

Financial Statements

The Boston Ballet, Incorporated

June 30, 2015 and 2014



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

THE BOSTON BALLET, INCORPORATED

Financial Statements

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Independent Auditors' Report

Board of Trustees
The Boston Ballet, Incorporated
Boston, Massachusetts

We have audited the accompanying financial statements of The Boston Ballet, Incorporated (the "Ballet"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Boston Ballet, Incorporated as of June 30, 2015 and 2014, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Heffman McCann P.C.

October 22, 2015
Boston, Massachusetts

THE BOSTON BALLET, INCORPORATED

Statements of Financial Position

	<i>June 30,</i>	
	<i>2015</i>	<i>2014</i>
Assets		
Cash and cash equivalents	\$ 1,149,886	\$ 1,484,783
Short-term investments	1,641,395	1,641,096
Grants and pledges receivable, net	94,709	835,701
Accounts receivable, net	317,452	586,512
Prepaid expenses and other current assets	999,455	1,072,889
Investments	11,942,455	12,049,130
Charitable remainder trusts	284,386	292,242
Property and equipment, net	<u>12,329,175</u>	<u>12,567,372</u>
Total assets	\$ <u>28,758,913</u>	\$ <u>30,529,725</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 1,499,969	\$ 2,653,948
Advance tuition	3,147,985	2,702,318
Advance ticket sales and sponsorships	2,662,319	2,346,160
Line of credit	3,500,000	3,500,000
Capital lease	<u>114,316</u>	<u>255,510</u>
Total liabilities	<u>10,924,589</u>	<u>11,457,936</u>
Net assets:		
Unrestricted	5,038,696	5,130,317
Temporarily restricted	2,937,251	4,323,464
Permanently restricted	<u>9,858,377</u>	<u>9,618,008</u>
Total net assets	<u>17,834,324</u>	<u>19,071,789</u>
Total liabilities and net assets	\$ <u>28,758,913</u>	\$ <u>30,529,725</u>

THE BOSTON BALLET, INCORPORATED

Statements of Activities

Year Ended June 30,

	2015						2014	
	<i>Unrestricted</i>			<i>Total</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Total</i>
	<i>Operating</i>	<i>Board Designated</i>	<i>Plant</i>					
Revenue:								
Ticket sales	\$ 12,147,817	\$ -	\$ -	\$ 12,147,817	\$ -	\$ -	\$ 12,147,817	\$ 11,524,898
School income, tuition and fees	6,972,432	-	-	6,972,432	-	-	6,972,432	6,734,553
Contracted services, programs and other	582,452	-	110,167	692,619	-	-	692,619	541,186
Distribution from E. Virginia Williams Trust	89,030	-	-	89,030	-	-	89,030	90,055
Interest and dividend income, net of fees	-	177	-	177	231,146	-	231,323	249,188
Total revenue	19,791,731	177	110,167	19,902,075	231,146	-	20,133,221	19,139,880
Expenses:								
Production and programs:								
Dance school	6,104,703	-	15,847	6,120,550	-	-	6,120,550	5,906,335
Artistic department	16,425,772	-	953,850	17,379,622	1,000	-	17,380,622	22,775,659
Administrative expenses	2,802,363	-	838,458	3,640,821	-	-	3,640,821	3,638,319
Bad debt expense	-	-	-	-	-	-	-	7,570
Marketing	4,816,988	-	-	4,816,988	-	-	4,816,988	4,503,108
Total expenses	30,149,826	-	1,808,155	31,957,981	1,000	-	31,958,981	36,830,991
Income (loss) from operations before support	(10,358,095)	177	(1,697,988)	(12,055,906)	230,146	-	(11,825,760)	(17,691,111)
Support:								
Gifts and grants	12,356,412	-	-	12,356,412	654,419	140,369	13,151,200	17,448,224
Less: direct donor benefits	(679,317)	-	-	(679,317)	-	-	(679,317)	(893,627)
Net gifts and grants	11,677,095	-	-	11,677,095	654,419	140,369	12,471,883	16,554,597
Satisfaction of program restricted donations	2,114,302	100,000	(110,167)	2,104,135	(2,204,135)	100,000	-	-
Total support	13,791,397	100,000	(110,167)	13,781,230	(1,549,716)	240,369	12,471,883	16,554,597
Bad debt expense	-	-	-	-	-	-	-	(11,726)
Fundraising costs	(1,816,945)	-	-	(1,816,945)	-	-	(1,816,945)	(1,644,609)
Total support, net	11,974,452	100,000	(110,167)	11,964,285	(1,549,716)	240,369	10,654,938	14,898,262
Income (loss) from operations	1,616,357	100,177	(1,808,155)	(91,621)	(1,319,570)	240,369	(1,170,822)	(2,792,849)
Non-operating activity:								
Realized and unrealized gains (losses) on investments	-	-	-	-	(66,643)	-	(66,643)	1,221,087
Capital additions	(1,556,681)	-	1,556,681	-	-	-	-	-
Total non-operating activity	(1,556,681)	-	1,556,681	-	(66,643)	-	(66,643)	1,221,087
Change in net assets	59,676	100,177	(251,474)	(91,621)	(1,386,213)	240,369	(1,237,465)	(1,571,762)
Net assets at beginning of year	(6,540,131)	1,600,647	10,069,801	5,130,317	4,323,464	9,618,008	19,071,789	20,643,551
Net assets at end of year	\$ (6,480,455)	\$ 1,700,824	\$ 9,818,327	\$ 5,038,696	\$ 2,937,251	\$ 9,858,377	\$ 17,834,324	\$ 19,071,789

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statement of Activities

Year Ended June 30, 2014

	<i>Unrestricted</i>			<i>Total</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
	<i>Operating</i>	<i>Board Designated</i>	<i>Plant</i>				
Revenue:							
Ticket sales	\$ 11,524,898	\$ -	\$ -	\$ 11,524,898	\$ -	\$ -	\$ 11,524,898
School income, tuition and fees	6,734,553	-	-	6,734,553	-	-	6,734,553
Contracted services, programs and other	541,186	-	-	541,186	-	-	541,186
Distribution from E. Virginia Williams Trust	90,055	-	-	90,055	-	-	90,055
Interest and dividend income, net of fees	5	647	-	652	248,536	-	249,188
Total revenue	18,890,697	647	-	18,891,344	248,536	-	19,139,880
Expenses:							
Production and programs:							
Dance school	5,890,488	-	15,847	5,906,335	-	-	5,906,335
Artistic department	21,943,499	-	829,754	22,773,253	2,406	-	22,775,659
Administrative expenses	2,974,316	-	664,003	3,638,319	-	-	3,638,319
Bad debt expense	7,570	-	-	7,570	-	-	7,570
Marketing	4,503,108	-	-	4,503,108	-	-	4,503,108
Total expenses	35,318,981	-	1,509,604	36,828,585	2,406	-	36,830,991
Income (loss) from operations before support	(16,428,284)	647	(1,509,604)	(17,937,241)	246,130	-	(17,691,111)
Support:							
Gifts and grants	14,868,084	100,000	-	14,968,084	478,119	2,002,021	17,448,224
Less: direct donor benefits	(893,627)	-	-	(893,627)	-	-	(893,627)
Net gifts and grants	13,974,457	100,000	-	14,074,457	478,119	2,002,021	16,554,597
Satisfaction of program restricted donations	4,185,331	-	-	4,185,331	(4,185,331)	-	-
Total support	18,159,788	100,000	-	18,259,788	(3,707,212)	2,002,021	16,554,597
Bad debt expense	(11,726)	-	-	(11,726)	-	-	(11,726)
Fundraising costs	(1,644,609)	-	-	(1,644,609)	-	-	(1,644,609)
Total support, net	16,503,453	100,000	-	16,603,453	(3,707,212)	2,002,021	14,898,262
Income (loss) from operations	75,169	100,647	(1,509,604)	(1,333,788)	(3,461,082)	2,002,021	(2,792,849)
Non-operating activity:							
Realized and unrealized gains on investments	-	-	-	-	1,221,087	-	1,221,087
Capital additions	(1,139,501)	-	1,139,501	-	-	-	-
Transfers from board designated fund	1,500,000	(1,500,000)	-	-	-	-	-
Special distribution	520,968	-	-	520,968	-	(520,968)	-
Total non-operating activity	881,467	(1,500,000)	1,139,501	520,968	1,221,087	(520,968)	1,221,087
Change in net assets	956,636	(1,399,353)	(370,103)	(812,820)	(2,239,995)	1,481,053	(1,571,762)
Net assets at beginning of year	(7,496,767)	3,000,000	10,439,904	5,943,137	6,563,459	8,136,955	20,643,551
Net assets at end of year	\$ (6,540,131)	\$ 1,600,647	\$ 10,069,801	\$ 5,130,317	\$ 4,323,464	\$ 9,618,008	\$ 19,071,789

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	<i>2015</i>	<i>2014</i>
Cash flows from operating activities:		
Change in net assets	\$ (1,237,465)	\$ (1,571,762)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,658,180	1,480,768
Bad debt expense	-	19,296
Contributions restricted for long-term investment	(140,369)	(2,002,021)
Realized and unrealized (gains) losses	66,643	(1,221,087)
Loss on sale and disposal of assets	26,531	4,822
Change in:		
Grants and pledges receivable, net	740,992	1,815,544
Accounts receivable	269,060	(381,669)
Prepaid expenses and other current assets	73,434	1,178,023
Accounts payable and accrued expenses	(1,153,979)	805,235
Advance tuition	445,667	59,568
Advance ticket sales and sponsorships	316,159	32,070
	<u>1,064,853</u>	<u>218,787</u>
Net cash provided by operating activities	1,064,853	218,787
Cash flows from investing activities:		
Capital expenditures	(1,556,681)	(1,233,731)
Proceeds from sales of property and equipment	110,167	-
Proceeds from sales and maturities of investments	5,257,594	4,654,527
Purchases of investments	(5,210,005)	(5,234,446)
	<u>(1,398,925)</u>	<u>(1,813,650)</u>
Net cash used in investing activities	(1,398,925)	(1,813,650)
Cash flows from financing activities:		
Borrowings on line of credit	1,000,000	2,525,000
Payments on line of credit	(1,000,000)	(1,500,000)
Payments on capital lease	(141,194)	(161,815)
Proceeds from contributions restricted for long-term investment	140,369	2,002,021
	<u>(825)</u>	<u>2,865,206</u>
Net cash provided by (used in) financing activities	(825)	2,865,206
Net increase (decrease) in cash and cash equivalents	(334,897)	1,270,343
Cash and cash equivalents at beginning of year	<u>1,484,783</u>	<u>214,440</u>
Cash and cash equivalents at end of year	\$ <u>1,149,886</u>	\$ <u>1,484,783</u>

See accompanying notes to the financial statements.

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 Boston Ballet School. The Ballet, a professional dance company and the New England region’s second largest performing arts organization, is dedicated to the highest standards of dance performance, training and education. The Ballet presents fully staged classical, neo-classical and contemporary works during its eight month season with a year-end roster of sixty seven dancers. Performances reach a broadly inclusive audience from throughout the New England region, and support an institutional mission that values leadership, innovation and partnership. The Ballet currently presents more than 100 performances annually in Boston, Massachusetts, and other communities in the surrounding metropolitan area. The Boston Ballet School serves an associated imperative to provide a comprehensive dance education to students of all ages and inspire, nurture and sustain a life-long love of dance. The operations of the Ballet and the School are under the direction of the Board of Trustees of the Ballet. 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 and are in accordance with generally accepted accounting principles.

Financial Results and Plans

In 2009, the Ballet implemented a financial plan built on aggressive marketing strategies to promote exceptional art, expand development activities and control costs. A critical strategy of the financial plan was raising \$10,000,000 for the “clean slate fund” by June 30, 2011 to invest in capacity building initiatives, reduce outstanding debt obligations, and complete a long-needed deferred maintenance and renovation project for the Ballet’s headquarters at 19 Clarendon Street.

From fiscal 2009 - 2015, the Ballet achieved consistent growth in ticket sales and tuition income. Fundraising achievements during this time period included raising \$7,300,000 in artistic funds to support new works, such as the newly choreographed Swan Lake in 2015 and Nutcracker in 2013, \$4,800,000 of funds for the 50th anniversary, and creating a cash reserve fund for managing cash flow with a year-end balance of \$1,700,000.

During fiscal year 2015, the Ballet concentrated on its business operations focusing on increasing earned revenues, improving cash flow from contributed revenue, and managing expenses. As a result, the Ballet achieved a net operating surplus, inclusive of capital expenditures and not requiring additional debt or use of cash reserve funds, of \$59,676. Future challenges for the Ballet include building on the success of fiscal 2015 and generating operating surpluses to reduce debt and replenish working capital while at the same time supporting the cost of capital additions, such as new ballet productions and upgrading informational technology hardware and software needs.

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.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

Classification of Net Assets (Continued)

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

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 are subject to similar risks as described above.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

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.

Investments

Investments are recorded 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 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.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

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.

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, 2015 and 2014 was approximately \$2,050,000 and \$2,115,000, respectively.

Advertising

Advertising costs are expensed as incurred. Advertising expense was approximately \$2,367,000 and \$2,759,000 for the years ended June 30, 2015 and 2014, 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.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

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 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 to classify its financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique, as discussed below. 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.

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. Fair value standards also allow for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determined fair value using the net asset value (NAV) per share or its equivalent.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

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.

Operating and Non-operating Activities

The statements of activities include both operating income and non-operating income. Operating income primarily includes revenue from ticket sales, school tuition, and contributions. Non-operating activities include returns associated with long-term investments, temporarily and permanently restricted contributions, capital additions, and certain other nonrecurring items.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reserves for grants, pledges receivable and accounts receivable, fair value of certain investments, useful lives of depreciable assets, deferred revenue, the allocation of common expenses over program functions, and the satisfaction of donor restrictions.

Subsequent Events

The Ballet has evaluated subsequent events through October 22, 2015, 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>2015</i>	<i>2014</i>
Amounts due in:		
Less than one year	\$ 121,733	\$ 910,001
One to two years	48,556	29,200
Two to three years	10,000	-
Total due	180,289	939,201
Less:		
Allowance for doubtful accounts	85,080	100,000
Net present value discount	500	3,500
Grants and pledges receivable, net	\$ 94,709	\$ 835,701

Note 3 - Investments and Fair Value of Financial Instruments

The following table represents financial assets at June 30, 2015 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:				
Money market fund	\$ 1,600,824	\$ 1,600,824	\$ -	\$ -
Certificates of deposit	40,571	-	40,571	-
	1,641,395	1,600,824	40,571	-
Long-term investments:				
Cash and cash equivalents	627,794	627,794	-	-
Domestic equity	3,146,692	3,146,692	-	-
International equity	3,580,250	3,580,250	-	-
Short-term bonds	1,799,880	-	1,799,880	-
Intermediate bonds	649,174	-	649,174	-
International bond	7,286	-	7,286	-
Absolute value	29,313	-	29,313	-
Alternatives	2,102,066	-	-	2,102,066
	11,942,455	7,354,736	2,485,653	2,102,066
Total	\$ 13,583,850	\$ 8,955,560	\$ 2,526,224	\$ 2,102,066

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 3 - Investments and Fair Value of Financial Instruments (Continued)

The following table represents financial assets at June 30, 2014 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:				
Money market fund	\$ 1,600,647	\$ 1,600,647	\$ -	\$ -
Certificates of deposit	40,449	-	40,449	-
	<u>1,641,096</u>	<u>1,600,647</u>	<u>40,449</u>	<u>-</u>
Long-term investments:				
Cash and cash equivalents	3,957	3,957	-	-
Domestic equity	4,787,405	4,787,405	-	-
International equity	4,156,926	4,156,926	-	-
Short-term bond	2,985,859	-	2,985,859	-
Intermediate bond	78,876	-	78,876	-
International bond	12,388	-	12,388	-
Absolute value	23,719	-	23,719	-
	<u>12,049,130</u>	<u>8,948,288</u>	<u>3,100,842</u>	<u>-</u>
Total	\$ <u>13,690,226</u>	\$ <u>10,548,935</u>	\$ <u>3,141,291</u>	\$ <u>-</u>

The changes in investments classified as Level 3 for the year ended June 30, 2015 are as follows:

Level 3 investments, beginning of year	\$ -
Purchases	2,000,000
Interest and dividend income	13,151
Net unrealized appreciation	<u>88,915</u>
Level 3 investments, end of year	\$ <u>2,102,066</u>

The Ballet has one alternative investment at June 30, 2015 which calculates the fair value using the net asset value per share or its equivalent. The fair value at June 30, 2015 equals \$2,102,066. This investment cannot be redeemed before September 30, 2015 and can only be redeemed at the end of each calendar quarter thereafter. Requests to redeem this investment require a 60 day advance notice.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 3 - Investments and Fair Value of Financial Instruments (Continued)

Investment return consisted of the following for the years ended June 30, 2015 and 2014:

	<i>2015</i>	<i>2014</i>
Interest and dividend income	\$ 252,804	\$ 280,094
Net realized gains on investments	610,786	144,540
Net unrealized appreciation (depreciation) of investments	(677,429)	1,076,547
Less investment fees	<u>(21,481)</u>	<u>(30,906)</u>
Net return	\$ <u>164,680</u>	\$ <u>1,470,275</u>

Note 4 - Prepaid Expenses and Other Current Assets

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

	<i>2015</i>	<i>2014</i>
Inventory	\$ 129,655	\$ 152,853
Prepaid expense - summer school program	352,439	463,231
Prepaid expense - subscriptions	107,917	31,225
Prepaid expense - insurance	228,214	221,128
Prepaid expense - artistic department	132,251	184,134
Prepaid expense - other	<u>48,979</u>	<u>20,318</u>
Prepaid expenses and other current assets	\$ <u>999,455</u>	\$ <u>1,072,889</u>

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 5 - Property and Equipment, Net

Property and equipment consists of the following at June 30:

	<i>2015</i>	<i>2014</i>
Building and leasehold improvements	\$ 13,893,517	\$ 13,845,121
Production sets, costumes and recordings	8,859,597	9,808,657
Furniture and equipment	<u>3,647,073</u>	<u>3,438,329</u>
	26,400,187	27,092,107
Less: accumulated depreciation and amortization	<u>14,071,012</u>	<u>14,524,735</u>
Property and equipment, net	<u>\$ 12,329,175</u>	<u>\$ 12,567,372</u>

Building and leasehold improvements include the cost of constructing the Ballet's main operating facility in Boston, Massachusetts, any major renovations to the building, and leasehold improvements to the Ballet's main operating facility and School facilities in Newton and Marblehead, Massachusetts. During 2015, the Ballet disposed of \$431,521 of fixed assets at a loss of \$136,698. The Ballet sold \$1,817,080 of fully depreciated fixed assets for proceeds of \$110,167. These disposals and sales resulted in a net loss of \$26,531. During 2014, the Ballet disposed of \$863,213 of fixed assets at a loss of \$4,822.

Note 6 - Line of Credit

The Ballet has a \$3.5 million secured revolving line of credit with Century Bank to support the Ballet's general business operations. The line is renewed annually at the bank's discretion and expires on August 15, 2017. The Ballet agrees that it shall maintain in the account at all times pledged securities with an aggregate gross value at least equal to \$3.5 million. As of June 30, 2015, the line of credit had an outstanding balance of \$3,500,000 secured by market grade investments totaling approximately \$4,842,000. As of June 30, 2014, the line of credit had an outstanding balance of \$3,500,000 secured by market grade investments totaling approximately \$4,759,000. The interest rate is charged at the lender's prime rate or LIBOR plus two and a half percent (3.00% and 3.25% at June 30, 2015 and 2014, respectively) with a floor of 3.00%. The line of credit is subject to certain non-financial covenants with which the Ballet was in compliance at June 30, 2015 and 2014.

Interest expense was \$97,941 and \$104,658 for the years ended June 30, 2015 and 2014, respectively.

Note 7 - Capital Lease

In 2014, the Ballet recorded the present value of future rental payments due under a capital lease for certain computer equipment with an original lease term of 3 years. The Ballet has the option to purchase the equipment for a nominal cost at the termination of the lease. Assets included in property and equipment under the capital lease totaled \$417,325. At June 30, 2015 and 2014, the net book value of the asset was approximately \$209,000 and \$348,000, respectively. Total minimum future lease payments under the capital leases net of the amount representing interest of \$3,374 are \$114,316.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 8 - 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 2028, with options to extend 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. Deferred rent is included in accounts payable and accrued expenses in the statements of financial position.

Rent expense, including theater rent, was approximately \$2,467,000 and \$2,980,000 for the years ended June 30, 2015 and 2014, respectively.

Future minimum lease commitments applicable to operating leases, excluding theater rent, were as follows at June 30, 2015:

2016	\$	1,165,864
2017		1,052,793
2018		1,069,449
2019		1,086,438
2020		1,103,767
Thereafter		<u>6,698,344</u>
	\$	<u><u>12,176,655</u></u>

Legal

The Ballet is subject to various claims and legal proceedings that may arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition of the Ballet.

Union Contracts

The Ballet's performers are primarily comprised of union employees. The Ballet's agreement with American Guild of Musical Artists expires on June 30, 2017. The theatres at which the Ballet performs have collective bargaining agreements directly with IATSE Local #11 which expires on May 31, 2016. The agreement with Boston Musicians' Association AFM Local 9-535 expires on August 31, 2019.

Employment Related Agreements

The Ballet has an employment agreement with its artistic director effective through June 30, 2019.

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.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 9 - Pension Plans

The Ballet participates in various union-administered defined contribution pension plans that cover substantially all of the Ballet's union employees. The Ballet also has a voluntary tax-sheltered annuity program under Section 403(b) of the Internal Revenue Code covering substantially all non-union full-time employees. The Ballet has not incurred or made any contributions to the non-union plan during the years ended June 30, 2015 or 2014. The cost of the union pension plans amounted to approximately \$486,000 and \$352,000 for the years ended June 30, 2015 and 2014, respectively.

Note 10 - Multiemployer Retirement Plan

The Ballet contributes to the American Federation of Musicians and Employers' Pension Plan (the "A.F. of M. plan") a multiemployer defined benefit pension plan, under the terms of its collective-bargaining agreement with the Boston Musicians Association Local 9-535 (A.F. of M.). The risks of participating in a multiemployer plan, such as this one, are different from single-employer plans in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the Organization chooses to stop participating in this multiemployer plan, the Organization may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Ballet's participation in this plan for the annual period ended March 31, 2015 and 2014 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number. The most recent Pension Protection Act (PPA) zone status available in 2015 and 2014 is for the plan's year-end at March 31, 2015 and 2014. The zone status is based on information that the Ballet received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

There have been no significant changes that affect the comparability of fiscal year 2015 and 2014 contributions.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/Implemented	Contributions of the Ballet		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2015	2014		2015	2014		
American Federation of Musicians and Employers' Pension Plan	51-6120204/001	Red	Red	Implemented	\$ 175,950	\$ 154,860	10%	8/31/2019

The Form 5500 for the plan year 4/1/2013 - 3/31/2014 is available; the Form 5500 for the plan year 4/1/2014 - 3/31/2015 is not yet available.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 10 - Multiemployer Retirement Plan (Continued)

Pursuant to the Preservation of Access to Care for Medicare Beneficiaries and the Pension Relief Act of 2010, the A.F. of M. Plan elected to 1) extend from 15 years to 29 years the amortization period for 2008 net investment losses (i.e., net investment losses for the plan year ended March 31, 2009); 2) smooth those net investment losses over 10 years in the actuarial value of assets; and 3) allow the actuarial value of assets used by the A.F. of M. Plan to be as much as 130% of the market value of assets for the plan years beginning April 1, 2009 and 2010.

A rehabilitation plan was adopted on April 15, 2010. The rehabilitation plan was subsequently updated on May 18, 2011.

No employer contributed more than 5 percent of the total contributions to the A.F. of M. Plan during plan year ended March 31, 2014.

Note 11 - Components of Temporarily and Permanently Restricted Net Assets

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

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

	<i>2015</i>	<i>2014</i>
Endowment funds:		
Accumulated unspent gains:		
Beatrice H. Barrett Performance Fund	\$ 932,116	\$ 1,025,213
Krupp Contemporary Dance Fund	271,505	298,065
Artistic Director's Chair Endowment	257,232	283,955
Bradley C. Higgins Ballet Endowment	138,163	170,232
Boston Ballet Endowment	89,707	115,522
Cathryn S. Keith Scholarship Endowment	80,551	90,198
City Dance Endowment	32,635	35,990
The Snider Fund	12,086	12,458
The H. Wilcott Memorial Endowment	10,393	11,011
Menino Arts Opportunity Endowment	5,879	12,265
Tatiana Gardner Scholarship	2,630	2,909
Ed Avedisian Endowment	1,388	-
Pamela Jones Scholarship Fund	967	2,044
Pao Scholarship Endowment	-	20,307
	1,835,252	2,080,169
Purpose restricted:		
Performance and venue	85,875	626,233
Dancer's resource fund	284,240	286,245
Education community initiatives	1,600	26,500
Boston Ballet School	324,746	25,000
BB labs	-	10,000
Other programmatic initiatives	7,443	113,853
	703,904	1,087,831
Time restricted:		
Pledges receivable	94,709	835,701
Charitable remainder trusts	284,386	292,242
Other time restricted gifts	19,000	27,521
	398,095	1,155,464
Total temporarily restricted net assets	\$ 2,937,251	\$ 4,323,464

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 11 - Components of Temporarily and Permanently Restricted Net Assets (Continued)

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

	<i>2015</i>	<i>2014</i>
Pledges receivable collections	\$ 967,190	\$ 1,572,865
Performance and venue	618,788	2,197,592
Endowment spending allowance	410,282	368,975
Endowment contribution	100,000	-
Education and community initiatives	26,500	-
Boston Ballet School	25,000	45,899
Other programmatic initiatives	28,854	-
Other time restricted gifts	27,521	-
	\$ 2,204,135	\$ 4,185,331

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

	<i>2015</i>	<i>2014</i>
Endowment funds:		
Beatrice H. Barrett Performance Fund	\$ 3,205,752	\$ 3,191,176
Bradley C. Higgins Ballet Endowment	1,397,840	1,397,840
Artistic Director's Chair Endowment	1,022,861	1,022,861
Krupp Contemporary Dance Fund	1,000,089	1,000,089
Pao Scholarship Endowment	1,000,000	1,000,000
Cathryn S. Keith Scholarship Endowment	382,161	381,661
Menino Arts Opportunity Endowment	300,000	300,000
Ed Avedisian Endowment	200,000	-
City Dance Endowment	127,959	127,959
Pamela Jones Scholarship Fund	50,000	50,000
The H. Wilcott Memorial Endowment	18,585	18,585
The Snider Fund	5,174	5,174
Tatiana Gardner Scholarship	10,348	10,348
Boston Ballet Endowment	1,137,608	1,112,315
	\$ 9,858,377	\$ 9,618,008

Under the terms of the Beatrice H. Barrett Performance Fund (the "Barrett Fund"), the Ballet is allowed to withdraw up to 20% of the Barrett Fund at any time to fund current expenditures that further the expressed purposes of the bequest that established this Barrett Fund. Alternatively, the Ballet has the option of pledging 20% of the Barrett Fund as collateral for a loan or loans. Any amounts withdrawn from the Barrett Fund must be restored to the Barrett Fund as soon as practicable or there is to be a reduction in the amount of annual distributions from the fund, which is 4% of the average market value calculated over the twelve calendar quarters. At June 30, 2015 and 2014, the Ballet had withdrawn \$0 from the Barrett Fund.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 12 - 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.

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.

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

	<i>2015</i>	<i>2014</i>
Temporarily restricted	\$ 1,835,252	\$ 2,080,169
Permanently restricted	<u>9,858,377</u>	<u>9,618,008</u>
	<u>\$ 11,693,629</u>	<u>\$ 11,698,177</u>

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 12 - 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:

	2015			2014	
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total	Total
Endowment assets and those functioning as endowment assets, beginning of year	\$ -	\$ 2,080,169	\$ 9,618,008	\$ 11,698,177	\$ 8,587,106
Gifts and additions	-	-	240,369	240,369	2,002,021
Repayment of Barrett Fund	-	-	-	-	520,968
Total gifts and additions	-	-	240,369	240,369	2,522,989
Long-term investment returns:					
Interest and dividends	-	244,480	-	244,480	272,897
Net realized and unrealized gains, net of investment management fees of \$21,481 and \$30,906 for the years ended June 30, 2015 and 2014, respectively	-	(79,115)	-	(79,115)	1,205,128
Total long-term investment returns	-	165,365	-	165,365	1,478,025
Expenditures:					
Amounts appropriated for operations	-	(410,282)	-	(410,282)	(368,975)
Special distribution	-	-	-	-	(520,968)
Total expenditures	-	(410,282)	-	(410,282)	(889,943)
Change in endowment assets and those functioning as endowment assets	-	(244,917)	240,369	(4,548)	3,111,071
Endowment assets and those functioning as endowment assets, end of year	\$ -	\$ 1,835,252	\$ 9,858,377	\$ 11,693,629	\$ 11,698,177

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 12 - 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>2014</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	\$ -	\$ 971,119	\$ 7,615,987	\$ 8,587,106
Gifts and additions	-	-	2,002,021	2,002,021
Repayment of Barrett Fund	-	-	520,968	520,968
Total gifts and additions	-	-	2,522,989	2,522,989
Long-term investment returns:				
Interest and dividends	-	272,897	-	272,897
Net realized and unrealized gains, net of investment management fees of \$30,906 for the year ended June 30, 2014	-	1,205,128	-	1,205,128
Total long-term investment returns	-	1,478,025	-	1,478,025
Expenditures:				
Amounts appropriated for operations	-	(368,975)	-	(368,975)
Special distribution	-	-	(520,968)	(520,968)
Total expenditures	-	(368,975)	(520,968)	(889,943)
Change in endowment assets and those functioning as endowment assets	-	1,109,050	2,002,021	3,111,071
Endowment assets and those functioning as endowment assets, end of year	\$ -	\$ 2,080,169	\$ 9,618,008	\$ 11,698,177

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 12 - Net Assets and Endowment Matters (Continued)

Endowment

The Ballet's endowment consists of approximately fourteen individual funds as of June 30, 2015 and thirteen funds as of June 30, 2014 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 accounting principles generally accepted in the United States of America, 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 a weighted average calculation of the prior year's spending amount, adjusted for inflation, and 4.5% of the previous years' invested endowment balance.

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 accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2015 or 2014.

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, and provide for inflation, fees and real growth.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 12 - Net Assets and Endowment Matters (Continued)

Strategies Employed 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. Actual investment returns in any given year may vary from these objectives and may not be achievable during short-term periods.

Note 13 - Cash Flows Information

Cash paid for interest totaled \$111,220 and \$128,670 for the years ended June 30, 2015 and 2014, respectively.

During the fiscal year ended June 30, 2014, non-cash investing and financing activities included additions to office equipment purchased with capital leases totaling \$417,325.