



**FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**BOSTON LYRIC OPERA COMPANY**

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JUNE 30, 2013 AND 2012**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Boston Lyric Opera Company:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Boston Lyric Opera Company (a Massachusetts corporation, not for profit), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets 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.

### ***Auditor's Responsibility***

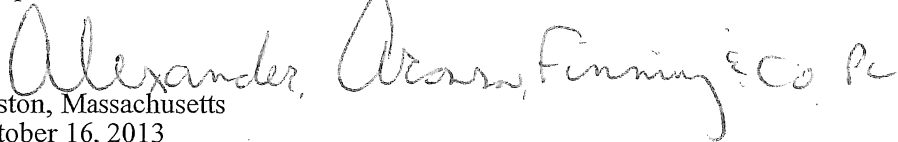
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 auditor's 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 Boston Lyric Opera Company as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

  
Boston, Massachusetts  
October 16, 2013

**BOSTON LYRIC OPERA COMPANY**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2013 AND 2012**

| <u>ASSETS</u>   | 2013                |                                   |                                   |                      | 2012                |                                   |                                   |                     |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
|   | <u>UNRESTRICTED</u> | <u>TEMPORARILY<br/>RESTRICTED</u> | <u>PERMANENTLY<br/>RESTRICTED</u> | <u>TOTAL</u>         | <u>UNRESTRICTED</u> | <u>TEMPORARILY<br/>RESTRICTED</u> | <u>PERMANENTLY<br/>RESTRICTED</u> | <u>TOTAL</u>        |
| <b>CURRENT ASSETS:</b>  |                     |                                   |                                   |                      |                     |                                   |                                   |                     |
| Cash and cash equivalents   | \$ 519,938          | \$ 213,823                        | \$ -                              | \$ 733,761           | \$ 928,188          | \$ 86,053                         | \$ -                              | \$ 1,014,241        |
| Current portion of pledges receivable, net of allowance for doubtful accounts of \$25,000 at June 30, 2013 and 2012 | 630,556             | 1,633,111                         | -                                 | 2,263,667            | 252,966             | 1,466,250                         | -                                 | 1,719,216           |
| Prepaid expenses and other  | 174,228             | -                                 | -                                 | 174,228              | 103,014             | -                                 | -                                 | 103,014             |
| Total current assets  | <u>1,324,722</u>    | <u>1,846,934</u>                  | <u>-</u>                          | <u>3,171,656</u>     | <u>1,284,168</u>    | <u>1,552,303</u>                  | <u>-</u>                          | <u>2,836,471</u>    |
| <b>INVESTMENTS</b>  | 123,527             | 334,747                           | 4,026,940                         | 4,485,214            | 108,361             | 184,198                           | 1,130,225                         | 1,422,784           |
| <b>PLEDGES RECEIVABLE</b> , net of current portion and discount   | -                   | 2,308,225                         | 3,384,467                         | 5,692,692            | -                   | 1,593,826                         | -                                 | 1,593,826           |
| <b>DEPOSITS</b>   | 26,803              | -                                 | -                                 | 26,803               | 28,428              | -                                 | -                                 | 28,428              |
| <b>PROPERTY AND EQUIPMENT</b> , net   | 117,001             | -                                 | -                                 | 117,001              | 36,717              | -                                 | -                                 | 36,717              |
| Total assets  | <u>\$ 1,592,053</u> | <u>\$ 4,489,906</u>               | <u>\$ 7,411,407</u>               | <u>\$ 13,493,366</u> | <u>\$ 1,457,674</u> | <u>\$ 3,330,327</u>               | <u>\$ 1,130,225</u>               | <u>\$ 5,918,226</u> |
| <b><u>LIABILITIES AND NET ASSETS</u></b>  |                     |                                   |                                   |                      |                     |                                   |                                   |                     |
| <b>CURRENT LIABILITIES:</b>   |                     |                                   |                                   |                      |                     |                                   |                                   |                     |
| Accounts payable and accrued expenses   | \$ 197,983          | \$ -                              | \$ -                              | \$ 197,983           | \$ 186,755          | \$ -                              | \$ -                              | \$ 186,755          |
| Advance ticket subscriptions  | 847,493             | -                                 | -                                 | 847,493              | 932,088             | -                                 | -                                 | 932,088             |
| Current portion of accrued rent   | 4,524               | -                                 | -                                 | 4,524                | 4,524               | -                                 | -                                 | 4,524               |
| Total current liabilities   | <u>1,050,000</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,050,000</u>     | <u>1,123,367</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,123,367</u>    |
| <b>ACCRUED RENT</b> , net of current portion  | 34,305              | -                                 | -                                 | 34,305               | 38,829              | -                                 | -                                 | 38,829              |
| Total liabilities   | <u>1,084,305</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,084,305</u>     | <u>1,162,196</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,162,196</u>    |
| <b>NET ASSETS:</b>  |                     |                                   |                                   |                      |                     |                                   |                                   |                     |
| Unrestricted:   |                     |                                   |                                   |                      |                     |                                   |                                   |                     |
| Operating   | 390,747             | -                                 | -                                 | 390,747              | 258,761             | -                                 | -                                 | 258,761             |
| Property and equipment  | 117,001             | -                                 | -                                 | 117,001              | 36,717              | -                                 | -                                 | 36,717              |
| Total unrestricted  | <u>507,748</u>      | <u>-</u>                          | <u>-</u>                          | <u>507,748</u>       | <u>295,478</u>      | <u>-</u>                          | <u>-</u>                          | <u>295,478</u>      |
| Temporarily restricted  | -                   | 4,489,906                         | -                                 | 4,489,906            | -                   | 3,330,327                         | -                                 | 3,330,327           |
| Permanently restricted  | -                   | -                                 | 7,411,407                         | 7,411,407            | -                   | -                                 | 1,130,225                         | 1,130,225           |
| Total net assets  | <u>507,748</u>      | <u>4,489,906</u>                  | <u>7,411,407</u>                  | <u>12,409,061</u>    | <u>295,478</u>      | <u>3,330,327</u>                  | <u>1,130,225</u>                  | <u>4,756,030</u>    |
| Total liabilities and net assets  | <u>\$ 1,592,053</u> | <u>\$ 4,489,906</u>               | <u>\$ 7,411,407</u>               | <u>\$ 13,493,366</u> | <u>\$ 1,457,674</u> | <u>\$ 3,330,327</u>               | <u>\$ 1,130,225</u>               | <u>\$ 5,918,226</u> |

*The accompanying notes are an integral part of these statements.*

**BOSTON LYRIC OPERA COMPANY**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

|   | 2013                |                                   |                                   |                      | 2012                |                                   |                                   |                     |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
|   | <u>UNRESTRICTED</u> | <u>TEMPORARILY<br/>RESTRICTED</u> | <u>PERMANENTLY<br/>RESTRICTED</u> | <u>TOTAL</u>         | <u>UNRESTRICTED</u> | <u>TEMPORARILY<br/>RESTRICTED</u> | <u>PERMANENTLY<br/>RESTRICTED</u> | <u>TOTAL</u>        |
| <b>OPERATING SUPPORT AND REVENUE:</b>               |                     |                                   |                                   |                      |                     |                                   |                                   |                     |
| Operating support:                                  |                     |                                   |                                   |                      |                     |                                   |                                   |                     |
| Contributions                                       | \$ 2,501,935        | \$ 1,935,883                      | \$ -                              | \$ 4,437,818         | \$ 2,211,220        | \$ 1,107,255                      | \$ -                              | \$ 3,318,475        |
| Special events                                      | 648,758             | 583,300                           | -                                 | 1,232,058            | 606,051             | 5,000                             | -                                 | 611,051             |
| Grants  | 448,450             | 261,535                           | -                                 | 709,985              | 605,592             | 666,249                           | -                                 | 1,271,841           |
| In-kind contributions                               | 95,635              | -                                 | -                                 | 95,635               | 148,990             | -                                 | -                                 | 148,990             |
| Net assets released from restrictions:              |                     |                                   |                                   |                      |                     |                                   |                                   |                     |
| Time  | 1,375,924           | (1,375,924)                       | -                                 | -                    | 1,216,495           | (1,216,495)                       | -                                 | -                   |
| Purpose   | 410,915             | (410,915)                         | -                                 | -                    | 550,997             | (550,997)                         | -                                 | -                   |
| Total operating support                             | <u>5,481,617</u>    | <u>993,879</u>                    | <u>-</u>                          | <u>6,475,496</u>     | <u>5,339,345</u>    | <u>11,012</u>                     | <u>-</u>                          | <u>5,350,357</u>    |
| Operating revenue:                                  |                     |                                   |                                   |                      |                     |                                   |                                   |                     |
| Ticket sales  | 1,641,352           | -                                 | -                                 | 1,641,352            | 1,368,156           | -                                 | -                                 | 1,368,156           |
| Investment income designated for current operations | 154,000             | -                                 | -                                 | 154,000              | 64,000              | -                                 | -                                 | 64,000              |
| Other   | 71,382              | -                                 | -                                 | 71,382               | 6,369               | -                                 | -                                 | 6,369               |
| Interest  | 2,818               | -                                 | -                                 | 2,818                | 1,531               | -                                 | -                                 | 1,531               |
| Total operating revenue                             | <u>1,869,552</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,869,552</u>     | <u>1,440,056</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,440,056</u>    |
| Total operating support and revenue                 | <u>7,351,169</u>    | <u>993,879</u>                    | <u>-</u>                          | <u>8,345,048</u>     | <u>6,779,401</u>    | <u>11,012</u>                     | <u>-</u>                          | <u>6,790,413</u>    |
| <b>OPERATING EXPENSES:</b>                          |                     |                                   |                                   |                      |                     |                                   |                                   |                     |
| Ongoing productions                                 | 4,778,501           | -                                 | -                                 | 4,778,501            | 4,419,271           | -                                 | -                                 | 4,419,271           |
| Development   | 969,052             | -                                 | -                                 | 969,052              | 789,282             | -                                 | -                                 | 789,282             |
| Marketing and promotion                             | 633,793             | -                                 | -                                 | 633,793              | 741,141             | -                                 | -                                 | 741,141             |
| General and administrative                          | 624,445             | -                                 | -                                 | 624,445              | 641,916             | -                                 | -                                 | 641,916             |
| Community engagement                                | 147,395             | -                                 | -                                 | 147,395              | 116,407             | -                                 | -                                 | 116,407             |
| Total operating expenses                            | <u>7,153,186</u>    | <u>-</u>                          | <u>-</u>                          | <u>7,153,186</u>     | <u>6,708,017</u>    | <u>-</u>                          | <u>-</u>                          | <u>6,708,017</u>    |
| Changes in net assets from operations               | <u>197,983</u>      | <u>993,879</u>                    | <u>-</u>                          | <u>1,191,862</u>     | <u>71,384</u>       | <u>11,012</u>                     | <u>-</u>                          | <u>82,396</u>       |
| <b>NON-OPERATING REVENUE (EXPENSES):</b>            |                     |                                   |                                   |                      |                     |                                   |                                   |                     |
| Endowment contributions                             | -                   | -                                 | 6,281,182                         | 6,281,182            | -                   | -                                 | -                                 | -                   |
| Investment income, net                              | 14,287              | 319,700                           | -                                 | 333,987              | 6,604               | 53,085                            | -                                 | 59,689              |
| Investment income designated for current operations | -                   | (154,000)                         | -                                 | (154,000)            | -                   | (64,000)                          | -                                 | (64,000)            |
| Total non-operating revenue (expenses)              | <u>14,287</u>       | <u>165,700</u>                    | <u>6,281,182</u>                  | <u>6,461,169</u>     | <u>6,604</u>        | <u>(10,915)</u>                   | <u>-</u>                          | <u>(4,311)</u>      |
| Changes in net assets                               | 212,270             | 1,159,579                         | 6,281,182                         | 7,653,031            | 77,988              | 97                                | -                                 | 78,085              |
| <b>NET ASSETS, beginning of year</b>                | <u>295,478</u>      | <u>3,330,327</u>                  | <u>1,130,225</u>                  | <u>4,756,030</u>     | <u>217,490</u>      | <u>3,330,230</u>                  | <u>1,130,225</u>                  | <u>4,677,945</u>    |
| <b>NET ASSETS, end of year</b>                      | <u>\$ 507,748</u>   | <u>\$ 4,489,906</u>               | <u>\$ 7,411,407</u>               | <u>\$ 12,409,061</u> | <u>\$ 295,478</u>   | <u>\$ 3,330,327</u>               | <u>\$ 1,130,225</u>               | <u>\$ 4,756,030</u> |

*The accompanying notes are an integral part of these statements.*

**BOSTON LYRIC OPERA COMPANY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

|  | <u>2013</u>        | <u>2012</u>         |
|--|--------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                    |                     |
| Changes in net assets  | \$ 7,653,031       | \$ 78,085           |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: |                    |                     |
| Depreciation   | 29,301             | 14,076              |
| Net gains on investments   | (258,607)          | (21,149)            |
| Change in discount of pledges receivable   | 19,207             | 245                 |
| Bad debt   | 6,250              | -                   |
| Donated stock  | (2,596,715)        | -                   |
| Endowment contributions  | (6,281,182)        | -                   |
| Changes in operating assets and liabilities:   |                    |                     |
| Pledges receivable   | (1,284,307)        | (246,885)           |
| Prepaid expenses and other   | (71,214)           | 94,668              |
| Deposits   | 1,625              | 7,484               |
| Accounts payable and accrued expenses  | 11,228             | 29,461              |
| Advance ticket subscriptions   | (84,595)           | 127,783             |
| Accrued rent   | (4,524)            | 35,565              |
|  | <u>(2,860,502)</u> | <u>119,333</u>      |
| Net cash provided by (used in) operating activities  |                    |                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                    |                     |
| Acquisition of property and equipment  | (109,585)          | (28,463)            |
| Purchase of investments  | (597,451)          | (169,683)           |
| Proceeds from sale of investments  | 390,343            | 181,676             |
|  | <u>(316,693)</u>   | <u>(16,470)</u>     |
| Net cash used in investing activities  |                    |                     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                    |                     |
| Proceeds from line of credit   | 700,000            | 500,000             |
| Principal payments on line of credit   | (700,000)          | (500,000)           |
| Endowment contributions  | 2,896,715          | -                   |
|  | <u>2,896,715</u>   | <u>-</u>            |
| Net cash provided by financing activities  |                    |                     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | (280,480)          | 102,863             |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>  | <u>1,014,241</u>   | <u>911,378</u>      |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>  | <u>\$ 733,761</u>  | <u>\$ 1,014,241</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:</b>   |                    |                     |
| Unrealized gains on investments  | <u>\$ 216,221</u>  | <u>\$ 2,073</u>     |
| Cost basis of fully depreciated property and equipment disposed of                                     | <u>\$ 11,587</u>   | <u>\$ -</u>         |

*The accompanying notes are an integral part of these statements.*

**BOSTON LYRIC OPERA COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**

**OPERATIONS AND NONPROFIT STATUS**

Boston Lyric Opera Company (BLO) is a Massachusetts nonprofit institution incorporated in 1970. Now in its 37<sup>th</sup> season, BLO is New England's largest opera company. Celebrated for its artistic excellence and diverse repertoire, BLO's mission is to engage and inspire audiences of all ages in the living art of opera.

BLO's long-term success is rooted in its commitment to offering the highest caliber productions of both classic and contemporary operas; providing an internationally renowned platform on which emerging artists can grow and develop; engaging new and diverse audiences through innovations in technology, outreach and strategic communications; and by offering collaborative education and community events both on its own and in partnership with other world-leading, Boston-based cultural institutions. Through the whole of its efforts, BLO achieves its mission by ensuring the availability and accessibility of one of the world's greatest and oldest art forms for generations to come.

Funded in part by a grant from the Massachusetts Cultural Council and the National Endowment for the Arts, BLO reaches annual audiences of nearly 35,000 people through the staging of four productions each season: three at the Citi Performing Arts Center Shubert Theatre in Boston and one Opera Annex production in an alternate location.

BLO is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). BLO is also exempt from state income taxes. Donors may deduct contributions made to BLO within the IRC requirements.

**SIGNIFICANT ACCOUNTING POLICIES**

BLO prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred. Sets and properties are expensed as production costs in the year of the related performance.

Depreciation of property and equipment (see Note 4) is computed using the straight-line method over estimated useful lives of three to seven years. Depreciation expense for the years ended June 30, 2013 and 2012, was \$29,301 and \$14,076, respectively.

Revenue Recognition

Ticket sales revenue is recognized as productions are performed. Ticket sales received in advance of performances are recorded as advance ticket subscriptions in the accompanying statements of financial position. Special event income is recognized as the events occur.

**BOSTON LYRIC OPERA COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Revenue Recognition (Continued)

BLO records revenue from grants and contributions when received or unconditionally committed. BLO reports gifts of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. All other revenue is recognized when earned.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents consist of checking and money market accounts, excluding those included in the investment portfolio.

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is recorded based on management's review of pledges receivable and their estimate of amounts that may become uncollectible in accordance with the BLO policy. Amounts are written off as they are determined to be uncollectible.

Fair Value Measurements

BLO follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and mandate disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value framework are as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 - Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable.



**BOSTON LYRIC OPERA COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
(Continued)

**(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value Measurements (Continued)

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Investments

BLO records its investments at fair value. Certain fixed income investments (corporate bonds) and foreign mutual funds are valued using significant other observable, or Level 2, inputs, which are obtained from its investment company's pricing service. BLO values all other investments, which are publicly traded, using observable, or Level 1, inputs - the quoted price in an active market.

Interest, dividends and mutual fund distributions are recorded when earned. Gains and losses are recognized as incurred or based on market value changes during the period (see Note 5).

Investment Return Allocations

Massachusetts state law allows BLO to appropriate as much of the appreciation of its endowment as is prudent considering BLO'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 Board of Directors has voted to allow for the use of a portion of total investment return for operations each year. BLO may annually distribute from its investment portfolios an amount in accordance with its current spending policy. Transfers to operating net assets, in accordance with this policy, are reflected in the accompanying statements of activities and changes in net assets as investment income designated for current operations (see Note 3).

Donated Goods and Services

Other organizations contribute goods and services to BLO in support of various aspects of its programs. These goods and services are reflected as in-kind contributions and as expenses in the accompanying financial statements based upon the estimated value assigned to them by the donating organizations or by management.

The value of these goods and services for the years ended June 30, 2013 and 2012, is as follows:

|                                     | <u>2013</u>     | <u>2012</u>      |
|-------------------------------------|-----------------|------------------|
| Legal and other consulting          | \$87,817        | \$108,213        |
| Event catering, rental and supplies | 6,218           | 6,222            |
| Production supplies and services    | <u>1,600</u>    | <u>34,555</u>    |
|                                     | <u>\$95,635</u> | <u>\$148,990</u> |

**BOSTON LYRIC OPERA COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Donated Goods and Services (Continued)

BLO receives additional donated services relating to various aspects of its operations. The value of these services does not meet the criteria for recording under U.S. GAAP; accordingly, no value is reflected in the accompanying financial statements.

Expense Allocations

Expenses related directly to a program are distributed to that program, while other expenses are allocated to programs based upon management's estimate.

Advertising Costs

BLO expenses advertising costs in the year of the related performance. During fiscal years 2013 and 2012, BLO incurred \$175,806 and \$131,329, respectively, of advertising costs. These costs are included in marketing and promotion in the accompanying financial statements.

Subsequent Events

Subsequent events have been evaluated through October 16, 2013, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

Tax Positions

BLO follows the *Accounting for Uncertainty in Income Taxes* standard, which requires BLO to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of June 30, 2013 and 2012, BLO determined that there are no material unrecognized tax benefits to report.

Information returns filed for the prior three years remain subject to examination by the Internal Revenue Service and Massachusetts tax authorities. BLO does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

(2) **NET ASSETS**

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by BLO. BLO has grouped its unrestricted net assets into the following categories:

**Operating net assets** represent funds available to carry on the operations of BLO.

**Property and equipment net assets** reflect the net book value of BLO's property and equipment.

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**(2) NET ASSETS** (Continued)

Temporarily Restricted Net Assets

BLO receives contributions and grants which are designated by donors for specific time periods or purposes and are recorded as temporarily restricted net assets until they are expended for their designated purposes or as time restrictions expire. Temporarily restricted net assets also include appreciation on permanently restricted net assets in accordance with Massachusetts state law and BLO's spending policy.

Temporarily restricted net assets consist of the following at June 30:

|   | <u>2013</u>        | <u>2012</u>        |
|---|--------------------|--------------------|
| Time restricted                                   | \$4,147,811        | \$3,004,550        |
| Appreciation on permanently restricted net assets | 296,272            | 130,572            |
| Purpose restricted                                | <u>45,823</u>      | <u>195,205</u>     |
|   | <u>\$4,489,906</u> | <u>\$3,330,327</u> |

Permanently Restricted Net Assets

Permanently restricted net assets includes a grant from the National Endowment for the Arts and matching funds totaling \$160,000, which are restricted by the donors against any expenditure of principal. The grant terms stipulate that the funds are to be used to create a permanent reserve fund, which may be loaned to the unrestricted net assets for a period of up to one year.

During July, 2002, BLO received a \$500,000 grant from a foundation which restricted the expenditure of any principal. BLO may use up to 5% of the fund's principal each year for operations, based on a formula as prescribed by the donor, consistent with BLO's spending policy (see Note 1).

During fiscal year 2006, BLO received three additional contributions totaling \$470,225. During fiscal year 2013, BLO received additional contributions from various donors totaling \$6,299,393, net of a pledge discount of \$15,533 and donated stock sales fees of \$2,678 (see Notes 7 and 13). These contributions are restricted by donors against any expenditures of principal.

The investment return on the permanently restricted net assets is expendable for the support of BLO's operations, consistent with its spending policy (see Note 1).

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**(3) ENDOWMENT**

BLO's endowment consists of donor restricted funds established for a variety of purposes (see Note 2). As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

A reconciliation of endowment activity for the years ended June 30, 2013 and 2012, is as follows:

|  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total<br/>Endowment</u> |
|--|-----------------------------------|-----------------------------------|----------------------------|
| Endowment net assets,<br>June 30, 2011                 | <u>\$ 141,487</u>                 | <u>\$1,130,225</u>                | <u>\$1,271,712</u>         |
| Investment income, net:                                |                                   |                                   |                            |
| Interest and dividends                                 | 46,313                            | -                                 | 46,313                     |
| Net realized gains                                     | 16,207                            | -                                 | 16,207                     |
| Investment fees  | (10,785)                          | -                                 | (10,785)                   |
| Net unrealized gains                                   | <u>1,350</u>                      | <u>-</u>                          | <u>1,350</u>               |
| Total investment income, net                           | <u>53,085</u>                     | <u>-</u>                          | <u>53,085</u>              |
| Investment return designated<br>for current operations | <u>(64,000)</u>                   | <u>-</u>                          | <u>(64,000)</u>            |
| Endowment net assets,<br>June 30, 2012                 | <u>130,572</u>                    | <u>1,130,225</u>                  | <u>1,260,797</u>           |
| Endowment contributions                                | <u>-</u>                          | <u>6,281,182</u>                  | <u>6,281,182</u>           |
| Investment income, net:                                |                                   |                                   |                            |
| Interest and dividends                                 | 92,911                            | -                                 | 92,911                     |
| Net realized gains                                     | 42,160                            | -                                 | 42,160                     |
| Investment fees  | (20,829)                          | -                                 | (20,829)                   |
| Net unrealized gains                                   | <u>205,458</u>                    | <u>-</u>                          | <u>205,458</u>             |
| Total investment income, net                           | <u>319,700</u>                    | <u>-</u>                          | <u>319,700</u>             |
| Investment return designated<br>for current operations | <u>(154,000)</u>                  | <u>-</u>                          | <u>(154,000)</u>           |
| Endowment net assets,<br>June 30, 2013                 | <u>\$ 296,272</u>                 | <u>\$7,411,407</u>                | <u>\$7,707,679</u>         |

The temporarily restricted portion is included in total temporarily restricted net assets of \$4,489,906 and \$3,330,327 at June 30, 2013 and 2012, respectively (see page 9).

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(Continued)

**(3) ENDOWMENT** (Continued)

BLO has adopted investment and spending policies for endowment assets. Endowment assets include those assets of donor restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the primary long-term financial objective is to preserve the real (i.e. inflation adjusted) value of the endowment investment portfolio. This objective is measured on an intermediate and long-term basis (three, five and ten years). The secondary financial objectives are to provide within the parameters of moderate risk; 1) annual income, defined as total return from interest, dividends and appreciation in excess of inflation and; 2) long-term growth of the assets.

To satisfy its objectives, BLO relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). BLO targets a diversified asset allocation that includes equities and fixed income investments within prudent risk constraints.

BLO has adopted an investment spending policy related to its endowment assets (see page 10) that incorporates the transfer of a portion of the value of endowment assets to the operating budget subject to various factors.

In fiscal year 2012, the spending policy transfer amount was up to 5% of the value of endowment net assets. In fiscal year 2013, the Board of Directors changed the spending policy as follows: In the fourth quarter of each fiscal year BLO may, under the advisement of the Finance Committee, transfer to the operating budget an amount equal to the sum of the following:

- 70 percent of the prior fiscal year's draw
- 30 percent of 5 percent of the prior fiscal year's average quarterly market value of the endowment fund, inclusive of the endowment fund's pro rata share of investment management and custodial fees
- 5 percent of the current fiscal year's cash contributions, pro-rated based on the fiscal quarter received (1.25 percent per quarter)

In accordance with current state law - the Uniform Prudent Management of Institutional Funds Act, known as "UPMIFA," (adopted by the Commonwealth of Massachusetts on June 30, 2009) - BLO considers the following standards of prudence as it annually reviews the effects of the spending policy detailed above:

- 1) The policy and preservation of the endowment fund
- 2) The purposes of BLO and the endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation or deflation
- 5) The expected total return from income and appreciation of investments
- 6) Other resources of BLO
- 7) The investment policy of BLO

BLO appropriated \$154,000 and \$64,000 of net assets during the years ended June 30, 2013 and 2012, respectively, to be used for operations in accordance with the spending policy.

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**NOTES TO FINANCIAL STATEMENTS**  
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(Continued)

**(4) PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

|                                 | <u>2013</u>      | <u>2012</u>      |
|---------------------------------|------------------|------------------|
| Software                        | \$121,506        | \$ 22,262        |
| Equipment                       | 66,559           | 64,488           |
| Computer hardware               | 53,858           | 58,135           |
| Furniture and fixtures          | <u>47,702</u>    | <u>46,742</u>    |
|                                 | 289,625          | 191,627          |
| Less - accumulated depreciation | <u>172,624</u>   | <u>154,910</u>   |
|                                 | <u>\$117,001</u> | <u>\$ 36,717</u> |

**(5) INVESTMENTS**

Investments are carried at fair value. The following is a summary of the investment portfolio as of June 30, 2013 and 2012, and fair value measurement was determined using the following inputs:

| <u>Description</u>             | <u>2013</u>        |                  |                    |
|--------------------------------|--------------------|------------------|--------------------|
|                                | <u>Level I</u>     | <u>Level II</u>  | <u>Total</u>       |
| Corporate bonds                | \$ -               | \$416,887        | \$ 416,887         |
| Money market accounts          | 410,759            | -                | 410,759            |
| Preferred stocks:              |                    |                  |                    |
| Domestic preferred stocks      | 802,315            | -                | 802,315            |
| Foreign preferred stocks       | 65,258             | -                | 65,258             |
| Equities:                      |                    |                  |                    |
| Other                          | 643,564            | -                | 643,564            |
| Financial                      | 480,927            | -                | 480,927            |
| Business products and services | 383,450            | -                | 383,450            |
| Foreign equities               | 369,380            | -                | 369,380            |
| Consumer non-durables          | 340,475            | -                | 340,475            |
| Consumer services              | 266,561            | -                | 266,561            |
| Energy                         | 136,900            | -                | 136,900            |
| Mutual fund – equity           | 38,711             | -                | 38,711             |
| Mutual fund – foreign          | <u>-</u>           | <u>130,027</u>   | <u>130,027</u>     |
|                                | <u>\$3,938,300</u> | <u>\$546,914</u> | <u>\$4,485,214</u> |

**BOSTON LYRIC OPERA COMPANY**  
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(5) **INVESTMENTS** (Continued)

| <u>Description</u>             | <u>2012</u>        |                  |                    |
|--------------------------------|--------------------|------------------|--------------------|
|                                | <u>Level I</u>     | <u>Level II</u>  | <u>Total</u>       |
| Corporate bonds                | \$ -               | \$259,613        | \$ 259,613         |
| Money market accounts          | 58,398             | -                | 58,398             |
| Government and agency bonds    | 25,079             | -                | 25,079             |
| Preferred stocks:              |                    |                  |                    |
| Domestic preferred stocks      | 116,350            | -                | 116,350            |
| Foreign preferred stocks       | 40,204             | -                | 40,204             |
| Equities:                      |                    |                  |                    |
| Other                          | 129,519            | -                | 129,519            |
| Financial                      | 155,690            | -                | 155,690            |
| Business products and services | 145,828            | -                | 145,828            |
| Foreign equities               | 101,097            | -                | 101,097            |
| Consumer non-durables          | 195,735            | -                | 195,735            |
| Consumer services              | 88,555             | -                | 88,555             |
| Energy                         | 75,678             | -                | 75,678             |
| Mutual fund - equity           | 31,038             | -                | 31,038             |
|                                | <u>\$1,163,171</u> | <u>\$259,613</u> | <u>\$1,422,784</u> |

Investment income, net, consists of the following for the years ended June 30:

|   | <u>2013</u>      | <u>2012</u>      |
|---|------------------|------------------|
| Net realized gains on sale of investments | \$ 42,386        | \$ 19,076        |
| Net unrealized gains on investments       | 216,221          | 2,073            |
| Interest and dividends                    | 97,191           | 50,199           |
| Investment fees                           | <u>(21,811)</u>  | <u>(11,659)</u>  |
|   | <u>\$333,987</u> | <u>\$ 59,689</u> |

Investments are classified as long-term due to management's intent to hold these investments for long-term purposes. Investments are not insured and are subject to ongoing market fluctuations.

(6) **LINE OF CREDIT AGREEMENT**

BLO maintains a line of credit agreement with a bank which allows borrowings up to \$1,000,000 at June 30, 2013 and 2012. Borrowings under the agreement are due on demand and interest is payable monthly at the higher of 4.5% or the bank's base lending rate (3.25% at June 30, 2013 and 2012), plus .75%. The line of credit is secured by all assets of BLO. BLO must comply with certain covenants as specified in the agreement. BLO was in compliance with these covenants at June 30, 2013 and 2012. The Organization drew down and repaid \$700,000 and \$500,000 during fiscal years 2013 and 2012, respectively. As of June 30, 2013 and 2012, there were no outstanding balances under this agreement. This line of credit is renewable by the bank annually in October.

**BOSTON LYRIC OPERA COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**(7) PLEDGES RECEIVABLE**

Pledges receivable include numerous gifts which are expected to be collected over the next five years and a charitable remainder trust which will be disbursed to BLO upon the death of the named survivors. Accordingly, this trust has been classified as long-term.

Pledges receivable are due as follows at June 30:

| <u>Fiscal Year</u>                       | <u>2013</u>        | <u>2012</u>        |
|--|--------------------|--------------------|
| Due in one year                          | \$3,013,667        | \$1,744,216        |
| Due in two to five years                 | <u>4,956,000</u>   | <u>1,563,000</u>   |
|  | 7,969,667          | 3,307,216          |
| Less - discount                          | 23,815             | 4,608              |
| Less - allowance for doubtful accounts   | <u>25,000</u>      | <u>25,000</u>      |
|  | 7,920,852          | 3,277,608          |
| Charitable Remainder Trust               | <u>35,507</u>      | <u>35,434</u>      |
|  | 7,956,359          | 3,313,042          |
| Less - current portion, net of allowance | <u>2,988,667</u>   | <u>1,719,216</u>   |
| Long-term pledges receivable, net        | <u>\$4,967,692</u> | <u>\$1,593,826</u> |

Long-term pledges receivable in the accompanying 2013 statement of financial position includes \$725,000 of permanently restricted pledges which are due in fiscal year 2014. These have been reflected as long-term pledges receivable based on the permanent restriction.

The pledges have been discounted using rates ranging from 0.15% to 1.41%.

**(8) LEASE AGREEMENTS**

During fiscal year 2011, BLO entered into an eight-year lease agreement for office space beginning on August 1, 2011, and expiring on July 31, 2019. The lease requires monthly payments of \$10,833, which increase to \$11,333 effective August 1, 2015, as defined in the lease agreement. BLO received three months of free rent during fiscal year 2012, which is being accounted for on a straight-line basis over the term of the lease (see below). The lease requires BLO to pay for its proportionate share of real estate taxes, if applicable, and operating expenses. BLO has the option to extend this lease for two five-year periods at a price as defined in the agreement.

During fiscal year 2007, BLO entered into a thirty-nine month lease agreement for storage space at a monthly rent of \$2,604. During fiscal year 2011, BLO extended this lease through November 30, 2015, with monthly payments of \$5,208. BLO received five months of reduced rent at \$1,458 per month during previous fiscal years. BLO has the option to extend this lease for an additional five-year term.

BLO is recognizing rent expense on a straight-line basis over the term of the above leases in accordance with *Accounting for Leases* standard under U.S. GAAP. Accrued rent as of June 30, 2013 and 2012, was \$38,829 and \$43,353, respectively.



**BOSTON LYRIC OPERA COMPANY**  
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(Continued)

**(8) LEASE AGREEMENTS** (Continued)

Future minimum lease payments under these agreements are as follows:

| <u>Fiscal Year</u> | <u>Space</u> |
|--------------------|--------------|
| 2014               | \$192,500    |
| 2015               | \$192,500    |
| 2016               | \$161,542    |
| 2017               | \$136,000    |
| 2018               | \$136,000    |
| Thereafter         | \$147,333    |

BLO also leases certain equipment under operating lease agreements with aggregate monthly payments of \$1,013 at June 30, 2013. These leases expire at various dates during fiscal year 2014. Future minimum payments for fiscal year 2014 are \$2,677.

**(9) CONCENTRATIONS**

Concentration of Credit

BLO maintains its cash balances in various financial institutions in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances at each institution up to certain limits. At certain times during the year, cash balances exceed the insured amounts. Management monitors on a regular basis, the financial condition of the financial institutions, along with their balances, to keep this potential risk to a minimum.

Concentration of Pledges Receivable

At June 30, 2013, BLO had three donors who represented 55% of outstanding pledges receivable. At June 30, 2012, BLO had four donors who represented 46% of outstanding pledges receivable.

**(10) LICENSE AGREEMENT**

BLO has a license agreement with Tremont Theater, Inc. (TTI) to present certain operatic or other theatrical productions at TTI's theater. In May, 2001, BLO exercised the first of two five-year options to extend the agreement through May 31, 2008. In May, 2006, BLO exercised the second of two five-year options to extend the agreement through May 31, 2013. BLO is in the process of renewing this agreement as of October 16, 2013. The license agreement includes facility rental, box office and phone sales and production labor. The total amount paid to TTI for the years ended June 30, 2013 and 2012, was \$950,727 and \$866,708, respectively. The fees for fiscal year 2014 will be approximately \$267,000 for facility rental and box office, plus other fees based on usage. The pricing of the contract is reviewed annually by TTI.

**(11) RETIREMENT PLAN**

BLO has a defined contribution retirement plan (the Plan) covering all eligible employees under IRC Section 401(k). Employees become eligible to participate after completing three months of service and attaining the age of 21. BLO may make matching or discretionary contributions to the Plan. Employee contributions vest immediately and employer contributions vest based upon a vesting schedule as specified in the Plan documents. During fiscal years 2013 and 2012, BLO contributed \$14,045 and \$16,448, respectively, to the Plan.

**BOSTON LYRIC OPERA COMPANY**  
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**(12) CONDITIONAL GRANTS**

A foundation has awarded BLO a \$1,000,000 grant, of which \$750,000 was received through June 30, 2013. The balance of the grant of \$250,000 is a conditional grant at June 30, 2013. Since this grant is conditional upon BLO raising matching funds in accordance with the grant agreement, it is not reflected in the accompanying financial statements at June 30, 2013.

During fiscal year 2013, another foundation awarded BLO a \$5,000,000 endowment grant conditional upon BLO raising an additional \$5 million of matching funds in cash and pledges for the Comprehensive Campaign (see Note 13) after June 30, 2013, in accordance with the grant agreement. Thus, this conditional grant is not reflected in the accompanying financial statements at June 30, 2013.

**(13) COMPREHENSIVE CAMPAIGN**

During fiscal year 2013, BLO launched the Comprehensive Campaign for Boston Lyric Opera, which seeks to raise funds for Annual Support, Bridge Fund Support, and Endowment Support, as well as to encourage Legacy Gift commitments. The campaign's duration is through July, 2015. The Annual Fund supports the day-to-day operations of BLO, Bridge Funds provide required funding for operating needs, campaign expenses, and cash reserves, while the Endowment builds to the stated goal. As of June 30, 2013, BLO has raised \$6,299,393 of Endowment Support as part of the Campaign (see Note 2), as well as additional Annual Support and Bridge Fund Support.