Financial Statements
June 30, 2011

The Minnesota Opera

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
The Minnesota Opera
Minneapolis, Minnesota

We have audited the accompanying statement of financial position of The Minnesota Opera (Minnesota Opera) as of June 30, 2011, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Minnesota Opera's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Minnesota Opera's June 30, 2010 financial statements and, in our report dated October 11, 2010, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Minnesota Opera's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Minnesota Opera as of June 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Minneapolis, Minnesota
October 5, 2011

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	2011			2010
	Operating Fund	Endowment/ Capital Fund	Total	Total
Assets				
Current Assets				
Cash	$ 509,254	$ -	$ 509,254	$ 920,546
Contributions and grants receivable, net	1,586,576	37,500	1,624,076	1,716,428
Accounts receivable	150,409	-	150,409	97,274
Interfund receivables (payables)	260,366	(260,366)	-	-
Deferred production expenses	624,349	-	624,349	445,864
Prepaid expenses	17,843	-	17,843	33,498
Investments	767,545	-	767,545	1,238,208
Total current assets	3,916,342	(222,866)	3,693,476	4,451,818
Noncurrent Assets				
Contributions and grants receivable, less current portion	1,963,236	138,255	2,101,491	2,351,809
Accounts receivable	20,000	-	20,000	60,000
Deferred production expenses	859,806	-	859,806	394,298
Investments	-	11,571,706	11,571,706	10,199,966
Beneficial interest in perpetual trusts	-	8,044,571	8,044,571	7,006,576
Total noncurrent assets	2,843,042	19,754,532	22,597,574	20,012,649
Property and Equipment				
Land	-	1,110,000	1,110,000	1,110,000
Equipment	-	1,478,972	1,478,972	1,476,950
Opera center	-	3,882,337	3,882,337	3,871,125
	-	6,471,309	6,471,309	6,458,075
Less accumulated depreciation	-	3,075,799	3,075,799	2,854,546
Net property and equipment	-	3,395,510	3,395,510	3,603,529
	$ 6,759,384	$ 22,927,176	$ 29,686,560	$ 28,067,996

See Notes to Financial Statements

	2011			2010
	Operating Fund	Endowment/ Capital Fund	Total	Total
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	$ 88,427	$ -	$ 88,427	$ 160,440
Current maturities of mortgage payable	-	85,381	85,381	81,529
Deferred revenue	1,822,145	-	1,822,145	1,735,421
Total current liabilities	1,910,572	85,381	1,995,953	1,977,390
Long-Term Liabilities				
Deferred revenue	60,000	-	60,000	-
Mortgage payable, net of current maturities	-	909,397	909,397	994,778
Total long-term liabilities	60,000	909,397	969,397	994,778
Net Assets				
Unrestricted				
Board designated	500,000	200,000	700,000	700,000
Unrestricted	(362,134)	2,031,842	1,669,708	786,742
Temporarily restricted	4,650,946	192,965	4,843,911	5,548,801
Permanently restricted	-	19,507,591	19,507,591	18,060,285
	4,788,812	21,932,398	26,721,210	25,095,828
	$ 6,759,384	$ 22,927,176	$ 29,686,560	$ 28,067,996

	2011			2010
	Operating Fund	Endowment/ Capital Fund	Total	Total
Changes in Unrestricted Net Assets				
Revenue and public support				
Opera season/admissions	$ 2,850,501	$ -	$ 2,850,501	$ 2,812,134
Outreach and education	126,283	-	126,283	95,137
Rental and outside building income	122,809	-	122,809	103,692
Co-production income	-	-	-	60,000
Investment income	415,486	1,635,023	2,050,509	1,313,117
Interest earnings	32,316	-	32,316	2,402
Other	87,687	-	87,687	11,429
Total revenue	3,635,082	1,635,023	5,270,105	4,397,911
Annual fund drive	1,593,564	-	1,593,564	1,843,256
Grants	1,830,108	-	1,830,108	1,762,006
Gala benefit	485,718	-	485,718	437,791
In-kind contributions	88,279	-	88,279	54,715
Transfers to Operating Fund from Endowment Fund	622,579	(622,579)	-	-
Total public support	4,620,248	(622,579)	3,997,669	4,097,768
Total revenue and public support	8,255,330	1,012,444	9,267,774	8,495,679
Net assets released from restrictions	1,314,688	4,607	1,319,295	672,904
Expenses				
Program services				
Production expenses	6,739,276	-	6,739,276	6,364,421
Outreach and education	332,621	-	332,621	277,044
	7,071,897	-	7,071,897	6,641,465
Supporting services				
Administrative and general	1,738,499	150,841	1,889,340	1,511,293
Fundraising expenses	742,553	313	742,866	769,199
	2,481,052	151,154	2,632,206	2,280,492
Total expenses	9,552,949	151,154	9,704,103	8,921,957
Increase (decrease) in unrestricted net assets	17,069	865,897	882,966	246,626

	2011			2010
	Operating Fund	Endowment/ Capital Fund	Total	Total
Changes in Temporarily Restricted Net Assets				
Contributions	557,995	-	557,995	1,529,464
Investment income (loss)	-	56,410	56,410	28,244
Net assets released from restrictions	(1,314,688)	(4,607)	(1,319,295)	(672,904)
Increase (decrease) in temporarily restricted net assets	(756,693)	51,803	(704,890)	884,804
Changes in Permanently Restricted Net Assets				
Contributions	-	657,406	657,406	14,125
Change in value of beneficial interest in perpetual trusts	-	789,900	789,900	257,508
Increase (decrease) in permanently restricted net assets	-	1,447,306	1,447,306	271,633
Change in Net Assets	(739,624)	2,365,006	1,625,382	1,403,063
Net Assets, Beginning of Year	5,528,436	19,567,392	25,095,828	23,692,765
Net Assets, End of Year	$ 4,788,812	$ 21,932,398	$ 26,721,210	$ 25,095,828

	2011			2010
	Operating Fund	Endowment/ Capital Fund	Total	Total
Operating Activities				
Change in net assets	$ (739,624)	$ 2,365,006	$ 1,625,382	$ 1,403,063
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities				
Depreciation	129,157	150,664	279,821	303,702
Change in value of beneficial interest in perpetual trust	-	(1,037,995)	(1,037,995)	(267,173)
Net (gain) loss on investments	(10,478)	(1,774,890)	(1,785,368)	(989,431)
Changes in assets and liabilities				
Contributions and grants receivable	191,480	151,190	342,670	657,335
Accounts receivable	(13,135)	-	(13,135)	(18,906)
Interfund receivables (payables)	103,794	(103,794)	-	-
Deferred production expenses	(643,993)	-	(643,993)	(165,808)
Prepaid expenses	15,655	-	15,655	2,981
Accounts payable and accrued expenses	(72,013)	-	(72,013)	20,048
Deferred revenue	146,724	-	146,724	(202,847)
Net Cash from (used for) Operating Activities	(892,433)	(249,819)	(1,142,252)	742,964
Investing Activities				
Purchase of property and equipment	-	(71,802)	(71,802)	(98,092)
Purchases of investments	(543,859)	(2,441,798)	(2,985,657)	(3,632,240)
Proceeds from sale of investments	1,025,000	2,844,948	3,869,948	2,452,662
Net Cash from (used for) Investing Activities	481,141	331,348	812,489	(1,277,670)

	2011			2010
	Operating Fund	Endowment/ Capital Fund	Total	Total
Financing Activities				
Principal payments on mortgage payable	-	(81,529)	(81,529)	(77,853)
Net Cash used for Financing Activities	-	(81,529)	(81,529)	(77,853)
Net Change in Cash	(411,292)	-	(411,292)	(612,559)
Cash, Beginning of Year	920,546	-	920,546	1,533,105
Cash, End of Year	$ 509,254	$ -	$ 509,254	$ 920,546
Supplemental Disclosures of Noncash Activities				
Loss of beneficial interest in perpetual trusts	$ -	$ -	$ -	$ 118,000

Note 1 - Nature of Organization and Significant Accounting Policies

Mission Statement

The Minnesota Opera's (Minnesota Opera) mission is to produce opera and opera education at the highest artistic level that inspire and entertain the audience and enrich the cultural life 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, currently in its forty-eighth season, is regarded as one of the opera industry's most ambitious regional companies offering five fully staged operas of both standard repertoire as well as newly created 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 presenter and producer of opera.

Minnesota Opera's season included *Orpheus and Eurydice* (Gluck), *Cinderella* (Rossini), *Mary Stuart* (Donizetti) – the second of the Tudor Trilogy sequence, *La Traviata* (Verdi) and *Wuthering Heights* (Hermann) – the third of the company's New Works Initiative offerings and the first professional revival of the work. 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 2011 season, the Opera produced twenty-eight performances for the entertainment and enrichment of over 45,000 patrons.

Minnesota Opera's education and outreach efforts included 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, *Audition Master Classes* –which provides opportunities for high school students to work with members of the Opera staff and guest artists, *Project Opera* – consists of three groups, Ragazzi (grades 4-7), Giovani (grades 8-12) and the Apprentice program (grades 8-12), *Summer Opera Camp* –a week-long vocal training program for teens, *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, *Triple Play Teacher Workshop* – a teacher workshop designed to help teachers teach opera in the classroom, and *Opera Insights* – a pre-performance lecture open to ticket holders one hour before each performance.

The Opera's Resident Artist Program provided six singers, two opera coaches/pianists, a conductor, a director and a stage manager at the initial stages of their careers with nine months of professional development, including vocal training and coaching, stage time, classes and career counseling. 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.

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 using 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.

Fair Value Measurements

Minnesota Opera has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

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.

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.

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.

Certain contributions received in conjunction with Minnesota Opera's Strategic Initiative Campaign can be utilized for operations, production system development and capital additions at the discretion of the Board and consistent with solicitation materials. During the year ended June 30, 2011, $4,607 for capital additions of amounts pledged under this initiative was utilized.

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. There was a transfer of $561,114 that was approved by the Board of Directors during the year ended June 30, 2011. In addition, $4,607 was approved and transferred to the Operating Fund in conjunction with the Artistic Development and Strategic Initiative campaigns for the year ended June 30, 2011.

Ticket Sales and Production Expenses

During the year ended June 30, 2011, five productions were performed by Minnesota Opera. Ticket sales for these productions for the year ended June 30, 2011 were $2,850,501. Related production expenses for the year ended June 30, 2011 were $5,445,476.

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, 2011 was $447,659.

Income Taxes

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

Minnesota Opera has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of June 30, 2011, the unrecognized tax benefit accrual was zero.

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 2007 and state examinations for years before 2007.

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.

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, 2010, from which the summarized information was derived.

Reclassification

Certain amounts from the prior year have been reclassified to conform to the current year’s presentation.

Subsequent Events

Minnesota Opera has evaluated subsequent events through October 5, 2011, 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, 2011:

Receivable in less than one year	$ 1,557,930
Receivable in one to five years	2,200,000
Receivable in more than five years	250,000
	4,007,930
Less discounts for the time value of money (3%)	(199,508)
Less allowance for uncollectible contributions	(82,855)
Net contributions and grants receivable	$ 3,725,567

Contributions and grants receivable are presented in the statements of financial position as follows at June 30, 2011:

Current receivables	$ 1,624,076
Noncurrent receivables	2,101,491
	$ 3,725,567

Note 3 - Investments

A summary of investments stated at fair value as of June 30, 2011 is as follows:

Money market funds	$ 261,645
Bond mutual funds	2,967,817
Common stock mutual funds	
U.S. equities	2,538,555
International	3,180,884
Venture capital limited partnership	164,376
Marketable alternatives	2,599,922
REITs	89,181
Commodities	536,871
	$ 12,339,251

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 provided six-month 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, 2011 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. During the year ended June 30, 2011, Minnesota Opera has invested $390,000 in the fund.

Investment income for the year ended June 30, 2011 is as follows:

Investment income	$ 84,292
Realized gains	757,793
Unrealized gains	1,264,834
	$ 2,106,919

Note 4 - Fair Value of Assets and Liabilities

Assets and liabilities measured at fair value on a recurring basis at June 30, 2011 are as follows:

Investment securities	$ 843,488
Alternative investments	11,495,763
Beneficial interest in perpetual trusts	8,044,571
Total assets	$ 20,383,822

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	$ 843,488	$ -
Alternative investments	-	11,495,763
Beneficial interest in perpetual trusts	-	8,044,571
Total assets	$ 843,488	$ 19,540,334

Following is a reconciliation of activity for fiscal year ending June 30, 2011 for assets measured at fair value based upon significant unobservable (non-market) information.

	Alternative Investments	Beneficial Interest in Perpetual Trusts
Balance, beginning of year	$ 10,126,271	$ 7,006,576
Realized and unrealized gains included in earnings	1,656,363	1,037,995
Transfers in/out of Level 3	(286,871)	-
Balance, end of year	$ 11,495,763	$ 8,044,571

Assets measured at fair value on a non-recurring basis at June 30, 2011 are as follows:

	Unobservable Inputs (Level 3)
Contributions and grants receivable	$ 3,725,567

The fair value of promises to give is determined based upon discounted future cash flows, which is presented net of the allowance for uncollectible contributions of $82,855 and the discount of $199,508.

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.	$ 994,778
Less current portion	85,381
	$ 909,397

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

Years Ending June 30,	Amount
2012	$ 85,381
2013	89,414
2014	93,639
2015	98,064
2016	628,280
	$ 994,778

Minnesota Opera also maintains a revolving note that bears interest at the LIBOR rate plus 2.5% 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, 2011.

Note 6 - Net Assets

Temporarily restricted net assets approximate the following at June 30, 2011:

Program and, in many cases, also time restrictions:	
New Works Initiative (Note 9)	$ 2,525,000
Future seasons	565,000
Education	48,000
Capital	56,000
Technology	145,000
Campaign expense	25,000
	3,364,000
Time restrictions, without program restrictions	
Future seasons	1,480,000
	$ 4,844,000

The Board of Directors designated $500,000 to be used for an operating reserve and $200,000 to be used for capital projects.

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, 2011:

Future seasons	$ 911,000
Education	350,000
Operating reserve	1,450,000
Capital funds	630,000
Unrestricted	8,168,000
Beneficial interest in perpetual trusts	7,999,000
	$ 19,508,000

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
(7) The investment policies of the organization

The composition of Endowment Net Assets by fund type as of June 30, 2011 is as follows:

	Unrestricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 19,507,591	$ 19,507,591
Board designated endowment funds	200,000	-	200,000
	$ 200,000	$ 19,507,591	$ 19,707,591

Included in the balance of donor-restricted endowment funds within permanently restricted net assets are $8,044,571 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, 2011, are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 200,000	$ 18,060,285	$ 18,260,285
Investment return			
Investment income	-	-	-
Net realized and unrealized appreciation (depreciation)	-	(248,095)	(248,095)
Change in value of beneficial interest in perpetual trust		1,037,995	1,037,995
Contributions	-	657,406	657,406
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	$ 200,000	$ 19,507,591	$ 19,707,591

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires Minnesota Opera and the perpetual trust to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature were $18,154 as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred. There were four such deficiencies as of June 30, 2011.

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 produce results that provide a long-term estimated spending of 5% and an anticipated inflation of 2% to 4% per annum, and have a long-term return objective of 8% to 10%, net of fees. Actual returns in any given year may vary from this amount.

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 3% to 5% 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. After temporarily suspending contributions, the Minnesota Opera reinstated one and one-half percent of eligible employees’ gross salaries to the plan as of January 1, 2011. Retirement expense was $53,441 for the six months ending June 30, 2011. No unfunded liabilities exist to the current plan.

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, 2011, the campaign had raised over $5,039,000 of a goal of $7,000,000. During the current fiscal year 2011, $975,442 was used in support of these activities, including $475,000 in direct support to the production of *Wuthering Heights* and $315,287 for the creation of a HD Video recording of that production. To date, $2,489,772 has been expended for New Works Initiative project.

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 with future notice specifying a withdrawal effective date as of June 30. Such notice can be no fewer than 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 (which has been temporarily phased out on June 30, 2010). Base rental fees for the year ending June 30, 2012 are scheduled to be $553,489. Payments to the Ordway in the year ended June 30, 2011 included base license fees of $537,349.

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, 2011, Minnesota Opera received a contribution of $486,230 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 11 - Commitment

Minnesota Opera entered into an agreement with Gaar Scott Limited Partnership to lease premises, with the right of first refusal to purchase the property after fifteen years. The agreement, which expires December 1, 2011, requires $62,560 to complete the lease. The Opera has an option to extend the lease at that time.