



Financial Statements  
June 30, 2015 and 2014  
**The Minnesota Opera**

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## **Independent Auditor's Report**

The Board of Directors  
The Minnesota Opera  
Minneapolis, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Minnesota Opera, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Minnesota Opera as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota  
November 9, 2015

The Minnesota Opera  
Statements of Financial Position  
June 30, 2015 and 2014

	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$ 1,771,172	\$ 519,762
Reserved cash and cash equivalents	1,450,000	1,450,000
Contributions and grants receivable, net (Note 2)	2,333,968	2,551,226
Accounts receivable, net	333,333	258,461
Deferred production expenses (Note 3)	1,375,709	1,251,568
Prepaid expenses	20,964	23,010
Property and equipment, net (Note 4)	2,914,083	3,081,957
Investments (Note 5)	10,443,904	11,172,913
Beneficial interest in perpetual trusts	8,134,117	8,516,813
	\$ 28,777,250	\$ 28,825,710
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 180,592	\$ 163,933
Deferred revenue	1,873,639	1,768,283
Mortgage payable (Note 7)	628,280	726,343
	2,682,511	2,658,559
 <b>Net Assets</b>		
<b>Unrestricted</b>		
Board designated	500,000	700,000
Unrestricted	780,818	1,425,858
	1,280,818	2,125,858
Temporarily restricted (Note 8)	5,125,035	3,974,710
Permanently restricted (Note 8)	19,688,886	20,066,583
Total net assets	26,094,739	26,167,151
	\$ 28,777,250	\$ 28,825,710

The Minnesota Opera  
Statements of Activities  
Year Ended June 30, 2015

	2015				Total
	Unrestricted		Temporarily Restricted	Permanently Restricted	
	Operating Fund	Endowment/ Capital Fund			
<b>Revenue and Public Support</b>					
<b>Revenue</b>					
Opera season/admissions	\$ 3,000,863	\$ -	\$ -	\$ -	\$ 3,000,863
Outreach and education	123,822	-	-	-	123,822
Rental and other	207,511	-	-	-	207,511
Co-production income	111,800	-	-	-	111,800
Trust distribution	419,688	-	-	-	419,688
Interest earnings	406	-	-	-	406
Other	124,709	-	-	-	124,709
Total revenue	<u>3,988,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,988,799</u>
<b>Public Support</b>					
Annual fund drive	1,613,704	-	205,550	-	1,819,254
Grants	1,888,588	-	2,719,398	-	4,607,986
Special event revenue	467,543	-	-	-	467,543
Less cost of direct benefits to donors	(133,408)	-	-	-	(133,408)
Net special events revenue	334,135	-	-	-	334,135
In-kind contributions	60,021	-	-	-	60,021
Transfers to operating fund from endowment/capital fund	807,852	(807,852)	-	-	-
Total public support	<u>4,704,300</u>	<u>(807,852)</u>	<u>2,924,948</u>	<u>-</u>	<u>6,821,396</u>
Total revenue and public support	<u>8,693,099</u>	<u>(807,852)</u>	<u>2,924,948</u>	<u>-</u>	<u>10,810,195</u>
Net assets released from restrictions	<u>1,743,622</u>	<u>-</u>	<u>(1,743,622)</u>	<u>-</u>	<u>-</u>
<b>Expenses</b>					
<b>Program services</b>					
Production expenses	7,901,760	-	-	-	7,901,760
Outreach and education	359,832	-	-	-	359,832
Administrative and general	1,535,118	155,214	-	-	1,690,332
Fundraising expenses	637,559	-	-	-	637,559
Total expenses	<u>10,434,269</u>	<u>155,214</u>	<u>-</u>	<u>-</u>	<u>10,589,483</u>
Change in Net Assets - Operating	<u>2,452</u>	<u>(963,066)</u>	<u>1,181,326</u>	<u>-</u>	<u>220,712</u>
<b>Change in Net Assets -</b>					
Nonoperating contributions	-	-	-	5,000	5,000
Investment income (loss)	-	115,574	(31,001)	-	84,573
Change in value of beneficial interest in perpetual trusts	-	-	-	(382,697)	(382,697)
	<u>-</u>	<u>115,574</u>	<u>(31,001)</u>	<u>(377,697)</u>	<u>(293,124)</u>
Total Change in Net Assets	2,452	(847,492)	1,150,325	(377,697)	(72,412)
Net Assets, Beginning of Year	<u>(187,320)</u>	<u>2,313,178</u>	<u>3,974,710</u>	<u>20,066,583</u>	<u>26,167,151</u>
Net Assets, End of Year	<u>\$ (184,868)</u>	<u>\$ 1,465,686</u>	<u>\$ 5,125,035</u>	<u>\$ 19,688,886</u>	<u>\$ 26,094,739</u>

The Minnesota Opera  
Statements of Activities  
Year Ended June 30, 2014

	2014				Total
	Unrestricted		Temporarily Restricted	Permanently Restricted	
	Operating Fund	Endowment/ Capital Fund			
<b>Revenue and Public Support</b>					
<b>Revenue</b>					
Opera season/admissions	\$ 2,965,436	\$ -	\$ -	\$ -	\$ 2,965,436
Outreach and education	149,095	-	-	-	149,095
Rental and other	118,610	-	-	-	118,610
Co-production income	80,000	-	-	-	80,000
Trust distribution	415,325	-	-	-	415,325
Interest earnings	380	-	-	-	380
Other	45,402	-	-	-	45,402
Total revenue	<u>3,774,248</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,774,248</u>
<b>Public Support</b>					
Annual fund drive	1,782,007	105,000	404,200	-	2,291,207
Grants	1,359,448	-	1,260,457	-	2,619,905
Special event revenue	510,030	-	-	-	510,030
Less cost of direct benefits to donors	<u>(143,478)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(143,478)</u>
Net special events revenue	366,552	-	-	-	366,552
In-kind contributions	52,321	-	-	-	52,321
Transfers to operating fund from endowment/capital fund	606,610	(606,610)	-	-	-
Total public support	<u>4,166,938</u>	<u>(501,610)</u>	<u>1,664,657</u>	<u>-</u>	<u>5,329,985</u>
Total revenue and public support	<u>7,941,186</u>	<u>(501,610)</u>	<u>1,664,657</u>	<u>-</u>	<u>9,104,233</u>
Net assets released from restrictions	<u>1,365,089</u>	<u>-</u>	<u>(1,365,089)</u>	<u>-</u>	<u>-</u>
<b>Expenses</b>					
Program services					
Production expenses	7,167,930	-	-	-	7,167,930
Outreach and education	357,495	-	-	-	357,495
Administrative and general	1,338,419	153,843	-	-	1,492,262
Fundraising expenses	615,558	-	-	-	615,558
Total expenses	<u>9,479,402</u>	<u>153,843</u>	<u>-</u>	<u>-</u>	<u>9,633,245</u>
Change in Net Assets - Operating	<u>(173,127)</u>	<u>(655,453)</u>	<u>299,568</u>	<u>-</u>	<u>(529,012)</u>
<b>Change in Net Assets -</b>					
Nonoperating contributions	-	-	-	37,500	37,500
Investment income (loss)	-	1,395,327	161,845	-	1,557,172
Change in value of beneficial interest in perpetual trusts	-	-	-	627,928	627,928
	<u>-</u>	<u>1,395,327</u>	<u>161,845</u>	<u>665,428</u>	<u>2,222,600</u>
Total Change in Net Assets	(173,127)	739,874	461,413	665,428	1,693,588
Net Assets, Beginning of Year	<u>(14,193)</u>	<u>1,573,304</u>	<u>3,513,297</u>	<u>19,401,155</u>	<u>24,473,563</u>
Net Assets, End of Year	<u>\$ (187,320)</u>	<u>\$ 2,313,178</u>	<u>\$ 3,974,710</u>	<u>\$ 20,066,583</u>	<u>\$ 26,167,151</u>

The Minnesota Opera  
Statements of Cash Flows  
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ (72,412)	\$ 1,693,588
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	247,556	247,119
Change in value of beneficial interest in perpetual trust	382,696	(627,927)
Net realized and unrealized (gain) loss on investments	(29,209)	(1,507,484)
Changes in operating assets and liabilities		
Contributions and grants receivable	217,258	490,916
Accounts receivable	(74,872)	63,017
Deferred production expenses	(124,141)	(618,201)
Prepaid expenses	2,046	(6,890)
Accounts payable and accrued expenses	16,659	(26,241)
Deferred revenue	105,356	(47,877)
Net Cash from (used for) Operating Activities	670,937	(339,980)
Cash Flows from Investing Activities		
Purchase of property and equipment	(79,682)	(175,067)
Addition to reserved cash and cash equivalents	-	(1,450,000)
Purchases of investments	(1,463,573)	(2,446,987)
Proceeds from sale of investments	2,221,791	4,650,968
Net Cash from (used for) Investing Activities	678,536	578,914
Cash Flows from Financing Activities		
Borrowings under line of credit	-	950,000
Repayments under line of credit	-	(950,000)
Principal payments on mortgage payable	(98,063)	(93,639)
Net Cash from (used for) Financing Activities	(98,063)	(93,639)
Net Change in Cash and Cash Equivalents	1,251,410	145,295
Cash and Cash Equivalents, Beginning of Year	519,762	374,467
Cash and Cash Equivalents, End of Year	\$ 1,771,172	\$ 519,762
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 35,793	\$ 40,731



## **Note 1 - Nature of Organization and Significant Accounting Policies**

### **Mission Statement**

The Minnesota Opera (Minnesota Opera) combines a culture of creativity and fiscal responsibility to produce opera and opera education programs that expand the art form, nurture artists, enrich audiences and contribute to the vitality of the community.

### **Nature of Organization**

Minnesota Opera was formed as a 501(c)(3) corporation organized for charitable, artistic and educational purposes, primarily in the St. Paul/Minneapolis area.

### **Program Accomplishments**

Minnesota Opera, having completed its 52nd anniversary season, is regarded by the opera field in the United States as one of the industry's most ambitious companies, offering five fully staged operas, including both standard repertoire and less well-known works. Minnesota Opera has been a resident company of the Ordway Center for the Performing Arts since 1985. Minnesota Opera regularly receives national and international acclaim as a producer and creator of opera.

Minnesota Opera's 2014 – 2015 season included *La Fanciulla Del West* (Puccini), *Hansel and Gretel* (Humperdinck), *The Elixir of Love* (Donizetti), the world premiere of a Minnesota Opera commission, *The Manchurian Candidate* (Puts), and a new production of *Carmen* (Bizet), which was the highest-grossing production in Minnesota Opera's history. Minnesota Opera productions featured world-renowned artists showcased in productions which were conducted, directed and designed by acclaimed professionals of the field. Along with distinguished guest artists, Minnesota Opera's productions also featured the company's own professional chorus and orchestra. During the fiscal year 2015 season, Minnesota Opera produced 28 performances for the entertainment and enrichment of over 43,000 patrons.

Minnesota Opera's education and outreach efforts reached over 11,000 adults and 5,000 youth including adult education classes; coOPERation! – an in-school residency program that places Teaching Artists and Resident Artists into schools; Spotlight Partnership – a specialized in-school residency program for at-risk youths; Day at the Opera – audition master classes which provide opportunities for high school students to work with members of the Opera staff and guest artists; Project Opera – consisting of three groups, Ragazzi (grades 4 to 8), Giovani (grades 9 to 12) and the Apprentice program (grade 12); Summer Opera Camp – a week-long vocal training program for teens; Children's Chorus Summer Opera Camp – a three-day long day camp for children ages 7 to 12; Opera Artist+ – a week long camp for college students to learn about the business of opera, [www.mnop.co/learn](http://www.mnop.co/learn) – an education specific area of Minnesota Opera's website that provides resources for teachers and students to learn about the art form; Student Final Dress Rehearsals – open final dress rehearsals with an invited audience of primarily high school students; Opera Insights – a pre-performance lecture open to ticket holders one hour before each performance; and Behind the Curtain – 90-minute evening classes designed to give ticket holders an in-depth look at each opera in the season.

Minnesota Opera's Resident Artist Program provided ten young professionals at the initial stages of their careers with nine months of professional development, including vocal training and coaching, stage time, classes and career counseling. This program includes both performers and other practitioners of the art form. In addition to appearing in Minnesota Opera's productions, these artists were an integral part of the company's outreach and education efforts, serving as operatic ambassadors throughout the community both in schools and at special events.

### **Cash and Cash Equivalents**

Minnesota Opera considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to permanent endowment or other long-term purposes of Minnesota Opera are excluded from this definition.

Minnesota Opera maintains funds in bank deposit and investment accounts, which, at times, may exceed insured limits. Minnesota Opera has not experienced any losses in these accounts.

### **Receivables and Credit Policies**

Accounts receivable consists primarily of non-interest bearing amounts due for various purposes. Management determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. There was no allowance determined to be necessary as of June 30, 2015 and 2014.

### **Contributions and Grants Receivable**

Unconditional contributions and grants receivable expected to be collected within one year are recorded at net realizable value. Unconditional contributions and grants receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions and grants receivable are written off when deemed uncollectible. At June 30, 2015 and 2014, the allowance was \$18,002 and \$33,547, respectively.

### **Deferred Production Expenses**

Expenses related to production incurred in years prior to a scheduled performance are deferred until the year of performance. These expenses may include construction of sets, props and costumes as well as certain licensing costs or commissioning fees paid to composers and librettists.

## **Property and Equipment**

Property and equipment acquisitions in excess of \$1,000 with a life greater than two years are recorded at cost, if purchased, or at fair value at the date received, if donated. Depreciation is computed using the straight-line method over the estimated useful property and equipment lives (3 to 40 years). Minnesota Opera monitors the addition of production equipment in accordance with the terms of the Strategic Initiative. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Minnesota Opera reviews the carrying value of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2015 and 2014.

## **Investments**

Minnesota Opera has invested in four limited partnerships (the partnerships). The investment manager revalues the partnerships monthly and independent audits are performed on an annual basis. Minnesota Opera's investment in the partnerships is reported at the estimated fair value of Minnesota Opera's share of the partnerships, which is evaluated and determined by Minnesota Opera with assistance from the investment manager.

Minnesota Opera's investment in a private equity limited partnership is reported at the estimated fair value of Minnesota Opera's share of the partnership, which is evaluated and determined by Minnesota Opera with assistance from its custodian.

Realized and unrealized gains and losses are included in the change in unrestricted net assets, unless their use is temporarily or permanently restricted by donor stipulations or law. Realized gains and losses are reported at date of disposition based on the difference between the net proceeds received and the purchased value of the investment sold, using the specific identification method. Unrealized gains and losses are reported for the change in fair value between reporting periods. Interest and dividend income is reported when earned.

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 the changes in the values of investment securities will occur in the near term and that those changes could materially affect the balance of investments in the financial statements.

## **Beneficial Interest in Perpetual Trusts**

Minnesota Opera has been named as an irrevocable beneficiary of perpetual trusts (the trusts) held and administered by a third-party. These perpetual trusts provide for the distribution of net income of the trusts to Minnesota Opera; however, Minnesota Opera does not select the investments held by the perpetual trusts. After the twentieth anniversary of the trust, the Trustees may vote to unanimously to terminate the trust and distribute the proceeds to Minnesota Opera's endowment. At the date Minnesota Opera receives notice of a beneficial interest, a permanently restricted contribution is recorded in the statements of activities, and a beneficial interest in a perpetual trust is recorded in the statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at fair value of the trusts' assets in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities.

Minnesota Opera also has a beneficial interest in another trust held by a third-party consisting of the right to receive the residual value upon trust termination. The beneficial interest in this trust is recorded at the present value of the expected future cash flows.

### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted Board designated net assets consist of net assets designated by the Board of Directors in the amount of \$500,000 for operating reserve as of June 30, 2015, and \$500,000 and \$200,000 for operating reserve and quasi-endowment, respectively, as of June 30, 2014.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of Minnesota Opera and/or the passage of time, and certain income earned on permanently restricted net assets that has not been appropriated for expenditure by Minnesota Opera’s Board of Directors.

Minnesota Opera reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets (unless the restriction is in perpetuity), depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets from a prior period are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of Minnesota Opera. The restrictions stipulate that resources be maintained permanently but permit Minnesota Opera to expend the income not recognized until the conditions on which they depend have been substantially met.

In addition to net asset reporting, to ensure observance of limitations and restrictions placed on the use of resources available to Minnesota Opera, internally, the accounts are maintained in accordance with the principles of fund accounting, whereby resources for various purposes are classified into funds established according to their natures and purposes.

The two self-balancing funds utilized are as follows:

Operating Fund – This fund consists of resources that are available for the current or future-year support of operations that are not accounted for in the Endowment/Capital Fund.

Endowment/Capital Fund – This fund consists of donor contributions or gift instruments, which are subject to capital restrictions. Also included in this fund are endowment contributions and related earnings. This fund is also used to account for resources obtained and expended for property acquisitions.

### **Performance Revenue**

Revenue from ticket sales that relate to a specific production are recognized during the time period of the performance. Revenues received prior to a performance are deferred. The deferred amounts are included in deferred revenue in the accompanying financial statements.

During each year ended June 30, 2015 and 2014, five productions were performed by Minnesota Opera. Ticket sales for these productions for the years ended June 30, 2015 and 2014, were \$3,000,863 and \$2,965,436, respectively. Related production expenses for the years ended June 30, 2015 and 2014, were \$6,705,676 and \$6,072,858, respectively.

### **Contributions and Donations**

Contributions and donations are recognized when cash, securities or other assets, an unconditional promise to give, or notification or a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributed property and equipment is recorded at fair value at the date of donation. In the absence of donor stipulations, Minnesota Opera presents these assets as unrestricted support. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Minnesota Opera reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated services are recorded when there is an objective basis to measure the value of such services and the service involves specialized skills that would be purchased, if not provided by donation. The services of most volunteers have not been reflected in the statements as donated services, since there is no objective measurement basis and they do not meet generally accepted accounting principles' criteria for recognition. Nevertheless, volunteers have given significant amounts of their time to Minnesota Opera.

### **Advertising Costs**

Advertising costs are expensed as incurred. Such costs were \$415,499 and \$378,685, for the years ended June 30, 2015 and 2014, respectively.

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Income Taxes**

Minnesota Opera is a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). Minnesota Opera is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, Minnesota Opera is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purpose. Minnesota Opera files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business activity.

Minnesota Opera believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements.

Minnesota Opera would recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if such interest and penalties were incurred. Minnesota Opera's Form 990-T is no longer subject to tax examinations by federal tax authorities for years before 2011 and state examinations for years before 2011.

**Estimates**

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

**Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

**Note 2 - Contributions and Grants Receivable**

Contributions and grants receivable are estimated to be collected as follows at June 30, 2015 and 2014:

	2015	2014
Within one year	\$ 1,362,880	\$ 1,065,470
In one to five years	1,071,000	1,637,500
	2,433,880	2,702,970
Less discount to net present value (3%)	(81,910)	(118,197)
Less allowance for uncollectible contributions and grants	(18,002)	(33,547)
	\$ 2,333,968	\$ 2,551,226

At June 30, 2015 and 2014, two donors accounted for approximately 63% and 71% of total contributions and grants receivable, respectively.

**Note 3 - Deferred Production Expenses**

Deferred production expenses are estimated as follows at June 30, 2015 and 2014:

	2015	2014
Current deferred production expenses	\$ 676,698	\$ 722,598
Noncurrent deferred production expenses	699,011	528,970
	\$ 1,375,709	\$ 1,251,568

**Note 4 - Property and Equipment**

Property and equipment consists of the following at June 30, 2015 and 2014:

	2015	2014
Land	\$ 1,110,000	\$ 1,110,000
Equipment	1,353,783	1,416,841
Buildings	4,078,046	4,040,672
	6,541,829	6,567,513
Less accumulated depreciation	(3,627,746)	(3,485,556)
	\$ 2,914,083	\$ 3,081,957

Depreciation expense totaled \$247,556 and \$247,119 for the years ended June 30, 2015 and 2014, respectively.

**Note 5 - Investments**

A summary of the underlying investments held with Okabena Advisors, as described below, stated at fair value as of June 30, 2015 and 2014, consists of the following:

	2015	2014
Money market and cash funds	\$ 1,246,675	\$ 793,285
Fixed income funds	1,118,016	1,106,118
Equities funds	4,179,727	4,536,199
Opportunistic multistrategy funds	973,430	1,206,674
Venture capital limited partnerships	52,464	78,210
Marketable alternatives	2,650,703	3,273,661
Real assets	222,889	178,766
	\$ 10,443,904	\$ 11,172,913

Minnesota Opera has invested in four limited partnerships with Okabena Advisors. Okabena Advisors provides a highly strategic investment management program that provides access, diversification, and integrated risk management. Those limited partnerships (the partnerships) are Okabena Fixed Income Fund (OFIF), Okabena Diversified Equity Fund (ODEF), Okabena Marketable Alternatives Fund (OMAF) and Okabena Special Opportunities Fund (OSOF). The fair market value of each partnership is estimated monthly and calculated quarterly. Okabena Advisors provides monthly liquidity for these positions. Minnesota Opera may discontinue the relationship with Okabena Advisors upon six-month's notice. Minnesota Opera retains control of the asset allocation between the four partnerships, but is obligated to allow Okabena Advisors to have discretion within the four asset classes.

Minnesota Opera also has an investment in a private equity limited partnership which is not tradable. The fair value of Minnesota Opera's partnership interest is calculated quarterly. Minnesota Opera must retain its interest in the partnership for a ten-year period, with options for subsequent one-year extensions. The partnership invests in venture capital and leveraged buyout interests. Minnesota Opera initially invested \$390,000 in the fund.

Investment income consists of the following for the years ended June 30, 2015 and 2014:

	2015	2014
Investment income	\$ 55,364	\$ 50,068
Realized gains	433,423	262,279
Unrealized gains	(404,214)	1,245,205
	\$ 84,573	\$ 1,557,552

#### **Note 6 - Fair Value of Assets and Liabilities**

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that Minnesota Opera can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.



Level 3 – Unobservable inputs for the asset or liability. In these situations, Minnesota Opera develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to Minnesota Opera’s assessment of the quality, risk or liquidity profile of the asset or liability.

The fair values of beneficial interests in perpetual trusts are determined by management using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets, and are based on the fair values of trust investments as reported by the trustees.

Minnesota Opera uses Net Asset Value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners’ capital, to estimate the fair values of certain hedge funds, private equity funds, funds of funds, and limited partnerships which do not have readily determinable fair values. Investments valued at NAV are classified within Level 2 if Minnesota Opera has the ability to redeem the investment at NAV per share, or its equivalent, at the measurement date or within the near term; otherwise, the investment is classified within Level 3. As described in Note 5, Okabena Advisors manages the partnerships in which Minnesota Opera invests, tracks the investments’ underlying NAVs, and assists management with evaluation and determination of estimated fair value.

Assets measured at fair value on a recurring basis at June 30, 2015 and 2014, are as follows:

	2015	2014
Funds invested in limited partnerships (Note 5)	\$ 10,443,904	\$ 11,172,913
Beneficial interest in perpetual trusts	8,134,117	8,516,813
Total assets	\$ 18,578,021	\$ 19,689,726

The following table presents assets measured at fair value on a recurring basis at June 30, 2015:

	<u>Total</u>	<u>Fair Value Measurements at Report Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Funds invested in limited partnerships (Note 5)	\$ 10,443,904	\$ -	\$ -	\$ 10,443,904
Beneficial interest in perpetual trusts	8,134,117	-	-	8,134,117
	<u>\$ 18,578,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,578,021</u>

The following table presents assets measured at fair value on a recurring basis at June 30, 2014:

	<u>Total</u>	<u>Fair Value Measurements at Report Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Funds invested in limited partnerships (Note 5)	\$ 11,172,913	\$ -	\$ -	\$ 11,172,913
Beneficial interest in perpetual trusts	8,516,813	-	-	8,516,813
	<u>\$ 19,689,726</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,689,726</u>

Below is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2015 and 2014:

<u>Year Ended June 30, 2015</u>	<u>Funds Invested in Limited Partnerships</u>	<u>Beneficial Interest in Perpetual Trusts</u>
Balance, June 30, 2014	\$ 11,172,913	\$ 8,516,813
Total gains or losses included in change in net assets	29,209	(382,696)
Purchases, issuances, sales and settlements		
Purchases	1,463,573	-
Sales	<u>(2,221,791)</u>	<u>-</u>
Balance, June 30, 2015	<u>\$ 10,443,904</u>	<u>\$ 8,134,117</u>
<u>Year Ended June 30, 2014</u>		
Balance, June 30, 2013	\$ 11,854,658	\$ 7,888,886
Total gains or losses included in change in net assets	1,507,484	627,927
Purchases, issuances, sales and settlements		
Purchases	2,446,987	-
Sales	<u>(4,636,216)</u>	<u>-</u>
Balance, June 30, 2014	<u>\$ 11,172,913</u>	<u>\$ 8,516,813</u>

Investments in certain entities that calculate NAV per share are as follows at June 30, 2015 and 2014:

	<u>Number of Investments</u>	<u>Fair value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
June 30, 2015					
Funds invested in limited partnerships	4	\$ 10,443,904	\$ -	Quarterly	180 days
June 30, 2014					
Funds invested in limited partnerships	4	\$ 11,172,913	\$ -	Quarterly	180 days

Funds invested in limited partnerships – each investment within this category focuses on a different sector of the market including bonds, marketable alternatives, U.S. equities, non-U.S. equities and natural resources.

### Note 7 - Mortgage Payable and Line of Credit

In 2007, a revenue bond was issued to finance the purchase of Minnesota Opera's warehouse. The revenue bond is payable over a ten-year term, with the warehouse serving as collateral for the bond. The bond may be prepaid, in whole, not in part, on any regularly scheduled payment date on or after December 9, 2008. The revenue bond contains certain covenants that Minnesota Opera is required to meet.

	2015	2014
\$1,400,000 Minnesota Community Development Agency (MCDA) Revenue Bonds, Series 2005, with semiannual payments of \$65,426 including principal and interest at a rate of 4.67%, due each June and December through December 2015, at which time the outstanding principal amount is also due.		
Current portion	\$ 628,280	\$ 98,063
Long-term portion	-	628,280
	\$ 628,280	\$ 726,343

Annual maturities of the revenue bond at June 30, 2015, are due in full in December 2015.

Minnesota Opera also maintains a revolving line of credit with a bank that bears interest at the LIBOR rate plus 2.6%, and whose draws are not to exceed \$1,000,000, that expires on December 31, 2015. The line of credit is collateralized by substantially all unrestricted assets of Minnesota Opera and requires that pledge receipts be utilized to pay down outstanding line of credit balances. There was no balance due on the note as of June 30, 2015 and 2014.

**Note 8 - Restricted Net Assets**

Temporarily restricted net assets at June 30, 2015 and 2014, consist of:

	2015	2014
Program and, in many cases, also time restrictions		
New Works Initiative	\$ 2,777,000	\$ 1,533,000
Future seasons	594,000	366,000
Education	38,000	54,000
Capital	140,000	159,000
Technology	80,000	80,000
	3,629,000	2,192,000
Time restrictions, without program restrictions		
Future seasons	1,496,000	1,783,000
	\$ 5,125,000	\$ 3,975,000

Net assets were released from released from restrictions as follows during the years ended June 30, 2015 and 2014:

	2015	2014
Expirations of time restrictions	\$ 534,000	\$ 430,000
Satisfaction of purpose restrictions		
New Works Initiative	1,110,000	845,000
Future seasons	100,000	50,000
Education	-	40,000
	\$ 1,744,000	\$ 1,365,000

Earnings from permanently restricted net assets that are restricted for a particular purpose by a donor are recorded as temporarily restricted net assets until those restrictions are met. Unrestricted earnings from permanently restricted net assets are available for the general operational expenses of Minnesota Opera, as approved by the Board of Directors. Permanently restricted net assets are detailed below based upon the purposes for which earnings have been designated at June 30, 2015 and 2014:

	2015	2014
Future seasons	\$ 928,000	\$ 928,000
Education	350,000	350,000
Cash reserve	1,450,000	1,450,000
Capital funds	630,000	630,000
Unrestricted	8,197,000	8,192,000
Beneficial interest in perpetual trusts	8,134,000	8,517,000
	\$ 19,689,000	\$ 20,067,000

Certain donors have stipulated particular gifts may be used for short-term cash flow which has been identified as cash reserve. Because the donors intend that these funds not be expended on a permanent basis, these reserves are classified as permanently restricted.

## **Note 9 - Endowments**

Minnesota Opera's endowment consists of pooled gifts restricted for the long-term support of Minnesota Opera and seven funds where the earnings are restricted to various purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

### Interpretation of Relevant Law

The Board of Directors of Minnesota Opera has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Minnesota Opera classifies 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 (including pledges net of discount and allowance for doubtful accounts) 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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- (1) The duration and preservation of the fund,
- (2) The purposes of the organization and the donor-restricted endowment fund,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the organization, and
- (7) The investment policies of the organization.

As of June 30, 2015 and 2014, Minnesota Opera has the following endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2015				
Donor-restricted endowment funds	\$ 364,047	\$ 320,415	\$ 19,688,886	\$ 20,373,348
	<u>\$ 364,047</u>	<u>\$ 320,415</u>	<u>\$ 19,688,886</u>	<u>\$ 20,373,348</u>
June 30, 2014				
Donor-restricted endowment funds	\$ 856,325	\$ 351,416	\$ 20,066,583	\$ 21,274,324
Board designated endowment funds	200,000	-	-	200,000
	<u>\$ 1,056,325</u>	<u>\$ 351,416</u>	<u>\$ 20,066,583</u>	<u>\$ 21,474,324</u>

Included in the balance of donor-restricted endowment funds within permanently restricted net assets as of June 30, 2015 and 2014, are \$8,134,117 and \$8,516,813, respectively, held in trust for the benefit of Minnesota Opera, but not under the control of Minnesota Opera for investment decision purposes.

Changes in endowment net assets for the years ending June 30, 2015 and 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>June 30, 2015</b>				
Endowment net assets, beginning of year	\$ 1,054,395	\$ 445,369	\$ 20,066,583	\$ 21,566,347
Investment return				
Investment income	55,364	-	-	55,364
Net realized and unrealized appreciation (depreciation)	60,210	(31,001)	-	29,209
Change in value of beneficial interest in perpetual trust	-	-	(382,697)	(382,697)
Contributions	-	-	5,000	5,000
Appropriation of endowment assets for expenditure	<u>(793,945)</u>	<u>-</u>	<u>-</u>	<u>(793,945)</u>
Endowment net assets, end of year	<u>\$ 376,024</u>	<u>\$ 414,368</u>	<u>\$ 19,688,886</u>	<u>\$ 20,479,278</u>
<b>June 30, 2014</b>				
Endowment net assets, beginning of year	\$ 267,228	\$ 283,524	\$ 19,401,155	\$ 19,951,907
Investment return				
Investment income	50,068	-	-	50,068
Net realized and unrealized appreciation (depreciation)	1,345,639	161,845	-	1,507,484
Change in value of beneficial interest in perpetual trust	-	-	627,928	627,928
Contributions	-	-	37,500	37,500
Appropriation of endowment assets for expenditure	<u>(608,540)</u>	<u>-</u>	<u>-</u>	<u>(608,540)</u>
Endowment net assets, end of year	<u>\$ 1,054,395</u>	<u>\$ 445,369</u>	<u>\$ 20,066,583</u>	<u>\$ 21,566,347</u>

### Return Objectives and Risk Parameters

Minnesota Opera has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Minnesota Opera must hold in perpetuity or for a donor-specified period(s) as well as Board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve purchasing power, net of spending and inflation, and to produce results that provide a long-term estimated spending of 5%. Based on an assumed annual inflation rate of 2% to 4%, the Board has adopted a long-term return objective of 7% to 9%, net of fees, and has determined that volatility in the range of 10% to 15% is acceptable.

### **Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, Minnesota Opera relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Minnesota Opera targets a diversified asset allocation of bonds, equities (U.S. and foreign), marketable alternatives, real assets and long-term equity to achieve its long-term return objectives within prudent risk constraints. Notes 5 and 6 describe and disclose in more detail investment balances, investment activity and related fair market values.

### **Spending Policy and How the Investment Objectives Relate to Spending Policy**

Minnesota Opera has a policy of appropriating for distribution each year the sum of 70% of the previous year's draw adjusted for inflation as measured by the Consumer Price Index, not seasonally adjusted plus 30% of a target spending rate, currently 5% times the market value on March 31 of each year. In establishing this policy, Minnesota Opera considered the long-term expected return on its endowment. Accordingly, over the long-term, Minnesota Opera expects the current spending policy to allow its endowment to grow at an average of 2% to 4% annually. This is consistent with Minnesota Opera's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

### **Note 10 - Employee Retirement Plan**

Minnesota Opera has a defined contribution retirement plan (the plan) under Internal Revenue Code (IRC) Section 403(b) for its non-union employees who meet certain service and age requirements. Minnesota Opera, at the discretion of its Board, may contribute to the plan. During the years ending June 30, 2015 and 2014, Minnesota Opera contributed \$65,246 and \$20,758, respectively, to the plan.

In addition, the Minnesota Opera pays into retirement accounts for both unions with which the Minnesota Opera has collective bargaining agreements. One of the union retirement plans is a multiemployer defined benefit pension plan with retirement expense for this union plan of \$45,804 and \$44,252 for the years ending June 30, 2015 and 2014, respectively. The other union retirement plan is a defined contribution plan. Retirement expense for this union plan was \$18,825 and \$11,909 for the years ending June 30, 2015 and 2014, respectively.

The multiemployer defined benefit pension plan (the Plan) is the American Federation of Musicians and Employer's Pension Fund (the Plan) with EIN/Plan Number 51-6120204/001 with a plan year end of March 31. As of the most recent Plan year end March 31, 2015, the Plan is 85.7% funded and is in "critical" status which is red Pension Protection Act Zone Status. The Plan's Board of Trustees adopted a rehabilitation plan on April 15, 2010, which was intended to help the Plan improve its funded status through various benefit reductions and employer contribution increases. The total number of employers obligated to contribute to the Plan are approximately 6,000. No employer contributed more than 5% of the total contributions to the Plan during the year.



### **Note 11 - Arts Partnership Program**

In 2007, the Arts Partnership, a separate 501(c)(3) organization, was formed for the purpose of collaborating on activities related to the Ordway Center for the Arts. The Arts Partnership is exempt from income taxes as a nonprofit organization under the applicable federal and Minnesota income tax regulations and is governed by a Board of Directors. The Board of Directors consists of the CEOs and Board representatives of Minnesota Opera, Ordway Center for the Performing Arts (Ordway), The Saint Paul Chamber Orchestra (SPCO) and The Schubert Club. The Ordway has three representatives and the other organizations each have two representatives. The Arts Partnership is considered a related party.

The partnership is built on a Master Agreement, which addresses scheduling, rental rates and other operating and financial issues with respect to the Ordway building on a long-term basis. Minnesota Opera, Ordway, SPCO and The Schubert Club are "Arts Partners" as defined in the Master Agreement. Minnesota Opera can withdraw from the agreement upon notice specifying as a withdrawal effective date June 30 of a year that is at least five years in the future. Under the terms of the agreement, Minnesota Opera has committed to a rental rate structure based on utilization. Minnesota Opera pays the Ordway a fixed base license fee in addition to a variable facility fee and an operating fee. Base rental fees for the year ending June 30, 2016, are expected to be \$626,567. Payments to the Ordway in the years ended June 30, 2015 and 2014, included base license fees of \$725,690 and \$605,245, respectively.

One of the initiatives of the Arts Partnership is to seek funding for renovations and enhancements to the Ordway building as well as to support partner utilization of the Ordway building through a subsidy of annual rental charges. On February 28, 2015, the Concert Hall at the Ordway, a major project of the Arts Partnership, opened to the public. The completion of the Concert Hall provides additional time in the Music Theater for the Opera's rehearsals and performances. For the years ended June 30, 2015 and 2014, Minnesota Opera received a contribution of \$231,845 and \$211,836, respectively, from the Arts Partnership. This contribution is reflected as an unrestricted contribution in the statement of activities and changes in net assets and Minnesota Opera's participation is reflected in fundraising expenses.

### **Note 12 - Subsequent Events**

Minnesota Opera has evaluated subsequent events through November 9, 2015, the date which the financial statements were available to be issued. There were no events that required recognition or additional disclosure except for the following.

Subsequent to June 30, 2015, Minnesota Opera's Board of Directors approved entering into a loan agreement in the amount of \$1,000,000 with a related party. The term of the loan is ten years. The loan is unsecured with annual interest only payments with balloon payment at maturity.