

San Francisco Opera Association

Financial Statements

For the Year Ended July 31, 2021
(With Summarized Comparative Financial
Information for 2020)



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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 arts organization, which comprise the statement of financial position as of July 31, 2021, and the related statements of activities, functional expenses, 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, 2021, 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 2020 financial statements, and our report dated December 16, 2020, 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, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule on page 36 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, 2021

SAN FRANCISCO OPERA ASSOCIATION
Statement of Financial Position
July 31, 2021
(With Summarized Comparative Financial Information as of July 31, 2020)

<u>ASSETS</u>	2021	2020
Current assets		
Cash and cash equivalents	\$ 17,695,871	\$ 6,925,362
Cash held for agencies in trust	105,503	514,917
Investments, current portion of endowment	15,990,941	11,281,858
Receivables		
Contributions, net, current portion	6,534,327	5,193,588
Grants	75,000	80,000
Other, net	1,704,277	282,911
Deferred production and promotion costs, current portion	3,192,313	879,318
Prepaid expenses and other	265,740	158,063
Total current assets	45,563,972	25,316,017
Net contributions receivable, long-term	6,937,773	11,324,690
Deferred production and promotion costs, long-term	759,662	1,220,726
Property and equipment, net	21,481,898	21,579,204
Long-term investments, less current portion of endowment	290,365,188	224,533,947
Assets held in charitable remainder trusts	3,830,229	3,184,110
Assets of pooled income funds	845,392	799,786
Total assets	\$ 369,784,114	\$ 287,958,480
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,872,302	\$ 2,997,436
Advance ticket sales	4,509,647	2,397,877
Refundable advance - Shuttered Venue Operators Grant	7,041,638	-
Advance tickets payable	1,805,534	3,368,180
Capital lease obligations, short-term	-	104,374
Line of credit	5,500,000	-
Deferred compensation and other, short-term	183,878	569,681
Total current liabilities	20,912,999	9,437,548
Long-term liabilities		
Deferred revenue from pooled income funds	118,689	61,804
Paycheck Protection Program loan	-	1,433,791
Deferred compensation and other, long-term	7,845,072	7,702,907
Total long-term liabilities	7,963,761	9,198,502
Total liabilities	28,876,760	18,636,050
Net assets		
Without donor restrictions	30,097,396	30,025,002
With donor restrictions	310,809,958	239,297,428
Total net assets	340,907,354	269,322,430
Total liabilities and net assets	\$ 369,784,114	\$ 287,958,480

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

SAN FRANCISCO OPERA ASSOCIATION
Statement of Activities
For the Year Ended July 31, 2021
(With Summarized Comparative Financial Information for the Year Ended July 31, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating revenues, gains and support				
Ticket sales	\$ 490,918	\$ -	\$ 490,918	\$ 10,341,482
San Francisco Opera Center fees	1,262,947	-	1,262,947	592,224
Long-term investment return transfer	1,973,907	9,307,951	11,281,858	15,068,554
Investment gains on donated securities	38,981	-	38,981	14,304
Scenery, costume rentals, and other income	734,233	-	734,233	1,231,347
Subtotal	4,500,986	9,307,951	13,808,937	27,247,911
Net assets released from restrictions	16,684,250	(16,684,250)	-	-
Total operating revenues, gains (losses) and support	21,185,236	(7,376,299)	13,808,937	27,247,911
Operating expenses				
Production, music and artistic	35,192,420	-	35,192,420	50,473,434
San Francisco Opera Center	2,339,952	-	2,339,952	1,915,601
Marketing and box office	3,527,472	-	3,527,472	7,116,667
Administrative and general operations				
Administrative departments	4,551,268	-	4,551,268	4,512,109
Facilities and support costs	2,893,639	-	2,893,639	2,697,860
Total operating expenses	48,504,751	-	48,504,751	66,715,671
Operating revenues, gains and support less operating expenses	(27,319,515)	(7,376,299)	(34,695,814)	(39,467,760)
Contributed income				
Individuals	15,621,105	5,952,149	21,573,254	25,350,976
Corporation and foundations	6,808,553	19,796,627	26,605,180	27,969,155
Government grants	4,058,791	75,000	4,133,791	8,270,774
Bequests	1,970,680	2,354	1,973,034	285,675
Contributed property, services, and other contributions	504,157	-	504,157	1,411,737
Total contributed income	28,963,286	25,826,130	54,789,416	63,288,317
Less: fund-raising expenses	(3,314,995)	-	(3,314,995)	(3,845,410)
Contributed income, net	25,648,291	25,826,130	51,474,421	59,442,907
Operating income (loss) before ASU 2016-14 depreciation adjustment	(1,671,224)	18,449,831	16,778,607	19,975,147
Depreciation relating to ASU 2016-14	1,430,596	-	1,430,596	1,624,745
Operating income (loss)	(240,628)	18,449,831	18,209,203	21,599,892
Non-operating income (loss)				
Investment income and gains (losses), net	(98,352)	61,735,809	61,637,457	8,715,677
Change in value of interests in split-interest agreements	633	650,200	650,833	132,494
Split-interest agreements released from restriction	15,359	(15,359)	-	-
Less: long-term investment return transfer	(1,973,907)	(9,307,951)	(11,281,858)	(15,068,554)
Less: investment gains on donated securities	(38,981)	-	(38,981)	(14,304)
Less: depreciation relating to ASU 2016-14	(1,430,596)	-	(1,430,596)	(1,624,745)
Contributions designated for board endowment	355,000	-	355,000	2,313,812
Bequests designated for board endowment	3,850,133	-	3,850,133	3,988,809
Prior years' retirement expense	(261,819)	-	(261,819)	48,023
Non-operating income (loss)	417,470	53,062,699	53,480,169	(1,508,788)
Change in post-retirement benefit liabilities	(104,448)	-	(104,448)	(367,477)
Change in net assets	72,394	71,512,530	71,584,924	19,723,627
Net assets, beginning of year	30,025,002	239,297,428	269,322,430	249,598,803
Net assets, end of year	\$ 30,097,396	\$ 310,809,958	\$ 340,907,354	\$ 269,322,430

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, 2021
(With Summarized Comparative Financial Information for the Year Ended July 31, 2020)

	2021			2020	
	Program Services	Management and General	Fundraising	Total	Total
Salaries and benefits	\$ 28,865,338	\$ 5,068,025	\$ 2,440,906	\$ 36,374,269	\$ 52,631,666
Professional fees	126,234	861,634	217,670	1,205,538	1,001,641
Marketing and promotion	4,276,709	473,536	69,969	4,820,214	2,421,431
Per diem, travel, and accommodations	228,674	4,525	19,680	252,879	1,271,695
Interest, depreciation and amortization	1,090,060	1,808,998	-	2,899,058	3,231,126
Rents and royalties	1,249,114	972,383	66,898	2,288,395	2,681,170
Production materials and equipment	1,079,866	62,800	-	1,142,666	2,091,030
General expenses	206,871	244,876	128,814	580,561	1,534,037
Equipment and software maintenance	5,317	737,374	-	742,691	659,406
Miscellaneous	594,903	547,514	371,058	1,513,475	3,037,879
Total expenses	<u>\$ 37,723,086</u>	<u>\$ 10,781,665</u>	<u>\$ 3,314,995</u>	<u>\$ 51,819,746</u>	<u>\$ 70,561,081</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, 2021
(With Summarized Comparative Financial Information for the Year Ended July 31, 2020)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 71,584,924	\$ 19,723,627
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	2,832,765	3,175,398
Gain on disposal of property and equipment	-	(4,478)
Bad debt expense	88,705	68,821
Amortization of discount on contributions receivable	536,917	206,795
Change in value of split-interest agreements	(707,698)	24,219
Contributions restricted for long-term investment	(3,903,910)	(2,210,052)
Donated investment securities	(20,095,990)	(28,409,509)
In-kind contributions of property and equipment	-	136,940
Net realized and unrealized gains on investments	(57,128,565)	(3,411,944)
Investment income restricted for long-term purposes	(4,196,970)	(4,970,466)
Contributions restricted for purchase of property and equipment	381,875	(75,000)
Change in post retirement benefit liabilities	104,448	367,477
Changes in operating assets and liabilities		
Contributions and grants receivable, net	2,425,577	4,271,691
Other receivable, net	(1,011,972)	328,530
Deferred production and promotion costs	(1,851,931)	3,366,963
Prepaid expenses and other	(107,677)	268,398
Accounts payable and accrued liabilities	(1,125,134)	(416,619)
Advance ticket sales	2,111,770	(8,136,037)
Advanced ticket payable	(1,562,646)	3,368,180
Proceeds from Paycheck Protection Program Loan	(1,433,791)	1,433,791
Proceeds from Shuttered Venue Operators Grant	7,041,638	-
Deferred compensation and other	(291,201)	(475,589)
Net cash used in operating activities	(6,308,866)	(11,368,864)
Cash flows from investing activities		
Purchase of property and equipment	(2,735,459)	(1,538,975)
Proceeds from sale of property and equipment	-	4,478
Proceeds from sales of investments	10,899,397	14,330,547
Proceeds from charitable remainder trusts and pooled income funds	15,973	-
Purchase of investments	(4,215,167)	(4,772,199)
Net cash provided by investing activities	3,964,744	8,023,851
Cash flows from financing activities		
Proceeds from investment income restricted for long-term purposes	4,196,970	4,970,466
Proceeds from contributions restricted for long-term investment	3,903,910	2,210,052
Proceeds from contributions restricted for purchase of property and equipment	(381,875)	75,000
Net borrowings on line of credit	5,500,000	-
Payments on capital leases	(104,374)	(205,318)
Net cash provided by financing activities	13,114,631	7,050,200
Net change in cash and cash equivalents	10,770,509	3,705,187
Cash and cash equivalents, beginning of year	6,925,362	3,220,175
Cash and cash equivalents, end of year	\$ 17,695,871	\$ 6,925,362
<u>Additional cash flow information</u>		
Interest paid	\$ 63,823	\$ 36,253
<u>Non-cash investing and financing activities</u>		
Property and equipment acquired with capital lease financing	\$ -	\$ -

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

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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, 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 opera performance season subscription and single ticket sales, the San Francisco Opera Center, and other sources such as scenery and costume rentals.

Due to the onset of COVID-19 (see Note 20), the Association was required to cancel its fall 2020 and summer 2021 programs of opera performances. As a result, the Association renegotiated some of its collective bargaining agreements to accommodate the performance cancellations.

Approximately 80 percent of the Association's employees are covered by collective bargaining agreements. Other than the agreements discussed above, no other agreements expired during the fiscal year ended July 31, 2021.

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, front of house, and subscription departments.

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, 2021

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, 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 \$105,503 as of July 31, 2021, 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, 2021

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, 2021, range between .07% and 3.10%). 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 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. The Association did not record any allowances for doubtful accounts for other receivables at July 31, 2021.

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 \$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.

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.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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, 2021.

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 \$27,539,603 (8% of net assets) as of July 31, 2021, 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.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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, 2021.

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 1.2%. The difference between the fair value of the assets received and the revenue recognized is recorded as deferred revenue from pooled income funds.

Fair value measurements

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

In determining fair value, the Association uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability 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, 2021

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, 2021

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 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, 2021, contributed property and services were \$385,874 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, 2021, were \$183,724.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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, accounts receivable, unconditional promises to give, marketable securities, and investments. The Association maintains cash and cash equivalents with one major financial institution. As of July 31, 2021, 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, 2021

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, 2021, 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.

Fair value of financial instruments

The fair value of cash, accounts receivable, accounts payable and accrued expenses at July 31, 2021, 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 accounting principles generally accepted in the United States of America 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, 2020, from which the summarized information was derived.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

1. Organization and Significant Accounting Policies (continued)

Change in accounting principle

Effective August 1, 2020, the Association adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". The core principle of the guidance in ASU 2014-09 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. The adoption of ASU 2014-09 did not have a material impact on the Association's financial statements.

Subsequent events

The Association has evaluated subsequent events through December 14, 2021, the date the financial statements were available to be issued. The Association continues to monitor the impact the global pandemic might have on its future operations.

During the period from August 1, 2021 through December 14, 2021, the Association did not have any subsequent events.

2. Contributions and Grants Receivable

Contributions and grants receivable at July 31, 2021, are due as follows:

Less than one year	\$ 6,609,327
One to five years	7,062,541
Thereafter	<u>750,000</u>
	14,421,868
Less: discount on contributions receivable	(761,499)
Less: allowance for uncollectible contributions	<u>(113,269)</u>
Contributions and grants receivable, net	<u>\$13,547,100</u>

Five individual donors accounted for 76% of total gross contributions and grants receivable at July 31, 2021.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

3. Deferred Production and Promotion Costs

Deferred production and promotion costs that have been capitalized as of July 31, 2021, relate to future opera performances in the following years:

<u>Year Ending July 31,</u>	
2022	\$3,192,313
2023	300,452
2024	278,048
2026	<u>181,162</u>
Total	<u>\$3,951,975</u>

4. Property and Equipment

Property and equipment at July 31, 2021, is comprised of the following:

Leasehold improvements	\$23,537,202
Equipment and furniture	27,350,866
Work in progress	<u>1,979,137</u>
Total	52,867,205
Less: accumulated depreciation and amortization	<u>(31,385,307)</u>
Property and equipment, net	<u>\$21,481,898</u>

Depreciation and amortization expense for the year ended July 31, 2021, was \$2,832,765. The Association has elected to disclose separately in the statement of activities the component of depreciation related to the adoption of ASU 2016-14.

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 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, 2021

5. Investments (continued)

Investments at July 31, 2021, comprised the following:

Cash and cash equivalents	\$ 24,539,960
Mutual funds and ETFs	254,276,566
Alternative investments	<u>27,539,603</u>
	306,356,129
Less: current portion of endowment	<u>(15,990,941)</u>
Long-term investments	<u>\$290,365,188</u>

The Alternative investment category comprises the following types of investments:

Commingled vehicles - real estate	\$ 514,332
Commingled vehicles - inflation hedge	803,608
Commingled vehicles - private equity	<u>26,221,663</u>
Total	<u>\$ 27,539,603</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, 2021.

The following schedule summarizes the total investment return for the year ended July 31, 2021:

Interest and dividend income	\$ 4,996,938
Net realized and unrealized gains	57,128,564
Investment fees	<u>(488,045)</u>
Total return on investments, net	<u>\$61,637,457</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, 2021

6. 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 million (see Note 7). The Association believes that cash proceeds from the combination of the investment return transfer, ticket sales, donor contributions, access to a line of credit, as well as other miscellaneous cash sources, enables the Association to meet all organizational 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 \$27,009,817 (see Note 11) as of July 31, 2021.

In April 2021, the Association applied for and received a second round Paycheck Protection Program Loan in the amount of \$2,000,000, all of which is classified as grant income in the statement of activities. With the additional cash from the grant, as well as reductions to fixed costs from renegotiating the Association's collective bargaining agreements, the Association believes it has sufficient liquidity to offset any reductions in cash as a result of the cancellation of its fall 2020 and summer 2021 performance seasons.

The following is a quantitative disclosure which describes assets available within one year of July 31, 2021, to fund general expenditures and other obligations as they become due:

Financial Assets	
Cash and cash equivalents	\$17,695,871
Receivables, current portion	8,313,604
Investments, current portion	<u>15,990,941</u>
	<u>\$42,000,416</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

7. Line, Letters of Credit and Notes Payable

During the year ended July 31, 2021, the Association renewed its unsecured line of credit Agreement at a borrowing capacity of \$15 million. The Agreement bears interest at Prime Rate minus 0.5%, with an optional borrowing rate of LIBOR plus 2.25% (the Prime Rate was 3.25% and the LIBOR rate was 0.093% as of July 31, 2021). The Agreement expires on August 24, 2021, and the Association intends to renew the Agreement with similar terms. Interest expense incurred under the Agreement for the year ended July 31, 2021, was \$63,823. The Agreement contains liquidity and zero balance covenants, both 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, 2021. 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, 2021, was \$172,781.

8. Paycheck Protection Program Loans

On April 21, 2021, the Association received loan proceeds of \$2,000,000 from a promissory note issued by a financial institution, under the second round Paycheck Protection Program ("PPP"), which was established under the Economic Aid to Hard-Hit Small Business, Nonprofits, and Venues Act ("Economic Aid Act", or "EEA") and is administered by the U.S. Small Business Administration. The term of the loan is two years and the annual interest rate is 1%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of EEA, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Association believes it has met the PPP's eligibility criteria and has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven and, accordingly, has accounted for the PPP loan as a conditional contribution. Proceeds received under the PPP loan are recognized as revenue when the Association has incurred expenditures in compliance with the promissory note provisions and when the conditions have been substantially met. The Association recognized conditional grant revenue totaling \$3,433,791 (which includes \$1,433,791 remaining from first round PPP and \$2,000,000 from second round PPP) during the year ended July 31, 2021 based on qualifying expenditures made under the PPP that are expected to be forgiven.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

9. Deferred Compensation and Other

The deferred compensation and other balances at July 31, 2021, comprised the following:

Accrued retirement compensation	\$3,548,976
Orchestra post-retirement benefit plan	2,513,440
Facilities fees	1,792,553
Cash held for agencies in trust	105,503
Other	<u>68,478</u>
Total	<u>\$8,028,950</u>

10. Net Assets

Net assets with donor restrictions as of July 31, 2021, and net assets with donor restrictions released from restriction for the year ended July 31, 2021, are as follows:

	<u>Net Assets with Donor Restrictions</u>	<u>Net Assets Released from Restriction</u>
Undesignated unappropriated endowment	\$232,005,631	\$ 7,772,547
Contributions for future seasons	5,914,437	5,346,785
Media suite	30,000	-
Charitable remainder trusts	3,707,785	-
Charitable gift annuities	122,445	-
Future productions	679,491	419,234
New productions	21,177,643	795
Pooled income funds	726,703	-
Adler program	1,997,815	422,396
Wattis Tickets Fund	2,729,848	23,486
Opera Center	18,916,514	584,911
Principal artists	3,152,426	194,106
Student subscriptions	4,307,931	-
Education	1,832,405	81,364
WMOH maintenance	2,639,309	110,598
Outreach	868,971	-
Supernumeraries	12,981	-
Other equipment and furniture	1,629	-
Sauerwald Disability Fund	182,460	3,000
Pre-1850 Operas	5,275,547	212,806
General Director's Chair	1,048,420	451,580
Other program restrictions	<u>3,479,567</u>	<u>1,060,642</u>
Total net assets with donor restrictions	<u>\$310,809,958</u>	
Total net assets with donor restrictions released from restrictions		<u>\$16,684,250</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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, 2021.

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 whose use 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
- (7) The investment policies of the Association

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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, 2021, the Board of Directors authorized a supplemental transfer of \$349,816 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. At July 31, 2021, funds with deficiencies were \$2,612,887. 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, 2021

11. Endowment (continued)

Endowment composition

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, 2021, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$285,045,961	\$285,045,961
Board-designated endowment funds	<u>27,009,817</u>	<u>-</u>	<u>27,009,817</u>
Total funds	<u>\$27,009,817</u>	<u>\$285,045,961</u>	<u>\$312,055,778*</u>

The following represents the changes in endowment net assets for the year ended July 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$20,662,296	\$224,108,970	\$244,771,266
Contributions	-	19,115,860	19,115,860
Wilsey Center Loan (net)	104,103	-	104,103
Board Designated Funds	3,009,877	-	3,009,877
Investment return			
Investment income	276,566	4,196,970	4,473,536
Net appreciation (depreciation)	<u>4,930,882</u>	<u>46,932,112</u>	<u>51,862,994</u>
Total investment return	5,207,448	51,129,082	56,336,530
Amounts appropriated for expenditure	<u>(1,973,907)</u>	<u>(9,307,951)</u>	<u>(11,281,858)</u>
Endowment net assets, end of year	<u>\$27,009,817</u>	<u>\$285,045,961</u>	<u>\$312,055,778*</u>

*Amount includes Endowment Contributions Receivable, net, in the amount of \$6,010,860.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

12. Government Grants

The Association recorded the following government grants during the year ended July 31, 2021:

Net assets without donor restrictions	
Paycheck Protection Program Loan Grants	\$3,433,791
City and County of San Francisco	600,000
State of California COVID Relief Grant	<u>25,000</u>
Total government grants without donor restrictions	<u>4,058,791</u>
Net assets with donor restrictions	
National Endowment for the Arts	<u>75,000</u>
Total Government Grants	<u>\$4,133,791</u>

13. Commitments and Contingencies

The Association leases facilities under non-cancelable operating leases that are subject to various escalation clauses expiring in fiscal years through 2026. The leases are recorded on a straight-line basis. Minimum future rental payments on the leases as of July 31, 2021, are as follows:

<u>Year Ending July 31,</u>	
2022	\$1,008,373
2023	735,566
2024	551,532
2025	568,074
2026	<u>435,573</u>
Total	<u>\$3,299,118</u>

Rent expense was \$1,526,874 for the year ended July 31, 2021.

In a prior year, 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 \$37,922. The lease grants the Association a six month termination right. The leased facilities house the Association's Costume Studio, as well as a number of administrative departments.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

13. Commitments and Contingencies (continued)

The Association enters into non-cancelable artistic and administrative agreements for future seasons. Payments required under these agreements as of July 31, 2021, are as follows:

<u>Year Ending July 31,</u>	
2022	\$3,732,750
2023	1,663,645
2024	912,019
2025	865,000
2026	<u>865,000</u>
Total	<u>\$8,038,414</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, 2021, the Association had no material outstanding legal actions.

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 \$1,262,947 of compensation during the year ended July 31, 2021. This amount has been included as operating revenue in the accompanying statement of activities. As a result of COVID-19, the Merola Opera Program modified its training program, thus reducing Opera Center operating revenue.

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, 2021, was \$118,283, 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; *Life Changing: An Event with Frederica von Stade and Jake Heggie*, held virtually. The Association administers the collection of contributions for some Guild events. As a result of COVID-19, the Guild cancelled its *Opera Ball 2021*, thus reducing total support received from the Guild.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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, 2021, are as follows:

Benefit obligation	\$ 2,513,440
Fair value of plan assets	<u> -</u>
Unfunded status	<u><u>\$(2,513,440)</u></u>
 Benefit payments	 \$(198,504)
 Amounts recognized in the statement of financial position consist of	
Short-term compensation	\$ -
Long-term compensation	(2,513,440)
Accumulated other loss	<u> -</u>
Net amount recognized at year-end	<u><u>\$(2,513,440)</u></u>
 Other loss attributable to change in additional minimum liability recognition	 \$ -

Change in benefit obligation:

Benefit obligation at beginning of year	\$(2,375,932)
Interest cost	(47,451)
Amortization of net loss/prior service cost	(184,113)
Benefit payments	198,504
Additional benefit liability	<u>(104,448)</u>
Benefit obligation end of year	<u><u>\$(2,513,440)</u></u>

Amounts recognized in unrestricted net assets for the year ended July 31, 2021, consist of:

Net loss	\$1,302,958
Prior service cost	\$ 243,956

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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, 2021:

Service cost	\$ -
Interest cost	47,451
Amortization of net loss	143,453
Expected return on plan assets	-
Amortization of prior service cost	40,660
Recognized actuarial loss	<u>-</u>
Net periodic benefit cost	<u>\$231,564</u>

Assumptions

The following assumptions were used to determine the benefit obligations as of July 31, 2021:

Discount rate	2.28%
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, 2021:

Discount rate	1.90%
Expected long-term return on plan assets	-
Rate of compensation increase	-

A 5.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended July 31, 2021. The rate was assumed to decrease gradually each year by a rate of .5% until an ultimate rate of 5% is achieved, at which point the rate will remain at that level thereafter.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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>	
2022	\$ 198,000
2023	198,000
2024	176,000
2025	169,000
2026	162,000
2027 through 2031	<u>656,000</u>
	<u>\$1,559,000</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 \$613,860 to the 401(a) plan for the year ended July 31, 2021.

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.

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 \$1,475,205 for the year ended July 31, 2021.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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 \$1,090,049 in the year ended July 31, 2021, and \$1,824,573 in the year ended July 31, 2020, 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 consolidated change in net assets in the period of the withdrawal. The Association has no plans to withdraw from any the multiemployer pension plans at this time.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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, 2021, and the years ended July 31, 2021 and 2020:

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		2021	2020		
AFM Pension Fund	51-6120204 001	Critical/ Declining 3/31/2021	Critical/ Declining 3/31/2020	Imple- mented	\$467,986	\$954,445	10.0%	7/31/2023
IATSE Local 16 Pension Plan	94-6296420 001	Not Endangered 12/31/2020	Not Endangered 12/31/2019	Imple- mented	\$494,753	\$717,663	48.6%	12/31/2022
IATSE Local 16 Pension Plan, on behalf of Local B-18	94-6296420 001	Not Endangered 12/31/2020	Not Endangered 12/31/2019	Imple- mented	\$74,872	\$78,762	48.6%	7/31/2023
IATSE 784 Natl Pension Fund	13-1849172 001	Not Endangered 12/31/2020	Not Endangered 12/31/2019	N/A	\$16,856	\$ 43,727	N/A	7/31/2023
USA 829 Pension Fund	13-1982707 001	Not Endangered 12/31/2020	Not Endangered 12/31/2019	N/A	\$8,291	\$ 21,406	N/A	7/31/2024
IATSE Local 33 Pension Fund	95-6377503 001	Not Endangered 12/31/2020	Not Endangered 12/31/2019	N/A	\$27,291	\$ 8,570	N/A	6/30/2023

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. 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, 2021, the minimum obligation was \$456,920. According to the most recently available Annual Funding Notice, as of the period ended March 31, 2021, the funded percentage was 53.6%; the Actuarial Value of Assets was \$1,749,404,022; and the Actuarial Value of Liabilities was \$3,262,641,066. The Association did not contribute more than 5% of total Fund contributions.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

16. Employee Retirement Benefits (continued)

Retirement Plans - Multiemployer (continued)

IATSE Local 16 Pension Plan - The Association makes contributions to the Local 16 Pension Plan on behalf of employees who are members of IATSE (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 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 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.

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.

IATSE Local 33 Pension Fund - The Association makes contributions to the IATSE Local 33 Pension Fund on behalf of employees who are members of IATSE Local 800. 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.

17. Related Party Transactions

During 2021, contributions from the Board of Directors totaled \$13,406,653. Undiscounted contributions receivable from such related parties was \$4,983,186 at July 31, 2021. Occasionally, the Association will also receive in-kind contributions from the Board of Directors.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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, 2021:

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Cash in mutual funds	\$ 24,539,960	\$ -	\$ -	\$ 24,539,960
Mutual funds and ETFs	<u>254,276,566</u>	-	-	<u>254,276,566</u>
Total investments	278,816,526	-	-	278,816,526
Charitable remainder trusts	-	-	3,830,229	3,830,229
Pooled income funds	-	-	<u>845,392</u>	<u>845,392</u>
Total	<u>\$278,816,526</u>	<u>\$ -</u>	<u>\$4,675,621</u>	283,492,147
Investments measured at net asset value*				<u>27,132,547</u>
Total				<u>\$310,624,694</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.

	<u>Charitable Remainder Trusts and Pooled Income Funds</u>
Balance, beginning of year	\$3,983,895
Purchases	-
Realized and unrealized gains, net	<u>691,726</u>
Balance, end of year	<u>\$4,675,621</u>
Net change in unrealized gains relating to instruments still held at July 31, 2021	<u>\$ 650,199</u>

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

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, 2021:

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. Per ASU 2009-12, the following table lists investments in other investment companies (in partnership format) by major category:

	Strategy	NAV in Funds	Number of Funds	Remaining Life	Unfunded Commitments	Timing to Drawdown Commitments	Redemption Notice Period	Redemption Restrictions
Assets:								
Real Estate	Partnerships that invest in real estate	\$ 13,675,516	4	7 years	\$ 2,627,347	1 year	N/A	N/A
Private Equity	Venture capital and buyout funds and fund of funds	13,457,031	10	1 to 10 years	5,617,500	1 to 5 years	N/A	N/A
Total investments		<u>\$ 27,132,547</u>			<u>\$ 8,244,847</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 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.

SAN FRANCISCO OPERA ASSOCIATION
Notes to Financial Statements
July 31, 2021

19. Shuttered Venue Operators Grant

On July 7, 2021, the Association was granted \$7,041,638 under the Shuttered Venue Operators Grant ("SVOG") program implemented by the SBA under the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and later amended by the American Rescue Plan Act. The SVOG program was created to prevent widespread closures of venues that were devastated by the loss of revenue due to the COVID-19 pandemic. The SVOG program provides eligible applicants with grants equal to 45% of their gross earned revenue, up to a maximum of \$10,000,000 reduced by borrowings under PPP-2. Under the terms of the grant, the Association has until July 6, 2022, to use grant funds for allowable expenses of the program. The Association has recorded the entirety of the received funds as a refundable advance on the statement of financial position as amounts had not yet been used for qualifying expenditures as of July 31, 2021.

20. Risks and Uncertainties

In December 2019, an outbreak of COVID-19 spread to a number of countries resulting in the World Health Organization declaring a global pandemic on March 11, 2020, and, on account of the spread of the disease in the United States, the U.S. Government declaring a national emergency on March 13, 2020. In addition, several states in the U.S., including California, where the Association is located, have declared a state of emergency. In response, the U.S. Government enacted the CARES Act, which includes significant provisions to provide relief and assistance to affected organizations. COVID-19 could adversely affect the economies and financial markets of many countries, namely the U.S., resulting in an economic downturn that could affect the Association in a variety of ways. The Association cannot anticipate all of the ways in which COVID-19 could adversely impact its operations. Although the Association is continuing to monitor and assess the effects of the COVID-19 pandemic on its operations, the ultimate impact of the COVID-19 outbreak, the CARES Act and other governmental initiatives is highly uncertain and subject to change.

SUPPLEMENTAL SCHEDULE

SAN FRANCISCO OPERA ASSOCIATION
 Supplemental Schedule of Production, Music and Artistic Expenses
 For the Year Ended July 31, 2021

Production, music and artistic expenses		
Singers, conductors, directors, and designers	\$ 2,880,293	8.2%
Orchestra	7,463,788	21.2%
Chorus and dancers	3,847,378	10.9%
Scenery, properties, stagehands, and production staff	12,035,840	34.2%
Costumes, wardrobe, wigs, and makeup	2,630,232	7.5%
Production, artistic administration and media	<u>6,334,889</u>	<u>18.0%</u>
	<u>\$ 35,192,420</u>	<u>100.0%</u>