



Financial Statements  
June 30, 2013

# 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 (Minnesota Opera), which comprise the statement of financial position as of June 30, 2013, 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 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, 2013, 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 Minnesota Opera's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 20, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Minneapolis, Minnesota  
September 30, 2013

	2013	2012
Assets		
Current Assets		
Cash	\$ 374,467	\$ 1,243,646
Contributions and grants receivable, net	1,388,657	1,053,171
Accounts receivable	321,478	203,362
Deferred production expenses	299,410	941,722
Prepaid expenses	16,120	21,510
Total current assets	<u>2,400,132</u>	<u>3,463,411</u>
Noncurrent Assets		
Contributions and grants receivable, less current portion	1,653,485	2,229,350
Accounts receivable	-	35,000
Deferred production expenses	333,957	162,548
Investments	11,869,410	10,861,044
Beneficial interest in perpetual trusts	7,888,886	7,311,370
Total noncurrent assets	<u>21,745,738</u>	<u>20,599,312</u>
Property and Equipment		
Land	1,110,000	1,110,000
Equipment	1,343,055	1,517,904
Opera center	4,040,672	4,002,043
	<u>6,493,727</u>	<u>6,629,947</u>
Less accumulated depreciation	3,339,718	3,314,032
Net property and equipment	<u>3,154,009</u>	<u>3,315,915</u>
	<u>\$ 27,299,879</u>	<u>\$ 27,378,638</u>

See Notes to Financial Statements

The Minnesota Opera  
Statement of Financial Position  
June 30, 2013 (With Comparative Totals for 2012)

	2013	2012
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 190,174	\$ 206,149
Current maturities of mortgage payable	93,639	89,415
Deferred revenue	1,816,160	1,879,065
Total current liabilities	2,099,973	2,174,629
Long-term Liabilities		
Mortgage payable, net of current maturities	726,343	819,982
Total long-term liabilities	726,343	819,982
Net Assets		
Unrestricted		
Board designated	700,000	700,000
Unrestricted	859,111	535,103
Temporarily restricted	3,513,297	4,350,920
Permanently restricted	19,401,155	18,798,004
	24,473,563	24,384,027
	\$ 27,299,879	\$ 27,378,638

The Minnesota Opera  
Statement of Activities  
Year Ended June 30, 2013 (With Comparative Totals for 2012)

	2013				2012	
	Unrestricted Operating Fund	Endowment/ Capital Fund	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and Public Support						
Revenue						
Opera season/admissions	\$ 2,805,265	\$ -	\$ -	\$ -	\$ 2,805,265	\$ 2,896,958
Outreach and education	124,266	-	-	-	124,266	138,700
Rental and other	143,702	-	-	-	143,702	244,400
Co-production income	300,000	-	-	-	300,000	180,000
Investment income (loss)	403,344	-	-	-	403,344	392,400
Interest earnings	305	-	-	-	305	12,100
Other	138,039	-	-	-	138,039	147,650
Total revenue	<u>3,914,921</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,914,921</u>	<u>4,012,208</u>
Public Support						
Annual fund drive	1,868,849	-	180,000	-	2,048,849	1,774,670
Grants	2,184,135	-	102,977	-	2,287,112	2,994,833
Special event revenue	598,374	-	-	-	598,374	493,666
Less cost of direct benefits to donors	(149,365)	-	-	-	(149,365)	(151,547)
Net special events revenue	<u>449,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>449,009</u>	<u>342,119</u>
In-kind contributions	62,774	-	-	-	62,774	65,622
Transfers to operating fund from endowment fund	596,475	(596,475)	-	-	-	-
Total public support	<u>5,161,242</u>	<u>(596,475)</u>	<u>282,977</u>	<u>-</u>	<u>4,847,744</u>	<u>5,177,244</u>
Total revenue and public support	<u>9,076,163</u>	<u>(596,475)</u>	<u>282,977</u>	<u>-</u>	<u>8,762,665</u>	<u>9,189,452</u>
Net assets released from restrictions	<u>1,254,978</u>	<u>-</u>	<u>(1,254,978)</u>	<u>-</u>	<u>-</u>	<u>-</u>

Statement of Activities continued on next page.

The Minnesota Opera  
Statement of Activities  
Year Ended June 30, 2013 (With Comparative Totals for 2012)

	2013				2012	
	Unrestricted Operating Fund	Endowment/ Capital Fund	Temporarily Restricted	Permanently Restricted	Total	Total
Expenses						
Program services						
Production expenses	8,355,117	-	-	-	8,355,117	7,714,476
Outreach and education	357,240	-	-	-	357,240	408,480
Administrative and general	1,338,516	155,281	-	-	1,493,797	1,683,814
Fundraising expenses	449,868	-	-	-	449,868	588,366
Total expenses	<u>10,500,741</u>	<u>155,281</u>	<u>-</u>	<u>-</u>	<u>10,656,022</u>	<u>10,395,136</u>
Change in Net Assets - Operating	<u>(169,600)</u>	<u>(751,756)</u>	<u>(972,001)</u>	<u>-</u>	<u>(1,893,357)</u>	<u>(1,205,684)</u>
Change in Net Assets -						
Nonoperating contributions	-	-	-	59,287	59,287	23,614
Investment income (loss)	-	1,245,364	134,378	-	1,379,742	(421,912)
Change in value of beneficial interest in perpetual trusts	-	-	-	543,864	543,864	(733,201)
	<u>-</u>	<u>1,245,364</u>	<u>134,378</u>	<u>603,151</u>	<u>1,982,893</u>	<u>(1,131,499)</u>
Total Change in Net Assets	(169,600)	493,608	(837,623)	603,151	89,536	(2,337,183)
Net Assets, Beginning of Year	<u>155,407</u>	<u>1,079,696</u>	<u>4,350,920</u>	<u>18,798,004</u>	<u>24,384,027</u>	<u>26,721,210</u>
Net Assets, End 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>	<u>\$ 24,384,027</u>

The Minnesota Opera  
Statement of Cash Flows  
Year Ended June 30, 2013 (With Comparative Totals for 2012)

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 89,536	\$ (2,337,183)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	238,160	276,002
Change in value of beneficial interest in perpetual trust	(577,516)	733,201
Net (gain) loss on investments	(1,349,628)	373,150
Changes in assets and liabilities		
Contributions and grants receivable	240,379	443,046
Accounts receivable	(83,116)	(67,953)
Deferred production expenses	470,903	379,885
Prepaid expenses	5,390	(3,667)
Accounts payable and accrued expenses	(15,975)	117,722
Deferred revenue	(62,905)	(3,080)
Net Cash (used for) Operating Activities	(1,044,772)	(88,877)
Investing Activities		
Purchase of property and equipment	(76,254)	(196,407)
Purchases of investments	(3,419,007)	(2,216,265)
Proceeds from sale of investments	3,760,269	3,321,322
Net Cash from Investing Activities	265,008	908,650
Financing Activities		
Principal payments on mortgage payable	(89,415)	(85,381)
Net Cash used for Financing Activities	(89,415)	(85,381)
Net Change in Cash	(869,179)	734,392
Cash, Beginning of Year	1,243,646	509,254
Cash, End of Year	\$ 374,467	\$ 1,243,646
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 44,020	\$ 47,536

## **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 50th anniversary season, is regarded as one of the opera 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, and this season, its commission of *Doubt* received national attention.

Minnesota Opera's 2012-13 season included *Nabucco* (Verdi), *Anna Bolena* (Donizetti), the world premiere of *Doubt* (Cuomo), *Hamlet* (Thomas) and *Turandot* (Puccini). 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 2013 season, the Opera produced 28 performances for the entertainment and enrichment of over 43,000 patrons. The company saw an 11-year high in subscribers. As a celebratory conclusion to its 50<sup>th</sup> anniversary season and in appreciation for its community's strong support, Minnesota Opera presented three free concert performances of Puccini's *La bohème* to the community. More than 10,000 people attended these events in St. Paul, Minneapolis and Faribault.

Minnesota Opera's education and outreach efforts reached over 19,000 adults and 9,000 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 4-8), Giovanni (grades 9-12) 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 7-12; Imagineopera.org – an education specific website that provides resources for teachers and students to learn about the art form; Student Matinees – 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.

### **Fund Accounting**

To ensure observance of limitations and restrictions placed on the use of resources available to Minnesota Opera, 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. Accordingly, all financial transactions have been recorded and reported by fund.

The assets, liabilities and net assets of Minnesota Opera are reported in two self-balancing funds 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.

### **Cash**

Minnesota Opera considers all cash and demand accounts to be cash. 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, 2013.

### **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, 2013, the allowance was \$82,776.

## **Investments**

Minnesota Opera is a member in several limited liability companies (the companies). The underlying investments in the companies do not have readily determinable market values. The investment manager revalues the partnerships monthly and independent audits are performed on an annual basis. Minnesota Opera's investment in the companies is reported at the estimated fair value of Minnesota Opera's share of the companies, which is evaluated and determined by Minnesota Opera with assistance from the investment manager.

Minnesota Opera's investment in the venture capital 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 is the recipient of a beneficial interest in a perpetual trust held by a third party, whereby Minnesota Opera receives earnings from the trust determined by a formula based on an initial percentage, which is recalculated annually. This allowable earnings percentage cannot exceed the percentage of other endowment earnings utilized for operating purposes. The beneficial interest in the perpetual trust is recorded at market value, which approximates the present value of the expected future cash flows.

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

## **Property and Equipment**

Property and equipment acquisitions in excess of \$500 with a life greater than two years are valued 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. 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, 2013.

### **Performance Revenue and Expenses**

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

### **Contributions and Donations**

Minnesota Opera receives contributions and grants from corporations, foundations, government and individuals primarily in the St. Paul/Minneapolis area.

Revenues are recorded in the fiscal year in which the unconditional contributions are made. Contributions that are purpose or time restricted are recorded as temporarily restricted amounts and transferred to unrestricted balances as restrictions are met. However, donor-restricted contributions whose restrictions are met in the same reporting period in which the contributions are received are reported as unrestricted support. Contributions that are permanently restricted are recorded as additions to permanently restricted net assets. Conditional promises are recorded when the condition has been satisfied.

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.

Unrestricted net assets are presently available for use by or on behalf of Minnesota Opera. If the Board of Directors specifies a purpose where none has been stated by the original donor, the contributions are classified as Board-designated. The Board of Directors has passed a resolution designating \$500,000 and \$200,000 of unrestricted net assets, if available, to be used for an operating reserve and a quasi-endowment, respectively.

### **Interfund Transfers**

In accordance with donor restrictions, a portion of the income earned on Endowment Fund investments may be transferred to and used to supplement current support in the Operating Fund. A transfer of \$576,112 was approved by the Board of Directors during the year ended June 30, 2013. In addition, \$20,363 was approved and transferred to the Operating Fund in conjunction with the Artistic Development and Strategic Initiative campaigns for the year ended June 30, 2013.

### **Ticket Sales and Production Expenses**

During the year ended June 30, 2013, five productions were performed by Minnesota Opera. Ticket sales for these productions for the year ended June 30, 2013 were \$2,805,265. Related production expenses for the year ended June 30, 2013 were \$6,835,662.

### **Advertising Costs**

Minnesota Opera follows the policy of charging the costs of advertising to expense in the same period in which the related productions occur. Advertising expense for the year ended June 30, 2013 was \$492,702.

### **Functional Allocation of Expenses**

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

### **Income Taxes**

Minnesota Opera is exempt from income taxes as a nonprofit organization under the applicable federal and Minnesota income tax regulations.

Minnesota Opera undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities. As of June 30, 2013, no amounts were recorded as a result of this analysis.

Minnesota Opera will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. Minnesota Opera is no longer subject to Federal tax examinations by tax authorities for years before 2009 and state examinations for years before 2009.

### **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.

### **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.

**Comparative Financial Information**

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 presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Minnesota Opera's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

**Subsequent Events**

Minnesota Opera has evaluated subsequent events through September 30, 2013, the date which the financial statements were available to be issued.

**Note 2 - Contributions and Grants Receivable**

Contributions and grants are estimated to be collected during the following time frames at June 30, 2013:

Receivable in less than one year	\$ 1,471,433
Receivable in one to five years	1,780,750
	<u>3,252,183</u>
Less discounts for the time value of money (3%)	(127,265)
Less allowance for uncollectible contributions	(82,776)
	<u>(210,041)</u>
Net contributions and grants receivable	<u><u>\$ 3,042,142</u></u>

Contributions and grants receivable are presented in the statements of financial position as follows at June 30, 2013:

Current receivables	\$ 1,388,657
Noncurrent receivables	1,653,485
	<u>3,042,142</u>
	<u><u>\$ 3,042,142</u></u>

**Note 3 - Investments**

A summary of the underlying investments held with Okabena Advisors, as described below, stated at fair value as of June 30, 2013, is as follows:

Money market and cash funds	\$ 273,498
Fixed income funds	999,491
Equities funds	5,831,426
Opportunistic multistrategy funds	1,181,122
Venture capital limited partnerships	70,194
Marketable alternatives	3,300,992
Real assets	<u>212,687</u>
	<u>\$ 11,869,410</u>

Minnesota Opera has invested in four limited partnerships with Okabena Advisors. Those funds 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 the each fund is estimated monthly and calculated quarterly. Okabena provides monthly liquidity for these positions. Minnesota Opera may discontinue the relationship with Okabena upon six-months' notice. Minnesota Opera retains control of the asset allocation between the four funds, but is obligated to allow Okabena to have discretion within the four asset classes.

Minnesota Opera's investment in the limited partnership at June 30, 2013 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 for the years ended June 30, 2013, is as follows:

Investment income	\$ 77,693
Realized gains	226,773
Unrealized gains	<u>1,122,855</u>
	<u>\$ 1,427,321</u>

#### **Note 4 - Fair Value of Assets and Liabilities**

Certain assets and liabilities are reported at fair value in the consolidated 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.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2013 are as follows:

Investment securities	\$ 14,752
Funds invested in limited partnerships	11,854,658
Beneficial interest in perpetual trusts	<u>7,888,886</u>
Total assets	<u>\$ 19,758,296</u>

The related fair values of these assets and liabilities are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Unobservable Inputs (Level 3)
Investment securities	\$ 14,752	\$ -
Funds invested in limited partnerships	-	11,854,658
Beneficial interest in perpetual trusts	-	<u>7,888,886</u>
Total assets	<u>\$ 14,752</u>	<u>\$ 19,743,544</u>

Following is a reconciliation of activity for fiscal year ending June 30, 2013 for assets measured at fair value based upon significant unobservable (non-market) information.

	Funds Invested in Limited Partnerships	Beneficial Interest in Perpetual Trusts
Balance, beginning of year	\$ 10,824,836	\$ 7,311,370
Total gains or losses included in change in net assets	1,349,635	577,516
Purchases, issuances, sales and settlements		
Purchases	2,424,438	-
Sales	<u>(2,744,251)</u>	<u>-</u>
Balance, end of year	<u>\$ 11,854,658</u>	<u>\$ 7,888,886</u>

**Note 5 - 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.

\$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.	\$ 819,982
Less current portion	<u>93,639</u>
	<u><u>\$ 726,343</u></u>

Annual maturities of the revenue bond at June 30 are as follows:

Years Ending June 30,	Amount
2014	\$ 93,639
2015	98,063
2016	<u>628,280</u>
	<u><u>\$ 819,982</u></u>

Minnesota Opera also maintains a revolving note that bears interest at the LIBOR rate plus 2.6% and whose draws are not to exceed \$500,000. The note is collateralized by substantially all unrestricted assets of Minnesota Opera and requires that pledge receipts be utilized to pay down outstanding note balances. There was no balance due on the note as of June 30, 2013.

**Note 6 - Net Assets**

Temporarily restricted net assets approximate the following at June 30, 2013:

Program and, in many cases, also time restrictions	
New Works Initiative (Note 9)	\$ 1,554,000
Future seasons	198,000
Education	60,000
Capital	69,000
Technology	<u>80,000</u>
	1,961,000
Time restrictions, without program restrictions	
Future seasons	<u>1,552,000</u>
	<u><u>\$ 3,513,000</u></u>

The Board of Directors has designated \$500,000 to be used for an operating reserve and \$200,000 to be used for endowment funds.

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, 2013:

Future seasons	\$ 928,000
Education	350,000
Cash co-production reserve	1,450,000
Capital funds	630,000
Unrestricted	8,154,000
Beneficial interest in perpetual trusts	<u>7,889,000</u>
	<u><u>\$ 19,401,000</u></u>

#### **Note 7 - 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.

The composition of Endowment Net Assets by fund type as of June 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 19,401,155	\$ 19,401,155
Board-designated endowment funds	200,000	-	200,000
	<u>\$ 200,000</u>	<u>\$ 19,401,155</u>	<u>\$ 19,601,155</u>

Included in the balance of donor-restricted endowment funds within permanently restricted net assets are \$7,888,886 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 year ending June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 200,000	\$ 18,798,004	\$ 18,998,004
Investment return			
Investment income	-	-	-
Net realized and unrealized appreciation (depreciation)	-	-	-
Change in value of beneficial interest in perpetual trust	-	543,864	543,864
Contributions	-	59,287	59,287
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	<u>\$ 200,000</u>	<u>\$ 19,401,155</u>	<u>\$ 19,601,155</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.

### **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 8 - Employee Retirement Plan**

Minnesota Opera has a retirement plan for its employees who meet certain service and age requirements. Minnesota Opera, at the discretion of its Board, may contribute to the plan. Due to the economic environment, the Board has temporarily suspended contributions to the plan. In addition, the Minnesota Opera pays into retirement accounts for both unions with which the Minnesota Opera has collective bargaining agreements. Retirement expense was \$60,897 for the year ending June 30, 2013. No unfunded liabilities exist to the current plan. The Minnesota Opera reinstated 1% matching contribution of eligible employees' gross salaries to the plan, effective July 1, 2013.

#### **Note 9 - Minnesota Opera's New Works Initiative**

In September 2007, Minnesota Opera Works Committee was formed to help define and support Minnesota Opera over the next ten years. The goal of the program is to provide support for the creation and presentation of three newly commissioned works and the revival of four recently created commissions over seven seasons. The Committee is made up of Board members, community leaders and national funders.

The campaign has been renamed New Works Initiative.

As of June 30, 2013, the campaign had raised over \$6,668,000 of a goal of \$7,000,000. An additional challenge grant of \$100,000 has been pledged, but has not been recorded due to the conditions associated with the gift. During fiscal year 2013, \$1,304,911 was used in support of these activities, including \$776,947 for commissioning, development and direct support to the production of *Doubt* and \$347,964 for the creation of a HD Video recording of that production. To date, \$5,365,439 has been expended for New Works Initiative projects.

#### **Note 10 - Arts Partnership Program**

In 2007, the Arts Partnership, a distinct 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 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 a 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 will pay 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, 2014 are expected to be \$579,580. Payments to the Ordway in the year ended June 30, 2013 included base license fees of \$659,949.

One of the initiatives of the Arts Partnership is to commence an Arts Partnership Campaign. The purpose of this campaign 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. For the year ended June 30, 2013, Minnesota Opera received a contribution of \$491,964 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.