



Financial Statements  
June 30, 2022 and 2021

# The Minnesota Opera

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Financial Statements

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## Independent Auditor's Report

To the Board of Directors  
The Minnesota Opera  
Minneapolis, Minnesota

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of The Minnesota Opera (the Opera), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Opera as of June 30, 2022 and 2021, 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.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and our 2022 audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The 2021 audit was not required to be conducted in accordance with *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Opera and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Opera's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Opera's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Opera's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2022, on our consideration of the Opera's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Opera's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Opera's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Minneapolis, Minnesota  
November 14, 2022

The Minnesota Opera  
Statements of Financial Position  
June 30, 2022 and 2021

|   | 2022                 | 2021                 |
|---|----------------------|----------------------|
| <b>Assets</b>                                     |                      |                      |
| Cash and cash equivalents                         | \$ 792,949           | \$ 1,855,415         |
| Contributions and grants receivable, net (Note 4) | 4,682,136            | 2,536,429            |
| Accounts receivable                               | 296,720              | 150,899              |
| Deferred production expenses (Note 5)             | 80,871               | 80,837               |
| Prepaid expenses                                  | 299,699              | 173,796              |
| Property and equipment, net (Note 6)              | 9,652,529            | 5,350,772            |
| Investments (Note 3)                              |                      |                      |
| Portfolio   | 18,185,795           | 21,919,477           |
| Cash  | 1,560,063            | -                    |
| Beneficial interest in perpetual trusts (Note 3)  | 487,368              | 602,649              |
|   | <u>\$ 36,038,130</u> | <u>\$ 32,670,274</u> |
| <b>Liabilities and Net Assets</b>                 |                      |                      |
| <b>Liabilities</b>                                |                      |                      |
| Accounts payable                                  | \$ 1,639,223         | \$ 543,614           |
| Accrued expenses                                  | 154,304              | 214,764              |
| Deferred revenue                                  | 1,295,156            | 1,193,828            |
| Line of credit (Note 7)                           | 2,000,000            | -                    |
| Notes and capital lease payable (Note 8)          | 4,652                | 1,006,325            |
|   | <u>5,093,335</u>     | <u>2,958,531</u>     |
| <b>Net Assets</b>                                 |                      |                      |
| <b>Without donor restrictions</b>                 |                      |                      |
| Board-designated endowment                        | 1,811,053            | 608,101              |
| Undesignated                                      | 28,212               | 595,261              |
|   | <u>1,839,265</u>     | <u>1,203,362</u>     |
| <b>With donor restrictions (Note 9)</b>           |                      |                      |
| Perpetual in nature                               | 21,631,191           | 20,743,971           |
| Accumulated earnings (losses)                     | (1,449,760)          | 2,929,310            |
| Purpose restrictions                              | 8,924,099            | 4,835,100            |
|   | <u>29,105,530</u>    | <u>28,508,381</u>    |
|   | <u>30,944,795</u>    | <u>29,711,743</u>    |
| <b>Total net assets</b>                           | <u>\$ 36,038,130</u> | <u>\$ 32,670,274</u> |
| <b>Total liabilities and net assets</b>           | <u>\$ 36,038,130</u> | <u>\$ 32,670,274</u> |

The Minnesota Opera  
Statement of Activities  
Year Ended June 30, 2022

|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
|---|-------------------------------|----------------------------|----------------------|
| <b>Revenue, Support, and Gains</b>  |                               |                            |                      |
| Opera season/admissions   | \$ 1,399,973                  | \$ -                       | \$ 1,399,973         |
| Rental and other  | 354,420                       | -                          | 354,420              |
| Contributions and grants  | 6,143,851                     | 5,365,913                  | 11,509,764           |
| Shuttered Venue Operators Grant   | 2,096,787                     | -                          | 2,096,787            |
| Special event revenue   | 589,469                       | -                          | 589,469              |
| Less cost of direct benefits to donors  | (153,182)                     | -                          | (153,182)            |
|   | <u>436,287</u>                | <u>-</u>                   | <u>436,287</u>       |
| In-kind contributions   | 7,276                         | -                          | 7,276                |
| Net investment return   | (250,407)                     | (3,505,446)                | (3,755,853)          |
| Distribution from and change in value of<br>beneficial interest in perpetual trusts         | -                             | (115,280)                  | (115,280)            |
| Net assets released from restriction<br>Distribution pursuant to endowment<br>spending-rate | 873,624                       | (873,624)                  | -                    |
| Purpose releases  | 274,414                       | (274,414)                  | -                    |
|   | <u>11,336,225</u>             | <u>597,149</u>             | <u>11,933,374</u>    |
| <b>Expenses</b>   |                               |                            |                      |
| Program services  |                               |                            |                      |
| Production expenses   | 6,155,635                     | -                          | 6,155,635            |
| Outreach and education  | 1,314,503                     | -                          | 1,314,503            |
| Total program expenses  | <u>7,470,138</u>              | <u>-</u>                   | <u>7,470,138</u>     |
| Administrative and general  | 2,170,556                     | -                          | 2,170,556            |
| Fundraising expenses  | 1,059,628                     | -                          | 1,059,628            |
|   | <u>10,700,322</u>             | <u>-</u>                   | <u>10,700,322</u>    |
| Change in Net Assets  | 635,903                       | 597,149                    | 1,233,052            |
| Net Assets, Beginning of Year   | <u>1,203,362</u>              | <u>28,508,381</u>          | <u>29,711,743</u>    |
| Net Assets, End of Year   | <u>\$ 1,839,265</u>           | <u>\$ 29,105,530</u>       | <u>\$ 30,944,795</u> |

The Minnesota Opera  
Statement of Activities  
Year Ended June 30, 2021

|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
|---|-------------------------------|----------------------------|----------------------|
| Revenue, Support, and Gains   |                               |                            |                      |
| Opera season/admissions   | \$ 99,775                     | \$ -                       | \$ 99,775            |
| Outreach and education  | 81,586                        | -                          | 81,586               |
| Rental and other  | 32,001                        | -                          | 32,001               |
| PPP loan forgiveness  | 1,195,477                     | -                          | 1,195,477            |
| Contributions and grants  | 3,251,972                     | 2,855,822                  | 6,107,794            |
| Special event revenue   | 353,792                       | -                          | 353,792              |
| Less cost of direct benefits to donors  | (158,238)                     | -                          | (158,238)            |
|   | <u>195,554</u>                | <u>-</u>                   | <u>195,554</u>       |
| In-kind contributions   | 27,194                        | -                          | 27,194               |
| Net investment return   | 364,507                       | 4,526,926                  | 4,891,433            |
| Distribution from and change in value of<br>beneficial interest in perpetual trusts         | -                             | 124,497                    | 124,497              |
| Net assets released from restriction<br>Distribution pursuant to endowment<br>spending-rate | 817,674                       | (817,674)                  | -                    |
| Purpose releases  | 1,655,961                     | (1,655,961)                | -                    |
| Time releases   | 267,500                       | (267,500)                  | -                    |
|   | <u>7,989,201</u>              | <u>4,766,110</u>           | <u>12,755,311</u>    |
| Total revenue, support, and gains   |                               |                            |                      |
| Expenses  |                               |                            |                      |
| Program services  |                               |                            |                      |
| Production expenses   | 4,144,940                     | -                          | 4,144,940            |
| Outreach and education  | 1,005,183                     | -                          | 1,005,183            |
| Total program expenses  | <u>5,150,123</u>              | <u>-</u>                   | <u>5,150,123</u>     |
| Administrative and general  | 1,750,329                     | -                          | 1,750,329            |
| Fundraising expenses  | 930,988                       | -                          | 930,988              |
|   | <u>7,831,440</u>              | <u>-</u>                   | <u>7,831,440</u>     |
| Total expenses  |                               |                            |                      |
| Change in Net Assets  | 157,761                       | 4,766,110                  | 4,923,871            |
| Net Assets, Beginning of Year   | <u>1,045,601</u>              | <u>23,742,271</u>          | <u>24,787,872</u>    |
| Net Assets, End of Year   | <u>\$ 1,203,362</u>           | <u>\$ 28,508,381</u>       | <u>\$ 29,711,743</u> |



The Minnesota Opera  
Statement of Functional Expenses  
Year Ended June 30, 2022

|                           | Program Services    |                           |                     | Administrative<br>and General | Fundraising         | Total                |
|---------------------------|---------------------|---------------------------|---------------------|-------------------------------|---------------------|----------------------|
|                           | Production          | Outreach and<br>Education | Total               |                               |                     |                      |
| Personnel                 | \$ 3,512,584        | \$ 1,110,189              | \$ 4,622,773        | \$ 1,444,194                  | \$ 735,481          | \$ 6,802,448         |
| Production                | 567,702             | 2,333                     | 570,035             | -                             | -                   | 570,035              |
| Theater Costs             | 809,332             | 8,967                     | 818,299             | 8,869                         | 10,769              | 837,937              |
| Depreciation              | 209,816             | 5,659                     | 215,475             | 17,072                        | 15,984              | 248,531              |
| Professional Fees         | 109,394             | 11,981                    | 121,375             | 349,951                       | 56,699              | 528,025              |
| Information Technology    | 71,163              | 31,242                    | 102,405             | 21,103                        | 22,557              | 146,065              |
| Other Expenses            | 117,154             | 17,890                    | 135,044             | 4,491                         | 9,840               | 149,375              |
| Printing and Postage      | 123,334             | 22,282                    | 145,616             | 30,163                        | 51,558              | 227,337              |
| Utilities                 | 104,787             | 2,837                     | 107,624             | 8,560                         | 8,015               | 124,199              |
| Dues and Subscriptions    | 18,971              | 2,328                     | 21,299              | 71,672                        | 42,546              | 135,517              |
| Royalties                 | 45,520              | 1,349                     | 46,869              | 1,304                         | 1,394               | 49,567               |
| Travel and Entertainment  | 180,318             | 28,739                    | 209,057             | 49,600                        | 20,741              | 279,398              |
| Insurance                 | 45,716              | 1,238                     | 46,954              | 3,735                         | 3,497               | 54,186               |
| Bad Debt                  | -                   | -                         | -                   | 14,334                        | -                   | 14,334               |
| Advertising and Promotion | 123,293             | 45,704                    | 168,997             | 51,253                        | 58,309              | 278,559              |
| Repairs and Maintenance   | 56,952              | 1,312                     | 58,264              | 3,958                         | 3,706               | 65,928               |
| Office                    | 13,382              | 6,017                     | 19,399              | 29,994                        | 2,055               | 51,448               |
| Equipment                 | 19,334              | 2,210                     | 21,544              | 13,117                        | -                   | 34,661               |
| Bank Fees and Charges     | 21,458              | 7,153                     | 28,611              | 28,915                        | 14,344              | 71,870               |
| Interest                  | -                   | -                         | -                   | 17,116                        | -                   | 17,116               |
| Conferences and Seminars  | 5,425               | 5,073                     | 10,498              | 1,155                         | 2,133               | 13,786               |
| <b>Total Expenses</b>     | <b>\$ 6,155,635</b> | <b>\$ 1,314,503</b>       | <b>\$ 7,470,138</b> | <b>\$ 2,170,556</b>           | <b>\$ 1,059,628</b> | <b>\$ 10,700,322</b> |

The Minnesota Opera  
Statement of Functional Expenses  
Year Ended June 30, 2021

|                           | Program Services    |                           |                     | Administrative<br>and General | Fundraising       | Total               |
|---------------------------|---------------------|---------------------------|---------------------|-------------------------------|-------------------|---------------------|
|                           | Production          | Outreach and<br>Education | Total               |                               |                   |                     |
| Personnel                 | \$ 2,424,624        | \$ 895,343                | \$ 3,319,967        | \$ 1,321,440                  | \$ 694,575        | \$ 5,335,982        |
| Production                | 526,342             | 1,016                     | 527,358             | 15,471                        | 1,521             | 544,350             |
| Theater Costs             | 400,063             | 94                        | 400,157             | 256                           | 176               | 400,589             |
| Depreciation              | 207,826             | 5,581                     | 213,407             | 16,837                        | 15,764            | 246,008             |
| Professional Fees         | 41,349              | 14,809                    | 56,158              | 139,858                       | 34,240            | 230,256             |
| Information Technology    | 70,273              | 25,969                    | 96,242              | 15,954                        | 33,265            | 145,461             |
| Other Expenses            | 54,897              | 13,358                    | 68,255              | 23,441                        | 39,117            | 130,813             |
| Printing and Postage      | 41,011              | 9,991                     | 51,002              | 17,123                        | 29,693            | 97,818              |
| Utilities                 | 78,518              | 2,126                     | 80,644              | 6,414                         | 6,005             | 93,063              |
| Dues and Subscriptions    | 8,856               | 1,117                     | 9,973               | 33,081                        | 28,596            | 71,650              |
| Royalties                 | 66,053              | 1,194                     | 67,247              | 1,530                         | 956               | 69,733              |
| Travel and Entertainment  | 28,429              | 16,291                    | 44,720              | 10,136                        | 6,987             | 61,843              |
| Insurance                 | 49,675              | 1,345                     | 51,020              | 4,058                         | 3,799             | 58,877              |
| Bad Debt                  | -                   | -                         | -                   | 58,627                        | -                 | 58,627              |
| Advertising and Promotion | 29,053              | 8,889                     | 37,942              | 8,256                         | 12,305            | 58,503              |
| Repairs and Maintenance   | 48,796              | 1,250                     | 50,046              | 3,772                         | 3,532             | 57,350              |
| Office                    | 22,162              | 4,412                     | 26,574              | 16,938                        | 2,604             | 46,116              |
| Equipment                 | 33,457              | 315                       | 33,772              | 7,062                         | -                 | 40,834              |
| Bank Fees and Charges     | 5,393               | 1,533                     | 6,926               | 17,502                        | 16,955            | 41,383              |
| Interest                  | -                   | -                         | -                   | 26,196                        | -                 | 26,196              |
| Conferences and Seminars  | 8,163               | 550                       | 8,713               | 6,377                         | 898               | 15,988              |
| <b>Total Expenses</b>     | <b>\$ 4,144,940</b> | <b>\$ 1,005,183</b>       | <b>\$ 5,150,123</b> | <b>\$ 1,750,329</b>           | <b>\$ 930,988</b> | <b>\$ 7,831,440</b> |

The Minnesota Opera  
Statements of Cash Flows  
Years Ended June 30, 2022 and 2021

|  | 2022         | 2021         |
|--|--------------|--------------|
| Cash Flows from Operating Activities   |              |              |
| Change in net assets   | \$ 1,233,052 | \$ 4,923,871 |
| Adjustments to reconcile change in net assets to net cash from (used for) operating activities |              |              |
| Depreciation   | 248,531      | 246,008      |
| PPP loan forgiveness income  | -            | (1,195,477)  |
| Forgiveness of debt  | (1,000,000)  | -            |
| Change in value of beneficial interest in perpetual trust                                      | 115,281      | (124,497)    |
| Net investment return  | 3,613,711    | (4,893,893)  |
| Contributions restricted to endowment  | (2,587,663)  | (10,000)     |
| Changes in operating assets and liabilities  |              |              |
| Contributions and grants receivable  | (2,145,707)  | (1,437,788)  |
| Accounts receivable  | (145,822)    | 19,144       |
| Deferred production expenses   | (34)         | (44,289)     |
| Prepaid expenses   | (125,901)    | 36,467       |
| Accounts payable   | 1,094,085    | 366,809      |
| Accrued expenses   | (60,460)     | (82,949)     |
| Deferred revenue   | 102,852      | (22,809)     |
| Net Cash from (used for) Operating Activities  | 341,925      | (2,219,403)  |
| Cash Flows from Investing Activities   |              |              |
| Purchases of investments   | (2,551,518)  | (16,591,815) |
| Sales of investments   | 1,771,488    | 16,581,815   |
| Purchase of property and equipment   | (4,550,288)  | (1,089,641)  |
| (Addition to) withdrawal from endowment  | 900,000      | 838,427      |
| Net Cash used for Investing Activities   | (4,430,318)  | (261,214)    |
| Cash Flows from Financing Activities   |              |              |
| Collections of contributions restricted to endowment   | 2,587,663    | 10,000       |
| Borrowing on line of credit  | 2,000,000    | -            |
| Principal payments on capital lease payable  | (1,673)      | (4,003)      |
| Net Cash from Financing Activities   | 4,585,990    | 5,997        |
| Net Change in Cash, Cash Equivalents, and Restricted Cash                                      | 497,597      | (2,474,620)  |
| Cash, Cash Equivalents, and Restricted Cash, Beginning of Year                                 | 1,855,415    | 4,330,035    |
| Cash, Cash Equivalents, and Restricted Cash, End of Year                                       | \$ 2,353,012 | \$ 1,855,415 |

The Minnesota Opera  
Statements of Cash Flows  
Years Ended June 30, 2022 and 2021

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|  | 2022         | 2021         |
|--|--------------|--------------|
| Cash and cash equivalents                              | \$ 792,949   | \$ 1,855,415 |
| Cash restricted to endowment                           | 1,560,063    | -            |
| Total cash, cash equivalents, and restricted cash      | \$ 2,353,012 | \$ 1,855,415 |
| Supplemental Disclosure of Cash Flow Information       |              |              |
| Cash paid during the year for interest                 | \$ (44,647)  | \$ (26,195)  |
| Supplemental Disclosure of Non-cash Investing Activity |              |              |
| Accounts payable for property and equipment            | \$ 1,402,391 | \$ -         |

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

### **Mission Statement**

The Minnesota Opera (the Opera or MN Opera) changes lives by bringing together artists, audiences, and community, advancing the art of opera for today and for future generations.

### **Nature of Organization**

The 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**

In continuing to adjust to the variable nature of the COVID-19 pandemic, the 2021-22 season was a welcome return to live opera in venues new and familiar to MN Opera. Despite rapidly changing health and safety guidelines and shifting audience attitudes towards returning to in-person spaces, MN Opera built on the successes of the 2020-21 season's ventures into the digital space with new programming and a renewed focus on local communities not previously engaged with MN Opera.

The Opera's work in the fiscal year was guided by the mission, vision, values, and commitment to becoming an anti-racist, anti-oppressive arts institution. MN Opera's 59th season opened with *Ópera Afuera* at Allianz Field, the company's first live performance in front of an audience since early 2020. Performed by a cohort of Resident, Company, and guest artists with the MN Opera Orchestra and Mariachi mi Tierra, the program highlighted Latinx music alongside operatic classics. Digital offerings filled out the rest of the fall and early winter, with streaming presentations of the new chamber opera *Interstate*, the second iteration of the MNatures program, and the *Edward Tulane Choral Suite*. Delivering on its vision to sing every story, MN Opera's characteristic innovation shone through in the digital realm with compelling storytelling, varied and groundbreaking musical styles, and engagement with various art media. In particular, MNatures – with the requirement that its Minnesota-born participants' primary work is outside of the classical tradition, continued to ask the question, "what is opera?" With the *Edward Tulane Choral Suite*, a preview of the 2022-2023 season opener, MN Opera engaged a stop motion animator for the first time in this highly stylized and otherworldly presentation.

Another highlight of the fall season was a long-anticipated workshop with the renowned Bangladeshi/English dancer and choreographer, Akram Khan. For two weeks, MN Opera Resident Artists and invited dancers from throughout the Twin Cities gathered to create two distinct works of vocal and movement-based prowess, enabling Akram to gain an understanding of the operatic artform and our Resident Artists to experience a workshop process outside of a more traditional vein. This "sandbox"-style creative space was new to Minnesota Opera, and unprecedented in many opera circles where the creative process is less openly collaborative.

MN Opera's return to the Ordway Center for the Performing Arts happened in February 2022 with *The Anonymous Lover*, a work by Black composer Joseph Bologne whose aspirations to become music director at the Paris Opera were cut short due to pervasive racism in 18<sup>th</sup> century France. This new production by Minnesota Opera, a comic romance set in the Caribbean that featured brightly colored sets and elaborate period costumes, delighted Opera audiences during the coldest weeks of Minnesota winter. A fiery and visceral production of Georges Bizet's classic tale of dangerous romance, *Carmen*, finished off the 2021-2022 season. Denyce Graves made her directorial debut in this new co-production with the Glimmerglass Festival.

Around the same time as *Carmen*, Minnesota Opera was host to the 2022 OPERA America Conference, a gathering of over 600 industry artists, administrators, and trustees from around the United States, Canada, Mexico, and Europe. MN Opera's continued relationship with OPERA America as a founding member of this trade organization has fostered deeper ties with companies around the country, particularly in conversations around equity, diversity, and inclusion to guarantee a future of opera that is welcoming of all who seek to engage with the artform.

MN Opera's innovation was further highlighted with the announcement of the next phase of the New Works Initiative. Three composers and three librettists will join the company over the next seven years to create three new grand operas and three new chamber operas. A departure from previous new work production models of heavily-resourcing just one new production every two years, this updated model capitalizes on the strengths of the system MN Opera has built in new work development and enables greater volume of new work - encouraging ongoing relationships with creators, rather than continuing to build single, project-based transactional relationships.

In its education and engagement work, MN Opera launched a new pair of core courses that degender and deracialize how middle and high school students are socialized to the artform – and eliminated all participation costs in the process. The company diversified its administrative and teaching staff in terms of ethnic and gender identity and brought the hourly wage the involvement of the teaching staff more in line with market rates.

MN Opera also oversaw the renovation of the Luminary Arts Center. With its completion and opening in August 2022, Minnesota Opera looks forward to a 60<sup>th</sup> anniversary season presenting shows at the Luminary alongside community theater groups who have historically utilized the space when it was known as the LAB Theater and engaging with other performing arts organizations looking for a home in the Twin Cities. While the pandemic has certainly left its mark on MN Opera, the company charts a path forward with cautious optimism buoyed by its response to the last two years that has by many accounts met the moment.

### **Cash and Cash Equivalents**

The 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 the Opera are excluded from this definition.

### **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, 2022 and 2021.

Receivables from contracts with customers are reported as accounts receivable and contract liabilities are reported as deferred revenue in the accompanying statements of financial position. The Opera's accounts receivable as of July 1, 2020, June 30, 2021, and June 30, 2022, were \$170,043, \$150,899, and \$296,720, respectively. The Opera's deferred revenues as of July 1, 2020, June 30, 2021, and June 30, 2022, were \$1,216,637, \$1,193,828, and \$1,295,156, respectively.

### **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 uncollectable 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 uncollectable. At June 30, 2022 and 2021, the allowance was \$45,760 and \$52,326, 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 \$5,000 with a life greater than two years are recorded as property and equipment. Depreciation is computed using the straight-line method over the estimated useful property and equipment lives ranging from 3 to 40 years, or in the case of capitalized leased assets, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting 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.

The 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, 2022 and 2021.

### **Investments**

The 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. The Opera's investment in the partnerships is reported at the estimated fair value of the Opera's share of the partnerships, which is evaluated and determined by the Opera with assistance from the investment manager.

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

Investment purchases are recorded at cost, or if donated, at fair value on the date of the donation. Thereafter, investments are reported at their fair values on the statements of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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**

The Opera has been named as an irrevocable beneficiary of perpetual trusts (the trusts) held and administered by a third-party. The trusts were created independently by donors and are administered by outside agents designated by the donors. The Opera has neither possession nor control over the assets of the trusts. Beneficial interests in the trusts are reported at fair value in the statements of financial position, with changes in fair value recognized in the statements of activities.

A donor restricted contribution is recorded in the statements of activities on the date the Opera receives notice of a beneficial interest, 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 trusts distributions and changes in fair value recognized in the statements of activities.

The 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:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and are not subject to donor (or certain grantor) restrictions. The Board of Directors has designated, from net assets without donor restrictions, net assets for an operating reserve and Board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. The Opera reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net asset released from restrictions.

## Revenue and Revenue Recognition

The Opera recognizes revenue from season tickets and admission sales at the point in time its performance obligation of providing the opera performance is met. Rental income is recognized over the contracted rental period of time as its performance obligation is considered to have been met. The Opera recognizes revenue from outreach and education programs over a period of time as its performance obligation to provide the programming to the client is met. Payments for season tickets and admission sales, as well as outreach and education programs are recorded as deferred revenue in the accompanying statement of financial position until the performance obligations are met. Program fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, those with measurable performance or other barrier, and a right of return are not recognized until the conditions on which they depend have been substantially met. The Opera records special events revenue to the cost of direct benefits to donors, and contributions revenue for the difference. The Opera's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. There were no conditional grants in the years ended June 30, 2022 or 2021.

### **Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to program services, administration, and fundraising activities; however, 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. Contributed goods are recorded at fair value at the date of donation. Donated services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended June 30, 2022 and 2021. See further discussion in the Change in Accounting Policy disclosure.

### **Advertising and Promotion Costs**

Advertising costs are expensed as incurred. Such costs were \$240,915 and \$58,503 for the years ended June 30, 2022 and 2021, 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. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, insurance, repairs and maintenance, and utilities, which are allocated based on square footage, as well as personnel costs and information technology, which are allocated based on estimates of time and effort.

### **Income Taxes**

The 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 (IRC) 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). The Opera is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Opera is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purpose. The Opera files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business activity.

The 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. The Opera would recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if such interest and penalties were incurred.

### 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, including, but not limited to, the uncertainty the COVID-19 pandemic has created and may continue to create. As a result, actual results could differ from those estimates and those differences could be material.

### Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash with financial institutions believed by the Opera to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, no losses have been experienced in these accounts. Credit risk associated with accounts receivable and contributions receivable is limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from donors with a long history of support. Investments are made by diversified investment managers whose performance is monitored by the Opera and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuations on a year-to-year basis, the Opera and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

### Subsequent Events

The Opera has evaluated subsequent events through November 14, 2022, the date the financial statements were available to be issued.

### Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

|  | 2022         | 2021         |
|--|--------------|--------------|
| Cash and cash equivalents                        | \$ 792,949   | \$ 1,855,415 |
| Contributions and grants receivable              | 4,081,136    | 1,699,674    |
| Accounts receivable                              | 296,721      | 150,899      |
| Distribution pursuant to endowment spending-rate | 1,000,000    | 900,000      |
|  | \$ 6,170,806 | \$ 4,605,988 |

Endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, except for the amounts for general use.

The Board-designated endowment of \$1,811,053MN Op and \$608,101 as of June 30, 2022 and 2021, respectively, is subject to an annual spending rate as described in Note 10. Although the Opera does not intend to spend from this Board-designated endowment, these amounts could be made available if necessary.

Additionally, the Opera maintains a \$3,000,000 line of credit, as discussed in more detail in Note 7. As of June 30, 2022 and 2021, \$1,000,000 and \$2,000,000 remained available on the Opera's line of credit, respectively.

### **Note 3 - Fair Value Measurements and Disclosures**

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 the 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, the 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 an 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 the 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.

The 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. The Opera uses NAV per share (or its equivalent) as a practical expedient to estimate the fair values of the funds invested in limited partnerships which do not have readily determinable fair values.

The Opera had 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 180 days liquidity for these positions. The Opera may discontinue the relationship with Okabena Advisors upon six-months' notice. The 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. Okabena Advisors manages the partnerships in which the Opera invests, tracks the investments underlying NAVs, and assists management with evaluation and determination of estimated fair value.

The Opera provided liquidation notice in the four limited partnerships in August 2020, and has divested in all but one, OSOF, as of June 30, 2022. The final liquidation will occur by July 15, 2023.

Assets measured at fair value on a recurring basis at June 30, 2022 and 2021, are as follows:

|   | Total                | Fair Value Measurements at Report Date Using                                  |   |  |
|---|----------------------|---|---|--|
|   |                      | Quoted<br>Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <u>June 30, 2022</u>  |                      |   |   |  |
| Investment securities   | \$ 16,596,535        | \$ 16,596,535   | \$ -  | \$ -   |
| Beneficial interest in perpetual trusts   | 487,368              | -   | -   | 487,368  |
| Investments measured at net asset value (a)<br>Funds invested in limited partnerships | 1,589,260            | -   | -   | -  |
|   | <u>\$ 18,673,163</u> | <u>\$ 16,596,535</u>  | <u>\$ -</u>   | <u>\$ 487,368</u>                                  |

|   | Fair Value Measurements at Report Date Using |   |   |  |
|---|--|---|---|--|
|   | Total  | Quoted<br>Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <u>June 30, 2021</u>  |  |   |   |  |
| Investment securities   | \$ 18,531,669                                | \$ 18,531,669   | \$ -  | \$ -   |
| Beneficial interest in perpetual trusts   | 602,649                                      | -   | -   | 602,649  |
| Investments measured at net asset value (a)<br>Funds invested in limited partnerships | <u>3,387,808</u>                             | <u>-</u>  | <u>-</u>  | <u>-</u>   |
|   | <u>\$ 22,522,126</u>                         | <u>\$ 18,531,669</u>  | <u>\$ -</u>   | <u>\$ 602,649</u>                                  |

(a) In accordance with Subtopic 820-10, certain investments were measured at NAV per share (or its equivalent) and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial positions.

For the years ended June 30, 2022 and 2021, there were no transfers, issuances, or purchases within the Level 3 investments.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost or by NAV per share as a practical expedient as identified in the following, at June 30, 2022:

|  | Number of<br>Investments | Fair Value   | Unfunded<br>Commitments | Redemption<br>Frequency | Redemption<br>Notice Period |
|--|--------------------------|--------------|-------------------------|-------------------------|-----------------------------|
| <u>June 30, 2022</u>                   |                          |              |                         |                         |                             |
| Funds invested in limited partnerships | 1                        | \$ 1,589,260 | \$ -                    | Quarterly               | 180 days                    |
| <u>June 30, 2021</u>                   |                          |              |                         |                         |                             |
| Funds invested in limited partnerships | 1                        | 3,387,808    | -                       | Quarterly               | 180 days                    |

**Note 4 - Contributions and Grants Receivable**

Contributions and grants receivable are estimated to be collected as follows at June 30, 2022 and 2021:

|   | 2022         | 2021         |
|---|--------------|--------------|
| Within one year   | \$ 4,081,136 | \$ 1,699,674 |
| In one to five years                                      | 657,679      | 900,000      |
|   | 4,738,815    | 2,599,674    |
| Less discount to net present value (2%)                   | (10,919)     | (10,919)     |
| Less allowance for uncollectible contributions and grants | (45,760)     | (52,326)     |
|   | \$ 4,682,136 | \$ 2,536,429 |

At June 30, 2022, three donors accounted for 82% and four donors accounted for 79% of contributions and grants receivable, respectively. Two donors accounted for approximately 56% and 31% of total contributions for the years ended June 30, 2022 and 2021, respectively.

**Note 5 - Deferred Production Expenses**

Deferred production expenses are estimated as follows at June 30, 2022 and 2021:

|   | 2022      | 2021      |
|---|-----------|-----------|
| Current deferred production expenses    | \$ 63,338 | \$ 48,737 |
| Noncurrent deferred production expenses | 17,533    | 32,100    |
|   | \$ 80,871 | \$ 80,837 |

**Note 6 - Property and Equipment**

Property and equipment consists of the following at June 30, 2022 and 2021:

|                               | 2022         | 2021         |
|-------------------------------|--------------|--------------|
| Land                          | \$ 2,253,100 | \$ 2,253,100 |
| Equipment                     | 1,712,362    | 1,709,472    |
| Buildings                     | 5,191,863    | 5,129,486    |
| Construction in process       | 5,475,102    | 990,081      |
|                               | 14,632,427   | 10,082,139   |
| Less accumulated depreciation | (4,979,898)  | (4,731,367)  |
|                               | \$ 9,652,529 | \$ 5,350,772 |

The Opera has entered into commitments with vendors for the renovation of the Luminary Arts Center. At June 30, 2022, the total outstanding commitments for this project were \$1,939,866.

Construction in progress relates to the purchase of the theater space located at 720 North First Street, Minneapolis, Minnesota. The Opera is remodeling the space to improve and expand the front of house and improve the theatre as well as provide a welcoming and flexible venue. The remodel's total budgeted costs of approximately \$6.1M are expected to be paid through capital contributions. The project was completed on August 20, 2022.

**Note 7 - Line of Credit**

The Opera maintains a revolving line of credit with a bank that bears interest at the Prime Rate minus 0.5% margin, and whose draws are not to exceed \$3,000,000, that expires on January 31, 2023. The line of credit is collateralized by substantially all unrestricted assets of the Opera and requires that pledge receipts be utilized to pay down outstanding line of credit balances. There was a balance due of \$2,000,000 and \$0 on the note as of June 30, 2022 and 2021, respectively.

**Note 8 - Notes Payable and Capital Lease Payable**

Notes payable consists of the following as of June 30, 2022 and 2021:

|   | 2022 | 2021         |
|---|------|--------------|
| 2.75% note payable, due in annual interest installments of \$25,700 through November 2025, at which time the outstanding principal amount is also due, unsecured. | \$ - | \$ 1,000,000 |

The unsecured 2.75% note payable was forgiven on January 30, 2022, and is reflected as an unrestricted contribution in the statement of activities. Interest was paid on the note through January 2022, which is also reflected in the statement of activities.



**Note 9 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2022 and 2021:

|   | 2022          | 2021          |
|---|---------------|---------------|
| Subject to expenditure for specified purpose  |               |               |
| New Works Initiative  | \$ -          | \$ 10,959     |
| 60th Anniversary  | 65,578        | 71,585        |
| Future seasons  | 479,362       | 502,080       |
| Impact  | 118,092       | 66,355        |
| Lab expansion   | 1,932,972     | 1,932,972     |
| Voices of Opera   | -             | 46,851        |
| Production loan reserve   | 103,812       | 104,298       |
| Credit facility   | 3,000,000     | -             |
| Sustainability  | 3,224,283     | 2,100,000     |
|   | 8,924,099     | 4,835,100     |
| Endowments  |               |               |
| Subject to appropriation and expenditure when a specified event occurs                          |               |               |
| Restricted by donors for  |               |               |
| Future seasons  | (6,472)       | 259,082       |
| Education   | (17,096)      | 58,999        |
| Capital funds   | 59,827        | 196,800       |
|   | 36,259        | 514,881       |
| Accumulated gains (losses) on endowment   | (1,486,019)   | 2,414,429     |
| Perpetual in nature, earnings from which are subject to endowment spending policy appropriation |               |               |
| General use   | 14,589,022    | 14,586,522    |
| Future seasons  | 1,221,404     | 1,221,404     |
| Education   | 350,000       | 350,000       |
| Capital funds   | 630,000       | 630,000       |
| Sustainability  | 4,353,397     | 3,353,396     |
|   | 21,143,823    | 20,141,322    |
| Perpetual in nature, not subject to spending policy or appropriation                            |               |               |
| Beneficial interests in perpetual trusts  | 487,368       | 602,649       |
| Total endowments  | 20,181,431    | 23,673,281    |
|   | \$ 29,105,530 | \$ 28,508,381 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the fiscal years ended June 30, 2022 and 2021:

|   | 2022         | 2021         |
|---|--------------|--------------|
| Expirations of time restrictions                                  | \$ -         | \$ 267,500   |
| Satisfaction of purpose restrictions                              |              |              |
| Sustainability  | -            | 1,300,000    |
| Lab expansion   | -            | 201,879      |
| Education   | 37,392       | 110,224      |
| 60th Anniversary  | 6,007        | 12,709       |
| Voices of Opera   | 46,851       | 3,149        |
| Civic practice  | -            | 28,000       |
| New Works Initiative  | 10,959       | -            |
| Future seasons  | 173,205      | -            |
|   | 274,414      | 1,655,961    |
|   | 274,414      | 1,923,461    |
| Restricted-purpose spending-rate distributions and appropriations |              |              |
| General use   | 781,610      | 728,767      |
| Future seasons  | 49,508       | 49,145       |
| Education   | 15,181       | 14,201       |
| Capital funds   | 27,325       | 25,561       |
|   | 873,624      | 817,674      |
|   | \$ 1,148,038 | \$ 2,741,135 |

Certain donors have stipulated gifts that 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 donor-restricted net assets that are perpetual in nature.

#### **Note 10 - Endowments**

The Opera's endowment consists of pooled gifts restricted for the long-term support of the Opera and seven funds where the earnings are restricted to various purposes. The endowment includes certain net assets without donor restrictions that have been designated for endowment by the Board of Directors.

### Interpretation of Relevant Law

The Board of Directors of the Opera has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (the 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, the Opera retains in perpetuity (a) the original and subsequent gift amounts (including contributions receivable net of discount and allowance for doubtful accounts) donated to the endowment, (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard prudence prescribed by the UPMIFA. The following factors are considered 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, 2022, endowment net asset composition by type of fund is as follows:

|  | Without Donor<br>Restriction | With Donor<br>Restriction | Total         |
|--|------------------------------|---------------------------|---------------|
| Board-designated endowment funds   | \$ 1,811,053                 | \$ -                      | \$ 1,811,053  |
| Donor-restricted endowment funds   |                              |                           |               |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | -                            | 21,631,191                | 21,631,191    |
| Accumulated investment gains   | -                            | (1,449,760)               | (1,449,760)   |
|  | \$ 1,811,053                 | \$ 20,181,431             | \$ 21,992,484 |

As of June 30, 2021, endowment net asset composition by type of fund is as follows:

|  | Without Donor<br>Restriction | With Donor<br>Restriction | Total                |
|--|------------------------------|---------------------------|----------------------|
| Board-designated endowment funds   | \$ 608,101                   | \$ -                      | \$ 608,101           |
| Donor-restricted endowment funds   |                              |                           |                      |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | -                            | 20,743,971                | 20,743,971           |
| Accumulated investment gains   | -                            | 2,929,310                 | 2,929,310            |
|  | <u>\$ 608,101</u>            | <u>\$ 23,673,281</u>      | <u>\$ 24,281,382</u> |

Included in the balance of donor-restricted endowment funds as of June 30, 2022 and 2021, are \$487,368 and \$602,649, respectively, held in trust for the benefit of the Opera, but not under the control of the Opera for investment decision purposes.

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

The 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 4.5% times the market value on March 31 of each year. In establishing this policy, the Opera considered the long-term expected return on its endowment. Accordingly, over the long term, the Opera expects the current spending policy to allow preservation and growth of purchasing power, while recognizing there will be periods of time where meeting short-term objectives may not be feasible without assuming undue risk. This is consistent with the 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.

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 the UPMIFA requires the Opera to retain as a fund or perpetual duration. The Board of Directors of the Opera has interpreted the UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2022, there were no donor-restricted endowment funds that fell below the level that the donor required the Opera to retain as a fund of perpetual duration. At June 30, 2022, there were twelve donor-restricted endowment funds that fell below the level that the donor required the Opera to retain as a fund of perpetual duration. At June 30, 2022, funds with original gift values of \$19,982,933, fair value of \$18,427,213, and deficiencies of \$1,555,720 were reported in net assets with donor restrictions.

Changes in endowment net assets for the year ended June 30, 2022, are as follows:

|   | Without Donor<br>Restriction | With Donor<br>Restriction | Total                         |
|---|------------------------------|---------------------------|-------------------------------|
| Endowment net assets,<br>beginning of year  | \$ 608,101                   | \$ 23,673,281             | \$ 24,281,382                 |
| Investment return, net  | (105,835)                    | (3,505,446)               | (3,611,281)                   |
| Change in value of<br>beneficial interest in<br>perpetual trust   | -                            | (115,280)                 | (115,280)                     |
| Contributions   | 1,585,163                    | 1,002,500                 | 2,587,663                     |
| Distribution from board-designated endowment<br>Appropriation of<br>endowment assets<br>for expenditure | (250,000)<br><u>(26,376)</u> | -<br><u>(873,624)</u>     | (250,000)<br><u>(900,000)</u> |
| Endowment net assets,<br>end of year  | <u>\$ 1,811,053</u>          | <u>\$ 20,181,431</u>      | <u>\$ 21,992,484</u>          |

Changes in endowment net assets for the year ended June 30, 2021, are as follows:

|   | Without Donor<br>Restriction | With Donor<br>Restriction | Total                |
|---|------------------------------|---------------------------|----------------------|
| Endowment net assets,<br>beginning of year                      | \$ 510,797                   | \$ 19,698,884             | \$ 20,209,681        |
| Investment return, net  | 118,058                      | 4,651,422                 | 4,769,480            |
| Change in value of<br>beneficial interest in<br>perpetual trust | -                            | 124,497                   | 124,497              |
| Contributions   | -                            | 16,151                    | 16,151               |
| Appropriation of<br>endowment assets<br>for expenditure         | <u>(20,754)</u>              | <u>(817,674)</u>          | <u>(838,427)</u>     |
| Endowment net assets,<br>end of year                            | <u>\$ 608,101</u>            | <u>\$ 23,673,281</u>      | <u>\$ 24,281,382</u> |

### **Return Objectives and Risk Parameters**

The 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 the 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 4.5%. Based on moderate inflation, the Board has adopted a long-term return objective of 6% to 8%, 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, the 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). The 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.

### **Note 11 - Employee Retirement Plan**

The Opera has a defined contribution retirement plan (the Plan) under IRC Section 403(b) for its non-union employees who meet certain service and age requirements. The Opera, at the discretion of its Board, may contribute to the Plan. During the years ending June 30, 2022 and 2021, the Opera contributed \$83,200 and \$77,344, respectively, to the Plan.

In addition, the Opera pays into retirement accounts for both unions with which the 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 \$37,020 and \$25,518 for the years ending June 30, 2022 and 2021, respectively. The other union retirement plan is a defined contribution plan. Retirement expense for this union plan was \$5,315 and \$3,946 for the years ending June 30, 2022 and 2021, respectively.

The multi-employer defined benefit pension 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, 2021, the Plan is 53.6% 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 4,081. No employer contributed more than 5% of the total contributions to the Plan during the year.

### **Note 12 - 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 the 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. The Opera, Ordway, SPCO, and The Schubert Club are “Arts Partners” as defined in the Master Agreement. The 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, the Opera has committed to a rental rate structure based on utilization. The 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 ended June 30, 2022 and 2021 were \$748,155 and \$726,363, respectively. Total payments to the Ordway in the years ended June 30, 2022 and 2021, included base license fees of \$1,177,810 and \$879,121, 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, 2022 and 2021, the Opera received a contribution of \$633,849 and \$544,245, respectively, from the Arts Partnership. This contribution is reflected as an unrestricted contribution in the statement of activities and changes in net assets and the Opera’s participation is reflected in fundraising expenses.

In recognition of the unique challenges live performing arts organizations have experienced as a result of the COVID-19 pandemic, in 2022 the Arts Partnership also supported the partner organizations with stabilization contributions. For the year ended June 30, 2022, the Opera received a stabilization contribution of \$1,121,975 from the Arts Partnership. This contribution is reflected as an unrestricted contribution in the statement of activities and changes in net assets and the Opera’s participation is reflected in fundraising expenses.

### **Note 13 - Related Party Transactions**

The MN Opera receives gifts and pledges from board members and staff. Gifts received from board members and staff were \$4,524,226 and \$910,905 in the years ended June 30, 2022 and 2021, respectively. Pledges receivable from board members and staff were \$3,411,170 and \$321,336 as of June 30, 2022 and 2021, respectively.