

Financial Statements

The Boston Ballet, Incorporated

June 30, 2012 and 2011



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

THE BOSTON BALLET, INCORPORATED

Financial Statements

Table of Contents

Financial Statements:

Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3-4
Statements of Cash Flows	5
Notes to Financial Statements	6-24



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, 2012 and 2011 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, 2012 and 2011, 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 11, 2012
Boston, Massachusetts

THE BOSTON BALLET, INCORPORATED

Statements of Financial Position

	<i>June 30,</i>	
	<i>2012</i>	<i>2011</i>
Assets		
Cash and cash equivalents	\$ 1,193,888	\$ 1,163,438
Short-term investments	265,869	567,218
Grants and pledges receivable, net	4,234,711	1,726,277
Accounts receivable, net	542,978	248,429
Prepaid expenses and other current assets	985,995	725,735
Marketable and other equity securities	8,319,755	8,242,886
Charitable remainder trusts	338,199	345,283
Property and equipment, net	<u>10,852,415</u>	<u>8,860,273</u>
Total assets	<u>\$ 26,733,810</u>	<u>\$ 21,879,539</u>
 Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 1,377,367	\$ 1,646,700
Advance tuition	2,661,917	2,579,671
Advance ticket sales and sponsorships	3,137,174	2,367,060
Capital lease	-	20,760
Long-term debt	<u>-</u>	<u>463,193</u>
Total liabilities	<u>7,176,458</u>	<u>7,077,384</u>
Net assets:		
Unrestricted	5,791,252	3,023,517
Temporarily restricted	5,687,008	3,740,270
Permanently restricted	<u>8,079,092</u>	<u>8,038,368</u>
Total net assets	<u>19,557,352</u>	<u>14,802,155</u>
Total liabilities and net assets	<u>\$ 26,733,810</u>	<u>\$ 21,879,539</u>

THE BOSTON BALLET, INCORPORATED

Statements of Activities

Year Ended June 30,

	2012			2011				
	<i>Unrestricted</i>			<i>Temporarily</i>	<i>Permanently</i>			
	<i>Operating</i>	<i>Board Designated</i>	<i>Plant</i>	<i>Total</i>	<i>Restricted</i>	<i>Restricted</i>	<i>Total</i>	<i>Total</i>
Revenue:								
Ticket sales	\$ 9,944,068	\$ -	\$ -	\$ 9,944,068	\$ -	\$ -	\$ 9,944,068	\$ 9,244,901
School income, tuition and fees	6,322,214	-	-	6,322,214	-	-	6,322,214	6,075,384
Contracted services, programs and other	485,769	-	-	485,769	-	-	485,769	312,452
Distribution from E. Virginia Williams Trust	95,797	-	-	95,797	-	-	95,797	100,690
Interest and dividend income, net of fees	(9,672)	-	-	(9,672)	162,540	22,027	174,895	267,362
Total revenue	16,838,176	-	-	16,838,176	162,540	22,027	17,022,743	16,000,789
Expenses:								
Production and programs:								
Dance school	5,551,305	-	20,726	5,572,031	-	-	5,572,031	6,007,169
Artistic department	14,062,973	-	278,018	14,340,991	-	-	14,340,991	13,310,115
Administrative expenses	2,667,887	-	580,067	3,247,954	-	-	3,247,954	3,232,883
Bad debt expense	36,574	-	-	36,574	-	-	36,574	3,963
Marketing	3,840,551	-	-	3,840,551	-	-	3,840,551	3,657,986
Total expenses	26,159,290	-	878,811	27,038,101	-	-	27,038,101	26,212,116
(Loss) income from operations before support	(9,321,114)	-	(878,811)	(10,199,925)	162,540	22,027	(10,015,358)	(10,211,327)
Support:								
Gifts and grants	10,129,156	2,100,000	-	12,229,156	4,665,585	1,500	16,896,241	12,906,440
Less: direct donor benefits	(882,482)	-	-	(882,482)	-	-	(882,482)	(655,084)
Net gifts and grants	9,246,674	2,100,000	-	11,346,674	4,665,585	1,500	16,013,759	12,251,356
Satisfaction of program restricted donations	2,973,738	-	-	2,973,738	(2,973,738)	-	-	-
Total support	12,220,412	2,100,000	-	14,320,412	1,691,847	1,500	16,013,759	12,251,356
Bad debt expense	(11,857)	-	-	(11,857)	-	-	(11,857)	(330,094)
Fundraising costs	(1,334,221)	-	-	(1,334,221)	-	-	(1,334,221)	(1,360,346)
Total support, net	10,874,334	2,100,000	-	12,974,334	1,691,847	1,500	14,667,681	10,560,916
Income (loss) from operations	1,553,220	2,100,000	(878,811)	2,774,409	1,854,387	23,527	4,652,323	349,589
Non-operating activity:								
Realized and unrealized gains (losses) on investments	(6,674)	-	-	(6,674)	92,351	17,197	102,874	693,947
Capital additions	(2,866,074)	-	2,866,074	-	-	-	-	-
Total non-operating activity	(2,872,748)	-	2,866,074	(6,674)	92,351	17,197	102,874	693,947
Change in net assets	(1,319,528)	2,100,000	1,987,263	2,767,735	1,946,738	40,724	4,755,197	1,043,536
Net assets at beginning of year	(3,879,634)	-	6,903,151	3,023,517	3,740,270	8,038,368	14,802,155	13,758,619
Net assets at end of year	\$ (5,199,162)	\$ 2,100,000	\$ 8,890,414	\$ 5,791,252	\$ 5,687,008	\$ 8,079,092	\$ 19,557,352	\$ 14,802,155

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statement of Activities

Year Ended June 30, 2011

	<i>Unrestricted</i>			<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
	<i>Operating</i>	<i>Plant</i>	<i>Total</i>			
Revenue:						
Ticket sales	\$ 9,244,901	\$ -	\$ 9,244,901	\$ -	\$ -	\$ 9,244,901
School income, tuition and fees	6,075,384	-	6,075,384	-	-	6,075,384
Contracted services, programs and other	312,452	-	312,452	-	-	312,452
Distribution from E. Virginia Williams Trust	100,690	-	100,690	-	-	100,690
Interest and dividend income, net of fees	(8,876)	-	(8,876)	237,374	38,864	267,362
Total revenue	15,724,551	-	15,724,551	237,374	38,864	16,000,789
Expenses:						
Production and programs:						
Dance school	5,936,540	70,629	6,007,169	-	-	6,007,169
Artistic department	13,042,574	267,541	13,310,115	-	-	13,310,115
Administrative expenses	2,761,219	471,664	3,232,883	-	-	3,232,883
Bad debt expense	3,963	-	3,963	-	-	3,963
Marketing	3,657,986	-	3,657,986	-	-	3,657,986
Total expenses	25,402,282	809,834	26,212,116	-	-	26,212,116
(Loss) income from operations before support	(9,677,731)	(809,834)	(10,487,565)	237,374	38,864	(10,211,327)
Support:						
Gifts and grants	11,501,541	-	11,501,541	1,403,399	1,500	12,906,440
Less: direct donor benefits	(655,084)	-	(655,084)	-	-	(655,084)
Net gifts and grants	10,846,457	-	10,846,457	1,403,399	1,500	12,251,356
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
Bad debt expense	(315,094)	-	(315,094)	-	(15,000)	(330,094)
Fundraising costs	(1,360,346)	-	(1,360,346)	-	-	(1,360,346)
Total support, net	11,298,702	-	11,298,702	(724,286)	(13,500)	10,560,916
Income (loss) from operations	1,620,971	(809,834)	811,137	(486,912)	25,364	349,589
Non-operating activity:						
Realized and unrealized gains (losses) on investments	(121,908)	-	(121,908)	736,630	79,225	693,947
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
Change in net assets	(2,265,761)	2,954,990	689,229	249,718	104,589	1,043,536
Net assets at beginning of year	(1,613,873)	3,948,161	2,334,288	3,490,552	7,933,779	13,758,619
Net assets at end of year	<u><u>\$ (3,879,634)</u></u>	<u><u>\$ 6,903,151</u></u>	<u><u>\$ 3,023,517</u></u>	<u><u>\$ 3,740,270</u></u>	<u><u>\$ 8,038,368</u></u>	<u><u>\$ 14,802,155</u></u>

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	<i>2012</i>	<i>2011</i>
Cash flows from operating activities:		
Change in net assets	\$ 4,755,197	\$ 1,043,536
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	870,225	780,778
Bad debt expense	48,431	334,057
Contributions restricted for long-term investment	(1,500)	(1,500)
Realized and unrealized gains	(102,874)	(693,947)
Investment income restricted for long-term investment	(184,567)	(276,238)
Loss on disposal of assets	3,707	-
Change in:		
Grants and pledges receivable	(2,520,291)	622,681
Accounts receivable	(331,123)	(15,073)
Prepaid expenses and other current assets	(260,260)	307,206
Accounts payable and accrued expenses	(269,333)	(319,073)
Advance tuition	82,246	238,963
Advance ticket sales	770,114	66,906
	<u>2,859,972</u>	<u>2,088,296</u>
Net cash provided by operating activities	2,859,972	2,088,296
Cash flows from investing activities:		
Capital expenditures	(2,866,074)	(3,764,824)
Proceeds from sales and maturities of investments	8,101,256	6,319,034
Purchases of investments	(7,766,818)	(5,804,493)
	<u>(2,531,636)</u>	<u>(3,250,283)</u>
Net cash used in investing activities	(2,531,636)	(3,250,283)
Cash flows from financing activities:		
Payments on long-term debt	(463,193)	(75,452)
Payments on capital lease	(20,760)	(25,074)
Investment income restricted for long-term investment	184,567	276,238
Proceeds from contributions restricted for long-term investment	1,500	1,500
	<u>(297,886)</u>	<u>177,212</u>
Net cash (used in) provided by financing activities	(297,886)	177,212
Net increase (decrease) in cash and cash equivalents	30,450	(984,775)
Cash and cash equivalents at beginning of year	<u>1,163,438</u>	<u>2,148,213</u>
Cash and cash equivalents at end of year	\$ <u>1,193,888</u>	\$ <u>1,163,438</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 are primarily derived from ticket sales, school tuition and contributed support. Patrons, students and contributors are concentrated in eastern Massachusetts.

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

Financial Results and Plans

Over the past five years, 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 \$0 at the end of fiscal year 2012. 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. 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. Fair value is determined at the original date of recordation as further described in these notes using Level 2 fair value methods.

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

Cash and Cash Equivalents

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

Short-Term Investments

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

Grants and Pledges Receivable

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

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 using Level 2 fair value inputs. Subsequent adjustments are made to the value over the term of the arrangement to deal with changes in life expectancy and other factors that could bear on the remainder value using the same discount rate over the term of the agreement. Gains or losses resulting from changes in value of the trusts are included in realized and unrealized gains (losses) on investments in the statement of activities.

Property and Equipment

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

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

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

Advance Tuition and Advance Ticket Sales

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

Deferred Sponsorship Revenue

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

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, 2012 and 2011 was approximately \$1,859,000 and \$1,979,000, respectively.

Advertising

Advertising costs are expensed as incurred. Advertising expense was approximately \$1,811,000 and \$1,777,000 for the years ended June 30, 2012 and 2011, 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 statements 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, useful lives of depreciable assets, and the allocation of common expenses over program functions.

Subsequent Events

The Ballet has evaluated subsequent events through October 11, 2012, 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>2012</i>	<i>2011</i>
Amounts due in:		
2013	\$ 3,328,934	\$ 1,802,690
2014	1,002,701	188,800
2015	134,800	9,800
2016	<u>29,200</u>	<u>4,200</u>
Total due	4,495,635	2,005,490
Less:		
Allowance for doubtful accounts	250,000	270,000
Net present value discount	<u>10,924</u>	<u>9,213</u>
Grants and pledges receivable, net	\$ <u>4,234,711</u>	\$ <u>1,726,277</u>

Note 3 - Investments

Marketable and Other Equity Securities

Marketable and other equity securities consisted of the following:

	<i>2012</i>		<i>2011</i>	
	<i>Cost</i>	<i>Market</i>	<i>Cost</i>	<i>Market</i>
Cash and cash equivalents	\$ 103,142	\$ 103,142	\$ 151,205	\$ 151,205
Common stock	3,453,433	4,257,972	3,184,765	4,180,993
Corporate bond funds:				
Domestic	2,426,255	2,534,192	2,226,708	2,332,086
International	327,782	342,658	602,125	619,622
Government bond funds	<u>1,033,614</u>	<u>1,081,791</u>	<u>926,128</u>	<u>958,980</u>
Total	\$ <u>7,344,226</u>	\$ <u>8,319,755</u>	\$ <u>7,090,931</u>	\$ <u>8,242,886</u>

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, 2012 and 2011:

		<i>2012</i>		<i>2011</i>
Interest and dividend income (including distributions from the E. Virginia Williams Fund)	\$	334,917	\$	433,195
Net realized gains on investments		306,596		29,459
Net unrealized appreciation (depreciation) of investments		(203,722)		664,488
Less investment fees		<u>(64,225)</u>		<u>(65,143)</u>
Net return	\$	<u>373,566</u>	\$	<u>1,061,999</u>

Note 4 - Fair Values of Financial Instruments

The following table represents financial assets at June 30, 2012 that the Ballet measures at fair value on a recurring basis, by level, within the fair value hierarchy:

<i>Description</i>	<i>Portion Carried at Fair Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Short-term investments	\$ <u>265,869</u>	\$ <u>225,702</u>	\$ <u>40,167</u>	\$ <u>-</u>
Cash and cash equivalents	103,142	103,142	-	-
Common stock	4,257,972	4,257,972	-	-
Corporate bond funds:				
Domestic	2,534,192	-	2,534,192	-
International	342,658	-	342,658	-
Government bond funds	<u>1,081,791</u>	<u>-</u>	<u>1,081,791</u>	<u>-</u>
	<u>8,319,755</u>	<u>4,361,114</u>	<u>3,958,641</u>	<u>-</u>
Total	\$ <u>8,585,624</u>	\$ <u>4,586,816</u>	\$ <u>3,998,808</u>	\$ <u>-</u>

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 4 - Fair Values of Financial Instruments (Continued)

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>
Short-term investments	\$ <u>567,218</u>	\$ <u>527,366</u>	\$ <u>39,852</u>	\$ <u>-</u>
Cash and cash equivalents	151,205	151,205	-	-
Common stock	4,180,993	4,180,993	-	-
Corporate bond funds:				
Domestic	2,332,086	-	2,332,086	-
International	619,622	-	619,622	-
Government bond funds	<u>958,980</u>	<u>-</u>	<u>958,980</u>	<u>-</u>
	<u>8,242,886</u>	<u>4,332,198</u>	<u>3,910,688</u>	<u>-</u>
Total	\$ <u>8,810,104</u>	\$ <u>4,859,564</u>	\$ <u>3,950,540</u>	\$ <u>-</u>

Note 5 - Prepaid Expenses and Other Current Assets

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

	<i>2012</i>	<i>2011</i>
Inventory	\$ 102,281	\$ 71,022
Prepaid expense - summer school program	462,123	225,489
Prepaid expense - subscriptions	97,458	98,718
Prepaid expense - insurance	213,062	210,100
Prepaid expense - artistic department	59,554	107,375
Prepaid expense - other	<u>51,517</u>	<u>13,031</u>
Prepaid expenses and other current assets	\$ <u>985,995</u>	\$ <u>725,735</u>

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 6 - Property and Equipment, Net

Property and equipment consists of the following at June 30:

	<i>2012</i>	<i>2011</i>
Building and leasehold improvements	\$ 14,014,134	\$ 13,074,285
Production sets, costumes and recordings	6,606,690	5,180,349
Furniture and equipment	<u>2,993,998</u>	<u>3,044,848</u>
	23,614,822	21,299,482
Less: accumulated depreciation and amortization	<u>12,762,407</u>	<u>12,439,209</u>
Property and equipment, net	<u>\$ 10,852,415</u>	<u>\$ 8,860,273</u>

Building and leasehold improvements include the cost of constructing the Ballet's main operating facility, any major renovations to the building, and leasehold improvements to the Ballet's main operating facility and School facilities in Newton and Marblehead, Massachusetts (see Note 10). Production sets, costumes and recordings include \$1,228,584 of additions that have not been placed in service as of June 30, 2012, which relate to the upcoming production of the Nutcracker which will occur in fiscal 2013.

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 is secured by endowment assets totaling approximately \$2,274,000 and \$2,535,000 as of June 30, 2012 and 2011, respectively. Interest is charged at the lender's base rate plus one half of one percent (4.00% at June 30, 2012 and 2011). The line of credit had an outstanding balance of \$0 at June 30, 2012 and 2011. Subsequent to year-end, on August 15, 2012, management acquired a new line through its new banking partner, Century Bank. The \$3.5 million secured revolving line of credit is renewed annually at the bank's discretion. Interest rate is charged at the lender's prime rate or LIBOR rate plus two and a half percent with a floor of 3.00%. Interest expense was \$47,710 and \$31,096 for the years ended June 30, 2012 and 2011, respectively.

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, 2012 and 2011, the net book value of the asset was \$0 and \$20,503, respectively. The capital lease was paid off as of June 30, 2012.

Note 9 - Long-Term Debt

The Ballet has a long-term debt agreement with a bank that would have matured on January 28, 2014. Interest is payable quarterly based on a fixed rate of 6.00%. The long-term debt was paid in full during 2012. Interest expense was \$4,879 and \$29,056 for the years ended June 30, 2012 and 2011, respectively.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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 Ballet had a one year lease agreement with Hanover YMCA which was not extended in 2012.

Rent expense, including theater rent, was approximately \$2,192,000 and \$2,214,000 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease commitments applicable to operating leases were as follows at June 30, 2012:

2013	\$ 1,031,742
2014	1,025,997
2015	1,059,507
2016	1,098,488
2017	1,139,259
Thereafter	<u>21,389,480</u>
	<u>\$ 26,744,473</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 on May 31, 2013. The Ballet also has an agreement with American Guild of Musical Artists which expires on June 30, 2014 and with Boston Musicians' Association AFM Local 9-535 which expires on 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 June 30, 2015.

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 2012 or 2011. The cost of the union plans amounted to approximately \$438,000 and \$416,000 for the years ended June 30, 2012 and 2011, 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>2012</i>	<i>2011</i>
Endowment funds:		
Accumulated unspent gains:		
Boston Ballet Endowment	\$ 36,783	\$ 94,722
Bea Barrett Endowment	439,455	318,242
The Snider Fund	10,122	10,319
The Wilcott Fund	7,090	7,420
City Dance Endowment	14,268	16,097
Artistic Director's Chair Endowment	110,812	125,396
Tatiana Gardner Scholarship	1,153	1,301
Krupp Contemporary Dance Fund	130,719	132,291
CDE Cathryn Keith Scholarship Fund	26,443	29,652
	776,845	735,440
Purpose restricted:		
School	54,809	50,374
Performance and venue	-	628,362
Building	20,028	-
Dancer transition	262,416	264,489
	337,253	943,225
Time restricted:		
Charitable remainder trust	338,199	345,283
Pledges receivable	4,234,711	1,716,322
	4,572,910	2,061,605
Total temporarily restricted net assets	\$ 5,687,008	\$ 3,740,270

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

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

	<i>2012</i>	<i>2011</i>
Endowment funds:		
Beatrice H. Barrett Performance Fund	\$ 3,711,144	\$ 3,710,144
Boston Ballet Endowment	462,794	452,794
Bradley C. Higgins Ballet Endowment	1,339,977	1,300,298
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
	8,079,092	8,028,413
Total permanently restricted endowment funds		
Pledges receivable	-	9,955
	\$ 8,079,092	\$ 8,038,368
Total permanently restricted net assets	\$ 8,079,092	\$ 8,038,368

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, 2012 and 2011, 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:

Plant - 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.

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

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

	<i>2012</i>	<i>2011</i>
Plant	\$ 8,890,414	\$ 6,903,151
Board	2,100,000	-
Operating	<u>(5,199,162)</u>	<u>(3,879,634)</u>
	<u>\$ 5,791,252</u>	<u>\$ 3,023,517</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, 2012:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$ <u> -</u>	\$ <u> 776,845</u>	\$ <u> 7,558,125</u>	\$ <u> 8,334,970</u>
Total funds	\$ <u> -</u>	\$ <u> 776,845</u>	\$ <u> 7,558,125</u>	\$ <u> 8,334,970</u>

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> 7,507,445</u>	\$ <u> 8,242,885</u>
Total funds	\$ <u> -</u>	\$ <u> 735,440</u>	\$ <u> 7,507,445</u>	\$ <u> 8,242,885</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:

	2012			2011	
	<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	\$ -	\$ 735,440	\$ 7,507,445	\$ 8,242,885	\$ 7,466,882
Gifts and additions	-	-	11,000	11,000	11,000
Long-term investment returns:					
Interest and dividends	-	214,651	23,686	238,337	246,307
Net realized and unrealized gains (losses), net of investment management fees of \$64,225 and \$65,143 for the years ended June 30, 2012 and 2011, respectively	-	47,210	15,994	63,204	713,728
Total long-term investment returns	-	261,861	39,680	301,541	960,035
Expenditures:					
Amounts appropriated for operations	-	(220,456)	-	(220,456)	(195,032)
Total expenditures	-	(220,456)	-	(220,456)	(195,032)
Change in endowment assets and those functioning as endowment assets	-	41,405	50,680	92,085	776,003
Other changes:					
Reclassification of net assets	-	-	-	-	-
Endowment assets and those functioning as endowment assets, end of year	\$ -	\$ 776,845	\$ 7,558,125	\$ 8,334,970	\$ 8,242,885

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>Total</i>
	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	
Endowment assets and those functioning as endowment assets, beginning of year	\$ -	\$ 323,969	\$ 7,142,913	\$ 7,466,882
Gifts and additions	-	-	11,000	11,000
Long-term investment returns:				
Interest and dividends	-	207,443	38,864	246,307
Net realized and unrealized gains (losses), net of investment management fees of \$65,143 for the year ended June 30, 2011	-	399,060	314,668	713,728
Total long-term investment returns	-	606,503	353,532	960,035
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	364,532	776,003
Other changes:				
Reclassification of net assets	-	-	-	-
Endowment assets and those functioning as endowment assets, end of year	\$ -	\$ 735,440	\$ 7,507,445	\$ 8,242,885

The investment return appropriated from temporarily restricted to unrestricted for operations was approximately \$220,000 and \$195,000 for the years ended June 30, 2012 and 2011, 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. The Ballet employed a spending policy equal to 4-5% of the endowment as approved by the Board of Trustees.

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 are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2012 or 2011.

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 \$52,589 and \$60,152 for the years ended June 30, 2012 and 2011, respectively.