

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
ASSETS		
CURRENT ASSETS		
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
INVESTMENTS		
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
TOTAL ASSETS	\$192,514	\$183,187

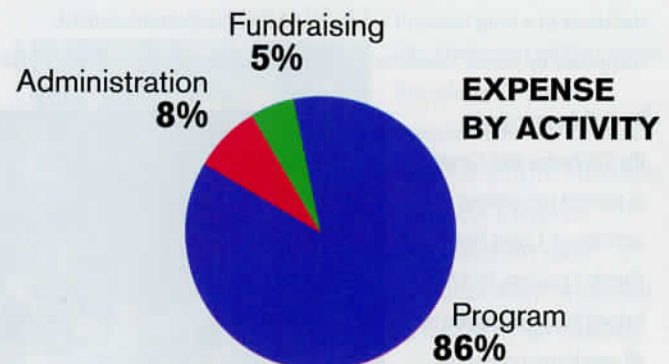
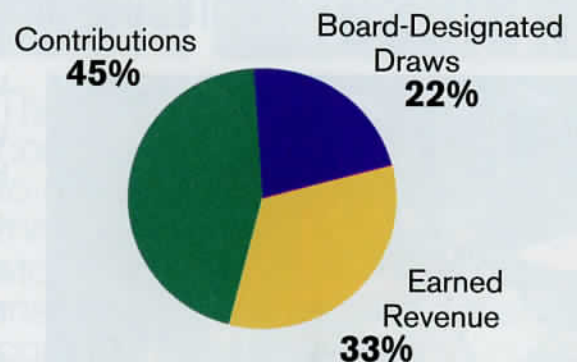
	AUGUST 31 2011	AUGUST 31 2010
LIABILITIES		
Current Liabilities		
Accounts Payable	\$2,317	\$3,128
Line of Credit	0	0
Deferred Concert Revenue	3,556	3,434
Long-Term Liabilities		
Long-Term Debt	10,940	10,940
Unfunded Pension Liability	7,509	9,649
TOTAL LIABILITIES	\$24,322	27,151
Unrestricted Net Assets		
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
TOTAL NET ASSETS	\$168,192	\$156,036
TOTAL LIABILITIES & NET ASSETS	\$192,514	\$183,187

summary of operating results

	YEAR ENDING AUGUST 31 2011	YEAR ENDING AUGUST 31 2010
REVENUE & OTHER SUPPORT		
Earned Revenue		
Concert Ticket Sales & Fees	\$6,882	\$7,246
Touring Fees	353	421
Other Revenue	1,964	2,059
Total	9,199	9,726
Contributions & Gifts		
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
Board-Designated Draws	6,018	7,930
TOTAL REVENUE & SUPPORT	\$27,544	\$30,836
EXPENSES		
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
TOTAL EXPENSES	\$30,451	\$30,828
NET OPERATING ACTIVITIES	\$(2,908)	\$8

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