

Opera Theatre of Saint Louis

Independent Auditor's Report and Financial Statements

September 30, 2017

Opera Theatre of Saint Louis
September 30, 2017

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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, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Opera Theatre's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

BKD, LLP

St. Louis, Missouri
January 23, 2018

Opera Theatre of Saint Louis

Statement of Financial Position

September 30, 2017

(With Summarized Financial Information as of September 30, 2016)

Assets

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 401,900	\$ 49,389
Investments	12,625,134	10,711,271
Contributions receivable, net	1,492,792	860,231
Other receivables	244,740	258,695
Beneficial interest in lead trust	62,020	62,020
Prepaid expenses	458,350	387,925
Total current assets	15,284,936	12,329,531
Contributions Receivable - Long-Term, Net	211,327	1,382,896
Facilities and Equipment, Net of Accumulated Depreciation; 2017 - \$3,033,941, 2016 - \$2,800,501	4,248,606	4,387,533
Beneficial Interest in Lead Trust - Long-Term	571,238	631,365
Working Capital Reserve	1,640,034	1,640,034
Investments - Long Term	76,550	68,175
Assets Restricted for Permanent Endowment	23,860,428	22,026,959
Total assets	\$ 45,893,119	\$ 42,466,493

Liabilities and Net Assets

Current Liabilities		
Accounts payable and accrued expenses	\$ 353,687	\$ 409,475
Deferred revenue	665,892	651,785
Total current liabilities	1,019,579	1,061,260
Annuity Liability	40,778	180,015
Total liabilities	1,060,357	1,241,275
Net Assets		
Unrestricted		
Unrestricted - undesignated	112,300	14,139
Unrestricted - designated	4,389,578	4,472,554
Temporarily restricted	14,791,949	13,131,304
Permanently restricted	25,538,935	23,607,221
Total net assets	44,832,762	41,225,218
Total liabilities and net assets	\$ 45,893,119	\$ 42,466,493

Opera Theatre of Saint Louis

Statement of Activities

Year Ended September 30, 2017

(With Summarized Financial Information For The Year Ended September 30, 2016)

	2017				2016			
	Unrestricted				Unrestricted			
	Operating	Designated	Total	Temporarily Restricted	Permanently Restricted	Total	Total	
Revenues and Support								
Support								
Grants and contributions	\$ 3,758,423	\$ 33,290	\$ 3,791,713	\$ 1,197,054	\$ 1,819,212	\$ 6,807,979	\$ 7,108,938	
Revenues								
Performance admissions	1,566,597	-	1,566,597	-	-	1,566,597	1,659,206	
Benefits	1,083,172	-	1,083,172	8,375	-	1,091,547	1,479,544	
Program advertising	162,538	-	162,538	-	-	162,538	156,860	
Investment income	34,116	112,273	146,389	554,510	-	700,899	633,157	
Realized and unrealized gains (losses) on investments	1,539,018	(205,776)	1,333,242	1,724,590	-	3,057,832	2,278,450	
Other activities	484,738	-	484,738	16,020	-	500,758	382,784	
Change in value of split interest agreements	589	-	589	(5,052)	112,502	108,039	(63,214)	
Total revenues and support	8,629,191	(60,213)	8,568,978	3,495,497	1,931,714	13,996,189	13,635,725	
Net assets released from restrictions	1,834,852	-	1,834,852	(1,834,852)	-	-	-	
Net assets added to operating (released from designations)	22,763	(22,763)	-	-	-	-	-	
Total revenues and other support	10,486,806	(82,976)	10,403,830	1,660,645	1,931,714	13,996,189	13,635,725	
Expenses								
Program services								
Artistic	3,627,099	-	3,627,099	-	-	3,627,099	3,881,900	
Production	2,704,471	-	2,704,471	-	-	2,704,471	2,600,923	
Education	480,840	-	480,840	-	-	480,840	502,544	
Marketing	1,556,270	-	1,556,270	-	-	1,556,270	1,502,876	
Total program services	8,368,680	-	8,368,680	-	-	8,368,680	8,488,243	
General and administrative	833,121	-	833,121	-	-	833,121	842,509	
Fundraising	1,186,844	-	1,186,844	-	-	1,186,844	1,383,100	
Total expenses	10,388,645	-	10,388,645	-	-	10,388,645	10,713,852	
Change in Net Assets	98,161	(82,976)	15,185	1,660,645	1,931,714	3,607,544	2,921,873	
Net Assets, Beginning of Year	14,139	4,472,554	4,486,693	13,131,304	23,607,221	41,225,218	38,303,345	
Net Assets, End of Year	\$ 112,300	\$ 4,389,578	\$ 4,501,878	\$ 14,791,949	\$ 25,538,935	\$ 44,832,762	\$ 41,225,218	

Opera Theatre of Saint Louis

Statement of Cash Flows

Year Ended September 30, 2017

(With Summarized Financial Information For The Year Ended September 30, 2016)

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ 3,607,544	\$ 2,921,873
Items not requiring (providing) operating activities cash flows		
Depreciation	233,440	237,500
Net realized and unrealized (gains) losses on investments	(3,057,832)	(2,278,450)
Loss on disposal of facility improvements and equipment	-	773
Change in value of split-interest agreements	(108,039)	63,214
Contributions received restricted for long-term investment	(1,819,212)	(1,843,937)
Accrued deferred compensation	14,235	27,726
Changes in		
Other receivables	13,955	4,471
Prepaid expenses	(70,425)	(45,046)
Contributions receivable and beneficial interest in lead trust	599,135	572,629
Accounts payable and accrued expenses	(70,023)	(97,624)
Deferred revenue	14,107	6,278
Net cash used in operating activities	<u>(643,115)</u>	<u>(430,593)</u>
Investing Activities		
Purchase of facilities and equipment	(94,513)	(152,219)
Purchase of investments	(12,927,947)	(4,926,959)
Proceeds from disposition of investments	12,294,858	3,226,410
Net cash used in investing activities	<u>(727,602)</u>	<u>(1,852,768)</u>
Financing Activities		
Proceeds from contributions restricted for permanent endowment	1,862,465	1,507,271
Payments on annuities payable	(139,237)	27,036
Net cash provided by financing activities	<u>1,723,228</u>	<u>1,534,307</u>
Increase (Decrease) in Cash and Cash Equivalents	352,511	(749,054)
Cash and Cash Equivalents, Beginning of Year	<u>49,389</u>	<u>798,443</u>
Cash and Cash Equivalents, End of Year	<u>\$ 401,900</u>	<u>\$ 49,389</u>

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2017

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 2016 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, 2017, cash equivalents consisted primarily of checking and sweep accounts.

At September 30, 2017, Opera Theatre’s cash accounts exceeded federally insured limits by approximately \$1,018,000.

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.

Opera Theatre of Saint Louis

Notes to Financial Statements

September 30, 2017

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 statement 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 stated at cost less accumulated depreciation. Depreciation is charged to expense 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.

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, 2017.

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.

Opera Theatre of Saint Louis

Notes to Financial Statements

September 30, 2017

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 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, 2017, 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 \$1,628,610 at September 30, 2017.

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.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2017

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, 2017, \$42,225 was received in in-kind contributions.

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.

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 January 23, 2018, 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, 2017, consist of the following:

Checking and sweep accounts	\$ 2,031,461
Less cash and cash equivalents reported as:	
Working capital reserve	1,628,610
Assets restricted for permanent endowment	951
	<u>401,900</u>
	<u>\$ 401,900</u>

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2017

Note 3: Investments and Investment Return

Investments at September 30, 2017, consisted of the following:

Money market	\$ 939,427
Equity securities - large cap	
Consumer, cyclical	229,343
Consumer, non-cyclical	1,502,884
Communications	245,696
Financial	1,126,807
Industrial	870,438
Mutual funds	
Large cap	6,127,775
Mid/small cap	3,091,105
International	8,946,291
Fixed income	16,790
Government obligations	
U.S. Treasury securities	5,756,140
Agency securities	866,184
Municipal securities	2,105,089
Corporate debt securities	1,570,617
Certificates of deposit	1,271,102
Cash surrender value of life insurance	263,726
	<u>34,929,414</u>
Investments reported as assets restricted for permanent endowment	<u>(22,227,730)</u>
	12,701,684
Less long-term investments	<u>76,550</u>
Total short-term investments	<u><u>\$ 12,625,134</u></u>

Total investment return for the year ended September 30, 2017, is comprised of the following:

Interest and dividend income	\$ 700,899
Net realized and unrealized gain on investments	<u>3,057,832</u>
	<u><u>\$ 3,758,731</u></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.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2017

Note 4: 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, 2017:

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2017

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market	\$ 939,427	\$ 939,427	\$ -	\$ -
Equities securities - large cap				
Consumer, cyclical	229,343	229,343	-	-
Consumer, non-cyclical	1,502,884	1,502,884	-	-
Communications	245,696	245,696	-	-
Financial	1,126,807	1,126,807	-	-
Industrial	870,438	870,438	-	-
Mutual funds				
Large cap	6,127,775	6,127,775	-	-
Mid/small cap	3,091,105	3,091,105	-	-
International	8,946,291	8,946,291	-	-
Fixed income	16,790	16,790	-	-
Government obligations				
U.S. Treasury securities	5,756,140	5,756,140	-	-
Agency securities	866,184	866,184	-	-
Municipal securities	2,105,089	-	2,105,089	-
Corporate debt securities	1,570,617	-	1,570,617	-
Certificates of deposit	1,271,102	-	1,271,102	-
Beneficial interest in lead trust	633,258	-	633,258	-

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, 2017.

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, 2017.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2017

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 5: Contributions Receivable

Contributions receivable at September 30, 2017, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Due within one year	\$ 982,190	\$ 590,626	\$ 231,747	\$ 1,804,563
Due in one to five years	-	325,000	400,000	725,000
Due in more than five years	-	-	1,000,000	1,000,000
	<u>\$ 982,190</u>	<u>\$ 915,626</u>	<u>\$ 1,631,747</u>	<u>3,529,563</u>
Less				
Allowance for uncollectible contributions				(80,024)
Unamortized discount				(113,673)
Amount reported as assets restricted for permanent endowment, net				<u>(1,631,747)</u>
				<u>\$ 1,704,119</u>
Reported in the financial statement as				
Current				\$ 1,492,792
Long-term				<u>211,327</u>
				<u>\$ 1,704,119</u>

The discount rates were 1.47 percent for pledges due in one to five years and 1.92 percent for pledges due in more than five years for 2017.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2017

Note 6: Facilities and Equipment

Facilities and equipment at September 30, 2017, consists of:

Equipment, furniture and fixtures	\$ 692,767
Theatre building improvements and equipment	648,075
Whitaker Opera Warehouse	796,687
Sally S. Levy Opera Center	4,895,344
Performance equipment and other	<u>249,674</u>
	7,282,547
Less accumulated depreciation	<u>3,033,941</u>
	<u><u>\$ 4,248,606</u></u>

Note 7: Beneficial Interest in Trust

Opera Theatre is an annuitant under a charitable lead trust administered by an outside party. Under the terms of the trust, Opera Theatre has the irrevocable right to receive a fixed amount quarterly through March 2029. The estimated value of the expected future cash flows is \$633,258 as of September 30, 2017, of which \$62,020 is expected within the next year.

Note 8: Assets Restricted for Permanent Endowment

Assets restricted for permanent endowment at September 30, 2017, consist of:

Investments	\$ 22,227,730
Cash and cash equivalents	951
Contributions receivable, net	<u>1,631,747</u>
	<u><u>\$ 23,860,428</u></u>

Included in investments above is \$55,072 of assets held for annuities payable and \$263,726 of cash surrender value of life insurance.

Note 9: 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, 2017, of \$40,778 which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 5.0 percent and rates of return of 3.4 percent to 7.2 percent.

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2017

Note 10: Line of Credit

Opera Theatre has a \$2,000,000 revolving bank line of credit that expires in March 2018. At September 30, 2017, there were no borrowings against this line. The line is collateralized by the Opera Theatre's investments. Interest varies with the London Interbank Offered Rate (LIBOR) and is payable monthly.

As of September 30, 2017, approximately \$2,649,247 of total cash and investments was pledged as collateral against Opera Theatre's line of credit agreement.

Note 11: Net Assets

Board Designated Net Assets

Board designated 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 of \$4,389,578 at September 30, 2017, are available for general operations with board approval.

Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2017, are available for the following purposes or periods:

Designated for the following programs	
Professional Development	\$ 1,742,297
Education/Outreach	336,342
Master Artists/Artisans	1,238,416
Purchases of Equipment and Operations of the Sally S. Levy	
Opera Center	5,963,022
Subsequent Productions	342,758
Main Season Performance/Production	293,306
General Operations (Endowment)	1,945,088
For periods after September 30, 2017	<u>2,930,720</u>
	<u>\$ 14,791,949</u>

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2017

Permanently Restricted Net Assets

Permanently restricted net assets at September 30, 2017, are restricted to:

Investment in perpetuity, the income of which is expendable to support the following programs	
Professional Development	\$ 8,182,880
Education/Outreach	1,554,530
Master Artists/Artisans	809,281
Commissions/Second or Subsequent Productions	2,409,291
Working Capital Reserve	1,640,034
Any activity of Opera Theatre	10,942,919
	<u>\$ 25,538,935</u>

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.

Facilities and equipment	\$ -
General board designations	<u>22,763</u>
Net assets added to operating (released from board designations)	<u>\$ 22,763</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	\$ 5,000
Education/Outreach	92,000
Purchases of Equipment and Operations of the Sally S. Levy Opera Center	464,599
Main Season Performance/Production	<u>733,824</u>
	1,295,423
Time restrictions expired	
Passage of specified time	<u>539,429</u>
	<u>\$ 1,834,852</u>

Opera Theatre of Saint Louis
Notes to Financial Statements
September 30, 2017

Note 12: Endowment

Opera Theatre’s endowment consists of 18 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

The composition of net assets by type of endowment fund at September 30, 2017, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 8,032,628	\$ 21,908,932	\$ 29,941,560
Board-designated endowment funds	3,768,566	-	-	3,768,566
Total endowment funds	<u>\$ 3,768,566</u>	<u>\$ 8,032,628</u>	<u>\$ 21,908,932</u>	<u>\$ 33,710,126</u>

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Changes in endowment net assets for the year ended September 30, 2017, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,817,958	\$ 5,691,593	\$ 19,995,875	\$ 29,505,426
Investment return				
Investment income	107,618	547,791	-	655,409
Net appreciation	1,269,787	1,724,586	-	2,994,373
Total investment return	1,377,405	2,272,377	-	3,649,782
Contributions	33,076	-	1,913,057	1,946,133
Other transfers	100,000	68,658	-	168,658
Appropriation of endowment assets for expenditure	(1,559,873)	-	-	(1,559,873)
Endowment net assets, end of year	<u>\$ 3,768,566</u>	<u>\$ 8,032,628</u>	<u>\$ 21,908,932</u>	<u>\$ 33,710,126</u>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at September 30, 2017, consisted of:

Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	<u>\$ 21,908,932</u>
Temporarily restricted net assets	
With purpose restrictions	\$ 6,562,741
Without purpose restrictions	1,469,887
	<u>\$ 8,032,628</u>

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. There were no donor funds with deficiencies at September 30, 2017.

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

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

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

Note 13: Operating Leases

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

Future minimum lease payments at September 30, 2017, were:

2018	\$ 32,804
2019	33,460
2020	32,443
2021	31,861
2022	35,508
Later years	<u>804,442</u>
	<u>\$ 970,518</u>

Rental expense for all operating leases for the year ended September 30, 2017, was \$126,251.

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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 2017, Opera Theatre contributed a total of \$85,494 to the plan.

Note 15: 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 and investments are reflected in the footnotes regarding contributions receivable and investments 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. Concentrations not discussed in other footnotes include the following:

Contributions

Approximately 15 percent of all contribution revenue were received from one donor in 2017.

Approximately 65 percent of gross pledges receivable as of September 30, 2017, are due from board members and their related entities. Approximately 17 percent of gross pledges are due from two non-related party donors.

Note 16: 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.

Supplementary Information

Opera Theatre of Saint Louis

Schedule of Functional Expense

Year Ended September 30, 2017

	Program Services					Total
	Artistic	Production	Education	Marketing	General and Administration	
Personnel Expense						
Salaries and wages	\$ 1,922,863	\$ 1,375,242	\$ 302,661	\$ 546,140	\$ 216,962	\$ 543,347
Employee benefits and payroll taxes	151,237	285,912	26,225	57,958	97,053	54,633
	<u>2,074,100</u>	<u>1,661,154</u>	<u>328,886</u>	<u>604,098</u>	<u>314,015</u>	<u>597,980</u>
Total personnel expense						5,580,233
Operating Expense						
Promotional and development	47,688	148,061	74,586	592,197	13,334	404,038
Orchestra	942,968	-	-	-	-	-
Professional services	36,193	34,029	19,742	165,609	27,185	30,779
Travel and housing	297,741	96,105	23,897	30,143	1,657	41,510
Office, theater and other rentals	25,558	150,059	11,908	7,632	383,611	8,342
Scenery and stage properties	-	308,288	4,949	-	-	27,491
Costumes	-	202,728	1,768	-	-	-
Royalties, commissions and translations	136,161	-	-	3,925	-	-
Postage and supplies	15,226	52,256	9,847	78,675	16,148	30,562
Telephone	5,353	8,001	2,944	16,688	5,617	8,366
Insurance	36,228	31,747	1,356	8,705	21,327	5,256
Other	9,883	12,043	957	48,598	50,227	32,520
	<u>1,552,999</u>	<u>1,043,317</u>	<u>151,954</u>	<u>952,172</u>	<u>519,106</u>	<u>588,864</u>
Total operating expense						4,808,412
Total Expense	<u>\$ 3,627,099</u>	<u>\$ 2,704,471</u>	<u>\$ 480,840</u>	<u>\$ 1,556,270</u>	<u>\$ 833,121</u>	<u>\$ 1,186,844</u>
						\$ 10,388,645