

Opera Theatre of Saint Louis

Independent Auditor's Report and Financial Statements

September 30, 2021

Opera Theatre of Saint Louis
September 30, 2021

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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, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
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Report on Summarized Comparative Information

We have previously audited Opera Theatre's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 28, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BKD, LLP

St. Louis, Missouri
January 28, 2022

Opera Theatre of Saint Louis

Statement of Financial Position

September 30, 2021

(With Summarized Financial Information as of September 30, 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 3,808,306	\$ 3,012,877
Investments	97,904,291	77,543,293
Contributions receivable, net	2,637,199	3,441,477
Bequests receivable, net	1,045,000	6,411,382
Note and other receivables	641,122	169,297
Beneficial interest in lead trust	445,318	509,728
Prepaid expenses	643,895	584,427
Right of use asset - operating lease, net	643,582	-
Facilities and equipment, net	3,684,433	3,690,382
	<u>3,684,433</u>	<u>3,690,382</u>
Total assets	<u>\$ 111,453,146</u>	<u>\$ 95,362,863</u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 377,937	\$ 304,004
Box office liability	87,038	219,138
Deferred revenue	497,948	13,160
Annuities liability	27,876	29,300
Operating lease liability	737,543	-
Notes payable	-	362,400
	<u>-</u>	<u>362,400</u>
Total liabilities	1,728,342	928,002
 Net Assets		
Without donor restrictions	10,685,378	9,938,953
With donor restrictions	99,039,426	84,495,908
	<u>99,039,426</u>	<u>84,495,908</u>
Total net assets	<u>109,724,804</u>	<u>94,434,861</u>
Total liabilities and net assets	<u>\$ 111,453,146</u>	<u>\$ 95,362,863</u>

Opera Theatre of Saint Louis
Statement of Activities
Year Ended September 30, 2021
(With Summarized Financial Information For The Year Ended September 30, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues and Support				
Support				
Grants, contributions and bequests	\$ 4,634,620	\$ 1,098,692	\$ 5,733,312	\$ 56,217,064
Revenues				
Performance admissions	211,838	-	211,838	13,801
Benefits	17,734	-	17,734	43,577
Program advertising	7,325	-	7,325	2,360
Rentals and other activities	110,329	1,401	111,730	197,077
Change in value of split interest agreements	561	(3,421)	(2,860)	(9,178)
Total revenues and support	4,982,407	1,096,672	6,079,079	56,464,701
Net assets released from restrictions	3,489,306	(3,489,306)	-	-
Changes in donor restriction	(250,618)	250,618	-	-
Total revenues and support	8,221,095	(2,142,016)	6,079,079	56,464,701
Expenses				
Program services				
Artistic	2,976,910	-	2,976,910	2,145,457
Production	2,105,990	-	2,105,990	1,188,380
Education	359,269	-	359,269	400,395
Marketing	1,022,937	-	1,022,937	811,690
Total program expenses	6,465,106	-	6,465,106	4,545,922
Support services				
General and administration	1,223,222	-	1,223,222	977,981
Fundraising	1,098,064	-	1,098,064	1,181,008
Total support services	2,321,286	-	2,321,286	2,158,989
Total expenses	8,786,392	-	8,786,392	6,704,911
Change in Net Assets from Operating Activities	(565,297)	(2,142,016)	(2,707,313)	49,759,790
Non-Operating Revenue (Expenses)				
Employee Retention Credits Program	468,316	-	468,316	-
Paycheck Protection Program forgiveness	875,690	-	875,690	-
Investment return, net	(32,284)	16,685,534	16,653,250	1,242,157
Change in Net Assets	746,425	14,543,518	15,289,943	51,001,947
Net Assets, Beginning of Year	9,938,953	84,495,908	94,434,861	43,432,914
Net Assets, End of Year	\$ 10,685,378	\$ 99,039,426	\$ 109,724,804	\$ 94,434,861

Opera Theatre of Saint Louis
Statement of Functional Expenses
Year Ended September 30, 2021
(With Summarized Financial Information For The Year Ended September 30, 2020)

	2021						Total	2020 Total
	Program Services				General and Administration			
	Artistic	Production	Education	Marketing	Fundraising			
Personnel Expense								
Salaries and wages	\$ 1,580,593	\$ 920,497	\$ 218,381	\$ 609,184	\$ 716,708	\$ 700,197	\$ 4,745,560	\$ 3,899,791
Employee benefits and payroll taxes	173,305	215,036	27,327	61,489	111,553	75,773	664,483	456,821
Total personnel expense	<u>1,753,898</u>	<u>1,135,533</u>	<u>245,708</u>	<u>670,673</u>	<u>828,261</u>	<u>775,970</u>	<u>5,410,043</u>	<u>4,356,612</u>
Operating Expense								
Promotional and development	30,177	112,501	51,027	146,562	30,691	139,823	510,781	306,835
Orchestra	659,453	-	-	-	-	-	659,453	509,860
Professional services	27,725	32,186	13,193	68,312	98,430	67,419	307,265	295,492
Travel and housing	238,609	34,337	668	3,415	3,570	8,384	288,983	140,364
Office, theater and other rentals	70,230	195,363	10,208	24,931	69,179	28,812	398,723	276,126
Depreciation	27,039	81,663	27,946	52,975	52,225	26,605	268,453	263,114
Scenery and stage properties	-	397,612	1,000	1,523	-	1,000	401,135	22,712
Costumes	-	52,843	-	-	-	-	52,843	9,024
Royalties, commissions and translations	76,503	-	2,500	-	-	3,180	82,183	44,936
Postage and supplies	12,886	33,288	3,748	19,937	35,137	13,888	118,884	76,616
Telephone	3,096	4,428	1,735	10,317	2,460	4,984	27,020	38,695
Insurance	54,402	23,882	1,526	5,524	18,535	5,376	109,245	67,964
Other	22,892	2,354	10	18,768	84,734	22,623	151,381	296,561
Total operating expense	<u>1,223,012</u>	<u>970,457</u>	<u>113,561</u>	<u>352,264</u>	<u>394,961</u>	<u>322,094</u>	<u>3,376,349</u>	<u>2,348,299</u>
Total Expense	<u>\$ 2,976,910</u>	<u>\$ 2,105,990</u>	<u>\$ 359,269</u>	<u>\$ 1,022,937</u>	<u>\$ 1,223,222</u>	<u>\$ 1,098,064</u>	<u>\$ 8,786,392</u>	<u>\$ 6,704,911</u>

Opera Theatre of Saint Louis

Statement of Cash Flows

Year Ended September 30, 2021

(With Summarized Financial Information For The Year Ended September 30, 2020)

	<u>2021</u>	<u>2020</u>
Operating Activities		
Change in net assets	\$ 15,289,943	\$ 51,001,947
Items not requiring (providing) cash		
Depreciation	268,453	263,114
Net realized and unrealized (gains) losses on investments	(15,101,280)	(494,433)
Change in value of split-interest agreements	2,860	9,178
Forgiveness benefit from the Paycheck Protection Program	(875,690)	-
Noncash operating lease expense	28,795	-
Contributions received restricted for long-term investment	(5,968,978)	(43,094,467)
Changes in		
Note and other receivables	(471,825)	134,019
Prepaid expenses	(59,468)	(136,146)
Contributions and bequests receivables and beneficial interest in lead trust	5,982,570	(6,729,424)
Accounts payable, accrued expenses and box office liability	(58,167)	130,849
Operating lease liabilities	(22,512)	-
Deferred revenue	572,466	(702,805)
Net cash provided by (used in) operating activities	<u>(412,833)</u>	<u>381,832</u>
Investing Activities		
Purchase of facilities and equipment	(262,504)	(64,380)
Purchase of investments	(54,658,820)	(68,802,721)
Proceeds from disposition of investments	49,649,569	26,326,632
Net cash used in investing activities	<u>(5,271,755)</u>	<u>(42,540,469)</u>
Financing Activities		
Proceeds from contributions restricted for permanent endowment	6,221,478	43,248,050
Proceeds from long-term debt	513,290	362,400
Payments on annuities payable	(4,284)	(4,633)
Net cash provided by financing activities	<u>6,730,484</u>	<u>43,605,817</u>
Increase in Cash and Cash Equivalents	1,045,896	1,447,180
Cash and Cash Equivalents, Beginning of Year	<u>3,632,601</u>	<u>2,185,421</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,678,497</u>	<u>\$ 3,632,601</u>
Supplemental Disclosure of Cash Flow Information		
Adoption of ASU 2016-02, Leases (Topic 842) - Right of Use Operating Leases	\$ 760,055	\$ -

Opera Theatre of Saint Louis

Statement of Cash Flows

Year Ended September 30, 2021

(With Summarized Financial Information For The Year Ended September 30, 2020)

(Continued)

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,808,306	\$ 3,012,877
Cash and cash equivalents held in investments	<u>870,191</u>	<u>619,724</u>
Total cash and cash equivalents shown in the Statements of Cash Flows	<u>\$ 4,678,497</u>	<u>\$ 3,632,601</u>

Opera Theatre of Saint Louis

Notes to Financial Statements

September 30, 2021

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 2020 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, 2021, cash equivalents consisted primarily of sweep accounts.

At September 30, 2021, Opera Theatre’s cash accounts exceeded federally insured limits by approximately \$3,911,000.

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, 2021

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, 2021.

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, 2021

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. Changes in donor restriction represent requests from donors to modify the purpose of a gift received or promise to give subsequent from the time the original gift or promise was made and recorded within the statement of activities.

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, 2021

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, 2021.

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, 2021, 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, 2021

Pandemic

As a result of the spread of the SARS-CoV-2 virus and the incident of COVID-19, the state of Missouri continues to take measures to slow the spread of the virus. Furthermore, Opera Theatre has taken unprecedented action to protect the health and safety of performers, employees, and patrons. As of September 30, 2021, the 2022 opera season has been announced and expected to take place. However, given the uncertainty in the epidemiological and economic outlook, the duration and ultimate financial effects cannot be reasonably estimated at this time.

Paycheck Protection Program (PPP) Loan

Opera Theatre received a PPP loan established by the *Coronavirus Aid, Relief and Economic Security Act* (“CARES Act”) on April 20, 2020, in the amount of \$362,400 (First Draw). On March 26, 2021, Opera Theatre received a second PPP loan for \$513,290 (Second Draw). Opera Theatre has elected to account for the funding as loans in accordance with ASC Topic 470, *Debt*. Any forgiveness of the loans will be recognized as a gain in the financial statements in the period the debt is legally released. Opera Theatre received formal approval of forgiveness from the Small Business Association effective March 2, 2021, for the First Draw loan and effective August 13, 2021, for the Second Draw Loan. As such, a gain on PPP loan forgiveness was recognized on the statement of activities for the year ended September 30, 2021.

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.

Employee Retention Credit (ERC) Program

On December 27, 2020, President Trump signed into law the *Consolidated Appropriations Act*, which amended rules for the ERC originally created under the CARES Act to encourage companies to retain employees during the pandemic. In addition, on March 11, 2021, President Biden signed into law the *American Rescue Plan Act* (ARPA), which extended the ERC through September 30, 2021. During 2021, Opera Theatre evaluated its eligibility for this credit and recognized \$468,316 of employee retention payroll tax credits which remained outstanding as of September 30, 2021. The amount is recorded as an other receivable on the statement of financial position and included with other non-operating revenue on the statement of activities.

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.

Opera Theatre of Saint Louis

Notes to Financial Statements

September 30, 2021

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.

Subsequent Events

Subsequent events have been evaluated through January 28, 2022, which is the date the financial statements were available to be issued.

Note 2: Changes in Accounting Principle

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented, or as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

Opera Theatre adopted Topic 842 on October 1, 2020 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. Opera Theatre elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification, or initial direct costs for existing or expired leases prior to the effective date. Opera Theatre elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all. Also, Opera Theatre elected to keep short-term leases with an initial term of 12 months or less off the statement of financial position. Opera Theatre did not elect the hindsight practical expedient in determining the lease classification for existing leases as of October 1, 2020.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$672,377 and \$760,055, respectively. No finance leases existed as of the adoption date. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the ROU assets. The standard did not significantly affect the statements of activities or cash flows.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2021

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, 2021:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market	\$ 1,496,577	\$ 1,496,577	\$ -	\$ -
Mutual funds				
Large cap	32,637,663	32,637,663	-	-
Mid/small cap	5,148,342	5,148,342	-	-
International	25,218,277	25,218,277	-	-
Fixed income	108,296	108,296	-	-
Government obligations				
U.S. Treasury securities	12,500,636	12,500,636	-	-
Agency securities	2,285,972	2,285,972	-	-
Municipal securities	3,341,736	-	3,341,736	-
Corporate debt securities	5,560,543	-	5,560,543	-
Certificates of deposit	9,361,420	-	9,361,420	-
Total investments held at fair value	97,659,462	\$ 79,395,763	\$ 18,263,699	\$ -
Investment not held at fair value				
Net cash surrender value of life insurance	244,829			
Total investments	\$ 97,904,291			
Beneficial interest in lead trust	\$ 445,318	\$ -	\$ 445,318	\$ -

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2021

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, 2021.

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, 2021.

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, 2021, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Due within one year	\$ 619,051	\$ 712,433	\$ 1,331,484
Due in one to five years	-	1,430,000	1,430,000
	<u>\$ 619,051</u>	<u>\$ 2,142,433</u>	2,761,484
Less			
Allowance for uncollectible contributions			(97,903)
Unamortized discount			(26,382)
			<u><u>\$ 2,637,199</u></u>

The discount rate was 0.53 percent for pledges due in one to five years for 2021.

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Note 5: Conditional Contributions

Opera Theatre has received notification of a bequest during 2020, that is currently being contested. As ultimate outcome is unknown, the bequest is considered conditional and is not recognized in the 2021 financial statements.

Note 6: Facilities and Equipment

Facilities and equipment at September 30, 2021, consists of:

Equipment, furniture and fixtures	\$ 754,134
Theatre building improvements and equipment	967,220
Whitaker Opera Warehouse	796,687
Sally S. Levy Opera Center	4,898,668
Performance equipment and other	<u>340,739</u>
	7,757,448
Less accumulated depreciation	<u>4,073,015</u>
	<u><u>\$ 3,684,433</u></u>

Note 7: Beneficial Interest in Lead 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 \$445,318 as of September 30, 2021, 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, 2021, of \$27,876 which represents the present value of the future annuity obligations. The liability has been determined using rates of return of 5.2 percent to 7.3 percent and applicable mortality tables.

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Note 9: Line of Credit

Opera Theatre has a \$2,000,000 revolving bank line of credit that expires in March 2022. At September 30, 2021, 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, 2021, \$3,335,542 of total cash and investments was pledged as collateral against Opera Theatre’s line of credit agreement.

Note 10: Net Assets

Net Assets with Donor Restrictions

Net assets with donor restrictions at September 30, 2021, are restricted for the following purposes or periods:

Purpose restricted	
Professional development	\$ 2,916,976
Education/Outreach	519,712
Master Artists/Artisans	1,444,130
Purchases of equipment and operations of the Sally S. Levy Opera Center	2,810,838
Subsequent Productions	588,504
Main Season Performance/Production	1,315,369
General Operations (Endowment)	11,959,088
For periods after September 30, 2021	721,313
Investment in perpetuity, the income of which is expendable to support the following programs:	
Professional Development	8,633,419
Education/Outreach	1,588,591
Master Artists/Artisans	809,281
Commissions/Second Productions	3,074,656
Working Capital Reserve	1,640,034
Any activity of the Opera Theatre	61,017,515
	<u>\$ 99,039,426</u>

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Net Assets Without Donor Restrictions

Net assets without donor restrictions at September 30, 2021, have been designated for the following purposes:

Undesignated	\$ 4,243,743
Designated by Board for general operations, capital and other	1,316,512
Designated by Board for endowment	5,125,123
	<u>\$ 10,685,378</u>

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	\$ 160,886
Professional development	354,290
Purchases of equipment/operations of Sally S. Levy Center	102,168
Main season performance	227,179
Master Artist/Artisans	71,948
Commissions/Second productions	79,268
Any activity of the Opera Theatre	2,237,814
	<u>3,233,553</u>
Time restrictions expired	255,753
	<u>\$ 3,489,306</u>

Note 11: 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

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4. Possible effect of inflation and deflation
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 approximately 15 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, 2021, was:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 5,125,123	\$ -	\$ 5,125,123
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	72,129,219	72,129,219
Accumulated investment gains	-	19,154,408	19,154,408
Total endowment funds	<u>\$ 5,125,123</u>	<u>\$ 91,283,627</u>	<u>\$ 96,408,750</u>

Change in endowment net assets for the year ended September 30, 2021, was:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 4,698,402	\$ 71,656,668	\$ 76,355,070
Investment return, net	(20,125)	16,496,679	16,476,554
Contributions	644,756	5,968,978	6,613,734
Other transfers	(2,684)	57,411	54,727
Appropriation of endowment assets for expenditure	<u>(195,226)</u>	<u>(2,896,109)</u>	<u>(3,091,335)</u>
Endowment net assets, end of year	<u>\$ 5,125,123</u>	<u>\$ 91,283,627</u>	<u>\$ 96,408,750</u>

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. The primary investment objective for

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these funds is to maximize total return through a diversified investment strategy to achieve a long-term, annualized rate of return that meets or exceeds the Endowment Spending Rate, net of the rate of inflation and net of all fees. Fees include investment management, legal, accounting, administrative, and other expenditures that Opera Theatre deems necessary for good stewardship of the endowment. The endowment is to be invested using a long-term, perpetual time horizon. Under Opera Theatre's policies, endowment assets are invested in a manner that is intended to produce results that exceed a target portfolio composed of 30 percent of the Russell 3000 Index for U.S. Market Equity, 4 percent of the Russell 1000 Value Index for U.S. Large-Cap Value, 5 percent of the Russell 2000 Value Index for U.S. Small-Cap Value. For international equities, 14.5 percent of the MSCI World ex USA Index (net div) for International Market Equity, 5 percent of the MSCI World ex Small Cap Value Index (net div) for International Small Value and 6.5 percent of the MSCI Emerging Markets Index (net div) for Emerging Market Equity. For Fixed Income, 24.5 percent of Barclay's U.S. Agency Bond Index for Nominal Bonds, 10 percent of Barclay's U.S. TIPS Index 1-10 Years for Inflation Protected Bonds and 0.5 percent of ICE BofA U.S. 3-month Treasury Bill Index for cash.

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.

During 2020, Opera Theatre's governance approved a one year spending rate of 4 percent of the August 31, 2020 market value of the endowment investment accounts for fiscal year 2021. In addition, during 2021, Opera Theatre's governance approved a new policy for future years (the spending policy). Beginning in fiscal year 2022, spending from endowed, quasi-endowed and accounts being treated like endowed funds is subject to Opera Theatre's endowment spending rate which will be determined annually by the Board of Directors on the recommendation of the Investment Committee in consultation with the Finance Committee having considered Opera Theatre's budget needs and current capital market conditions. This rate seeks to balance current spending needs with the intent to grow these funds to account for inflation, after all fees to support future, inflation-adjusted spending. Spending may range from 0 percent to 5 percent of the 12-quarter moving average of each investment account subject to the Endowment Spending Rate.

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

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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, 2021.

Note 12: 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, 2021, comprise the following:

Total financial assets	\$ 106,481,236
Donor imposed restrictions	
Restricted funds not available for operations in the next year	6,687,638
Endowment	<u>91,283,627</u>
Total donor imposed restrictions	<u>97,971,265</u>
Net financial assets after donor imposed restrictions	8,509,971
Internal designations	
Board designated for general operations	1,316,512
Quasi-endowment	<u>5,125,123</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,068,336</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, 2021, contributions with donor restrictions of \$125,600 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 is subject to a spending rate approved by governance annually as described in Note 11. 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.

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Note 13: 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	\$	13,160
Deferred revenue, end of year	\$	497,948

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 \$13,257 for the year ended September 30, 2021. 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.

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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 14: 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 2021, Opera Theatre contributed a total of \$71,090 to the plan.

Note 15: 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, 2021, the remaining principal balance due on this loan was \$34,616 and is included with note and other receivables on the statement of financial position.

Note 16: 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:

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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 61 percent of gross contributions receivable as of September 30, 2021, are due from board members and their related entities.

Bequests Receivable

Approximately 91 percent of bequests receivable as of September 30, 2021, is due from one donor.

Contributions Revenue

Approximately 10 percent of contributions revenue for the year ended September 30, 2021, was from one donor (board member and related entities).

Note 17: 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 2022 season fee per the agreement is approximately \$1,081,818. Amounts paid under the agreement for the year ended September 30, 2021, were \$630,000.

Note 18: Leases

Accounting Policies

Opera Theatre determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted

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basis. Opera Theatre determines lease classification as operating or finance at the lease commencement date. Opera Theatre combines lease and nonlease components in calculating the ROU assets and lease liabilities.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. Opera Theatre has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that Opera Theatre is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

Opera Theatre has elected not to record leases with an initial term of 12 months or less on the statement of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

Opera Theatre has entered into the following lease arrangement:

Operating Lease - Land Lease

Noncancellable operating lease for land expires during 2041. Opera Theatre has no material related-party leases. Opera Theatre's lease agreement does not contain any material residual value guarantees or material restrictive covenants.

Quantitative Disclosures

The lease cost and other required information for the year ended September 30, 2021, is as follows:

Lease cost	
Operating lease cost	\$ 38,144
	<u> </u>
Other information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 31,861
Weighted-average remaining lease term	
Operating leases	20.58 years
Weighted-average discount rate on operating lease	1.23%

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Future minimum lease payments and reconciliation to the statements of financial position at September 30, 2021, are as follows:

2022	\$	35,508
2023		36,218
2024		36,942
2025		37,618
2026		38,435
Later years		<u>552,822</u>
	\$	<u><u>737,543</u></u>