

Financial Statements

The Boston Ballet, Incorporated

June 30, 2014 and 2013



Mayer Hoffman McCann P.C.
Tofias New England Division
An Independent CPA Firm

THE BOSTON BALLET, INCORPORATED

Financial Statements

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An Independent CPA Firm

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Independent Auditors' Report

Board of Trustees
The Boston Ballet, Incorporated
Boston, Massachusetts

We have audited the accompanying statements of The Boston Ballet, Incorporated (the "Ballet"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, and cash flows for the years 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Boston Ballet, Incorporated as of June 30, 2014 and 2013, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Heffman McCann P.C.

October 24, 2014
Boston, Massachusetts

THE BOSTON BALLET, INCORPORATED

Statements of Financial Position

	<i>June 30,</i>	
	<i>2014</i>	<i>2013</i>
Assets		
Cash and cash equivalents	\$ 1,484,783	\$ 214,440
Short-term investments	1,641,096	3,040,389
Grants and pledges receivable, net	835,701	2,662,971
Accounts receivable, net	586,512	212,413
Prepaid expenses and other current assets	1,072,889	2,250,912
Investments	12,049,130	8,817,665
Charitable remainder trusts	292,242	323,408
Property and equipment, net	<u>12,567,372</u>	<u>12,401,906</u>
Total assets	<u>\$ 30,529,725</u>	<u>\$ 29,924,104</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 2,653,948	\$ 1,848,713
Advance tuition	2,702,318	2,642,750
Advance ticket sales and sponsorships	2,346,160	2,314,090
Line of credit	3,500,000	2,475,000
Capital lease	<u>255,510</u>	<u>-</u>
Total liabilities	<u>11,457,936</u>	<u>9,280,553</u>
Net assets:		
Unrestricted	5,130,317	5,943,137
Temporarily restricted	4,323,464	6,563,459
Permanently restricted	<u>9,618,008</u>	<u>8,136,955</u>
Total net assets	<u>19,071,789</u>	<u>20,643,551</u>
Total liabilities and net assets	<u>\$ 30,529,725</u>	<u>\$ 29,924,104</u>

THE BOSTON BALLET, INCORPORATED

Statements of Activities

Year Ended June 30,

	2014							2013
	Unrestricted			Total	Temporarily Restricted	Permanently Restricted	Total	Total
	Operating	Board Designated	Plant					
Revenue:								
Ticket sales	\$ 11,524,898	\$ -	\$ -	\$ 11,524,898	\$ -	\$ -	\$ 11,524,898	\$ 10,678,125
School income, tuition and fees	6,734,553	-	-	6,734,553	-	-	6,734,553	6,357,366
Contracted services, programs and other	541,186	-	-	541,186	-	-	541,186	566,977
Distribution from E. Virginia Williams Trust	90,055	-	-	90,055	-	-	90,055	93,789
Interest and dividend income, net of fees	5	647	-	652	248,536	-	249,188	134,794
Total revenue	18,890,697	647	-	18,891,344	248,536	-	19,139,880	17,831,051
Expenses:								
Production and programs:								
Dance school	5,890,488	-	15,847	5,906,335	-	-	5,906,335	5,769,959
Artistic department	21,943,499	-	829,754	22,773,253	2,406	-	22,775,659	16,886,124
Administrative expenses	2,974,316	-	664,003	3,638,319	-	-	3,638,319	3,547,908
Bad debt expense	7,570	-	-	7,570	-	-	7,570	34,511
Marketing	4,503,108	-	-	4,503,108	-	-	4,503,108	4,166,618
Total expenses	35,318,981	-	1,509,604	36,828,585	2,406	-	36,830,991	30,405,120
(Loss) income from operations before support	(16,428,284)	647	(1,509,604)	(17,937,241)	246,130	-	(17,691,111)	(12,574,069)
Support:								
Gifts and grants	14,868,084	100,000	-	14,968,084	478,119	2,002,021	17,448,224	15,419,431
Less: direct donor benefits	(893,627)	-	-	(893,627)	-	-	(893,627)	(739,755)
Net gifts and grants	13,974,457	100,000	-	14,074,457	478,119	2,002,021	16,554,597	14,679,676
Satisfaction of program restricted donations	4,185,331	-	-	4,185,331	(4,185,331)	-	-	-
Total support	18,159,788	100,000	-	18,259,788	(3,707,212)	2,002,021	16,554,597	14,679,676
Bad debt recovery (expense)	(11,726)	-	-	(11,726)	-	-	(11,726)	75,068
Fundraising costs	(1,644,609)	-	-	(1,644,609)	-	-	(1,644,609)	(1,603,564)
Total support, net	16,503,453	100,000	-	16,603,453	(3,707,212)	2,002,021	14,898,262	13,151,180
Income (loss) from operations	75,169	100,647	(1,509,604)	(1,333,788)	(3,461,082)	2,002,021	(2,792,849)	577,111
Non-operating activity:								
Realized and unrealized gains on investments	-	-	-	-	1,221,087	-	1,221,087	509,088
Capital additions	(1,139,501)	-	1,139,501	-	-	-	-	-
Transfer from board designated fund	1,500,000	(1,500,000)	-	-	-	-	-	-
Special distribution	520,968	-	-	520,968	-	(520,968)	-	-
Total non-operating activity	881,467	(1,500,000)	1,139,501	520,968	1,221,087	(520,968)	1,221,087	509,088
Change in net assets	956,636	(1,399,353)	(370,103)	(812,820)	(2,239,995)	1,481,053	(1,571,762)	1,086,199
Net assets at beginning of year	(7,496,767)	3,000,000	10,439,904	5,943,137	6,563,459	8,136,955	20,643,551	19,557,352
Net assets at end of year	\$ (6,540,131)	\$ 1,600,647	\$ 10,069,801	\$ 5,130,317	\$ 4,323,464	\$ 9,618,008	\$ 19,071,789	\$ 20,643,551

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statement of Activities

Year Ended June 30, 2013

	<i>Unrestricted</i>			<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
	<i>Operating</i>	<i>Board Designated</i>	<i>Plant</i>			
Revenue:						
Ticket sales	\$ 10,678,125	\$ -	\$ -	\$ -	\$ -	\$ 10,678,125
School income, tuition and fees	6,357,366	-	-	-	-	6,357,366
Contracted services, programs and other	566,977	-	-	-	-	566,977
Distribution from E. Virginia Williams Trust	93,789	-	-	-	-	93,789
Interest and dividend income, net of fees	205	-	-	114,190	20,399	134,794
Total revenue	17,696,462	-	-	114,190	20,399	17,831,051
Expenses:						
Production and programs:						
Dance school	5,754,112	-	15,847	-	-	5,769,959
Artistic department	16,349,148	-	536,976	-	-	16,886,124
Administrative expenses	2,955,957	-	591,951	-	-	3,547,908
Bad debt expense	34,511	-	-	-	-	34,511
Marketing	4,166,618	-	-	-	-	4,166,618
Total expenses	29,260,346	-	1,144,774	-	-	30,405,120
(Loss) income from operations before support	(11,563,884)	-	(1,144,774)	114,190	20,399	(12,574,069)
Support:						
Gifts and grants	10,632,709	900,000	-	3,885,222	1,500	15,419,431
Less: direct donor benefits	(739,755)	-	-	-	-	(739,755)
Net gifts and grants	9,892,954	900,000	-	3,885,222	1,500	14,679,676
Satisfaction of program restricted donations	3,596,085	-	-	(3,596,085)	-	-
Total support	13,489,039	900,000	-	289,137	1,500	14,679,676
Bad debt expense	75,068	-	-	-	-	75,068
Fundraising costs	(1,603,564)	-	-	-	-	(1,603,564)
Total support, net	11,960,543	900,000	-	289,137	1,500	13,151,180
Income (loss) from operations	396,659	900,000	(1,144,774)	403,327	21,899	577,111
Non-operating activity:						
Realized and unrealized gains (losses) on investments	-	-	-	473,124	35,964	509,088
Capital additions	(2,694,264)	-	2,694,264	-	-	-
Total non-operating activity	(2,694,264)	-	2,694,264	473,124	35,964	509,088
Change in net assets	(2,297,605)	900,000	1,549,490	876,451	57,863	1,086,199
Net assets at beginning of year	(5,199,162)	2,100,000	8,890,414	5,687,008	8,079,092	19,557,352
Net assets at end of year	\$ (7,496,767)	\$ 3,000,000	\$ 10,439,904	\$ 6,563,459	\$ 8,136,955	\$ 20,643,551

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	<i>2014</i>	<i>2013</i>
Cash flows from operating activities:		
Change in net assets	\$ (1,571,762)	\$ 1,086,199
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,480,768	1,144,773
Bad debt (recovery) expense	19,296	(40,557)
Contributions restricted for long-term investment	(2,002,021)	(1,500)
Realized and unrealized gains	(1,221,087)	(509,088)
Investment income restricted for long-term investment	-	(20,399)
Loss on disposal of assets	4,822	-
Change in:		
Grants and pledges receivable	1,815,544	1,646,808
Accounts receivable	(381,669)	296,054
Prepaid expenses and other current assets	1,178,023	(1,264,917)
Accounts payable and accrued expenses	805,235	471,346
Advance tuition	59,568	(19,167)
Advance ticket sales	32,070	(823,084)
	<u>218,787</u>	<u>1,966,468</u>
Cash flows from investing activities:		
Capital expenditures	(1,233,731)	(2,694,264)
Proceeds from sales and maturities of investments	4,654,527	15,392,828
Purchases of investments	(5,234,446)	(18,141,379)
	<u>(1,813,650)</u>	<u>(5,442,815)</u>
Cash flows from financing activities:		
Borrowings on line of credit	2,525,000	2,475,000
Payments on line of credit	(1,500,000)	-
Payments on capital lease	(161,815)	-
Proceeds from contributions restricted for long-term investment	2,002,021	1,500
Investment income restricted for long-term investment	-	20,399
	<u>2,865,206</u>	<u>2,496,899</u>
Net increase (decrease) in cash and cash equivalents	1,270,343	(979,448)
Cash and cash equivalents at beginning of year	214,440	1,193,888
Cash and cash equivalents at end of year	\$ <u>1,484,783</u>	\$ <u>214,440</u>

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies

The financial statements of The Boston Ballet, Incorporated (the “Ballet”) include the activities of the Boston Ballet and the Boston Ballet School. The Ballet is a professional dance company dedicated to the highest standards of dance performance, training and education. The Ballet presents fully staged classical and contemporary works during its eight month season. Performances reach a broadly inclusive audience from throughout the New England region, and support an institutional mission that values leadership, innovation and partnership. The Boston Ballet School serves as an associated imperative to train dancers of all ages and provide general access to the art of dance. The operations of the Ballet and the School are under the direction of the Board of Trustees. Revenue and support are primarily derived from ticket sales, school tuition and contributed support. Patrons, students and contributors are concentrated in eastern Massachusetts.

The accompanying financial statements have been prepared on the accrual basis of accounting.

Financial Results and Plans

In 2009, the Ballet implemented a financial plan built on aggressive marketing strategies to promote exceptional art, expand development activities and control costs. A critical strategy of the financial plan was raising \$10,000,000 for the “clean slate fund” by June 30, 2011 to invest in capacity building initiatives, reduce outstanding debt obligations, and complete a long-needed deferred maintenance and renovation project for the Ballet’s headquarters at 19 Clarendon Street.

For the years ended June 30, 2010 – June 30, 2013, the Ballet achieved four years of operating surplus. Growth in ticket sales, increases in Ballet students, and expense management were factors leading to the operating surpluses. Additional fundraising achievements during this time period included raising \$6,500,000 in artistic funds to support new works, \$4,800,000 of funds for the 50th anniversary celebration, and creating a \$3,000,000 cash reserve fund.

The Ballet’s future challenges include generating operating surpluses to replenish working capital and support the cost of capital additions, such as new ballet productions and the upgrading of information technology hardware and software. Management plans relative to these matters include completing an organization-wide analysis focusing on responsible spending, diversifying major gift sources, and examining earned revenue sources to direct future sales campaigns.

Classification of Net Assets

In the accompanying financial statements, the Ballet’s net assets that have similar characteristics have been combined into the following three categories:

Unrestricted net assets are free of donor-imposed restrictions and include all revenues, expenses, gains and losses that are not subject to donor-imposed restrictions.

Temporarily restricted net assets include gifts, grants, income, gains and pledges for which donor-imposed restrictions have not yet been met (see Note 10). These restrictions can be satisfied by the passage of time and/or by meeting the purpose restrictions associated with the net asset.

Permanently restricted net assets include gifts and trusts which require that the corpus be invested in perpetuity in accordance with donor restrictions and gains which have been donor-stipulated to be permanently invested. Other unexpected appreciation is included in temporarily restricted net assets until appropriated by the Board.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Classification of Net Assets (Continued)

Net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Donor-restricted gifts that are received and expended within the same year are reported as unrestricted revenues.

Gifts, Pledges and Grants

Gifts are recorded at fair value as income in the appropriate net asset category according to donor intent. Fair value is determined at the original date of recordation as further described in these notes using Level 2 fair value methods.

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges are recorded at net realizable value. All other contributions are recognized when received. Gifts of non-cash assets are recorded at their fair value at the date of contribution. Contributed services are recognized as gifts in kind if the services received create or enhance non-financial assets or require specialized skills.

Cash and Cash Equivalents

The Ballet considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents. Cash and cash equivalents held by investment managers are considered part of marketable and other equity securities. The Ballet maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Ballet monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Short-Term Investments

Certificates of deposit with an original maturity greater than three months and less than one year are treated as short-term investments and are reported at fair value. Short-term investments also include money market funds and donated securities which are sold shortly after receipt. Donated securities are recorded at fair value at the time of the gift using Level 1 fair value inputs. Certificates of deposit may at times exceed federal insured limits and thus subject to similar risks as described above.

Grants and Pledges Receivable

Unconditional promises to give are recorded at fair value when initially pledged. Initial recording for pledges expected to be collected in one year or more is arrived at by using the present value of a risk adjusted rate to account for the inherent risk associated with expected future cash flows. The initially recorded fair value is considered a Level 2 fair value approach. Amortization of the discount is included in gift and grant revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the allowance by review of historical experience and a specific review of collection trends that differ from plans on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible, and recoveries of previously written off receivables are recorded as revenue when received.

Investments

Investments are recorded in the financial statements at fair value. Fair value is determined per the fair value policies described later in this section.

Interest, dividends and net gains or losses on investments are reported as increases or decreases in temporarily restricted net assets if the terms of the gift and/or relevant state law impose restrictions on the current use of the income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

Charitable Remainder Trusts

The Ballet is the beneficial owner of charitable remainder trusts. The assets are held and administered by independent trustees. Contribution revenue is recorded on new gifts at the estimated fair value on the date of the gift using Level 2 fair value inputs. Subsequent adjustments are made to the value over the term of the arrangement to deal with changes in life expectancy and other factors that could bear on the remainder value using the same discount rate over the term of the agreement. Gains or losses resulting from changes in value of the trusts are included in realized and unrealized gains (losses) on investments in the statement of activities.

Property and Equipment

Property and equipment are recorded at cost if acquired by purchase and at fair value at the date of the gift if acquired by gift. Fair value of donated property and equipment is effectively recorded using a Level 3 market approach. Depreciation is provided for using the straight-line method over the following useful lives:

Building and leasehold improvements	3 - 40 years
Production sets, costumes and recordings	5 - 15 years
Furniture and equipment	3 - 10 years

Repairs are charged against income as incurred; betterments are capitalized. When assets are sold or retired, the related cost and accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is credited to or charged against income.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Advance Tuition and Advance Ticket Sales

School income consisting of tuition and fees and ticket revenues are recognized as revenue when earned. School income recorded in advance of classes is deferred and is recognized as the classes are held. Tickets sold in advance of performances are deferred and are recognized after the related performances are given.

Deferred Sponsorship Revenue

Sponsorships are recorded as revenue in the period of the related sponsored productions. Deferred sponsorship revenue is recorded when received in advance of those sponsored productions.

Distributions from E. Virginia Williams Fund

The Ballet receives annual income distributions from the E. Virginia Williams Fund (the “Fund”), which was established in the early 1980’s. The Ballet records these distributions as income upon receipt. The assets of the Fund are both held in trust and managed by The Boston Foundation. The Fund was established for the exclusive benefit of the Ballet in perpetuity, on the condition that the Ballet continues to operate as an exempt ballet company. If this condition was no longer being met by the Ballet, The Boston Foundation could redirect these resources; therefore, the Fund has not been recorded as an asset of the Ballet. The market value of the Fund as of June 30, 2014 and 2013 was approximately \$2,115,000 and \$1,934,000, respectively.

Advertising

Advertising costs are expensed as incurred. Advertising expense was approximately \$2,759,000 and \$2,293,000 for the years ended June 30, 2014 and 2013, respectively.

Tax Status

The Ballet is recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) of the Internal Revenue Code (the “Code”) and is generally exempt from federal and state income taxes on related income. Accordingly, no provision for income taxes is made in the financial statements.

Uncertain Tax Positions

The Ballet accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. The Ballet has identified its tax status as a tax-exempt entity as a tax position; however, the Ballet has determined that such tax position does not result in an uncertainty requiring recognition. The Ballet is not currently under examination by any taxing jurisdiction. Its federal and state income tax returns are generally open for examination for the past 3 years after the date of filing the related return.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Ballet reports required types of financial instruments in accordance with fair value standards. Fair value standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the Ballet to classify its financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique, as discussed below. Investments and deposits held by trustees are carried at fair value. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments, with readily available active quoted prices or for which fair value can be measured from actively quoted prices, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Operating and Non-operating Activities

The statements of activities included both operating income and non-operating income. Operating income primarily includes revenue from ticket sales, school tuition, and contributions. Non-operating activities include returns associated with long-term investments, temporarily and permanently restricted contributions, capital additions, and certain other nonrecurring items.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant management estimates included in the financial statements relate to reserves for grants, pledges receivable and accounts receivable, useful lives of depreciable assets, the allocation of common expenses over program functions, and the satisfaction of donor restrictions.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation. There was no change to total net assets as a result of the reclassifications.

Subsequent Events

The Ballet has evaluated subsequent events through October 24, 2014, the date that the financial statements were authorized to be issued.

Note 2 - Grants and Pledges Receivable

Grants and pledges receivable as of June 30 are expected to be realized as follows:

	<i>2014</i>	<i>2013</i>
Amounts due in:		
Less than one year	\$ 910,001	\$ 1,053,484
One to two years	29,200	1,732,300
Two to three years	-	29,200
	<hr/>	<hr/>
Total due	939,201	2,814,984
Less:		
Allowance for doubtful accounts	100,000	100,000
Net present value discount	3,500	52,013
	<hr/>	<hr/>
Grants and pledges receivable, net	\$ 835,701	\$ 2,662,971

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 3 - Investments and Fair Value of Financial Instruments

The following table represents financial assets at June 30, 2014 that the Ballet measures at fair value on a recurring basis, by level, within the fair value hierarchy:

<i>Description</i>	<i>Portion Carried at Fair Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Short-term investments:				
Money market fund	\$ 1,600,647	\$ 1,600,647	\$ -	\$ -
Certificates of deposit	40,449	-	40,449	-
	<u>1,641,096</u>	<u>1,600,647</u>	<u>40,449</u>	<u>-</u>
Long-term investments:				
Cash and cash equivalents	3,957	3,957	-	-
Domestic equity	4,787,381	4,787,381	-	-
International equity	4,156,925	4,156,925	-	-
Corporate bond	2,487,229	-	2,487,229	-
Tax exempt bond	589,919	-	589,919	-
Absolute value	23,719	-	23,719	-
	<u>12,049,130</u>	<u>8,948,263</u>	<u>3,100,867</u>	<u>-</u>
Total	\$ <u>13,690,226</u>	\$ <u>10,548,910</u>	\$ <u>3,141,316</u>	\$ <u>-</u>

The following table represents financial assets at June 30, 2013 that the Ballet measures at fair value on a recurring basis, by level, within the fair value hierarchy:

<i>Description</i>	<i>Portion Carried at Fair Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Short-term investments:				
Money market fund	\$ 3,000,000	\$ 3,000,000	\$ -	\$ -
Certificates of deposit	40,389	-	40,389	-
	<u>3,040,389</u>	<u>3,000,000</u>	<u>40,389</u>	<u>-</u>
Long-term investments:				
Cash and cash equivalents	4,751	4,751	-	-
Domestic equity	3,550,380	3,550,380	-	-
International equity	2,867,263	2,867,263	-	-
Corporate bond	1,438,023	-	1,438,023	-
Tax exempt bond	917,143	-	917,143	-
Absolute value	40,105	-	40,105	-
	<u>8,817,665</u>	<u>6,422,394</u>	<u>2,395,271</u>	<u>-</u>
Total	\$ <u>11,858,054</u>	\$ <u>9,422,394</u>	\$ <u>2,435,660</u>	\$ <u>-</u>

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 3 - Investments and Fair Value of Financial Instruments (Continued)

Investment return consisted of the following for the years ended June 30, 2014 and 2013:

	<i>2014</i>	<i>2013</i>
Interest and dividend income (including distributions from the E. Virginia Williams Fund)	\$ 370,149	\$ 272,565
Net realized gains on investments	144,540	324,802
Net unrealized appreciation of investments	1,076,547	184,286
Less investment fees	<u>(30,906)</u>	<u>(43,982)</u>
Net return	\$ <u>1,560,330</u>	\$ <u>737,671</u>

Note 4 - Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at June 30:

	<i>2014</i>	<i>2013</i>
Inventory	\$ 152,853	\$ 197,106
Prepaid expense - summer school program	463,231	438,993
Prepaid expense - subscriptions	31,225	41,238
Prepaid expense - insurance	221,128	227,530
Prepaid expense - artistic department	184,134	167,536
Prepaid expense - London tour	-	1,160,398
Prepaid expense - other	<u>20,318</u>	<u>18,111</u>
Prepaid expenses and other current assets	\$ <u>1,072,889</u>	\$ <u>2,250,912</u>

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 5 - Property and Equipment, Net

Property and equipment consists of the following at June 30:

	<i>2014</i>	<i>2013</i>
Building and leasehold improvements	\$ 13,845,121	\$ 14,230,813
Production sets, costumes and recordings	9,808,657	8,986,168
Furniture and equipment	<u>3,438,329</u>	<u>3,092,105</u>
	27,092,107	26,309,086
Less: accumulated depreciation and amortization	<u>14,524,735</u>	<u>13,907,180</u>
Property and equipment, net	<u>\$ 12,567,372</u>	<u>\$ 12,401,906</u>

Building and leasehold improvements include the cost of constructing the Ballet's main operating facility, any major renovations to the building, and leasehold improvements to the Ballet's main operating facility and School facilities in Newton and Marblehead, Massachusetts. During 2014, the Ballet disposed of \$863,213 of fixed assets at a loss of \$4,822.

Note 6 - Line of Credit

The Ballet has a \$3.5 million secured revolving line of credit with Century Bank to support the Ballet's general business operations. The line is renewed annually at the bank's discretion and expires on August 15, 2017. The Ballet agrees that it shall maintain in the account at all times pledged securities with an aggregate gross value at least equal to \$3.5 million. As of June 30, 2014, the line of credit had an outstanding balance of \$3,500,000 secured by market grade investments totaling approximately \$4,759,000. As of June 30, 2013, the line of credit had an outstanding balance of \$2,475,000 secured by market grade investments totaling approximately \$4,500,000. The interest rate is charged at the lender's prime rate or LIBOR rate plus two and a half percent with a floor of 3.00% (3.25% at June 30, 2014 and 2013). The line of credit is subject to certain non financial covenants with which the Ballet was in compliance at June 30, 2014 and 2013.

Interest expense was \$104,658 and \$61,163 for the years ended June 30, 2014 and 2013, respectively.

Note 7 - Capital Lease

The Ballet recorded the present value of future rental payments due under a capital lease for certain computer equipment with an original lease term of 3 years. The Ballet has the option to purchase the equipment for a nominal cost at the termination of the lease. Assets included in property and equipment under the capital lease totaled \$417,325. At June 30, 2014, the net book value of the asset was approximately \$348,000.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 7 - Capital Lease (Continued)

Total minimum future lease payments under the capital leases are approximately as follows:

2015	\$	154,473
2016		<u>128,727</u>
Future minimum lease payments		283,200
Less amount representing interest		<u>(27,690)</u>
Present value of future minimum lease payments	\$	<u><u>255,510</u></u>

Note 8 - Commitments and Contingencies

Leases

The Ballet leases studio, office, warehouse and theater space as well as land on which its main operating facility is situated under operating leases. The leases expire at various dates through 2021. In August 2010, the Ballet renegotiated the land lease for the main operating facility which the Ballet has options to renew at its sole option through 2053. The leases provide for various escalations for operating costs, and in one case, for fair market adjustment during various periods of the lease term. Deferred rent is included in accounts payable and accrued expenses in the statements of financial position.

Rent expense, including theater rent, was approximately \$2,980,000 and \$2,263,000 for the years ended June 30, 2014 and 2013, respectively.

Future minimum lease commitments applicable to operating leases, excluding theater rent, were as follows at June 30, 2014:

2015	\$	1,008,813
2016		1,051,165
2017		1,094,812
2018		1,129,804
2019		1,166,197
Thereafter		<u>21,403,997</u>
	\$	<u><u>26,854,788</u></u>

Legal

The Ballet is subject to various claims and legal proceedings that may arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition of the Ballet.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 8 - Commitments and Contingencies (Continued)

Union Contracts

The Ballet's performers are primarily comprised of union employees. The theatres at which the Ballet performs have collective bargaining agreements directly with IATSE Local #11 which expires on May 31, 2016. The Ballet's agreement with American Guild of Musical Artists expired on June 30, 2014 and is waiting for ratification of the new agreement. The agreement with Boston Musicians' Association AFM Local 9-535 expires on August 31, 2015.

Employment Related Agreements

The Ballet has an employment agreement with its artistic director effective through June 30, 2019.

Charitable Gift Annuity

The Ballet is a second obligator on a charitable gift annuity received as a donation. The annuity is the primary responsibility of an insurance company. In the event of default, the Ballet will be required to make such payments; however, as the Ballet believes this is remote, no liability has been recorded.

Note 9 - Pension Plans

The Ballet participates in various union-administered defined contribution pension plans that cover substantially all of the Ballet's union employees. The Ballet also has a voluntary tax-sheltered annuity program under Section 403(b) of the Internal Revenue Code covering substantially all non-union full-time employees. The Ballet has not incurred or made any contributions to the non-union plan during the years ended June 30, 2014 or 2013. The cost of the union plans amounted to approximately \$352,000 and \$219,000 for the years ended June 30, 2014 and 2013, respectively.

Note 10 - Components of Temporarily and Permanently Restricted Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following:

Unrealized/realized gains (losses) on permanently restricted investments - In accordance with standards for accounting for investments and endowment funds held by not-for-profit organizations and with Massachusetts state law, these amounts represent unappropriated gains on permanently restricted endowment investments.

Purpose restricted - Amounts received with donor restrictions which have not yet been expended for their designated purposes.

Time restricted - Amounts designated by donors for use in future periods.

Charitable remainder trusts - Funds held in trust where the assets are held and administered by independent trustees.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 10 - Components of Temporarily and Permanently Restricted Net Assets (Continued)

The following table presents temporarily restricted net assets as of June 30:

	<i>2014</i>	<i>2013</i>
Endowment funds:		
Accumulated unspent gains:		
Beatrice H. Barrett Performance Fund	\$ 1,025,213	\$ 559,795
Bradley C. Higgins Ballet Endowment	170,232	-
Artistic Director's Chair Endowment	283,955	142,085
Krupp Contemporary Dance Fund	298,065	161,451
Pao Scholarship Endowment	20,307	-
Cathryn S. Keith Scholarship Endowment	90,198	38,989
Menino Arts Opportunity Endowment	12,265	-
City Dance Endowment	35,990	18,191
Pamela Jones Scholarship Fund	2,044	-
The H. Wilcott Memorial Endowment	11,011	7,798
The Snider Fund	12,458	10,544
Tatiana Gardner Scholarship	2,909	1,470
Boston Ballet Endowment	115,522	30,796
	2,080,169	971,119
Purpose restricted:		
Performance and venue	626,233	2,275,321
Dancer's resource fund	286,245	270,888
Education community initiatives	26,500	-
Boston Ballet School	25,000	45,899
BB labs	10,000	-
Other programmatic initiatives	113,853	13,853
	1,087,831	2,605,961
Time restricted:		
Pledges receivable	835,701	2,662,971
Charitable remainder trusts	292,242	323,408
Other time restricted gifts	27,521	-
	1,155,464	2,986,379
Total temporarily restricted net assets	\$ 4,323,464	\$ 6,563,459

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 10 - Components of Temporarily and Permanently Restricted Net Assets (Continued)

The following table presents net assets released from temporarily restricted net assets as of June 30:

	<i>2014</i>	<i>2013</i>
Performance and venue	\$ 2,197,592	\$ -
Pledges receivable collections	1,572,865	3,200,651
Endowment spending allowance	368,975	389,259
Boston Ballet School	45,899	-
Building	-	6,175
	\$ 4,185,331	\$ 3,596,085

The following table presents permanently restricted net assets as of June 30:

	<i>2014</i>	<i>2013</i>
Endowment funds:		
Beatrice H. Barrett Performance Fund	\$ 3,191,176	\$ 3,711,144
Bradley C. Higgins Ballet Endowment	1,397,840	1,397,840
Artistic Director's Chair Endowment	1,022,861	1,022,861
Krupp Contemporary Dance Fund	1,000,089	1,000,089
Pao Scholarship Endowment	1,000,000	-
Cathryn S. Keith Scholarship Endowment	381,661	380,161
Menino Arts Opportunity Endowment	300,000	-
City Dance Endowment	127,959	127,959
Pamela Jones Scholarship Fund	50,000	-
The H. Wilcott Memorial Endowment	18,585	18,585
The Snider Fund	5,174	5,174
Tatiana Gardner Scholarship	10,348	10,348
Boston Ballet Endowment	1,112,315	462,794
	\$ 9,618,008	\$ 8,136,955

Under the terms of the Beatrice H. Barrett Performance Fund (the "Fund"), the Ballet is allowed to withdraw up to 20% of the Fund at any time to fund current expenditures that further the expressed purposes of the bequest that established this Fund. Alternatively, the Ballet has the option of pledging 20% of the Fund as collateral for a loan or loans rather than drawing directly against the Fund. Any amounts withdrawn from the Fund must be restored to the Fund as soon as practicable or there is to be a reduction in the amount of annual distributions from the Fund, which is 4% of the average market value calculated over twelve calendar quarters. As of June 30, 2008, the Ballet had \$520,968 withdrawn from the Fund which had not been repaid. Additional distributions from the Fund were not allowed from the Fund until the withdrawal had been restored through cash repayment, capital appreciation and/or reinvestment of interest and dividend income. During the fiscal years June 30, 2009 through June 30, 2014, the value of the Fund increased approximately \$1,030,000 from the reinvestment of interest, dividends, and capital appreciation. As of 2014, the appreciation in value has effectively reduced the amount owed to the Fund from \$520,968 to \$0. This reduction in the amount owed to the Fund is reported as a special distribution from the Fund in the Statement of Activities for the year ended June 30, 2014.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 11 - Net Assets and Endowment Matters

Unrestricted Net Assets

Unrestricted net assets are comprised of the following:

Plant - The value of buildings and equipment, net of depreciation, used in the Ballet's operations.

Board designated - Funds set aside by the Board of Trustees for strategic purposes to support operations. These amounts may only be used with the approval of the Board of Trustees.

Operating - Discretionary funds available for carrying on the operating activities of the Ballet.

The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30:

	<i>2014</i>	<i>2013</i>
Unrestricted	\$ -	\$ -
Temporarily restricted	2,080,169	971,119
Permanently restricted	<u>9,618,008</u>	<u>7,615,987</u>
	<u>\$ 11,698,177</u>	<u>\$ 8,587,106</u>

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 11 - Net Assets and Endowment Matters (Continued)

The following represents required disclosure relative to the composition of endowment assets and those functioning as endowment assets at June 30:

	<i>2014</i>			<i>2013</i>	
	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ -	\$ 971,119	\$ 7,615,987	\$ 8,587,106	\$ 8,334,970
Gifts and additions	-	-	2,002,021	2,002,021	6,451
Repayment of Barrett Fund	-	-	520,968	520,968	-
Total gifts and additions	-	-	2,522,989	2,522,989	6,451
Long-term investment returns:					
Interest and dividends	-	272,897	-	272,897	193,364
Net realized and unrealized gains, net of investment management fees of \$30,906 and \$43,982 for the years ended June 30, 2014 and 2013, respectively	-	1,205,128	-	1,205,128	441,579
Total long-term investment returns	-	1,478,025	-	1,478,025	634,943
Expenditures:					
Amounts appropriated for operations	-	(368,975)	-	(368,975)	(389,258)
Special distribution	-	-	(520,968)	(520,968)	-
Total expenditures	-	(368,975)	(520,968)	(889,943)	(389,258)
Change in endowment assets and those functioning as endowment assets	-	1,109,050	2,002,021	3,111,071	252,136
Endowment assets and those functioning as endowment assets, end of year	\$ -	\$ 2,080,169	\$ 9,618,008	\$ 11,698,177	\$ 8,587,106

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 11 - Net Assets and Endowment Matters (Continued)

The following represents required disclosure relative to the composition of endowment assets and those functioning as endowment assets at June 30:

	<i>2013</i>			<i>Total</i>
	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	
Endowment assets and those functioning as endowment assets, beginning of year	\$ -	\$ 776,845	\$ 7,558,125	\$ 8,334,970
Gifts and additions	-	-	6,451	6,451
Long-term investment returns:				
Interest and dividends	-	170,160	23,204	193,364
Net realized and unrealized gains, net of investment management fees of \$43,982 for the year ended June 30, 2013	-	413,372	28,207	441,579
Total long-term investment returns	-	583,532	51,411	634,943
Expenditures:				
Amounts appropriated for operations	-	(389,258)	-	(389,258)
Total expenditures	-	(389,258)	-	(389,258)
Change in endowment assets and those functioning as endowment assets	-	194,274	57,862	252,136
Endowment assets and those functioning as endowment assets, end of year	\$ -	\$ 971,119	\$ 7,615,987	\$ 8,587,106

The investment return appropriated from temporarily restricted to unrestricted for operations was approximately \$369,000 and \$389,000 for the years ended June 30, 2014 and 2013, respectively.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 11 - Net Assets and Endowment Matters (Continued)

Endowment

The Ballet's endowment consists of approximately thirteen individual funds in 2014 and ten funds in 2013 established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law and Spending Policy

The Ballet classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Ballet in a manner consistent with the standard of prudence prescribed by state law.

State law allows the Board of Trustees to appropriate a percentage of net asset appreciation as is prudent considering the Ballet's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. The Ballet employed a spending policy equal to a weighted average calculation of the prior year's spending amount, adjusted for inflation, and 4.5% of the previous years' invested endowment balance.

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Ballet to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2014 or 2013.

Return Objectives and Risk Parameters

The Ballet's investment portfolio is managed to provide for the long-term support of the Ballet. Accordingly, these funds are managed with disciplined longer-term investment objectives and strategies designed to meet future cash flow needs and spending requirements. Management of the assets is designed to attain the maximum total return consistent with acceptable and agreed upon levels of risk. It is the goal of the aggregate long-term investments to generate a long-term target rate of return of at least 4.5%, which would meet the annual spending rate, and provide for inflation, fees and real growth.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 11 - Net Assets and Endowment Matters (Continued)

Strategies of Employer for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Ballet 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 Ballet targets an asset allocation strategy wherein assets are diversified among several asset classes. The pursuit of maximizing total return is tempered by the need to minimize the volatility of returns and preserve capital. As such, the Ballet seeks broad diversification among assets having different characteristics with the intent to endure lower relative performance in strong markets in exchange for greater downside protection in weak markets. Actual investment returns in any given year may vary from these objectives and may not be achievable during short-term periods.

Note 12 - Cash Flows Information

Cash paid for interest totaled \$128,670 and \$61,163 for the years ended June 30, 2014 and 2013, respectively.

During the fiscal year ended June 30, 2014, non-cash investing and financing activities included additions to office equipment purchased with capital leases totaling \$417,325.