

OVERTURE CENTER FOUNDATION, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
WITH CONSOLIDATING INFORMATION**

June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Overture Center Foundation, Inc.
Madison, Wisconsin

We have audited the accompanying consolidated financial statements of Overture Center Foundation, Inc., which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2014 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Overture Center Foundation, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of Overture Center Foundation, Inc. as of June 30, 2013, were audited by other auditors whose report dated September 18, 2013, expressed an unmodified opinion on those statements.

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Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and they are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the 2014 consolidated financial statements as a whole.

Wegner CPAs, LLP
Wegner CPAs, LLP
Madison, Wisconsin
September 5, 2014

OVERTURE CENTER FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 3,321,840	\$ 3,042,640
Accounts receivable, net	370,047	400,260
Unconditional promises to give, net	1,090,918	973,761
Beneficial interest in assets held by Madison Community Foundation	1,311,244	1,196,441
Prepaid expenses	239,858	203,859
Property and equipment, net	<u>154,089,220</u>	<u>156,951,466</u>
Total assets	<u><u>\$ 160,423,127</u></u>	<u><u>\$ 162,768,427</u></u>
LIABILITIES		
Accounts payable	\$ 209,123	\$ 170,533
Accrued liabilities	427,824	842,267
Capital lease obligation	161,912	-
Unearned revenue	3,804,635	2,877,629
Due to City of Madison	<u>307,809</u>	<u>192,740</u>
Total liabilities	4,911,303	4,083,169
NET ASSETS		
Unrestricted	153,117,792	156,348,862
Temporarily restricted	1,549,032	1,491,396
Permanently restricted	<u>845,000</u>	<u>845,000</u>
Total net assets	<u>155,511,824</u>	<u>158,685,258</u>
Total liabilities and net assets	<u><u>\$ 160,423,127</u></u>	<u><u>\$ 162,768,427</u></u>

See accompanying notes.

OVERTURE CENTER FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years ended June 30, 2014 and 2013

	2014	2013
UNRESTRICTED NET ASSETS		
SUPPORT AND OTHER REVENUE		
Ticket sales and fees	\$ 6,611,480	\$ 12,480,776
Facility rentals and services	1,911,122	1,689,439
Investment return	5,894	10,673
Other revenue	729,568	837,062
Contributions	1,107,329	806,146
Grants and sponsorships	20,250	124,555
City of Madison support grant	1,675,000	1,800,000
Total unrestricted support and other revenue	12,060,643	17,748,651
EXPENSES		
Salaries, wages and benefits	5,907,758	5,960,496
Artists and performance fees	3,204,863	7,348,155
Advertising	497,734	824,916
Purchased services	1,078,611	1,032,293
Professional services	178,787	240,120
Ticketing fees	287,126	346,749
Supplies	392,233	629,781
Utilities	729,337	661,798
Information technology	239,455	232,407
Insurance	160,638	170,752
Other expenses	41,421	7,616
Depreciation	3,422,686	3,387,353
Interest expense	12,659	2,149
Total expenses	16,153,308	20,844,585
NET ASSETS RELEASED FROM RESTRICTIONS	861,595	801,564
Change in unrestricted net assets	(3,231,070)	(2,294,370)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	83,092	271,500
Grants and sponsorships	660,220	266,795
Net assets released from restrictions	(861,595)	(801,564)
Change in value of beneficial interest in assets held by Madison Community Foundation	175,919	109,297
Change in temporarily restricted net assets	57,636	(153,972)
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	-	15,000
Change in net assets	(3,173,434)	(2,433,342)
Net assets - beginning of year	158,685,258	161,118,600
Net assets - end of year	<u>\$ 155,511,824</u>	<u>\$ 158,685,258</u>

See accompanying notes.

OVERTURE CENTER FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (3,173,434)	\$ (2,433,342)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	3,422,686	3,387,353
Donated property and equipment	(32,800)	-
Change in value of beneficial interest in assets held by Madison Community Foundation	(175,919)	(109,297)
Contributions restricted for permanent endowment	-	(15,000)
(Increase) decrease in assets		
Accounts receivable, net	30,213	(159,172)
Unconditional promises to give, net	(117,157)	221,565
Prepaid expenses	(35,999)	54,484
Increase (decrease) in liabilities		
Accounts payable	38,590	40,702
Accrued liabilities	(414,443)	211,788
Due to City of Madison	115,069	(21,416)
Unearned revenue	927,006	(1,295,220)
Net cash flows from operating activities	583,812	(117,555)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	(292,045)	(243,606)
Transfer of assets to Madison Community Foundation	-	(15,000)
Distributions received from assets held by Madison Community Foundation	61,116	63,332
Net cash flows from investing activities	(230,929)	(195,274)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(73,683)	(50,751)
Proceeds from contributions restricted for permanent endowment	-	15,000
Net cash flows from financing activities	(73,683)	(35,751)
Net change in cash and cash equivalents	279,200	(348,580)
Cash and cash equivalents - beginning of year	3,042,640	3,391,220
Cash and cash equivalents - end of year	\$ 3,321,840	\$ 3,042,640
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 12,659	\$ 2,149
Noncash investing and financing transactions		
Capital lease obligations incurred for use of equipment	235,595	-
Donated property and equipment	32,800	-

See accompanying notes.

OVERTURE CENTER FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Overture Center Foundation, Inc. (OCF) is a Wisconsin non-stock, tax exempt organization that leases and operates the Overture Center for the Arts (the Center), a performing and visual arts center in Madison, Wisconsin. OCF's mission is to enrich the lives of individuals and the community by creating, encouraging and catalyzing extraordinary experiences. Among other activities, OCF raises funds to support free and low-cost community and education programs, as well as other programs and initiatives which help to advance the mission. The Center is also home to ten resident companies: Bach Dancing and Dynamite Society, Forward Theater Company, Children's Theater of Madison, Li Chiao-Ping Dance, Kanopy Dance Company, Madison Ballet, Madison Opera, Madison Symphony Orchestra, Wisconsin Academy, and Wisconsin Chamber Orchestra (collectively, Residents).

Overture Development Corporation (ODC), a Wisconsin non-stock, tax exempt organization, was established on June 8, 2000 for the sole purpose of constructing the Center. On August 5, 2011 the Block 65 Condominium Association was formed and the Center was split into two condominiums. Unit one was gifted to the Madison Museum of Contemporary Arts (MMoCA). Unit two was retained by ODC and leased to OCF. Effective January 1, 2012, the amended bylaws of ODC decreased the size of ODC's board of directors from nine members to five. The revised bylaws require that three of the five board members be members of OCF's board of directors. This change in composition of ODC's board gives OCF a majority voting interest in ODC and, thus, requires the consolidation of ODC with OCF.

Principles of Consolidation

The consolidated financial statements include the accounts of OCF and ODC. ODC is consolidated since OCF has both an economic interest in ODC and control of ODC through a majority voting interest in its governing body. All material intra-entity transactions have been eliminated.

Basis of Presentation

The consolidated financial statements of Overture Center have been prepared on the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles.

Cash and Cash Equivalents

OCF defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less.

OCF maintains its cash balances at one financial institution in a non-interest bearing checking account and an interest bearing money market account. The Federal Deposit Insurance Corporation insures cash balances up to \$250,000 per customer, per institution. At June 30, 2014 and 2013, OCF's uninsured cash balances totaled \$3,163,121 and \$3,187,154. As of the report date, OCF had no uninsured cash balance after starting using an Insured Cash Sweep account at its financial institution.

OVERTURE CENTER FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivable are stated at the amount Overture Center expects to collect from outstanding balances. Based upon Overture Center's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year end will be immaterial. Accounts are written off when management believes the balance is no longer collectible. Accounts receivable are shown net of an allowance for doubtful accounts of \$2,000 for the years ended June 30, 2014 and 2013.

Unconditional Promises to Give

Unconditional promises to give are recorded in the year the pledge is made. Contributions with purpose or time restrictions are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Contributions subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets.

Unconditional promises to give, less an allowance for uncollectible amounts, are reported at their net present value using a risk-adjusted rate (see Note 3). Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. Overture Center records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the consolidated statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Property and Equipment

Property and equipment are stated at cost if purchased or fair value at date of the gift if donated. All acquisitions of property and equipment in excess of \$5,000 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

OVERTURE CENTER FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

Donated property and equipment are recognized as revenue at their estimated fair value at the date of receipt and capitalized and depreciated over their useful lives. Donated property and equipment are recognized as unrestricted support unless the donor stipulates how the donated assets must be used.

Contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted contributions. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment are depreciated using the straight-line method over their estimated useful lives.

Unearned Revenue

Ticket office receipts and facility rental deposits attributable to future activities are included in cash and cash equivalents and reflected as unearned revenue until earned.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Overture Center are classified and reported as follows:

Unrestricted Net Assets—Net assets that are not subject to donor-imposed restrictions or the donor imposed restrictions have been met.

Temporarily Restricted Net Assets—Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Overture Center pursuant to those stipulations.

Permanently Restricted Net Assets—Net assets subject to donor-imposed stipulations that they be maintained permanently, but permit Overture Center to expend part or all of the income derived from the resources for either specified or unspecified purposes.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

OVERTURE CENTER FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Charges for ticket sales, ticketing fees and other services revenues are recorded in the period when the related service is performed.

Contributions, including unconditional promises to give (pledges) are reported as revenue at the date the contribution is received or pledged. Contributions with purpose or time restrictions are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Contributions subject to donor imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Grants and sponsorships are recognized as revenue at the time of commitment as temporarily restricted net assets, if the grant or corporate sponsorship is not conditional on Overture Center completing a requirement before the grant or corporate sponsorship will be funded.

In-Kind Contributions

Contributed goods are recognized as revenue at their estimated fair value at date of receipt and expensed when used. Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require a specialized skill, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying consolidated financial statements. From 1980 to the present, volunteers have contributed countless hours of service supporting the arts. OCF simply could not work without the hundreds of dedicated individuals who donate their time and talents each year as ushers, tour guides, information desk associates, and special events staff. While the value of these volunteer services is not recognized as revenue, these services save Overture Center over \$400,000 annually in labor costs.

Gifts of land, buildings, and equipment are recognized as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Gifts of long-lived assets are capitalized and depreciated in accordance with the Organization's property and equipment practices.

Expense Allocation

Directly identifiable expenses are charged to program services and supporting activities. Expenses related to more than one function are charged to program services and supporting activities on the basis of periodic time and expense studies.

OVERTURE CENTER FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax Exempt Status

Overture Center Foundation, Inc. is a tax exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of Wisconsin law and, accordingly, is not subject to federal or state income taxes.

Overture Development Corporation, Inc. is a tax exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of Wisconsin law and, accordingly, is not subject to federal or state income taxes.

In accordance with the accounting standard Accounting for Uncertainty in Income Taxes, Overture Center Foundation, Inc. and Overture Development Corporation, Inc. address the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, a tax benefit may be recognized from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include tax exempt status and various positions related to the potential sources of unrelated business taxable income. There were no significant unrecognized tax benefits identified or recorded as liabilities during fiscal year 2014. Open tax years subject to examination by the U.S. and state taxing authorities are for the years 2010 to 2013, which statutes expire in 2014 to 2017, respectively.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2—FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at June 30, 2014 and 2013 are as follows:

	Assets at Fair Value as of June 30, 2014			
	Total	Level 1	Level 2	Level 3
Beneficial interest in assets held by Madison Community Foundation	<u>\$ 1,311,244</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,311,244</u>
	Assets at Fair Value as of June 30, 2013			
	Total	Level 1	Level 2	Level 3
Beneficial interest in assets held by Madison Community Foundation	<u>\$ 1,196,441</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,196,441</u>

OVERTURE CENTER FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2—FAIR VALUE MEASUREMENTS (continued)

The Organization's beneficial interest in assets held by Madison Community Foundation (MCF) represents an agreement between the Organization and MCF in which the Organization transfers assets to MCF in exchange for future distributions. The beneficial interest is not actively traded and significant other observable inputs are not available. Thus, the fair value of the beneficial interest is measured at the proportional share of the underlying assets as reported to the Organization by MCF. Little information about those assets is released publicly. The estimated value does not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined.

The following table presents additional information about assets measured at fair value on a recurring basis using significant unobservable inputs:

	Beneficial Interest in Assets Held by Madison Community Foundation	
	2014	2013
Beginning balance	\$ 1,196,441	\$ 1,135,476
Transfer of assets to Madison Community Foundation	-	15,000
Distributions received from assets held by Madison Community Foundation	(61,116)	(63,332)
Change in value of beneficial interest included in change in net assets	175,919	109,297
Ending balance	\$ 1,311,244	\$ 1,196,441

NOTE 3—UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30, 2014 and 2013 are as follows:

	2014	2013
Receivable in less than one year	\$ 732,818	\$ 636,961
Receivable in one to five years	372,800	353,300
Less: Discounts to net present value	(4,700)	(6,500)
Less: Allowance for doubtful accounts	(10,000)	(10,000)
Unconditional promises to give, net	\$ 1,090,918	\$ 973,761

The rates used to discount the unconditional promises to give at June 30, 2014 and 2013 ranged between 0.3% and 1.5%.

OVERTURE CENTER FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 4—ENDOWMENT

Endowment investments consisted of the following at June 30, 2014 and 2013:

	2014	2013
Beneficial interest in assets held by Madison Community Foundation	<u>\$ 1,311,244</u>	<u>\$ 1,196,441</u>

The Overture Center Endowment Fund (Endowment) is a component fund of the Madison Community Foundation, a tax-exempt community foundation located in Madison, Wisconsin. Overture Center for the Arts is the designated beneficiary of the Endowment. The Overture Center Endowment Fund was originally established in 1977 by the Common Council of the City of Madison to provide support for the operations of the Madison Civic Center. In 1985, a permanent endowment of \$830,000 was established. In 2013 a donor contributed \$15,000 to Overture's permanent endowment fund with the MCF. The Endowment agreement provides for the distribution of net income of the Fund each year. The current policy is to distribute 4.75% of the value of the Fund assets each year. However, no distributions of the Fund will reduce the minimum balance of the Fund below the \$845,000 permanent endowment requirement. The Fund is charged management and trust fees by MCF each quarter.

In 2005, Overture Center for the Arts was built, replacing the Madison Civic Center. On January 1, 2012, when OCF took over the operations of Overture Center for the Arts from the Madison Cultural Arts District (MCAD), it became the beneficiary of the Fund and thus recorded the asset value of the Fund on its financial statement, reflecting both permanently restricted and temporarily restricted net assets.

Interpretation of Relevant Law—The OCF governing board has interpreted the Wisconsin enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the OCF to appropriate for expenditure or accumulate so much of an endowment fund as the OCF determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the governing board.

OVERTURE CENTER FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 4—ENDOWMENT (continued)

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by OCF in a manner consistent with the standards of prudence prescribed up UPMIFA. In accordance with UPMIFA, OCF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of OCF 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 OCF
7. The investment policies of OCF

Endowment net asset composition by type of fund consisted of the following as of June 30, 2014 and 2013:

2014	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 466,244</u>	<u>\$ 845,000</u>	<u>\$ 1,311,244</u>
2013	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 351,441</u>	<u>\$ 845,000</u>	<u>\$ 1,196,441</u>

OVERTURE CENTER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 4—ENDOWMENT (continued)

Changes in endowment net assets for the years ended June 30, 2014 and 2013 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2012	\$ -	\$ 305,476	\$ 830,000	\$ 1,135,476
Investment income, net of fees and expenses	-	109,297	-	109,297
Contributions	-	-	15,000	15,000
Proceeds from sale of endowment investments for operations	-	(63,332)	-	(63,332)
Endowment net assets, June 30, 2013	-	351,441	845,000	1,196,441
Investment income, net of fees and expenses	-	175,919	-	175,919
Proceeds from sale of endowment investments for operations	-	(61,116)	-	(61,116)
Endowment net assets, June 30, 2014	<u>\$ -</u>	<u>\$ 466,244</u>	<u>\$ 845,000</u>	<u>\$ 1,311,244</u>

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor-restricted endowment funds could fall below the level that the donor or UPMIFA requires the MCF to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. Overture Center does not have any such deficiencies with its endowment fund.

Spending Policy Summary—The MCF's spending policy guidelines follow methods for the distribution of earnings from donor-restricted endowment funds that seek to preserve the endowment's purchasing power. In addition, in the context of investing the majority of the assets in equities, the Foundation's goal is to manage the endowment in a manner that will seek to produce a predictable and stable stream of funds for charitable purposes. It includes a strategy for long-term investment and a procedure for calculating the amount to be distributed. The amount to be distributed from a fund is 5% of the fund's average market value over the last 12 quarters. Administrative fees are based on a percentage of the fund's market value.

Investment Strategy—The MCF investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the world equity, fixed income, commodities, real estate and private equity markets. This strategy provides the MCF with a long-term asset mix that is most likely to meet the MCF's long-term goals with the appropriate level of risk.

OVERTURE CENTER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 5—PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2014 and 2013:

	2014	2013
Land	\$ 5,848,499	\$ 5,848,499
Building	155,125,702	155,125,702
Furniture, fixtures and equipment	2,149,060	1,743,060
Construction in progress	214,107	103,876
Total property and equipment	163,337,368	162,821,137
Less: accumulated depreciation	(9,248,148)	(5,869,671)
Property and equipment, net	<u>\$ 154,089,220</u>	<u>\$ 156,951,466</u>

Depreciation expense, including amortization of leased assets, was \$3,422,686 and \$3,387,353 for the years ended June 30, 2014 and 2013.

NOTE 6—RETIREMENT PLAN

OCF offers a defined contribution retirement plan (Plan) that covers substantially all full-time employees of OCF. Eligible employees must work at least 1,000 hours during a year to become eligible or remain eligible for participant in the Plan. New employees must complete three months of service and work an average of 20 hours per week to become eligible. OCF makes a matching contribution, up to 3% on all eligible wages. During the years ended June 30, 2014 and 2013, the company contributed \$75,241 and \$83,101 to the plan.

NOTE 7—STRUCTURAL AGREEMENT WITH CITY OF MADISON

On December 31, 2010, OCF entered into a long-term structural agreement with the City of Madison regarding the operation of the Center. By the terms of the agreement, the operations of the Center transferred from MCAD to OCF on January 1, 2012. The City of Madison agreed to provide OCF with an annual grant of \$2,000,000 per year subject to approval by the Common Council. The City further agreed to adjust the grant amount annually by the change in the consumer price index methodology in the State’s Expenditure Restraint Program (“ERP”). This annual grant was to help fund the operations, capital expenditures and to support free and low-cost community programming. OCF applied for its first grant on August 1, 2011 and must reapply on or before August 1 for each subsequent year. For calendar years 2012, 2013 and 2014, OCF received grants in the amount of \$1,850,000, \$1,750,000 and \$1,600,000 respectively. The cumulative difference between grants OCF received from the City and the grants to be received per the agreement is \$928,768 including ERP. Per annual performance terms within the agreement, OCF also agreed to use its best efforts to accumulate a capital reserve fund of \$1,000,000 by June 30, 2014. In fiscal year 2012-13, the OCF Board of Directors designated \$700,000 in net assets in a ‘Board Designated Reserve’ as its initial installment that could be used to meet the intent of the structural agreement.

OVERTURE CENTER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 7—STRUCTURAL AGREEMENT WITH CITY OF MADISON (continued)

As part of the structural agreement, OCF agreed to repay the City of Madison for a share of certain post-employment liabilities related to MCAD employees as of December 31, 2011. OCF agreed to repay these liabilities over a ten year period in equal installments (the first installment was due December 30, 2012).

- a. **Unfunded Prior Pension Liability:** The City of Madison had borrowed funds to fund an unfunded liability to the Wisconsin Retirement System for all City of Madison employees. MCAD agreed to repay the City of Madison for 50% of the liability (\$177,193) at December 31, 2011. The balance due to the City as of June 30, 2014 and 2013 was \$141,754 and \$159,473.
- b. **Accrued Vacation and Comp Time:** MCAD employees were entitled to a payout of accrued vacation and comp time upon leaving City of Madison employment. In the case of payouts to city employees subsequently hired by OCF, OCF agreed to repay the City of Madison 50% of the payouts (\$36,963) at December 31, 2011. The balance due to the City as of June 30, 2014 and 2013 was \$29,571 and \$33,267.

NOTE 8—BUILDING OPERATING LEASE – ODC

The lease between ODC and OCF for Unit 2 of the Block 65 Condominium Association, dated January 1, 2012, is a “net lease” in which OCF does not pay ODC rent for the leased premises. OCF is responsible for all repairs, maintenance, improvements, and alternations required to the leased premises during the term of the lease. It is also responsible for all costs and expenses necessary to operate the leased property. OCF also agrees to pay or reimburse ODC for all costs, fees, and expenses ODC incurred for accounting, audit fees, reporting, legal fees and any and all other costs, fees, or expenses associated with, related to or arising in connection with the leased premises. As such, the lease between ODC and OCF does not meet the criteria for a capital lease and is being accounted for as an operating lease which expires December 31, 2041.

NOTE 9—CAPITAL LEASE

The Overture Center entered into a new capital lease for certain theater equipment in July of 2013. The lease is a three year lease, with equal monthly lease payments of \$7,195 ending June of 2016. A summary of minimum lease payments under the new capital lease as of June 30, 2014 are:

	2015	2016
Total minimum lease payments	\$ 86,340	\$ 86,340
Less: amounts representing interest	(7,911)	(2,857)
Total future minimum principal payments	\$ 78,429	\$ 83,483

NOTE 10—LINE OF CREDIT

The Overture Center has a \$175,000 revolving line of credit secured by a collateral pledge on its deposit account with the bank. The line of credit has a fixed interest rate of 2.75% and expires on October 3, 2014. There was no outstanding balance on the line of credit at June 30, 2014 or 2013.

OVERTURE CENTER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 11—FUNCTIONAL EXPENSES

	2014	2013
Program services	\$ 13,770,155	\$ 18,932,674
Management and general	1,864,901	1,484,169
Fundraising	518,252	427,742
Total expenses	\$ 16,153,308	\$ 20,844,585

NOTE 12—NET ASSETS

Net assets consisted of the following at June 30, 2014 and 2013:

	2014	2013
Unrestricted:		
General operating (deficit)	\$ (476,946)	\$ (477,661)
Board Designated Reserve (per Structural Agreement with the City of Madison)	700,000	700,000
Property and equipment, net	152,894,738	156,126,523
Total unrestricted	153,117,792	156,348,862
Temporarily restricted for:		
Program support	167,720	166,195
Endowment funds	466,244	351,441
Time restricted individual gifts	202,568	478,584
Time restricted grants and corporate sponsorships	712,500	495,176
Total temporarily restricted	1,549,032	1,491,396
Permanently restricted - endowment funds	845,000	845,000
Total net assets	\$ 155,511,824	\$ 158,685,258

NOTE 13—COMMITMENTS AND CONTINGENCIES

OCF is required to enter into an annual performance contract with the City of Madison in conjunction with its operating grant. OCF must meet certain financial and performance benchmarks to continue to be eligible for the grant given by the City.

From time to time, the Overture Center is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management that the likelihood is remote that any such claims or proceedings will have a material adverse affect on the Overture Center's financial position or results of operations. Currently, no pending claims or legal proceedings exist.

OVERTURE CENTER FOUNDATION, INC.
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
June 30, 2014

	Overture Center Foundation	Overture Development Corporation	Consolidated Total
ASSETS			
Cash and cash equivalents	\$ 3,321,840	\$ -	\$ 3,321,840
Accounts receivable, net	370,047	-	370,047
Unconditional promises to give, net	1,090,918	-	1,090,918
Beneficial interest in assets held by Madison Community Foundation	1,311,244	-	1,311,244
Prepaid expenses	239,858	-	239,858
Property and equipment, net	1,194,483	152,894,737	154,089,220
Total assets	\$ 7,528,390	\$ 152,894,737	\$ 160,423,127
LIABILITIES			
Accounts payable	\$ 209,123	\$ -	\$ 209,123
Accrued liabilities	427,824	-	427,824
Capital lease obligation	161,912	-	161,912
Unearned revenue	3,804,635	-	3,804,635
Due to City of Madison	307,809	-	307,809
Total liabilities	4,911,303	-	4,911,303
NET ASSETS			
Unrestricted	223,055	152,894,737	153,117,792
Temporarily restricted	1,549,032	-	1,549,032
Permanently restricted	845,000	-	845,000
Total net assets	2,617,087	152,894,737	155,511,824
Total liabilities and net assets	\$ 7,528,390	\$ 152,894,737	\$ 160,423,127

OVERTURE CENTER FOUNDATION, INC.
CONSOLIDATING SCHEDULE OF ACTIVITIES
Year ended June 30, 2014

	Overture Center Foundation	Overture Development Corporation	Consolidated Total
UNRESTRICTED NET ASSETS			
SUPPORT AND OTHER REVENUE			
Ticket sales and fees	\$ 6,611,480	\$ -	\$ 6,611,480
Facility rentals and services	1,911,122	-	1,911,122
Investment return	5,894	-	5,894
Other revenue	729,568	-	729,568
Contributions	1,107,329	-	1,107,329
Grants and sponsorships	20,250	-	20,250
City of Madison support grant	1,675,000	-	1,675,000
Total unrestricted support and other revenue	12,060,643	-	12,060,643
EXPENSES			
Salaries, wages and benefits	5,907,758	-	5,907,758
Artists and performance fees	3,204,863	-	3,204,863
Advertising	497,734	-	497,734
Purchased services	1,078,611	-	1,078,611
Professional services	178,787	-	178,787
Ticketing fees	287,126	-	287,126
Supplies	392,233	-	392,233
Utilities	729,337	-	729,337
Information technology	239,455	-	239,455
Insurance	160,638	-	160,638
Other expenses	41,421	-	41,421
Depreciation	190,900	3,231,786	3,422,686
Interest expense	12,659	-	12,659
Total expenses	12,921,522	3,231,786	16,153,308
NET ASSETS RELEASED FROM RESTRICTIONS			
	861,595	-	861,595
Change in unrestricted net assets	716	(3,231,786)	(3,231,070)
TEMPORARILY RESTRICTED NET ASSETS			
Contributions	83,092	-	83,092
Grants and sponsorships	660,220	-	660,220
Net assets released from restrictions	(861,595)	-	(861,595)
Change in value of beneficial interest in assets held by Madison Community Foundation	175,919	-	175,919
Change in temporarily restricted net assets	57,636	-	57,636
Change in net assets	58,352	(3,231,786)	(3,173,434)
Net assets - beginning of year	2,558,735	156,126,523	158,685,258
Net assets - end of year	\$ 2,617,087	\$ 152,894,737	\$ 155,511,824