

# Financial Report

# SD OPERA

June 30, 2021

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## **INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

Board of Directors  
San Diego Opera Association  
San Diego, California

We have audited the accompanying financial statements of the San Diego Opera Association (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses 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 risk 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 principles used and the reasonableness of significant 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 the San Diego Opera Association as of June 30, 2021, 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.

*West Rhode & Roberts*

WEST RHODE & ROBERTS

San Diego, California  
February 17, 2022

**SAN DIEGO OPERA ASSOCIATION**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2021**

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**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 4,472,751
Receivables, net	320,587
Contributions receivable, net	705,611
Prepaid production and other assets	<u>233,969</u>
Total current assets	<u>5,732,918</u>
Noncurrent assets:	
Property, equipment, and leasehold improvements, net	102,583
Prepaid production and other assets	109,225
Pooled income fund and charitable gift annuities	223,043
Endowment funds held at San Diego Foundation	2,763,824
San Diego Opera Association Endowment Trust	4,352,222
Beneficial interest in perpetual trust	<u>2,976,296</u>
Total noncurrent assets	<u>10,527,193</u>
Total assets	<u>\$ 16,260,111</u>

**LIABILITIES AND NET ASSETS**

Current liabilities:	
Accounts payable and accrued expenses	\$ 438,706
Deferred revenue	708,093
Refundable advance	<u>548,563</u>
Total current liabilities	<u>1,695,362</u>
Noncurrent liabilities	
Pooled income fund and charitable gift annuities liabilities	<u>59,067</u>
Total noncurrent liabilities	<u>59,067</u>
Total liabilities	<u>1,754,429</u>
Commitments & contingencies	
Net assets:	
Without donor restrictions	3,915,184
With donor restrictions	<u>10,590,498</u>
Total net assets	<u>14,505,682</u>
Total liabilities and net assets	<u>\$ 16,260,111</u>

**SAN DIEGO OPERA ASSOCIATION**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Operating Activities</u>			
<b>REVENUE AND SUPPORT</b>			
Main stage ticket revenue	\$ 616,712	\$ -	\$ 616,712
Added events ticket revenue	80,516	-	80,516
Scenic studio direct activity	233,146	-	233,146
Contributions	4,646,187	166,819	4,813,006
Grants	716,313	-	716,313
Special events	833,322	-	833,322
Other income	16,594	-	16,594
Net assets released from restrictions for operations	445,511	(445,511)	-
Total revenue and support	<u>7,588,301</u>	<u>(278,692)</u>	<u>7,309,609</u>
<b>EXPENSES</b>			
Program services			
Productions	5,285,041	-	5,285,041
Educational program	212,366	-	212,366
Total program services	<u>5,497,407</u>	<u>-</u>	<u>5,497,407</u>
Supporting services			
Management and general	711,592	-	711,592
Fundraising	531,046	-	531,046
Total supporting services	<u>1,242,638</u>	<u>-</u>	<u>1,242,638</u>
Cost of direct benefits to donors (Note 2)	119,307	-	119,307
Total expenses	<u>6,859,352</u>	<u>-</u>	<u>6,859,352</u>
Change in net assets from operating activities	<u>728,949</u>	<u>(278,692)</u>	<u>450,257</u>
<u>Non-operating Activities</u>			
Investment income	539	-	539
Net realized and unrealized gain	-	1,394,202	1,394,202
Gain on disposal of assets	7,475	-	7,475
Total non-operating activities	<u>8,014</u>	<u>1,394,202</u>	<u>1,402,216</u>
Change in net assets	<u>736,963</u>	<u>1,115,510</u>	<u>1,852,473</u>
NET ASSETS AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	3,178,221	8,578,841	11,757,062
Prior period adjustment (Note 19)	-	896,147	896,147
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED	<u>3,178,221</u>	<u>9,474,988</u>	<u>12,653,209</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,915,184</u>	<u>\$ 10,590,498</u>	<u>\$ 14,505,682</u>

**SAN DIEGO OPERA ASSOCIATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2021**

	Program Services			Supporting Services		Total
	Productions	Educational Program	Total Program Services	Management and General	Fundraising	
<b>EXPENSES</b>						
Salaries and wages	\$ 2,248,181	\$ 184,732	\$ 2,432,913	\$ 342,977	\$ 422,333	\$ 3,198,223
Payroll taxes and employee benefits	280,730	17,911	298,641	73,594	54,148	426,383
	<u>2,528,911</u>	<u>202,643</u>	<u>2,731,554</u>	<u>416,571</u>	<u>476,481</u>	<u>3,624,606</u>
Production costs	1,608,069	6,949	1,615,018	-	-	1,615,018
Advertising and marketing	296,091	-	296,091	-	38,006	334,097
Occupancy	239,427	-	239,427	73,131	-	312,558
Scenic studio expenses	171,877	-	171,877	-	-	171,877
Outside services	82,143	2,274	84,417	55,890	12,542	152,849
Insurance	69,565	-	69,565	29,813	-	99,378
Travel and parking	93,887	500	94,387	20	288	94,695
Telephone and internet	63,775	-	63,775	27,330	-	91,105
Office expenses	16,385	-	16,385	51,740	631	68,756
Bank and other fees	56,515	-	56,515	-	-	56,515
Other expenses	55,000	-	55,000	2,545	250	57,795
Membership and dues	3,396	-	3,396	17,498	2,848	23,742
Professional fees	-	-	-	21,000	-	21,000
Depreciation	-	-	-	16,054	-	16,054
Total expenses	<u>\$ 5,285,041</u>	<u>\$ 212,366</u>	<u>\$ 5,497,407</u>	<u>\$ 711,592</u>	<u>\$ 531,046</u>	<u>\$ 6,740,045</u>

**SAN DIEGO OPERA ASSOCIATION**

**STATEMENT OF CASH FLOWS**

**Year Ended June 30, 2021**

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CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 1,852,473
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	16,054
Allowance for uncollectability and discounts	(12,085)
Contributions restricted for endowments	(70,846)
Gain on sale of assets	(7,475)
Pooled income fund	(4,695)
Charitable gift annuities	(193)
San Diego Opera Endowment Trust	(844,294)
Funds held at San Diego Foundation	(535,339)
Beneficial interest in perpetual trust	(85,415)
Change in operating assets and liabilities:	
Receivables	(282,776)
Contributions receivable	(5,164)
Prepaid production and other assets	184,163
Accounts payable and accrued expenses	202,709
Deferred revenue	52,158
Refundable advance	(92,289)
Net cash provided by operating activities	<u>366,986</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(48,605)
Proceeds from sale property and equipment	<u>7,475</u>
Net cash used in investing activities	<u>(41,130)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions restricted for endowments	<u>70,846</u>
Net cash provided by financing activities	<u>70,846</u>
Change in cash and cash equivalents	396,702
Cash and cash equivalents at beginning of year	<u>4,076,049</u>
Cash and cash equivalents at end of year	<u>\$ 4,472,751</u>

**Note 1. Organization and Nature of Operations**

The San Diego Opera Association (San Diego Opera) is a not-for-profit corporation incorporated in the State of California and organized for the primary purpose of delivering exceptional vocal performances and exciting, accessible programs to diverse audiences, focusing on community engagement and the transformative power of live performance. As part of its mission to make opera accessible to all, San Diego Opera offers extensive opera education and outreach programs, which serve adults and school children in San Diego County and Northern Mexico, with special emphasis on disadvantaged children.

San Diego Opera also 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.

**Note 2. Basis of Presentation and Summary of Significant Accounting Policies**

**Method of Accounting** – The financial statements of the San Diego Opera have been prepared utilizing the accrual basis of accounting.

**Basis of Presentation** – The financial statements of the San Diego Opera have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the San Diego Opera to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the San Diego Opera's management and the board of directors.

**Net assets with donor restrictions:** Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires—that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Measure of Operations** – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the San Diego Opera's ongoing programs. Nonoperating activities are limited to resources that generate return from long-term investments and other activities considered to be of a more unusual or nonrecurring nature.

**Revenue Recognition**

Contributions – Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met.

The San Diego Opera reports contributions as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with restriction revenues are reclassified to without restriction revenues and reported in the statement of activities as revenues released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as donor restricted endowments. The income and net gains earned from such assets held into perpetuity is generally restricted to the purpose designated by the donor.



SAN DIEGO OPERA ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS

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Contributions of service are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The San Diego Opera reports such contributions at their estimated fair value when received. During the year ended June 30, 2021, no contributions of services were recorded.

Grants – The policy of the San Diego Opera is to recognize the revenue to the extent of eligible costs incurred, up to the maximum subcontract or grant amount.

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 \$678,124 at June 30, 2021.

Scenic Studio – Scenic studio revenue is recognized when contracted jobs have been completed.

**Cash and Cash Equivalents** – The San Diego Opera considers all cash accounts that are not subject to withdrawal restrictions or penalties, and certificate of deposits with an original maturity date of less than 90 days to be cash equivalents.

**Receivables** – All receivables are reviewed for collectability and reserves for uncollectible amounts are recorded based on the estimated collectability. Accounts are written off against the allowance for doubtful accounts when deemed uncollectible. Management has determined that an allowance of approximately \$10,000 is needed for the year ended June 30, 2021.

**Contributions Receivable** – Contributions receivable are unconditional promises received and are recorded when the promise to contribute is made. The San Diego Opera provides an allowance for estimated uncollectible amounts at the time the pledges are recorded. The provision for uncollectible pledges is based, among other things, on the San Diego Opera’s past collection experience and the changes in the current economic conditions. Management has determined that an allowance of \$22,500 is needed for the year ended June 30, 2021.

**San Diego Opera Association Endowment Trust** – The San Diego Opera Association Endowment Trust (“Trust”) was established as a means of creating and funding an endowment fund that is perpetual in nature. Assets are held in trust by Union Bank for the benefit of the San Diego Opera and are not accessible by the San Diego Opera. The Trust assets are invested in a portfolio of mutual, index, and exchange traded funds structured for long-term return. The Trust assets are managed by an outside financial advisor and investment direction is provided by them. San Diego Opera has an investment committee that insures that the investment policies are being adhered to by the financial advisor and reports their findings to the Finance Committee who in turn report to the Board of Directors.

**Beneficial Interests in Perpetual Trust** – The San Diego Opera is named as beneficiary on a perpetual trust held by a third party. This is an arrangement in which the donor established and funds a trust that is administered by an outside third party. Under the terms of the trust, the San Diego Opera has the right to receive the income earned on the trust’s assets in perpetuity, but never receives the assets held in trust. The trust is recorded as with donor restrictions.

**Property, Equipment and Leasehold Improvements** – Property, equipment and leasehold improvements are carried at cost for items purchased or improvements made, or fair value at the date of the gift for donated items. Items which cost or have a fair value at the date of the gift of \$1,500 or more are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Production equipment	3 to 5 years
Office equipment and computers	2 to 5 years
Motor vehicles	5 years

Depreciation expense totaled \$16,054 for the year ended June 30, 2021.

*SAN DIEGO OPERA ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS*

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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.

**Compensating Absences** - Accumulated unpaid vacation totaling \$148,219 at June 30, 2021 is accrued when incurred, and included in accounts payable and accrued expenses.

**Refundable Advance** – The San Diego Opera received a second loan in the amount of \$548,563 in March 2021 under the Paycheck Protection Program (PPP). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan is forgivable if it is used for qualifying expenses as described in the CARES Act. The San Diego Opera believes the PPP loan qualifies for forgiveness and has elected to account for the PPP loan under FASB ASC 958-605. Under this model, the San Diego Opera has recorded a refundable advance and will record revenue when the PPP loan is forgiven. In May 2020, the Opera received \$640,852 under the PPP program that was forgiven during the year and is recorded as a contribution on the Statement of Activities for the year ended June 30, 2021.

**Functional Allocation of Expenses** – The statement of functional expenses presents expense by function and natural classification. Expenses directly attributable to a specific functional area of the San Diego Opera are reported as expenses of those functional areas. A portion of costs that benefit multiple functional areas (indirect costs) have been allocated across programs and supporting services based on the full-time employee equivalents of a programs or supporting service, space utilized and estimates made by San Diego Opera’s management.

**Cost of Direct Benefits to Donors** – The costs of special events that represent a direct benefit to donors are separately reported. For the year ended June 30, 2021, there were \$119,307 special event costs.

**Use of Estimates** – The preparation of financial statements, in conformity with US GAAP, 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 support, revenue, and expenses during the reporting period. Actual results could differ from those estimates.

**Income Tax Status** – The San Diego Opera is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code and is also exempt from state income tax. The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification No. 740-10, Accounting for Uncertainties in Income Taxes, which sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The San Diego Opera has reviewed its positions for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.

**New Accounting Pronouncement** – In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 outlines a single, comprehensive model for companies to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. The change in accounting principle was adopted on the retrospective basis, which resulted in no change to revenue previously reported and also had no effect on the revenue reported for the year ended June 30, 2021.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 for the year ended June 30, 2021 had no effect on the beginning-of-period and end-of-period total amounts shown on the statements of cash flows.

**SAN DIEGO OPERA ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS**

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**Subsequent Events** – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The San Diego Opera recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. The San Diego Opera’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

The San Diego Opera has evaluated subsequent events through February 17, 2022, which is the date the financial statements are available for issuance, and concluded that that the following events required disclosure:

San Diego Opera received the Shuttered Venue Operators Grant (SVOG) award and funding in the amount of \$916,035 in July 2021. The SVOG program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venue Act (December 27, 2020), and amended by the American Rescue Plan Act of 2021.

In November 2021, San Diego Opera received notification that the second PPP loan in the amount of \$548,563 was forgiven.

**Note 3. Liquidity and Availability of Resources**

San Diego Opera regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. San Diego Opera considers investment income without donor restrictions, appropriated earnings from donor-restricted endowments, contributions without donor restrictions, and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, San Diego Opera considers all expenditures related to its ongoing activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The San Diego Opera’s financial assets available for general expenditure, that is without donor restrictions limiting their use within one year of the statement of position date, are as follows:

Financial Assets	
Cash and cash equivalents	\$ 4,472,751
Contributions receivable, net	705,611
Accounts receivable, net	<u>320,587</u>
Total financial assets available within one year	<u>5,498,949</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	<u>(450,764)</u>
Total amounts unavailable for general expenditures within one year	<u>(450,764)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 5,048,185</u>

The San Diego Opera maintains policies of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition to financial assets available to meet general expenditures over the next 12 months, San Diego Opera operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

**Note 4. Fair Value Measurements**

Due to the short-term nature of cash equivalents, receivables, prepaid expenses, accounts payable and deferred revenue, fair value approximates carrying value. In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), fair value is defined as the price that the San Diego Opera would receive upon selling an asset or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset.

FASB ASC 820 also establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

The standard describes three-tier hierarchy of inputs that may be used to measure fair value as follows:

**Level 1:** Quoted prices of identical assets or liabilities in active markets.

**Level 2:** Significant other observable inputs other than Level 1 prices (such as quoted prices for similar assets or liabilities, interest rates, prepayment speeds and credit risk).

**Level 3:** Significant unobservable inputs that reflect the San Diego Opera's own assumptions in determining the fair value of assets.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2021, Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets</b>				
Pooled income fund	\$ -	\$ 194,032	\$ -	\$ 194,032
Charitable gift annuities	-	29,011	-	29,011
Funds held at San Diego Foundation	-	2,763,824	-	2,763,824
San Diego Opera Endowment Trust	-	4,352,222	-	4,352,222
Beneficial interest in perpetual trust	-	-	2,976,296	2,976,296
	<u>\$ -</u>	<u>\$ 7,339,089</u>	<u>\$ 2,976,296</u>	<u>\$ 10,315,385</u>
<b>Liabilities</b>				
Pooled income fund liabilities	\$ -	\$ 33,318	\$ -	\$ 33,318
Charitable gift liabilities	-	25,749	-	25,749
	<u>\$ -</u>	<u>\$ 59,067</u>	<u>\$ -</u>	<u>\$ 59,067</u>

For the valuation of other assets as of June 30, 2021, the San Diego Opera used quoted prices in principal active markets for certain underlying fund positions and significant other observable inputs (Level 2). The San Diego Opera also has funds held at San Diego Foundation and the San Diego Opera Endowment Trust which is based upon significant inputs as performed by their respective trustee (Level 2).

**SAN DIEGO OPERA ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**

For the valuation of the beneficial interest in perpetual trust at June 30, 2021, the San Diego Opera used significant unobservable inputs, including information from fund manager based on quoted market prices, if available, or other valuation methods. The San Diego Opera reviews and evaluates the values provided by the fund manager and agrees with the valuation methods and assumptions used in determining the fair value of these investments (Level 3).

The following represents the San Diego Opera's Level 3 financial instruments, the valuation techniques used to measure the fair value of the financial instruments, and the significant unobservable inputs and the range of values for those inputs for the year ended June 30, 2021:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 2,976,296	Valuation of underlying assets as provided by fund manager	Base price	N/A

The management of the San Diego Opera is responsible for making the fair value measurements and disclosures in the financial statements. As part of fulfilling this responsibility, the management of the San Diego Opera has established an accounting and financial reporting process for determining the fair value measurements and disclosures, which identifies and adequately supports the valuation methods and assumptions used and ensures that the presentation of the fair value measurement is in accordance with US GAAP.

**Note 5. Receivables**

Receivables consist of the following at June 30, 2021:

Earned income tax credit	\$ 305,348
Other	25,239
	<u>330,587</u>
Less allowance for doubtful accounts	(10,000)
Total receivables	<u>\$ 320,587</u>

**Note 6. Contributions Receivable**

Contributions receivable consist of the following at June 30, 2021:

Current:	
Due in less than one year	
Pledges	\$ 728,111
Less allowance for doubtful accounts	(22,500)
	<u>\$ 705,611</u>

**Note 7. Property, Equipment, and Leasehold Improvements**

Property, equipment, and leasehold improvements consist of the following at June 30, 2021:

Production equipment	\$ 396,504
Motor vehicles	105,232
Office equipment and computers	<u>113,063</u>
	614,799
Less accumulated depreciation	<u>(512,216)</u>
Total property, equipment, and leasehold improvements, net	<u>\$ 102,583</u>

**Note 8. Pooled Income Fund and Charitable Gift Annuities**

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 \$194,032 at June 30, 2021. The pooled income fund has been discounted to the present value of remainder interest, using a discount rate of 5.4% at June 30, 2021. The pooled income fund liability totaled \$33,318 at June 30, 2021.

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 Union Bank, and are fully regulated by the California Department of Insurance. The assets held at Union Bank totaled \$29,011 at June 30, 2021. The charitable gift annuities have been discounted to their present value of remainder interest, using payout rates established in the individual annuity contracts ranging from 6.2% to 7.7% and a discount of 6% at June 30, 2021. The charitable gift annuities liability totaled \$25,749 at June 30, 2021.

**Note 9. San Diego Opera Association Endowment Trust**

The activity of the Trust consisted of the following for the year ended June 30, 2021:

Balance at July 1, 2020	\$ 3,507,929
Contributions	70,846
Change in fair value	951,835
Distributions to San Diego Opera	<u>(178,388)</u>
Balance at June 30, 2021	<u>\$ 4,352,222</u>

**Note 10. Funds held at San Diego Foundation**

San Diego Opera has established charitable endowment funds at the San Diego Foundation, an unrelated not-for-profit California corporation. The beneficial interest in endowment funds held at San Diego Foundation is invested in a portfolio of equity and debt securities, which is structured for long-term total return, consisting of 25% international equities, 28% domestic equities, 22% alternative investments, 17% fixed income, 6% real estate, and 2% commodities.

The activity in the endowment funds held at the San Diego Foundation consisted of the following for the year ended June 30, 2021:

Balance at July 1, 2020	\$ 2,228,484
Change in fair value	696,681
Distributions to San Diego Opera	<u>(161,341)</u>
Balance at June 30, 2021	<u>\$ 2,763,824</u>

For the funds held at the San Diego Foundation, the 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.

In addition, total assets with a fair value of \$455,190 at June 30, 2021, are held and invested by the San Diego Foundation. The San Diego Opera has no ownership rights over the principal but receives distributions semi-annually from the earnings on these assets. The San Diego Opera received distributions totaling \$14,353 for the year ended June 30, 2021, which are included in contributions in the statement of activities.

**SAN DIEGO OPERA ASSOCIATION  
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**Note 11. Beneficial Interest in Perpetual Trust**

San Diego Opera has a 20% beneficial interest in endowment funds held by the Kathryn Hattox Charitable Trust. The beneficial interest in endowment funds held at the Kathryn Hattox Charitable Trust is invested in a portfolio of equity and debt securities, which is structured for long-term total return.

The activity in the beneficial interest in endowment funds held at the Kathryn Hattox Charitable Trust consisted of the following for the year ended June 30, 2021:

Balance at July 1, 2020	\$ 2,890,881
Change in fair value	237,625
Distributions to San Diego Opera	<u>(152,210)</u>
Balance at June 30, 2021	<u>\$ 2,976,296</u>

For the beneficial interest in perpetual trust, the spending policy is to disburse 5% annually, based on endowment principal market value. The trust will allow the principal corpus to be waived to meet the 5% annual distribution.

**Note 12. Commitments**

**License Agreement** – The San Diego Opera entered into contracts to license use of various theaters for its 2022 performance season. Due to the uncertainty related to the Coronavirus Pandemic the San Diego Opera is unable to estimate the future payment obligation related to the license agreement.

**Operating Leases** – The San Diego Opera leases its administrative offices and costume shop on an month to month basis. Rent expense for these spaces totaled \$132,090 for the year ended June 30, 2021.

The San Diego Opera leases its scenic studio through June 30, 2022. Rent expense totaled \$213,950 for the year ended June 30, 2021 and is included in occupancy expense. All future rents are included in the future annual payments schedule in this note.

**Contracts** – The San Diego Opera has entered into various contracts for services with employees and independent contractors for future productions and services. Due to the uncertainty related to the Coronavirus Pandemic the San Diego Opera is unable to estimate the future payment obligation related to the independent contractors for future productions and services.

Future annual payment requirements to fulfill the lease agreements and contracts for services with employees are as follows:

<u>Years Ending June 30,</u>	
2022	\$ 409,810
2023	415,504
2024	<u>220,000</u>
	<u>\$ 1,045,314</u>

**Note 13. Net Assets With Donor Restrictions**

Net assets with donor restrictions represent contributions and other inflows received by the San Diego Opera, which are limited in their use by the donor-imposed stipulations. Net assets with donor restrictions at June 30, 2021 are available for the following purposes:

Productions	\$ 337,444
Pooled income fund	<u>113,321</u>
	<u>\$ 450,765</u>

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Endowments, subject to the San Diego Opera's spending policy and appropriations, the income from which is expendable for:

San Diego Opera Endowment Trust	\$ 4,352,222
Beneficial interest in perpetual trust	2,976,296
Endowments held at San Diego Foundation	2,763,824
Pooled income fund	<u>47,392</u>
	<u>\$ 10,139,734</u>

Total net assets with donor restrictions at June 30, 2021 is \$10,590,498.

**Note 14. Net Assets Released from Restriction**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

Net assets released from restriction consist of the following at June 30, 2021:

Time restrictions	\$ 380,167
Productions	<u>65,344</u>
	<u>\$ 445,511</u>

**Note 15. Endowment and Pooled Income Fund**

**Endowment Funds**

The net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The San Diego Opera's endowment funds consist of only donor-restricted endowment funds.

**Interpretation of Relevant Law**

The State of California enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in 2008. The Board of Directors of the San Diego Opera has interpreted the UPMIFA as requiring the long-term preservation of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the San Diego Opera classifies with donor restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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. Unless otherwise stipulated by the donor, the San Diego Opera classifies its donor-restricted fund net assets with donor restrictions held in perpetuity, using the original value of the gift when it was donated to the permanent endowment. Accumulated earnings to the permanent endowment are classified as net assets with donor restricted that are program or time restricted in accordance with UPMIFA.

From time to time, the fair value of the assets associated with donor-restricted endowment funds may fall below the level that the donor requires the San Diego Opera to retain as funds of perpetual duration. These deficiencies generally result from unfavorable market fluctuations that may occur. At June 30, 2021, the San Diego Opera had no endowment funds with fair values below the original gift amount.



**Endowment Investment and Spending Policies**

In accordance with UPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the endowment fund.
- The purposes of the San Diego Opera and the endowment fund.
- General economic conditions.
- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the San Diego Opera.
- The investment policy of the San Diego Opera.

The San Diego Opera has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the San Diego Opera must hold in perpetuity. The San Diego Opera expects its endowment funds, over time, to provide an average rate of return.

The investment objectives for the Endowment’s assets are to earn long-term returns that match or exceed annual income requirements of the San Diego Opera Association, to provide for asset growth at a rate in excess of the rate of inflation, to diversify the Endowment’s assets in order to reduce the risk of wide swings in market value from year-to-year, or of incurring large losses, and to achieve investment results over the long-term that compare favorably with those of other endowments and of appropriate market indexes.

For the San Diego Opera Endowment Trust Fund, 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.

Donor-restricted endowment net asset composition as of June 30, 2021, is as follows:

	<u>With Donor Restriction</u>
Endowment net assets, beginning of year	\$ 3,553,853
Investment return:	
Net appreciation (1)	<u>951,835</u>
Total investment return	951,835
Appropriation of assets for expenditure	(178,388)
Contributions	<u>72,314</u>
Endowment net assets, end of year	<u>\$ 4,399,614</u>

(1) Includes realized and unrealized gains and losses, and other fees or expenses

**Note 16. Retirement Plan**

**Defined Contribution 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 2% 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 \$34,393 for the year ended June 30, 2021.

**Other Pension Plan** – San Diego Opera also participates in three pension plans subject to collective bargaining agreements. Amounts contributed to these plans totaled \$45,066 for the year ended June 30, 2021.

**Note 17. Contingencies**

**Grants and Contracts** – The San Diego Opera has grants and contracts with government agencies which are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from these audits would not have a material impact on the San Diego Opera's financial statements.

**Note 18. Risks and Uncertainties**

Concentration of Credit Risk – 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.

COVID-19 – In 2020, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Possible effects may include but are not limited to disruptions or restrictions on our employee's ability to work, decline in value of assets held, including property and equipment and marketable securities and changes to the current regulatory environment. Management is actively working to mitigate the impact of these and other unforeseen potential disruptions to operations.

During the year ended June 30, 2021, San Diego Opera produced two main stage productions outdoors in a drive-in format, at the Pechanga Sports Arena Parking Lot for a total of eight performances. The San Diego Opera normally produces three main stage productions each season but was unable to produce and perform the third main stage Opera due to the Coronavirus Pandemic. San Diego Opera presented a recital and a live holiday performance with screening of All is Calm in their "détour" series, for a total of two performances of works outside of traditional grand opera. Due to the Coronavirus Pandemic, two productions had to be cancelled. Operas are generally 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.

**Note 19. Prior Period Adjustment**

Management, while preparing the San Diego Opera's financial statements, identified funds held at the San Diego Foundation that were established as an interest in charitable endowment funds to provide income in perpetuity in prior years. Management has determined the value of the unrecorded charitable endowment funds at the June 30, 2020 was \$896,147.