



SAN DIEGO OPERA ASSOCIATION

FINANCIAL STATEMENTS

JUNE 30, 2012



Leaf & Cole, LLP
Certified Public Accountants

**SAN DIEGO OPERA ASSOCIATION
FINANCIAL STATEMENTS
JUNE 30, 2012**

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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, 2012, 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. The prior year summarized comparative information has been derived from San Diego Opera Association's 2011 financial statements and in our report dated November 15, 2011, we expressed an unqualified opinion on those financial statements.

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, 2012, 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 19, 2012

SAN DIEGO OPERA ASSOCIATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
<u>Current Assets:</u> (Notes 1, 2, 3 and 4)					
Cash and cash equivalents	\$ 1,591,279	\$ 243,327	\$ -	\$ 1,834,606	\$ 2,152,708
Receivables, net:					
Ticket Sales	816,646	-	-	816,646	940,291
Contributions	143,670	1,785,370	-	1,929,040	3,899,722
Other	58,240	-	-	58,240	39,989
Grants	233,931	2,500	-	236,431	174,656
Prepaid production and other costs	439,996	-	-	439,996	601,203
Investments	4,968	5,754,850	-	5,759,818	7,172,045
Total Current Assets	3,288,730	7,786,047	-	11,074,777	14,980,614
<u>Noncurrent Assets:</u> (Notes 1, 2, 4 to 11 and 14)					
Contributions receivable, net	-	1,514,026	1,027,045	2,541,071	2,660,511
Property and equipment, net	1,251,136	-	-	1,251,136	1,147,870
Charitable Remainder Unitrusts	-	9,679	640,311	649,990	729,178
Pooled Income Fund	-	148,027	168,945	316,972	310,631
Charitable Gift Annuities	288,984	-	-	288,984	386,854
San Diego Opera Endowment Trust	-	-	2,707,480	2,707,480	2,991,471
San Diego Foundation Fund	-	-	1,234,437	1,234,437	1,294,193
Jewish Community Foundation Fund	-	-	21,416	21,416	21,480
Other noncurrent assets	370,288	-	-	370,288	304,259
Total Noncurrent Assets	1,910,408	1,671,732	5,799,634	9,381,774	9,846,447
TOTAL ASSETS	\$ 5,199,138	\$ 9,457,779	\$ 5,799,634	\$ 20,456,551	\$ 24,827,061
LIABILITIES AND NET ASSETS					
<u>Current Liabilities:</u> (Note 1)					
Accounts payable and accrued expenses	\$ 326,557	\$ -	\$ -	\$ 326,557	\$ 677,672
Deferred revenue	2,913,776	-	-	2,913,776	3,128,728
Total Current Liabilities	3,240,333	-	-	3,240,333	3,806,400
<u>Noncurrent Liabilities:</u> (Notes 7, 8 and 14)					
Pooled Income Fund liability	-	62,569	40,216	102,785	104,730
Charitable Gift Annuities liability	319,676	-	-	319,676	349,376
Other noncurrent liabilities	370,288	-	-	370,288	304,259
Total Noncurrent Liabilities	689,964	62,569	40,216	792,749	758,365
<u>Commitments</u> (Notes 14 and 15)					
<u>Net Assets</u> (Notes 1, 12 and 13)	1,268,841	9,395,210	5,759,418	16,423,469	20,262,296
TOTAL LIABILITIES AND NET ASSETS	\$ 5,199,138	\$ 9,457,779	\$ 5,799,634	\$ 20,456,551	\$ 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, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
<u>Operating Revenues:</u>					
Ticket revenue	\$ 5,106,351	\$ -	\$ -	\$ 5,106,351	\$ 5,364,152
Special event revenue	507,818	-	-	507,818	-
Appropriations of endowment assets	279,437	-	-	279,437	290,263
Interest and dividend income	209,334	-	-	209,334	162,775
Other income	50,662	-	-	50,662	62,944
Scenic studio revenue, net	162,984	-	-	162,984	35,414
Total Operating Revenues	<u>6,316,586</u>	<u>-</u>	<u>-</u>	<u>6,316,586</u>	<u>5,915,548</u>
<u>Operating Expenses:</u>					
International season	7,174,231	-	-	7,174,231	7,928,766
General management	2,640,987	-	-	2,640,987	3,098,331
Development overhead	1,898,207	-	-	1,898,207	2,085,493
Marketing overhead	1,374,908	-	-	1,374,908	1,268,377
Production overhead and scenic studio	1,070,286	-	-	1,070,286	988,966
Educational program	439,413	-	-	439,413	386,506
Special event expenses	224,909	-	-	224,909	-
Total Operating Expenses	<u>14,822,941</u>	<u>-</u>	<u>-</u>	<u>14,822,941</u>	<u>15,756,439</u>
Deficiency of Operating Revenues Over Operating Expenses	<u>(8,506,355)</u>	<u>-</u>	<u>-</u>	<u>(8,506,355)</u>	<u>(9,840,891)</u>
<u>Contributions and Public Support:</u>					
Contributions	1,843,103	2,549,566	37,266	4,429,935	6,116,084
Grants	599,208	2,500	-	601,708	641,245
Fundraising events and other activities, net	235,071	-	-	235,071	395,138
Net assets released from restriction	6,013,535	(6,013,535)	-	-	-
Total Contributions and Public Support	<u>8,690,917</u>	<u>(3,461,469)</u>	<u>37,266</u>	<u>5,266,714</u>	<u>7,152,467</u>
Deficiency of Operating Revenues, Contributions and Public Support Over Operating Expenses	<u>184,562</u>	<u>(3,461,469)</u>	<u>37,266</u>	<u>(3,239,641)</u>	<u>(2,688,424)</u>
<u>Other Changes in Net Assets:</u>					
Realized and unrealized investment gains, net	(114,229)	-	-	(114,229)	624,205
Charitable Remainder Unitrusts	-	248	(79,436)	(79,188)	152,026
Pooled Income Fund	-	5,300	7,821	13,121	21,562
Charitable Gift Annuities	(68,266)	-	-	(68,266)	(117,804)
San Diego Opera Endowment Trust, net	-	-	(290,804)	(290,804)	757,069
San Diego Foundation Fund, net	-	-	(59,756)	(59,756)	171,517
Jewish Community Foundation Fund	-	-	(64)	(64)	(75)
Total Other Changes in Net Assets	<u>(182,495)</u>	<u>5,548</u>	<u>(422,239)</u>	<u>(599,186)</u>	<u>1,608,500</u>
Change in Net Assets	2,067	(3,455,921)	(384,973)	(3,838,827)	(1,079,924)
Net Assets at Beginning of Year	<u>1,266,774</u>	<u>12,851,131</u>	<u>6,144,391</u>	<u>20,262,296</u>	<u>21,342,220</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,268,841</u>	<u>\$ 9,395,210</u>	<u>\$ 5,759,418</u>	<u>\$ 16,423,469</u>	<u>\$ 20,262,296</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, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)**

	<u>2012</u>	<u>2011</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (3,838,827)	\$ (1,079,924)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	199,756	150,433
Gain on sale of property and equipment	-	(5,500)
Net realized and unrealized gain on investments	67,370	(650,546)
Permanently restricted contributions	(37,266)	(42,309)
Permanently restricted (gains) losses	422,239	(1,092,975)
Permanently restricted net assets released	-	2,183,543
Changes in assets and liabilities:		
Receivables, net	2,133,741	(294,784)
Prepaid production and other costs	161,207	(143,898)
Other noncurrent assets	(66,029)	(98,423)
Accounts payable and accrued expenses	(351,115)	326,702
Deferred revenue	(214,952)	(137,586)
Other noncurrent liabilities	66,029	98,423
Net Cash Used in Operating Activities	<u>(1,457,847)</u>	<u>(786,844)</u>
<u>Cash Flows From Investing Activities:</u>		
Investment (purchases)/sales/maturities, net	1,344,857	(2,689,756)
Purchase of property and equipment	(303,022)	(169,552)
Proceeds from sale of property and equipment	-	5,500
Charitable Remainder Unitrusts	79,188	(152,026)
Pooled Income Fund	(8,286)	(21,562)
Charitable Gift Annuities	68,170	1,337
San Diego Opera Endowment Trust	283,991	1,423,803
San Diego Foundation Fund	59,756	(171,517)
Jewish Community Foundation Fund	64	75
Net Cash Provided by (Used in) Investing Activities	<u>1,524,718</u>	<u>(1,773,698)</u>
<u>Cash Flows From Financing Activities:</u>		
Permanently restricted contributions	37,266	42,309
Permanently restricted gains (losses)	(422,239)	1,092,975
Permanently restricted net assets released	-	(2,183,543)
Net Cash Used in Financing Activities	<u>(384,973)</u>	<u>(1,048,259)</u>
Net Decrease in Cash and Cash Equivalents	(318,102)	(3,608,801)
Cash and Cash Equivalents at Beginning of Year	<u>2,152,708</u>	<u>5,761,509</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,834,606</u>	<u>\$ 2,152,708</u>

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

SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 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 2012, San Diego Opera produced four productions and 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.

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, 2012
(WITH COMPARATIVE TOTALS FOR 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 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

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 and \$50,000 at June 30, 2012 and 2011, respectively. The allowance for doubtful contributions receivable totaled \$612,000 and \$440,000 at June 30, 2012 and 2011, respectively.

SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 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 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.

Capitalization and Depreciation

San Diego Opera capitalizes all expenditures in excess of \$200 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 aggregated \$199,756 and \$150,433 for the years ended June 30, 2012 and 2011, 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 2012 or 2011.

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

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

Significant Accounting Policies (Continued)

Compensated Absences

Accumulated unpaid vacation totaling \$167,600 and \$167,626 at June 30, 2012 and 2011, 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 \$2,906,527 and \$3,118,901 at June 30, 2012 and 2011, 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 expenses totaled \$347,129 and \$507,833 at June 30, 2012 and 2011, 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 for the years ended June 30, 2012 and 2011, meeting the requirements above, were not material; therefore, no amounts were recognized in the financial statements.

San Diego Opera received in-kind donations totaling \$429,206 and \$395,916 for the years ended June 30, 2012 and 2011, 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, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

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, 2012 and 2011. 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, 2012, 2011, 2010 and 2009 are subject to examination by Internal Revenue Service and State taxing authorities, generally the 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, 2011

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, 2011, from which the summarized information was derived.

Subsequent Events

San Diego Opera has evaluated subsequent events through November 19, 2012, 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.

SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

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:

	2012			Balance as of June 30, 2012
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Municipal bonds	\$ 123,554	\$ -	\$ -	\$ 123,554
Mutual, index and exchange traded funds:				
Short term funds	-	4,968	-	4,968
Balanced funds	370,288	-	-	370,288
Equity funds	-	2,505,736	-	2,505,736
Fixed income funds	-	5,208,816	-	5,208,816
Real estate funds	-	419,484	-	419,484
Commodity funds	-	521,712	-	521,712
Charitable remainder unitrusts (Note 6)	-	-	649,990	649,990
San Diego Foundation Fund (Note 10)	-	-	1,234,437	1,234,437
Jewish Community Foundation Fund (Note 11)	-	-	21,416	21,416
	<u>\$ 493,842</u>	<u>\$ 8,660,716</u>	<u>\$ 1,905,843</u>	<u>\$ 11,060,401</u>
	2011			Balance 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)	
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, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

Note 3 - Investments:

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

	<u>2012</u>	<u>2011</u>
Mutual, index and exchange traded funds	\$ 5,631,296	\$ 7,073,660
Municipal bonds	123,554	93,402
Jewish Community Foundation - Short term fund	4,968	4,983
Total Investments	<u>\$ 5,759,818</u>	<u>\$ 7,172,045</u>

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

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 209,334	\$ 165,429
Realized and unrealized gains (losses)	(67,370)	650,546
Investment fees	(39,775)	(28,995)
Total Investment Return	<u>\$ 102,189</u>	<u>\$ 786,980</u>

Note 4 - Contributions Receivable:

Contributions receivable consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Current:		
Due in less than one year	\$ 2,448,040	\$ 4,189,722
Less: Allowance for doubtful accounts	(519,000)	(290,000)
Total Current, Net	<u>1,929,040</u>	<u>3,899,722</u>
Noncurrent:		
Due in one to five years	1,830,198	2,051,103
Due in more than five years	2,000,000	2,000,000
Less: Discounts to present value	(1,196,127)	(1,240,592)
Allowance for doubtful accounts	(93,000)	(150,000)
Total Noncurrent, Net	<u>2,541,071</u>	<u>2,660,511</u>
Total Contributions Receivable, Net	<u>\$ 4,470,111</u>	<u>\$ 6,560,233</u>

The contributions receivable have been discounted to their present value using a discount rate of 5% at June 30, 2012 and 2011.

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Note 5 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 78,025	\$ 78,025
Building and improvements	1,621,112	1,621,112
Production equipment	1,603,808	1,439,683
Office equipment and computers	667,374	624,708
Motor vehicles	254,028	254,028
Subtotal	<u>4,224,347</u>	<u>4,017,556</u>
Less: Accumulated depreciation	<u>(2,973,211)</u>	<u>(2,869,686)</u>
Property and Equipment, Net	<u>\$ 1,251,136</u>	<u>\$ 1,147,870</u>

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 \$810,008 and \$964,647 at June 30, 2012 and 2011, respectively, have been discounted to their present values of the remainder interest using discount rates of 5% to 8% at June 30, 2012 and 2011 as stipulated in the charitable remainder unitrusts.

The activity of the charitable remainder unitrusts consisted of the following for the years ended June 30:

	<u>2012</u>			<u>2011</u>
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
Balance at Beginning of Year	\$ 9,431	\$ 719,747	\$ 729,178	\$ 577,152
Change in discount and fair value	248	(79,436)	(79,188)	152,026
Balance at End of Year	<u>\$ 9,679</u>	<u>\$ 640,311</u>	<u>\$ 649,990</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 \$316,972 and \$310,631 at June 30, 2012 and 2011, respectively. The Pooled Income Fund has been discounted to the present value of remainder interest using a discount rate of 6% at June 30, 2012 and 2011. The Pooled Income Fund liability totaled \$102,785 and \$104,730 at June 30, 2012 and 2011, 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 \$288,984 and \$386,854 at June 30, 2012 and 2011, respectively, consisting of San Diego Opera reserve deposits totaling \$235,767 and \$235,767, respectively, and donor funds totaling \$53,217 and \$151,087, 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 12% and a discount rate of 6% at June 30, 2012 and 2011. The Charitable Gift Annuities liability totaled \$319,676 and \$349,376 at June 30, 2012 and 2011, 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>2012</u>	<u>2011</u>
Balance at Beginning of Year	\$ 2,991,471	\$ 4,415,274
Contributions received	6,813	2,671
Distributions to San Diego Opera	(227,755)	(234,592)
Investment gains (losses)	(63,049)	991,661
Release of restriction	-	(2,183,543)
Balance at End of Year	<u>\$ 2,707,480</u>	<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 29% domestic equities, 27% international equities, 18% alternative investments, 20% fixed income and 6% real estate investments as of June 30, 2012.

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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>2012</u>	<u>2011</u>
Balance at Beginning of Year	\$ 1,294,193	\$ 1,122,676
Distributions to San Diego Opera	(51,682)	(55,671)
Investment gains (losses)	(8,074)	227,188
Balance at End of Year	<u>\$ 1,234,437</u>	<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 years ended June 30:

	<u>2012</u>	<u>2011</u>
Balance at Beginning of Year	\$ 21,480	\$ 21,555
Investment loss	(64)	(75)
Balance at End of Year	<u>\$ 21,416</u>	<u>\$ 21,480</u>

Note 12 - Temporarily Restricted Net Assets:

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

	<u>2012</u>	<u>2011</u>
Production reserve	\$ 7,901,768	\$ 10,075,530
For future periods	1,170,228	2,307,180
Purpose restricted	228,077	378,831
Pooled Income Fund	85,458	80,159
Charitable reminder unitrusts	9,679	9,431
Total Temporarily Restricted Net Assets	<u>\$ 9,395,210</u>	<u>\$ 12,851,131</u>

Net assets totaling \$6,013,535 were released from donor restrictions due to the satisfaction of purpose or time restrictions during the year ended June 30, 2012.

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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).

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Note 13 - Endowment Net Assets: (Continued)

San Diego Foundation and Jewish Community Foundation Managed Funds:

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 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. 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.

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Note 13 - Endowment Net Assets: (Continued)

Endowment composition by type of fund as of June 30:

	<u>2012</u>	<u>2011</u>
Donor restricted endowment funds:		
San Diego Opera Endowment Trust	\$ 2,707,480	\$ 2,991,471
San Diego Foundation Fund	1,234,437	1,294,193
Endowment pledge, net	1,027,045	991,758
Charitable remainder unitrusts	640,311	719,747
Pooled Income Fund, net	128,729	125,742
Jewish Community Foundation Fund	21,416	21,480
Total Endowment Net Assets	<u>\$ 5,759,418</u>	<u>\$ 6,144,391</u>

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

	<u>2012</u>	<u>2011</u>
Endowment Net Assets at Beginning Of Year	\$ 6,144,391	\$ 7,192,650
Net realized and unrealized appreciation (depreciation)	(142,802)	1,383,238
Contributions	37,266	42,309
Appropriation of endowment assets for expenditure	(279,437)	(290,263)
Donor release of restriction	-	(2,183,543)
Endowment Net Assets at End of Year	<u>\$ 5,759,418</u>	<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 \$139,314 and \$135,410 for the years ended June 30, 2012 and 2011, respectively.

Other Pension Plans

San Diego Opera also participates in three pension plans subject to collective bargaining agreements. Amounts contributed to these plans totaled \$144,805 and \$149,117 for the years ended June 30, 2012 and 2011, respectively.

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Note 14 - Pension Plans: (Continued)

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 and \$56,103 for the years ended June 30, 2012 and 2011, respectively. The Plan liability totaled \$370,288 and \$304,259 at June 30, 2012 and 2011, respectively, and is fully funded with mutual fund investments held at Vanguard. The Plan assets are reported at fair value and totaled \$370,288 and \$304,259 at June 30, 2012 and 2011, respectively.

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 \$389,484 and \$364,820 for the years ended June 30, 2012 and 2011, respectively.

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>	
2013	\$ 3,852,504
2014	3,685,776
2015	3,255,297
2016	1,988,718
2017	1,988,718
Total	<u>\$ 14,771,013</u>

License Agreement

San Diego Opera entered into contracts to license use of the San Diego Civic Theatre for its 2013 and 2014 opera performance seasons. Future payment annual obligations are as follows:

<u>Years Ended June 30</u>	
2013	\$ 462,200
2014	473,250
Total	<u>935,450</u>