

San Francisco Opera Association

Financial Statements

For the Year Ended July 31, 2017
(With Summarized Comparative Financial
Information for 2016)



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Francisco Opera Association
San Francisco, California

We have audited the accompanying financial statements of the San Francisco Opera Association (the "Association"), a California nonprofit organization, which comprise the statement of financial positions as of July 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Francisco Opera Association as of July 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited San Francisco Opera Association's 2016 financial statements, and our report dated December 12, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule on page 32 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 LLP
Armanino^{LLP}
San Ramon, California

December 14, 2017

SAN FRANCISCO OPERA ASSOCIATION
Statement of Financial Position
July 31, 2017
(With Summarized Comparative Financial Information as of July 31, 2016)

<u>ASSETS</u>		
	2017	2016
Current assets		
Cash and cash equivalents	\$ 4,155,307	\$ 4,443,979
Cash held for agencies in trust	435,654	317,799
Investments, current portion of endowment	11,346,270	10,964,146
Receivables		
Contributions, net	9,150,972	6,770,947
Grants	146,417	146,417
Other, net	1,487,838	750,651
Deferred production and promotion costs	4,816,811	4,813,315
Prepaid expenses and other	780,943	425,309
Total current assets	32,320,212	28,632,563
Net contributions receivable, long-term	14,593,110	8,508,496
Deferred production and promotion costs, long-term	730,925	491,664
Property and equipment, net	26,389,165	28,742,543
Long-term investments, less current portion of endowment	180,648,788	154,500,276
Assets held in charitable remainder trusts	3,201,502	3,105,547
Assets of pooled income funds	935,757	931,391
Other assets	-	12,477
Total assets	\$ 258,819,459	\$ 224,924,957
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,534,442	\$ 5,517,994
Advance ticket sales	12,508,715	12,391,000
Capital lease obligations, short-term	103,350	100,861
Deferred compensation and other, short-term	516,621	946,703
Total current liabilities	18,663,128	18,956,558
Long-term liabilities		
Deferred revenue from pooled income funds	218,346	192,396
Capital lease obligations, long-term	-	103,350
Deferred compensation and other, long-term	6,898,930	6,468,470
Total long-term liabilities	7,117,276	6,764,216
Total liabilities	25,780,404	25,720,774
Net assets		
Unrestricted	660,022	3,210,188
Temporarily restricted	51,281,752	45,941,176
Permanently restricted	181,097,281	150,052,819
Total net assets	233,039,055	199,204,183
Total liabilities and net assets	\$ 258,819,459	\$ 224,924,957

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

SAN FRANCISCO OPERA ASSOCIATION
Statement of Activities
For the Year Ended July 31, 2017
(With Summarized Comparative Financial Information for the Year Ended July 31, 2016)

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating revenues, gains (losses) and support					
Ticket sales	\$ 20,793,890	\$ -	\$ -	\$ 20,793,890	\$ 22,130,742
San Francisco Opera Center fees	1,851,228	-	-	1,851,228	1,771,924
Long-term investment return transfer	5,329,035	9,586,600	-	14,915,635	14,597,901
Investment gains (losses) on donated securities	29,797	-	-	29,797	(63,510)
Scenery, costume rentals, and other income	1,907,794	-	-	1,907,794	1,660,295
Subtotal	29,911,744	9,586,600	-	39,498,344	40,097,352
Net assets released from restrictions	18,133,600	(18,133,600)	-	-	-
Total operating revenues, gains (losses) and support	48,045,344	(8,547,000)	-	39,498,344	40,097,352
Operating expenses					
Production and artistic	52,965,424	-	-	52,965,424	55,932,231
Media	3,241,727	-	-	3,241,727	3,537,679
San Francisco Opera Center	3,062,334	-	-	3,062,334	2,971,783
Marketing and box office	7,853,078	-	-	7,853,078	8,070,105
Administrative and general operations					
Administrative departments	4,577,914	-	-	4,577,914	4,116,375
Facilities and support costs	2,724,786	-	-	2,724,786	2,362,298
Total operating expenses	74,425,263	-	-	74,425,263	76,990,471
Operating revenues, gains and support less operating expenses	(26,379,919)	(8,547,000)	-	(34,926,919)	(36,893,119)
Contributed income					
Individuals	20,282,240	7,670,914	30,611,044	58,564,198	21,304,171
Corporation and foundations	6,031,261	1,823,124	-	7,854,385	10,252,254
Government grants	677,049	90,000	-	767,049	759,523
Bequests	1,944,212	-	249,697	2,193,909	5,749,840
Contributed property, services, and other contributions	1,727,167	303,158	-	2,030,325	2,269,652
Total contributed income	30,661,929	9,887,196	30,860,741	71,409,866	40,335,440
Less: fund-raising expenses	(4,946,559)	-	-	(4,946,559)	(4,747,854)
Contributed income, net	25,715,370	9,887,196	30,860,741	66,463,307	35,587,586
Operating income (loss)	(664,549)	1,340,196	30,860,741	31,536,388	(1,305,533)
Non-operating income (loss)					
Investment income and gains, net	3,213,359	13,402,455	174,480	16,790,294	3,005,960
Change in value of interests in split-interest agreements	-	184,525	9,241	193,766	3,514
Less: long-term investment return transfer	(5,329,035)	(9,586,600)	-	(14,915,635)	(14,597,901)
Less: investment (gains) losses on donated securities	(29,797)	-	-	(29,797)	63,510
Prior years' retirement expense	(195,420)	-	-	(195,420)	(113,214)
Non-operating income (loss)	(2,340,893)	4,000,380	183,721	1,843,208	(11,638,131)
Change in post retirement benefit liabilities	455,276	-	-	455,276	(583,953)
Change in net assets	(2,550,166)	5,340,576	31,044,462	33,834,872	(13,527,617)
Net assets, beginning of year	3,210,188	45,941,176	150,052,819	199,204,183	212,731,800
Net assets, end of year	\$ 660,022	\$ 51,281,752	\$ 181,097,281	\$ 233,039,055	\$ 199,204,183

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, 2017
(With Summarized Comparative Financial Information for the Year Ended July 31, 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 33,834,872	\$ (13,527,617)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	3,265,909	2,538,643
(Gain) loss on disposal of property and equipment	(6,555)	53,883
Bad debt expense	50,974	16,196
Amortization of discount on contributions receivable	(153,523)	(656,864)
Change in value of split-interest agreements	(100,321)	63,273
Contributions restricted for long-term investment	(40,936,541)	(1,694,227)
Donated investment securities	-	2,736,530
In-kind contributions of property and equipment	-	(608,334)
Net realized and unrealized gains on investments	(14,575,614)	(1,199,811)
Investment income restricted for long-term purposes	(1,803,741)	(1,273,540)
Contributions restricted for purchase of property and equipment	(3,147,553)	(3,598,234)
Change in post retirement benefit liabilities	(455,276)	583,953
Changes in assets and liabilities		
Contributions and grants receivable, net	(8,345,374)	8,087,242
Other receivable, net	(871,758)	218,851
Deferred production and promotion costs	(242,757)	(12,886)
Prepaid expenses and other	(343,157)	46,695
Accounts payable and accrued liabilities	16,448	69,180
Advance ticket sales	117,715	(1,092,015)
Deferred compensation and other	481,604	709,326
Net cash used in operating activities	(33,214,648)	(8,539,756)
Cash flows from investing activities		
Purchase of property and equipment	(933,976)	(13,553,630)
Proceeds from sale of property and equipment	28,000	-
Proceeds from sales of investments	18,245,667	15,501,715
Purchase of investments	(30,200,689)	(3,001,012)
Net cash used in investing activities	(12,860,998)	(1,052,927)
Cash flows from financing activities		
Proceeds from investment income restricted for long-term purposes	1,803,741	1,273,540
Proceeds from contributions restricted for long-term investment	40,936,541	1,694,227
Proceeds from contributions restricted for purchase of property and equipment	3,147,553	3,598,234
Payments on capital leases	(100,861)	(124,446)
Net cash provided by financing activities	45,786,974	6,441,555
Net change in cash and cash equivalents	(288,672)	(3,151,128)
Cash and cash equivalents, beginning of year	4,443,979	7,595,107
Cash and cash equivalents, end of year	\$ 4,155,307	\$ 4,443,979
<u>Additional cash flow information</u>		
Interest paid	\$ 40,927	\$ 21,993
<u>Non-cash investing and financing activities</u>		
Property and equipment acquired with capital lease financing	\$ -	\$ 302,643

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

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

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, 2017, three agreements expired, of which two were extended via mutual agreement, and one is in negotiations to extend. The Association believes all agreements will renew without issue.

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 communications and public relations, as well as in-house box office and subscription departments.

Administrative and General Operations - Expenses related to education, 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, 2017

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 as well as placing limitations on certain unrestricted net assets.

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. 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.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

1. Organization and Significant Accounting Policies (continued)

Cash held for agencies in trust

Cash collected on behalf of and due to other agencies was \$435,654 as of July 31, 2017, 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, 2017, are between .39% and 2.57%). 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.

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 are reduced by an allowance for doubtful accounts of \$24,354 at July 31, 2017.

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

The Association capitalizes all property and equipment with a cost or value in excess of \$2,500. 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 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, 2017

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, 2017.

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 \$16,486,098 (7% of net assets) as of July 31, 2017, 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.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

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, 2017.

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 2.2%. 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 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).

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

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

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 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 investment return transfer represents the portion on long-term investments that 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.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

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, 2017, contributed property and services were \$1,527,254 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, 2017, were \$2,046,890.

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.

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.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

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. 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, 2017, 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, 2017, 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.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

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, 2017, 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, 2016, from which the summarized information was derived.

Accounting change

The Association adopted the provisions of Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2015-07. Under ASU No. 2015-07, organizations are no longer required to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as the practical expedient to simplify certain disclosures about fair value measurements. The Association has adjusted the 2017 fair value measurement disclosures presented here in under the provisions of ASU No. 2015-07.

Subsequent events

The Association has evaluated subsequent events through December 14, 2017, the date the financial statements were available to be issued. During the period from August 1, 2017 through December 14, 2017, the Association did not have any material recognizable subsequent events.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

2. Contributions and Grants Receivable

Contributions and grants receivable at July 31, 2017, are due as follows:

Less than one year	\$ 9,297,389
One to five years	13,884,339
Thereafter	<u>2,175,000</u>
	25,356,728
Less: discount on contributions receivable	(1,325,649)
Less: allowance for uncollectible contributions	<u>(140,580)</u>
Contributions and grants receivable, net	<u>\$23,890,499</u>

Five individual donors accounted for 73% of total gross contributions and grants receivable at July 31, 2017.

Endowment pledge

During the year ended July 31, 2017, the Association received notice of an intended \$30 million endowment pledge. As the pledge documentation has yet to be finalized and all conditions not yet met, the contribution was not recognized during the year ended July 31, 2017. However, it is expected that the pledge will be recognized and paid within the next ten years.

3. Deferred Production and Promotion Costs

Deferred production and promotion costs that have been capitalized as of July 31, 2017, relate to future opera performances in the following years:

<u>Year Ending July 31,</u>	
2018	\$4,816,811
2019	373,148
2020	<u>357,777</u>
Total	<u>\$5,547,736</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

4. Property and Equipment

Property and equipment at July 31, 2017, is comprised of the following:

Leasehold improvements	\$24,747,420
Capital improvements	318,195
Equipment and furniture	27,129,899
Construction in progress	<u>416,650</u>
Total	52,612,164
Less: accumulated depreciation and amortization	<u>(26,222,999)</u>
Property and equipment, net	<u>\$26,389,165</u>

Depreciation and amortization expense for the year ended July 31, 2017, was \$3,265,909.

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, 2017, were comprised of the following:

Cash and cash equivalents	\$ 6,295,984
Mutual funds and ETFs	169,212,976
Alternative investments	<u>16,486,098</u>
	191,995,058
Less: current portion of endowment	<u>(11,346,270)</u>
Long-term investments	<u>\$180,648,788</u>

The Alternative investment category comprises the following types of investments:

Commingled vehicles - equities	\$ 7,466,439
Commingled vehicles - real estate	796,469
Commingled vehicles - inflation hedge	1,291,936
Commingled vehicles - private equity	6,930,918
Commingled vehicles - hedge funds	<u>336</u>
Total	<u>\$16,486,098</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, 2017.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

5. Investments (continued)

The following summarizes the total investment return for the year ended July 31, 2017:

Interest and dividend income	\$ 2,621,516
Net realized and unrealized gains	14,575,614
Investment fees	<u>(406,836)</u>
Total return on investments, net	<u>\$16,790,294</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 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 of Directors.

6. Line, Letters of Credit and Notes Payable

During the year ended July 31, 2017, the Association renewed its unsecured line of credit agreement (the "Agreement") at a borrowing capacity of \$15,000,000. The Agreement bears interest at the Prime Rate with an option rate of LIBOR plus 2.25% (the Prime Rate was 4.25% and the LIBOR rate was 1.23% as of July 31, 2017). The Agreement expires on August 1, 2018. Interest expense incurred under the Agreement for the year ended July 31, 2017, was \$40,927. The Agreement contains liquidity and zero balance covenants, both of which were met during the year. There was no outstanding balance as of July 31, 2017.

A letter of credit in the amount of \$137,000 was outstanding in connection with the Association's workers' compensation commitments as of July 31, 2017. Such letter of credit reduces the available funds under the line of credit and is not reflected in the statement of financial position until drawn upon.

The Association has agreed to guarantee certain instrument loans for its orchestra employees. The total amount of instrument loans guaranteed as of July 31, 2017, was \$167,039.

7. Deferred Compensation and Other

The deferred compensation and other balances at July 31, 2017, comprised the following:

Accrued retirement compensation	\$3,390,041
Orchestra post-retirement benefit plan	2,099,039
Other	<u>1,926,471</u>
Total	<u>\$7,415,551</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

8. Net Assets

Temporarily restricted net assets as of July 31, 2017, and net assets released from restriction for the year ended July 31, 2017, are as follows:

	Temporarily Restricted <u>Net Assets</u>	Net Assets Released from <u>Restriction</u>
Undesignated unappropriated endowment earnings	\$11,644,241	\$ 7,038,154
Contributions for future seasons	3,468,003	4,109,011
Media suite	30,000	-
Charitable remainder trusts	2,858,092	-
Charitable gift annuities	166,653	-
Future productions	5,954,516	1,984,169
New productions	964,409	348,580
Opening weekend	45,174	23,179
Pooled income funds	677,046	-
Adler program	1,091,700	522,783
Tickets for the underprivileged	221,557	322,341
Opera center	192,168	795,135
Principal artists	717,028	200,063
Student subscriptions	173,516	246,731
Education	528,745	115,653
WMOH maintenance	219,889	156,951
Outreach	15,238	-
Supernumeraries	931	-
Stage automation	993,510	283,860
Other equipment and furniture	1,383,848	163,372
Simulcast	27,500	25,000
Physically handicapped	212,734	-
Wilsey Center for Opera	19,261,707	1,170,876
Emerging Stars	-	250,000
Pre-1850 Operas	302,181	-
Other program restrictions	<u>131,366</u>	<u>377,742</u>
Total temporarily restricted net assets	<u>\$51,281,752</u>	
Total net assets released from restrictions		<u>\$18,133,600</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

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 in the financial statements for the year ended July 31, 2017.

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 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 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
- (7) The investment policies of the Association

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

9. Endowment (continued)

Spending policy (continued)

The Board of Directors has established an investment return transfer policy whereby a 5% appropriation 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, 2017, the Board of Directors authorized a supplemental draw of \$3,132,613 in excess of the 5% transfer to support operations and \$481,490 to offset endowment related expenses (primarily for management and investment expenses). The Association also authorized an additional supplemental draw from unrestricted assets (i.e., board-designated endowment) of \$3,470,000. The Association considered the UPMIFA 7% prudence 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 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. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$6,914,368 as of July 31, 2017. These deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

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.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

9. Endowment (continued)

Endowment composition

As of July 31, 2017, the endowment investments were restricted by donors to provide earnings as follows:

Restricted for operations	\$132,092,142
Restricted for opera house maintenance	2,000,000
Restricted for tickets for the underprivileged	2,000,000
Restricted for new productions	16,150,721
Restricted for San Francisco Opera Center	17,109,555
Restricted for student subscriptions	3,333,152
Restricted for principal artists	2,099,240
Restricted for education	1,510,029
Restricted for Pre-1850 Operas	3,800,000
Restricted for Outreach	275,000
Restricted for Supernumeraries	10,000
Restricted for other program restrictions	<u>500,320</u>
Total permanently restricted net assets	180,880,159
Endowment planned giving	<u>217,122</u>
Total permanently restricted net assets (Including planned giving)	<u><u>\$181,097,281</u></u>

The Association's endowment consists of twelve 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, 2017, is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Net Endowment <u>Assets</u>
Donor-restricted endowment funds	\$ (6,914,368)	\$15,324,918	\$181,097,281	\$189,507,831
Board-designated endowment funds	<u>18,765,623</u>	<u>-</u>	<u>-</u>	<u>18,765,623</u>
Total funds	<u><u>\$11,851,255</u></u>	<u><u>\$15,324,918</u></u>	<u><u>\$181,097,281</u></u>	<u><u>\$208,273,454</u></u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

9. Endowment (continued)

Endowment composition (continued)

The following represents the changes in endowment net assets for the year ended July 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$13,255,924	\$11,521,767	\$150,052,819	\$174,830,510
Contributions	-	-	30,860,741	30,860,741
Wilsey Center Loan (net)	529,442	-	-	529,442
Investment return				
Investment income	428,563	1,803,741	-	2,232,304
Net appreciation	<u>2,966,361</u>	<u>11,586,010</u>	<u>183,721</u>	<u>14,736,092</u>
Total investment return	3,394,924	13,389,751	183,721	16,968,396
Amounts appropriated for expenditure	<u>(5,329,035)</u>	<u>(9,586,600)</u>	<u>-</u>	<u>(14,915,635)</u>
Endowment net assets, end of year	<u>\$11,851,255</u>	<u>\$15,324,918</u>	<u>\$181,097,281</u>	<u>\$208,273,454</u>

10. Government Grants

The Association recorded the following government grants during the year ended July 31, 2017:

Unrestricted	
City and County of San Francisco	\$677,000
Other	<u>49</u>
Total	677,049
Temporarily restricted	
National Endowment for the Arts	<u>90,000</u>
Total Government Grants	<u>\$767,049</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

11. Commitments and Contingencies

The Association leases facilities under non-cancelable operating leases, subject to various escalation clauses expiring in fiscal years through 2018. The leases are recorded on a straight-line basis. Minimum future rental payments on the leases as of July 31, 2017, are as follows:

<u>Year Ending July 31,</u>	
2018	\$395,546

Rent expense was \$1,188,707 for the year ended July 31, 2017.

During the year ended July 31, 2016, the Association entered into a twenty-nine and a half year lease with the City and County of San Francisco (through the War Memorial and Performing Arts Center) with monthly payments of \$33,814. The lease grants the Association a six month termination right. The leased space houses the Association's Costume Studio, as well as a number of administrative departments.

The Association enters into non-cancelable artistic and administrative agreements for future seasons. Payments required under these agreements as of July 31, 2017, are as follows:

<u>Year Ending July 31,</u>	
2018	\$6,738,098
2019	1,477,408
2020	1,056,428
2021	<u>417,000</u>
Total	<u>\$9,688,934</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, 2017, the Association had one outstanding legal action for which it has accrued \$41,000. The Association does not expect the settlement to exceed the amount accrued.

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 \$1,717,904 of compensation during the year ended July 31, 2017. This amount has been included as operating revenue in the accompanying statement of activities.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

13. 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, 2017, was \$503,071, 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. Opera Ball 2016: La Révolution et L'Amour, Annual Meeting & Luncheon: An Evening on Stage honoring Franklin P. ("Pitch") Johnson, Jr. were managed by the Guild during the year ended July 31, 2017. 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 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, 2017, are as follows:

Benefit obligation	\$ 2,099,039
Fair value of plan assets	<u>-</u>
Unfunded status	<u>\$(2,099,039)</u>
Benefit payments	<u>\$ (176,948)</u>
Amounts recognized in the statement of financial position consist of	
Short-term compensation	\$ -
Long-term compensation	(2,099,039)
Accumulated other loss	<u>-</u>
Net amount recognized at year-end	<u>\$(2,099,039)</u>
Other loss attributable to change in additional minimum liability recognition	<u>\$ -</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

14. Employee Retirement Benefits (continued)

Orchestra Retiree Health Benefit Plan (continued)

Change in benefit obligation:

Benefit obligation at beginning of year	\$(2,497,785)
Interest cost	(72,750)
Amortization of net loss/prior service cost	(160,728)
Benefit payments	176,948
Additional benefit liability	<u>455,276</u>
Benefit obligation end of year	<u>\$(2,099,039)</u>

Amounts recognized in unrestricted net assets for the year ended July 31, 2017, consist of:

Net loss	\$ 737,321
Prior service cost	\$ 448,455

The following table provides components of the net periodic benefit cost for the plan for the year ended July 31, 2017:

Service cost	\$ -
Interest cost	72,750
Amortization of net loss	78,209
Expected return on plan assets	-
Amortization of prior service cost	82,519
Recognized actuarial loss	<u>-</u>
Net periodic benefit cost	<u>\$233,478</u>

Assumptions

The following assumptions were used to determine the benefit obligations at July 31, 2017:

Discount rate	3.49%
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, 2017:

Discount rate	3.03%
Expected long-term return on plan assets	-
Rate of compensation increase	-

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

14. Employee Retirement Benefits (continued)

Assumptions (continued)

A 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended July 31, 2017. 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:

<u>Fiscal Year Ending</u>	
2018	\$ 184,000
2019	165,000
2020	153,000
2021	150,000
2022	147,000
2023 through 2027	<u>626,000</u>
	<u>\$1,425,000</u>

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

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 401(k) and 403(b) defined contribution plans. All the Association's employees are eligible to participate in the plans. The Association does not make contributions to the 401(k) or 403(b) plans. The Association made contribution totaling \$657,958 to the 401(a) plan for the year ended July 31, 2017.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

14. Employee Retirement Benefits (continued)

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 3.5% to 13% of the employee's compensation and were \$2,654,729 for the year ended July 31, 2017.

The Association is a participating employer in five 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 \$1,562,860 in the year ended July 31, 2017, and \$1,809,550 in the year ended July 31, 2016, 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 plan. 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 consolidated change in net assets in the period of the withdrawal. The Association has no plans to withdraw from its multiemployer pension plans at this time.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

14. Employee Retirement Benefits (continued)

Retirement Plans - Multiemployer (continued)

The following schedule presents information about the Association's multiemployer pension plans as of July 31, 2017, and the years ended July 31, 2017 and 2016:

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		2017	2016		
AFM Pension Fund	51-6120204 001	Red 3/31/2017	Red 3/31/2016	Imple- mented	\$743,706	\$933,447	10.0%	7/31/2018
Local16 Pension Plan	94-6296420 001	Green 12/31/2016	Green 12/31/2015	Imple- mented	\$707,101	\$766,743	35.7%	12/31/2017
Local16 Pension Plan, on behalf of Local B-18	94-6296420 001	Green 12/31/2016	Green 12/31/2015	Imple- mented	\$ 55,726	\$57,549	10.0%	7/31/2017
IATSE Natnl Pension Fund	13-1849172 001	Green 12/31/2016	Green 12/31/2015	N/A	\$ 27,578	\$31,199	N/A	7/31/2018
USA Pension Fund	13-1982707 001	Green 12/31/2016	Green 12/31/2015	N/A	\$ 28,749	\$20,612	N/A	7/31/2019

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 "red zone" status as of the most recent Fund reporting date. Due to minimum compensation guarantees to certain employees who participate in the Fund, the Association is obligated to contribute a minimum amount. For the year ended, July 31, 2017, the minimum obligation was \$835,255. According to the most recently available Annual Funding Notice, as of the period ended March 31, 2017, the funded percentage was 69%; the Actuarial Value of Assets was \$1,976,473,051; and the Actuarial Value of Liabilities was \$2,866,450,348. The Association did not contribute more than 5% of total Fund contributions.

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 International Alliance of Theatrical and Stage Employees Local 16 and Local B-18. As of January 1, 2016 the Plan was certified "green zone" status. There are no minimum contributions to the Plan. The Association did contribute more than 5% of total Fund contributions.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

14. Employee Retirement Benefits (continued)

Retirement Plans - Multiemployer (continued)

I.A.T.S.E. National Pension Fund - The Association makes contributions to the IATSE National Pension Fund on behalf of employees who are members of Theatrical Wardrobe Union Local 784. The Fund was certified "green zone" status as of the most recent Fund reporting date. There are no minimum contributions to the Fund. The Association did not contribute more than 5% of total Fund 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 certified "green zone" status as of the most recent Fund reporting date. There are no minimum contributions to the Fund. The Association did not contribute more than 5% of total Fund contributions.

15. Related Party Transactions

During 2017, contributions from the Board of Directors totaled \$15,021,521. Undiscounted contributions receivable from such related parties was \$17,364,029 at July 31, 2017. Occasionally, the Association will also receive in-kind contributions from the Board of Directors.

16. 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, 2017:

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Cash in mutual funds	\$ 6,295,984	\$ -	\$ -	\$ 6,295,984
Mutual funds and ETFs	<u>169,212,976</u>	<u>-</u>	<u>-</u>	<u>169,212,976</u>
Total investments	175,508,959	-	-	175,508,960
Charitable remainder trusts	-	-	3,201,502	3,201,502
Pooled income funds	<u>-</u>	<u>-</u>	<u>935,757</u>	<u>935,757</u>
Total	<u>\$175,508,959</u>	<u>\$ -</u>	<u>\$ 4,137,259</u>	179,646,219
Investments measured at net asset value*				<u>16,079,042</u>
Total				<u>\$195,725,261</u>

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

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2017

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.

	Charitable Remainder Trusts and Pooled <u>Income Funds</u>
Balance, beginning of year	\$4,036,938
Purchases	25,076
Realized and unrealized gains, net	<u>75,245</u>
Balance, end of year	<u>\$4,137,259</u>
Net change in unrealized gains relating to instruments still held at July 31, 2017	<u>\$ 219,716</u>

SAN FRANCISCO OPERA ASSOCIATION
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16. 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, 2017:

	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	7,466,439	3	NA	NA	NA	Ranges between monthly with 30 days notice to quarterly with 30 days notice.	
Real Estate	Partnerships that invest in real estate.	389,413	3	1 to 3 years	120,016	1 year	NA	NA
Inflation Hedge	Fund of funds that invest in natural resource partnerships	1,291,936	1	6 years	147,000	1 year	NA	NA
Private Equity	Venture capital and buyout funds and fund of funds	6,930,918	7	1 to 10 years	1,735,500	1 to 6 years	NA	NA
Hedge Funds	Diversified arbitrage	336	1	NA	NA	NA		In final liquidation
Total investments		<u>\$ 16,079,042</u>			<u>\$ 2,002,516</u>			

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

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.

SUPPLEMENTAL SCHEDULE

SAN FRANCISCO OPERA ASSOCIATION
Supplemental Schedule of Production and Artistic Expenses
For the Year Ended July 31, 2017

Production and artistic expenses		
Singers, conductors, directors, and designers	\$ 6,801,894	12.8%
Orchestra	11,942,246	22.6%
Chorus and dancers	6,615,039	12.5%
Scenery, properties, stagehands, and production staff	14,316,466	27.0%
Costumes, wardrobe, wigs, and makeup	4,839,809	9.1%
Production and artistic administration	<u>8,449,970</u>	<u>16.0%</u>
	<u>\$ 52,965,424</u>	<u>100%</u>