Accountants

**SAN DIEGO OPERA ASSOCIATION
FINANCIAL STATEMENTS
JUNE 30, 2016**

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

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 statement of financial position as of June 30, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Leaf & Cole LLP

San Diego, California
November 28, 2016

SAN DIEGO OPERA ASSOCIATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Current Assets: (Notes 1, 2, 3 and 4)					
Cash and cash equivalents	\$ 1,882,404	\$ 3,000,100	\$ -	\$ 4,882,504	\$ 5,460,459
Investments	-	-	-	-	121,182
Receivables, net:					
Ticket sales	328,272	-	-	328,272	323,480
Contributions	113,544	343,721	-	457,265	1,520,405
Grants	51,140	-	-	51,140	117,004
Other	116,947	-	-	116,947	115,705
Prepaid production and other assets	334,757	-	-	334,757	595,973
Total Current Assets	<u>2,827,064</u>	<u>3,343,821</u>	<u>-</u>	<u>6,170,885</u>	<u>8,254,208</u>
Noncurrent Assets: (Notes 1, 2, and 4 to 10)					
Contributions receivable, net	-	492,778	-	492,778	23,136
Property and equipment, net	822,547	-	-	822,547	919,377
Pooled income fund	-	136,482	91,669	228,151	223,767
Charitable gift annuities	263,745	-	-	263,745	270,924
Charitable remainder unitrusts	-	10,916	305,119	316,035	312,435
San Diego Opera endowment trust	-	-	3,249,547	3,249,547	3,470,705
Beneficial interest in endowment funds	-	-	1,279,831	1,279,831	1,367,179
Total Noncurrent Assets	<u>1,086,292</u>	<u>640,176</u>	<u>4,926,166</u>	<u>6,652,634</u>	<u>6,587,523</u>
TOTAL ASSETS	<u>\$ 3,913,356</u>	<u>\$ 3,983,997</u>	<u>\$ 4,926,166</u>	<u>\$ 12,823,519</u>	<u>\$ 14,841,731</u>

LIABILITIES AND NET ASSETS

Current Liabilities: (Note 1)					
Accounts payable and accrued expenses	\$ 664,283	\$ -	\$ -	\$ 664,283	\$ 553,997
Deferred revenue	1,857,728	-	-	1,857,728	1,921,514
Total Current Liabilities	<u>2,522,011</u>	<u>-</u>	<u>-</u>	<u>2,522,011</u>	<u>2,475,511</u>
Noncurrent Liabilities: (Notes 7 and 8)					
Pooled income fund liability	-	42,435	25,658	68,093	69,815
Charitable gift annuities liability	47,381	-	-	47,381	53,277
Total Noncurrent Liabilities	<u>47,381</u>	<u>42,435</u>	<u>25,658</u>	<u>115,474</u>	<u>123,092</u>
Total Liabilities	<u>2,569,392</u>	<u>42,435</u>	<u>25,658</u>	<u>2,637,485</u>	<u>2,598,603</u>
Commitments (Notes 13 and 14)					
Net Assets (Notes 1, 11 and 12)	<u>1,343,964</u>	<u>3,941,562</u>	<u>4,900,508</u>	<u>10,186,034</u>	<u>12,243,128</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,913,356</u>	<u>\$ 3,983,997</u>	<u>\$ 4,926,166</u>	<u>\$ 12,823,519</u>	<u>\$ 14,841,731</u>

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

**SAN DIEGO OPERA ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
<u>Operating Revenues:</u>					
Main stage ticket revenue	\$ 3,385,128	\$ -	\$ -	\$ 3,385,128	\$ 3,510,358
Scenic studio direct activity, net	243,437	-	-	243,437	160,622
Added events ticket revenue	225,947	-	-	225,947	722,338
Appropriations of endowment assets	222,929	-	-	222,929	211,014
Other income	92,580	-	-	92,580	63,261
Interest and dividend income	12,916	-	-	12,916	12,935
Total Operating Revenues	<u>4,182,937</u>	<u>-</u>	<u>-</u>	<u>4,182,937</u>	<u>4,680,528</u>
<u>Contributions and Public Support:</u>					
Contributions	3,500,818	1,442,096	-	4,942,914	5,128,641
Provision for uncollectible pledges	(37,170)	17,750	-	(19,420)	(203,650)
Grants	468,756	-	-	468,756	409,146
Fundraising events and other activities, net	182,230	-	-	182,230	47,781
Net assets released from restriction	2,938,241	(2,938,241)	-	-	-
Total Contributions and Public Support	<u>7,052,875</u>	<u>(1,478,395)</u>	<u>-</u>	<u>5,574,480</u>	<u>5,381,918</u>
Total Operating Revenues, Contributions and Public Support	<u>11,235,812</u>	<u>(1,478,395)</u>	<u>-</u>	<u>9,757,417</u>	<u>10,062,446</u>
<u>Operating Expenses:</u>					
Main stage productions	6,172,605	-	-	6,172,605	5,606,221
General management	1,546,076	-	-	1,546,076	1,758,290
Marketing overhead	1,211,951	-	-	1,211,951	976,893
Production overhead and scenic studio	1,171,345	-	-	1,171,345	1,005,228
Development overhead	727,517	-	-	727,517	726,403
Educational program	402,279	-	-	402,279	311,566
Added events productions	267,035	-	-	267,035	989,061
Total Operating Expenses	<u>11,498,808</u>	<u>-</u>	<u>-</u>	<u>11,498,808</u>	<u>11,373,662</u>
Deficiency of Operating Expenses Over Operating Revenues, Contributions and Public Support	<u>(262,996)</u>	<u>(1,478,395)</u>	<u>-</u>	<u>(1,741,391)</u>	<u>(1,311,216)</u>
<u>Other Changes in Net Assets:</u>					
Realized and unrealized investment losses, net	(7,041)	-	-	(7,041)	(6,349)
Charitable remainder unitrusts	-	295	3,305	3,600	3,771
Pooled income fund	-	3,797	2,309	6,106	(516)
Charitable gift annuities	(1,331)	-	-	(1,331)	(5,706)
San Diego Opera endowment trust, net	-	-	(229,689)	(229,689)	(179,333)
Beneficial interest in endowment funds	-	-	(87,348)	(87,348)	(54,970)
Total Other Changes in Net Assets	<u>(8,372)</u>	<u>4,092</u>	<u>(311,423)</u>	<u>(315,703)</u>	<u>(243,103)</u>
Change in Net Assets	(271,368)	(1,474,303)	(311,423)	(2,057,094)	(1,554,319)
Net Assets at Beginning of Year	<u>1,615,332</u>	<u>5,415,865</u>	<u>5,211,931</u>	<u>12,243,128</u>	<u>13,797,447</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,343,964</u>	<u>\$ 3,941,562</u>	<u>\$ 4,900,508</u>	<u>\$ 10,186,034</u>	<u>\$ 12,243,128</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, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>2016</u>	<u>2015</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (2,057,094)	\$ (1,554,319)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	142,286	159,702
Donated stock	-	(121,182)
Gain on disposal of property and equipment	(9)	(2,000)
Net realized and unrealized losses on investments	7,041	6,349
Permanently restricted losses	311,423	230,728
Changes in assets and liabilities:		
Receivables, net	653,328	1,689,875
Prepaid production and other assets	261,216	(346,367)
Other noncurrent assets	-	595,464
Accounts payable and accrued expenses	110,286	(770,758)
Deferred revenue	(63,786)	(15,055)
Other noncurrent liabilities	-	(595,464)
Net Cash Used in Operating Activities	<u>(635,309)</u>	<u>(723,027)</u>
<u>Cash Flows From Investing Activities:</u>		
Investment sales/maturities/(purchases), net	114,141	(6,349)
Purchase of property and equipment	(45,447)	(44,127)
Proceeds from sale of property and equipment	-	2,000
Changes in noncurrent investments:		
Pooled income fund	(6,106)	9,047
Charitable gift annuities	1,283	5,677
San Diego Opera endowment trust	221,158	179,333
Charitable remainder unitrusts	(3,600)	(3,771)
Beneficial interest in endowment funds	87,348	54,970
Net Cash Provided by Investing Activities	<u>368,777</u>	<u>196,780</u>
<u>Cash Flows From Financing Activities:</u>		
Permanently restricted losses	(311,423)	(230,728)
Net Cash Used in Financing Activities	<u>(311,423)</u>	<u>(230,728)</u>
Decrease in Cash and Cash Equivalents	(577,955)	(756,975)
Cash and Cash Equivalents at Beginning of Year	<u>5,460,459</u>	<u>6,217,434</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,882,504</u>	<u>\$ 5,460,459</u>

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

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)**

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 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, 2016, San Diego Opera produced three main stage productions for a total of twelve performances throughout the four-month season (February - May). San Diego Opera also presented two recitals at the Balboa Theatre and a special concert event at Copley Symphony Hall. During the year ended June 30, 2015, San Diego Opera produced three main stage productions for a total of twelve performances throughout the five-month season (January - May). San Diego Opera also presented two recitals at the Balboa Theatre, presented a special concert event in San Diego’s downtown Civic Theatre and produced a 50th Anniversary concert at Copley Symphony Hall. 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.

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 (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.

SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

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

Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

- 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.

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, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

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 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.
- 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 6)
- 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 10)

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 \$49,990 and \$50,000 at June 30, 2016 and 2015, respectively. The provision for uncollectible contributions receivable totaled \$1,235,576 and \$2,132,826 at June 30, 2016 and 2015, 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.

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)**

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

Significant Accounting Policies (Continued)

Capitalization and Depreciation (Continued)

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 \$142,286 and \$159,702 for the years ended June 30, 2016 and 2015, 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 2016 and 2015.

Compensated Absences

Accumulated unpaid vacation totaling \$181,073 and \$166,146 at June 30, 2016 and 2015, 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 \$1,782,101 and \$1,884,550 at June 30, 2016 and 2015, respectively.

Scenic Studio

Scenic studio revenue is recognized when contracted jobs have been completed. Deferred scenic studio revenue totaled \$75,627 and \$36,964 at June 30, 2016 and 2015, respectively.

SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

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

Significant Accounting Policies (Continued)

Revenue and Expense Recognition (Continued)

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.

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 \$234,927 and \$499,152 at June 30, 2016 and 2015, 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 \$156,170 and \$27,538 for the years ended June 30, 2016 and 2015, respectively, which have been recorded as contributions revenue and operating expenses in the statement of activities.

San Diego Opera received in-kind donations totaling \$478,761 and \$325,741 for the years ended June 30, 2016 and 2015, 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, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)**

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, 2016 and 2015. 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, 2016, 2015, 2014 and 2013 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, 2015

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 accounting principles. Accordingly, such information should be read in conjunction with San Diego Opera's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Subsequent Events

San Diego Opera has evaluated subsequent events through November 28, 2016, 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, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 2 - Fair Value Measurements:

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

	2016			Balance at June 30, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments and Split-Interest Agreements:				
Cash equivalents	\$ -	\$ 267,307	\$ -	\$ 267,307
Mutual, index and exchange traded funds:				
Equity funds	-	1,927,732	-	1,927,732
Fixed income funds	-	1,226,418	-	1,226,418
Commodity funds	-	155,395	-	155,395
Real estate funds	-	137,026	-	137,026
Short term funds	-	27,565	-	27,565
Charitable remainder unitrusts (Note 6)	-	-	316,035	316,035
Beneficial Interest in endowment funds (Note 10)	-	-	1,279,831	1,279,831
Total Investments and Split-Interest Agreements	\$ -	\$ 3,741,443	\$ 1,595,866	\$ 5,337,309
Liabilities:				
Pooled income fund liabilities (Note 7)	\$ -	\$ 68,093	\$ -	\$ 68,093
Charitable gift liabilities (Note 8)	-	47,381	-	47,381
Total Liabilities	\$ -	\$ 115,474	\$ -	\$ 115,474
2015				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2015
Investments and Split-Interest Agreements:				
Cash equivalents	\$ -	\$ 275,537	\$ -	\$ 275,537
Equities	121,182	-	-	121,182
Mutual, index and exchange traded funds:				
Equity funds	-	2,042,828	-	2,042,828
Fixed income funds	-	1,248,853	-	1,248,853
Commodity funds	-	178,462	-	178,462
Real estate funds	-	128,173	-	128,173
Short term funds	-	91,543	-	91,543
Charitable remainder unitrusts (Note 6)	-	-	312,435	312,435
Beneficial Interest in endowment funds (Note 10)	-	-	1,367,179	1,367,179
Total Investments and Split-Interest Agreements	\$ 121,182	\$ 3,965,396	\$ 1,679,614	\$ 5,766,192
Liabilities:				
Pooled income fund liabilities (Note 7)	\$ -	\$ 69,815	\$ -	\$ 69,815
Charitable gift liabilities (Note 8)	-	53,277	-	53,277
Total Liabilities	\$ -	\$ 123,092	\$ -	\$ 123,092

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 2 - Fair Value Measurements: (Continued)

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:

		2016		
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Charitable remainder trust	\$ 316,035	Present value of expected cash flows	Investment yield Discount rate	5 - 7% 5 - 7%
Beneficial interest in endowment funds	\$ 1,279,831	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A

		2015		
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Charitable remainder trust	\$ 312,435	Present value of expected cash flows	Investment yield Discount rate	5 - 7% 5 - 7%
Beneficial interest in endowment funds	\$ 1,367,179	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A

Note 3 - Investments:

Investments consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Equities	\$ -	\$ 121,182
Total Investments	<u>\$ -</u>	<u>\$ 121,182</u>

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Note 3 - Investments: (Continued)

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

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 12,916	\$ 12,935
Net realized and unrealized losses	(7,041)	(6,349)
Investment fees	-	(150)
Total Investment Return	<u>\$ 5,875</u>	<u>\$ 6,436</u>

Note 4 - Contributions Receivable:

Contributions receivable consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Current:		
Due in less than one year	\$ 596,265	\$ 2,010,255
Less: Provision for uncollectible accounts	<u>(139,000)</u>	<u>(489,850)</u>
Total Current, Net	<u>457,265</u>	<u>1,520,405</u>
Noncurrent:		
Due in one to five years	600,000	602,000
Due in more than five years	2,000,000	2,000,000
Less: Discounts to present value	(1,010,646)	(935,888)
Provision for uncollectible accounts	<u>(1,096,576)</u>	<u>(1,642,976)</u>
Total Noncurrent, Net	<u>492,778</u>	<u>23,136</u>
Total Contributions Receivable, Net	<u>\$ 950,043</u>	<u>\$ 1,543,541</u>

The contributions receivable have been discounted to their present value using a discount rate of 5% at June 30, 2016 and 2015.

Note 5 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 78,025	\$ 78,025
Building and improvements	1,475,448	1,442,687
Production equipment	1,239,253	1,423,096
Office equipment and computers	453,738	503,826
Motor vehicles	<u>145,681</u>	<u>145,681</u>
Subtotal	3,392,145	3,593,315
Less: Accumulated depreciation	<u>(2,569,598)</u>	<u>(2,673,938)</u>
Property and Equipment, Net	<u>\$ 822,547</u>	<u>\$ 919,377</u>

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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 at June 30, 2016 and 2015, have been discounted to their present values of the remainder interest using discount rates ranging from 5% to 7% at June 30, 2016 and 2015, as stipulated in the Unitrusts.

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

	2016			2015 Total
	Temporarily Restricted	Permanently Restricted	Total	
Balance at Beginning of Year	\$ 10,621	\$ 301,814	\$ 312,435	\$ 308,664
Change in discount and fair value	295	3,305	3,600	3,771
Balance at End of Year	<u>\$ 10,916</u>	<u>\$ 305,119</u>	<u>\$ 316,035</u>	<u>\$ 312,435</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 \$228,151 and \$223,767 at June 30, 2016 and 2015, 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, 2016 and 2015. The pooled income fund liability totaled \$68,093 and \$69,815 at June 30, 2016 and 2015, respectively.

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 \$263,745 and \$270,924 at June 30, 2016 and 2015, respectively, consisting of San Diego Opera reserve deposits totaling \$263,745 and \$270,924, 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, 2016 and 2015. The charitable gift annuities liability totaled \$47,381 and \$53,277 at June 30, 2016 and 2015, respectively.

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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 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>2016</u>	<u>2015</u>
Balance at Beginning of Year	\$ 3,470,705	\$ 3,650,038
Contributions	8,531	-
Distributions to San Diego Opera	(163,448)	(153,791)
Investment losses	(66,241)	(25,542)
Balance at End of Year	<u>\$ 3,249,547</u>	<u>\$ 3,470,705</u>

In May 2016, the Board of Directors approved a resolution to appoint Bank of America, N.A. and its affiliates, including U.S. Trust, as the successor trustee for the San Diego Opera Association endowment trust. The assets held in trust were not transferred from the predecessor trustee to the successor trustee until July 2016.

Note 10 – 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 the San Diego Foundation is invested in a portfolio of equity and debt securities which is structured for long-term total return consisting of 26% domestic equities, 28% international equities, 16% alternative investment funds, 17% fixed income, 4% commodities and 8% real estate and 1% cash and cash equivalents at June 30, 2016.

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:

	<u>2016</u>	<u>2015</u>
Balance at Beginning of Year	\$ 1,367,179	\$ 1,422,149
Distributions to San Diego Opera	(59,481)	(57,223)
Investment (loss) gain	(27,867)	2,253
Balance at End of Year	<u>\$ 1,279,831</u>	<u>\$ 1,367,179</u>

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Note 11 - Temporarily Restricted Net Assets:

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

	<u>2016</u>	<u>2015</u>
Production reserve fund	\$ 2,299,613	\$ 2,299,613
Contributions with time restrictions	1,361,641	2,217,623
Contributions with purpose restrictions	110,000	152,500
Pooled income fund	94,047	90,250
Producer's Circle donations and receivables	65,345	645,258
Charitable reminder unitrusts	10,916	10,621
Total Temporarily Restricted Net Assets	<u>\$ 3,941,562</u>	<u>\$ 5,415,865</u>

Net assets totaling \$2,938,241 were released from donor restrictions due to the satisfaction of purpose or time restrictions during the year ended June 30, 2016. San Diego Opera's Board of Directors adopted a policy stating that a release of restriction from the Production Reserve Fund should only occur for cash deficits in any given fiscal year that cannot be covered by any other reserves, including accumulated operating reserves from a previous fiscal year. In accordance with this policy, there was no release from the Production Reserve Fund during the year ended June 30, 2016.

Note 12 - 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 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:

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Note 12 - Endowment Net Assets: (Continued)

San Diego Opera Managed Funds: (Continued)

- 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

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 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.

In May 2016, the Board of Directors approved a resolution to appoint Bank of America, N.A. and its affiliates, including U.S. Trust, as the successor trustee for the San Diego Opera Association endowment trust. The assets held in trust were not transferred from the predecessor trustee to the successor trustee until July 2016.

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Note 12 - Endowment Net Assets: (Continued)

San Diego Foundation Managed Funds:

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.

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:

	<u>2016</u>	<u>2015</u>
Donor restricted endowment funds:		
San Diego Opera endowment trust	\$ 3,249,547	\$ 3,470,705
Beneficial interest in endowment funds held at San Diego Foundation	1,279,831	1,367,179
Charitable remainder unitrusts	305,119	301,814
Pooled income fund, net	66,011	63,702
Cash	-	8,531
Total Endowment Net Assets	<u>\$ 4,900,508</u>	<u>\$ 5,211,931</u>

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

	<u>2016</u>	<u>2015</u>
Endowment Net Assets at Beginning of Year	\$ 5,211,931	\$ 5,442,659
Net realized and unrealized depreciation	(88,494)	(19,714)
Appropriation of endowment assets for expenditure	<u>(222,929)</u>	<u>(211,014)</u>
Endowment Net Assets at End of Year	<u>\$ 4,900,508</u>	<u>\$ 5,211,931</u>

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Note 13 - 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 \$97,385 and \$87,749 for the years ended June 30, 2016 and 2015, respectively.

Other Pension Plans

San Diego Opera also participates in three pension plans subject to collective bargaining agreements. Amounts contributed to these plans totaled \$173,654 and \$167,256 for the years ended June 30, 2016 and 2015, respectively.

Note 14 - Commitments:

License Agreement

San Diego Opera entered into a contract to license use of the San Diego Civic Theatre and Balboa Theatre for its 2017 performance season. The future payment obligation is \$407,050.

Lease Agreement

In July 2014, San Diego Opera relocated its administrative offices and entered into a three year lease for the space. In July 2015, San Diego Opera entered into a 36-month extension of the space it utilizes for its costume shop. Rent expense for these spaces totaled \$125,751 and \$151,369 for the years ended June 30, 2016 and 2015, respectively. 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:

<u>Years Ended June 30</u>	
2017	\$ 2,464,093
2018	1,968,022
2019	1,446,939
2020	<u>1,215,501</u>
Total	<u>\$ 7,094,555</u>