



Financial Report

June 30, 2023



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of San Diego Opera Association:

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, 2023, 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, 2023, 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.

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 opinions.

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 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.
- Evaluate 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.

Report on Summarized Comparative Information

We have previously audited The San Diego Opera Association's 2022 financial statements, and we expressed an unmodified opinion on those audited financial statements our report dated December 23, 2022. In our opinion, the summarized information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.



WEST RHODE & ROBERTS

San Diego, California
November 1, 2023

San Diego Opera Association
 STATEMENT OF FINANCIAL POSITION
 June 30, 2023

(With Summarized Financial Information for June 30, 2022)

| | <u>2023</u> | <u>2022</u> (Note 19) |
|--|----------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,104,918 | \$ 5,961,711 |
| Receivables, net | 244,137 | 229,539 |
| Contributions receivable, net | 284,029 | 467,278 |
| Prepaid production and other assets | <u>65,526</u> | <u>213,528</u> |
| Total current assets | <u>2,698,610</u> | <u>6,872,056</u> |
| Noncurrent assets: | | |
| Prepaid production and other assets | 431,325 | 437,251 |
| Right of use asset | 869,534 | - |
| Property, equipment, and leasehold improvements, net | 159,947 | 115,118 |
| Pooled income fund and charitable gift annuities | 130,377 | 162,180 |
| Endowment funds held at San Diego Foundation | 2,611,680 | 2,554,071 |
| San Diego Opera Association Endowment Trust | 3,755,638 | 3,611,800 |
| Beneficial interest in perpetual trust | <u>2,586,425</u> | <u>3,173,839</u> |
| Total noncurrent assets | <u>10,544,926</u> | <u>10,054,259</u> |
| Total assets | <u>\$ 13,243,536</u> | <u>\$ 16,926,315</u> |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 438,502 | \$ 456,796 |
| Deferred revenue | 204,754 | 896,317 |
| Lease liability, current | <u>224,832</u> | <u>-</u> |
| Total current liabilities | <u>868,088</u> | <u>1,353,113</u> |
| Noncurrent liabilities | | |
| Lease liability | 644,702 | - |
| Pooled income fund and charitable gift annuities liabilities | <u>17,343</u> | <u>21,525</u> |
| Total noncurrent liabilities | <u>662,045</u> | <u>21,525</u> |
| Total liabilities | <u>1,530,133</u> | <u>1,374,638</u> |
| Commitments (Note 11) | | |
| Net assets: | | |
| Without donor restrictions | 2,428,888 | 5,730,074 |
| With donor restrictions | <u>9,284,515</u> | <u>9,821,603</u> |
| Total net assets | <u>11,713,403</u> | <u>15,551,677</u> |
| Total liabilities and net assets | <u>\$ 13,243,536</u> | <u>\$ 16,926,315</u> |

San Diego Opera Association

STATEMENT OF ACTIVITIES

June 30, 2023

(With Summarized Financial Information for June 30, 2022)

| | Without Donor Restrictions | With Donor Restrictions | Total | 2022 (Note 19) |
|--|-------------------------------|----------------------------|----------------------|----------------------|
| <u>Operating Activities</u> | | | | |
| Support and revenues | | | | |
| Contributions | \$ 3,085,908 | \$ 135,401 | \$ 3,221,309 | \$ 6,831,215 |
| Main stage ticket revenue | 2,106,412 | - | 2,106,412 | 1,142,162 |
| Scenic studio revenue | 1,132,738 | - | 1,132,738 | 725,021 |
| Special events | 800,007 | - | 800,007 | 429,659 |
| Grants | 770,636 | - | 770,636 | 1,101,323 |
| Co-Production and Events ticket revenue | 556,819 | - | 556,819 | 280,727 |
| Other income | 40,984 | - | 40,984 | 63,308 |
| Net assets released from restrictions for operations | 733,647 | (733,647) | - | - |
| Total revenue and support | <u>9,227,151</u> | <u>(598,246)</u> | <u>8,628,905</u> | <u>10,573,415</u> |
| Expenses | | | | |
| Program services | | | | |
| Productions | 10,284,664 | - | 10,284,664 | 6,834,116 |
| Educational program | 312,605 | - | 312,605 | 236,884 |
| Total program services | <u>10,597,269</u> | <u>-</u> | <u>10,597,269</u> | <u>7,071,000</u> |
| Supporting services | | | | |
| Management and general | 975,381 | - | 975,381 | 946,782 |
| Fundraising | 757,755 | - | 757,755 | 606,037 |
| Total supporting services | <u>1,733,136</u> | <u>-</u> | <u>1,733,136</u> | <u>1,552,819</u> |
| Cost of direct benefits to donors (Note 2) | <u>215,827</u> | <u>-</u> | <u>215,827</u> | <u>150,705</u> |
| Total expenses | <u>12,546,232</u> | <u>-</u> | <u>12,546,232</u> | <u>8,774,524</u> |
| Change in net assets from operating activities | <u>(3,319,081)</u> | <u>(598,246)</u> | <u>(3,917,327)</u> | <u>1,798,891</u> |
| <u>Non-operating Activities</u> | | | | |
| Investment income gain (loss) | 17,895 | 61,158 | 79,053 | (752,896) |
| Total non-operating activities | <u>17,895</u> | <u>61,158</u> | <u>79,053</u> | <u>(752,896)</u> |
| Change in net assets | <u>(3,301,186)</u> | <u>(537,088)</u> | <u>(3,838,274)</u> | <u>1,045,995</u> |
| Net assets at beginning of year | 5,730,074 | 9,821,603 | 15,551,677 | 14,505,682 |
| Net assets at end of year | <u>\$ 2,428,888</u> | <u>\$ 9,284,515</u> | <u>\$ 11,713,403</u> | <u>\$ 15,551,677</u> |

SAN DIEGO OPERA ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023

(With Summarized Financial Information for the Year Ended June 30, 2022)

| | Program Services | | | Supporting Services | | 2023 Total | 2022 (Note 19) |
|-------------------------------------|----------------------|------------------------|------------------------------|---------------------------|-------------------|----------------------|---------------------|
| | Productions | Educational Program | Total Program Services | Management and General | Fundraising | | |
| Expenses | | | | | | | |
| Salaries and wages | \$ 3,814,479 | \$ 211,886 | \$ 4,026,365 | \$ 464,176 | \$ 568,233 | \$ 5,058,774 | \$ 3,893,307 |
| Payroll taxes and employee benefits | 777,117 | 37,456 | 814,573 | 98,153 | 94,139 | 1,006,865 | 485,086 |
| | <u>4,591,596</u> | <u>249,342</u> | <u>4,840,938</u> | <u>562,329</u> | <u>662,372</u> | <u>6,065,639</u> | <u>4,378,393</u> |
| Production costs | 3,625,784 | 15,568 | 3,641,352 | - | 5,040 | 3,646,392 | 2,285,505 |
| Occupancy | 613,137 | - | 613,137 | 161,580 | - | 774,717 | 428,965 |
| Advertising and marketing | 560,895 | 38,155 | 599,050 | - | 48,310 | 647,360 | 495,206 |
| Travel and parking | 349,919 | 6,029 | 355,948 | 935 | 8,922 | 365,805 | 217,580 |
| Outside services | 204,715 | 3,511 | 208,226 | 89,907 | 18,156 | 316,289 | 297,583 |
| Telephone and internet | 112,254 | - | 112,254 | - | - | 112,254 | 87,108 |
| Office expenses | 43,140 | - | 43,140 | 64,724 | 3,622 | 111,486 | 136,327 |
| Bank and other fees | 100,839 | - | 100,839 | 4,168 | - | 105,007 | 37,198 |
| Insurance | 58,714 | - | 58,714 | - | - | 58,714 | 119,354 |
| Membership and dues | 3,332 | - | 3,332 | 41,586 | - | 44,918 | 41,602 |
| Depreciation | - | - | - | 33,497 | - | 33,497 | 26,714 |
| Professional fees | 14,127 | - | 14,127 | 15,280 | - | 29,407 | 41,128 |
| Other expenses | 6,212 | - | 6,212 | 1,375 | 11,333 | 18,920 | 31,156 |
| Total expenses | <u>\$ 10,284,664</u> | <u>\$ 312,605</u> | <u>\$ 10,597,269</u> | <u>\$ 975,381</u> | <u>\$ 757,755</u> | <u>\$ 12,330,405</u> | <u>\$ 8,623,819</u> |

SAN DIEGO OPERA ASSOCIATION

STATEMENT OF CASH FLOWS

Year Ended June 30, 2023

(With Summarized Financial Information for the Year Ended June 30, 2022)

| | 2023 | 2022 (Note 19) |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (3,838,274) | \$ 1,045,995 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 33,497 | 26,714 |
| Contributions restricted for endowment | (19,022) | - |
| Change in investments: | | |
| Pooled income fund | 27,621 | 23,321 |
| San Diego Opera Endowment Trust | (143,838) | 740,422 |
| Funds held at San Diego Foundation | (57,609) | 209,753 |
| Beneficial interest in perpetual trust | 587,414 | (197,543) |
| Change in operating assets and liabilities: | | |
| Receivables | (14,598) | 91,048 |
| Contributions receivable | 183,249 | 200,833 |
| Prepaid production and other assets | 153,928 | (270,085) |
| Accounts payable and accrued expenses | (18,294) | 18,090 |
| Deferred revenue | (691,563) | 188,224 |
| Refundable advance | - | (548,563) |
| Net cash provided by operating activities | <u>(3,797,489)</u> | <u>1,528,209</u> |
| Cash flows from investing activities | | |
| Purchase of property and equipment | <u>(78,326)</u> | <u>(39,249)</u> |
| Net cash used in investing activities | <u>(78,326)</u> | <u>(39,249)</u> |
| Cash flows from financing activities | | |
| Contributions restricted for endowments | <u>19,022</u> | <u>-</u> |
| Net cash provided by financing activities | <u>19,022</u> | <u>-</u> |
| Change in cash and cash equivalents | (3,856,793) | 1,488,960 |
| Cash and cash equivalents at beginning of year | 5,961,711 | 4,472,751 |
| Cash and cash equivalents at end of year | <u>\$ 2,104,918</u> | <u>\$ 5,961,711</u> |

SAN DIEGO OPERA ASSOCIATION

Notes to Financial Statements

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, 2023 and June 30, 2022, 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 \$204,754 at June 30, 2023.

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, 2023.

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, 2023.

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 ensures 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 \$33,497 for the year ended June 30, 2023.

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.

Leases – Under ASC 842, the San Diego Opera determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the balance sheet. ROU assets represent the right to control the use of an identified asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Operating lease expense is recognized on a straight-line basis over the lease term. The San Diego Opera does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Compensating Absences - Accumulated unpaid vacation totaling \$154,795 at June 30, 2023 is accrued when incurred, and included in accounts payable and accrued expenses.

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 program 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, 2023, there were \$215,827 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

Recently Adopted Accounting Standards – In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) that requires a lessee to recognize on the statement of financial position, a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, regardless of classification of a lease as an operating or finance lease. The San Diego Opera adopted ASU 2016-02 on July 1, 2022, using the modified retrospective approach for operating leases with a term greater than 12 months. The San Diego Opera also elected the package of practical expedients permitted under the new standard that allowed the San Diego Opera to carry forward historical lease classification for existing leases on the adoption date, and allowed the San Diego Opera not to assess whether an existing contract contains a lease or initial direct costs. As permitted by the guidance, prior comparative periods will not be adjusted under this method. There was no material impact on the 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 November 1, 2023, 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 | \$ 2,104,918 |
| Accounts receivable, net | 244,137 |
| Contributions receivable, net | 284,029 |
| Total financial assets available within one year | <u>2,633,084</u> |
| Less amounts unavailable for general expenditures within one year, due to: | |
| Restricted by donors with purpose restrictions | <u>221,000</u> |
| Total amounts unavailable for general expenditures within one year | <u>221,000</u> |
| Total financial assets available to management for general expenditure within one year | <u>\$ 2,412,084</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.

SAN DIEGO OPERA ASSOCIATION

Notes to Financial Statements

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.

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, 2023, 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, 2023, 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, 2023, Using: | | | |
|--|--|-------------|---------------------|---------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Pooled income fund | \$ 118,116 | \$ - | \$ 118,116 | \$ - |
| Charitable gift annuities | 12,261 | - | 12,261 | - |
| Funds held at San Diego Foundation | 2,611,680 | - | 2,611,680 | - |
| San Diego Opera Endowment Trust | 3,755,638 | - | 3,755,638 | - |
| Beneficial interest in perpetual trust | 2,586,425 | - | - | 2,586,425 |
| | <u>\$ 9,084,120</u> | <u>\$ -</u> | <u>\$ 6,497,695</u> | <u>\$ 2,586,425</u> |
| Liabilities | | | | |
| Pooled income fund liabilities | \$ 8,344 | \$ - | \$ 8,344 | \$ - |
| Charitable gift liabilities | 8,999 | - | 8,999 | - |
| | <u>\$ 17,343</u> | <u>\$ -</u> | <u>\$ 17,343</u> | <u>\$ -</u> |

SAN DIEGO OPERA ASSOCIATION

Notes to Financial Statements

The changes in assets measured at fair value for which the San Diego Opera used Level 3 inputs to determine fair value for the year ended June 30, 2023, are as follows:

| | |
|--------------------------|---------------------|
| Balance at July 1, 2022 | \$ 3,173,839 |
| Change in fair value | (445,323) |
| Distributions | <u>(142,091)</u> |
| Balance at June 30, 2023 | <u>\$ 2,586,425</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, 2023:

| | |
|--------------------------------------|-------------------|
| Ticket and Scenic Studio revenue | \$ 249,477 |
| Other receivables | <u>4,660</u> |
| | 254,137 |
| Less allowance for doubtful accounts | <u>(10,000)</u> |
| Total receivables | <u>\$ 244,137</u> |

Note 5. Contributions Receivable

Contributions receivable consist of the following at June 30, 2023:

| | |
|--------------------------------------|-------------------|
| Due in less than one year | |
| Pledges | \$ 306,529 |
| Less allowance for doubtful accounts | <u>(22,500)</u> |
| | <u>\$ 284,029</u> |

Note 6. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at June 30, 2023:

| | |
|--|-------------------|
| Production equipment | \$ 499,972 |
| Motor vehicles | 105,232 |
| Office equipment and computers | <u>127,170</u> |
| | 732,374 |
| Less accumulated depreciation | <u>(572,427)</u> |
| Total property, equipment, and leasehold improvements, net | <u>\$ 159,947</u> |

SAN DIEGO OPERA ASSOCIATION

Notes to Financial Statements

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 \$118,116 at June 30, 2023. The pooled income fund has been discounted to the present value of remainder interest, using a discount rate of 5.4% at June 30, 2023. The pooled income fund liability totaled \$8,344 at June 30, 2023.

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 \$12,261 at June 30, 2023. 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, 2023. The charitable gift annuities liability totaled \$8,999 at June 30, 2023.

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, 2023:

| | |
|----------------------------------|---------------------|
| Balance at July 1, 2022 | \$ 2,554,071 |
| Change in fair value | 192,051 |
| Distributions to San Diego Opera | (134,442) |
| Balance at June 30, 2023 | <u>\$ 2,611,680</u> |

For the funds held at the San Diego Opera, 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 \$432,809 at June 30, 2023, 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 \$19,549 for the year ending June 30, 2023 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, 2023:

| | |
|----------------------------------|---------------------|
| Balance at July 1, 2022 | \$ 3,611,800 |
| Change in fair value | 314,430 |
| Gifts | 19,022 |
| Distributions to San Diego Opera | (189,614) |
| Balance at June 30, 2023 | <u>\$ 3,755,638</u> |

SAN DIEGO OPERA ASSOCIATION

Notes to Financial Statements

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, 2023:

| | |
|--------------------------|---------------------|
| Balance at July 1, 2022 | \$ 3,173,839 |
| Change in fair value | (445,323) |
| Distributions | (142,091) |
| Balance at June 30, 2023 | <u>\$ 2,586,425</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 2024 performance season.

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

Note 12. Leases

San Diego Opera evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) assets represent San Diego Opera’s right to use underlying assets for the lease term, and the lease liabilities represent San Diego Opera’s obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. San Diego Opera has made an accounting policy election to use US treasury rate as of July 1, 2023, to discount future lease payments. The US treasury rate applied to calculate lease liabilities was 4.19%.

Right-of-use assets at June 30, 2023 was \$869,534.

Future minimum base lease payments required under the lease agreement for the years ended June 30 is as follows:

| | |
|--------------------------------|-------------------|
| <u>Years Ending June 30,</u> | |
| 2024 | \$ 224,832 |
| 2025 | 232,704 |
| 2026 | 240,840 |
| 2027 | <u>249,276</u> |
| | 947,652 |
| Less discount to present value | <u>(78,118)</u> |
| | <u>\$ 869,534</u> |

SAN DIEGO OPERA ASSOCIATION

Notes to Financial Statements

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, 2023 are available for the following purposes:

| | |
|--------------------|-------------------|
| Productions | \$ 221,000 |
| Pooled income fund | <u>88,694</u> |
| | <u>\$ 309,694</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 | \$ 3,755,638 |
| Beneficial interest in perpetual trust | 2,586,425 |
| Endowments held at San Diego Foundation | 2,611,680 |
| Pooled income fund | <u>21,078</u> |
| | <u>\$ 8,974,821</u> |

Total net assets with donor restrictions at June 30, 2023 is \$9,284,515.

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, 2023:

| | |
|---------------------|-------------------|
| General expenses | \$ 466,147 |
| Production releases | <u>267,500</u> |
| | <u>\$ 733,647</u> |

Note 15. Endowment and Pooled Income Fund

San Diego Opera follows the standards codified in FASB ASC 958-205-65, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA). San Diego Opera endowment consists of donor-restricted endowment funds.

Interpretation of Relevant Law - 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

Endowment Investment Policies - 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 San Diego Opera must hold in perpetuity. San Diego Opera expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Funds with Deficiencies - 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, 2023, the San Diego Opera had no endowment funds with fair values below the original gift amount.

San Diego Opera maintains records of the sum of (a) the original value of gifts donated to its permanent endowment, (b) the original value of subsequent gifts to such permanent endowment, and (c) the value of accumulations to such permanent endowment funds made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Spending Policy and How the Investment Objectives Relate to Spending Policy - In developing and applying its spending policy, 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.

SAN DIEGO OPERA ASSOCIATION

Notes to Financial Statements

Donor-restricted endowment net asset composition as of June 30, 2023, is as follows:

| | |
|---|---------------------|
| Endowment net assets, beginning of year | \$ 3,611,800 |
| Investment return: | |
| Net appreciation (1) | <u>314,430</u> |
| Total investment return | 314,430 |
| Appropriation of assets for expenditure | (189,614) |
| Contributions | <u>19,022</u> |
| Endowment net assets, end of year | <u>\$ 3,755,638</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 4% of eligible compensation contributed by the employees. 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 \$72,404 for the year ended June 30, 2023.

Other Pension Plan – San Diego Opera also participates in three pension plans subject to collective bargaining agreements. Amounts contributed to these plans totaled \$183,355 for the year ended June 30, 2023.

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.

Note 19. June 30, 2022 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, 2022, from which the summarized information was derived.

Certain reclassifications have been made to the summarized 2022 financial information to conform to the classifications adopted for the 2023 financial statements. These reclassifications had no effect on the change in net assets.

Note 20. Financial Information Strategy

Performing Arts and Opera audiences have been deeply affected by the COVID pandemic. Audience members are returning to theaters but not as quickly as we would like. Ticket revenue for fiscal year 2023 was 24% of total revenue, pre-COVID ticket revenue was 34% of total revenue. We have elected to reduce the number of performances per production from four to two for the fiscal year 2024. We believe the reduction in performances will deliver an appropriate supply for the present demand while saving on production expenses.

In addition, we are deeply focused on our fundraising efforts by securing and maintaining relationships with major donors, engaging foundations and philanthropies in grant support and staging fundraising events.