SAN FRANCISCO OPERA ASSOCIATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JULY 31, 2012
(WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011)

ARMANINO McKENNA LLP

Certified Public Accountants & Consultants

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INDEPENDENT AUDITORS' REPORT

Board of Directors
San Francisco Opera Association
San Francisco, California

We have audited the statement of financial position of the San Francisco Opera Association (the "Association") as of July 31, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized financial information has been derived from the Association's 2011 financial statements, which we expressed an unqualified opinion on December 14, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of the Association as of July 31, 2012, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule on page 30 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Armanino McKenna LLP

ARMANINO McKENNA LLP

December 14, 2012

SAN FRANCISCO OPERA ASSOCIATION
Statement of Financial Position
July 31, 2012
(With Summarized Financial Information as of July 31, 2011)

ASSETS

	2012	2011
Current assets		
Cash and cash equivalents	$ 3,060,264	$ 9,053,742
Cash held for agencies in trust	272,167	287,110
Investments, current portion of endowment	6,804,341	5,437,024
Receivables		
Contributions, net	10,498,385	18,554,660
Grants	123,625	266,221
Other, net	774,001	339,202
Deferred production and promotion costs	3,774,342	4,117,951
Prepaid expenses and other	308,910	265,833
Total current assets	25,616,035	38,321,743
Net contributions receivable, long-term	27,210,228	21,055,606
Deferred production and promotion costs, long-term	1,027,415	594,866
Property and equipment, net	11,617,620	12,334,522
Long-term investments, less current portion	132,690,248	133,475,409
Assets held in charitable remainder trusts	2,531,225	4,505,639
Assets of pooled income funds	788,531	766,959
Other assets	65,100	65,100
Total assets	$ 201,546,402	$ 211,119,844

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued liabilities	$ 4,973,020	6,193,621
Advance ticket sales	12,759,803	15,239,570
Refundable advances	-	1,000,000
Deferred revenue	165,000	165,000
Capital lease obligations, short-term	58,247	56,244
Deferred compensation and other, short-term	508,840	357,732
Total current liabilities	18,464,910	23,012,167
Long-term liabilities		
Deferred revenue from pooled income funds	54,991	104,999
Indiana street property deposit	500,100	-
Capital lease obligations, long-term	23,939	82,185
Deferred compensation and other, long-term	3,902,537	3,393,193
Total long-term liabilities	4,481,567	3,580,377
Total liabilities	22,946,477	26,592,544
Net assets		
Unrestricted	(4,061,426)	(3,698,667)
Temporarily restricted	41,925,367	47,362,667
Permanently restricted	140,735,984	140,863,300
Total net assets	178,599,925	184,527,300
Total liabilities and net assets	$ 201,546,402	$ 211,119,844

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

SAN FRANCISCO OPERA ASSOCIATION
Statement of Activities
For the Year Ended July 31, 2012
(With Summarized Financial Information for the Year Ended July 31, 2011)

	2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011
Operating revenues, gains (losses) and support					
Ticket sales	$ 24,302,997	$ -	$ -	$ 24,302,997	$ 24,633,817
San Francisco Opera Center fees	1,271,931	-	-	1,271,931	1,222,240
Long-term investment return transfer	127,929	5,842,345	-	5,970,274	8,276,936
Investment gains (losses) on donated securities	(44,553)	-	-	(44,553)	57,373
Scenery, costume rentals, and other income	1,455,038	-	-	1,455,038	1,757,031
Subtotal	27,113,342	5,842,345	-	32,955,687	35,947,397
Net assets released from restrictions	15,446,832	(15,446,832)	-	-	-
Total operating revenues, gains (losses) and support	42,560,174	(9,604,487)	-	32,955,687	35,947,397
Operating expenses					
Production and artistic	49,044,908	-	-	49,044,908	49,039,593
Media	3,151,006	-	-	3,151,006	3,450,399
San Francisco Opera Center	2,284,267	-	-	2,284,267	2,130,721
Marketing and box office	6,168,847	-	-	6,168,847	6,503,942
Administrative and general operations					
Administrative departments	3,722,009	-	-	3,722,009	4,283,739
Facilities and support costs	1,552,889	-	-	1,552,889	1,452,058
Total operating expenses	65,923,926	-	-	65,923,926	66,860,452
Operating revenues, gains and support under operating expenses	(23,363,752)	(9,604,487)	-	(32,968,239)	(30,913,055)
Contributed income					
Individuals	16,042,138	4,163,415	(376,823)	19,828,730	18,816,355
Corporation and foundations	8,032,790	4,897,000	1,000	12,930,790	9,882,752
Government grants	659,477	70,000	-	729,477	749,114
Bequests	-	35,528	27,636	63,164	2,181,843
Contributed property, services, and other contributions	1,171,358	-	-	1,171,358	1,294,123
Total contributed income	25,905,763	9,165,943	(348,187)	34,723,519	32,924,187
Less fund-raising expenses	(4,103,085)	-	-	(4,103,085)	(4,234,168)
Contributed income, net	21,802,678	9,165,943	(348,187)	30,620,434	28,690,019
Operating income (loss)	(1,561,074)	(438,544)	(348,187)	(2,347,805)	(2,223,036)
Non-operating income (loss)					
Investment income and gains (losses), net	(1,810,095)	430,938	118,293	(1,260,864)	17,199,030
Change in value of interests in split-interest agreements	-	515,229	-	515,229	250,402
Less long-term investment return transfer	(127,929)	(5,842,345)	-	(5,970,274)	(8,276,936)
Less investment (gains) losses on donated securities	44,553	-	-	44,553	(57,373)
Reclassification of net assets	-	(102,578)	102,578	-	-
Contributions designated for board endowment	2,000,000	-	-	2,000,000	-
Bequests designated for board endowment	1,473,116	-	-	1,473,116	749,513
Non-operating income (loss)	1,579,645	(4,998,756)	220,871	(3,198,240)	9,864,636
Additional minimum post retirement benefit expense	(381,330)	-	-	(381,330)	(114,209)
Change in net assets	(362,759)	(5,437,300)	(127,316)	(5,927,375)	7,527,391
Net assets, beginning of year	(3,698,667)	47,362,667	140,863,300	184,527,300	176,999,909
Net assets, end of year	$ (4,061,426)	$ 41,925,367	$ 140,735,984	$ 178,599,925	$ 184,527,300

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

SAN FRANCISCO OPERA ASSOCIATION
Statement of Cash Flows
For the Year Ended July 31, 2012
(With Summarized Financial Information for the Year Ended July 31, 2011)

	2012	2011
Cash flows from operating activities		
Change in net assets	$ (5,927,375)	$ 7,527,391
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	2,377,065	2,379,851
Bad debt expense	96,616	22,860
Provision for (amortization of) discount on contributions receivable	1,559,017	(1,198,545)
Change in value of split-interest agreements	(521,811)	(266,953)
Contributions restricted for long-term investment	(1,741,962)	(1,075,656)
Donated investment securities	(7,563,645)	(5,763,423)
Net realized and unrealized (gains) losses on investments	2,256,173	(16,727,453)
Investment income restricted for long-term purposes	(1,049,963)	(1,071,269)
Contributions restricted for purchase of property and equipment	(500,000)	(384,530)
Change in post retirement benefit liabilities	381,330	114,209
Changes in assets and liabilities:		
Contributions and grants receivable, net	393,325	1,377,332
Other receivable, net	(424,565)	81,061
Deferred production and promotion costs	(88,940)	1,319,751
Prepaid expenses and other	(43,077)	(7,254)
Accounts payable and accrued liabilities	(1,220,601)	92,904
Advance ticket sales	(2,479,767)	238,871
Deferred revenue	-	34,262
Refundable advances	(1,000,000)	1,000,000
Deferred compensation and other	229,114	(727,132)
Net cash used in operating activities	(15,269,066)	(13,033,723)
Cash flows from investing activities		
Purchase of property and equipment	(1,660,163)	(3,348,171)
Indiana street property deposit	500,100	-
Proceeds from sales of investments	74,838,278	41,150,252
Proceeds from charitable remainder trusts and pooled income funds	2,474,653	1,060,404
Purchase of investments	(70,112,962)	(22,432,845)
Net cash provided by investing activities	6,039,906	16,429,640
Cash flows from financing activities		
Proceeds from investment income restricted for long-term purposes	1,049,963	1,071,269
Proceeds from contributions restricted for long-term investment	1,741,962	1,075,656
Proceeds from contributions restricted for purchase of property and equipment	500,000	384,530
Payment on notes payable	-	(2,174,883)
Payment to beneficiaries of pooled income funds	-	(1,678)
Payments on capital leases	(56,243)	(57,061)
Net cash provided by financing activities	3,235,682	297,833
Net change in cash and cash equivalents	(5,993,478)	3,693,750
Cash and cash equivalents, beginning of year	9,053,742	5,359,992
Cash and cash equivalents, end of year	$ 3,060,264	$ 9,053,742
Additional cash flow information - interest paid	$ 44,592	$ 27,742

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

1. Organization and Significant Accounting Policies

Organization

The San Francisco Opera Association (the "Association") is a not-for-profit arts organization dedicated to perpetuating and enriching the operatic art form. The Association's operations include international grand opera, educational and community activities, and training for young artists through its San Francisco Opera Center programs. The Association's public support is generated by many sources including individual, corporate and foundation donations, contributed property and services, and government grants. Earned revenues are primarily generated from the Association's production performance season subscription and single ticket sales, the San Francisco Opera Center, and other sources such as scenery and costume rentals.

Approximately 80% of the Association's employees are covered by collective bargaining agreements. During the year ended July 31, 2012, two of the agreements were renegotiated and finalized.

Nature of activities

The following programs and supporting services are included in the accompanying financial statements:

Production and Artistic - Expenses directly related to the presentation of operatic performances including artists, music staff, orchestra, chorus, dancers, technical and production, including costume, wardrobe, wig and makeup, as well as artistic, music and technical and production administration.

Media - Expenses related to the Association's electronic media department and activities, which include OperaVision, LobbyVision, radio broadcasts, simulcasts, cinemacasts and DVDs.

San Francisco Opera Center - Expenses related to the training programs for young artists sponsored by the Association, including Adler and Merola programs.

Marketing and Box Office - Expenses related to marketing activities including advertising, publicity, and the promotion of the Association's activities through various media outlets. Also included are expenses related to the in-house box office and subscription departments.

Administrative and General Operations - Expenses related to finance, human resources, information systems, communications and public relations, general administration, and facilities.

Fund-Raising - Expenses related to fund-raising activities for annual and endowment giving.

1. Organization and Significant Accounting Policies (continued)

Basis of presentation

The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets in accordance with accounting principles generally accepted in the United States of America.

Unrestricted net assets - Unrestricted net assets are unrestricted resources available to support the Association's activities, and temporarily restricted resources that become available for use by the Association in accordance with the intentions of donors. The portion of the fair value of donor-restricted endowment funds that has fallen below the level that the donor or relevant law requires reduces unrestricted net assets. The Board of Directors may periodically designate certain funds to be held as reserves for a variety of purposes. The Board of Directors has chosen to place limitations on certain unrestricted net assets. Beginning August 1, 2008, the Board of Directors chose to board-designate unrestricted bequests for the endowment.

Temporarily restricted net assets - Temporarily restricted net assets are contributions, investment income, or gains that are limited in use by the Association in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Association according to the terms of the contribution. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. Generally, if a restriction is fulfilled in the same fiscal year in which the contribution, investment income, or gain is earned, the Association classifies the income as unrestricted. In accordance with standards governing endowment accounting, earnings on permanently restricted net assets are considered temporarily restricted until appropriated for expenditure, unless otherwise specified by the donor.

Permanently restricted net assets - Permanently restricted net assets are contributions to be held as investments in perpetuity as directed by the donor. The income from these investments is primarily available to support activities of the Association as designated by the donor after the income has been appropriated and spent. Donors may also restrict all or part of the income and/or appreciation from these investments to permanently restricted net assets, resulting in increases and/or decreases to these net assets.

Cash and cash equivalents

The Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, with the exception of endowment cash. Additionally, certain grantors of the Association require that their grant funds be maintained in a separate bank account.

1. Organization and Significant Accounting Policies (continued)

Cash held for agencies in trust

Cash collected on behalf of and due to other agencies was $272,167 as of July 31, 2012 which is included in the statement of financial position under deferred compensation and other, short-term liabilities.

Contributions and grants receivable

Contributions and grants receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected in excess of one year are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free rates applicable to the number of years the contribution is expected to remain outstanding (the discount rates used at July 31, 2012 are between 0.1% and 4.93%). An additional discount is added to the present value of contributions, which represents an additional factor in the fair value measurements. The discounts vary between 0% and 5% and are based on management's estimates. Amortization of the discount is included in contributed income. Conditional promises to give are not recorded as revenue until the conditions are substantially met. As of July 31, 2012, there were no conditional promises to give outstanding.

Other receivables

Other accounts receivable are recorded at the value of the revenue earned and require payment within thirty days. Account balances with charges over thirty days old are considered delinquent and management begins collection efforts at that time. Delinquent accounts do not accrue interest. Other receivables, net, consists of an allowance for doubtful accounts of $16,107 at July 31, 2012.

Allowance for doubtful accounts and uncollectible contributions

The Association continually monitors donors' and customers' credit worthiness and recognizes allowances for estimated bad debts on donor and customer accounts that are no longer estimated to be collectible. The Association adjusts any allowance for subsequent collections upon final determination that an account or contribution receivable is no longer collectible.

Property and equipment

Property and equipment are recorded at cost. Equipment, furniture, leasehold improvements, and capital improvements are depreciated using the straight-line method based on estimated useful lives, which range from 3 to 15 years. Leasehold improvements are depreciated over the lesser of the useful life or term of the lease. Depreciation begins in the year the asset is placed in service, using the mid-year convention for equipment and furniture and the mid-month convention for leasehold improvements. Maintenance and repairs are charged to expense as incurred.

1. Organization and Significant Accounting Policies (continued)

Long-lived assets

The carrying amount of all property and equipment is evaluated at least annually to determine if adjustments to the carrying amount or the useful lives are warranted. No such adjustments were recorded for the year ended July 31, 2012.

Investments

Investments include cash, debt and equity securities, and alternative investments. Cash designated for the endowment is invested in short-term money market accounts. Debt and equity securities with readily determinable fair values are carried at estimated fair value, based on quoted market prices. The Association invests in limited partnerships that may not have readily determinable fair values. Accordingly, these values are based on guidelines established by the general partners of the limited partnerships. In addition to relying on the partnerships' financial reports, the Association uses alternate methods to confirm values and supplement the valuation process such as reviewing partnerships' audited financial statements, comparing investment manager statements with reports received from the Association's investment consultant, reviewing the investment manager valuation policies on a regular basis to ensure they are reasonable and consistent with industry practices, monitoring news reported in the public domain in connection to any investment manager valuation or operational issues and scheduling conference calls and meetings with investment managers as needed. In addition, management reviews the service auditor's internal control reports for each investment manager. Management believes these methods provide a reasonable estimate of fair value. The financial statements include investments valued at $50,763,760 (28% of net assets) as of July 31, 2012 whose fair values have been estimated by management in the absence of readily determinable fair values. These values may differ significantly from values that would have been used had a readily available market existed for such investments and the differences could be material to the change in net assets of the Association.

Endowment investments with net realized and unrealized gains or losses are reflected as increases or decreases in temporarily restricted net assets until spent and appropriated unless their use is permanently restricted by the donor. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses are calculated on an adjusted cost basis. Adjusted cost is the estimated fair value of the security at the beginning of the year, or the cost if purchased during the year. Dividend and interest income are accrued when earned.

1. Organization and Significant Accounting Policies (continued)

Assets held in charitable remainder trusts

Assets held in charitable remainder trusts are recorded at estimated fair value. Charitable remainder trusts which name the Association as trustee are executed with a corresponding liability to beneficiaries of trust agreements. Such liability is calculated as the present value of the estimated future cash flows to be distributed to the income beneficiaries over their expected lives. The Association was not named the trustee of any charitable remainder trusts during the year ended July 31, 2012.

Pooled income funds

Assets of pooled income funds are stated at fair value. The remainder interest in the assets received is recognized as temporarily restricted contributions in the period in which the assets are received from the donor and is measured at the fair value of the assets received, discounted for the estimated time period until the donor's death using the Uninsured Pensioner Mortality Table (UP-1994 Table) and an average discount rate of 1.2%. The difference between the fair value of the assets received and the revenue recognized is recorded as deferred revenue from pooled income funds.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Association uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Association. Unobservable inputs are inputs that reflect the Association's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 - quoted prices in active markets for identical investments.

Level 2 - significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).

Level 3 - significant unobservable inputs (including the Association's own assumptions in determining fair value investments).

1. Organization and Significant Accounting Policies (continued)

Fair value measurements (continued)

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Management has adopted, as a practical expedient, to measure the fair value of investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of investment company or have the attributes of an investment company, on the basis of the net asset value ("NAV") per share of the investment (or its equivalent) if the NAV of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of accounting for investment companies as of the reporting entity's measurement date. The standard also requires disclosures by major category of investment about the attributes of investments. Management has elected to adopt the practical expedient for all of its investments in commingled funds, real-estate funds, private equity funds, and hedge funds.

Operating revenues

Ticket sales are recorded as operating revenues on a specific performance basis. Advance ticket sales, representing the receipt of ticket sale payments for future opera performances, are initially deferred in the statement of financial position and are subsequently recognized as revenue when the related productions take place. Opera Center revenues are recognized on a specific performance basis and over the contract term with the Merola Opera Program (see Note 12). Scenery, costume rentals, and other income are recognized once evidence of an arrangement exists, delivery has occurred, the price is fixed and determinable, and collection is probable. Operating revenues also consist of interest on cash and cash equivalent balances and realized gains (losses) on donated stock, net of fees. The long-term investments return transfer represents the portion of earnings on long-term investments which have been approved by the Board of Directors for use in the Association's operations during the fiscal year (see Note 9).

Operating expenses

Costs of scenery, costumes and stage properties are recorded as expenses in the year the related production is first performed. Production costs relating to future opera performances are deferred until the production is presented.

Contributed income

Contributions are recognized as revenue when they are received or unconditionally promised. The Association records split-interest agreements, such as charitable remainder trusts and pooled income funds, initially as contributed income at the time the gift becomes known, is determined to be irrevocable, and the value of the contribution can be established. Other bequests are recognized as contribution income when funds are received.

1. Organization and Significant Accounting Policies (continued)

Contributed property and services

Contributed property is recorded at estimated fair value at the date of donation. In the absence of donor stipulations regarding how the in-kind contributions must be used, the Association has adopted a policy of implying a time restriction on contributions of such assets that expire over the assets' useful lives. As a result, all contributions of property and equipment, and of assets contributed to acquire property and equipment, are recorded as temporarily restricted support. The value of the asset is released from restrictions over the useful life of the asset.

The Association recognizes contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance nonfinancial assets or (b) would need to be purchased if not donated, require specialized skills, and (c) are provided by individuals possessing those skills.

During the year ended July 31, 2012, contributed property and services were $611,945 and consisted primarily of marketing and promotional costs or items.

Advertising

Advertising costs are charged to expense as incurred. Advertising expenses for the year ended July 31, 2012 were $1,166,437.

Income taxes

The Association is a not-for-profit organization pursuant to Internal Revenue Code Section 501(c)(3) and the California equivalent legislation and, accordingly, is exempt from federal and state income taxes on income related to its tax exempt purposes.

FASB guidance for accounting for uncertainties in income taxes prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. This standard also requires additional disclosure of the beginning and ending unrecognized tax benefits and details regarding the uncertainties that may cause the unrecognized benefits to increase or decrease within a twelve month period.

1. Organization and Significant Accounting Policies (continued)

Income taxes (continued)

The Association's policy for evaluating uncertain tax positions is a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained upon audit, including resolution of related appeals or litigations processes, if any. The second step is to measure the tax benefit or liability as the largest amount that is more than 50% likely to be realized or incurred upon settlement. Based on an analysis prepared by the Association, it was determined that the Association believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Functional expense allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Expenses, such as depreciation, applicable to more than one program or activity have been allocated among the programs and supporting services based on usage and management estimates.

Concentrations of credit risk

Financial instruments that potentially subject the Association to credit risk consist primarily of cash and cash equivalents, accounts receivable, unconditional promises to give, marketable securities, and investments. The Association maintains cash and cash equivalents with two major financial institutions. As of July 31, 2012, the Association's cash and cash equivalents were in excess of the federal depository insurance limit of $250,000.

The Association's credit risk is inherent principally in its investments. Adverse economic conditions either nationwide or internationally may result in a reduction of the investments' carrying amount. As of July 31, 2012, the Association held investments in excess of the Securities Investor Protection Corporation insurance limit of $500,000.

Cash equivalents, charitable remainder trusts, pooled income funds, marketable securities, and investments are exposed to various risks, such as interest rate, market and credit risks. In addition, certain charitable remainder trusts can be affected by the ultimate valuation of the trust as impacted by estate taxes. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statement of financial position.

1. Organization and Significant Accounting Policies (continued)

Fair value of financial instruments

The fair value of cash, accounts receivable, accounts payable and accrued expenses at July 31, 2012, approximates the carrying amount because of the relatively short-term maturities of these financial instruments.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative financial statements

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 organization's financial statements for the year ended July 31, 2011, from which the summarized information was derived.

2. Contributions and Grants Receivable

Contributions and grants receivable at July 31, 2012 are due as follows:

Less than one year	$10,730,545
One to five years	27,460,132
Thereafter	4,450,000
	42,640,677
Less discount on contributions receivable	(4,699,904)
Less allowance for uncollectible contributions	(108,535)
Contributions and grants receivable, net	$37,832,238

Five individual donors accounted for 74% of total gross contributions and grants receivable at July 31, 2012.

3. Deferred Production and Promotion Costs

Deferred production and promotion costs that have been capitalized as of July 31, 2012 relate to future opera performances in the following years:

2013	$3,774,342
2014	521,149
2015	163,180
2016	242,970
2017	100,116
Total	$4,801,757

4. Property and Equipment

Property and equipment at July 31, 2012 is comprised of the following:

Land	$ 2,114,665
Leasehold improvements	6,203,200
Capital improvements	1,847,948
Equipment and furniture	18,390,240
Construction in progress	899,171
Total	29,455,224
Less: accumulated depreciation and amortization	(17,837,604)
Property and equipment, net	$11,617,620

Depreciation and amortization expense for the year ended July 31, 2012 was $2,377,065.

The Association has entered into a conditional Agreement of Purchase and Sale of its real estate located at 800 Indiana Street in San Francisco. As part of the agreement, the Association has received a $500,100 deposit towards the conditional purchase.

5. Investments

Investments consist of investments in perpetuity as directed by the donor and funds designated for long-term investment by the Association's Board of Directors. Current investments represent the amounts to be transferred from the endowment in the next fiscal year, in accordance with the Association's spending policies. Investments at July 31, 2012 were comprised of the following:

5. Investments (continued)

Cash and cash equivalents	$ 9,971,196
Mutual Funds and ETFs	67,071,907
Equities	7,174,359
Bonds	4,513,367
Alternative investments	50,763,760
	139,494,589
Less current portion of endowment	(6,804,341)
Long-term investments	$132,690,248

The Alternative investment category comprises the following types of investments:

Commingled vehicles - equities	$22,133,754
Commingled vehicles - bonds	13,977,094
Commingled vehicles - real estate	5,804,878
Commingled vehicles - inflation hedge	919,876
Commingled vehicles - private equity	3,181,886
Commingled vehicles - hedge funds	4,746,272
Total	$50,763,760

Alternative investments include one real estate limited partnership which is valued using the cost approach, with a balance of $407,056 as of July 31, 2012.

The following summarizes the total investment return for the year ended July 31, 2012:

Interest and dividend income	$ 1,583,716
Net realized and unrealized losses	(2,256,173)
Fees	(588,407)
Total return on investments, net	$(1,260,864)

Investments in general are exposed to various risks, such as interest rate, credit and overall market volatility. To address the risk of investments, the Association maintains a formal investment policy that sets out performance criteria, investment guidelines, asset allocation guidelines, and requires review of the investment manager's performance. Investments are managed by multiple investment managers who have responsibility for investing the funds in various asset classes. An investment advisor is utilized, and the investment process is actively overseen by an Investment Committee. All members of the Investment Committee are members of the Board.

6. Line, Letters of Credit and Notes Payable

During the year ended July 31, 2012, the Association renewed its unsecured Line of Credit Agreement at a reduced borrowing capacity of $15,000,000 (it was previously $19,000,000). The Agreement bears interest at LIBOR plus 2.4% (the LIBOR rate was 0.25% as of July 31, 2012), and expires on July 31, 2013. Interest expense incurred under the Agreement for the year ended July 31, 2012 was $44,592. The agreement contains liquidity and zero balance covenants, both of which were met during the year.

A letter of credit in the amount of $460,000 was outstanding in connection with the Association's workers' compensation commitments as of July 31, 2012. Such letters of credit reduce the available funds under the line of credit and are not reflected in the statement of financial position.

The Association has agreed to guarantee certain instrument loans for its orchestra employees. The total amount of instrument loans guaranteed as of July 31, 2012 was $156,698.

7. Deferred Compensation and Other

The deferred compensation and other balance at July 31, 2012 comprised the following:

Accrued retirement compensation	$1,475,640
Post-retirement benefit plan (see Note 14)	2,349,581
Other	586,156
Total	$4,411,377

8. Net Assets

Temporarily restricted net assets as of July 31, 2012 and net assets released from restriction for the year ended July 31, 2012 are as follows:

	Temporarily Restricted Net Assets	Net Assets Released from Restriction
Unrestricted unappropriated endowment earnings	$10,377,148	$ 4,494,237
Contributions for future seasons	13,014,351	2,590,245
Media suite	1,216,779	395,436
Charitable remainder trusts	2,407,599	1,985,316
Charitable gift annuities	35,528	-
Future productions	1,499,634	3,255,653
New productions	-	188,206
Opening weekend	2,464,576	635,432
Pooled income funds	697,666	-
Adler program	1,040,235	390,917
Tickets for the underprivileged	668,417	128,858
Opera center	159,322	512,760
Principal artists	735,297	139,176
Student subscriptions	68,327	86,332
Education	375,000	113,713
WMOH maintenance	140,949	104,370
Stage automation	2,412,810	351,125
Other equipment and furniture	288,788	42,931
Simulcast	335,000	-
Orpheus	140,000	-
Camerata Fund	2,625,000	-
Wilsey Center for Opera	1,000,000	-
Other program restrictions	222,941	32,125
Total temporarily restricted net assets	$41,925,367	
Total net assets released from restriction		$15,446,832

9. Endowment

The Association is subject to the State of California's enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA has been accounted for appropriately in these financial statements. Additionally, accounting standards require disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA. These disclosures have been included for the year ending July 31, 2012.

The Board of the Association has interpreted California's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, and (3) additions to the permanent endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by the enacted version of UPMIFA.

To achieve preservation of value, the Association has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Accordingly, the Association expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending policy

In accordance with the State of California's enacted version of UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Association and the endowment funds
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Association
(7) The investment policies of the Association

9. Endowment (continued)

Spending policy (continued)

The Association's Board of Directors has established an investment return transfer policy whereby a 5% transfer is calculated by averaging the long-term investment balance of the prior 13 quarter-ends through the calendar year-end immediately preceding the fiscal year in which the transfer occurs. In establishing this policy, the Association considered the long-term expected return on its endowment.

During the year ended July 31, 2012, the Board authorized an additional transfer of $333,250 to offset endowment related expenses primarily for management and investment activities. The Association considered the UPMIFA 7% prudency test in calculating the total long-term investment transfer.

Investment policy, strategies, and objectives

The Association has adopted investment and spending policies for endowment assets that attempts to maximize total return consistent with an acceptable level of risk, and to provide a predictable stream of funding to programs supported by its endowment. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of an appropriately weighted benchmark while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield. The Association targets a diversified asset allocation that provides exposures to a wide range of asset classes to achieve its long-term objectives within prudent risk constraints.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $4,988,351 as of July 31, 2012. These deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board.

Permanently restricted net assets are restricted to endowment investments and contributions. However, the earnings on these investments can be spent either on general operations, specific programs, or must be added to endowment principal, depending on donor restrictions.

9. Endowment (continued)

As of July 31, 2012, the endowment investments were restricted by donors to provide earnings as follows:

Restricted for operations	$ 98,620,414
Restricted for opera house maintenance	2,000,000
Restricted for tickets for the underprivileged	2,000,000
Restricted for new productions	16,059,036
Restricted for San Francisco Opera Center	14,500,386
Restricted for student subscriptions	3,333,152
Restricted for principal artists	2,099,240
Restricted for education	1,499,464
Restricted for other program restrictions	500,320
Total permanently restricted net assets	140,612,012
Endowment planned giving	123,972
Total permanently restricted net assets	$140,735,984

The Association's endowment consists of approximately nine individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of fund as of July 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	$(4,988,351)	$12,820,608	$140,735,984	$148,568,241
Board-designated endowment funds	5,736,930	-	-	5,736,930
Total funds	$ 748,579	$12,820,608	$140,735,984	$154,305,171

9. Endowment (continued)

The following represents the changes in endowment net assets for the year ended July 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$(1,338,470)	$17,701,721	$140,863,300	$157,226,551
Contributions	5,473,116	-	(348,187)	5,124,929
Reclassification of endowment funds	-	-	102,579	102,579
Investment return:				
Investment income	26,387	1,049,963	-	1,076,350
Net appreciation (depreciation)	(2,259,610)	(88,731)	118,292	(2,230,049)
Total investment return	(2,233,223)	961,232	118,292	(1,153,699)
Indiana street deposit designated	500,100	-	-	500,100
Transfers to create board-designated endowment	474,985	-	-	474,985
Amounts appropriated for expenditure	(127,929)	(5,842,345)	-	(5,970,274)
Transfer to operations	(2,000,000)	-	-	(2,000,000)
Endowment net assets, end of year	$ 748,579	$12,820,608	$140,735,984	$154,305,171

10. Government Grants

The Association recorded the following government grants during the year ended July 31, 2012:

Unrestricted	
City and County of San Francisco	$657,667
Other	1,810
Total	659,477
Temporarily restricted	
National Endowment For the Arts	70,000
Total government grants	$729,477

11. Commitments and Contingencies

The Association leases facilities under non-cancelable operating leases, subject to various escalation clauses expiring in fiscal year 2016. The leases are recorded on a straight-line basis. Minimum future rental payments on the leases as of July 31, 2012 are as follows:

Year Ending July 31,	
2013	$ 814,700
2014	812,083
2015	715,673
2016	136,675
Total	$2,479,131

Rent expense was $1,136,269 for the year ended July 31, 2012.

The Association enters into non-cancelable artistic and administrative agreements for future seasons. Payments required under these agreements as of July 31, 2012 are as follows:

Year Ending July 31,	
2013	$ 5,998,051
2014	4,437,259
2015	2,648,477
2016	1,536,064
2017	62,700
Total	$14,682,551

Occasionally, the Association is involved in legal actions arising from normal business activities. Management, upon advice of legal counsel handling such actions, believes that the ultimate resolution of any such actions will not have a material adverse effect on the Association's financial position or change in net assets. As of July 31, 2012, the Association had no outstanding legal matters that require a reserve.

12. Merola Opera Program

The San Francisco Opera Center manages certain programs for the Merola Opera Program, a separate entity that underwrites an eleven-week training program for young opera singers and apprentice coaches, for which the Association received $1,205,794 of compensation during the year ended July 31, 2012. This amount has been included as operating revenue in the accompanying statement of activities.

13. San Francisco Opera Guild

The Association receives support from the San Francisco Opera Guild (the "Guild"), a separate entity. Total support received from the Guild for the year ending July 31, 2012 was $559,413 which is recognized in contributed property, services, and other contributions in the accompanying statement of activities and changes in net assets. The purpose of the Guild is to develop and cultivate a wider public interest in opera and its allied arts, to further musical education and appreciation, and to support the Association through fund-raising events and volunteer activities. The Opera Ball, Annual Meeting, Holiday Cheers party and auction and An Evening of Enchantment Spring Gala were managed by the Guild during the year ended July 31, 2012. The Association administers the collection of contributions to the Guild.

14. Employee Retirement Benefits

Orchestra Retiree Health Benefit Plan

The Association sponsors a post-retirement benefit plan providing health benefits for certain orchestra retirees. The Association uses a July 31 measurement date for its post-retirement benefit plan obligation. The balance of the accrued benefit liabilities for the post-retirement benefit plan is a component of Deferred Compensation and Other. The benefit obligation, fair value and fund status for the post-retirement benefit plan as of July 31, 2012 are as follows:

Benefit obligation	$ 2,349,581
Fair value of plan assets	-
Unfunded status	$(2,349,581)
Benefit payments	$ (182,411)
Amounts recognized in the statements of financial position consist of	
Short-term compensation	$ -
Long-term compensation	(2,349,581)
Accumulated other comprehensive loss	-
Net amount recognized at year-end	$(2,349,581)
Other comprehensive loss attributable to change in additional minimum liability recognition	$ -

14. Employee Retirement Benefits (continued)

Orchestra Retiree Health Benefit Plan (continued)

Change in benefit obligation:

Benefit obligation at beginning of year	$(1,948,767)
Interest cost	(86,762)
Amortization of net loss	(115,133)
Benefit payments	182,411
Additional benefit liability	(381,330)
Benefit obligation end of year	$(2,349,581)

Amounts recognized in unrestricted net assets for the year ended July 31, 2012 consist of:

Net loss	$1,490,377
Prior service cost	$ 34,636

The following table provides components of the net periodic benefit cost for the plan for the year ended July 31, 2012

Service cost	$ -
Interest cost	86,762
Amortization of net loss	97,815
Expected return on plan assets	-
Amortization of prior service cost	17,318
Recognized actuarial loss	-
Net periodic benefit cost	$201,895

Assumptions

The following assumptions were used to determine the benefit obligations at July 31, 2012:

Discount rate	3.20%
Expected long-term return on plan assets	-
Rate of compensation increase	-

The following assumptions were used to determine the net periodic benefit cost for the year ending July 31, 2012:

Discount rate	4.56%
Expected long-term return on plan assets	-
Rate of compensation increase	-

14. Employee Retirement Benefits (continued)

Assumptions (continued)

For the plan, an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended July 31, 2012. The rate was assumed to decrease gradually each year by a rate of 0.5% until an ultimate rate of 5% is achieved, at which point the rate will remain at that level thereafter.

Estimated future benefit payments

The Association anticipates future benefit payments, which reflect future service, to be paid from the plan as follows:

Fiscal Year Ending	
2013	$ 205,000
2014	202,000
2015	179,000
2016	174,000
2017	168,000
2018 through 2022	730,000
	$1,658,000

Retirement Plans - 401(a) and 401(k)

The Association sponsors a 401(a) defined contribution plan for certain administrative employees. The plan is funded monthly with employer contributions only. The plan is age-graded, with contribution percentages ranging from 5-7% of the employee's base compensation. The grades are 5% for employees under 40 years of age; 6% for employees aged 40-54 years; and 7% for employees 55 years of age and older.

The Association administers a 401(k) defined contribution plan and all employees are eligible to participate in the plan. The Association does not make contributions to the 401(k) plan.

Retirement Plan - Multi Employer

The Association has contracted to make payments to multiemployer retirement plans for employees covered by various collective bargaining agreements. Contributions to such plans range from 3% to 12% of the employee's compensation and were $2,355,975 for the year ended July 31, 2012.

15. Related Party Transactions

During 2012, contributions from Board Members totaled $11,032,658. Undiscounted contributions receivable from such related parties was $663,631 at July 31, 2012. Occasionally, the Association will also receive in-kind contributions from Board Members.

16. Fair Value Measurements

The following table summarizes the valuation of the Association's assets and liabilities which are measured on a recurring basis at July 31, 2012:

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Cash in mutual funds	$ 9,971,196	$ -	$ -	$ 9,971,196
Mutual funds and ETFs	67,071,907	-	-	67,071,907
Bonds	-	4,513,367	-	4,513,367
Equities	7,174,359	-	-	7,174,359
Alternative investments	-	40,852,685	9,504,019	50,356,704
Total investments	84,217,462	45,366,052	9,504,019	139,087,533
Charitable remainder trusts	-	-	2,531,225	2,531,225
Pooled income funds	-	-	788,531	788,531
Total	$84,217,462	$45,366,052	$12,823,775	$142,407,289*

*Investment balance excludes one real estate limited partnership which is valued at cost (not fair value) with a balance of $407,056.

The categorization within the fair value hierarchy of investments in certain entities that calculate net asset values per share is based primarily on the liquidity and redemption policies of the fund. As a result, many of the alternative investments are categorized as Level 2 as of July 31, 2012, based on a liquidity of less than one year.

16. Fair Value Measurements (continued)

The table below summarizes changes in investments measured at fair value for which the Association has used Level 3 inputs to determine fair value. The table reflects gains and losses for the full year for all financial assets and liabilities classified as Level 3.

	Alternative Investments	Charitable Remainder Trusts and Pooled Income Funds	Total
Balance, beginning of year	$7,546,308	$5,272,598	$12,818,906
Purchases	3,133,916	56,922	3,190,838
Fees	(152,877)	-	(152,877)
Realized and unrealized losses, net	(1,023,328)	(2,009,764)	(3,033,092)
Balance, end of year	$9,504,019	$3,319,756	$12,823,775
Net change in unrealized gains (losses) relating to instruments still held at July 31, 2012	$2,069,677	$ (24,448)	$ 2,045,229

16. Fair Value Measurements (continued)

Fair values measured on recurring basis

The Association uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies (in partnership format) by major category as of July 31, 2012:

	Strategy	NAV in Funds	Number of Funds	Remaining Life	Unfunded Commitments	Timing to Drawdown Commitments	Redemption Notice Period	Redemption Restrictions
Assets:								
Commingled Funds - Domestic Equities	Commingled funds that primarily invest in long-only equities	16,776,019	2	NA	NA	NA	Ranges between monthly with 30 days notice to quarterly with 30 days notice.	
Commingled Funds - International Equities	Commingled funds that primarily invest in long-only equities	3,208,798	1	NA	NA	NA	Monthly with 5 days notice	10% of redemption balance outstanding for 1 fund
Commingled Funds - Emerging Markets Equities	Commingled funds that primarily invest in long-only equities	2,148,937	1	NA	NA	NA	Monthly with 30 days notice	
Commingled Funds - Domestic Fixed Income	Commingled funds that primarily invest in fixed income and other debt instruments	4,661,931	1	NA	NA	NA	Ranges between monthly with 10 to 30 days notice.	
Commingled Funds - International Fixed Income	Commingled funds that primarily invest in fixed income and other debt instruments	9,315,163	1	NA	NA	NA	Ranges between daily with 14 days notice to monthly with 5 days notice.	
Real Estate	Partnerships that invest in real estate.	5,397,822	3	1 to 7 years	1,100,308	1 to 2 years	NA	NA
Inflation Hedge	Fund of funds that invest in natural resource partnerships	919,876	1	8 years	1,080,000	4 to 5 years	NA	NA
Private Equity	Venture capital and buyout funds and fund of funds	3,181,886	4	1 to 7 years	1,677,500	1 to 3 years	NA	NA
Hedge Funds	Diversified arbitrage (including merger arbitrage, capital structure arbitrage and event driven strategies) and long/short equity strategies	4,746,272	3	NA	NA	NA	Ranges between quarterly with 45 days notice to annually with 60 days notice.	All three funds are in liquidation and should be substantially redeemed by July 31, 2013.
Total investments		$ 50,356,704			$ 3,857,808			

Investment balances exclude one real estate limited partnership which is valued at cost with a balance of $407,056

17. Liquidity

The Association has obtained releases of certain permanently restricted net assets in previous years and continues to monitor operating and investment results. In addition, the Board voted to release $2,000,000 of board-designated endowment funds to cover operating expenses. The resulting increase in liquidity and monitoring of permanent endowment funds whose values are less than the original gift provides management with the ability to utilize such funds for operations in the coming years.

18. Subsequent Events

The Association evaluated subsequent events for recognition and disclosure through December 14, 2012, the date on which these financial statements were available to be issued.

SUPPLEMENTAL SCHEDULE

SAN FRANCISCO OPERA ASSOCIATION
Supplemental Schedule of Production and Artistic Expenses
For the Year Ended July 31, 2012

Production and artistic expenses:	
Singers, conductors, directors, and designers	$ 7,248,252
Orchestra	10,724,254
Chorus and dancers	6,853,767
Scenery, properties, stagehands, and production staff	13,321,378
Costumes, wardrobe, wigs, and makeup	4,072,365
Production and artistic administration	6,824,892
	$ 49,044,908