

Financial Report



June 30, 2022

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
San Diego Opera Association
San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The San Diego Opera Association (the San Diego Opera), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the San Diego Opera and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the San Diego Opera's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control.

Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 San Diego Opera's internal control. Accordingly, no such opinion is expressed.
- Evaluated the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the San Diego Opera's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 23, 2022, on our consideration of the San Diego Opera's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the San Diego Opera's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the San Diego Opera's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited The San Diego Opera Association's 2021 financial statements, and we expressed an unmodified opinion on those audited financial statements our report dated February 17, 2022. In our opinion, the summarized information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

West Rhode & Roberts

WEST RHODE & ROBERTS

San Diego, California
December 23, 2022

SAN DIEGO OPERA ASSOCIATION
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With Summarized Financial Information for June 30, 2021)

	2022	2021 (Note 18)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,961,711	\$ 4,472,751
Receivables, net	229,539	320,587
Contributions receivable, net	467,278	705,611
Prepaid production and other assets	213,528	233,969
Total current assets	6,872,056	5,732,918
Noncurrent assets:		
Property, equipment, and leasehold improvements, net	115,118	102,583
Prepaid production and other assets	437,251	109,225
Pooled income fund and charitable gift annuities	162,180	223,043
Endowment funds held at San Diego Foundation	2,554,071	2,763,824
San Diego Opera Association Endowment Trust	3,611,800	4,352,222
Beneficial interest in perpetual trust	3,173,839	2,976,296
Total noncurrent assets	10,054,259	10,527,193
Total assets	\$ 16,926,315	\$ 16,260,111
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 456,796	\$ 438,706
Deferred revenue	896,317	708,093
Refundable advance	-	548,563
Total current liabilities	1,353,113	1,695,362
Noncurrent liabilities		
Pooled income fund and charitable gift annuities liabilities	21,525	59,067
Total noncurrent liabilities	21,525	59,067
Total liabilities	1,374,638	1,754,429
Commitments (Note 11)		
Net assets:		
Without donor restrictions	5,730,074	3,915,184
With donor restrictions	9,821,603	10,590,498
Total net assets	15,551,677	14,505,682
Total liabilities and net assets	\$ 16,926,315	\$ 16,260,111

SAN DIEGO OPERA ASSOCIATION

STATEMENT OF ACTIVITIES

Year Ended June 30, 2022

(With Summarized Financial Information for the Year Ended June 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	2021 (Note 18)
<u>Operating Activities</u>				
REVENUE AND SUPPORT				
Main stage ticket revenue	\$ 1,142,162	\$ -	\$ 1,142,162	\$ 616,712
Events ticket revenue	280,727	-	280,727	80,516
Scenic studio revenue	725,021	-	725,021	233,146
Contributions	6,648,080	183,135	6,831,215	4,813,006
Grants	951,323	150,000	1,101,323	716,313
Special events	429,659	-	429,659	833,322
Other income	63,308	-	63,308	16,594
Net assets released from restrictions for operations	349,399	(349,399)	-	-
Total revenue and support	<u>10,589,679</u>	<u>(16,264)</u>	<u>10,573,415</u>	<u>7,309,609</u>
EXPENSES				
Program services				
Productions	6,834,116	-	6,834,116	5,285,041
Educational program	236,884	-	236,884	212,366
Total program services	<u>7,071,000</u>	<u>-</u>	<u>7,071,000</u>	<u>5,497,407</u>
Supporting services				
Management and general	946,782	-	946,782	711,592
Fundraising	606,037	-	606,037	531,046
Total supporting services	<u>1,552,819</u>	<u>-</u>	<u>1,552,819</u>	<u>1,242,638</u>
Cost of direct benefits to donors (Note 2)	<u>150,705</u>	<u>-</u>	<u>150,705</u>	<u>119,307</u>
Total expenses	<u>8,774,524</u>	<u>-</u>	<u>8,774,524</u>	<u>6,859,352</u>
Change in net assets from operating activities	<u>1,815,155</u>	<u>(16,264)</u>	<u>1,798,891</u>	<u>450,257</u>
<u>Non-operating Activities</u>				
Net realized and unrealized (loss) gain	(265)	(752,631)	(752,896)	1,394,741
Gain on disposal of assets	-	-	-	7,475
Total non-operating activities	<u>(265)</u>	<u>(752,631)</u>	<u>(752,896)</u>	<u>1,402,216</u>
Change in net assets	1,814,890	(768,895)	1,045,995	1,852,473
NET ASSETS AT BEGINNING OF YEAR	<u>3,915,184</u>	<u>10,590,498</u>	<u>14,505,682</u>	<u>12,653,209</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,730,074</u>	<u>\$ 9,821,603</u>	<u>\$ 15,551,677</u>	<u>\$ 14,505,682</u>

SAN DIEGO OPERA ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022
(With Summarized Financial Information for the Year Ended June 30, 2021)

	Program Services			Supporting Services		2022 Total	2021 (Note 18)
	Productions	Educational Program	Total Program Services	Management and General	Fundraising		
EXPENSES							
Salaries and wages	\$ 2,838,965	\$ 185,453	\$ 3,024,418	\$ 393,985	\$ 474,904	\$ 3,893,307	\$ 3,198,223
Payroll taxes and employee benefits	320,128	23,778	343,906	80,188	60,992	485,086	426,383
	<u>3,159,093</u>	<u>209,231</u>	<u>3,368,324</u>	<u>474,173</u>	<u>535,896</u>	<u>4,378,393</u>	<u>3,624,606</u>
Production costs	1,782,366	16,808	1,799,174	-	11,146	1,810,320	1,615,018
Advertising and marketing	458,092	2,570	460,662	-	34,544	495,206	334,097
Scenic studio expenses	475,185	-	475,185	-	-	475,185	171,877
Occupancy	352,377	-	352,377	74,532	2,056	428,965	312,558
Outside services	103,680	3,000	106,680	185,486	5,417	297,583	152,849
Travel and parking	214,655	1,964	216,619	295	666	217,580	94,695
Office expenses	37,550	-	37,550	92,911	5,866	136,327	68,756
Insurance	96,175	3,311	99,486	13,245	6,623	119,354	99,378
Telephone and internet	87,108	-	87,108	-	-	87,108	91,105
Membership and dues	5,317	-	5,317	36,285	-	41,602	23,742
Professional fees	1,235	-	1,235	39,893	-	41,128	21,000
Bank and other fees	36,179	-	36,179	1,019	-	37,198	56,515
Other expenses	25,104	-	25,104	2,229	3,823	31,156	57,795
Depreciation	-	-	-	26,714	-	26,714	16,054
Total expenses	<u>\$ 6,834,116</u>	<u>\$ 236,884</u>	<u>\$ 7,071,000</u>	<u>\$ 946,782</u>	<u>\$ 606,037</u>	<u>\$ 8,623,819</u>	<u>\$ 6,740,045</u>

SAN DIEGO OPERA ASSOCIATION

STATEMENT OF CASH FLOWS

Year Ended June 30, 2022

(With Summarized Financial Information for the Year Ended June 30, 2021)

	2022	2021 (Note 18)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,045,995	\$ 1,852,473
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	26,714	16,054
Allowance for uncollectability and discounts	-	(12,085)
Contributions restricted for endowments	-	(70,846)
Gain on sale of assets	-	(7,475)
Change in investments:		
Pooled income fund	23,321	(4,695)
Charitable gift annuities	-	(193)
San Diego Opera Endowment Trust	740,422	(844,294)
Funds held at San Diego Foundation	209,753	(535,339)
Beneficial interest in perpetual trust	(197,543)	(85,415)
Change in operating assets and liabilities:		
Receivables	91,048	(282,776)
Contributions receivable	200,833	(5,164)
Prepaid production and other assets	(270,085)	184,163
Accounts payable and accrued expenses	18,090	202,709
Deferred revenue	188,224	52,158
Refundable advance	(548,563)	(92,289)
Net cash provided by operating activities	<u>1,528,209</u>	<u>366,986</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(39,249)	(48,605)
Proceeds from sale property and equipment	-	7,475
Net cash used in investing activities	<u>(39,249)</u>	<u>(41,130)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	-	70,846
Net cash provided by financing activities	<u>-</u>	<u>70,846</u>
Change in cash and cash equivalents	1,488,960	396,702
Cash and cash equivalents at beginning of year	4,472,751	4,076,049
Cash and cash equivalents at end of year	<u>\$ 5,961,711</u>	<u>\$ 4,472,751</u>

Note 1. San Diego Opera 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 San Diego Opera 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 San Diego Operas 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 San Diego Opera. 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 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

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 years ended June 30, 2022 and 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 Revenue – 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 \$891,421 and \$678,124 at June 30, 2022 and 2021, respectively.

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 years ended June 30, 2022 and 2021, respectively.

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 years ended June 30, 2022 and 2021, respectively.

San Diego Foundation – The San Diego Opera has established charitable endowment funds at the San Diego Foundation, an unrelated not-for-profit California corporation.

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.

SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

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 \$26,714 and \$16,054 for the years ended June 30, 2022 and 2021, 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.

Compensating Absences - Accumulated unpaid vacation totaling \$135,007 and \$148,219 at June 30, 2022 and 2021, respectively, 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 was forgiven in November 2021 and has been recorded as revenue as of June 30, 2022.

The San Diego Opera received \$1,648,333 under the Shuttered Venue Operators Grant (SVOG). SVOG program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act. It provided relief for performing arts, museums and other live venues that were shut down due to COVID-19 restrictions. The San Diego Opera has elected to account for the SVOG amount under FASB ASC 958-605. Under this model, the San Diego Opera has recorded the amount of \$1,648,333 used for eligible expenses as contributions on the statement of activities as of June 30, 2022.

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 years ended June 30, 2022 and 2021, there were \$150,705 and \$119,307 special event costs, respectively.

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.

SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

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 December 23, 2022, which is the date the financial statements are available for issuance, and concluded that there are no events that required disclosure.

Note 2. 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	\$ 5,961,711
Accounts receivable, net	229,539
Contributions receivable, net	467,278
Total financial assets available within one year	<u>6,658,528</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	<u>344,501</u>
Total amounts unavailable for general expenditures within one year	<u>344,501</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 6,314,027</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 3. Investments and Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The San Diego Opera uses a fair value hierarchy that to maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

The hierarchy for fair value measurement are described as follows:

Level 1 - quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - observable market-based inputs or unobservable inputs that are corroborated by market data. May include quoted prices in a market that is not active.

Level 3 - unobservable inputs that cannot be corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following are descriptions of the valuation inputs and techniques that the San Diego Opera utilizes to determine fair value for each major category of assets and liabilities.

Due to the short-term nature of cash equivalents, other assets, accounts payable and accrued expenses, carrying value approximates fair value.

For the valuation of other assets as of June 30, 2022 and 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).

For the valuation of the beneficial interest in perpetual trust at June 30, 2022 and 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 table summarizes the San Diego Opera's investments by type, including placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis:

	Fair Value Measurements at June 30, 2022, Using:			
	Total	Level 1	Level 2	Level 3
Assets				
Pooled income fund	\$ 144,501	\$ -	\$ 144,501	\$ -
Charitable gift annuities	17,679	-	17,679	-
Funds held at San Diego Foundation	2,554,071	-	2,554,071	-
San Diego Opera Endowment Trust	3,611,800	-	3,611,800	-
Beneficial interest in perpetual trust	3,173,839	-	-	3,173,839
	<u>\$ 9,501,890</u>	<u>\$ -</u>	<u>\$ 6,328,051</u>	<u>\$ 3,173,839</u>
Liabilities				
Pooled income fund liabilities	\$ 7,109	\$ -	\$ 7,109	\$ -
Charitable gift liabilities	14,416	-	14,416	-
	<u>\$ 21,525</u>	<u>\$ -</u>	<u>\$ 21,525</u>	<u>\$ -</u>

SAN DIEGO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

The changes in assets measured at fair value for which the Foundation used Level 3 inputs to determine fair value for the year ended June 30, 2022, are as follows:

Balance at June 30, 2021	\$ 2,976,296
Change in fair value	356,028
Distribution	<u>(158,485)</u>
Balance at June 30, 2022	<u>\$ 3,173,839</u>

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, management of the San Diego Opera utilizes and relies on the values, valuations, and assumptions and has established an accounting and financial reporting process for determining the fair value measurements and disclosures. This process identifies and adequately supports the valuation methods and assumptions used and ensures that the presentation of the fair value measurements is in accordance with U.S. GAAP.

Note 4. Receivables

Receivables consist of the following at June 30, 2022:

Ticket and Scenic Studio revenue	\$ 171,297
Earned income tax credit	<u>68,242</u>
	239,539
Less allowance for doubtful accounts	<u>(10,000)</u>
Total receivables	<u>\$ 229,539</u>

Note 5. Contributions Receivable

Contributions receivable consist of the following at June 30, 2022:

Current:	
Due in less than one year	
Pledges	\$ 489,778
Less allowance for doubtful accounts	<u>(22,500)</u>
	<u>\$ 467,278</u>
Noncurrent:	
Due in more than one year included in prepaid and other assets	<u>\$ 37,500</u>

Note 6. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at June 30, 2022:

Production equipment	\$ 422,755
Motor vehicles	105,232
Office equipment and computers	<u>126,061</u>
	654,048
Less accumulated depreciation	<u>(538,930)</u>
Total property, equipment, and leasehold improvements, net	<u>\$ 115,118</u>

Note 7. 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 \$144,501 and \$194,032 at June 30, 2022 and June 30, 2021, 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, 2022 and June 30, 2021. The pooled income fund liability totaled \$7,109 and \$33,318 at June 30, 2022 and 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 \$17,679 and \$29,011 at June 30, 2022 and 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, 2022. The charitable gift annuities liability totaled \$14,416 and \$25,749 at June 30, 2022 and June 30, 2021, respectively.

Note 8. 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 39% international equities, 14% domestic equities, 19% alternative investments, 11% fixed income, 10% real estate, and 7% commodities.

The activity in the endowment funds held at the San Diego Foundation consisted of the following for the year ended June 30, 2022:

Balance at July 1, 2021	\$ 2,763,824
Change in fair value	(90,749)
Distributions to San Diego Opera	(119,004)
Balance at June 30, 2022	<u>\$ 2,554,071</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 \$421,885 and \$455,190 at June 30, 2022 and 2021, respectively, 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 \$18,641 and \$14,353 for the year ending June 30, 2022 and 2021, respectively, which are included in contributions in the statement of activities.

Note 9. San Diego Opera Association Endowment Trust

The activity of the Trust consisted of the following for the year ended June 30, 2022:

Balance at July 1, 2021	\$ 4,352,222
Change in fair value	(557,396)
Distributions to San Diego Opera	<u>(183,026)</u>
Balance at June 30, 2022	<u>\$ 3,611,800</u>

Note 10. 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, 2022:

Balance at July 1, 2021	\$ 2,976,296
Change in fair value	356,028
Distributions to San Diego Opera	<u>(158,485)</u>
Balance at June 30, 2022	<u>\$ 3,173,839</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 11. 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 a month to month basis. Rent expense for these spaces totaled \$133,834 and \$132,090 for the year ended June 30, 2022 and June 30, 2021.

The San Diego Opera leases its scenic studio through June 30, 2022. Rent expense totaled \$219,218 and \$213,950 for the year ended June 30, 2022 and 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>	
2023	\$ 495,504
2024	<u>36,000</u>
	<u>\$ 531,504</u>

Note 12. 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, 2022 are available for the following purposes:

Productions	\$ 344,501
Pooled income fund	<u>90,374</u>
	<u>\$ 434,875</u>

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

San Diego Opera Endowment Trust	\$ 3,611,800
Beneficial interest in perpetual trust	3,173,839
Endowments held at San Diego Foundation	2,554,071
Pooled income fund	<u>47,018</u>
	<u>\$ 9,386,728</u>

Total net assets with donor restrictions at June 30, 2022 is \$9,821,603.

Note 13. 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, 2022:

Production releases	<u>\$ 349,399</u>
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Note 14. 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.

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

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, 2022, 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, 2022, is as follows:

Endowment net assets, beginning of year		\$ 4,399,614
Investment return:		
Net depreciation (1)		<u>(557,770)</u>
Total investment return		(557,770)
Appropriation of assets for expenditure		<u>(183,026)</u>
Endowment net assets, end of year		<u>\$ 3,658,818</u>

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

Note 15. 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 4% of eligible compensation contributed by the employee as of June 30, 2022, and 2% as of 2021. 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 \$46,318 and \$34,393 for the year ended June 30, 2022 and 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 \$141,766 and \$45,066 for the year ended June 30, 2022 and June 30, 2021.

Note 16. 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 17. 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.

Note 18. June 30, 2021 Financial Information

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the San Diego Opera's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Certain reclassifications have been made to the summarized 2021 financial information to conform to the classifications adopted for the 2022 financial statements. These reclassifications had no effect on the change in net assets.

SUPPLEMENTARY INFORMATION

SAN DIEGO OPERA ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022

<u>Federal Grantor</u>	<u>Award Number</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Total Federal Awards Expended</u>
U.S. Small Business Administration				
Shuttered Venue Operators Grant	SBAHQ21SV002799	59.075	\$ 1,648,333	\$ 1,648,333
			<u>\$ 1,648,333</u>	<u>\$ 1,648,333</u>

The accompanying notes are an integral part of this schedule.

Note A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the expenditures of the San Diego Opera under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Because the Schedule presents only a selected portion of the operations of the San Diego Opera, it is not intended to and does not present the financial position, changes in net assets and cash flows of the San Diego Opera.

Note B. Basis of Accounting

This Schedule is prepared on the same basis of accounting as the San Diego Opera's financial statements. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursements.

Note C. Relationship of Schedule of Expenditures of Federal Awards to Financial Statements

Consistent with management's policy, federal awards are recorded in various revenue categories. As a result, the amount of total federal awards on the Schedule does not agree to the total contributions revenue on the Statement of Activities and Changes in Net Assets.

Note D. Indirect Cost Rate

The San Diego Opera did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
San Diego Opera Association
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of San Diego Opera Association (a nonprofit San Diego Opera), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Diego Opera Association's (the San Diego Opera) internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the San Diego Opera's internal control. Accordingly, we do not express an opinion on the effectiveness of the San Diego Opera's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the San Diego Opera's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the San Diego Opera's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the San Diego Opera's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "West Rhode & Roberts". The script is cursive and fluid.

WEST RHODE & ROBERTS

San Diego, California
December 23, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
San Diego Opera Association
San Diego, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited San Diego Opera Association's (the San Diego Opera) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the San Diego Opera's major federal programs for the year ended June 30, 2022. The San Diego Opera's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the San Diego Opera complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the San Diego Opera and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the San Diego Opera's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the San Diego Opera's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the San Diego Opera's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists.

The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the San Diego Opera's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the San Diego Opera's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the San Diego Opera's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the San Diego Opera's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

West Rhode & Roberts

WEST RHODE & ROBERTS

San Diego, California
December 23, 2022

SAN DIEGO OPERA ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2022

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(s) identified that are not considered to be material weakness(es)? Yes None reported
- Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant control deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR Section 200.516(a)? Yes No

Identification of Major Programs

CFDA Numbers

Name of Federal Programs or Cluster

U.S. Small Business Administration

59.075

Shuttered Venue Operators Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low risk auditee? Yes No

SAN DIEGO OPERA ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year Ended June 30, 2022

B. Findings – Financial Statements Audit

No reportable findings noted during the June 30, 2022, audit of the San Diego Opera's financial statements audit.

C. Finding and Questioned Costs – Major Federal Award Programs Audit

No reportable findings noted during the June 30, 2022, audit of the San Diego Opera's major federal awards.

D. Prior Year Findings and Questioned Costs

No reportable findings were noted during the June 30, 2021, financial statement audit.