

SD OPERA

FINANCIAL STATEMENTS

JUNE 30, 2015



Leaf & Cole, LLP
Certified Public Accountants

**SAN DIEGO OPERA ASSOCIATION
FINANCIAL STATEMENTS
JUNE 30, 2015**

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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, 2015, 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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 17, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Leaf & Cole LLP

San Diego, California
November 16, 2015

SAN DIEGO OPERA ASSOCIATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
Current Assets: (Notes 1, 2, 3 and 4)					
Cash and cash equivalents	\$ 1,521,646	\$ 3,930,282	\$ 8,531	\$ 5,460,459	\$ 6,217,434
Investments	121,182	-	-	121,182	-
Receivables, net:					
Ticket sales	323,480	-	-	323,480	438,184
Contributions	206,329	1,314,076	-	1,520,405	2,901,990
Grants	69,504	47,500	-	117,004	94,276
Other	115,705	-	-	115,705	101,946
Prepaid production and other costs	595,973	-	-	595,973	249,606
Total Current Assets	<u>2,953,819</u>	<u>5,291,858</u>	<u>8,531</u>	<u>8,254,208</u>	<u>10,003,436</u>
Noncurrent Assets: (Notes 1, 2, 4 to 11 and 14)					
Contributions receivable, net	-	23,136	-	23,136	253,209
Property and equipment, net	919,377	-	-	919,377	1,034,952
Charitable Remainder Unitrusts	-	10,621	301,814	312,435	308,664
Pooled Income Fund	-	133,859	89,908	223,767	239,391
Charitable Gift Annuities	270,924	-	-	270,924	279,161
San Diego Opera Endowment Trust	-	-	3,470,705	3,470,705	3,650,038
San Diego Foundation Fund	-	-	1,367,179	1,367,179	1,422,149
Other noncurrent assets	-	-	-	-	595,464
Total Noncurrent Assets	<u>1,190,301</u>	<u>167,616</u>	<u>5,229,606</u>	<u>6,587,523</u>	<u>7,783,028</u>
TOTAL ASSETS	<u>\$ 4,144,120</u>	<u>\$ 5,459,474</u>	<u>\$ 5,238,137</u>	<u>\$ 14,841,731</u>	<u>\$ 17,786,464</u>

LIABILITIES AND NET ASSETS

Current Liabilities: (Note 1)					
Accounts payable and accrued expenses	\$ 553,997	\$ -	\$ -	\$ 553,997	\$ 1,324,755
Deferred revenue	1,921,514	-	-	1,921,514	1,936,569
Total Current Liabilities	<u>2,475,511</u>	<u>-</u>	<u>-</u>	<u>2,475,511</u>	<u>3,261,324</u>
Noncurrent Liabilities: (Notes 7, 8 and 14)					
Pooled Income Fund liability	-	43,609	26,206	69,815	76,392
Charitable Gift Annuities liability	53,277	-	-	53,277	55,837
Other noncurrent liabilities	-	-	-	-	595,464
Total Noncurrent Liabilities	<u>53,277</u>	<u>43,609</u>	<u>26,206</u>	<u>123,092</u>	<u>727,693</u>
Total Liabilities	<u>2,528,788</u>	<u>43,609</u>	<u>26,206</u>	<u>2,598,603</u>	<u>3,989,017</u>
Commitments (Notes 14 and 15)					
Net Assets (Notes 1, 12 and 13)	<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>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,144,120</u>	<u>\$ 5,459,474</u>	<u>\$ 5,238,137</u>	<u>\$ 14,841,731</u>	<u>\$ 17,786,464</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, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
<u>Operating Revenues:</u>					
Main stage ticket revenue	\$ 3,510,358	\$ -	\$ -	\$ 3,510,358	\$ 4,799,236
Added events ticket revenue	722,338	-	-	722,338	391,708
Appropriations of endowment assets	211,014	-	-	211,014	223,441
Scenic studio direct activity, net	160,622	-	-	160,622	89,993
Other income	63,261	-	-	63,261	103,039
Interest and dividend income	12,935	-	-	12,935	34,233
Total Operating Revenues	<u>4,680,528</u>	<u>-</u>	<u>-</u>	<u>4,680,528</u>	<u>5,641,650</u>
<u>Operating Expenses:</u>					
Main stage productions	5,606,221	-	-	5,606,221	7,183,857
General management	1,758,290	-	-	1,758,290	3,369,840
Production overhead and scenic studio	1,005,228	-	-	1,005,228	1,074,573
Added events	989,061	-	-	989,061	493,603
Marketing overhead	976,893	-	-	976,893	1,437,017
Development overhead	726,403	-	-	726,403	1,953,622
Educational program	311,566	-	-	311,566	441,221
Total Operating Expenses	<u>11,373,662</u>	<u>-</u>	<u>-</u>	<u>11,373,662</u>	<u>15,953,733</u>
Deficiency of Operating Revenues Over Operating Expenses	<u>(6,693,134)</u>	<u>-</u>	<u>-</u>	<u>(6,693,134)</u>	<u>(10,312,083)</u>
<u>Contributions and Public Support:</u>					
Contributions	2,775,456	2,353,185	-	5,128,641	10,400,594
Provision for uncollectible pledges	10,100	(213,750)	-	(203,650)	(3,020,905)
Grants	324,146	85,000	-	409,146	512,820
Fundraising events and other activities, net	47,781	-	-	47,781	179,004
Net assets released from restriction	3,890,435	(3,890,435)	-	-	-
Total Contributions and Public Support	<u>7,047,918</u>	<u>(1,666,000)</u>	<u>-</u>	<u>5,381,918</u>	<u>8,071,513</u>
Operating Revenues, Contributions and Public Support Over (Under) Operating Expenses	<u>354,784</u>	<u>(1,666,000)</u>	<u>-</u>	<u>(1,311,216)</u>	<u>(2,240,570)</u>
<u>Other Changes in Net Assets:</u>					
Realized and unrealized investment gains, net	(6,349)	-	-	(6,349)	60,271
Charitable Remainder Unitrusts	-	297	3,474	3,771	65,670
Pooled Income Fund	-	(617)	101	(516)	5,329
Charitable Gift Annuities	(5,706)	-	-	(5,706)	(5,660)
San Diego Opera Endowment Trust, net	-	-	(179,333)	(179,333)	130,306
San Diego Foundation Fund, net	-	-	(54,970)	(54,970)	129,009
Jewish Community Foundation Fund	-	-	-	-	(67)
Total Other Changes in Net Assets	<u>(12,055)</u>	<u>(320)</u>	<u>(230,728)</u>	<u>(243,103)</u>	<u>384,858</u>
Change in Net Assets	342,729	(1,666,320)	(230,728)	(1,554,319)	(1,855,712)
Net Assets at Beginning of Year	<u>1,272,603</u>	<u>7,082,185</u>	<u>5,442,659</u>	<u>13,797,447</u>	<u>15,653,159</u>
NET ASSETS AT END 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>

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, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)**

	<u>2015</u>	<u>2014</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (1,554,319)	\$ (1,855,712)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	159,702	205,681
Donated stock	(121,182)	-
Gain on sale of property and equipment	(2,000)	(25,817)
Net realized and unrealized losses (gains) on investments	6,349	(82,499)
Permanently restricted contributions, net of uncollectible	-	1,066,576
Permanently restricted losses (gains)	230,728	(326,710)
Permanently restricted net assets released	-	21,282
Changes in assets and liabilities:		
Receivables, net	1,689,875	4,477,378
Prepaid production and other costs	(346,367)	25,114
Other noncurrent assets	595,464	(129,066)
Accounts payable and accrued expenses	(770,758)	875,940
Deferred revenue	(15,055)	(1,110,070)
Other noncurrent liabilities	(595,464)	129,066
Net Cash (Used in) Provided by Operating Activities	<u>(723,027)</u>	<u>3,271,163</u>
<u>Cash Flows From Investing Activities:</u>		
Investment (purchases)/sales/maturities, net	(6,349)	2,311,708
Purchase of property and equipment	(44,127)	(17,573)
Proceeds from sale of property and equipment	2,000	47,997
Charitable Remainder Unitrusts	(3,771)	512,446
Pooled Income Fund	9,047	(5,329)
Charitable Gift Annuities	5,677	5,632
San Diego Opera Endowment Trust	179,333	(708,422)
San Diego Foundation Fund	54,970	(129,009)
Jewish Community Foundation Fund	-	21,349
Net Cash Provided by Investing Activities	<u>196,780</u>	<u>2,038,799</u>
<u>Cash Flows From Financing Activities:</u>		
Permanently restricted contributions, net of uncollectible	-	(1,066,576)
Permanently restricted losses (gains)	(230,728)	326,710
Permanently restricted net assets released	-	(21,282)
Net Cash Used in Financing Activities	<u>(230,728)</u>	<u>(761,148)</u>
(Decrease) Increase in Cash and Cash Equivalents	(756,975)	4,548,814
Cash and Cash Equivalents at Beginning of Year	<u>6,217,434</u>	<u>1,668,620</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 5,460,459</u></u>	<u><u>\$ 6,217,434</u></u>

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

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)**

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. 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. During the year ended June 30, 2014, San Diego Opera produced four main stage productions for a total of sixteen performances throughout the five-month season (January - May) along with a special concert event in San Diego’s downtown Civic Theatre. Operas are produced and staged completely by San Diego Opera and feature internationally renowned artists. The chorus and stage crew are drawn from the local community, and San Diego Symphony is contracted as the orchestra. San Diego Opera has a scenic studio that builds sets and costumes for many of its productions and for theatrical arts organizations and commercial purposes 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.

SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

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

Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

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

Estimates

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

Fair Value Measurements

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

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

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)**

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

Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

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

- Investments in mutual funds are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date. Investments in certain cash equivalents and mutual, index and exchange traded funds are considered Level 2 assets and are reported at fair value based on the fair value of the underlying assets in the funds as reported by the fund managers, since these funds are valued monthly by the fund manager and are not traded in an active market. Investments in municipal bonds are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for similar assets at the measurement date.
- Beneficial interest in split interest agreements (Charitable Remainder Unitrusts) are considered Level 3 assets and are reported at fair value based on management's assumptions about the expected investment return on the underlying trust assets, an applicable discount rate and the life expectancy of the donor.
- Beneficial interests in endowment assets (San Diego Foundation Fund) are considered Level 3 assets and are reported at fair value based on the fair value of the underlying assets which approximates the future discounted cash flows.

Provision for Uncollectible Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. The provision for uncollectible ticket sales, grants and other receivables totaled \$50,000 at June 30, 2015 and 2014. The provision for uncollectible contributions receivable totaled \$2,132,826 and \$1,991,576 at June 30, 2015 and 2014, 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, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)**

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 \$159,702 and \$205,681 for the years ended June 30, 2015 and 2014, 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 2015 or 2014.

Compensated Absences

Accumulated unpaid vacation totaling \$166,146 and \$181,110 at June 30, 2015 and 2014, 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 \$1,884,550 and \$1,894,758 at June 30, 2015 and 2014, respectively.

**SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)**

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 totaled \$499,152 and \$155,810 at June 30, 2015 and 2014, 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 \$27,538 and \$34,760 for the years ended June 30, 2015 and 2014, respectively.

San Diego Opera received in-kind donations totaling \$325,741 and \$534,196 for the years ended June 30, 2015 and 2014, 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, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)**

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, 2015 and 2014. 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, 2015, 2014, 2013 and 2012 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, 2014

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, 2014, from which the summarized information was derived.

Subsequent Events

San Diego Opera has evaluated subsequent events through November 16, 2015, 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, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

Note 2 - Fair Value Measurements:

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

	2015			Balance at June 30, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents	\$ -	\$ 4,613	\$ -	\$ 4,613
Equities	121,182	-	-	121,182
Mutual, index and exchange traded funds:				
Short term funds	-	91,543	-	91,543
Equity funds	-	2,042,828	-	2,042,828
Fixed income funds	-	1,248,853	-	1,248,853
Real estate funds	-	128,173	-	128,173
Commodity funds	-	178,462	-	178,462
Charitable remainder unitrusts (Note 6)	-	-	312,435	312,435
San Diego Foundation Fund (Note 10)	-	-	1,367,179	1,367,179
	<u>\$ 121,182</u>	<u>\$ 3,694,472</u>	<u>\$ 1,679,614</u>	<u>\$ 5,495,268</u>

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

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

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Note 3 - Investments:

Investments consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Equities	\$ 121,182	\$ -
Total Investments	<u>\$ 121,182</u>	<u>\$ -</u>

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

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 12,935	\$ 34,233
Realized and unrealized gains	(6,349)	82,499
Investment fees	(150)	(9,903)
Total Investment Return	<u>\$ 6,436</u>	<u>\$ 106,829</u>

Note 4 - Contributions Receivable:

Contributions receivable consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Current:		
Due in less than one year	\$ 2,010,255	\$ 3,254,490
Less: Provision for uncollectible accounts	(489,850)	(352,500)
Total Current, Net	<u>1,520,405</u>	<u>2,901,990</u>
Noncurrent:		
Due in one to five years	602,000	943,984
Due in more than five years	2,000,000	2,000,000
Less: Discounts to present value	(935,888)	(1,051,699)
Provision for uncollectible accounts	(1,642,976)	(1,639,076)
Total Noncurrent, Net	<u>23,136</u>	<u>253,209</u>
Total Contributions Receivable, Net	<u>\$ 1,543,541</u>	<u>\$ 3,155,199</u>

The contributions receivable have been discounted to their present value using a discount rate of 5% at June 30, 2015 and 2014.

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Note 5 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Land	\$ 78,025	\$ 78,025
Building and improvements	1,442,687	1,679,968
Production equipment	1,423,096	1,464,097
Office equipment and computers	503,826	558,651
Motor vehicles	145,681	170,850
Subtotal	<u>3,593,315</u>	<u>3,951,591</u>
Less: Accumulated depreciation	<u>(2,673,938)</u>	<u>(2,916,639)</u>
Property and Equipment, Net	<u>\$ 919,377</u>	<u>\$ 1,034,952</u>

Note 6 - Charitable Remainder Unitrusts:

San Diego Opera has been named as the remainder beneficiary of charitable remainder unitrusts (“Unitrusts”) which are reported at fair value. These Unitrusts are established and funded by the donors and provide for a distribution annually to the donors during their lifetimes. Upon the death of the donors, the remaining value of the Unitrusts will be distributed to San Diego Opera subject to donor restrictions. The assets held in the Unitrusts totaling \$377,204 at June 30, 2015 and 2014, have been discounted to their present values of the remainder interest using discount rates ranging from 5% to 7% at June 30, 2015 and 2014, as stipulated in the Unitrusts.

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

	<u>2015</u>			<u>2014</u> <u>Total</u>
	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Total</u>	
Balance at Beginning of Year	\$ 10,324	\$ 298,340	\$ 308,664	\$ 821,110
Change in discount and fair value	297	3,474	3,771	65,670
Distributions	-	-	-	(578,116)
Balance at End of Year	<u>\$ 10,621</u>	<u>\$ 301,814</u>	<u>\$ 312,435</u>	<u>\$ 308,664</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 \$223,767 and \$239,391 at June 30, 2015 and 2014, 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, 2015 and 2014. The Pooled Income Fund liability totaled \$69,815 and \$76,392 at June 30, 2015 and 2014, 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 \$270,924 and \$279,161 at June 30, 2015 and 2014, respectively, consisting of San Diego Opera reserve deposits totaling \$270,924 and \$279,161, respectively, and donor funds totaling \$-0- and \$-0-, respectively. The Charitable Gift Annuities have been discounted to their present value of remainder interest using payout rates established in the individual annuity contracts ranging from 6.2% to 8.3% and a discount rate of 6% at June 30, 2015 and 2014. The Charitable Gift Annuities liability totaled \$53,277 and \$55,837 at June 30, 2015 and 2014, 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>2015</u>	<u>2014</u>
Balance at Beginning of Year	\$ 3,650,038	\$ 2,941,616
Contributions received	-	578,116
Distributions to San Diego Opera	(153,791)	(167,890)
Investment gains (losses)	(25,542)	298,196
Balance at End of Year	<u>\$ 3,470,705</u>	<u>\$ 3,650,038</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 25% domestic equities, 30% international equities, 16% alternative investment funds, 17% fixed income, 4% commodities and 8% real estate at June 30, 2015.

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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>2015</u>	<u>2014</u>
Balance at Beginning of Year	\$ 1,422,149	\$ 1,293,140
Distributions to San Diego Opera	(57,223)	(55,551)
Investment gains	2,253	184,560
Balance at End of Year	<u>\$ 1,367,179</u>	<u>\$ 1,422,149</u>

Note 11 - Jewish Community Foundation Fund:

San Diego Opera established a charitable endowment fund, San Diego Opera Endowment Fund at the Jewish Community Foundation, an unrelated not-for-profit California corporation in 2003. Per the terms of the Endowment Fund agreement with Jewish Community Foundation, at the end of ten years, the fund shall become a custodial fund in San Diego Opera's name and ownership and control shall transfer to San Diego Opera. The fund was liquidated in 2014.

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

	<u>2015</u>	<u>2014</u>
Balance at Beginning of Year	\$ -	\$ 21,349
Investment loss	-	(67)
Release of Restriction	-	(21,282)
Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>

Note 12 - Temporarily Restricted Net Assets:

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

	<u>2015</u>	<u>2014</u>
Production Reserve Fund	\$ 2,299,613	\$ 2,299,613
For future periods	2,217,623	3,502,175
Producer's Circle donations and receivables	645,258	1,179,206
Purpose restricted	152,500	-
Pooled Income Fund	90,250	90,867
Charitable reminder unitrusts	10,621	10,324
Total Temporarily Restricted Net Assets	<u>\$ 5,415,865</u>	<u>\$ 7,082,185</u>

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Note 12 - Temporarily Restricted Net Assets: (Continued)

Net assets totaling \$3,890,435 were released from donor restrictions due to the satisfaction of purpose or time restrictions during the year ended June 30, 2015. There was no release from the Production Reserve Fund during the year ended June 30, 2015, primarily due to operating revenue and unrestricted contributions and support exceeding operating expenses.

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:

- 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

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Note 13 - Endowment Net Assets: (Continued)

San Diego Opera Managed Funds: (Continued)

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

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

San Diego Foundation and Jewish Community Foundation Managed Funds:

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

- 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.

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

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Note 13 - Endowment Net Assets: (Continued)

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

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

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

Endowment composition by type of fund at June 30:

	<u>2015</u>	<u>2014</u>
Donor restricted endowment funds:		
Cash	\$ 8,531	\$ -
San Diego Opera Endowment Trust	3,470,705	3,650,038
San Diego Foundation Fund	1,367,179	1,422,149
Endowment pledge, net	-	-
Charitable remainder unitrusts	301,814	298,340
Pooled Income Fund, net	63,702	72,132
Total Endowment Net Assets	<u>\$ 5,211,931</u>	<u>\$ 5,442,659</u>

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

	<u>2015</u>	<u>2014</u>
Endowment Net Assets at Beginning Of Year	\$ 5,442,659	\$ 6,203,807
Net realized and unrealized appreciation (depreciation)	(19,714)	550,150
Appropriation of endowment assets for expenditure	(211,014)	(223,440)
Provision for uncollectible pledges	-	(1,066,576)
Release of restriction	-	(21,282)
Endowment Net Assets at End of Year	<u>\$ 5,211,931</u>	<u>\$ 5,442,659</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 \$87,749 and \$146,339 for the years ended June 30, 2015 and 2014, respectively.

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Note 14 - Pension Plans: (Continued)

Other Pension Plans

San Diego Opera also participates in three pension plans subject to collective bargaining agreements. Amounts contributed to these plans totaled \$119,685 and \$164,818 for the years ended June 30, 2015 and 2014, respectively.

Supplemental Executive Retirement Plan (SERP)

San Diego Opera has a SERP Plan (the "Plan") on behalf of an executive employee. The Plan provides for annual contributions which are 100% vested after ten years of employment. Contributions totaled \$-0- and \$56,103 for the years ended June 30, 2015 and 2014, respectively. The Plan liability totaled \$-0- and \$595,464 at June 30, 2015 and 2014, respectively, and is fully funded with mutual fund investments held at Vanguard. The Plan assets are reported at fair value and totaled \$-0- and \$595,464 at June 30, 2015 and 2014, respectively. During the year ended June 30, 2015, the Plan assets were liquidated and distributed to the executive employee who participated in the Plan as part of a separation of employment, in accordance with the terms of the Plan.

Note 15 - Commitments:

Lease Agreements

San Diego Opera had a 77-month lease agreement for office space which expired in July 2014. 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 \$151,369 and \$488,822 for the years ended June 30, 2015 and 2014, 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:

Years Ended June 30	
2016	\$ 2,539,111
2017	2,077,488
2018	1,398,684
2019	<u>1,354,550</u>
Total	<u>\$ 7,369,833</u>

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Note 15 - Commitments: (Continued)

License Agreement

San Diego Opera entered into a contract to license use of the San Diego Civic Theatre and Balboa Theatre for its 2016 performance season. The future payment obligation is \$368,000.