

Opera Theatre of Saint Louis

Independent Auditor's Report and Financial Statements

September 30, 2020

Opera Theatre of Saint Louis
September 30, 2020

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Independent Auditor's Report

Board of Directors
Opera Theatre of Saint Louis
St. Louis, Missouri

We have audited the accompanying financial statements of Opera Theatre of Saint Louis ("Opera Theatre"), which comprise the statement of financial position as of September 30, 2020, 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 Opera Theatre'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 Opera Theatre'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 Theatre of Saint Louis as of September 30, 2020, 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.

Emphasis of Matters

As discussed in Note 2 to the financial statements, in 2020, Opera Theatre adopted new accounting guidance, Accounting Standards Update (ASU) 2014-09 (Topic 606), *Revenue from Contracts with Customers*, ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received*, and ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash*. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited Opera Theatre's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 6, 2020. In our opinion, except for the adoption of new accounting guidance noted in the *Emphasis of Matters* paragraph, the summarized comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BKD, LLP

St. Louis, Missouri
January 28, 2021

Opera Theatre of Saint Louis

Statement of Financial Position

September 30, 2020

(With Summarized Financial Information as of September 30, 2019)

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 3,012,877	\$ 1,441,516
Investments	77,543,293	34,696,952
Contributions receivable, net	3,441,477	3,237,856
Bequests receivable, net	6,411,382	-
Note and other receivables	169,297	303,316
Beneficial interest in lead trust	509,728	548,890
Prepaid expenses	584,427	448,281
Facilities and equipment, net	<u>3,690,382</u>	<u>3,889,116</u>
Total assets	<u>\$ 95,362,863</u>	<u>\$ 44,565,927</u>
Liabilities		
Accounts payable and accrued expenses	\$ 304,004	\$ 369,310
Box office liability	219,138	22,983
Deferred revenue	13,160	715,965
Annuity liability	29,300	24,755
Notes payable	<u>362,400</u>	<u>-</u>
Total liabilities	928,002	1,133,013
Net Assets		
Without donor restrictions	9,938,953	8,148,199
With donor restrictions	<u>84,495,908</u>	<u>35,284,715</u>
Total net assets	<u>94,434,861</u>	<u>43,432,914</u>
Total liabilities and net assets	<u>\$ 95,362,863</u>	<u>\$ 44,565,927</u>

Opera Theatre of Saint Louis
Statement of Activities
Year Ended September 30, 2020
(With Summarized Financial Information For The Year Ended September 30, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues and Support				
Support				
Grants, contributions and bequests	\$ 5,100,254	\$ 51,116,810	\$ 56,217,064	\$ 5,456,669
Revenues				
Performance admissions	13,801	-	13,801	1,630,422
Benefits	43,577	-	43,577	1,216,562
Program advertising	2,360	-	2,360	137,397
Rentals and other activities	196,883	194	197,077	402,668
Change in value of split interest agreements	580	(9,758)	(9,178)	6,471
Total revenues and support	5,357,455	51,107,246	56,464,701	8,850,189
Net assets released from restrictions	2,848,162	(2,848,162)	-	-
Total revenues and support	8,205,617	48,259,084	56,464,701	8,850,189
Expenses				
Program services				
Artistic	2,145,457	-	2,145,457	4,274,929
Production	1,188,380	-	1,188,380	2,912,307
Education	400,395	-	400,395	464,983
Marketing	811,690	-	811,690	1,364,007
Total program expenses	4,545,922	-	4,545,922	9,016,226
Support services				
General and administration	977,981	-	977,981	959,870
Fundraising	1,181,008	-	1,181,008	1,194,981
Total support services	2,158,989	-	2,158,989	2,154,851
Total expenses	6,704,911	-	6,704,911	11,171,077
Change in Net Assets from Operating Activities	1,500,706	48,259,084	49,759,790	(2,320,888)
Non-Operating Revenue (Expenses)				
Investment return, net	290,048	952,109	1,242,157	(87,373)
Change in Net Assets	1,790,754	49,211,193	51,001,947	(2,408,261)
Net Assets, Beginning of Year	8,148,199	35,284,715	43,432,914	45,841,175
Net Assets, End of Year	\$ 9,938,953	\$ 84,495,908	\$ 94,434,861	\$ 43,432,914

Opera Theatre of Saint Louis
Statement of Functional Expenses
Year Ended September 30, 2020
(With Summarized Financial Information For The Year Ended September 30, 2019)

	2020						Total	2019 Total
	Program Services				General and Administration			
	Artistic	Production	Education	Marketing	Fundraising			
Personnel Expense								
Salaries and wages	\$ 1,261,971	\$ 798,648	\$ 237,599	\$ 371,937	\$ 585,246	\$ 644,390	\$ 3,899,791	\$ 5,371,847
Employee benefits and payroll taxes	77,689	104,151	32,536	55,206	106,285	80,954	456,821	723,649
Total personnel expense	<u>1,339,660</u>	<u>902,799</u>	<u>270,135</u>	<u>427,143</u>	<u>691,531</u>	<u>725,344</u>	<u>4,356,612</u>	<u>6,095,496</u>
Operating Expense								
Promotional and development	30,207	25,365	49,462	87,012	18,590	96,199	306,835	1,136,413
Orchestra	509,860	-	-	-	-	-	509,860	992,925
Professional services	19,869	14,796	5,883	132,278	44,809	77,857	295,492	303,367
Travel and housing	98,353	10,165	12,095	3,697	4,005	12,049	140,364	590,083
Office, theater and other rentals	33,877	97,013	19,111	26,886	66,900	32,339	276,126	425,042
Depreciation	27,804	84,359	28,827	48,973	53,871	19,280	263,114	265,158
Scenery and stage properties	-	18,271	958	2,583	-	900	22,712	333,877
Costumes	-	5,785	3,239	-	-	-	9,024	185,496
Royalties, commissions and translations	40,911	-	2,500	-	-	1,525	44,936	262,279
Postage and supplies	11,462	8,841	3,280	17,776	13,590	21,667	76,616	183,269
Telephone	4,566	6,503	2,542	14,371	3,396	7,317	38,695	23,019
Insurance	23,640	10,111	2,171	7,360	14,996	9,686	67,964	101,290
Other	5,248	4,372	192	43,611	66,293	176,845	296,561	273,363
Total operating expense	<u>805,797</u>	<u>285,581</u>	<u>130,260</u>	<u>384,547</u>	<u>286,450</u>	<u>455,664</u>	<u>2,348,299</u>	<u>5,075,581</u>
Total Expense	<u>\$ 2,145,457</u>	<u>\$ 1,188,380</u>	<u>\$ 400,395</u>	<u>\$ 811,690</u>	<u>\$ 977,981</u>	<u>\$ 1,181,008</u>	<u>\$ 6,704,911</u>	<u>\$ 11,171,077</u>

Opera Theatre of Saint Louis

Statement of Cash Flows

Year Ended September 30, 2020

(With Summarized Financial Information For The Year Ended September 30, 2019)

	2020	2019
Operating Activities		
Change in net assets	\$ 51,001,947	\$ (2,408,261)
Items not requiring (providing) operating activities cash flows		
Depreciation	263,114	265,158
Net realized and unrealized (gains) losses on investments	(494,433)	1,220,318
Change in value of split-interest agreements	9,178	(6,471)
Contributions received restricted for long-term investment	(43,094,467)	(159,262)
Changes in		
Note and other receivables	134,019	73,281
Prepaid expenses	(136,146)	33,151
Contributions and bequests receivable and beneficial interest in lead trust	(6,729,424)	32,466
Accounts payable and accrued expenses	130,849	186,491
Deferred revenue	(702,805)	(12,659)
Net cash provided by (used in) operating activities	381,832	(775,788)
Investing Activities		
Purchase of facilities and equipment	(64,380)	(88,632)
Purchase of investments	(68,802,721)	(1,972,511)
Proceeds from disposition of investments	26,326,632	2,854,427
Net cash provided by (used in) investing activities	(42,540,469)	793,284
Financing Activities		
Proceeds from contributions restricted for permanent endowment	43,248,050	292,749
Proceeds from long-term debt	362,400	-
Payments on annuities payable	(4,633)	(6,174)
Net cash provided by financing activities	43,605,817	286,575
Increase (Decrease) in Cash and Cash Equivalents	1,447,180	304,071
Cash and Cash Equivalents, Beginning of Year	2,185,421	1,881,350
Cash and Cash Equivalents, End of Year	\$ 3,632,601	\$ 2,185,421

The following table provides a reconciliation of cash and cash equivalents reported within the statement of financial position to the statement of cash flows:

	2020	2019
Cash and cash equivalents	\$ 3,012,877	\$ 1,441,516
Cash and cash equivalents held in investments	619,724	743,905
Total cash and cash equivalents shown in the Statements of Cash Flows	\$ 3,632,601	\$ 2,185,421

Opera Theatre of Saint Louis

Notes to Financial Statements

September 30, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Opera Theatre of Saint Louis (the “Opera Theatre”) is a not-for-profit organization whose mission is to communicate the richness and power of live opera and music theatre to audiences of all ages and backgrounds and build passionate support and appreciation for opera. Opera Theatre’s principal activities include conducting a scheduled season of performances at the Loretto-Hilton Center on the campus of Webster University, producing special performances at various locations and presenting touring and education programs. Opera Theatre’s revenues and other support are derived principally from contributions and performance admissions.

Prior Year Comparative Totals

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 complete presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Opera Theatre’s 2019 financial statements from which the information was derived.

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 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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Opera Theatre considers all liquid investments with original maturities of three months or less to be cash equivalents. Uninvested cash and cash equivalents included in investments accounts for donor designated and board designated endowment accounts are not considered to be cash and cash equivalents. At September 30, 2020, cash equivalents consisted primarily of sweep accounts.

At September 30, 2020, Opera Theatre’s cash accounts exceeded federally insured limits by approximately \$1,430,000.

Investments

Opera Theatre measures securities at fair value. Investments in life insurance policies are carried at net cash surrender value. Changes in cash surrender value (realized and unrealized) are recorded in the statement of activities.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Net Investment Return

Investment return, includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Opera Theatre maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Facilities and Equipment

Facilities and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense on a straight-line basis over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of facilities and equipment are as follows:

Equipment, furniture and fixtures	3 - 35 years
Theatre building improvements and equipment	3 - 10 years
Whitaker Opera Warehouse	35 years
Sally S. Levy Opera Center	5 - 35 years
Performance equipment and other	3 - 10 years

Long-Lived Asset Impairment

Opera Theatre evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended September 30, 2020.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated from net assets without donor or certain grantor restrictions net assets for general operations and board-designated endowment.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Contributions and Bequests

Contributions are provided to Opera Theatre either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on Opera Theatre overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor imposed barrier is met
<i>Unconditional gifts including bequests in liquidation, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – facilities, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method. Bequests still pending liquidation have a 5 percent reserve on the estimates provided by third parties.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Working Capital Reserve

Opera Theatre maintains a donor restricted working capital reserve account. According to the terms of the gift agreement, \$1,640,034 is to be used as an internal working capital line of credit. Opera Theatre has the right to transfer the annual earnings derived from the reserve into endowment. Any borrowings from the reserve's corpus must be repaid fully in cash and the reserve must be fully funded for at least 30 consecutive days at some point during every fiscal year. There were no borrowings from the working capital reserve as of September 30, 2020.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

In addition, a number of volunteers have contributed time to Opera Theatre. However, such donated services have not been recorded in the financial statements as they do not meet the requirements for recognition.

In-Kind Contributions

In addition to receiving cash contributions, Opera Theatre receives in-kind contributions of rental space and other items from various donors. It is the policy of Opera Theatre to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase contribution revenue by a like amount. For the year ended September 30, 2020, no in-kind contributions were received.

Deferred Revenue

Revenue from future period performance admissions is deferred and recognized over the periods to which the admissions relate. Deferred revenue is comprised of ticket sales, program ads, benefit events or production rentals for which services or events have not yet been performed. These unearned revenues are deferred and recognized as events or services are performed or costs are incurred.

Opera Theatre of Saint Louis

Notes to Financial Statements

September 30, 2020

Paycheck Protection Program (PPP) Loan

Opera Theatre received a PPP loan established by the CARES Act and has elected to account for the funding as a loan in accordance with ASC Topic 470, *Debt*. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to any gain recognized.

Income Taxes

Opera Theatre is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Opera Theatre is subject to federal income tax on any unrelated business taxable income. Opera Theatre files returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among the program, general and administrative and fundraising categories based on time and expense studies and other methods.

Reclassifications

Certain reclassifications have been made to the 2019 summarized financial information to conform to the 2020 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

As a result of the spread of the SARS-CoV-2 virus and the incident of COVID-19, the state of Missouri issued shelter-in-place orders and other measures around public gathering and business operations to slow the spread of the virus. Furthermore, organizations across the country took unprecedented action to protect the health and safety of performers, employees and patrons, including Opera Theatre. Beginning in March 2020, all in-person events were suspended and in April, the 2020 Opera Season was canceled. As of September 30, 2020, the 2021 opera season has not been announced and the extent of the season has not yet been determined. Given the uncertainty in the epidemiological and economic outlook, the duration and ultimate financial effects cannot be reasonably estimated at this time.

Subsequent events have been evaluated through January 28, 2021, which is the date the financial statements were available to be issued.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Note 2: Changes in Accounting Principles

Revenue from Contracts with Customers

Opera Theatre on October 1, 2019, Opera Theatre adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606), (ASU 2014-09) using a modified retrospective method of adoption to all contracts not completed at the date of initial application.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services in amounts that reflect the consideration to which Opera Theatre expects to be entitled in exchange for those goods or services.

The amount to which Opera Theatre expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Opera Theatre's adoption of ASU 2014-09 did not result in changes in the timing of revenue recognition.

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

On October 1, 2019, Opera Theatre adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using a modified prospective method of adoption to agreements that were not complete as of or entered into after the effective date. This standard clarifies and improves the scope and accounting guidance in ASU 2014-09 related to revenue recognition for grants and contributions. This change had no impact on previously reported total change in net assets.

Statement of Cash Flows

On October 1, 2019, Opera Theatre adopted the provisions of Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows (Topic 230): Restricted Cash*, using a retrospective transition method to each period presented. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash equivalents to be included with cash when reconciling beginning and end of the period balances on the statement of cash flows.

Opera Theatre does not consider uninvested cash and cash equivalents included in investments accounts for donor designated and board designated endowment accounts, to be cash and cash equivalents.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Other separately held investment accounts not held for endowment purposes have been included with cash and cash equivalents. The following summarized 2019 statement of cash flow line items were affected by the adoption of ASU 2016-18:

	September 30, 2019		
	As Previously Reported	As Adjusted	Effect of Change
Proceeds from disposition of investments	\$ 3,138,311	\$ 2,854,427	\$ (283,884)
Net cash provided by (used in) investing activities	\$ 1,077,168	\$ 793,284	\$ (283,884)
Increase (decrease) in cash and cash equivalents	\$ 587,955	\$ 304,071	\$ (283,884)
Cash and cash equivalents, beginning of year	\$ 853,561	\$ 1,881,350	\$ 1,027,789
Cash and cash equivalents, end of year	\$ 1,441,516	\$ 2,185,421	\$ 743,905

Note 3: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2020:

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market	\$ 902,914	\$ 902,914	\$ -	\$ -
Mutual funds				
Large cap	17,801,286	17,801,286	-	-
Mid/small cap	5,597,320	5,597,320	-	-
International	15,506,332	15,506,332	-	-
Fixed income	6,560,043	6,560,043	-	-
Government obligations				
U.S. Treasury securities	21,436,374	13,069,974	8,366,400	-
Agency securities	419,902	-	419,902	-
Municipal securities	3,503,076	-	3,503,076	-
Corporate debt securities	2,061,995	-	2,061,995	-
Certificates of deposit	3,482,947	-	3,482,947	-
Total investments held at fair value	<u>77,272,189</u>	<u>\$ 59,437,869</u>	<u>\$ 17,834,320</u>	<u>\$ -</u>
Investment not held at fair value				
Cash current value of life insurance	<u>271,104</u>			
Total investments	<u>\$ 77,543,293</u>			
Beneficial interest in lead trust	<u>\$ 509,728</u>	<u>\$ -</u>	<u>\$ 509,728</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no significant changes in valuation techniques during the year ended September 30, 2020.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. There were no Level 3 investments as of September 30, 2020.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Beneficial Interest in Trust

Fair value is estimated using a forward-looking interest rate and discounted cash flows that can be corroborated by observable market data and, therefore, is classified within Level 2 of the valuation hierarchy.

Note 4: Contributions Receivable

Contributions receivable at September 30, 2020, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Due within one year	\$ 244,044	\$ 754,998	\$ 999,042
Due in one to five years	-	2,537,140	2,537,140
	\$ 244,044	\$ 3,292,138	3,536,182
Less			
Allowance for uncollectible contributions			(75,559)
Unamortized discount			(19,146)
			\$ 3,441,477

The discount rate was 0.28 percent for pledges due in one to five years for 2020.

Note 5: Conditional Contributions

Opera Theatre has received notification of a bequest at September 30, 2020, that is currently being contested. As ultimate outcome is unknown, the bequest is considered conditional and is not recognized in the 2020 financial statements.

In addition, Opera Theatre has an \$85,000 grant from a federal funding source for the development and production of a specific opera. Terms of this grant include a one-to-one cost sharing element which must be met prior to receiving funding. As the condition was not met as of September 30, 2020, no amount has been recognized in the 2020 financial statements.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Note 6: Facilities and Equipment

Facilities and equipment at September 30, 2020, consists of:

Equipment, furniture and fixtures	\$ 731,824
Theatre building improvements and equipment	697,971
Whitaker Opera Warehouse	796,687
Sally S. Levy Opera Center	4,898,668
Performance equipment and other	<u>369,794</u>
	7,494,944
Less accumulated depreciation	<u>3,804,562</u>
	<u><u>\$ 3,690,382</u></u>

Note 7: Beneficial Interest in Trust

Opera Theatre is an annuitant under a charitable lead trust administered by an outside party. Under the terms of the trust, Opera Theatre has the irrevocable right to receive a fixed amount quarterly through March 2029. The estimated value of the expected future cash flows is \$509,728 as of September 30, 2020, of which \$62,020 is expected within the next year.

Note 8: Annuities Payable

Opera Theatre has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value and are included in investments on the statement of financial position. Opera Theatre has recorded a liability at September 30, 2020, of \$29,300 which represents the present value of the future annuity obligations. The liability has been determined using rates of return of 6.2 percent to 7.2 percent and applicable mortality tables.

Note 9: Line of Credit

Opera Theatre has a \$2,000,000 revolving bank line of credit that expires in March 2021. At September 30, 2020, there were no borrowings against this line. The line is collateralized by the Opera Theatre's investments. Interest varies with the Prime Rate and is payable monthly.

As of September 30, 2020, \$3,090,104 of total cash and investments was pledged as collateral against Opera Theatre's line of credit agreement.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Note 10: Note Payable

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act. On April 20, 2020, Opera Theatre received a loan in the amount of \$362,400 pursuant to the Paycheck Protection Program. Opera Theatre anticipates using all of the proceeds to make eligible payments and, therefore, expects the entire loan will be forgiven. Interest on the note is 1.00 percent. The loan is payable monthly starting November 20, 2020, with payments of \$20,398. The final payment is due April 20, 2022. The note is guaranteed by the Small Business Administration (SBA). Subsequent to September 30, 2020, the SBA granted an automatic deferral extension for payments. Opera Theatre applied for forgiveness in January 2021 prior to the end of the deferral period.

Aggregate annual maturities and sinking fund requirements of long-term debt at September 30, 2020, are:

2021		\$	221,467
2022			140,933
			362,400
		\$	362,400

Note 11: Net Assets

Net Assets with Donor Restrictions

Net assets with donor restrictions at September 30, 2020, are restricted for the following purposes or periods:

Purpose restricted			
Professional development		\$	984,434
Education/Outreach			179,409
Master Artists/Artisans			1,058,901
Purchases of equipment and operations of the Sally S. Levy Opera Center			2,263,877
Subsequent Productions			181,870
Main Season Performance/Production			934,379
General Operations (Endowment)			1,826,216
For periods after September 30, 2020			1,061,368
Investment in perpetuity, the income of which is expendable to support the following programs:			
Professional Development			8,484,944
Education/Outreach			1,586,834
Master Artists/Artisans			809,281
Commissions/Second Productions			2,986,057
Working Capital Reserve			1,640,034
Any activity of the Opera Theatre			60,498,304
		\$	84,495,908

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Net Assets Without Donor Restrictions

Net assets without donor restrictions at September 30, 2020, have been designated for the following purposes:

Undesignated	\$ 3,863,276
Designated by Board for general operations, capital and other	1,377,275
Designated by Board for endowment	4,698,402
	\$ 9,938,953
	\$ 9,938,953

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished	
Education/Outreach	\$ 173,904
Professional development	458,465
Purchases of equipment/operations of Sally S. Levy Center	135,071
Main season performance	10,673
Master Artist/Artisans	94,652
Commissions/Second productions	89,038
Any activity of the Opera Theatre	947,116
	1,908,919
Time restrictions expired	939,243
	\$ 2,848,162

Note 12: Endowment

Opera Theatre’s governing body is subject to the State of Missouri Prudent Management of Institutional Funds Act (UPMIFA). As a result, Opera Theatre classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, in accordance with UPMIFA, Opera Theatre considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of Opera Theatre and the fund
3. General economic conditions
4. Possible effect of inflation and deflation

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of Opera Theatre
7. Investment policies of Opera Theatre

Opera Theatre's endowment consists of 17 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The composition of net assets by type of endowment fund at September 30, 2020, was:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,698,402	\$ -	\$ 4,698,402
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	66,160,241	66,160,241
Accumulated investment gains	-	5,496,427	5,496,427
Total endowment funds	<u>\$ 4,698,402</u>	<u>\$ 71,656,668</u>	<u>\$ 76,355,070</u>

Change in endowment net assets for the year ended September 30, 2020, was:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,983,898	\$ 29,348,195	\$ 33,332,093
Investment return			
Investment income	115,752	592,020	707,772
Net appreciation	157,088	525,381	682,469
Total investment return	272,840	1,117,401	1,390,241
Contributions	590,369	43,094,467	43,684,836
Other transfers	(40)	(188,131)	(188,171)
Appropriation of endowment assets for expenditure	(148,665)	(1,715,264)	(1,863,929)
Endowment net assets, end of year	<u>\$ 4,698,402</u>	<u>\$ 71,656,668</u>	<u>\$ 76,355,070</u>

Opera Theatre of Saint Louis

Notes to Financial Statements

September 30, 2020

Investment and Spending Policies

Opera Theatre has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds Opera Theatre must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under Opera Theatre's policies, endowment assets are invested in a manner that is intended to produce results that exceed a target index composed of 55 percent of the Russell 3000 Index, 10 percent of the MSCI EAFE Index, 20 percent of Barclay's Capital U.S. Aggregate Bond Index and 15 percent of Barclay's Capital U.S. TIPS Index while assuming a moderate level of investment risk. Opera Theatre expects its endowment funds to provide a total rate of return that exceeds the rate of inflation by 400 basis points over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, Opera Theatre relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). Opera Theatre targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Opera Theatre has a policy (the spending policy) of appropriating for expenditure each year a minimum of 5.5 percent and, if the previous year's return exceeds 7.5 percent, a maximum of 200 basis points below the previous year's actual rate of return, not including investment fees, calculated on the average net fair value of the portfolio over the previous three years through June 30 preceding the year in which expenditure is planned. In establishing this policy, Opera Theatre considered the long-term expected return on its endowment. Accordingly, over the long term, Opera Theatre expects the current spending policy and the average expected rate of return exceeding the rate of inflation by 400 basis points to allow for sufficient long-term growth of capital, without undue exposure to risk, to provide a sustainable level of spending distributions, as well as enhance the real (adjusted for inflation) purchasing power of the investments.

Underwater Endowments

The governing body of Opera Theatre has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, Opera Theatre considers a fund to be underwater if the fair value of the fund is less than the sum of:

- a) the original value of initial and subsequent gift amounts donated to the fund
- b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument

Opera Theatre has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. There were no donor funds with deficiencies at September 30, 2020.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Note 13: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of September 30, 2020, comprise the following:

Total financial assets	\$ 91,088,054
Donor imposed restrictions	
Restricted funds not available for operations in the next year	12,839,240
Endowment	<u>71,656,668</u>
Total donor imposed restrictions	<u>84,495,908</u>
Net financial assets after donor imposed restrictions	6,592,146
Internal designations	
Board designated for general operations	1,413,906
Quasi-endowment	<u>4,698,402</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 479,838</u></u>

Opera Theatre receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended September 30, 2020, contributions with donor restrictions of \$121,915 were included in the donor imposed restricted financial assets above, but expected to be collected and available to meet cash needs for general expenditures within one year.

Opera Theatre's endowment funds consist of donor-restricted endowment and funds designated by the Board as endowment (quasi-endowment). Income from donor-restricted endowment is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Board designated endowment of \$4,698,402 is subject to an annual spending rate of a minimum of 5.5 percent as described in Note 12. Although Opera Theatre does not intend to spend from this Board designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

To help manage unanticipated liquidity needs, Opera Theatre has a line of credit as described in Note 9 in the amount of \$2,000,000, which it could draw upon. In addition, Opera Theatre has a working capital reserve of \$1,640,034 as described in the Notes to the financial statements that is available to be used as an internal working capital line of credit.

Opera Theatre manages its liquid resources by focusing on revenues from performance admissions and fundraising efforts to ensure the entity has adequate revenues and contributions to cover the programs.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Note 14: Operating Leases

A noncancellable operating lease for land upon which the Sally S. Levy Opera Center is constructed expires in April 2040. The lease was initiated in November 2004 with an initial term of 35 years with three optional renewal terms of five years each. Annual rent payments increase by 2 percent each year. Opera Theatre also enters into short-term rental agreements for equipment, vehicles and space.

Future minimum lease payments at September 30, 2020, are:

2021	\$ 116,477
2022	35,508
2023	36,218
2024	36,943
2025	37,681
Later years	<u>694,600</u>
	<u>\$ 957,427</u>

Rental expense for all operating leases for the year ended September 30, 2020, was \$83,297.

Note 15: Revenue from Contracts with Customers

Revenue

Performance obligations are determined based on the nature of the goods or services provided by Opera Theatre in accordance with the contract. Revenue for performance obligations satisfied over time is recognized ratably over the opera season based on time elapsed. Opera Theatre believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Revenue for performance obligations satisfied at a point in time is generally recognized when services are provided to customers at a single point in time and Opera Theatre does not believe it is required to provide additional goods or services related to those services.

Opera Theatre has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by customer demand.

Contract Balances

The following table provides information about Opera Theatre's deferred revenue from contracts with customers:

Deferred revenue, beginning of year	\$ 715,965
Deferred revenue, end of year	\$ 13,160

Opera Theatre of Saint Louis

Notes to Financial Statements

September 30, 2020

Performance Admissions

Revenue from contracts with customers for performance admissions is reported at the amount that reflects the consideration to which Opera Theatre expects to be entitled in exchange for admission into opera performances. These amounts are due from customers and do not include variable consideration.

Revenue is recognized as performance obligations are satisfied. For single ticket holders, this is at a point in time when the opera performance occurs. For a ticket package including multiple performances, this is recognized over time as respective performances occur.

Benefits

The portion of the benefits revenues that relates to the commensurate value the donor received in return is recognized when the related events are held and performance obligations are met. The transaction price is determined based on the value of direct benefits provided to donors, which was \$27,125 for the year ended September 30, 2020. All benefits revenue is recognized as of the point in time the event is held and benefits are provided to the donor, which is when the performance obligations are met. The portion of benefits revenue considered to be a contribution is recognized in accordance with Opera Theatre's contribution revenue policies.

Program Advertising

Revenue from contracts with customers for program advertising is reported at the amount that reflects the consideration to which Opera Theatre expects to be entitled in exchange for providing advertisements. These amounts are due from customers and do not include variable consideration.

Revenue is recognized as performance obligations are satisfied, which is at a point in time and typically at the time the related media is published.

Rentals and Other Activities

Revenue from contracts with customers for rentals and other activities is reported at the amount that reflects the consideration to which Opera Theatre expects to be entitled in exchange for providing these various services. These amounts are due from customers and do not include variable consideration.

Revenue is recognized as performance obligations are satisfied, which is at a point in time upon completion of services.

Note 16: Defined Contribution Plan

Opera Theatre has a defined contribution 401(k) plan covering substantially all full-time employees who can contribute a percentage of their salaries subject to prescribed limitations. Opera Theatre may make discretionary matching and additional contributions to the Plan. During 2020, Opera Theatre contributed a total of \$96,282 to the plan.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Note 17: Related Party Transaction

As authorized by the executive committee of the board of directors, and in accordance with the bylaws, Opera Theatre made an interest free secured loan on June 1, 2018, totaling \$100,000 to a key employee in connection with relocation. Regular payments continue through July 2023. As of September 30, 2020, the remaining principal balance due on this loan was \$54,616 and is included with note and other receivables on the statement of financial position.

Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the valuation of contribution receivable are reflected in the footnote regarding contributions receivable and in the summary of significant accounting policies. The estimated useful life of facilities and equipment is also discussed in the summary of significant accounting policies. Those matters not discussed in other footnotes include the following:

Investments

Opera Theatre invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the statement of financial position.

Contributions Receivable

Approximately 83 percent of gross contributions receivable as of September 30, 2020, are due from board members and their related entities.

Bequests Receivable

Approximately 98 percent of bequests receivable as of September 30, 2020, are due from two donors.

Contributions Revenue

Approximately 89 percent of contributions revenue for the year ended September 30, 2020, was from three donors (including two bequests in liquidation).

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2020

Note 19: Commitments

Opera Theatre routinely enters into employment contracts with certain key employees.

A significant portion of the seasonal labor costs are subject to union collective bargaining agreements.

Opera Theatre has entered into an agreement to receive services of contracted musicians through a third party. The agreement goes through the 2022 Opera Season and includes a flat fee to be paid on an annual basis. The agreement allows for cancellation with cause by either party by May 15 for the following year's season. The 2021 season fee per the agreement is approximately \$1,050,309. Amounts paid under the agreement for the year ended September 30, 2020, were \$509,860.

Note 20: Future Changes in Accounting Principles

FASB ASU 2016-13, Leases (Topic 842)

Under the new ASU, lessees will recognize lease assets and liabilities on their statement of financial position (or balance sheet) for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases, and is consistent with the lessee accounting model under existing GAAP. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for (both in the statement of activities and statement of cash flows) in a manner consistent with today's operating leases. The final standard will be effective for Opera Theatre's fiscal year beginning October 1, 2022.

Board of Directors and Finance Committee
Opera Theatre of St. Louis
St. Louis, Missouri

As part of our audit of the financial statements of Opera Theatre of Saint Louis (“Opera Theatre”) as of and for the year ended September 30, 2020, we wish to communicate the following to you.

Auditor’s Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

Opera Theatre’s significant accounting policies are described in Note 1 of the audited financial statements.

Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows* (Topic 230): *Restricted Cash*

Opera Theatre changed its method of accounting for restricted cash equivalents by adopting the provisions of Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows* (Topic 230): *Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash and cash equivalents to be included with cash when reconciling beginning and end of the period balances on the statement of cash flows.

ASC 606, Revenue from Contracts with Customers

Effective October 1, 2019, Opera Theatre adopted ASC 606, *Revenue from Contracts with Customers*, as further discussed in the Alternative Accounting Treatments section below. ASC 606 applies to all contracts with customers other than those within the scope of other standards, such as leases, insurance, financing arrangements, financial instruments and guarantees (other than product or service warranties).

The new revenue recognition standard eliminates the transaction- and industry-specific revenue recognition guidance under legacy generally accepted accounting principles (GAAP) and replaces it with a principle-based approach for determining revenue recognition. The core principle of the revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which Opera Theatre expects to be entitled in exchange for those goods or services.

In implementing ASC 606, Opera Theatre was required to re-evaluate all contracts within the scope of the standard (other than those excluded under practical expedients elected) under a five-step model for revenue recognition. While certain entities were affected more than others, all entities are subject to extensive new disclosure requirements.

ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

Effective October 1, 2019, Opera Theatre adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 applies to all grants and contributions received and clarifies the accounting guidance applicable for grant accounting.

Historically, there was diversity in practice for accounting for grants. Some grantees considered grants to be an exchange transaction, whereas others reported grants as donor-restricted contributions. ASU 2018-08 provides guidance that unless the grantor is directly receiving value in the same amount as the services provided (an exchange transaction), the grant should be considered a contribution. In addition, if the grantor incorporates barriers into the contract and has a right of return, the transaction is considered to be a conditional contribution. Under the accounting guidance, conditional contributions are not recorded as revenue until the condition has been met.

In implementing ASU 2018-08, Opera Theatre was required to evaluate all grant agreements. Adoption of the ASU may cause a change in the timing and classification of grant revenues.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- In connection with the adoption of ASC Topic 606, *Revenue from Contracts with Customers*, management has elected to use the modified retrospective approach and elected to apply guidance to all contracts not completed at the date of initial adoption.
- In connection with the adoption of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, management has elected an accounting policy that conditional contributions having donor stipulations, which are satisfied in the period the gift is received, are recorded as revenue and net assets without donor restrictions.
- In connection with the adoption of ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*; management has elected an accounting policy in which uninvested cash and cash equivalents held in investments accounts for donor designated and board designated endowment accounts are not considered to be cash and cash equivalents.
- In connection with the SBA Paycheck Protection Program (PPP) loan, management has elected to account for the loan in accordance with ASC Topic 470, *Debt*. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Valuation of contributions and bequests receivable
- Fair value of investments

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Fair value of investments and contributions
- Restricted net assets and endowment
- Conditional contributions
- Related party transaction
- Commitments
- Note Payable (PPP Loan)
- Liquidity and availability
- Change in accounting principles

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. One adjustment was proposed and recorded to remove a deferred amount relating to a grant that ended during the current year (\$22,038 reduction to change in net assets).

Auditor's Judgments About the Quality of Opera Theatre's Accounting Principles

No matters are reportable.

Other Material Communications

The management representation letter (attached) and the engagement letter dated November 5, 2020, are other written material communications between management and us related to the audit. In addition, we orally communicated to management an other deficiency that was not considered a material weakness or significant deficiency.

Other Industry Matters – Future Accounting Changes

Changes to the Method of Accounting for Leases Under U.S. Generally Accepted Accounting Principles (U.S. GAAP)

On February 25, 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), the long-awaited new standard on lease accounting.

Under the new ASU, lessees will recognize lease assets and liabilities on their balance sheet for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases, and is consistent with the lessee accounting model under existing GAAP. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for (both in the statement of activities and statement of cash flows) in a manner consistent with today's operating leases. Lessor accounting under the new standard is fundamentally consistent with existing GAAP.

Lessees and lessors would be required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

The standard will be effective for Opera Theatre's annual reporting periods beginning October 1, 2022. Early application is permitted.

* * * * *

This letter is intended solely for the information and use of the Finance Committee, Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

St. Louis, Missouri
January 28, 2021