

OPERA SAN JOSE, INCORPORATED

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

AND

INDEPENDENT AUDITORS' REPORT





INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Opera San Jose, Incorporated

We have audited the accompanying financial statements of Opera San Jose, Incorporated (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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.

Auditors' 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 Opera San Jose, Incorporated as of June 30, 2019, 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 the Opera San Jose, Incorporated's 2018 financial statements, and our report dated November 5, 2018 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 June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Johanson & Yau Accountancy Corporation

Campbell, California
January 15, 2020

OPERA SAN JOSE, INCORPORATED
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(With Comparative Totals as of June 30, 2018)

ASSETS

	2019	2018
Current assets		
Cash	\$ 511,796	\$ 913,913
Investments - Note 5	2,144,014	2,022,865
Pledges receivable - Note 2	203,296	753,818
Prepaid expenses and deposits	193,670	324,843
Total current assets	3,052,776	4,015,439
Pledges receivable, long-term - Note 2	286,000	-
Endowment fund - Note 8	274,487	274,487
Property and equipment, net of accumulated depreciation - Note 4	4,903,190	5,112,354
	\$ 8,516,453	\$ 9,402,280

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued liabilities	\$ 207,238	\$ 70,926
Deferred subscription revenues	1,037,656	1,016,512
Total current liabilities	1,244,894	1,087,438
Net assets		
Without donor restrictions		
Board designated for property and equipment	4,903,190	5,112,354
Board designated for program expansion	788,554	788,554
Undesignated	711,088	1,488,042
	6,402,832	7,388,950
With donor restrictions - Note 8	868,727	925,892
	7,271,559	8,314,842
	\$ 8,516,453	\$ 9,402,280

See accompanying notes to financial statements

OPERA SAN JOSE, INCORPORATED
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating activities:				
Revenues and support				
Subscription and ticket sales	\$ 1,638,864	\$ -	\$ 1,638,864	\$ 2,119,097
Outreach program	8,610	-	8,610	10,650
	1,647,474	-	1,647,474	2,129,747
Contributions and other income				
Individual donations	995,080	91,240	1,086,320	1,409,048
Government grants	285,949	3,000	288,949	306,578
Business donations	96,832	-	96,832	98,497
Foundation grants	195,428	425,000	620,428	1,923,396
Special events	122,694	-	122,694	141,798
Summer training program	-	-	-	1,400
Donated services, material and facilities - Note 9	15,358	-	15,358	44,165
Rentals and other	194,059	-	194,059	127,310
Interest income	1,237	1,497	2,734	2,714
Investment income, net - Note 5	78,134	-	78,134	34,629
Net assets released from restrictions	577,902	(577,902)	-	-
	2,562,673	(57,165)	2,505,508	4,089,535
Total revenues and support	4,210,147	(57,165)	4,152,982	6,219,282
Expenses				
Program services				
Main-stage production	4,195,107	-	4,195,107	5,213,038
Educational K-12	279,944	-	279,944	285,920
Educational adult	49,588	-	49,588	46,891
Supporting services				
General and administrative	402,394	-	402,394	390,479
Fundraising	332,878	-	332,878	411,449
Total expenses	5,259,911	-	5,259,911	6,347,777
Change in net assets from operations	(1,049,764)	(57,165)	(1,106,929)	(128,495)
Non-operating activities				
Net unrealized and realized investment gain - Note 5	63,646	-	63,646	83,715
Change in net assets	(986,118)	(57,165)	(1,043,283)	(44,780)
Net assets, beginning of year	7,388,950	925,892	8,314,842	8,359,622
Net assets, end of year	\$ 6,402,832	\$ 868,727	\$ 7,271,559	\$ 8,314,842

See accompanying notes to financial statements

OPERA SAN JOSE, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>							<u>2018</u>
	<u>Program Services</u>			<u>Supporting Services</u>				
	<u>Main-Stage Production</u>	<u>Educational K-12</u>	<u>Educational Adult</u>	<u>Total</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Salaries	\$ 1,963,928	\$ 216,977	\$ 36,163	\$ 2,217,068	\$ 213,684	\$ 199,500	\$ 2,630,252	\$ 3,071,884
Payroll taxes & benefits	435,192	53,117	8,853	497,162	22,342	21,606	541,110	638,158
Total salaries and related expenses	2,399,120	270,094	45,016	2,714,230	236,026	221,106	3,171,362	3,710,042
Independent contractors	411,430	1,000	-	412,430	-	-	412,430	646,203
Facilities	207,913	-	-	207,913	2,912	2,713	213,538	216,770
Event expenses	-	-	-	-	-	69,588	69,588	96,469
Bank card fees	51,262	-	-	51,262	836	-	52,098	66,988
Materials	357,101	-	-	357,101	-	-	357,101	651,650
Advertising and marketing	166,432	-	-	166,432	-	-	166,432	167,509
Postage and shipping	115,778	-	-	115,778	4,112	5,551	125,441	144,838
Travel and entertainment	100,962	-	-	100,962	427	587	101,976	112,381
Equipment	6,816	-	-	6,816	8,353	-	15,169	8,979
Computer support and supplies	26,993	-	-	26,993	11,247	17,255	55,495	100,312
Supplies	1,229	-	-	1,229	11,188	-	12,417	15,525
Miscellaneous	15,608	-	-	15,608	6,394	1,612	23,614	28,317
Insurance	20,988	-	-	20,988	7,736	-	28,724	29,986
Supertitles and transport	9,105	4,278	-	13,383	-	-	13,383	14,870
Legal and accounting	-	-	-	-	51,760	-	51,760	52,600
Telephone	15,864	-	-	15,864	10,724	3,131	29,719	29,918
Printing	70,869	-	-	70,869	-	11,335	82,204	72,044
Rights and royalties	49,000	-	-	49,000	-	-	49,000	-
Outside services	5,639	-	-	5,639	13,657	-	19,296	21,584
Total expenses before depreciation	4,032,109	275,372	45,016	4,352,497	365,372	332,878	5,050,747	6,186,985
Depreciation	162,998	4,572	4,572	172,142	37,022	-	209,164	160,792
Total functional expenses	<u>\$ 4,195,107</u>	<u>\$ 279,944</u>	<u>\$ 49,588</u>	<u>\$ 4,524,639</u>	<u>\$ 402,394</u>	<u>\$ 332,878</u>	<u>\$ 5,259,911</u>	<u>\$ 6,347,777</u>

See accompanying notes to financial statements

OPERA SAN JOSE, INCORPORATED
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (1,043,283)	\$ (44,780)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	209,164	160,792
Investment income, net	(78,134)	(34,629)
Net unrealized and realized gain on investments	(63,646)	(83,715)
(Increase) decrease in assets		
Pledges and other receivables	264,522	(51,584)
Prepaid expenses and deposits	131,173	(52,737)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	136,312	2,325
Deferred subscription revenues	21,144	52,198
	<u>(422,748)</u>	<u>(52,130)</u>
 Cash flows from investing activities		
Purchase of property and equipment	-	(53,502)
Proceeds from sale of marketable securities	20,631	-
	<u>20,631</u>	<u>(53,502)</u>
 Net decrease in cash	 (402,117)	 (105,632)
 Cash, beginning of year	 <u>913,913</u>	 <u>1,019,545</u>
 Cash, end of year	 <u>\$ 511,796</u>	 <u>\$ 913,913</u>

See accompanying notes to financial statements

OPERA SAN JOSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization - Opera San Jose, Incorporated (the Organization) is a not-for-profit organization incorporated in the state of California in 1983. Irene Dalis, General Director through June 30, 2014, founded Opera San Jose as a professional opera company, with a resident company of singers dedicated to the showcasing and development of emerging opera singers. Through performance revenue, generous contributions and grants, the Organization maintains two facilities housing its operation and two apartment buildings providing complimentary artist housing.

The Organization performs its productions at the restored California Theatre in San Jose. In addition to main stage performances, the Organization maintains extensive educational programs in schools and in the community at large, and offers preview lectures and "Introduction to Opera" talks for all main stage productions.

The Organization is subject to collective bargaining agreements that represent the theatre and stage employees, hairstylists and makeup artists, and orchestra musicians. These agreements will expire in various years through August 2021. Approximately 40% of the Organization's employees are covered by these agreements.

Basis of Presentation - The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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 Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

Revenue Recognition - The Organization recognizes revenue on the accrual basis of accounting. Ticket sales are recognized as revenue in the period in which the related performance is held.

OPERA SAN JOSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Contributions - Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as net assets without donor restrictions or with donor restrictions depending on the nature of donor-imposed restrictions, if any, and upon whether the restrictions are met in the current year.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributions In-kind - Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair market value at the time the services are rendered. See Note 9. The Organization also receives considerable donated services that do not meet the criteria for recognition under generally accepted accounting principles, but which are nonetheless central to the Organization's operations. These contributed services are not reflected in these financial statements.

Pledges Receivable and Allowance for Doubtful Pledges - Pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their future cash flows. An allowance for uncollectible pledges is recorded, as considered necessary, based on management's analysis of specific unconditional pledges and on the Organization's prior experience.

Investments - Investments are stated at fair value based on unadjusted quoted prices in active markets. Dividends and interest are accrued as earned and recorded as unrestricted revenue unless income is restricted by the donor. Any unrealized gains or losses for the current period are reported as investment income or loss.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property, Equipment and Depreciation - Property and equipment are recorded at cost or, if contributed, at the estimated fair value when donated. The Organization generally capitalizes additions of property and equipment with a cost or fair market value in excess of \$500. Depreciation is computed using the straight-line method over estimated useful lives, ranging from three to fifty years.

OPERA SAN JOSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Deferred Revenue - Advance ticket sales for next season's performances (which occur in the next fiscal year) are deferred on the statement of financial position, and are subsequently recognized as revenue in the period in which the performance occurs.

Production Cost - Costs of costumes, scenery 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.

Advertising Expenses - The Organization capitalizes direct response advertising costs related to the next season's productions and expenses those costs during the periods which the future benefits are expected to be received. Advertising costs related to the current season are expensed in the current period.

Prior Year Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Income Taxes - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and from state income taxes under Section 23701(d) of the Revenue and Taxation Code for California. The Organization is not classified as a private foundation.

The Organization's tax filings are subject to audit by various taxing authorities.

Fair Value of Financial Instruments - The carrying value of cash, short-term pledges receivable, and accounts payable approximates fair value due to the short maturity of these instruments. The carrying value of short-term investments and endowment investments are based on quoted market prices for those or similar investments. None of the financial instruments are held for trading purposes.

OPERA SAN JOSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Concentration of Credit Risk - Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash, pledges receivable, grants receivable and investments. Cash is deposited in local reputable banks and marketable securities are in custody with a large financial institution. The credit risk in the pledge and grants receivables are mitigated by the fact that pledges are made by predominately local, repeat donors and are evaluated by the Organization based on personal contact and knowledge of the donors. The credit risk in investments described in Note 5 is mitigated by the fact that the Organization regularly reviews the investments and uses an outside investment manager.

The Organization regularly maintains cash deposits in excess of federally insured limits.

Contributions from two major donors during the year ended June 30, 2019 accounted for 32% of the Organization's contributed income. At June 30, 2019, 86% of the Organization's pledges receivable were from one major donor.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and support services benefited based on management's estimates. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries	Time and effort
Payroll taxes	Time and effort
Employee benefits	Time and effort
Depreciation	Square footage

New Accounting Pronouncement - On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958 – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively.

Reclassifications - Certain reclassifications have been made to the 2018 financial statement presentation to conform to the 2019 presentation. There was no effect on change in net assets.

Subsequent Events - Subsequent events were evaluated through January 15, 2020, the date the financial statements were available to be issued.

OPERA SAN JOSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - PLEDGES RECEIVABLE

At June 30, 2019, unconditional pledges receivable are as follows:

Receivables due within one year	\$ 203,296
Receivables due within two to five years	<u>286,000</u>
Unconditional pledges receivable, total	<u><u>\$ 489,296</u></u>

NOTE 3 - AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets available within one year of the balance sheet date for general expenditure:

Cash and cash equivalents	\$ 511,796
Investments	2,144,014
Pledges receivable	<u>203,296</u>
	<u><u>\$ 2,859,106</u></u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, the Organization invests cash in excess of daily requirements in short-term investments, typically mutual funds.

NOTE 4 - PROPERTY AND EQUIPMENT

At June 30, 2019, property and equipment consisted of the following:

Land	\$ 2,282,449
Buildings	2,634,974
Building improvements	1,284,733
Furniture and equipment	1,252,375
Vehicles	<u>29,613</u>
	7,484,144
Less accumulated depreciation	<u>(2,580,954)</u>
	<u><u>\$ 4,903,190</u></u>

OPERA SAN JOSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 – INVESTMENTS

At June 30, 2019, the fair values of the Organization’s investments were as follows:

Vanguard Long-Term Bond Index	\$ 25,412
Vanguard Inter-Term Investment-Grade Adm	265,929
Vanguard Short-Term Investment-Grade Adm	168,622
Vanguard High-Yield Corp Fund	20,740
Vanguard Inter-Term Investment-Grade	25,220
Vanguard Short-Term Investment-Grade	19,477
Vanguard Strategic Equity Fund	48,938
Vanguard Explorer Fund	11,819
Vanguard Explorer Admiral	57,783
Vanguard Total International Stock Index Adm	282,673
Vanguard Total Stock Market Index Adm	439,484
Vanguard U.S. Growth Adm	143,541
Vanguard Extended Market Index	10,618
Vanguard U.S. Growth Fund Inv	31,643
Vanguard Windsor II Adm	118,075
Vanguard Total Bond Market Index Adm	438,434
Vanguard Inter-Term Bond Index Adm	18,992
Vanguard Short-Term Bond Index Adm	16,614
	<hr/>
Total investments	<u>\$ 2,144,014</u>

Earnings on investments were as follows for the year ended June 30, 2019:

Net unrealized and realized investment gain	\$ 63,646
Investment income, net	78,134
	<hr/>
	<u>\$ 141,780</u>

OPERA SAN JOSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the assets based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets or liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following table presents the Organization's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Carrying Amount</u>
Mutual funds	\$ 2,144,014	\$ -	\$ -	\$ 2,144,014
	<u>\$ 2,144,014</u>	<u>-</u>	<u>-</u>	<u>2,144,014</u>

OPERA SAN JOSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 - RETIREMENT BENEFITS

The Organization maintains a tax deferred 403(b) retirement plan to provide retirement benefits for all eligible employees not covered by collective bargaining agreements. The Organization can make matching contributions at the discretion of management as determined on an annual basis. During the year ended June 30, 2019, the Organization did not make any matching contributions.

The Organization has contracted to make payments to a multi-employer retirement plan for employees covered by collective bargaining agreements. Contributions to this plan amounted to \$58,535 for the year ending June 30, 2019. Information regarding this plan follows:

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status	FIP/RP Status Pending/Implemented	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
(a)					
American Federation of Musicians and Employers' Pension Fund	51-6120204/001	Red as of 3/31/19	Implemented	No	August 2021

(a) The Plan has used extended amortization provisions affecting the zone status calculation. Pursuant to the Preservation of Access to Care for Medicare Beneficiaries and the Pension Relief Act of 2010, the Plan elected to (a) extend from 15 years to 29 years the amortization period for 2008 net investment losses (i.e., net investment losses for the Plan Year ended March 31, 2009); (ii) smooth those net investment losses over 10 years in the actuarial value of assets; and (iii) allow the actuarial value of assets used by the Plan to be as much as 130% of the market value of assets for the Plan Years beginning April 1, 2009 and 2010.

For the plan year ending March 31, 2018, the Plan did not list on its Form 5500 any employers as having contributed more than 5% of the Plan's total contributions.

At the date the financial statements were issued, the Form 5500 was not available for the plan year ending March 31, 2019.

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2019, the Organization's net assets with donor restrictions are available for the following purposes or periods:

General operating 2019/2020	\$ 308,240
General operating 2020/2021	142,000
General operating 2021/2022	142,000
General operating 2022/2023	2,000
Donor restricted endowment funds	<u>274,487</u>
Net assets with donor restrictions	<u><u>\$ 868,727</u></u>

OPERA SAN JOSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Endowment

The endowment fund is to support the Organization's main-stage productions. The endowment is subject to donor restrictions that stipulate the original principal of the gift is to be held and invested by the Organization indefinitely and income from the fund is to be expended for artist salaries, conductors, and musicians who participate in main-stage productions. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as donor restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is classified in donor restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted 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 Organization, and (7) the Organization's investment policies.

The Organization has adopted investment and spending policies for the endowment assets that attempt to subject the fund to low investment risk and provide its main-stage production program with current income. The Organization has a policy of appropriating for distribution the endowment fund's investment income annually. The current spending policy is not expected to allow the Organization's endowment fund to grow as a result of investment returns. This is consistent with the Organization's objectives to provide income for its main-stage production program and preserve endowment assets without subjecting them to substantial risk.

The following summarizes the activity in the endowment fund for the year ended June 30, 2019:

Endowment net assets, beginning of the year	\$ 274,487
Investment income	1,497
Amounts appropriated for expenditure	<u>(1,497)</u>
Endowment net assets, end of year	<u><u>\$ 274,487</u></u>

OPERA SAN JOSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - CONTRIBUTIONS IN-KIND

The estimated fair market value of the facilities, equipment and supplies received are recorded as contributions. During the year ended June 30, 2019, the following in-kind contributions were received by the Organization:

Main-stage production	\$ 12,008
Fundraising	<u>3,350</u>
Total	<u><u>\$ 15,358</u></u>

NOTE 10 - LEASE AND COMMITMENTS

The Organization enters into annual employment contracts with performing artists. These contracts cover the next performance season, July 1, 2019 through June 30, 2020, and are cancellable by the Organization without cause or penalty. The cost of these contracts is estimated to be approximately \$157,500 for the fiscal year ended June 30, 2019.

The Organization rents the California Theatre in San Jose under a one-year contract, for its performances during the 2019-2020 season. There are four major productions during the 2019-2020 season at a cost of \$10,000 each for a total annual rental cost of \$40,000.

The Organization leases office equipment pursuant to a long-term operating lease agreement which expired May 2019. Total rent expense for the equipment was \$6,725 for the year ended June 30, 2019.