

# **Opera Theatre of Saint Louis**

**Accountants' Report and Financial Statements**

**September 30, 2010**

**Opera Theatre of Saint Louis**  
**September 30, 2010**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying statement of financial position of Opera Theatre of Saint Louis as of September 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Opera Theatre's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Opera Theatre's 2009 financial statements and in our report dated December 30, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*BKD, LLP*

February 16, 2011

**Opera Theatre of Saint Louis**  
**Statement of Financial Position**  
**September 30, 2010**  
**(With Summarized Financial Information as of September 30, 2009)**

**Assets**

	<u>2010</u>	<u>2009</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 158,124	\$ 344,926
Investments	4,895,830	3,389,490
Contributions receivable, net	936,015	2,092,222
Other receivables	322,442	313,481
Prepaid expenses	296,494	135,592
Total current assets	<u>6,608,905</u>	<u>6,275,711</u>
<b>Contributions Receivable - Long-Term, Net</b>	344,287	270,051
<b>Notes Receivable - Long-Term</b>	54,816	70,829
<b>Facilities and Equipment, Net of Accumulated     Depreciation; 2010 - \$2,162,861, 2009 - \$1,793,213</b>	5,573,064	5,797,596
<b>Working Capital Reserve</b>	1,640,034	1,640,034
<b>Assets Restricted for Permanent Endowment</b>	<u>14,950,770</u>	<u>14,968,741</u>
Total assets	<u><u>\$ 29,171,876</u></u>	<u><u>\$ 29,022,962</u></u>

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 145,083	\$ 277,557
Deferred revenue	461,506	339,518
Total current liabilities	<u>606,589</u>	<u>617,075</u>
<b>Annuity Liability</b>	<u>191,837</u>	<u>223,148</u>
Total liability	<u>798,426</u>	<u>840,223</u>
<b>Net Assets</b>		
Unrestricted		
Unrestricted - undesignated	104,943	50,665
Unrestricted - designated	1,880,420	1,124,951
Temporarily restricted	9,989,118	10,621,496
Permanently restricted	16,398,969	16,385,627
Total net assets	<u>28,373,450</u>	<u>28,182,739</u>
Total liabilities and net assets	<u><u>\$ 29,171,876</u></u>	<u><u>\$ 29,022,962</u></u>

# Opera Theatre of Saint Louis

## Statement of Activities

Year Ended September 30, 2010

(With Summarized Financial Information For The Year Ended September 30, 2009)

	2010			2009		
	Operating	Unrestricted Board Designated	Total	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and Support</b>						
Support	\$ 2,340,931	\$ 5,702	\$ 2,346,633	\$ 792,517	\$ 7,607	\$ 3,146,757
Revenues						
Grants and contributions						
Performance admissions	1,852,650	-	1,852,650	-	-	1,852,650
Benefits	880,520	-	880,520	-	-	880,520
Program advertising	122,717	-	122,717	-	-	122,717
Investment income	336,480	43,723	380,203	57,535	5,735	443,473
Realized and unrealized gains (losses) on investments	-	1,181,582	1,181,582	287,593	-	1,469,175
Gain (loss) on sale of facilities and equipment	665	-	665	-	-	665
Other activities	704,863	-	704,863	-	-	704,863
Change in value of split interest agreements	-	-	-	132	-	132
<b>Total revenues and support</b>	<b>6,238,826</b>	<b>1,231,007</b>	<b>7,469,833</b>	<b>1,137,777</b>	<b>13,342</b>	<b>8,620,952</b>
Net assets released from restrictions	1,770,155	-	1,770,155	(1,770,155)	-	-
Net assets added to operating (released from designations)	475,538	(475,538)	-	-	-	-
<b>Total revenues and other support</b>	<b>8,484,519</b>	<b>755,469</b>	<b>9,239,988</b>	<b>(632,378)</b>	<b>13,342</b>	<b>8,926,402</b>
<b>Expenses</b>						
Program services						
Main season performance/production	4,335,167	-	4,335,167	-	-	4,335,167
Professional development and training	645,468	-	645,468	-	-	645,468
Education/Outreach	499,317	-	499,317	-	-	499,317
Master Artists/Artisans	241,235	-	241,235	-	-	241,235
Commissions/second or subsequent productions	950,334	-	950,334	-	-	950,334
<b>Total program services</b>	<b>6,671,521</b>	<b>-</b>	<b>6,671,521</b>	<b>-</b>	<b>-</b>	<b>6,671,521</b>
General and administrative	812,730	-	812,730	-	-	812,730
Fundraising	945,990	-	945,990	-	-	945,990
<b>Total expenses</b>	<b>8,430,241</b>	<b>-</b>	<b>8,430,241</b>	<b>-</b>	<b>-</b>	<b>8,430,241</b>
<b>Increase (Decrease) in Net Assets</b>	<b>54,278</b>	<b>755,469</b>	<b>809,747</b>	<b>(632,378)</b>	<b>13,342</b>	<b>190,711</b>
<b>Net Assets, Beginning of Year</b>	<b>50,665</b>	<b>1,124,951</b>	<b>1,175,616</b>	<b>10,621,496</b>	<b>16,385,627</b>	<b>28,182,739</b>
<b>Net Assets, End of Year</b>	<b>\$ 104,943</b>	<b>\$ 1,880,420</b>	<b>\$ 1,985,363</b>	<b>\$ 9,989,118</b>	<b>\$ 16,398,969</b>	<b>\$ 28,182,739</b>

**Opera Theatre of Saint Louis**  
**Statement of Cash Flows**  
**Year Ended September 30, 2010**  
**(With Summarized Financial Information For The Year Ended September 30, 2009)**

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Change in net assets	\$ 190,711	\$ 460,570
Items not requiring (providing) operating activities cash flows		
Depreciation	369,648	385,482
Net realized and unrealized (gains) losses on investments	(1,469,175)	267,777
(Gain) loss on sale of facilities and equipment	(665)	7,643
Change in value of annuities payable	(132)	26,985
Contributions received restricted for long-term investment	(7,607)	(113,982)
Contributions restricted for Opera Center and undesignated endowment	(18,828)	(79,548)
Changes in		
Other receivables	7,052	(264,588)
Prepaid expenses	(160,902)	132,329
Contributions receivable	909,071	(1,033,136)
Accounts payable and accrued expenses	(132,474)	(85,331)
Deferred revenue	121,988	(9,816)
	<u>(191,313)</u>	<u>(305,615)</u>
Net cash used in operating activities		
<b>Investing Activities</b>		
Purchase of facilities and equipment	(144,451)	(337,039)
Purchase of investments	(2,138,862)	(11,248,272)
Proceeds from disposition of investments	2,106,128	10,161,122
	<u>(177,185)</u>	<u>(1,424,189)</u>
Net cash used in investing activities		
<b>Financing Activities</b>		
Proceeds from contributions restricted for permanent endowment	21,147	271,153
Proceeds from contributions restricted for Opera Center and undesignated endowment	191,728	577,443
Payments on annuities payable	(31,179)	(35,333)
	<u>181,696</u>	<u>813,263</u>
Net cash provided by financing activities		
<b>Decrease in Cash and Cash Equivalents</b>	(186,802)	(916,541)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>344,926</u>	<u>1,261,467</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 158,124</u>	<u>\$ 344,926</u>

**Opera Theatre of Saint Louis**  
**Notes to Financial Statements**  
**September 30, 2010**

**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. Ópera 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 2009 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 Equivalents***

Opera Theatre considers all unrestricted and temporarily restricted liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2010, cash equivalents consisted primarily of money market accounts and funds.

The financial institutions holding Opera Theatre’s cash accounts participated in the FDIC’s Transaction Account Guarantee Program through December 31, 2010. Under that program, noninterest-bearing transaction accounts were fully guaranteed by the FDIC for the entire amount in the account. Subsequent to year end, the Dodd-Frank Act was ratified and effective December 31, 2010, all funds held in non-interest bearing accounts are fully insured through December 31, 2012.

Effective October 3, 2008, the FDIC’s insurance limits increased to \$250,000. At September 30, 2010, Opera Theatre’s interest-bearing cash accounts exceeded federally insured limits by approximately \$1,120,000.

**Opera Theatre of Saint Louis**  
**Notes to Financial Statements**  
**September 30, 2010**

***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. 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.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted 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 depreciated on a straight-line basis over the estimated useful life of each asset. Facilities and equipment purchased with restricted contributions or received as a gift is considered temporarily restricted and is released from restrictions over the depreciable life of the asset.

***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by Opera Theatre has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Opera Theatre in perpetuity.

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Donations of facilities and equipment are recorded as support at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. It is Opera Theatre's policy to imply a time restriction, based on the assets' estimated useful lives, on

# Opera Theatre of Saint Louis

## Notes to Financial Statements

### September 30, 2010

donations of facilities and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as support increasing temporarily restricted net assets. Opera Theatre reclassifies temporarily restricted net assets to unrestricted net assets each year in the amount of the donated facilities and equipment's depreciation expense.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

#### ***Working Capital Reserve***

At September 30, 2010, the working capital reserve consists of \$1,640,034 of cash equivalents. According to the terms of the donor, the funds are permanently restricted and are 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. Borrowings from the working capital reserve totaled \$971,304 at September 30, 2010.

#### ***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 received 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, 2010, \$44,655 was received in in-kind contributions.

**Opera Theatre of Saint Louis**  
**Notes to Financial Statements**  
**September 30, 2010**

***Deferred Revenue***

Revenue from future period performance admissions is deferred and recognized over the periods to which the admissions relate.

***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. With a few exceptions, Opera Theatre is no longer subject to U.S. federal examinations by tax authorities for years before September 30, 2007.

***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. 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 February 16, 2011, which is the date the financial statements were available to be issued.

**Note 2: Cash and Cash Equivalents**

Cash and cash equivalents at September 30, 2010, consist of the following:

Checking and sweep accounts	\$	124,545
Money market accounts		431,334
		555,879
Cash and cash equivalents reported as assets restricted for permanent endowment		(397,755)
		\$ 158,124

# Opera Theatre of Saint Louis

## Notes to Financial Statements

September 30, 2010

### Note 3: Investments and Investment Return

Investments at September 30, 2010, consisted of the following:

Equity securities	\$ 3,094,789
Equity securities funds	9,629,237
Government obligations	
U.S. Treasury securities	2,649,607
Agency securities	1,473,347
Municipal securities	175,928
Corporate debt securities	2,176,044
Cash surrender value of life insurance policies	216,770
	<u>19,415,722</u>
Investments reported as assets restricted for permanent endowment	<u>(14,519,892)</u>
	<u>\$ 4,895,830</u>

Total investment return for the year ended September 30, 2010, is comprised of the following:

Interest and dividend income	\$ 443,473
Net realized and unrealized gains on investments	1,469,175
	<u>\$ 1,912,648</u>

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.

### Note 4: Disclosures About Fair Value of Assets

Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Opera Theatre of Saint Louis**  
**Notes to Financial Statements**  
**September 30, 2010**

- 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 that are supported by little or no market activity and that are significant to the fair value of the assets

Following is a description of the valuation methodologies and inputs used for instruments 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.

**Investments**

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include equity securities and equity securities funds and U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics or discounted cash flows. Level 2 investments include corporate bonds, U.S. Treasury and U.S. Agency obligations and municipal obligations. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized 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, 2010:

	Fair Value	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)
Equities Securities and Equity Funds	\$ 12,724,026	\$ 12,724,026	\$ -	\$ -
Government Obligations				
U.S. Treasury Securities	\$ 2,649,607	\$ 188,190	\$ 2,461,417	\$ -
U.S. Agency Obligations	\$ 1,473,347	\$ -	\$ 1,473,347	\$ -
Municipal Obligations	\$ 175,928	\$ -	\$ 175,928	\$ -
Corporate Debt Securities	\$ 2,176,044	\$ -	\$ 2,176,044	\$ -

**Opera Theatre of Saint Louis**  
**Notes to Financial Statements**  
**September 30, 2010**

**Note 5: Contributions Receivable**

Contributions receivable at September 30, 2010, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Due within one year	\$ 644,007	\$ 369,327	\$ 33,123	\$ 1,046,457
Due in one to five years	500	345,000	-	345,500
	<u>\$ 644,507</u>	<u>\$ 714,327</u>	<u>\$ 33,123</u>	1,391,957
Less				
Allowance for uncollectible contributions				(77,319)
Unamortized discount				(1,213)
Amount reported as assets restricted for permanent endowment				<u>(33,123)</u>
				<u>\$ 1,280,302</u>
Reported in the financial statement as				
Current				\$ 936,015
Long-term				<u>344,287</u>
				<u>\$ 1,280,302</u>

Discount rates were 0.13% for 2010.

**Note 6: Facilities and Equipment**

Facilities and equipment at September 30, 2010, consists of:

Equipment, furniture and fixtures	\$ 1,354,915
Theatre building improvements and equipment	480,880
Whitaker Opera Warehouse	796,687
Sally S. Levy Opera Center	4,870,568
Other	<u>232,875</u>
	7,735,925
Less accumulated depreciation	<u>2,162,861</u>
	<u>\$ 5,573,064</u>

**Opera Theatre of Saint Louis**  
**Notes to Financial Statements**  
**September 30, 2010**

**Note 7: Assets Restricted for Permanent Endowment**

Assets restricted for permanent endowment at September 30, 2010, consist of:

Cash and cash equivalents	\$ 397,755
Investments	14,519,892
Contributions receivable	33,123
	\$ 14,950,770

Included in cash and cash equivalents and investments above is \$221,020 of assets held for annuities payable.

**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 Assets Restricted for Permanent Endowment on the Statement of Financial Position. Opera Theatre has recorded a liability at September 30, 2010, of \$191,837 which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 5.0% and rates of return of 3.8% to 8.1%.

**Note 9: Net Assets**

***Board Designated Net Assets***

Board designed net assets are under control of the Board of Directors who may, at its discretion, later use these net assets for other purposes. Board designated net assets at September 30, 2010, are available for the following purposes:

Designated for the following programs	
Cash Reserves	\$ 259,500
Master Artists/Artisans	55,731
General Operations	627,992
Purchases of Equipment and Operations of the Sally S. Levy Opera Center	937,197
Total Board designated net assets	\$ 1,880,420

**Opera Theatre of Saint Louis**  
**Notes to Financial Statements**  
**September 30, 2010**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at September 30, 2010, are available for the following purposes or periods:

Designated for the following programs	
Professional Development	\$ 215,095
Education/Outreach	108,417
Master Artists/Artisans	1,003,981
Commissions/Second or Subsequent Productions	(31,877)
Purchases of Equipment and Operations of the Sally S. Levy Opera Center	7,071,402
Main Season Performance/Production	1,158,140
General Operations (Endowment)	49,199
For periods after September 30, 2010	<u>414,761</u>
	<u><u>\$ 9,989,118</u></u>

***Permanently Restricted Net Assets***

Permanently restricted net assets at September 30, 2010, are restricted to:

Investment in perpetuity, the income of which is expendable to support the following programs	
Professional Development	\$ 4,514,574
Education/Outreach	1,585,636
Master Artists/Artisans	809,281
Commissions/Second or Subsequent Productions	1,644,601
Working Capital Reserve	1,640,034
Any activity of Opera Theatre	<u>6,204,843</u>
	<u><u>\$ 16,398,969</u></u>

**Opera Theatre of Saint Louis**  
**Notes to Financial Statements**  
**September 30, 2010**

***Net Assets (Added To) Released From Board Designations***

Net assets were added to and released from Board designations by incurring expenses satisfying the designated purposes or by occurrence of other events specified by the Board.

Allocations for facilities and equipment	\$ (100,000)
Allocations from cash reserves	130,000
Professional development	131,137
Education/Outreach	52,542
New works	11,848
Allocation from unrestricted endowment	156,293
Depreciation and other facilities expenses	<u>93,718</u>
Net assets added to operating (released from designations)	<u><u>\$ 475,538</u></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	
Professional development	\$ 17,067
Education/Outreach	85,000
Commissions/second or subsequent productions	37,276
Purchases of equipment and operations of the Sally S. Levy Opera Center	356,428
Main season performance/production	<u>716,500</u>
	1,212,271
Time restrictions expired	
Passage of specified time	<u>557,884</u>
	<u><u>\$ 1,770,155</u></u>

# Opera Theatre of Saint Louis

## Notes to Financial Statements

### September 30, 2010

#### **Note 10: Endowment**

Opera Theatre's endowment consists of approximately 16 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 Missouri Prudent Management of Institutional Funds Act (UPMIFA) was enacted into law effective August 28, 2009. The Board of Directors interprets UPMIFA as follows:

Subject to the rights of Opera Theatre with respect to the endowment provided in Section 402.134 of the Missouri Revised Statutes, and the intent of the donor expressed in the gift instrument, Opera Theatre will classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. In making a determination to appropriate or accumulate a donor-restricted endowment fund, Opera Theatre (including the Investment Committee, Finance Committee, Executive Committee and the Board of Directors) shall act in good faith with the care that an ordinary prudent person in a like position would exercise under similar circumstances.

In accordance with UPMIFA and absent explicit donor stipulations to the contrary, Opera Theatre shall consider, if relevant, 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
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 of Saint Louis**  
**Notes to Financial Statements**  
**September 30, 2010**

The composition of net assets by type of endowment fund at September 30, 2010, was:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 3,750,941	\$ 15,912,615	\$ 19,663,556
Board-designated endowment funds	855,575	-	-	855,575
<b>Total endowment funds</b>	<u>\$ 855,575</u>	<u>\$ 3,750,941</u>	<u>\$ 15,912,615</u>	<u>\$ 20,519,131</u>

Changes in endowment net assets for the year ended September 30, 2010, was:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (10,316)	\$ 3,291,061	\$ 15,888,962	\$ 19,169,707
Investment return				
Investment income	379,539	54,106	5,735	439,380
Net appreciation	1,181,582	271,137	-	1,452,719
<b>Total investment return</b>	1,561,121	325,243	5,735	1,892,099
Contributions	5,702	170,527	17,918	194,147
Appropriation of endowment assets for expenditure	(700,932)	(35,890)	-	(736,822)
<b>Endowment net assets, end of year</b>	<u>\$ 855,575</u>	<u>\$ 3,750,941</u>	<u>\$ 15,912,615</u>	<u>\$ 20,519,131</u>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at September 30, 2010, consisted of:

Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	\$ 15,912,615
Temporarily restricted net assets	<u>3,750,941</u>
	<u>\$ 19,663,556</u>

# Opera Theatre of Saint Louis

## Notes to Financial Statements

### September 30, 2010

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level Opera Theatre is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$1,547,000 at September 30, 2010. These deficiencies resulted from unfavorable market fluctuations that occurred in the past and continued appropriation for certain purposes that were deemed prudent by the Board of Directors.

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 60% of the Russell 3000 Index, 5% of the MSCI EAFE Index and 35% of Barclay's Aggregate Bond Index while assuming a moderate level of investment risk. Opera Theatre expects its endowment funds to provide an average 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% and 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.

#### **Note 11: 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% each year. Opera Theatre also enters into short-term rental agreements for equipment, vehicles and space.

**Opera Theatre of Saint Louis**  
**Notes to Financial Statements**  
**September 30, 2010**

Future minimum lease payments at September 30, 2010, were:

2011	\$ 28,558
2012	29,129
2013	29,712
2014	30,306
2015	30,912
Later years	<u>1,035,210</u>
	<u>\$ 1,183,827</u>

Rental expense for all operating leases for the year ended September 30, 2010, was \$146,712, of which \$29,600 was an in-kind contribution.

**Note 12: 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 2010, Opera Theatre did not contribute to the plan.

**Note 13: 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.

**Note 14: Related Party Transaction**

As authorized by the Executive Committee of the Board of Directors, and in accordance with the bylaws of the Organization, Opera Theatre made an interest free secured loan totaling \$80,000 to a key employee in connection with relocation. Regular payments continue through February 2013. As of September 30, 2010, the remaining principal balance due on these loans was \$54,816.

## **Supplementary Information**

**Opera Theatre of Saint Louis**  
**Functional Expenses**  
**For the Year Ended September 30, 2010**  
**(With Summarized Financial Information For the Year Ended September 30, 2009)**

	Program Expenses							2009 Total Expenses
	Main Season Performance/ Production	Professional Development and Training	Education/ Outreach	Master Artists/ Artisans	Commissions/ Second or Subsequent Productions	General and Administrative	Fundraising Expense	
Salaries and wages	\$ 1,675,321	\$ 528,303	\$ 279,575	\$ 198,456	\$ 384,786	\$ 447,449	\$ 419,187	\$ 3,799,764
Employee benefits and payroll taxes	237,412	41,902	25,833	29,662	20,209	49,515	43,729	477,984
Total salaries, wages and related expenses	1,912,733	570,205	305,408	228,118	404,995	496,964	462,916	4,381,339
Promotion and development	497,820	12	27,760	-	57,372	35,634	295,269	880,729
Orchestra	581,552	-	8,250	-	184,946	-	-	774,748
Professional services	122,392	-	23,182	-	-	75,771	18,487	239,832
Travel and housing	209,273	67,516	16,148	13,117	61,367	1,035	3,423	371,879
Office, theater and other rentals	409,133	-	31,338	-	27,424	98,620	105,857	672,372
Scenery and stage properties	174,403	-	24,644	-	74,265	-	20,000	293,312
Costumes	130,720	-	8,209	-	111,049	-	-	249,978
Royalties, commissions and translations	51,472	-	7,717	-	2,483	-	-	61,672
Postage and supplies	115,429	-	12,423	-	18,468	37,213	23,479	207,012
Telephone	19,727	-	2,095	-	-	4,811	5,969	32,602
Insurance	49,073	-	5,376	-	-	48,382	5,376	108,207
Other	61,440	7,735	26,767	-	7,965	14,300	5,214	123,421
Totals, year ended September 30, 2010	\$ 4,335,167	\$ 645,468	\$ 499,317	\$ 241,235	\$ 950,334	\$ 812,730	\$ 945,990	\$ 8,430,241
Totals, year ended September 30, 2009	\$ 4,232,586	\$ 535,297	\$ 485,717	\$ 218,652	\$ 1,086,414	\$ 921,664	\$ 985,502	\$ 8,465,832