

San Francisco Opera Association

Financial Statements
and Supplementary Information

For the Year Ended July 31, 2024
(With Summarized Comparative Financial
Information for 2023)



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Francisco Opera Association
San Francisco, California

Opinion

We have audited the accompanying financial statements of San Francisco Opera Association (the "Association"), which comprise the statement of financial position as of July 31, 2024, 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 San Francisco Opera Association as of July 31, 2024, 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 audit in accordance with auditing standards generally accepted in the United States of America. 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 San Francisco Opera Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 1 to the financial statements, San Francisco Opera Association adopted FASB topic 326, *Financial Instruments - Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 San Francisco Opera Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 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, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment 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 San Francisco Opera Association'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about San Francisco Opera Association's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information on page 38 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.

Report on Summarized Comparative Information

We have previously audited San Francisco Opera Association's 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Ramon, California

December 12, 2024

SAN FRANCISCO OPERA ASSOCIATION
Statement of Financial Position
July 31, 2024
(With Summarized Comparative Financial Information as of July 31, 2023)

	<u>ASSETS</u>	
	<u>2024</u>	<u>2023</u>
Current assets		
Cash and cash equivalents	\$ 820,250	\$ 7,691,067
Cash held for agencies in trust	76,011	89,973
Investments, current portion of endowment	29,964,230	16,260,243
Receivables		
Contributions, net, current portion	11,880,778	5,213,273
Grants	172,989	2,525,981
Other	878,649	1,334,354
Deferred production and promotion costs, current portion	4,505,829	5,388,039
Prepaid expenses and other	99,348	198,055
Total current assets	<u>48,398,084</u>	<u>38,700,985</u>
Contributions receivable, net, long-term	3,333,591	1,490,827
Deferred production and promotion costs, long-term	273,687	99,042
Property and equipment, net	18,269,174	19,290,107
Operating lease right of use asset, net	10,366,523	10,942,306
Contributions receivable held for endowment, net	3,802,343	3,664,064
Long-term investments, less current portion of endowment	273,648,531	268,967,500
Assets held in charitable remainder trusts and charitable gift annuities	3,579,817	3,087,838
Assets of pooled income funds	621,443	673,905
Total assets	<u>\$ 362,293,193</u>	<u>\$ 346,916,574</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Current liabilities		
Accounts payable, accrued, and other liabilities	\$ 5,763,580	\$ 6,030,247
Advance ticket sales	8,362,172	9,363,391
Operating lease liability, short-term	1,106,073	1,036,556
Deferred compensation and other, short-term	481,691	468,670
Total current liabilities	<u>15,713,516</u>	<u>16,898,864</u>
Long-term liabilities		
Deferred revenue from pooled income funds	274,499	264,387
Operating lease liability, long-term	9,336,975	9,981,342
Deferred compensation and other, long-term	7,726,961	7,343,369
Total long-term liabilities	<u>17,338,435</u>	<u>17,589,098</u>
Total liabilities	<u>33,051,951</u>	<u>34,487,962</u>
Net assets		
Without donor restrictions	61,956,432	26,340,044
With donor restrictions	267,284,810	286,088,568
Total net assets	<u>329,241,242</u>	<u>312,428,612</u>
Total liabilities and net assets	<u>\$ 362,293,193</u>	<u>\$ 346,916,574</u>

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

SAN FRANCISCO OPERA ASSOCIATION
Statement of Activities
For the Year Ended July 31, 2024
(With Summarized Comparative Financial Information for the Year Ended July 31, 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating revenues, gains and support				
Ticket sales	\$ 15,412,437	\$ -	\$ 15,412,437	\$ 16,251,396
San Francisco Opera Center fees	1,927,595	-	1,927,595	1,715,567
Long-term investment return transfer	1,537,741	15,381,357	16,919,098	18,822,138
Investment gains on donated securities	291,667	-	291,667	308,795
Scenery, costume rentals, and other income	1,720,483	-	1,720,483	2,443,706
Net assets released from restrictions	<u>27,945,759</u>	<u>(27,945,759)</u>	<u>-</u>	<u>-</u>
Total operating revenues, gains and support	<u>48,835,682</u>	<u>(12,564,402)</u>	<u>36,271,280</u>	<u>39,541,602</u>
Operating expenses				
Production, music and artistic	67,548,515	-	67,548,515	71,979,378
San Francisco Opera Center	3,561,528	-	3,561,528	3,301,804
Marketing and box office	7,895,244	-	7,895,244	8,682,029
Administrative and general operations				
Administrative departments	5,515,077	-	5,515,077	5,181,332
Facilities and support costs	<u>2,992,871</u>	<u>-</u>	<u>2,992,871</u>	<u>3,801,724</u>
Total operating expenses	<u>87,513,235</u>	<u>-</u>	<u>87,513,235</u>	<u>92,946,267</u>
Operating revenues, gains and support less operating expenses	<u>(38,677,553)</u>	<u>(12,564,402)</u>	<u>(51,241,955)</u>	<u>(53,404,665)</u>
Contributed income				
Individuals	14,128,741	9,023,627	23,152,368	23,254,218
Corporation and foundations	21,948,525	579,832	22,528,357	22,424,336
Government grants	528,456	65,000	593,456	2,879,331
Bequests	6,752,189	3,154,462	9,906,651	5,400,429
Contributed property, services, and other contributions	<u>322,004</u>	<u>25,650</u>	<u>347,654</u>	<u>711,764</u>
Total contributed income	43,679,915	12,848,571	56,528,486	54,670,078
Less: fund-raising expenses	<u>(6,290,138)</u>	<u>-</u>	<u>(6,290,138)</u>	<u>(7,420,189)</u>
Contributed income, net	<u>37,389,777</u>	<u>12,848,571</u>	<u>50,238,348</u>	<u>47,249,889</u>
Operating income (loss) before ASU 2016-14 depreciation adjustment	<u>(1,287,776)</u>	<u>284,169</u>	<u>(1,003,607)</u>	<u>(6,154,776)</u>
Depreciation relating to ASU 2016-14	<u>1,145,841</u>	<u>-</u>	<u>1,145,841</u>	<u>1,197,955</u>
Operating income (loss)	<u>(141,935)</u>	<u>284,169</u>	<u>142,234</u>	<u>(4,956,821)</u>
Non-operating income				
Investment income and gains, net	6,524,775	28,475,512	35,000,287	22,980,377
Change in value of interests in split-interest agreements	9,635	347,827	357,462	(113,923)
Split-interest agreements released from restriction	50,389	(50,389)	-	-
Less: long-term investment return transfer	(1,537,741)	(15,381,357)	(16,919,098)	(18,822,138)
Less: investment gains on donated securities	(291,667)	-	(291,667)	(308,795)
Less: depreciation relating to ASU 2016-14	(1,145,841)	-	(1,145,841)	(1,197,955)
Contributions designated for board endowment	25,000	-	25,000	110,000
Prior years' retirement expense	70,630	-	70,630	49,508
Reclassification of net assets	31,500,922	(31,500,922)	-	-
Reclassification of endowment earnings	<u>978,598</u>	<u>(978,598)</u>	<u>-</u>	<u>-</u>
Non-operating income	36,184,700	(19,087,927)	17,096,773	2,697,074
Change in post-retirement benefit liabilities	<u>(426,377)</u>	<u>-</u>	<u>(426,377)</u>	<u>188,388</u>
Change in net assets	35,616,388	(18,803,758)	16,812,630	(2,071,359)
Net assets, beginning of year	<u>26,340,044</u>	<u>286,088,568</u>	<u>312,428,612</u>	<u>314,499,971</u>
Net assets, end of year	<u>\$ 61,956,432</u>	<u>\$ 267,284,810</u>	<u>\$ 329,241,242</u>	<u>\$ 312,428,612</u>

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

SAN FRANCISCO OPERA ASSOCIATION
Statement of Functional Expenses
For the Year Ended July 31, 2024
(With Summarized Comparative Financial Information for the Year Ended July 31, 2023)

	2024			2023	
	Program Services	Management and General	Fundraising	Total	Total
Salaries and benefits	\$ 58,802,482	\$ 5,709,882	\$ 3,445,585	\$ 67,957,949	\$ 70,736,746
Professional fees	96,446	1,157,303	202,252	1,456,001	1,011,777
Marketing and promotion	145,328	2,211,253	680,231	3,036,812	3,806,535
Per diem, travel, and accommodations	2,111,029	24,013	70,455	2,205,497	2,216,832
Interest, depreciation and amortization	1,207,295	1,662,544	-	2,869,839	3,043,395
Rents and royalties	2,396,263	1,296,403	261,978	3,954,644	3,626,662
Production materials and equipment	3,579,420	74,794	-	3,654,214	4,784,238
General expenses	894,438	1,084,768	202,736	2,181,942	2,079,857
Equipment and software maintenance	148,928	1,263,743	2,400	1,415,071	1,340,356
Fundraising events	-	-	847,251	847,251	1,411,136
Miscellaneous	2,177,872	1,469,031	577,250	4,224,153	6,308,922
Total expenses	<u>\$ 71,559,501</u>	<u>\$ 15,953,734</u>	<u>\$ 6,290,138</u>	<u>\$ 93,803,373</u>	<u>\$ 100,366,456</u>

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, 2024
(With Summarized Comparative Financial Information for the Year Ended July 31, 2023)

	2024	2023
Cash flows from operating activities		
Change in net assets	\$ 16,812,630	\$ (2,071,359)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	2,861,923	2,890,289
Amortization of right-of-use asset	1,038,895	1,011,254
Gain on disposal of property and equipment	(24,242)	(14,142)
Change in allowance for doubtful contributions	214,439	769,338
Change in discount on contributions receivable	(94,890)	(35,615)
Change in value of split-interest agreements	(345,490)	113,923
Contribution of charitable gift annuity	(188,702)	-
Contributions restricted for long-term investment	(3,340,430)	(588,429)
Contributions restricted for purchase of property and equipment	-	(56,875)
Donated investment securities	(509,948)	(2,694,608)
Net realized and unrealized gains on investments	(27,836,774)	(15,809,884)
Investment income restricted for long-term purposes	(6,124,517)	(6,342,225)
Change in post retirement benefit liabilities	426,377	(188,388)
Changes in assets and liabilities		
Contributions receivable, net	(8,131,857)	2,242,001
Grants receivable	2,352,992	(2,455,981)
Other receivables	455,705	4,393,814
Deferred production and promotion costs	707,565	3,776,477
Prepaid expenses and other	98,707	(4,304)
Accounts payable, accrued, and other liabilities	(266,667)	386,415
Advance ticket sales	(1,001,219)	(230,806)
Operating lease liability	(1,037,962)	(935,662)
Deferred compensation and other	(15,802)	240,178
Deferred revenue from pooled income funds	10,112	29,465
Net cash used in operating activities	(23,939,155)	(15,575,124)
Cash flows from investing activities		
Purchase of property and equipment	(1,912,459)	(1,425,331)
Proceeds from sales of property and equipment	95,711	70,711
Proceeds from sales and maturities of investments	23,828,162	16,167,161
Proceeds from charitable remainder trusts, charitable gift annuities and pooled income funds	94,675	265,063
Purchase of investments	(13,866,458)	(2,266,222)
Net cash provided by investing activities	8,239,631	12,811,382
Cash flows from financing activities		
Proceeds from investment income restricted for long-term purposes	6,124,517	6,342,225
Proceeds from contributions restricted for long-term investment	2,654,190	588,429
Proceeds from contributions restricted for purchase of property and equipment	50,000	56,875
Net repayments on line of credit	-	(3,000,000)
Net cash provided by financing activities	8,828,707	3,987,529
Net change in cash and cash equivalents	(6,870,817)	1,223,787
Cash and cash equivalents, beginning of year	7,691,067	6,467,280
Cash and cash equivalents, end of year	\$ 820,250	\$ 7,691,067
<u>Additional cash flow information</u>		
Interest paid	\$ 3,057	\$ 138,892
<u>Non-cash investing and financing activities</u>		
Operating lease right-of-use asset obtained in exchange for operating lease liability and deferred rent	\$ 463,112	\$ 11,953,560

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

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

1. Organization and Significant Accounting Policies

Organization

The San Francisco Opera Association (the "Association") is a nonprofit arts organization dedicated to perpetuating and enriching the operatic art form. The Association's operations include international grand opera, training for young artists through its San Francisco Opera Center programs, and educational and community activities. 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 opera performance season subscription and single ticket sales, the San Francisco Opera Center, and other sources such as scenery and costume rentals.

Approximately 80 percent of the Association's employees are covered by Collective Bargaining Agreements ("CBA"). During the year ended July 31, 2024, the Association renegotiated one CBA, renegotiated a second CBA subsequent to year-end, and is in negotiations to finalize a third CBA. The Association expects to finalize the third CBA without incident.

Nature of activities

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

Production, Music 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; education; and electronic media activities, which include LobbyVision, radio broadcasts and simulcasts.

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 communications and public relations, archives, as well as in-house box office and front of house.

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

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

SAN FRANCISCO OPERA ASSOCIATION

Notes to Financial Statements

July 31, 2024

1. Organization and Significant Accounting Policies (continued)

Basis of presentation

The financial statements of the Association have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require the Association 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 Association; and resources with donor restrictions that become available for use by the Association in accordance with the intentions of donors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature and those restrictions will be met by actions of the Association or by the passage of time. 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 without donor restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be held as investments in perpetuity. In accordance with standards governing endowment accounting, earnings on restricted net assets are considered donor restricted until appropriated for expenditure, unless otherwise specified by the donor.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

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 account.

Cash held for agencies in trust and other committed cash

Cash collected on behalf of and due to other agencies was \$76,011 as of July 31, 2024, which is included in the statement of financial position under deferred compensation and other, short-term liabilities.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

1. Organization and Significant Accounting Policies (continued)

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, 2024, range between .17% and 5.16%). 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 recognized until conditions have been substantially met and they become unconditional; that is when the related barrier has been overcome and right of release/right of return no longer exists. The Association had no conditional promises to give as of July 31, 2024.

Other receivables

Other accounts receivable are recorded at the value of the revenue earned and require payment within thirty days of the due date. 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.

Allowance for credit losses and uncollectible contributions and grants receivable

The Association uses the allowance method to account for doubtful receivables. The allowance for expected credit losses ("AECL") related to other receivables is based on historical collection experience and expectations of future cash flows based on the evaluation of outstanding receivables at the end of the year. Bad debt recoveries are included as income as realized. At July 31, 2024, no AECL has been recorded as all other receivables are considered fully collectible. The allowance for uncollectible contributions and grants receivable is established based on management's judgment including such factors as donors' credit worthiness and prior collection history. The Association adjusts any allowance for subsequent collections upon final determination that a contribution or grant receivable is no longer collectible.

Property and equipment

The Association capitalizes all property and equipment with a cost or value in excess of \$5,000. Purchased property and equipment are recorded at cost. Donated property and equipment is recorded at fair value on the date of the donation. Equipment, furniture, and capital improvements are depreciated using the straight-line method based on estimated useful lives, which range from 3 to 20 years. Leasehold improvements are depreciated over the lesser of the useful life or the 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 capital or leasehold improvements. Maintenance and repairs are charged to expense as incurred.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

1. Organization and Significant Accounting Policies (continued)

Property and equipment (continued)

Contributed property is recorded as net assets with donor restrictions and reclassified to net assets without donor restrictions in the year in which the property is placed into service. The property is recorded at estimated fair value as of the donation date and depreciated over its useful life.

Leases

The Association leases office and warehouse space under operating leases. The Association determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets and operating lease liabilities on the statement of financial position. Right-of-use assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Association's leases do not provide an implicit rate, the Association uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Association's lease agreements do not contain any material residual value guarantees of material restrictive covenants.

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, 2024.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

1. Organization and Significant Accounting Policies (continued)

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. Management believes these methods provide a reasonable estimate of fair value. The financial statements include investments valued at \$32,685,061 (approximately 10% of net assets) as of July 31, 2024, 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 to net assets with donor restrictions until spent and appropriated unless their use is otherwise 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.

Assets held in charitable remainder trusts and charitable gift annuities

Assets held in charitable remainder trusts and charitable gift annuities are recorded at estimated fair value. Charitable remainder trusts and charitable gift annuities 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, 2024. The Association was named the trustee of one charitable gift annuity in the amount of \$188,702 during the year ended July 31, 2024.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

1. Organization and Significant Accounting Policies (continued)

Assets of pooled income funds

Assets of pooled income funds are stated at estimated fair value. The remainder interest in the assets received is recognized as contributions with donor restrictions 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 beneficiary's death using the Uninsured Pensioner Mortality Table ("UP-1994 Table") and an average discount rate of 5.4%. 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 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 categorized 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).

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

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 an 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

Effective August 1, 2020, the Association adopted Topic 606. The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, five basic criteria must be met before revenue can be recognized:

- Identification of the contract with the customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Association satisfies a performance obligation.

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 are presented. Opera Center revenues are recognized on a specific performance basis and over the contract term with the Merola Opera Program (see Note 14). 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 investment return transfer represents the portion on long-term investments that has been approved by the Board of Directors for use in the Association's operations during the fiscal year (see Note 11).

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

1. Organization and Significant Accounting Policies (continued)

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. Conditional promises to give are not recognized until conditions have been substantially met and they become unconditional; that is when the related barrier has been overcome and right of release/right of return no longer exists. Further, the Association records split-interest agreements, such as charitable remainder trusts, charitable gift annuities 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.

The Association may recognize revenue derived from cost-reimbursable federal grants which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Association has incurred expenditures in compliance with specific contract or grant provisions. The Association has elected a simultaneous release option to account for these grants and thus are recorded as revenue without donor restriction upon satisfaction of the barriers.

Contributed property and services

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, 2024, contributed property and services were \$307,154 and consisted primarily of professional services.

Advertising

Advertising costs are charged to expense as incurred. Advertising expenses for the year ended July 31, 2024, were \$1,049,580.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

1. Organization and Significant Accounting Policies (continued)

Income taxes

The Association is a nonprofit arts 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.

Accounting 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.

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 there is appropriate support for any tax positions taken, and as such, the Association 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. 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, contributions and grants receivable, and investments. The Association maintains cash and cash equivalents with one major financial institution. As of July 31, 2024, the Association's cash and cash equivalents were in excess of the federal depository insurance limit of \$250,000. However, given the financial stability and market capitalization of the financial institution, the Association believes the credit risk is acceptable.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

1. Organization and Significant Accounting Policies (continued)

Concentrations of credit risk (continued)

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, 2024, the Association held investments in excess of the Securities Investor Protection Corporation insurance limit of \$500,000.

Cash equivalents, charitable remainder trusts and charitable gift annuities, 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 and charitable gift annuities 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.

Fair value of financial instruments

The fair value of cash, accounts receivable, accounts payable and accrued expenses at July 31, 2024, 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. GAAP 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended July 31, 2023, from which the summarized information was derived.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

1. Organization and Significant Accounting Policies (continued)

Reclassifications

Certain amounts presented in the prior year financial statements have been reclassified to conform to current year presentation. Such reclassifications had no net effect on total assets, liabilities, net assets, changes in net assets, or cash flows from the amounts previously presented.

Change in accounting principle

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASC 326"). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of expected credit losses for the remaining estimated life of the financial asset using historical experience, current conditions and reasonable and supportable forecasts and generally applies to financial assets held at amortized cost and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented net of the amount expected to be collected by using an allowance for credit losses.

The Association adopted the standard effective August 1, 2023. The adoption of this standard did not have a material impact on the Association's financial statements.

Subsequent events

The Association has evaluated subsequent events through December 12, 2024, the date the financial statements were available to be issued

During the period from August 1, 2024, through December 12, 2024, the Association did not have any subsequent events to report.

2. Contributions and Grants Receivable

Contributions and grants receivable, net at July 31, 2024, are due as follows:

Less than one year	\$12,053,767
One to five years	6,823,583
Thereafter	<u>1,950,000</u>
	20,827,350
Less: discount on contributions receivable	(1,385,149)
Less: allowance for uncollectible contributions	<u>(252,500)</u>
Contributions and grants receivable, net	<u>\$19,189,701</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

2. Contributions and Grants Receivable (continued)

Five individual donors accounted for 62% of total gross contributions and grants receivable at July 31, 2024.

3. Deferred Production and Promotion Costs

Deferred production and promotion costs as of July 31, 2024, relate to future opera performances in the following years:

<u>Year Ending July 31,</u>	
2025	\$4,505,829
2026	205,156
2027	38,974
2028	<u>29,557</u>
Total	<u>\$4,779,516</u>

4. Property and Equipment, net

Property and equipment, net at July 31, 2024, is comprised of the following:

Leasehold improvements	\$25,431,657
Equipment and furniture	32,350,134
Work in progress	<u>76,963</u>
Total	57,858,754
Less: accumulated depreciation and amortization	<u>(39,589,580)</u>
Property and equipment, net	<u>\$18,269,174</u>

Depreciation and amortization expense for the year ended July 31, 2024, was \$2,861,923. Upon the adoption of ASU 2016-14, the Association was required to release restrictions related to property and equipment when the asset was placed into service rather than over the estimated useful life as had been the Association's previous policy. As such, the Association has elected to disclose separately in the statement of activities the component of this depreciation which would have been recognized as a release of restriction prior to the adoption of ASU 2016-14.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

5. Leases

As of July 31, 2024, the Association has three lease agreements for offices, a scene shop warehouse and a storage warehouse. The remaining lease terms range from 2 to 21 years, and one of the leases includes an option to extend the lease for up to 3 years.

Lease expenses were \$1,314,129 during the year ended July 31, 2024, and is included in rents and royalties on the schedule of functional expenses.

A summary of the remaining lease term and discount rate is as follows:

Weighted-average lease discount rate	2.6%
Weighted-average remaining lease term in years	17

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year Ending July 31,</u>	
2025	\$ 1,364,535
2026	1,238,403
2027	802,830
2028	802,830
2029	729,946
Thereafter	<u>8,010,242</u>
	12,948,786
Less: imputed interest	<u>(2,505,738)</u>
	<u>\$10,443,048</u>

6. 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 amount to be transferred from the endowment in the next fiscal year, in accordance with the Association's spending policies.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

6. Investments (continued)

Investments at July 31, 2024, comprised the following:

Cash and cash equivalents	\$ 13,829,984
Mutual funds and ETFs	257,097,716
Alternative investments	<u>32,685,061</u>
	303,612,761
Less: current portion of endowment	<u>(29,964,230)</u>
Long-term investments	<u>\$273,648,531</u>

The Alternative investment category comprises the following types of investments:

Commingled vehicles - real estate	\$ 420,476
Commingled vehicles - inflation hedge	433,602
Commingled vehicles - private equity	<u>31,830,983</u>
Total	<u>\$32,685,061</u>

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, 2024.

The following schedule summarizes the total investment income and gains, net for the year ended July 31, 2024:

Interest and dividend income	\$ 8,059,426
Net realized and unrealized gains	27,836,774
Investment fees	<u>(895,913)</u>
Total investment income and gains, net	<u>\$35,000,287</u>

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 each 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 of Directors.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

7. Liquidity

As part of the Association's liquidity management process, it has established a policy to ensure financial assets are available to meet its general expenditures, liabilities, and other obligations as they come due.

The timing of the Association's sources and uses of cash are asynchronous due to the seasonal nature in which opera performances are scheduled, with more than two-thirds of the Associations' cash resources required in the first four months of the fiscal year. Although cash from most subscription ticket sales are received prior to the beginning of the performance season, and donor contributions are paid relatively evenly throughout the year, an influx of cash is required at the beginning of the fiscal year. To support these cash requirements, the Association makes its annual investment return transfer (see Note 11) at the beginning of the fiscal year. Should the investment transfer, as well as cash receipts from ongoing single ticket sales and contributions not be sufficient, the Association has access to an unsecured line of credit with a maximum borrowing capacity of \$15,000,000 (see Note 8). The Association believes that cash proceeds from the combination of the investment return transfer, ticket sales, donor contributions, access to the line of credit, as well as other miscellaneous cash sources, enables the Association to meet all liquidity requirements. In the event that an unplanned use of cash is required, the Association has available unrestricted Board-designated endowment funds in the amount of \$66,019,978 (see Note 11) as of July 31, 2024.

The following is a quantitative disclosure which describes assets available within one year of July 31, 2024, to fund general expenditures and other obligations as they become due:

Financial assets	
Cash and cash equivalents	\$ 820,250
Receivables, current portion	12,932,416
Investments, current portion	<u>29,964,230</u>
	<u>\$43,716,896</u>

8. Line, Letter of Credit and Loans Payable

During the year ended July 31, 2024, the Association renewed its line of credit agreement (the "Agreement") at a borrowing capacity of \$15,000,000. The Agreement bears interest at the Daily Simple Secured Overnight Financing Rate ("SOFR") plus 2.0% (the Daily Simple SOFR rate was 5.38% as of July 31, 2024). The Agreement expires on July 31, 2025. Interest expense incurred under the Agreement for the year ended July 31, 2024, was \$3,057. The Agreement contains liquidity requirements, all of which were met during the year.

A letter of credit in the amount of \$24,000 was outstanding in connection with the Association's workers' compensation commitments as of July 31, 2024. The letter of credit is secured by a deposit account at a financial institution.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

8. Line, Letter of Credit and Loans Payable (continued)

The Association has agreed to guarantee certain instrument loans for its orchestra employees. The total amount of instrument loans guaranteed as of July 31, 2024, was \$88,095.

9. Deferred Compensation and Other

The deferred compensation and other balance at July 31, 2024, comprised the following:

Accrued retirement compensation	\$3,040,247
Orchestra post-retirement benefit plan	2,409,988
Facilities fees	2,256,101
Special events	223,056
Rentals and deposits	148,210
Cash held for agencies in trust	76,011
Other	<u>55,039</u>
Total	<u>\$8,208,652</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

10. Net Assets

Net assets with donor restrictions as of July 31, 2024, and net assets with donor restrictions released from restrictions for the year ended July 31, 2024, are as follows:

	Net Assets with Donor <u>Restrictions</u>	Net Assets Released from <u>Restrictions</u>
Undesignated unappropriated endowment	\$180,121,371	\$11,646,702
Contributions for future seasons	3,634,182	10,000,284
Media suite	30,000	-
Charitable remainder trusts	3,471,067	-
Charitable gift annuities	108,750	-
Future productions	3,113,279	518,000
New productions	20,062,384	945,574
Opening Weekend	240,148	16,700
Pooled income funds	346,944	50,389
Adler program	3,492,560	593,902
Wattis Tickets Fund	2,385,379	141,150
Opera Center	17,826,845	692,759
Principal artists	2,825,107	164,482
Student subscriptions	3,898,110	220,605
Education	1,664,361	86,313
WMOH maintenance	2,408,571	141,150
Outreach	1,206,281	48,466
Supernumeraries	11,736	660
Other equipment and furniture	1,629	-
Sauerwald Disability Fund	155,654	12,156
Pre-1850 Operas	4,777,620	276,199
Audience Development	11,368,864	594,100
Valair Voci Maschili Endowment Fund	2,600,000	-
Other program restrictions	<u>1,533,968</u>	<u>1,846,557</u>
Total net assets with donor restrictions	<u>\$267,284,810</u>	
Total net assets with donor restrictions released from restrictions		<u>\$27,996,148</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

11. 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 Association is subject to UPMIFA. These disclosures have been included in the financial statements for the year ended July 31, 2024.

The Board of Directors 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 net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts donated to the donor-restricted endowment, and (3) additions to the donor-restricted endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment fund is restricted until those amounts are appropriated by the Association in a manner consistent with the standard of prudence prescribed by 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 5.0%, while growing the funds, if possible. Accordingly, the Association expects its endowment assets, over time, to produce an average rate of return of approximately 6.5% 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; and
- (7) The investment policies of the Association.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

11. Endowment (continued)

Spending policy (continued)

The Board of Directors has established an investment return transfer policy whereby a 5.0% appropriation is calculated by averaging the long-term investment balance in each donor fund as of the prior 13 calendar quarter-ends through March 31 of the preceding fiscal year in which the transfer is made. For those donor funds in existence for fewer than 13 calendar quarter-ends, the average long-term investment balance of the donor fund is calculated over the period in which the donor fund has been in existence. In establishing the investment return transfer policy, the Association has considered the long-term expected return on its endowment.

During the year ended July 31, 2024, the Board of Directors authorized a supplemental transfer of \$3,310,562 in excess of the 5% appropriation to support operations and \$350,000 to offset endowment related expenses (primarily for management, investment, and fundraising activities). The Association considered the UPMIFA 7% prudence test in calculating the total long-term investment return transfer.

Investment policy, strategies, and objectives

The Association has adopted investment and spending policies for endowment assets that attempt 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 of Directors, 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. The Association had funds of an original gift value of \$60,925,633 that were underwater by \$5,082,848. These deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

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

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

11. Endowment (continued)

Endowment composition

The Association's endowment consists of fourteen individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors 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, 2024, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$243,377,652	\$243,377,652
Board-designated endowment funds	<u>66,019,978</u>	<u>-</u>	<u>66,019,978</u>
Total funds	<u>\$66,019,978</u>	<u>\$243,377,652</u>	<u>\$309,397,630**</u>

The following represents the changes in endowment net assets for the year ended July 31, 2024:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$29,023,582	\$259,245,934	\$288,269,516
Contributions	-	3,340,430	3,340,430
Wilsey Center Loan (net)	12,575	66,018	78,593
Additions to board designated funds	45,387	-	45,387
Reclassification of endowment funds*	31,500,922	(31,500,922)	-
Reclassification of accumulated earnings*	978,598	(978,598)	-
Investment return			
Investment income	908,574	6,124,517	7,033,091
Net appreciation	<u>5,088,081</u>	<u>22,461,630</u>	<u>27,549,711</u>
Total investment return	5,996,655	28,586,147	34,582,802
Amounts appropriated for expenditure	<u>(1,537,741)</u>	<u>(15,381,357)</u>	<u>(16,919,098)</u>
Endowment net assets, end of year	<u>\$66,019,978</u>	<u>\$243,377,652</u>	<u>\$309,397,630**</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

11. Endowment (continued)

Endowment composition (continued)

*During the year ended July 31, 2024, multiple donors re-designated their donor restricted endowment gifts to net assets without donor restrictions.

**Amount includes contributions receivable held for endowment, net, in the amount of \$6,395,843.

12. Government Grants

The Association recorded the following government grants during the year ended July 31, 2024:

Net assets without donor restrictions	
Federal Emergency Management Agency	\$ 32,989
National Endowment for the Arts	70,000
City and County of San Francisco	<u>425,467</u>
Total government grants without donor restrictions	<u>528,456</u>
Net assets with donor restrictions	
National Endowment for the Arts	<u>65,000</u>
Total government grants	<u>\$593,456</u>

13. Commitments and Contingencies

The Association enters into non-cancelable artistic and administrative agreements for future seasons. Payments required under these agreements as of July 31, 2024, are as follows:

<u>Year Ending July 31,</u>	
2025	\$5,143,537
2026	<u>1,730,950</u>
Total	<u>\$6,874,487</u>

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, 2024, the Association had no material outstanding legal actions.

SAN FRANCISCO OPERA ASSOCIATION

Notes to Financial Statements

July 31, 2024

14. 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 \$1,876,011 of compensation during the year ended July 31, 2024. This amount has been included as operating revenue in the accompanying statement of activities.

15. San Francisco Opera Guild

The Association receives support from the San Francisco Opera Guild (the "Guild"), a separate legal entity. Total support received from the Guild for the year ended July 31, 2024, was \$40,500, which is recognized in "Contributed property, services, and other contributions" in the accompanying statement of activities. 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 such as *An Evening on the Stage honoring Karen J. Kubin and Mary and Bill Poland, 2024 Michael Kors Collection Fashion Presentation and Luncheon*, and *2024 Online Auction*.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

16. 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" on the accompanying statement of financial position. The benefit obligation, fair value and funded status for the post-retirement benefit plan as of July 31, 2024, are as follows:

Benefit obligation	\$ 2,409,988
Fair value of plan assets	<u>-</u>
Unfunded status	<u><u>\$(2,409,988)</u></u>
Benefit payments	\$ (229,562)
Amounts recognized in the statement of financial position consist of	
Short-term compensation	\$ (231,172)
Long-term compensation	(2,178,816)
Accumulated other loss	<u>-</u>
Net amount recognized at year-end	<u><u>\$(2,409,988)</u></u>
Other loss attributable to change in additional minimum liability recognition	<u><u>\$ -</u></u>
Change in benefit obligation:	
Benefit obligation at beginning of year	\$(2,018,890)
Interest cost	(94,362)
Amortization of net loss/prior service cost	(99,921)
Benefit payments	229,562
Additional benefit liability	<u>(426,377)</u>
Benefit obligation end of year	<u><u>\$(2,409,988)</u></u>

Amounts recognized in net assets without donor restrictions for the year ended July 31, 2024, consist of:

Net loss	\$832,301
Prior service cost	\$687,510

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

16. Employee Retirement Benefits (continued)

Orchestra Retiree Health Benefit Plan (continued)

The following table provides components of the net periodic benefit cost for the plan for the year ended July 31, 2024:

Service cost	\$ -
Interest cost	94,362
Amortization of net loss	59,261
Expected return on plan assets	-
Amortization of prior service cost	40,660
Recognized actuarial loss	<u>-</u>
Net periodic benefit cost	<u>\$194,283</u>

Assumptions

The following assumptions were used to determine the benefit obligations as of July 31, 2024:

Discount rate	5.08%
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 ended July 31, 2024:

Discount rate	4.94%
Expected long-term return on plan assets	-
Rate of compensation increase	-

A 5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended July 31, 2024.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
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16. Employee Retirement Benefits (continued)

Estimated future benefit payments

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

<u>Fiscal Year Ending</u>	
2025	\$ 231,000
2026	228,000
2027	226,000
2028	177,000
2029	174,000
2030 through 2034	<u>813,000</u>
	<u>\$1,849,000</u>

Retirement Plans - 401(a) and 403(b)

The Association sponsors a 401(a) defined contribution plan for eligible administrative (non-union) employees, with monthly funding of employer contributions only. The plan is age-graded with contribution percentages ranging from 5-7% of the employee's base compensation (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 made contributions totaling \$810,418 to the 401(a) plan for the year ended July 31, 2024.

The Association also sponsors a 403(b) defined contribution plan in which all employees are eligible to participate. The Association does make contributions to the 403(b) plan on behalf of certain employees who are members of American Federation of Musicians Local 6 pursuant to a collective bargaining agreement. No contributions were made for the year ended July 31, 2024.

Retirement Plans - Multiemployer

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 8% to 13.189% of the employee's compensation and totaled \$3,368,249 for the year ended July 31, 2024.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

16. Employee Retirement Benefits (continued)

Retirement Plans - Multiemployer (continued)

The Association is a participating employer in six separate trustee-managed multiemployer defined benefit pension plans for employees who participate in collective bargaining agreements. The plans generally provide retirement benefits to employees based on years of service to participating employers. The multiemployer pension plans are each managed by a board of trustees. Although the Association is not represented on any of the boards of trustees, other contributing employers are members of the boards. Contributions of \$2,507,455 in the year ended July 31, 2024 were charged to pension expense for ongoing participation in these plans.

The risks of participating in these multiemployer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if the Association chooses to stop participating in one of its multiemployer plans, it may be required to pay a withdrawal liability to the plan. In connection with ongoing renegotiations of collective bargaining agreements, the Association may discuss and negotiate for the complete or partial withdrawal from one or more multiemployer pension plans. Depending on the number of employees withdrawn in any future period and the financial condition of the multiemployer plan at the time of withdrawal, the associated withdrawal liabilities could be material to the Association's change in net assets in the period of the withdrawal. The Association has no plans to withdraw from any of the multiemployer pension plans at this time.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

16. Employee Retirement Benefits (continued)

Retirement Plans - Multiemployer (continued)

The following schedule presents information about the Association's multiemployer pension plans as of July 31, 2024, and the years ended July 31, 2024 and 2023:

Name of Pension Plan/Fund	EIN and Plan Number	Pension Protection Act Zone Status		FIP/RP Status	Contributions for the Year Ended July 31		Surcharge Imposed	Expiration of Collective Bargaining Agreement
		Applicable Year	Applicable Year		2024	2023		
AFM Pension Fund	51-6120204 001	Critical/ Declining 12/31/2023	Critical/ Declining 12/31/2022	Imple- mented	\$1,304,533	\$1,008,836	10.0%	5/30/2025
IATSE Local 16 Pension Plan	94-6296420 001	Not Endangered 12/31/2023	Not Endangered 12/31/2022	Imple- mented	\$1,021,319	\$1,100,408	48.6%	12/31/2027
IATSE Local 16 Pension Plan, on behalf of Local B-18	94-6296420 001	Not Endangered 12/31/2023	Not Endangered 12/31/2022	Imple- mented	\$84,718	\$92,412	48.6%	7/31/2026
IATSE 784 Natl Pension Plan	13-1849172 001	Not Endangered 12/31/2023	Not Endangered 12/31/2022	N/A	\$48,652	\$67,442	N/A	7/31/2028
USA 829 Pension Fund	13-1982707 001	Not Endangered 12/31/2023	Not Endangered 12/31/2022	N/A	\$43,432	\$ 42,110	N/A	7/31/2024
IATSE Local 33 Pension Plan	95-6377503 001	Not Endangered 12/31/2023	Not Endangered 12/31/2022	N/A	\$4,801	\$6,251	N/A	6/30/2028

AFM Pension Fund - The Association makes contributions to the AFM Pension Fund on behalf of employees who are members of American Federation of Musicians Local 6. The Fund was certified "critical and declining" as of the most recent Fund reporting date. The Fund applied for assistance under the American Rescue Plan Act ("ARPA") and, on August 12, 2024, the Fund received approximately \$1.5 billion in Special Financial Assistance. Due to minimum compensation guarantees to certain employees who participate in the Fund, the Association is obligated to contribute a minimum amount each fiscal year. For the year ended, July 31, 2024, the minimum obligation was \$764,602. According to the most recently available Annual Funding Notice, as of the period ended December 31, 2023, the funded percentage was 48.0%; the Actuarial Value of Assets was \$1,696,264,511; and the Actuarial Value of Liabilities was \$3,532,154,924. The Association did not contribute more than 5% of total Fund contributions.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

16. Employee Retirement Benefits (continued)

Retirement Plans - Multiemployer (continued)

I.A.T.S.E. Local 16 Pension Plan - The Association makes contributions to the Local 16 Pension Plan on behalf of employees who are members of I.A.T.S.E. (International Alliance of Theatrical and Stage Employees) Local 16 and Local B-18. The Plan was not in endangered, critical, or critical and declining status as of the most recent Plan reporting date. There are no minimum contributions to the Plan. The Association did contribute more than 5% of total Plan contributions to the Local 16 Pension Plan but did not contribute more than 5% of total Plan contributions to the Local B-18 Pension Plan.

I.A.T.S.E. National 784 Pension Plan - The Association makes contributions to the I.A.T.S.E. National Pension Plan on behalf of employees who are members of Theatrical Wardrobe Union Local 784. The Plan was not in endangered, critical, or critical and declining status as of the most recent Plan reporting date. There are no minimum contributions to the Plan, and the Association did not contribute more than 5% of total Plan contributions.

United Scenic Artists Local 829 Pension Fund - The Association makes contributions to the USA Pension Fund on behalf of employees who are members of United Scenic Artists Local 829. The Fund was not in endangered, critical, or critical and declining status as of the most recent Fund reporting date. There are no minimum contributions to the Fund, and the Association did not contribute more than 5% of total Fund contributions.

I.A.T.S.E. Local 33 Pension Plan - The Association makes contributions to the I.A.T.S.E. Local 33 Pension Plan on behalf of employees who are members of I.A.T.S.E. Local 800. The Plan was not in endangered, critical, or critical and declining status as of the most recent Plan reporting date. There are no minimum contributions to the Plan, and the Association did not contribute more than 5% of total Plan contributions.

17. Related Party Transactions

During the year ended July 31, 2024, contributions from the Board of Directors totaled \$14,683,234. Undiscounted contributions receivable from such related parties was \$1,414,500 at July 31, 2024. Occasionally, the Association will also receive in-kind contributions from the Board of Directors.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

18. Fair Value Measurements

The following table summarizes the valuation of the Association's assets and liabilities which are measured at fair value on a recurring basis at July 31, 2024:

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Cash and cash equivalents	\$ 13,829,984	\$ -	\$ -	\$ 13,829,984
Mutual funds and ETFs	<u>257,097,716</u>	-	-	<u>257,097,716</u>
Total investments	270,927,700	-	-	270,927,700
Charitable remainder trusts and charitable gift annuities	-	-	3,579,817	3,579,817
Pooled income funds	-	-	<u>621,443</u>	<u>621,443</u>
Total	<u>\$270,927,700</u>	<u>\$ -</u>	<u>\$4,201,260</u>	275,128,960
Investments measured at net asset value*				<u>32,278,005</u>
Total				<u>\$307,406,965</u>

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

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.

	Charitable Remainder Trusts, Charitable Gift Annuities, and <u>Pooled Income Funds</u>
Balance, beginning of year	\$3,761,743
Contributions	188,702
Proceeds from split interest agreements	(94,675)
Realized and unrealized gains, net	<u>345,490</u>
Balance, end of year	<u>\$4,201,260</u>
Net change in unrealized gains relating to instruments still held at July 31, 2024	<u>\$ 325,321</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2024

18. Fair Value Measurements (continued)

Fair values measured on recurring basis

The following table lists information related to investments measured at fair value on a recurring basis using NAV as the practical expedient by major category for the fiscal year ended July 31, 2024:

	<u>Strategy</u>	<u>NAV in Funds</u>	<u>Number of Funds</u>	<u>Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Timing to Drawdown Commitments</u>	<u>Redemption Notice Period</u>	<u>Redemption Restrictions</u>
Assets:								
Real Estate	Partnerships that invest in real estate	\$ 16,625,753	5	1 to 7 years	\$ 731,822	5 years	N/A	N/A
Private Equity	Venture capital and buyout funds and fund of funds	15,652,252	12	2 to 7 years	13,283,579	1 to 5 years	N/A	N/A
Total investments		<u>\$ 32,278,005</u>			<u>\$ 14,015,401</u>			

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

The Association uses the NAV to determine the fair value of all 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.

SUPPLEMENTAL SCHEDULE

SAN FRANCISCO OPERA ASSOCIATION
Supplemental Schedule of Production, Music and Artistic Expenses
For the Year Ended July 31, 2024

Production, music and artistic expenses		
Production, artistic administration and media	\$ 11,182,419	16.6%
Singers, conductors, directors, and designers	8,281,774	12.3%
Orchestra	14,717,636	21.8%
Chorus and dancers	7,749,473	11.5%
Scenery, properties, stagehands, and production staff	19,824,053	29.2%
Costumes, wardrobe, wigs, and makeup	5,793,160	8.6%
	<u>\$ 67,548,515</u>	<u>100.0%</u>