

# **Financial Statements**

## **The Boston Ballet, Incorporated**

**June 30, 2010 and 2009**



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

# THE BOSTON BALLET, INCORPORATED

## *Financial Statements*

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**Mayer Hoffman McCann P.C.**

An Independent CPA Firm

**Tofias New England Division**

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*Independent Auditors' Report*

Board of Trustees  
The Boston Ballet, Incorporated  
Boston, Massachusetts

We have audited the accompanying statements of financial position of The Boston Ballet, Incorporated (the "Ballet") as of June 30, 2010 and 2009 and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Mayer Hoffman McCann P.C.*

October 1, 2010  
Cambridge, Massachusetts

**THE BOSTON BALLET, INCORPORATED**

*Statements of Financial Position*

	<i>June 30,</i>	
	<i>2010</i>	<i>2009</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,148,213	\$ 313,572
Short-term investments	1,507,621	1,060,916
Grants and pledges receivable, net	2,348,958	2,494,870
Accounts receivable, net	237,319	22,942
Prepaid expenses and other current assets	1,032,941	785,269
Marketable and other equity securities	7,466,882	6,768,851
Charitable remainder trusts	331,570	332,616
Property and equipment, net	5,876,228	5,618,395
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 20,949,732</b>	<b>\$ 17,397,431</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and Net Assets</b>		
Line of credit	\$ -	\$ 550,000
Accounts payable and accrued expenses	1,965,773	1,186,934
Advance tuition	2,340,708	2,429,339
Advance ticket sales	2,300,154	2,120,712
Deferred sponsorship revenue	-	94,746
Capital lease	45,833	-
Long-term debt	538,645	1,327,218
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>7,191,113</b>	<b>7,708,949</b>
	<hr/> <hr/>	<hr/> <hr/>
Net assets:		
Unrestricted	2,334,288	(1,948,786)
Temporarily restricted	3,490,552	3,778,991
Permanently restricted	7,933,779	7,858,277
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<b>Total net assets</b>	<b>13,758,619</b>	<b>9,688,482</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Total liabilities and net assets</b>	<b>\$ 20,949,732</b>	<b>\$ 17,397,431</b>
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# THE BOSTON BALLET, INCORPORATED

## Statements of Activities

Year Ended June 30,

	2010					2009	
	<i>Unrestricted</i>		<i>Total</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Total</i>
	<i>Operating</i>	<i>Plant</i>					
<b>Revenue:</b>							
Ticket sales	\$ 8,424,461	\$ -	\$ 8,424,461	\$ -	\$ -	\$ 8,424,461	\$ 8,685,601
School income, tuition and fees	5,831,807	-	5,831,807	-	-	5,831,807	5,606,110
Contracted services, programs and other	1,501,027	-	1,501,027	-	-	1,501,027	833,652
Distribution from E. Virginia Williams Trust	114,134	-	114,134	-	-	114,134	115,639
Interest and dividend income	5,620	-	5,620	186,493	12,667	204,780	77,206
<b>Total revenue</b>	<b>15,877,049</b>	<b>-</b>	<b>15,877,049</b>	<b>186,493</b>	<b>12,667</b>	<b>16,076,209</b>	<b>15,318,208</b>
<b>Expenses:</b>							
Production and programs:							
Dance school	5,350,597	257,638	5,608,235	-	-	5,608,235	5,248,061
Artistic department	12,389,461	280,649	12,670,110	-	-	12,670,110	11,706,466
Administrative expenses	2,766,891	405,321	3,172,212	-	-	3,172,212	3,272,085
Bad debt expense	645,915	-	645,915	-	-	645,915	-
Marketing	3,311,011	-	3,311,011	-	-	3,311,011	3,235,252
<b>Total expenses</b>	<b>24,463,875</b>	<b>943,608</b>	<b>25,407,483</b>	<b>-</b>	<b>-</b>	<b>25,407,483</b>	<b>23,461,864</b>
<b>(Loss) income from operations before support</b>	<b>(8,586,826)</b>	<b>(943,608)</b>	<b>(9,530,434)</b>	<b>186,493</b>	<b>12,667</b>	<b>(9,331,274)</b>	<b>(8,143,656)</b>
<b>Support:</b>							
Gifts and grants	13,464,652	-	13,464,652	1,320,703	1,750	14,787,105	8,242,341
Less: direct donor benefits	(612,800)	-	(612,800)	-	-	(612,800)	(340,262)
Net gifts and grants	12,851,852	-	12,851,852	1,320,703	1,750	14,174,305	7,902,079
Satisfaction of program restricted donations	2,410,338	-	2,410,338	(2,410,338)	-	-	-
<b>Total support</b>	<b>15,262,190</b>	<b>-</b>	<b>15,262,190</b>	<b>(1,089,635)</b>	<b>1,750</b>	<b>14,174,305</b>	<b>7,902,079</b>
Bad debt expense	(48,423)	-	(48,423)	(1,664)	(250)	(50,337)	(1,001,816)
Fundraising costs	(1,213,133)	-	(1,213,133)	-	-	(1,213,133)	(1,341,976)
<b>Total support, net</b>	<b>14,000,634</b>	<b>-</b>	<b>14,000,634</b>	<b>(1,091,299)</b>	<b>1,500</b>	<b>12,910,835</b>	<b>5,558,287</b>
<b>Income (loss) from operations</b>	<b>5,413,808</b>	<b>(943,608)</b>	<b>4,470,200</b>	<b>(904,806)</b>	<b>14,167</b>	<b>3,579,561</b>	<b>(2,585,369)</b>
<b>Non-operating activity:</b>							
Accounting for underwater net assets	(187,097)	-	(187,097)	187,097	-	-	-
Realized and unrealized gains (losses) on investments	(29)	-	(29)	429,270	61,335	490,576	(1,360,209)
Capital additions	(1,142,618)	1,142,618	-	-	-	-	-
<b>Total non-operating activity</b>	<b>(1,329,744)</b>	<b>1,142,618</b>	<b>(187,126)</b>	<b>616,367</b>	<b>61,335</b>	<b>490,576</b>	<b>(1,360,209)</b>
<b>Change in net assets</b>	<b>4,084,064</b>	<b>199,010</b>	<b>4,283,074</b>	<b>(288,439)</b>	<b>75,502</b>	<b>4,070,137</b>	<b>(3,945,578)</b>
Net assets at beginning of year	(5,697,937)	3,749,151	(1,948,786)	3,778,991	7,858,277	9,688,482	13,634,060
<b>Net assets at end of year</b>	<b>\$ (1,613,873)</b>	<b>\$ 3,948,161</b>	<b>\$ 2,334,288</b>	<b>\$ 3,490,552</b>	<b>\$ 7,933,779</b>	<b>\$ 13,758,619</b>	<b>\$ 9,688,482</b>

See accompanying notes to the financial statements.

# THE BOSTON BALLET, INCORPORATED

## Statement of Activities

Year Ended June 30, 2009

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

See accompanying notes to the financial statements.

# THE BOSTON BALLET, INCORPORATED

## *Statements of Cash Flows*

	<i>Years Ended June 30,</i>	
	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 4,070,137	\$ (3,945,578)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	876,455	878,018
Bad debt expense	696,252	1,187,612
Contributions restricted for long-term investment	(1,750)	(747,711)
Realized and unrealized losses	(490,576)	1,360,209
Investment income restricted for long-term investment	(199,160)	(74,586)
Loss on disposal of assets	8,330	-
Change in:		
Grants and pledges receivable	95,574	1,788,156
Accounts receivable	(860,292)	3,117
Prepaid expenses and other current assets	(247,672)	531,710
Accounts payable and accrued expenses	778,839	(607,185)
Advance tuition	(88,631)	(188,833)
Advance ticket sales	179,442	(217,630)
Deferred revenue	(94,746)	(17,580)
	<u>4,722,202</u>	<u>(50,281)</u>
<b>Net cash provided by (used in) operating activities</b>		
<b>Cash flows from investing activities:</b>		
Capital expenditures	(1,073,432)	(500,638)
Proceeds from sales and maturities of investments	5,001,468	3,497,398
Purchases of investments	(5,654,582)	(3,004,027)
	<u>(1,726,546)</u>	<u>(7,267)</u>
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities:</b>		
Net change in line of credit	(550,000)	550,000
Payments on long-term debt	(788,573)	(1,420,029)
Payments on capital lease	(23,352)	-
Investment income restricted for long-term investment	199,160	74,586
Proceeds from contributions restricted for long-term investment	1,750	747,711
	<u>(1,161,015)</u>	<u>(47,732)</u>
<b>Net cash used in financing activities</b>		
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,834,641</b>	<b>(105,280)</b>
Cash and cash equivalents at beginning of year	<u>313,572</u>	<u>418,852</u>
<b>Cash and cash equivalents at end of year</b>	<b>\$ <u><u>2,148,213</u></u></b>	<b>\$ <u><u>313,572</u></u></b>

# 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. Revenue and support is primarily derived from ticket sales, school tuition and contributed support. Patrons, students and contributors are concentrated in eastern Massachusetts.

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

### *Financial Results and Plans*

Over the past three years, The Boston Ballet has implemented a series of significant budget reductions and focused on increasing efficiencies while maintaining quality. Through strategic reductions, expense management and philanthropic support, the organization has reduced its long-term debt from a high of \$3,850,000 in 2005, to \$538,645 at the end of fiscal year 2010.

A financial plan to assure stability was built in prior year under the leadership of the new board chair and executive director. The financial model is built on aggressive marketing strategies to promote exceptional art, expanding development activities and controlling cost, with a plan to achieve operational stability by 2013. Fiscal year 2010 was the first year of the 3-year model, and overall goals were exceeded. A critical strategy of the financial plan is the creation of a "clean slate fund" to invest in capacity building initiatives, paying down remaining debt, and executing a long-needed deferred maintenance and renovation project for the Ballet's headquarters at 19 Clarendon Street. The fund goal was set at \$10,000,000, of which \$7,050,000 has been committed by the end of fiscal year 2010.

### *Classification of Net Assets*

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

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

*Temporarily restricted net assets* include gifts, grants, income, gains and pledges for which donor-imposed restrictions have not yet been met (see Note 12). These restrictions can be satisfied by the passage of time and/or by meeting the purpose restrictions associated with the net asset.

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



# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

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

#### *Classification of Net Assets (Continued)*

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

#### *Gifts, Pledges and Grants*

Gifts are recorded at fair value as income in the appropriate net asset category according to donor intent.

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

#### *Cash and Cash Equivalents*

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

#### *Short-Term Investments*

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

#### *Grants and Pledges Receivable*

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

#### *Accounts Receivable*

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

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

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

#### *Marketable and Other Equity Securities*

Marketable and other equity securities are recorded in the financial statements at fair value. Fair value is determined per the fair value policies described later in this section.

Interest, dividends and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanently restricted endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift and/or relevant state law impose restrictions on the current use of the income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

#### *Charitable Remainder Trusts*

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

#### *Property and Equipment*

Property and equipment are recorded at cost if acquired by purchase and at 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

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.

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

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

#### *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, 2010 and 2009 was approximately \$1,811,000 and \$1,909,000, respectively.

#### *Advertising*

Advertising costs are expensed as incurred. Advertising expense was approximately \$1,208,000 and \$1,082,000 for the years ended June 30, 2010 and 2009, respectively.

#### *Tax Status*

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

#### *Uncertain Tax Positions*

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

#### *Fair Value Measurements*

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

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

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

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

#### *Fair Value Measurements (Continued)*

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

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

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

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

#### *Functional Allocation of Expenses*

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

#### *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. Significant management estimates included in the financial statements relate to grants and pledges receivable, accounts receivable, and the allocation of common expenses over program functions.

#### *Subsequent Events*

The Ballet has evaluated subsequent events through October 1, 2010, the date that the financial statements were authorized to be issued.

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 2 - Grants and Pledges Receivable*

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

	2010				2009
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Total</i>
2011	\$ 38,978	\$ 1,069,542	\$ 15,000	\$ 1,123,520	\$ 2,166,748
2012	-	738,334	15,000	753,334	492,500
2013	-	590,000	5,000	595,000	440,000
2014	-	130,000	-	130,000	245,000
2015	-	30,000	-	30,000	30,000
Thereafter	-	-	-	-	30,000
	38,978	2,557,876	35,000	2,631,854	3,404,248
Less:					
Allowance for uncollectible grants and pledges	30,000	220,000	-	250,000	850,000
Net present value discount	-	32,387	509	32,896	59,378
	-	32,387	509	32,896	59,378
<b>Grants and pledges receivable, net</b>	<b>\$ 8,978</b>	<b>\$ 2,305,489</b>	<b>\$ 34,491</b>	<b>\$ 2,348,958</b>	<b>\$ 2,494,870</b>

### *Note 3 - Investments*

#### *Marketable and Other Equity Securities*

Marketable and other equity securities consisted of the following:

	2010		2009	
	<i>Cost</i>	<i>Market</i>	<i>Cost</i>	<i>Market</i>
Cash and cash equivalents	\$ 709,534	\$ 709,534	\$ 1,521,633	\$ 1,521,633
Equity security funds	4,072,707	4,414,126	2,436,979	2,484,798
Corporate bond funds	1,460,315	1,549,561	1,794,232	1,832,103
Government bond funds	780,849	793,661	891,641	930,317
	-	-	-	-
<b>Total</b>	<b>\$ 7,023,405</b>	<b>\$ 7,466,882</b>	<b>\$ 6,644,485</b>	<b>\$ 6,768,851</b>

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 3 - Investments (Continued)*

#### *Marketable and Other Equity Securities (Continued)*

Investment return consisted of the following for the years ended June 30, 2010 and 2009:

	<i>2010</i>	<i>2009</i>
Interest and dividend income (including distributions from the E. Virginia Williams Fund)	\$ 378,817	\$ 255,506
Net realized gains (losses) on investments	163,287	(587,898)
Net unrealized appreciation (depreciation) of investments	327,289	(772,311)
Less investment fees	<u>59,903</u>	<u>62,661</u>
<b>Net return</b>	<b>\$ <u><u>809,490</u></u></b>	<b>\$ <u><u>(1,167,364)</u></u></b>

### *Note 4 - Fair Values of Financial Instruments*

The following table represents financial assets at June 30, 2010 that the Ballet measures at fair value on a recurring basis, by level within the fair value hierarchy:

<i>Description</i>	<i>Portion Carried at Fair Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Cash and cash equivalents	\$ 709,534	\$ 709,534	\$ -	\$ -
Equity security funds	4,414,126	4,414,126	-	-
Corporate bond funds	1,549,561	1,549,561	-	-
Government bond funds	<u>793,661</u>	<u>793,661</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b>\$ <u><u>7,466,882</u></u></b>	<b>\$ <u><u>7,466,882</u></u></b>	<b>\$ <u><u>-</u></u></b>	<b>\$ <u><u>-</u></u></b>

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 4 - Fair Values of Financial Instruments (Continued)*

The following tables represent financial assets at June 30, 2009 that the Ballet measures at fair value on a recurring basis, by level within the fair value hierarchy:

<i>Description</i>	<i>Portion Carried at Fair Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Cash and cash equivalents	\$ 1,521,633	\$ 1,521,633	\$ -	\$ -
Equity security funds	2,484,798	2,484,798	-	-
Corporate bond funds	1,832,103	1,832,103	-	-
Government bond funds	930,317	930,317	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total</b>	<b>\$ <u>6,768,851</u></b>	<b>\$ <u>6,768,851</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>-</u></b>

### *Note 5 - Prepaid Expenses and Other Current Assets*

Prepaid expenses and other current assets consist of the following:

	<i>2010</i>	<i>2009</i>
Inventory	\$ 103,177	\$ 108,711
Prepaid expense - summer school program	430,075	376,031
Prepaid expense - subscriptions	114,901	40,804
Prepaid expense - insurance	198,604	119,797
Prepaid expense - artistic department	141,165	79,740
Prepaid expense - other	45,019	60,186
	<u>          </u>	<u>          </u>
<b>Prepaid expenses and other current assets</b>	<b>\$ <u>1,032,941</u></b>	<b>\$ <u>785,269</u></b>

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 6 - Property and Equipment, Net*

Property and equipment consists of the following:

	<i>2010</i>	<i>2009</i>
Building and leasehold improvements	\$ 10,885,056	\$ 10,377,030
Production sets, costumes and recordings	4,617,251	4,268,314
Furniture and equipment	<u>2,032,351</u>	<u>1,755,026</u>
	17,534,658	16,400,370
Less: accumulated depreciation and amortization	<u>11,658,430</u>	<u>10,781,975</u>
<b>Property and equipment, net</b>	<b><u>\$ 5,876,228</u></b>	<b><u>\$ 5,618,395</u></b>

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 10).

### *Note 7 - 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 expires on October 31, 2010, and management is currently in negotiations to renew the line through October 31, 2011. The line is secured by endowment assets totaling approximately \$3,460,000 and \$2,722,000 as of June 30, 2010 and 2009, respectively. Interest is charged at the lender's base rate plus one half of one percent (4.00% at June 30, 2010 and 2009). The line of credit had an outstanding balance of \$0 at June 30, 2010 and \$550,000 at June 30, 2009.

### *Note 8 - Capital Lease*

The Ballet has capitalized the present value of future rental payments due under a lease agreement for certain operating equipment with an original lease term of five years. The Ballet has the option to purchase the equipment for a nominal cost at the termination of the lease. Asset included in property and equipment under capital leases was \$69,185. At June 30, 2010, the net book value of the asset was \$46,124. Future minimum lease payments are as follows: \$25,640 in 2011 and \$20,193 in 2012.

### *Note 9 - 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%.



# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 9 - Long-Term Debt (Continued)*

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

2011	\$	73,830
2012		78,360
2013		83,169
2014		88,272
2015		<u>215,014</u>
	\$	<u><b>538,645</b></u>

Interest expense was \$109,032 and \$240,910 for the years ended June 30, 2010 and 2009, respectively.

### *Note 10 - Commitments and Contingencies*

#### *Leases*

The Ballet leases studio, office, warehouse and theater space as well as land on which its main operating facility is situated under operating leases. The leases expire at various dates through 2021. In August 2010, the Ballet renegotiated the land lease for the main operating facility which the Ballet has options to renew at its sole option, through 2053. The leases provide for various escalations for operating costs and in one case for fair market adjustment during various periods of the lease term. The lease for the Norwell studio ended as of June 30, 2010, and the Ballet decided to not renew the lease. The Ballet is in process of negotiating a lease agreement with the Hanover YMCA for a one year agreement. During 2011, the main operating facility will be going through some deferred maintenance and renovations of which the budget for this project will not exceed \$3,000,000.

Rent expense, including theater rent, was approximately \$2,107,000 and \$1,660,000 for the years ended June 30, 2010 and 2009, respectively.

Future minimum lease commitments applicable to operating leases were as follows at June 30, 2010:

2011	\$	941,005
2012		991,575
2013		747,631
2014		745,514
2015		769,790
Thereafter		<u>6,781,056</u>
	\$	<u><b>10,976,571</b></u>

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 10 - Commitments and Contingencies (Continued)*

#### *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 an employment agreement with its executive director effective through May 31, 2012.

#### *Charitable Gift Annuity*

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

### *Note 11 - 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 2010 or 2009. The cost of the union plans amounted to approximately \$296,000 and \$296,000 for the years ended June 30, 2010 and 2009, respectively.

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 12 - Components of Temporarily and Permanently Restricted Net Assets*

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

	<i>2010</i>	<i>2009</i>
<b>Endowment funds:</b>		
Accumulated unspent gains:		
Boston Ballet Endowment	\$ 58,219	\$ 17,647
The Snider Fund	9,003	7,854
The Wilcott Fund	5,212	3,283
City Dance Endowment	10,683	-
Artistic Director's Chair Endowment	76,462	-
Tatiana Gardner Scholarship	864	-
Krupp Contemporary Dance Fund	142,138	79,792
CDE Cathryn Keith Scholarship Fund	21,388	3,101
	<b>323,969</b>	<b>111,677</b>
<b>Purpose restricted:</b>		
School	121,158	305,402
Performance and venue	167,299	406,048
Building	38,300	89,000
Dancer transition	226,762	176,746
Due to operations	(23,995)	(28,826)
	529,524	948,370
<b>Time restricted:</b>		
Charitable remainder trust	331,570	332,616
Pledges receivable	2,305,489	2,386,328
	2,637,059	2,718,944
<b>Total temporarily restricted net assets</b>	<b>\$ 3,490,552</b>	<b>\$ 3,778,991</b>

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 12 - Components of Temporarily and Permanently Restricted Net Assets (Continued)*

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

	<i>2010</i>	<i>2009</i>
<b>Endowment funds:</b>		
Beatrice H. Barrett Performance Fund	\$ 3,709,144	\$ 3,707,851
Boston Ballet Endowment	442,794	442,763
Bradley C. Higgins Ballet Endowment	1,182,173	1,093,675
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	1,000,089
CDE Cathryn Keith Scholarship Fund	<u>380,161</u>	<u>330,160</u>
<b>Total permanently restricted endowment funds</b>	<b>7,899,288</b>	<b>7,759,465</b>
Pledges receivable	<u>34,491</u>	<u>98,812</u>
<b>Total permanently restricted net assets</b>	<b>\$ <u>7,933,779</u></b>	<b>\$ <u>7,858,277</u></b>

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 years ended June 30, 2010 and 2009, the Ballet had \$520,968 of funds borrowed against the fund.

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 13 - 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 Ballet'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 Ballet.

	<i>2010</i>	<i>2009</i>
Plant	\$ 3,948,161	\$ 3,749,151
Operating	<u>(1,613,873)</u>	<u>(5,697,937)</u>
	<u>\$ 2,334,288</u>	<u>\$ (1,948,786)</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 standards for accounting for investments and endowment funds held by not-for-profit organizations and with Massachusetts state law, these amounts represent unappropriated gains on permanently restricted endowment investments.

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

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

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

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 13 - Net Assets and Endowment Matters (Continued)*

The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30, 2010:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$ <u>          -</u>	\$ <u>      323,969</u>	\$ <u>      7,142,913</u>	\$ <u>      7,466,882</u>
<b>Total funds</b>	<b>\$ <u>          -</u></b>	<b>\$ <u>      323,969</u></b>	<b>\$ <u>      7,142,913</u></b>	<b>\$ <u>      7,466,882</u></b>

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	\$ <u>          -</u>	\$ <u>      111,677</u>	\$ <u>      6,657,174</u>	\$ <u>      6,768,851</u>
<b>Total funds</b>	<b>\$ <u>          -</u></b>	<b>\$ <u>      111,677</u></b>	<b>\$ <u>      6,657,174</u></b>	<b>\$ <u>      6,768,851</u></b>

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 13 - 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>2010</u>			<u>2009</u>	
	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ -	\$ 111,677	\$ 6,657,174	\$ 6,768,851	\$ 7,170,271
Gifts and additions	-	-	51,032	51,032	736,810
Long-term investment returns:					
Interest and dividends	-	229,161	-	229,161	188,564
Net realized and unrealized gains (losses), net of investment management fees of \$59,903 and \$62,661 for the years ended June 30, 2010 and 2009, respectively	-	(16,869)	434,707	417,838	(1,326,794)
Total long-term investment returns	-	212,292	434,707	646,999	(1,138,230)
Expenditures:					
Amounts appropriated for operations	-	-	-	-	-
Expenditures for:					
Capital projects	-	-	-	-	-
Other purposes	-	-	-	-	-
Total expenditures	-	-	-	-	-
Change in endowment assets and those functioning as endowment assets	-	212,292	485,739	698,031	(401,420)
Other changes:					
Reclassification of net assets	-	-	-	-	-
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<b>\$ -</b>	<b>\$ 323,969</b>	<b>\$ 7,142,913</b>	<b>\$ 7,466,882</b>	<b>\$ 6,768,851</b>

# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 13 - 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>2009</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	\$ -	\$ 406,583	\$ 6,763,688	\$ 7,170,271
Gifts and additions	-	3,100	733,710	736,810
Long-term investment returns:				
Interest and dividends	-	188,564	-	188,564
Net realized and unrealized gains (losses), net of investment management fees of \$62,661 for the year ended June 30, 2009	-	(486,570)	(840,224)	(1,326,794)
Total long-term investment returns	-	(298,006)	(840,224)	(1,138,230)
Expenditures:				
Amounts appropriated for operations	-	-	-	-
Expenditures for:				
Capital projects	-	-	-	-
Other purposes	-	-	-	-
Total expenditures	-	-	-	-
Change in endowment assets and those functioning as endowment assets	-	(294,906)	(106,514)	(401,420)
Other changes:				
Reclassification of net assets	-	-	-	-
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<b>\$ -</b>	<b>\$ 111,677</b>	<b>\$ 6,657,174</b>	<b>\$ 6,768,851</b>

The investment return appropriated from temporarily restricted to unrestricted for operations was \$0 for the years ended June 30, 2010 and 2009.



# THE BOSTON BALLET, INCORPORATED

## *Notes to Financial Statements*

### *Note 13 - 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 Ballet classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Ballet in a manner consistent with the standard of prudence prescribed by state law.

State law allows the Board of Trustees to appropriate a percentage of net asset appreciation as is prudent considering the Ballet's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. The Ballet has not availed itself to a draw on its endowment for the years ended June 30, 2010 and 2009.

#### *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 \$187,097 and \$581,323 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

#### *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 13 - Net Assets and Endowment Matters (Continued)*

#### *Strategies of Employer for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Ballet relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Ballet targets an asset allocation strategy wherein assets are diversified among several asset classes. The pursuit of maximizing total return is tempered by the need to minimize the volatility of returns and preserve capital. As such, the Ballet seeks broad diversification among assets having different characteristics with the intent to endure lower relative performance in strong markets in exchange for greater downside protection in weak markets.

### *Note 14 - Cash Flows Information*

Cash paid for interest totaled \$109,032 and \$240,910 for the years ended June 30, 2010 and 2009, respectively. During 2010, a capital lease obligation was recorded for \$69,185 which was a non-cash transaction.