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*includes*  
2/14/14  
3/3/14  
3/4/14

March 11, 2014

Officers  
Minnesota Orchestral Association

Dear Officers

I read the papers, which is, unfortunately, about the only way to find out what is going on behind closed doors with the Board. We know only what you want us to know. This includes today's piece in the Star Tribune.

When I first wrote post-lockout (copy enclosed) I deliberately did not even mention the words "Michael Henson". He was as invisible as the rest of you during the days when we bought tickets presuming we'd paid a fair price, and came to hear the Orchestra.

That first letter, I was just trying to give some amateur advice, from a common audience member perspective.

I wrote a second letter (enclosed) which for one reason or another, I did not mail. You now have it.

I am wondering if you have any idea how truly powerless you are, regardless of audience response or lack of same? I don't have a lot of contacts, but I have enough to know that you (not the Orchestra itself) lost customer loyalty over the past year and a half. And I know that even the name "Michael Henson" is toxic to many, and that Mr. Sprenger supports Mr. Henson, and that Mr. Henson was in close league with Mr. Campbell and Mr. Davis, both of whom scurried off the Board with the settlement. (Of course, Mr. Henson is one of you receiving this letter.)

There must have been (and still are) interesting conversations which we will never be privy to.

But the audience is completely in control now. Either they come in your doors, or they do not. You have lost control.

And dealing, as you seem to be, from a position of presumed power is a serious mistake.

Best wishes.



6905 Romeo Rd  
Woodbury Nw 55125  
March 3, 2014

Exec. Comm. MOA

Ladies & Gentlemen:

Before the lockout, your Board was largely invisible to me - at subscription time we renewed at the rate requested & did what <sup>we</sup> were told (i.e. go to Convention Center Auditorium to prepare us for the 2012-13 season which was not to be....)

You are no longer invisible. This morning while the fish entertain me at Maplewood Motors & I get a recall item checked on my Toyota, I'm reading again pp 39 + 48-49 of the Dec 2011 Mr Brochetta Showcases & thinking about the recent news-in-preparation report on your recent Board meeting which was, of course, closed to people like me, as are the results, except those <sup>which will be</sup> authorized for release.

I don't think you've learned your lesson. My warmth towards you essentially matches today's below zero temperature outside.

You certainly leveraged well the economic crisis which reached its depths in the fall of 2008 for reasons well understood & never admitted & now forgotten, it seems.

As to the fish I mentioned earlier, I'm one of the smaller ones economically. But during the entirety of this time of supposed economic hardship I've had a mandatory draw on my 401(k). This year that mandatory draw increased by 20%, & I'm a retired guy investor - not a casino high roller.

Your endowment, whatever you call it, has to be pretty healthy these days. Tell us about that in the same way you leveraged presumed poverty when



you made your crucial decisions four or five years ago -

Of course I expect no "miracles". You have your winning formula & it has worked & probably even a disastrous lockout hasn't taught you the lesson you need to learn, your business as usual has been a disaster.

We're two who renewed for the recovery. Unfortunately "life" interfered & we're had to miss two of the first three concerts since the "resurrection", Feb. 1.

But what I've noticed is that our 'habit' of supporting the Orchestra has dimmed - Such happens when you're denied something for a long period of time - And we're not fickle supporters.

The one concert we could attend, we did the walk through of the new lobby which was, frankly, nothing to write home about. It seems more a venue for the very well heeled to have private parties.

I wait "with bated breath" to see how your divided board decides on the matter of Vanecko-Henson. It will be most interesting (as it was most interesting to read p 39 of the Dec 2011 Ann-Report)

You best learn, quickly, how to truly relate to the audience, the customers who for more than your wealthy benefactors make the difference in the long term. You've got a lot to learn -

Rich Bernard  
BE3180-



GLEN STUBBE • Star Tribune

Mayo Clinic CEO John Noseworthy: "Once you put the patient in the center of any discussion, you can't make bad decisions."

2-16-14

Lori Stenderant  
in OpEx p.1  
STRIB

Substitute "audience"  
or like synonyme for  
"patient" & it will  
help us all - & you.  
And define the word broadly.

# annual report

Minnesota Orchestra 2010-11 season

Applause all around:  
audiences responded with raves to  
the Orchestra's stellar performance  
at Carnegie Hall in February—  
as they did all season long at home.

shining  
in the spotlight

**"The orchestra sounded terrific on Monday night at Carnegie Hall."**

— The New York Times, March 2, 2011





## A Letter from the Chair and the President



Looking over the past two seasons of our collaboration, abundant highlights come quickly to mind: sharing the thrill of Board members and friends who joined Carnegie Hall and BBC Proms audiences in feting Music Director Osmo Vänskä and the Orchestra; bringing our Orchestra to listeners across the U.K. via a series of high-profile BBC broadcasts; energizing the Orchestra Hall renovation project with exciting designs; working with extraordinary young professionals—our next-generation leaders—in Crescendo Project; and marveling at the buses that surround Orchestra Hall on Young People's Concert days, transporting our next-generation listeners to hear the Orchestra for the first time.

These have been remarkable milestones, all set in sharp relief against the challenging local and global economies of the last two years. Our Orchestra, like most in the industry, has long been skillful in managing an out-of-alignment financial structure. But the persistent economic headwinds have intensified all challenges across our industry. Essentially, our expenses exceed our revenues, and this misalignment will escalate dramatically in the years ahead unless we reset the model and correct the imbalance.

Here's the bright spot: we have seen this issue developing, and we're ready to face it head on. At last year's Annual Meeting, we reported that we were embarking on an organization-wide strategic planning process to outline a bold path forward. Our Board recently approved this new plan, which balances great artistry with financial viability, addressing our current financial deficit and the organization's larger structural imbalance.

The tenets of our Vision for a Sound Future are threefold: 1) grow our community connections, 2) heighten our artistry and world-wide presence, and 3) rebuild a financially sustainable foundation. As articulated

in our strategic plan, we will capitalize on the renovated Orchestra Hall to attract new audiences; strengthen artistry and reputation through regular touring, broadcasting and recording; and engage with the community through intensive exchange and collaboration. We will develop new performance formats and content; re-scope the number of our concerts to align supply and demand appropriately; implement major cost reductions; and achieve ambitious but realistic goals for increasing earned and contributed revenue.

The renovation of Orchestra Hall—a critical component of the strategic plan (offering significant audience-building and revenue-generating opportunities)—gives a clear indication of all that we can achieve. Our rigorous process has led to a carefully sized Hall project that will deliver an expanded venue to better serve audiences in 2013, with fundraising completed, and with no debt outstanding. Our community has contributed generously to this capital project, differentiating it from our short-term needs and supporting our broad vision for the Orchestra's next 30 years.

Achieving the goals of a new strategic plan will require rigor, but challenging times bring about our best work—and this plan does indeed represent our best. It demonstrates that it is possible for an orchestra to offer exceptional artistic experiences, connect with its community and operate in a fiscally sustainable manner. We need to do all these things so that our next-generation leaders and listeners may experience the Minnesota Orchestra in all its splendor for decades to come.

Richard K. Davis  
Chair of the Board

Michael Henson  
President and CEO

"The Minnesota Orchestra under Osmo Vänskä  
is as impressive as ever."

— BBC Music Magazine, April 2011

## summary of financial position

	AUGUST 31 2011	AUGUST 31 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & Cash Equivalents	\$2,066	\$1,744
Contributions & Other Receivables	7,477	9,190
Prepaid Expenses & Other	1,190	1,164
Total Current Assets	10,733	12,098
Long Term Pledges & Receivables	9,711	14,576
<b>INVESTMENTS</b>		
Endowments	69,012	74,599
Building For the Future Fund	3,122	0
Beneficial Interest held in trusts	61,477	56,088
Hall Fund	7,056	6,342
Hall Renovation	19,244	8,132
Other Investments	2,555	2,260
Total Investments	162,466	147,421
Hall Renovations	3,303	1,884
Capital Assets, Net of Depreciation	5,734	6,260
Other Assets	567	948
<b>TOTAL ASSETS</b>	<b>\$192,514</b>	<b>\$183,187</b>

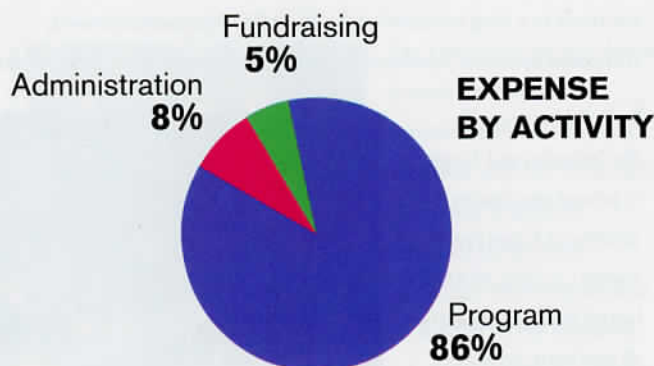
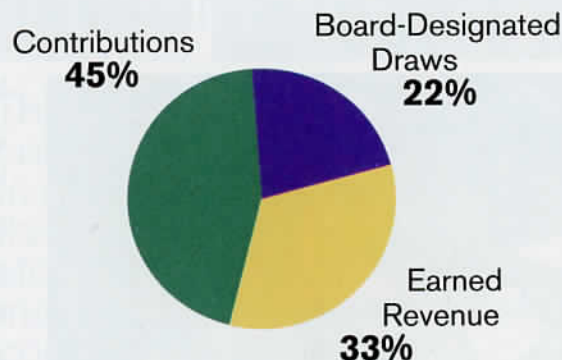
	AUGUST 31 2011	AUGUST 31 2010
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$2,317	\$3,128
Line of Credit	0	0
<b>Deferred Concert Revenue</b>	<b>3,556</b>	<b>3,434</b>
<b>Long-Term Liabilities</b>		
Long-Term Debt	10,940	10,940
Unfunded Pension Liability	7,509	9,649
<b>TOTAL LIABILITIES</b>	<b>\$24,322</b>	<b>27,151</b>
<b>Unrestricted Net Assets</b>		
Operations	(\$17,187)	(\$10,356)
Pension Minimum Liability	(7,509)	(9,649)
Total Operations & Pension Plans	(24,696)	(20,005)
Hall Financing, Capital Assets & Annuities	12,865	11,388
Board-Designated Endowment	(1,521)	(4,684)
Total Unrestricted Net Assets	(10,310)	(13,301)
Temporarily Restricted Net Assets	35,745	35,573
Permanently Restricted Net Assets	142,757	133,764
<b>TOTAL NET ASSETS</b>	<b>\$168,192</b>	<b>\$156,036</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$192,514</b>	<b>\$183,187</b>

## summary of operating results

	YEAR ENDING AUGUST 31 2011	YEAR ENDING AUGUST 31 2010
<b>REVENUE &amp; OTHER SUPPORT</b>		
<b>Earned Revenue</b>		
Concert Ticket Sales & Fees	\$6,882	\$7,246
Touring Fees	353	421
Other Revenue	1,964	2,059
Total	9,199	9,726
<b>Contributions &amp; Gifts</b>		
General Support & Restricted Grants	7,743	7,624
Tour Funding	485	1,600
Oakleaf & St. Paul Fdn. Distributions	3,042	2,976
Symphony Ball	1,057	980
Total	12,327	13,180
<b>Board-Designated Draws</b>	<b>6,018</b>	<b>7,930</b>
<b>TOTAL REVENUE &amp; SUPPORT</b>	<b>\$27,544</b>	<b>\$30,836</b>
<b>EXPENSES</b>		
Salaries & Benefits	\$21,887	\$21,031
Direct Concert Expense	3,586	3,884
Tour Expense	325	1,056
Advertising & Promotion	1,543	1,908
Symphony Ball	299	345
Interest and Financing	645	686
General Administration & Facility	2,166	1,918
<b>TOTAL EXPENSES</b>	<b>\$30,451</b>	<b>\$30,828</b>
<b>NET OPERATING ACTIVITIES</b>	<b>\$(2,908)</b>	<b>\$8</b>

## financial overview

### INCOME BY SOURCE



This is a summarized version of the financial statements audited by LarsonAllen LLP.





## A Message from the Treasurer

Over the last 12 months, the Minnesota Orchestra mobilized a strategic business planning process that was as thorough and far-reaching as any in which I've participated, and I'd like to thank the members of the Board's Financial Planning Subcommittee who helped develop the new plan's strong financial underpinnings.

Our task was substantial: to reset the organization's revenue/expense ratio in order to eliminate the Orchestra's structural financial imbalance, which has existed for many years and has become particularly detrimental in today's economy. The resulting plan, *Vision for a Sound Future*, outlines a path to financial sustainability by 2013 without sacrificing great artistic experiences for our audiences or service to our community.

Fiscal 2011 was a year in which the troubled economy significantly affected our ability to generate revenue. The Orchestra is reporting an operating loss of \$2.9 million, attributable to a decrease in endowment revenue, a decrease in earned revenue and an increase in contractual costs, as the organization continues to manage its five-year musicians' contract.

On the revenue side, total earned revenue decreased from the prior year by 5.4 percent, or \$527,000. Our total paid capacity for the year ended at 71 percent—virtually holding even with last year's 72 percent, a steady result in a down economy. Our total contributions of \$12.3 million were down over the prior year due to a reduction in grants for touring projects. Our annual operating contributions and gifts were up 1.6 percent over Fiscal 2010, and our total number of donors increased by 9.9 percent over the previous year. These last two points bode

well for our future, yet overall, due to the economy, we are seeing a leveling off in donor contributions and gifts when compared with four years ago.

Like many nonprofits, the Minnesota Orchestra utilizes a 12-quarter rolling average to calculate endowment draw. This means the true impact of the recession is only now causing a significant reduction in our draw, which is down by \$1.8 million over the prior year. While our total investments for Fiscal 2011 climbed to \$162.4 million, this was fueled primarily by \$11 million in incremental Orchestra Hall renovation contributions over the last year. We will draw these funds to pay for construction costs as the Hall renovation project moves forward. Like donor gifts, our endowment levels, too, are trending down over the last four years, due to the economy.

Finally, we've worked exhaustively and effectively to offset areas of loss through cost efficiencies. In Fiscal 2010 we reduced total expenses by \$1.6 million; this year we decreased total expenses by a further \$376,000 despite salary and benefit increases of 4.1 percent, which were driven mainly by contractual increases.

And so we return to the essential fiscal issue facing the entire orchestral industry: we need to align our cost structures with our revenue generation capabilities. The strategic plan leads the organization to this alignment (and resulting balanced budgets) by 2013, through further major expense reductions and ambitious but achievable increases in earned and contributed revenue. We will arrive at this worthy destination, and we thank you, our patrons, donors and community, for your support along the way.

Jon R. Campbell  
Treasurer

"... One of the country's most innovative orchestras."

— *Pittsburgh Post-Gazette*, July 8, 2011

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February 14, 2014

Executive Committee, Minnesota Orchestral Association

We are a fairly long-time part of your "beloved audience members" (from the Feb 7-8, 2014, program booklet.) We're in your records as BE3180.

We were at Orchestra Hall on Feb. 8; I reflected on that concert at my blog for Feb 9: <http://www.outsidethewalls.org/blog/2014/02/09/>. We have tickets for Feb. 15, but will be unable to attend because of my aunts funeral, the same day, in North Dakota. We have tickets for five upcoming concerts in the new Hall.

My only voice is as an audience member. You, especially the Orchestral Association Board, have access to experts who can analyze what happened during the 488 very dark days when we in the audience, and the orchestra itself, were locked out. We have some strong opinions about that lockout.

When I pieced together my thoughts for the aforementioned blog, I was mostly thinking of the disaster of the past 488 days, followed by the emotional and triumphal return on February 7-8, now to be followed by a shared future.... In my amateur way, in the recent blog, I was writing mostly to the Orchestral Association Board who, after all, did the Lock Out in the first place.

In my opinion, if there are not huge changes in attitude and behaviors, particularly by the Orchestral Association Board, the future will not be a happy one. But the temptation will be to return to the destructive behavior that got us to this point. Change is never easy.

As it happens, during the period of the Lock Out I had an unplanned and new experience, which MAY possibly be helpful to add to the thinking of both Board and Orchestra as the future begins. If you wish, read on.

I graduated from a tiny teachers college in North Dakota over 50 years ago. In the fall of 2012 the college issued an alumni directory (voluntary information from graduates) which included 334 e-mail addresses of people who attended the college in the same time period as I did. Of these, I knew perhaps a couple dozen at most.

I decided to recount my years there, publishing my account on January 2, 2013, at <http://www.outsidethewalls.org/blog/2013/01/02/>, for the 334 new addresses. The blog took on a minor life of its own.

In the summer of 2013, one alum who I knew in 1958-59 suggested we try to generate a small scholarship fund from this band of strangers with a common bond.



We asked the college Foundation, which said it was possible to fund a \$500 scholarship, with a beginning required balance of \$10,000, including \$500 fee for establishing the fund.

The \$10,500 seemed doable, and we decided to set a minimum/maximum donor level of \$100, to give everyone an equal share in the scholarship (obviously, someone(s) in our group could fund the entire amount easily, but they probably already have their own scholarship. We decided to go for small and equal shares).

We simply solicited interest by e-mail, several times between Labor Day and December 21, 2013. It was a very soft solicitation: if you're interested, let us know.

On December 21, I gave the final report: we had 47 pledges of \$100. About one of seven ponied up. (Roughly half of the people I knew in person - 13 - were among these). We were essentially at half of goal, and we simply terminated the sales pitch, but left the door open for the future. Only one person of the 47 resigned their pledge.

Unfortunately, nobody, to my knowledge, made any effort to convince others to pledge \$100. If each pledgee had solicited just one other, we would have been very near goal. Perhaps someone else is discussing this very matter, but it will have to be up to them.

This was the first time I had tried this, and I learned a lot from the experience. I think you can as well.

As you know so very well, it is a whole lot easier to raise \$1,000,000 from some high net worth individual, than to raise that million from a million one dollar donors. At the same time, that millionaire benefactor cannot fill the auditorium on their own. The franchise depends totally on the rest of us, in the audience, to do that. And you know that.

Years ago I remember reading something about Archbishop Irelands grand vision of building a huge Cathedral in St. Paul and a Basilica in Minneapolis. At the time he did this about 100 years ago, he had about tapped out railroad baron James J. Hill, whose wife was Catholic, and Ireland had to look elsewhere for big and small donations.

Among Irelands gambits was, as I recall, a penny campaign with the young persons of the archdiocese. It didn't raise much money, but it got a lot of publicity, and it also (I am sure) regenerated public interest, of small donor Catholics in those outlier parishes.

I think that some day, someone will complete that \$10,500 scholarship fund two of us began in 2013. It will be someone else who will complete the task.

As for you folks, the future is very much in your hands, and business as usual is not anything other than a recipe for future failure. There have to be very major changes in behavior, especially by the Orchestra Board. I wish you the courage to change and to thus succeed.

Sincerely,