



SAN DIEGO OPERA ASSOCIATION

FINANCIAL STATEMENTS

JUNE 30, 2011



Leaf & Cole, LLP
Certified Public Accountants

**SAN DIEGO OPERA ASSOCIATION
FINANCIAL STATEMENTS
JUNE 30, 2011**

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Independent Auditor's Report

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

We have audited the accompanying statement of financial position of San Diego Opera Association as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of San Diego Opera Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of San Diego Opera Association at June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Leaf & Cole LLP

San Diego, California
November 15, 2011

**SAN DIEGO OPERA ASSOCIATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011**

ASSETS				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Current Assets:</u> (Notes 1, 2, 3 and 4)				
Cash and cash equivalents	\$ 2,133,304	\$ 19,404	\$ -	\$ 2,152,708
Receivables, net:				
Ticket Sales	940,291	-	-	940,291
Contributions	38,400	3,861,322	-	3,899,722
Other	39,989	-	-	39,989
Grants	129,656	45,000	-	174,656
Prepaid production and other costs	601,203	-	-	601,203
Investments	4,983	7,167,062	-	7,172,045
Total Current Assets	3,887,826	11,092,788	-	14,980,614
<u>Noncurrent Assets:</u> (Notes 1, 2, 4 to 11 and 14)				
Contributions receivable, net	-	1,668,753	991,758	2,660,511
Property and equipment, net	1,147,870	-	-	1,147,870
Charitable Remainder Unitrusts	-	9,431	719,747	729,178
Pooled Income Fund	-	142,826	167,805	310,631
Charitable Gift Annuities	386,854	-	-	386,854
San Diego Opera Endowment Trust	-	-	2,991,471	2,991,471
San Diego Foundation Fund	-	-	1,294,193	1,294,193
Jewish Community Foundation Fund	-	-	21,480	21,480
Other noncurrent assets	304,259	-	-	304,259
Total Noncurrent Assets	1,838,983	1,821,010	6,186,454	9,846,447
TOTAL ASSETS	\$ 5,726,809	\$ 12,913,798	\$ 6,186,454	\$ 24,827,061
LIABILITIES AND NET ASSETS				
<u>Current Liabilities:</u> (Note 1)				
Accounts payable and accrued expenses	\$ 677,672	\$ -	\$ -	\$ 677,672
Deferred revenue	3,128,728	-	-	3,128,728
Total Current Liabilities	3,806,400	-	-	3,806,400
<u>Noncurrent Liabilities:</u> (Note 14)				
Pooled Income Fund liability	-	62,667	42,063	104,730
Charitable Gift Annuities liability	349,376	-	-	349,376
Other noncurrent liabilities	304,259	-	-	304,259
Total Noncurrent Liabilities	653,635	62,667	42,063	758,365
<u>Commitments</u> (Notes 14 and 15)				
<u>Net Assets</u> (Notes 1, 12 and 13)				
	1,266,774	12,851,131	6,144,391	20,262,296
TOTAL LIABILITIES AND NET ASSETS	\$ 5,726,809	\$ 12,913,798	\$ 6,186,454	\$ 24,827,061

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

**SAN DIEGO OPERA ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Operating Revenues:</u>				
Ticket revenue	\$ 5,364,152	\$ -	\$ -	\$ 5,364,152
Appropriations of endowment assets	290,263	-	-	290,263
Interest and dividend income	162,775	-	-	162,775
Other income	62,944	-	-	62,944
Scenic studio revenue, net	35,414	-	-	35,414
Total Operating Revenues	5,915,548	-	-	5,915,548
<u>Operating Expenses:</u>				
International season	7,928,766	-	-	7,928,766
General management	3,098,331	-	-	3,098,331
Development overhead	2,085,493	-	-	2,085,493
Marketing overhead	1,268,377	-	-	1,268,377
Production overhead and scenic studio	988,966	-	-	988,966
Educational program	386,506	-	-	386,506
Total Operating Expenses	15,756,439	-	-	15,756,439
Deficiency of Operating Revenues Over Operating Expenses	(9,840,891)	-	-	(9,840,891)
<u>Contributions and Public Support:</u>				
Contributions	1,979,951	4,093,824	42,309	6,116,084
Grants	596,245	45,000	-	641,245
Special events and other activities	395,138	-	-	395,138
Net assets released from restriction	6,365,253	(4,181,710)	(2,183,543)	-
Total Contributions and Public Support	9,336,587	(42,886)	(2,141,234)	7,152,467
Deficiency of Operating Revenues, Contributions and Public Support Over Operating Expenses	(504,304)	(42,886)	(2,141,234)	(2,688,424)
<u>Other Changes in Net Assets:</u>				
Realized and unrealized investment gains, net	624,205	-	-	624,205
Charitable Remainder Unitrusts	-	289	151,737	152,026
Pooled Income Fund	-	8,835	12,727	21,562
Charitable Gift Annuities	(117,804)	-	-	(117,804)
San Diego Opera Endowment Trust, net	-	-	757,069	757,069
San Diego Foundation Fund, net	-	-	171,517	171,517
Jewish Community Foundation Fund	-	-	(75)	(75)
Total Other Changes in Net Assets	506,401	9,124	1,092,975	1,608,500
Change in Net Assets	2,097	(33,762)	(1,048,259)	(1,079,924)
Net Assets at Beginning of Year	1,264,677	12,884,893	7,192,650	21,342,220
NET ASSETS AT END OF YEAR	\$ 1,266,774	\$ 12,851,131	\$ 6,144,391	\$ 20,262,296

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, 2011**

Cash Flows From Operating Activities:

Change in net assets	\$ (1,079,924)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	150,433
Gain on sale of property and equipment	(5,500)
Net realized and unrealized gain on investments	(650,546)
Permanently restricted contributions	(42,309)
Permanently restricted gains	(1,092,975)
Permanently restricted net assets released	2,183,543
Changes in assets and liabilities:	
Receivables, net	(294,784)
Prepaid expenses and other assets	(143,898)
Other noncurrent assets	(98,423)
Accounts payable and accrued expenses	326,702
Deferred revenue	(137,586)
Other noncurrent liabilities	98,423
Net Cash Used in Operating Activities	(786,844)

Cash Flows From Investing Activities:

Investment purchases/sales/maturities, net	(2,689,756)
Purchase of property and equipment	(169,552)
Proceeds from sale of property and equipment	5,500
Charitable Remainder Unitrusts	(152,026)
Pooled Income Fund	(21,562)
Charitable Gift Annuities	1,337
San Diego Opera Endowment Trust	1,423,803
San Diego Foundation Fund	(171,517)
Jewish Community Foundation Fund	75
Net Cash Used in Investing Activities	(1,773,698)

Cash Flows From Financing Activities:

Permanently restricted contributions	42,309
Permanently restricted gains	1,092,975
Permanently restricted net assets released	(2,183,543)
Net Cash Used in Financing Activities	(1,048,259)

Net Decrease in Cash and Cash Equivalents	(3,608,801)
Cash and Cash Equivalents at Beginning of Year	5,761,509
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,152,708

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

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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 2011, San Diego Opera produced four productions and sixteen performances throughout the five-month season (January – May) 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.

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.

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.

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

Significant Accounting Policies (Continued)

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

San Diego Opera has adopted the fair value standards for financial assets and liabilities that are required to be measured at fair value on a recurring basis. The Fair Value Measurement 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). These standards do not change existing guidance as to whether or not an instrument is carried at fair value.

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 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 2 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.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful ticket sales, grants and other receivables totaled \$50,000 at June 30, 2011. The allowance for doubtful contributions receivable totaled \$440,000 at June 30, 2011.

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

Significant Accounting Policies (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 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.

Capitalization and Depreciation

Property and equipment are recorded 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 aggregated \$150,433 for the year ended June 30, 2011.

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 2011.

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

Significant Accounting Policies (Continued)

Compensated Absences

Accumulated unpaid vacation totaling \$167,626 at June 30, 2011 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 revenues from advanced ticket sales totaled \$3,118,901 at June 30, 2011.

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 expenses totaled \$507,833 at June 30, 2011.

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 for the year ended June 30, 2011, did not meet the requirements above, therefore no amounts were recognized in the financial statements.

San Diego Opera received in-kind donations totaling \$395,916 for the year ended June 30, 2011, which have been recorded as contributions revenue and operating expenses in the statement of activities.

Allocated Expenses

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

Income Tax Status

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.

San Diego Opera uses a loss contingencies approach for evaluating uncertain tax positions and continually evaluates changes in tax law and new authoritative rulings.

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

Significant Accounting Policies (Continued)

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.

Subsequent Events

San Diego Opera has evaluated subsequent events through November 15, 2011, 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.

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, 2011:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2011
Municipal bonds	\$ 93,402	\$ -	\$ -	\$ 93,402
Mutual, Index and Exchange Traded Funds:				
Short term funds	-	4,983	-	4,983
Balanced funds	304,259	-	-	304,259
Equity funds	-	5,620,753	-	5,620,753
Fixed income funds	-	3,543,401	-	3,543,401
Real estate funds	-	329,544	-	329,544
Commodity funds	-	878,136	-	878,136
Charitable Remainder Unitrusts (Note 6)	-	-	729,178	729,178
San Diego Foundation Fund (Note 10)	-	-	1,294,193	1,294,193
Jewish Community Foundation Fund (Note 11)	-	-	21,480	21,480
	<u>\$ 397,661</u>	<u>\$ 10,376,817</u>	<u>\$ 2,044,851</u>	<u>\$ 12,819,329</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.

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 3 - Investments:

Investments are stated at fair value and consist of the following at June 30, 2011:

Mutual, index and exchange traded funds	\$ 7,073,660
Municipal bonds	93,402
Jewish Community Foundation - Short term fund	4,983
Total Investments	<u>\$ 7,172,045</u>

The following schedule summarizes the investment return for the year ended June 30, 2011:

Interest and dividend income	\$ 165,429
Realized and unrealized gains	650,546
Investment fees	(28,995)
Total Investment Return	<u>\$ 786,980</u>

Note 4 - Contributions Receivable:

Contributions receivable consist of the following at June 30, 2011:

Current:	
Due in less than one year	\$ 4,189,722
Less: Allowance for doubtful accounts	(290,000)
Total Current, Net	<u>3,899,722</u>
Noncurrent:	
Due in one to five years	2,051,103
Due in more than five years	2,000,000
Less: Discounts to present value	(1,240,592)
Allowance for doubtful accounts	(150,000)
Total Noncurrent, Net	<u>2,660,511</u>
Total Contributions Receivable, Net	<u>\$ 6,560,233</u>

The contributions receivable have been discounted to their present value using a discount rate of 5% at June 30, 2011.

Note 5 - Property and Equipment:

Property and equipment consist of the following at June 30, 2011:

Land	\$ 78,025
Building and improvements	1,621,112
Production equipment	1,439,683
Office equipment and computers	624,708
Motor vehicles	254,028
Subtotal	<u>4,017,556</u>
Less: Accumulated depreciation	(2,869,686)
Property and Equipment, Net	<u>\$ 1,147,870</u>

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 6 - Charitable Remainder Unitrusts:

San Diego Opera has been named as the remainder beneficiary of charitable remainder unitrusts which are reported at fair value. These trusts 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 trusts will be distributed to San Diego Opera subject to donor restrictions. The assets held in the Trusts totaling \$964,647 have been discounted to their present values of the remainder interest using discount rates of 5% to 7% at June 30, 2011 as stipulated in the charitable remainder unitrusts.

The activity of the Charitable Remainder Unitrusts consisted of the following for the year ended June 30, 2011:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at Beginning of Year	\$ 9,142	\$ 568,010	\$ 577,152
Change in discount and fair value	289	151,737	152,026
Balance at End of Year	<u>\$ 9,431</u>	<u>\$ 719,747</u>	<u>\$ 729,178</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 trust 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 \$310,631 at June 30, 2011. The Pooled Income Fund has been discounted to the present value of remainder interest using a discount rate of 6% at June 30, 2011. The Pooled Income Fund liability totaled \$104,730 at June 30, 2011.

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 \$386,854 at June 30, 2011 consisting of San Diego Opera reserve deposits totaling \$235,767 and donor funds totaling \$151,087. 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 12% and a discount rate of 6% at June 30, 2011. The Charitable Gift Annuities liability totaled \$349,376 at June 30, 2011.

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.

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 9 - San Diego Opera Endowment Trust: (Continued)

The activity of the Trust consisted of the following for the year ended June 30, 2011:

Balance at Beginning of Year	\$ 4,415,274
Contributions received	2,671
Distributions to San Diego Opera	(234,592)
Investment gains	991,661
Release of restriction	(2,183,543)
Balance at End of Year	<u>\$ 2,991,471</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 28% domestic equities, 28% international equities, 18% alternative investments, 20% fixed income and 6% real estate investments as of June 30, 2011.

The activity of the San Diego Foundation Fund consisted of the following for the year ended June 30, 2011:

Balance at Beginning of Year	\$ 1,122,676
Distributions to San Diego Opera	(55,671)
Investment gains	227,188
Balance at End of Year	<u>\$ 1,294,193</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. 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.

The activity of the Jewish Community Foundation Fund consisted of the following for the year ended June 30, 2011:

Balance at Beginning of Year	\$ 21,555
Investment loss	(75)
Balance at End of Year	<u>\$ 21,480</u>

Note 12 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of the following at June 30, 2011:

Production cash reserve	\$ 10,075,530
For future periods	2,307,180
Purpose restricted	378,831
Pooled Income Fund	80,159
Charitable Reminder Unitrusts	9,431
Total Temporarily Restricted Net Assets	<u>\$ 12,851,131</u>

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 12 - Temporarily Restricted Net Assets: (Continued)

Net assets totaling \$5,181,710 (exclusive of the \$1,000,000 released from permanently restricted net assets) were released from donor restrictions due to the satisfaction of purpose or time restrictions during the year ended June 30, 2011.

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

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).

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
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Note 13 - Endowment Net Assets: (Continued)

San Diego Opera Managed Funds: (Continued)

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 consisting of 28% domestic equities, 28% international equities, 18% alternative investments, 20% fixed income and 6% real estate investments as of June 30, 2011. 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. Given the recent market declines, many of the Foundation's endowment funds distributions will be limited to income received, which is approximately 2.5% of the endowment principal.

JCF endowment funds 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.

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. Given the recent market declines, many of JCF's endowment fund distributions will be limited in future years.

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 13 - Endowment Net Assets: (Continued)

Endowment composition by type of fund as of June 30, 2011:

Donor restricted endowment funds:	
San Diego Opera Endowment Trust	\$ 2,991,471
San Diego Foundation Fund	1,294,193
Endowment pledge, net	991,758
Charitable Remainder Unitrusts	719,747
Pooled Income Fund, net	125,742
Jewish Community Foundation Fund	21,480
Total Endowment Net Assets	<u>\$ 6,144,391</u>

Changes in endowment net assets for the year ended June 30, 2011:

Endowment net assets at beginning of year	\$ 7,192,650
Net realized and unrealized appreciation	1,383,238
Contributions	42,309
Appropriation of endowment assets for expenditure	(290,263)
Donor release of restriction	(2,183,543)
Endowment Net Assets at End of Year	<u>\$ 6,144,391</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 \$135,410 for the year ended June 30, 2011.

Other Pension Plans

San Diego Opera also participates in three pension plans subject to collective bargaining agreements. Amounts contributed to these plans totaled \$149,117 for the year ended June 30, 2011.

Supplemental Executive Retirement Plan (SERP)

San Diego Opera has a SERP agreement with an executive employee. The agreement provides for annual contributions which are 100% vested after ten years of employment. Contributions totaled \$56,103 for the year ended June 30, 2011. The SERP liability totaled \$304,259 at June 30, 2011 and is fully funded with mutual fund investments held at Vanguard. The SERP assets are reported at fair value and totaled \$304,259 at June 30, 2011.

**SAN DIEGO OPERA ASSOCIATION
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JUNE 30, 2011**

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 \$364,820 for the year ended June 30, 2011.

Contracts

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

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

<u>Years Ended June 30</u>	
2012	\$ 2,215,496
2013	2,243,775
2014	2,232,571
2015	1,064,780
2016	562,793
Thereafter	<u>562,793</u>
Total	<u>\$ 8,882,208</u>

License Agreement

San Diego Opera entered into contracts to license use of the San Diego Civic Theatre for its 2012 and 2013 opera performance seasons. Future payment annual obligations are as follows:

<u>Years Ended June 30</u>	
2012	\$ 423,700
2013	<u>421,200</u>
	<u>\$ 844,900</u>