

Financial Statements
The Boston Ballet, Incorporated
June 30, 2009 and 2008



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

THE BOSTON BALLET, INCORPORATED

Financial Statements

Table of Contents

Financial Statements:

Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3-4
Statements of Cash Flows	5
Notes to Financial Statements	6-23



Mayer Hoffman McCann P.C.

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Independent Auditors' Report

Board of Trustees
The Boston Ballet, Incorporated
Boston, Massachusetts

We have audited the accompanying statement of financial position of The Boston Ballet, Incorporated (the "Ballet") as of June 30, 2009 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Ballet's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial information of The Boston Ballet, Incorporated as of June 30, 2008 was extracted from the financial statements that were audited by other auditors, Tofias P.C., whose shareholders became shareholders of Mayer Hoffman McCann P.C. as of December 31, 2008, and whose report dated September 26, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009 and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

December 2, 2009
Cambridge, Massachusetts

THE BOSTON BALLET, INCORPORATED

Statements of Financial Position

	<i>June 30,</i>	
	<i>2009</i>	<i>2008</i>
Assets		
Cash and cash equivalents	\$ 313,572	\$ 418,852
Short-term investments	1,060,916	2,465,047
Grants and pledges receivable, net	2,494,870	5,470,638
Accounts receivable, net	22,942	26,059
Prepaid expenses and other current assets	785,269	1,316,979
Marketable and other equity securities	6,768,851	7,170,271
Charitable remainder trusts	332,616	380,645
Property and equipment	5,618,395	5,995,775
	\$ 17,397,431	\$ 23,244,266
Liabilities and Net Assets		
Line of credit	\$ 550,000	\$ -
Accounts payable and accrued expenses	1,186,934	1,794,119
Advance tuition	2,429,339	2,618,172
Advance ticket sales	2,120,712	2,338,342
Deferred sponsorship revenue	94,746	112,326
Long-term debt	1,327,218	2,747,247
	7,708,949	9,610,206
Total liabilities	7,708,949	9,610,206
Net assets		
Unrestricted	(1,948,786)	(225,912)
Temporarily restricted	3,778,991	5,502,572
Permanently restricted	7,858,277	8,357,400
	9,688,482	13,634,060
Total net assets	9,688,482	13,634,060
Total liabilities and net assets	\$ 17,397,431	\$ 23,244,266

THE BOSTON BALLET, INCORPORATED

Statements of Activities

Year Ended June 30,

	2009					2008	
	Unrestricted			Temporarily	Permanently	Total	Total
	Operating	Plant	Total	Restricted	Restricted		
Revenue:							
Ticket sales	\$ 8,685,601	\$ -	\$ 8,685,601	\$ -	\$ -	\$ 8,685,601	\$ 8,943,020
School income, tuition and fees	5,606,110	-	5,606,110	-	-	5,606,110	5,400,466
Contracted services, programs and other	832,682	-	832,682	970	-	833,652	1,548,105
Distribution from E. Virginia Williams Trust	115,639	-	115,639	-	-	115,639	109,002
Interest and dividend income	2,620	-	2,620	53,980	20,606	77,206	219,750
Total revenue	15,242,652	-	15,242,652	54,950	20,606	15,318,208	16,220,343
Expenses:							
Production and programs							
Dance school	4,914,223	333,838	5,248,061	-	-	5,248,061	5,096,985
Artistic department	11,420,463	286,003	11,706,466	-	-	11,706,466	12,527,251
Administrative expenses	2,917,202	354,883	3,272,085	-	-	3,272,085	3,326,769
Marketing	3,235,252	-	3,235,252	-	-	3,235,252	2,852,640
Total expenses	22,487,140	974,724	23,461,864	-	-	23,461,864	23,803,645
(Loss) income from operations	(7,244,488)	(974,724)	(8,219,212)	54,950	20,606	(8,143,656)	(7,583,302)
Support:							
Gifts and grants	6,642,460	-	6,642,460	852,170	747,711	8,242,341	12,220,666
Less: direct donor benefits	(340,262)	-	(340,262)	-	-	(340,262)	(396,109)
Net gifts and grants	6,302,198	-	6,302,198	852,170	747,711	7,902,079	11,824,557
Satisfaction of program restricted donations	2,117,439	-	2,117,439	(2,117,439)	-	-	-
Total support	8,419,637	-	8,419,637	(1,265,269)	747,711	7,902,079	11,824,557
Bad debt expense	-	-	-	1,615	1,000,201	1,001,816	-
Fundraising costs	1,341,976	-	1,341,976	-	-	1,341,976	1,167,105
Total support, net	7,077,661	-	7,077,661	(1,266,884)	(252,490)	5,558,287	10,657,452
Income (loss) from operations	(166,827)	(974,724)	(1,141,551)	(1,211,934)	(231,884)	(2,585,369)	3,074,150
Non-operating activity							
Accounting for underwater net assets	(581,323)	-	(581,323)	581,323	-	-	-
Realized and unrealized gains (losses) on investments	-	-	-	(1,092,970)	(267,239)	(1,360,209)	95,898
Capital additions	(500,638)	500,638	-	-	-	-	-
Total non-operating activity	(1,081,961)	500,638	(581,323)	(511,647)	(267,239)	(1,360,209)	95,898
Change in net assets	(1,248,788)	(474,086)	(1,722,874)	(1,723,581)	(499,123)	(3,945,578)	3,170,048
Net assets at beginning of year	(4,449,149)	4,223,237	(225,912)	5,502,572	8,357,400	13,634,060	10,464,012
Net assets at end of year	\$ (5,697,937)	\$ 3,749,151	\$ (1,948,786)	\$ 3,778,991	\$ 7,858,277	\$ 9,688,482	\$ 13,634,060

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statement of Activities

Year Ended June 30, 2008

	<i>Unrestricted</i>			<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
	<i>Operating</i>	<i>Plant</i>	<i>Total</i>			
Revenue:						
Ticket sales	\$ 8,943,020	\$ -	\$ 8,943,020	\$ -	\$ -	\$ 8,943,020
School income, tuition and fees	5,400,466	-	5,400,466	-	-	5,400,466
Contracted services, programs and other	1,547,793	-	1,547,793	312	-	1,548,105
Distribution from E. Virginia Williams Trust	109,002	-	109,002	-	-	109,002
Interest and dividend income	199,694	-	199,694	20,056	-	219,750
Total revenue	16,199,975	-	16,199,975	20,368	-	16,220,343
Expenses:						
Production and programs						
Dance school	4,757,417	339,568	5,096,985	-	-	5,096,985
Artistic department	12,277,735	249,516	12,527,251	-	-	12,527,251
Administrative expenses	3,018,782	307,987	3,326,769	-	-	3,326,769
Marketing	2,852,640	-	2,852,640	-	-	2,852,640
Total expenses	22,906,574	897,071	23,803,645	-	-	23,803,645
(Loss) income from operations	(6,706,599)	(897,071)	(7,603,670)	20,368	-	(7,583,302)
Support:						
Gifts and grants	8,841,666	-	8,841,666	3,194,551	184,449	12,220,666
Less: direct donor benefits	(396,109)	-	(396,109)	-	-	(396,109)
Net gifts and grants	8,445,557	-	8,445,557	3,194,551	184,449	11,824,557
Satisfaction of program restricted donations	2,249,819	-	2,249,819	(2,249,819)	-	-
Total support	10,695,376	-	10,695,376	944,732	184,449	11,824,557
Fundraising costs	1,167,105	-	1,167,105	-	-	1,167,105
Total support, net	9,528,271	-	9,528,271	944,732	184,449	10,657,452
Income (loss) from operations	2,821,672	(897,071)	1,924,601	965,100	184,449	3,074,150
Non-operating activity						
Other change in net assets	(187,898)	-	(187,898)	-	187,898	-
Realized and unrealized gains on investments	-	-	-	95,898	-	95,898
Capital additions	(105,972)	105,972	-	-	-	-
Total non-operating activity	(293,870)	105,972	(187,898)	95,898	187,898	95,898
Change in net assets	2,527,802	(791,099)	1,736,703	1,060,998	372,347	3,170,048
Net assets at beginning of year	(6,976,951)	5,014,336	(1,962,615)	4,441,574	7,985,053	10,464,012
Net assets at end of year	\$ (4,449,149)	\$ 4,223,237	\$ (225,912)	\$ 5,502,572	\$ 8,357,400	\$ 13,634,060

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,945,578)	\$ 3,170,048
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	878,018	794,632
Bad debt expense	1,187,612	-
Contributions restricted for long-term investment	(747,711)	(103,082)
Realized and unrealized losses	1,360,209	95,898
Investment income restricted for long-term investment	(74,586)	(20,056)
Payments on notes payable	-	(100,000)
Change in:		
Grants and pledges receivable	1,788,156	(2,191,103)
Accounts receivable	3,117	165,823
Prepaid expenses and other current assets	531,710	166,819
Accounts payable and accrued expenses	(607,185)	(203,728)
Advance tuition	(188,833)	(11,359)
Advance ticket sales	(217,630)	224,758
Deferred revenue	(17,580)	(189,088)
Net cash provided by (used in) operating activities	<u>(50,281)</u>	<u>1,799,562</u>
Cash flows from investing activities:		
Capital expenditures	(500,638)	(105,972)
Proceeds from sales and maturities of investments	3,497,398	4,601,955
Purchases of investments	(3,004,027)	(6,707,253)
Net cash used in investing activities	<u>(7,267)</u>	<u>(2,211,270)</u>
Cash flows from financing activities:		
Net change in line of credit	550,000	-
Payments on long-term debt	(1,420,029)	(240,850)
Investment income restricted for long-term investment	74,586	20,056
Proceeds from contributions restricted for long-term investment	747,711	103,082
Net cash used in financing activities	<u>(47,732)</u>	<u>(117,712)</u>
Net decrease in cash and cash equivalents	(105,280)	(529,420)
Cash and cash equivalents at beginning of year	418,852	948,272
Cash and cash equivalents at end of year	\$ <u><u>313,572</u></u>	\$ <u><u>418,852</u></u>

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 School Center for Dance Education. The operations of the Ballet and the School are under the direction of the Board of Trustees of the Ballet. The Ballet and the School share the primary objective of supporting dance training, performance and educational programs.

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

Financial Results and Plans

During the year ended June 30, 2005, the Ballet incurred an operating deficit of approximately \$3,830,000 resulting from the dislocation of its annual Nutcracker production from its long term home at the Wang Theatre. This resulted in substantial increases in external debt and accounts payable during that year.

From fiscal 2006-2008, the Ballet achieved three years of operating surpluses. Growth of subscriptions and individual ticket sales, increases in Ballet students, growth of contributions and expense management were factors leading to the operating surpluses and allowed the Ballet to reduce its line of credit borrowings and service its maturities of long term debt. With the economic recession that began early in fiscal 2009 and continued through fiscal year end, the Ballet was challenged with lower contributions, a leveling off of enrollments within its School, and, to a lesser degree, mixed ticket sales results. While management was proactive in managing expenses, those efforts did not fully offset the decline in revenue, resulting in the modest operating loss for the year. However, the Ballet eliminated its term loan with the Nonprofit Finance Fund and reduced its accounts payable by half.

The Ballet's future challenges include its ability to continue to raise short term gifts and multi-year pledges, to manage operating costs including theatre and production expenses, to resolve its ground lease for its headquarters location, to address the needs of infrastructure and deferred maintenance, and to address seasonal and industry specific liquidity issues.

While uncertainties exist about the outcomes relevant to various aspects of management's plans, management believes that these matters will allow the Ballet to continue to operate in an orderly manner.

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. Unrestricted net assets include the Ballet's operating and plant accounts and board designated funds set aside for investment purposes.

Temporarily restricted net assets include gifts, grants, income, gains, and pledges for which donor-imposed restrictions have not yet been met (See Note 10).

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.

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 market value as income in the appropriate net asset category according to donor intent.

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 market value at the date of contribution.

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 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. Short-term investments also include donated securities which are sold shortly after receipt. Donated securities are recorded at fair market value at the time of the gift.

Marketable and Other Equity Securities

Marketable securities are recorded in the financial statements at fair market value. Fair market value is determined as outlined in the "Fair Value" section of the accounting policies.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

Grants and Pledges Receivable

Grants and pledges receivable represent unconditional promises to give and are recorded at the present value of estimated cash flows using a risk-free rate of return appropriate for the expected term of the promise to give. Conditional pledges to give are not included as support until such time as the conditions are substantially met.

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

	<i>2009</i>				<i>2008</i>
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Total</i>
		<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
2010	\$ 59,730	\$ 1,441,768	\$ 665,250	\$ 2,166,748	\$ 3,435,540
2011	-	477,500	15,000	492,500	1,379,392
2012	-	425,000	15,000	440,000	437,500
2013	-	240,000	5,000	245,000	385,000
2014	-	30,000	-	30,000	235,000
Thereafter	-	30,000	-	30,000	60,000
	59,730	2,644,268	700,250	3,404,248	5,932,432
Less:					
Allowance for uncollectible grants and pledges	50,000	200,000	600,000	850,000	270,000
Net present value discount	-	57,940	1,438	59,378	191,794
	-	57,940	1,438	59,378	191,794
Net grants and pledges receivable	\$ 9,730	\$ 2,386,328	\$ 98,812	\$ 2,494,870	\$ 5,470,638

Property and Equipment

Property and equipment are recorded at cost if acquired by purchase and at market value at the date of the gift if acquired by gift. 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

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

Property and Equipment (Continued)

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.

Advance Tuition and Advance Ticket Sales

Tuition 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, 2009 and 2008 was approximately \$1,909,000 and \$2,343,000, respectively.

Advertising

Advertising costs are expensed as incurred. Advertising expense was approximately \$1,082,000 and \$1,060,000 for the years ended June 30, 2009 and 2008, 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.

Functional Allocation of Expenses

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

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

Subsequent Events

The Ballet has evaluated subsequent events through December 2, 2009, the date that the financial statements were authorized to be issued.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Fair Value of Financial Instruments

The Ballet adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS No. 157”) as of July 1, 2008, which among other matters, requires enhanced disclosures about instruments that are measured and reported at fair value. SFAS No. 157 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price used in measuring instruments at fair value. 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 quoted prices or for which fair value can be measured for actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring 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. The type of instruments included in Level 1 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. Instruments which are generally included in this category include less liquid and restricted equity securities and over-the-counter derivatives including corporate bonds and loans and public company equity securities with legal restrictions.

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. Instruments that are included in this category generally include investments in privately held portfolio companies, promissory notes to privately held companies and interests in other investment partnerships.

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.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 3 - Fair Value Measurements (Continued)

The estimated fair value of the Ballet's financial instruments are as follows:

Cash and cash equivalents	Carrying amount approximates fair value
Grants and pledges receivable	Carrying amount approximates fair value
Accounts receivable	Carrying amount approximates fair value
Short term investments	Carrying amount approximates fair value
Line of credit	Carrying amount approximates fair value
Accounts payable	Carrying amount approximates fair value

Note 2 - Investments

Marketable and Other Equity Securities

Marketable and other equity securities consisted of the following:

	<i>2009</i>		<i>2008</i>	
	<i>Cost</i>	<i>Market</i>	<i>Cost</i>	<i>Market</i>
Cash and cash equivalents	\$ 1,521,633	\$ 1,521,633	\$ 392,941	\$ 392,941
Equity securities	2,436,979	2,484,798	3,348,925	4,155,339
Corporate bonds	1,794,232	1,832,103	908,806	903,965
Government bonds	891,641	930,317	1,693,451	1,718,026
	<u>891,641</u>	<u>930,317</u>	<u>1,693,451</u>	<u>1,718,026</u>
Total	\$ <u>6,644,485</u>	\$ <u>6,768,851</u>	\$ <u>6,344,123</u>	\$ <u>7,170,271</u>

Investment returns are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift or state law impose restrictions on the current use of the income or net gains; and
- as increases in unrestricted net assets in all other cases.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 2 - Investments (Continued)

Investment return consisted of the following for the years ended June 30, 2009 and 2008:

	<i>2009</i>	<i>2008</i>
Interest and dividend income	\$ 255,506	\$ 387,175
Net realized gains (losses) on investments	(587,898)	137,492
Net unrealized appreciation (depreciation) of investments	(772,311)	(41,594)
Less investment fees	<u>62,661</u>	<u>58,423</u>
Net return	\$ <u><u>(1,167,364)</u></u>	\$ <u><u>424,650</u></u>

Note 3 - Fair Value Measurements

The Ballet adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS No. 157”) as of July 1, 2008, which among other matters, requires enhanced disclosures about instruments that are measured and reported at fair value. SFAS No. 157 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price used in measuring instruments at fair value. 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 quoted prices or for which fair value can be measured for actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

The valuation of the Organization’s investments by the above fair value hierarchy consisted of the following at June 30, 2009:

<i>Description</i>	<i>Portion carried at fair value</i>	<i>Quoted Prices in Active Markets for (Level 1)</i>	<i>Significant Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Investments	\$ 6,768,851	\$ 6,768,851	\$ -	\$ -
Charitable remainder trusts	<u>332,616</u>	<u>332,616</u>	<u>-</u>	<u>-</u>
Total	\$ <u><u>7,101,467</u></u>	\$ <u><u>7,101,467</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 3 - Fair Value Measurements (Continued)

Charitable Remainder Trusts

The Ballet is the beneficial owner of charitable remainder trusts. The assets are held and administered by independent trustees. Contribution revenue was recognized on the date each trust was established and valued at the present value of the anticipated residual interest in the trust, calculated using a discount rate of 5%. 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.

Note 4 - Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	<i>2009</i>	<i>2008</i>
Inventory	\$ 108,711	\$ 87,659
Prepaid expense - summer school program	376,031	804,460
Prepaid expense - subscriptions	40,804	200,859
Prepaid expense - insurance	119,797	161,433
Prepaid expense - artistic department	79,740	32,423
Prepaid expense - other	60,186	30,145
Prepaid expenses and other current assets	\$ 785,269	\$ 1,316,979

Note 5 - Property and Equipment

Property and equipment consists of the following:

	<i>2009</i>	<i>2008</i>
Building and leasehold improvements	\$ 10,377,030	\$ 10,399,790
Production sets, costumes and recordings	4,268,314	5,437,669
Furniture and equipment	1,755,026	1,504,781
	16,400,370	17,342,240
Less: Accumulated depreciation and amortization	10,781,975	11,346,465
Property and equipment	\$ 5,618,395	\$ 5,995,775

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 School facilities in Newton and Norwell, Massachusetts (see Note 8).

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 6 - Line of Credit

The Ballet has a \$2.5 million collateralized line of credit to support the Ballet's general business operations. The line of credit expired on October 31, 2009 and was subsequently renewed through October 31, 2010. The line of credit is secured by endowment assets totaling approximately \$2,722,000 as of June 30, 2009. Interest is charged at the lender's base rate plus one half of one percent (4.00% at June 30, 2009). The line of credit had an outstanding balance of \$550,000 at June 30, 2009.

Note 7 - Long-Term Debt

The Ballet has a long-term debt agreement with a bank that matures on January 28, 2014. Interest is payable quarterly based on a fixed rate of 6.00%. At June 30, 2009, the outstanding balance was \$1,327,218.

The approximate maturities of long-term debt are as follows:

2010	\$	580,288
2011		62,166
2012		65,980
2013		70,029
2014		<u>548,755</u>
	\$	<u><u>1,327,218</u></u>

Interest expense was \$240,910 and \$280,831 for the years ended June 30, 2009 and 2008, respectively.

Note 8 - Commitments and Contingencies

Leases

The Ballet leases studio, office, warehouse, theater space as well as land on which its main operating facility is situated. The leases expire at various dates through 2021, and in the case of the land lease for the main operating facility 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.

Rent expense, including theater rent, was approximately \$1,660,000 and \$1,703,000 for the years ended June 30, 2009 and 2008, respectively.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 8 - Commitments and Contingencies (Continued)

Leases

Future minimum lease commitments applicable to operating leases were as follows at June 30, 2009:

2010	\$	824,980
2011		866,827
2012		909,672
2013		808,070
2014		821,288
Thereafter		<u>7,823,605</u>
	\$	<u><u>12,054,442</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.

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 expire August 31, 2011. The Ballet also has agreements with Boston Musicians' Association AFM Local 9-535 which expires August 31, 2010 and American Guild of Musical Artists which expires June 30, 2011.

Employment Related Agreements

The Ballet has an employment agreement with its artistic director effective through June 30, 2014. The Ballet also has employment agreement with its executive director effective through May 31, 2012.

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 in fiscal years 2009 or 2008. The cost of the union plans amounted to approximately \$296,000 and \$257,000 for the years ended June 30, 2009 and 2008, respectively.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 10 - Components of Temporarily and Permanently Restricted Net Assets

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

	2009	2008
Endowment funds:		
Accumulated unspent gains:		
Boston Ballet Endowment	\$ 17,647	\$ 126,639
The Snider Fund	7,854	10,938
The Wilcott Fund	3,283	8,460
City Dance Endowment	-	21,856
Artistic Director's Chair Endowment	-	171,294
Tatiana Gardner Scholarship	-	1,767
Krupp Contemporary Dance Fund	79,792	65,629
CDE Cathryn Keith Scholarship Fund	3,101	-
	111,677	406,583
Purpose restricted:		
School	305,402	502,848
Performance and venue	406,048	-
Building	89,000	-
Dancer transition	176,746	252,430
Due to operations	(28,826)	-
	948,370	755,278
Time restricted:		
Charitable remainder trust	332,616	380,645
Pledges receivable	2,386,328	3,960,066
	2,718,944	4,340,711
Total temporarily restricted net assets	\$ 3,778,991	\$ 5,502,572

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

The following table presents restricted net assets by time or purpose as of June 30:

	2009	2008
Endowment funds:		
Beatrice H. Barrett Performance Fund	\$ 3,707,851	\$ 3,707,101
Boston Ballet Endowment	442,763	442,763
Bradley C. Higgins Ballet Endowment	1,093,675	1,352,576
The Snider Fund	5,174	5,174
The Wilcott Fund	18,585	18,585
City Dance Endowment	127,959	127,959
Artistic Director's Chair Endowment	1,022,861	1,022,861
Tatiana Gardner Scholarship	10,348	10,348
Krupp Contemporary Dance Fund	1,000,089	500,089
CDE Cathryn Keith Scholarship Fund	<u>330,160</u>	<u>97,200</u>
Total permanently restricted endowment funds	7,759,465	7,284,656
Pledges receivable	<u>98,812</u>	<u>1,072,744</u>
Total permanently restricted net assets	\$ <u><u>7,858,277</u></u>	\$ <u><u>8,357,400</u></u>

Under the terms of the Beatrice H. Barrett Performance 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. During the year ended June 30, 2009 and 2008, the Ballet had \$520,968 of funds borrowed against the fund.

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:

Fixed assets - The value of buildings and equipment, net of depreciation, used in the Organization's operations. This amount is offset by outstanding liabilities related to the assets, such as bond debt.

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

	<i>2009</i>	<i>2008</i>
Plant	\$ 3,749,151	\$ 4,223,237
Operating	<u>(5,697,937)</u>	<u>(4,449,149)</u>
	<u>\$ (1,948,786)</u>	<u>\$ (225,912)</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following:

Unrealized/realized gains (losses) on permanently restricted investments - In accordance with Financial Accounting Standards Board statement No. 124 and 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 11 - Net Assets and Endowment Matters (Continued)

New Accounting Pronouncement

The Financial Accounting Standards Board (FASB) has issued FASB staff position 117-1 (FSP 117-1) effective for fiscal years ending after December 15, 2008. The Ballet adopted FSP 117-1 as of the July 1, 2008. FSP 117-1 requires enhanced disclosures for each period for which the organization presents financial statements. The adoption of FSP 117-1 had no impact on reported amounts.

The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30, 2009:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 111,677	\$ 6,657,174	\$ 6,768,851
Board-designated endowment funds	-	-	-	-
Total funds	\$ -	\$ 111,677	\$ 6,657,174	\$ 6,768,851

The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30, 2008:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 406,583	\$ 6,763,688	\$ 7,170,271
Board-designated endowment funds	-	-	-	-
Total funds	\$ -	\$ 406,583	\$ 6,763,688	\$ 7,170,271

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:

	<u>2009</u>			<u>2008</u>	
	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total</u>	<u>Total</u>
Endowment assets and those functioning as endowment assets, beginning of year	\$ -	\$ 406,583	\$ 6,763,688	\$ 7,170,271	\$ 6,880,216
Gifts and additions	-	3,100	733,710	736,810	473,490
Long-term investment returns:					
Interest and dividends	-	188,564	-	188,564	214,596
Net realized and unrealized gains (losses), net of investment management fees of \$62,661 and \$58,423 for the years ended June 30, 2009 and 2008, respectively	-	(486,570)	(840,224)	(1,326,794)	(40,249)
Total long-term investment returns	-	(298,006)	(840,224)	(1,138,230)	174,347
Expenditures:					
Amounts appropriated for operations	-	-	-	-	(357,782)
Expenditures for:					
Capital projects	-	-	-	-	-
Other purposes	-	-	-	-	-
Total expenditures	-	-	-	-	(357,782)
Change in endowment assets and those functioning as endowment assets	-	(294,906)	(106,514)	(401,420)	290,055
Other changes:					
Reclassification of net assets	-	-	-	-	-
Endowment assets and those functioning as endowment assets, end of year	\$ -	\$ 111,677	\$ 6,657,174	\$ 6,768,851	\$ 7,170,271

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>2008</i>			
	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ -	\$ 679,519	\$ 6,200,697	\$ 6,880,216
Gifts and additions	-	35,601	437,889	473,490
Long-term investment returns:				
Interest and dividends	-	89,494	125,102	214,596
Net realized and unrealized gains (losses), net of investment management fees of \$58,423 for the year ended June 30, 2008	-	(40,249)	-	(40,249)
Total long-term investment returns	-	49,245	125,102	174,347
Expenditures:				
Amounts appropriated for operations	-	(357,782)	-	(357,782)
Expenditures for:				
Capital projects	-	-	-	-
Other purposes	-	-	-	-
Total expenditures	-	(357,782)	-	(357,782)
Change in endowment assets and those functioning as endowment assets	-	(272,936)	562,991	290,055
Other changes:				
Reclassification of net assets	-	-	-	-
Endowment assets and those functioning as endowment assets, end of year	\$ -	\$ 406,583	\$ 6,763,688	\$ 7,170,271

The investment return appropriated from temporarily restricted to unrestricted for operations was \$0 and \$357,782 for the years ended June 30, 2009 and 2008 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 ten individual funds 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 GAAP, 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 Attorney General of Massachusetts has issued written guidance that all gains on permanently restricted endowment funds that have not been appropriated in accordance with the law should be classified as temporarily restricted net assets unless otherwise restricted by the donor.

State law allows the Board of Trustees to appropriate a percentage of net 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 has an annual spending policy equal to 4% of the market value on endowment funds and an annual spending policy equal to 4% on the Beatrice H. Barrett Performance Fund, calculated on a rolling 12 to 16 quarters. If capital gains, dividends, and interest exceed 5% of the Fund's assets in the prior year, additional expenditures may be taken. The expended amount will be reduced by the outstanding balance of any distribution taken for permitted special purposes. The percentage spent was 0.00% and 4.99% for the years ended June 30, 2009 and 2008 respectively.

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 GAAP, deficiencies of this nature that are reported in unrestricted are \$581,323 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. There were no such deficiencies as of June 30, 2008.

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 8-9%, which would meet the annual spending rate (4-5% depending upon the endowment), 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 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.

Note 12 - Cash Flows Information

Cash paid for interest totaled \$240,910 and \$280,831 for the years ended June 30, 2009 and 2008, respectively.

Note 13 - Accounting for Uncertain Tax Positions

The uncertainties of any tax positions were accounted for under the guidance in Statement of Accounting Standards 5, *Accounting for Contingencies*. Under this approach, disclosure is not required of a loss contingency involving an unasserted claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. In June 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*—an interpretation of FASB Statement 109. FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken in the course of preparing the Ballet's tax returns to determine whether tax positions are "more-likely than-not" of being sustained by the applicable tax authority. On December 30, 2008, the FASB Staff issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which defers the adoption of the provisions of FIN 48 for the Ballet until fiscal 2010. At this time, the Ballet's management is evaluating the implications of FIN 48.