



Financial Statements

The Boston Ballet, Incorporated

June 30, 2011 and 2010



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.
Tofias New England Division
An Independent CPA Firm

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Independent Auditors' Report

Board of Trustees
The Boston Ballet, Incorporated
Boston, Massachusetts

We have audited the accompanying statements of financial position of The Boston Ballet, Incorporated (the "Ballet") as of June 30, 2011 and 2010 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, 2011 and 2010, 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 7, 2011
Boston, Massachusetts

THE BOSTON BALLET, INCORPORATED

Statements of Financial Position

	<i>June 30,</i>	
	<i>2011</i>	<i>2010</i>
Assets		
Cash and cash equivalents	\$ 1,163,438	\$ 2,148,213
Short-term investments	567,218	1,507,621
Grants and pledges receivable, net	1,726,277	2,348,958
Accounts receivable, net	248,429	237,319
Prepaid expenses and other current assets	725,735	1,032,941
Marketable and other equity securities	8,242,886	7,466,882
Charitable remainder trusts	345,283	331,570
Property and equipment, net	8,860,273	5,876,228
	<hr/>	<hr/>
Total assets	\$ 21,879,539	\$ 20,949,732
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 1,646,700	\$ 1,965,773
Advance tuition	2,579,671	2,340,708
Advance ticket sales	2,367,060	2,300,154
Capital lease	20,760	45,833
Long-term debt	463,193	538,645
	<hr/>	<hr/>
Total liabilities	7,077,384	7,191,113
	<hr/>	<hr/>
Net assets:		
Unrestricted	3,023,517	2,334,288
Temporarily restricted	3,740,270	3,490,552
Permanently restricted	8,038,368	7,933,779
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Total net assets	14,802,155	13,758,619
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Total liabilities and net assets	\$ 21,879,539	\$ 20,949,732
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THE BOSTON BALLET, INCORPORATED

Statements of Activities

Year Ended June 30,

	2011						2010
	<u>Operating</u>	<u>Unrestricted Plant</u>	<u>Total</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
Revenue:							
Ticket sales	\$ 9,244,901	\$ -	\$ 9,244,901	\$ -	\$ -	\$ 9,244,901	\$ 8,424,461
School income, tuition and fees	6,075,384	-	6,075,384	-	-	6,075,384	5,831,807
Contracted services, programs and other	312,452	-	312,452	-	-	312,452	1,501,027
Distribution from E. Virginia Williams Trust	100,690	-	100,690	-	-	100,690	114,134
Interest and dividend income	(8,876)	-	(8,876)	237,374	38,864	267,362	204,780
Total revenue	15,724,551	-	15,724,551	237,374	38,864	16,000,789	16,076,209
Expenses:							
Production and programs:							
Dance school	5,936,540	70,630	6,007,170	-	-	6,007,170	5,608,235
Artistic department	13,042,574	267,541	13,310,115	-	-	13,310,115	12,670,110
Administrative expenses	2,761,219	471,664	3,232,883	-	-	3,232,883	3,172,212
Bad debt expense	3,963	-	3,963	-	-	3,963	645,915
Marketing	3,657,986	-	3,657,986	-	-	3,657,986	3,311,011
Total expenses	25,402,282	809,835	26,212,116	-	-	26,212,116	25,407,483
(Loss) income from operations before support	(9,677,731)	(809,835)	(10,487,565)	237,374	38,864	(10,211,327)	(9,331,274)
Support:							
Gifts and grants	11,501,541	-	11,501,541	1,403,399	1,500	12,906,440	14,787,105
Less: direct donor benefits	(655,084)	-	(655,084)	-	-	(655,084)	(612,800)
Net gifts and grants	10,846,457	-	10,846,457	1,403,399	1,500	12,251,356	14,174,305
Satisfaction of program restricted donations	2,127,685	-	2,127,685	(2,127,685)	-	-	-
Total support	12,974,142	-	12,974,142	(724,286)	1,500	12,251,356	14,174,305
Bad debt expense	(315,094)	-	(315,094)	-	(15,000)	(330,094)	(50,337)
Fundraising costs	(1,360,346)	-	(1,360,346)	-	-	(1,360,346)	(1,213,133)
Total support, net	11,298,702	-	11,298,702	(724,286)	(13,500)	10,560,916	12,910,835
Income (loss) from operations	1,620,972	(809,835)	811,137	(486,912)	25,364	349,589	3,579,561
Non-operating activity:							
Accounting for underwater net assets	-	-	-	-	-	-	-
Realized and unrealized gains (losses) on investments	(121,908)	-	(121,908)	736,630	79,225	693,947	490,576
Capital additions	(3,764,824)	3,764,824	-	-	-	-	-
Total non-operating activity	(3,886,732)	3,764,824	(121,908)	736,630	79,225	693,947	490,576
Change in net assets	(2,265,760)	2,954,989	689,229	249,718	104,589	1,043,536	4,070,137
Net assets at beginning of year	(1,613,873)	3,948,161	2,334,288	3,490,552	7,933,779	13,758,619	9,688,482
Net assets at end of year	\$ (3,879,633)	\$ 6,903,150	\$ 3,023,517	\$ 3,740,270	\$ 8,038,368	\$ 14,802,155	\$ 13,758,619

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statement of Activities

Year Ended June 30, 2010

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

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	<i>2011</i>	<i>2010</i>
Cash flows from operating activities:		
Change in net assets	\$ 1,043,536	\$ 4,070,137
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	780,778	876,455
Bad debt expense	330,094	696,252
Contributions restricted for long-term investment	(1,500)	(1,750)
Realized and unrealized gains	(693,947)	(490,576)
Investment income restricted for long-term investment	(276,238)	(199,160)
Loss on disposal of assets	-	8,330
Change in:		
Grants and pledges receivable	622,681	95,574
Accounts receivable	(11,110)	(860,292)
Prepaid expenses and other current assets	307,206	(247,672)
Accounts payable and accrued expenses	(319,073)	778,839
Advance tuition	238,963	(88,631)
Advance ticket sales	66,906	179,442
Deferred revenue	-	(94,746)
	<u>2,088,296</u>	<u>4,722,202</u>
Net cash provided by operating activities	2,088,296	4,722,202
Cash flows from investing activities:		
Capital expenditures	(3,764,824)	(1,073,432)
Proceeds from sales and maturities of investments	6,319,034	5,001,468
Purchases of investments	(5,804,493)	(5,654,582)
	<u>(3,250,283)</u>	<u>(1,726,546)</u>
Net cash used in investing activities	(3,250,283)	(1,726,546)
Cash flows from financing activities:		
Net change in line of credit	-	(550,000)
Payments on long-term debt	(75,452)	(788,573)
Payments on capital lease	(25,074)	(23,352)
Investment income restricted for long-term investment	276,238	199,160
Proceeds from contributions restricted for long-term investment	1,500	1,750
	<u>177,212</u>	<u>(1,161,015)</u>
Net cash (used in) provided by financing activities	177,212	(1,161,015)
Net increase (decrease) in cash and cash equivalents	(984,775)	1,834,641
Cash and cash equivalents at beginning of year	<u>2,148,213</u>	<u>313,572</u>
Cash and cash equivalents at end of year	\$ <u>1,163,438</u>	\$ <u>2,148,213</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. 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 four 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 \$463,193 at the end of fiscal year 2011.

A financial plan to assure stability was built in the 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 was 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 which was reached in fiscal year 2011.

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.

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.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

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 and ticket revenues are recognized as revenue when earned. 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, 2011 and 2010 was approximately \$1,979,000 and \$1,811,000, respectively.

Advertising

Advertising costs are expensed as incurred. Advertising expense was approximately \$1,777,000 and \$1,208,000 for the years ended June 30, 2011 and 2010, 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. Recent market conditions have resulted in an unusually high degree of market volatility and increased the risks associated with certain investments held by the Ballet, which could have impacted the value of investments after the date of these 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 7, 2011, 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:

	<i>2011</i>			<i>2010</i>	
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Total</i>
2012	\$ 137,683	\$ 1,153,400	\$ 10,000	\$ 1,301,083	\$ 1,876,854
2013	-	501,607	-	501,607	595,000
2014	-	188,800	-	188,800	130,000
2015	-	9,800	-	9,800	30,000
2016	-	4,200	-	4,200	-
Thereafter	-	-	-	-	-
	137,683	1,857,807	10,000	2,005,490	2,631,854
Less:					
Allowance for uncollectible grants and pledges	50,000	220,000	-	270,000	250,000
Net present value discount	-	9,168	45	9,213	32,896
Grants and pledges receivable, net	\$ 87,683	\$ 1,628,639	\$ 9,955	\$ 1,726,277	\$ 2,348,958

Note 3 - Investments

Marketable and Other Equity Securities

Marketable and other equity securities consisted of the following:

	<i>2011</i>		<i>2010</i>	
	<i>Cost</i>	<i>Market</i>	<i>Cost</i>	<i>Market</i>
Cash and cash equivalents	\$ 151,205	\$ 151,205	\$ 709,534	\$ 709,534
Equity security funds	3,184,765	4,180,993	2,638,985	2,926,062
Corporate bond funds:				
Domestic	2,226,708	2,332,086	2,281,677	2,374,837
International	602,125	619,622	352,030	366,053
Government bond funds	926,128	958,980	1,041,179	1,090,396
Total	\$ 7,090,931	\$ 8,242,886	\$ 7,023,405	\$ 7,466,882

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, 2011 and 2010:

		<i>2011</i>		<i>2010</i>
Interest and dividend income (including distributions from the E. Virginia Williams Fund)	\$	433,195	\$	378,817
Net realized gains (losses) on investments		29,459		163,287
Net unrealized appreciation (depreciation) of investments		664,488		327,289
Less investment fees		65,143		59,903
Net return	\$	1,061,999	\$	809,490

Note 4 - Fair Values of Financial Instruments

The following table represents financial assets at June 30, 2011 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	\$ 151,205	\$ 151,205	\$ -	\$ -
Equity security funds	4,180,993	4,180,993	-	-
Corporate bond funds:				
Domestic	2,332,086	2,332,086	-	-
International	619,622	619,622	-	-
Government bond funds	958,980	958,980	-	-
Total	\$ 8,242,886	\$ 8,242,886	\$ -	\$ -

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, 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	2,926,062	2,926,062	-	-
Corporate bond funds:				
Domestic	2,374,837	2,374,837	-	-
International	366,053	366,053	-	-
Government bond funds	<u>1,090,396</u>	<u>1,090,396</u>	<u>-</u>	<u>-</u>
Total	\$ <u>7,466,882</u>	\$ <u>7,466,882</u>	\$ <u>-</u>	\$ <u>-</u>

Note 5 - Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	<i>2011</i>	<i>2010</i>
Inventory	\$ 71,022	\$ 103,177
Prepaid expense - summer school program	225,489	439,795
Prepaid expense - subscriptions	98,718	114,901
Prepaid expense - insurance	210,100	198,604
Prepaid expense - artistic department	107,375	154,701
Prepaid expense - other	<u>13,031</u>	<u>21,763</u>
Prepaid expenses and other current assets	\$ <u>725,735</u>	\$ <u>1,032,941</u>

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 6 - Property and Equipment, Net

Property and equipment consists of the following:

	<i>2011</i>	<i>2010</i>
Building and leasehold improvements	\$ 13,074,285	\$ 10,885,056
Production sets, costumes and recordings	5,180,349	4,617,251
Furniture and equipment	<u>3,044,848</u>	<u>2,032,351</u>
	21,299,482	17,534,658
Less: accumulated depreciation and amortization	<u>12,439,209</u>	<u>11,658,430</u>
Property and equipment, net	<u>\$ 8,860,273</u>	<u>\$ 5,876,228</u>

Building and leasehold improvements include the cost of constructing the Ballet's main operating facility, any major renovations to the building, and leasehold improvements to the Ballet's main operating facility and School facilities in Newton and 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, 2011, and management is currently in negotiations to renew the line through October 31, 2012. The line is secured by endowment assets totaling approximately \$2,535,000 and \$3,460,000 as of June 30, 2011 and 2010, respectively. Interest is charged at the lender's base rate plus one half of one percent (4.00% at June 30, 2011 and 2010). The line of credit had an outstanding balance of \$0 at June 30, 2011 and 2010.

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, 2011 and 2010, the net book value of the asset was \$20,503 and \$46,124, respectively. Future minimum lease payments are \$20,760 due 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:

2012	\$	167,940
2013		178,246
2014		<u>117,007</u>
	\$	<u>463,193</u>

Subsequent to year end, the Ballet made a payment of approximately \$350,000 to reduce its long-term debt. Interest expense was \$60,152 and \$109,032 for the years ended June 30, 2011 and 2010, 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 has a one year lease agreement with the Hanover YMCA.

Rent expense, including theater rent, was approximately \$2,276,000 and \$2,107,000 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease commitments applicable to operating leases were as follows at June 30, 2011:

2012	\$	1,021,494
2013		993,143
2014		1,022,574
2015		1,057,459
2016		1,093,959
Thereafter		<u>22,034,419</u>
	\$	<u>27,223,048</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 expires May 31, 2013. The Ballet also has an agreement with American Guild of Musical Artists which expires June 30, 2014 and with Boston Musicians' Association AFM Local 9-535 which the Ballet is in negotiations to extend the agreement through August 31, 2015.

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 2011 or 2010. The cost of the union plans amounted to approximately \$402,000 and \$296,000 for the years ended June 30, 2011 and 2010, 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>2011</i>	<i>2010</i>
Endowment funds:		
Accumulated unspent gains:		
Boston Ballet Endowment	\$ 94,722	\$ 58,219
Bea Barrett Endowment	318,242	-
The Snider Fund	10,319	9,003
The Wilcott Fund	7,420	5,212
City Dance Endowment	16,097	10,683
Artistic Director's Chair Endowment	125,396	76,462
Tatiana Gardner Scholarship	1,301	864
Krupp Contemporary Dance Fund	132,291	142,138
CDE Cathryn Keith Scholarship Fund	29,652	21,388
	735,440	323,969
Purpose restricted:		
School	50,374	121,158
Performance and venue	731,487	167,299
Building	-	38,300
Dancer transition	264,489	226,762
Due to operations	(15,442)	(23,995)
	1,030,908	529,524
Time restricted:		
Charitable remainder trust	345,283	331,570
Pledges receivable	1,628,639	2,305,489
	1,973,922	2,637,059
Total temporarily restricted net assets	\$ 3,740,270	\$ 3,490,552

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>2011</i>	<i>2010</i>
Endowment funds:		
Beatrice H. Barrett Performance Fund	\$ 3,710,144	\$ 3,709,144
Boston Ballet Endowment	452,794	442,794
Bradley C. Higgins Ballet Endowment	1,300,298	1,182,173
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	380,161	380,161
Total permanently restricted endowment funds	8,028,413	7,899,288
Pledges receivable	9,955	34,491
Total permanently restricted net assets	\$ <u>8,038,368</u>	\$ <u>7,933,779</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 years ended June 30, 2011 and 2010, 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>2011</i>	<i>2010</i>
Plant	\$ 6,903,150	\$ 3,948,161
Operating	<u>(3,879,633)</u>	<u>(1,613,873)</u>
	<u>\$ 3,023,517</u>	<u>\$ 2,334,288</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, 2011:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$ <u> -</u>	\$ <u> 735,440</u>	\$ <u> 7,507,444</u>	\$ <u> 8,242,884</u>
Total funds	\$ <u> -</u>	\$ <u> 735,440</u>	\$ <u> 7,507,444</u>	\$ <u> 8,242,884</u>

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>
Total funds	\$ <u> -</u>	\$ <u> 323,969</u>	\$ <u> 7,142,913</u>	\$ <u> 7,466,882</u>

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>2011</i>			<i>2010</i>	
	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ -	\$ 323,969	\$ 7,142,913	\$ 7,466,882	\$ 6,768,851
Gifts and additions	-	-	11,000	11,000	51,032
Long-term investment returns:					
Interest and dividends	-	207,443	38,864	246,307	229,161
Net realized and unrealized gains (losses), net of investment management fees of \$65,143 and \$59,903 for the years ended June 30, 2011 and 2010, respectively	-	399,060	314,667	713,727	417,838
Total long-term investment returns	-	606,503	353,531	960,034	646,999
Expenditures:					
Amounts appropriated for operations	-	(195,032)	-	(195,032)	-
Total expenditures	-	(195,032)	-	(195,032)	-
Change in endowment assets and those functioning as endowment assets	-	411,471	364,531	776,002	698,031
Other changes:					
Reclassification of net assets	-	-	-	-	-
Endowment assets and those functioning as endowment assets, end of year	\$ -	\$ 735,440	\$ 7,507,444	\$ 8,242,884	\$ 7,466,882

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>2010</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	\$ -	\$ 111,677	\$ 6,657,174	\$ 6,768,851
Gifts and additions	-	-	51,032	51,032
Long-term investment returns:				
Interest and dividends	-	229,161	-	229,161
Net realized and unrealized gains (losses), net of investment management fees of \$59,903 for the year ended June 30, 2010	-	(16,869)	434,707	417,838
Total long-term investment returns	-	212,292	434,707	646,999
Expenditures:				
Amounts appropriated for operations	-	-	-	-
Total expenditures	-	-	-	-
Change in endowment assets and those functioning as endowment assets	-	212,292	485,739	698,031
Other changes:				
Reclassification of net assets	-	-	-	-
Endowment assets and those functioning as endowment assets, end of year	\$ -	\$ 323,969	\$ 7,142,913	\$ 7,466,882

The investment return appropriated from temporarily restricted to unrestricted for operations was approximately \$195,000 and \$0 for the years ended June 30, 2011 and 2010, respectively.

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.

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 were \$0 and \$187,097 as of June 30, 2011 and 2010, 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 4.5%, 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 \$60,152 and \$109,032 for the years ended June 30, 2011 and 2010, respectively. During 2010, a capital lease obligation was recorded for \$69,185 which was a non-cash transaction.