

Financial Statements

The Boston Ballet, Incorporated

June 30, 2017 and 2016



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, 2017 and 2016, 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.



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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, 2017 and 2016, 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 Hoffmann McCann P.C.

October 4, 2017
Boston, Massachusetts

THE BOSTON BALLET, INCORPORATED

Statements of Financial Position

	<i>June 30,</i>	
	<i>2017</i>	<i>2016</i>
Assets		
Cash and cash equivalents	\$ 1,265,396	\$ 773,652
Short-term investments	450,066	703,333
Grants and pledges receivable, net	6,632,760	1,381,408
Accounts receivable, net	1,444,959	73,829
Prepaid expenses and current assets	1,215,892	1,126,774
Investments	13,923,751	12,699,352
Charitable remainder trusts	252,675	261,724
Property and equipment, net	12,896,913	11,697,665
Other assets	220,027	40,693
	<u>220,027</u>	<u>40,693</u>
Total assets	<u>\$ 38,302,439</u>	<u>\$ 28,758,430</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 2,016,196	\$ 1,568,921
Advance tuition	3,869,518	2,728,362
Advance ticket sales and sponsorships	2,380,003	2,159,003
Deferred tenant improvement allowance	1,407,272	-
Line of credit	2,500,000	3,500,000
	<u>2,500,000</u>	<u>3,500,000</u>
Total liabilities	<u>12,172,989</u>	<u>9,956,286</u>
Net assets:		
Unrestricted	4,634,770	3,726,238
Temporarily restricted	8,198,103	4,092,129
Permanently restricted	13,296,577	10,983,777
	<u>13,296,577</u>	<u>10,983,777</u>
Total net assets	<u>26,129,450</u>	<u>18,802,144</u>
Total liabilities and net assets	<u>\$ 38,302,439</u>	<u>\$ 28,758,430</u>

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statements of Activities

Years Ended June 30,

	2017						2016	
	<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	\$ 13,234,294	\$ -	\$ -	\$ 13,234,294	\$ -	\$ -	\$ 13,234,294	\$ 13,494,145
School income, tuition and fees	7,032,251	-	-	7,032,251	-	-	7,032,251	7,575,047
Contracted services, programs and other	585,123	-	-	585,123	-	-	585,123	512,275
Distribution from E. Virginia Williams Trust	85,100	-	-	85,100	-	-	85,100	87,434
Interest and dividend income, net of fees	32	1,096	-	1,128	255,581	-	256,709	242,545
Total revenue	20,936,800	1,096	-	20,937,896	255,581	-	21,193,477	21,911,446
Expenses:								
Production and programs:								
Dance school	6,062,399	-	43,212	6,105,611	-	-	6,105,611	6,616,525
Artistic department	17,581,215	-	1,095,920	18,677,135	2,487	-	18,679,622	18,083,098
Administrative expenses	2,935,706	-	524,918	3,460,624	-	-	3,460,624	3,542,031
Marketing	4,932,155	-	136,624	5,068,779	-	-	5,068,779	5,032,095
Total expenses	31,511,475	-	1,800,674	33,312,149	2,487	-	33,314,636	33,273,749
Income (loss) from operations before support	(10,574,675)	1,096	(1,800,674)	(12,374,253)	253,094	-	(12,121,159)	(11,362,303)
Support:								
Gifts and grants	12,031,558	-	589,127	12,620,685	4,284,961	2,212,800	19,118,446	15,124,906
Less: direct donor benefits	(747,189)	-	-	(747,189)	-	-	(747,189)	(687,868)
Net gifts and grants	11,284,369	-	589,127	11,873,496	4,284,961	2,212,800	18,371,257	14,437,038
Satisfaction of program restricted donations	1,004,626	-	611,260	1,615,886	(1,715,886)	100,000	-	-
Total support	12,288,995	-	1,200,387	13,489,382	2,569,075	2,312,800	18,371,257	14,437,038
Fundraising costs	(1,636,355)	-	(8,014)	(1,644,369)	-	-	(1,644,369)	(1,926,467)
Total support, net	10,652,640	-	1,192,373	11,845,013	2,569,075	2,312,800	16,726,888	12,510,571
Income (loss) from operations	77,965	1,096	(608,301)	(529,240)	2,822,169	2,312,800	4,605,729	1,148,268
Non-operating activity:								
Realized and unrealized gains (losses)								
on investments	50,529	-	-	50,529	1,283,805	-	1,334,334	(180,448)
Gain on lease termination	1,387,243	-	-	1,387,243	-	-	1,387,243	-
Capital additions	(400,277)	-	400,277	-	-	-	-	-
Transfer to board designated fund, net	(808,137)	808,137	-	-	-	-	-	-
Total non-operating activity	229,358	808,137	400,277	1,437,772	1,283,805	-	2,721,577	(180,448)
Change in net assets	307,323	809,233	(208,024)	908,532	4,105,974	2,312,800	7,327,306	967,820
Net assets at beginning of year	(6,160,303)	703,333	9,183,208	3,726,238	4,092,129	10,983,777	18,802,144	17,834,324
Net assets at end of year	\$ (5,852,980)	\$ 1,512,566	\$ 8,975,184	\$ 4,634,770	\$ 8,198,103	\$ 13,296,577	\$ 26,129,450	\$ 18,802,144

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statement of Activities

Year Ended June 30, 2016

	<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	\$ 13,494,145	\$ -	\$ -	\$ 13,494,145	\$ -	\$ -	\$ 13,494,145
School income, tuition and fees	7,575,047	-	-	7,575,047	-	-	7,575,047
Contracted services, programs and other	508,282	-	3,993	512,275	-	-	512,275
Distribution from E. Virginia Williams Trust	87,434	-	-	87,434	-	-	87,434
Interest and dividend income, net of fees	41	2,509	-	2,550	239,995	-	242,545
Total revenue	21,664,949	2,509	3,993	21,671,451	239,995	-	21,911,446
Expenses:							
Production and programs:							
Dance school	6,587,770	-	28,755	6,616,525	-	-	6,616,525
Artistic department	17,015,525	-	1,066,073	18,081,598	1,500	-	18,083,098
Administrative expenses	2,868,613	-	673,418	3,542,031	-	-	3,542,031
Marketing	5,032,095	-	-	5,032,095	-	-	5,032,095
Total expenses	31,504,003	-	1,768,246	33,272,249	1,500	-	33,273,749
Income (loss) from operations before support	(9,839,054)	2,509	(1,764,253)	(11,600,798)	238,495	-	(11,362,303)
Support:							
Gifts and grants	11,256,570	-	684,606	11,941,176	2,058,330	1,125,400	15,124,906
Less: direct donor benefits	(687,868)	-	-	(687,868)	-	-	(687,868)
Net gifts and grants	10,568,702	-	684,606	11,253,308	2,058,330	1,125,400	14,437,038
Satisfaction of program restricted donations	1,012,028	-	-	1,012,028	(1,012,028)	-	-
Total support	11,580,730	-	684,606	12,265,336	1,046,302	1,125,400	14,437,038
Fundraising costs	(1,926,467)	-	-	(1,926,467)	-	-	(1,926,467)
Total support, net	9,654,263	-	684,606	10,338,869	1,046,302	1,125,400	12,510,571
Income (loss) from operations	(184,791)	2,509	(1,079,647)	(1,261,929)	1,284,797	1,125,400	1,148,268
Non-operating activity:							
Realized and unrealized losses on investments	(50,529)	-	-	(50,529)	(129,919)	-	(180,448)
Capital additions	(444,528)	-	444,528	-	-	-	-
Transfer from board designated fund	1,000,000	(1,000,000)	-	-	-	-	-
Total non-operating activity	504,943	(1,000,000)	444,528	(50,529)	(129,919)	-	(180,448)
Change in net assets	320,152	(997,491)	(635,119)	(1,312,458)	1,154,878	1,125,400	967,820
Net assets at beginning of year	(6,480,455)	1,700,824	9,818,327	5,038,696	2,937,251	9,858,377	17,834,324
Net assets at end of year	\$ (6,160,303)	\$ 703,333	\$ 9,183,208	\$ 3,726,238	\$ 4,092,129	\$ 10,983,777	\$ 18,802,144

See accompanying notes to the financial statements.

THE BOSTON BALLET, INCORPORATED

Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 7,327,306	\$ 967,820
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,808,687	1,748,104
Contributions restricted for long-term investment	(2,212,800)	(1,125,400)
Contributions for property and equipment	(291,002)	(143,016)
Realized and unrealized losses	(1,334,334)	180,448
Loss on sale and disposal of assets	-	8,547
Change in:		
Grants and pledges receivable, net	(5,251,352)	(1,286,699)
Accounts receivable	(1,371,130)	243,623
Prepaid expenses and current assets	(89,118)	(127,319)
Other assets	(179,334)	(122)
Accounts payable and accrued expenses	447,275	68,952
Advance tuition	1,141,156	(419,623)
Advance ticket sales and sponsorships	221,000	(503,316)
	<u>216,354</u>	<u>(388,001)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Capital expenditures	(2,716,933)	(986,118)
Deferred tenant improvement allowance	1,407,272	-
Proceeds from sales of property and equipment	-	3,993
Proceeds from sales and maturities of investments	4,285,431	3,581,606
Purchases of investments	(3,913,180)	(3,598,798)
	<u>(937,410)</u>	<u>(999,317)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Borrowings on line of credit	-	2,500,000
Payments on line of credit	(1,000,000)	(2,500,000)
Payments on capital lease	-	(114,316)
Proceeds from contributions restricted for long-term investment	2,212,800	1,125,400
	<u>1,212,800</u>	<u>1,011,084</u>
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	491,744	(376,234)
Cash and cash equivalents at beginning of year	<u>773,652</u>	<u>1,149,886</u>
Cash and cash equivalents at end of year	<u>\$ 1,265,396</u>	<u>\$ 773,652</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 operations of its professional dance company as well as the operations of the Boston Ballet School (the “School”). The Ballet is dedicated to bring new levels of excellence to ballet, both on and off stage, through a process that is inclusive in scope, educational, and creative. The Ballet presents more than 100 performances annually of fully staged classical, neo-classical and contemporary works during its eight month season with a year-end roster of seventy dancers. The 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 accounting principles generally accepted in the United States of America.

Operations and Financial Resources

The Ballet’s activities, like other performing arts organizations, rely on the continued support of the donor community along with success in its box office and school operations. The Ballet has achieved this balance in recent years and seeks to continue to achieve a level of contributed support and earned revenue to fund operations given that there are a limited quantity of unencumbered resources otherwise available to fund operations into the future. Management believes that it can continue to perform at these levels so that the Ballet will continue to be one of the leading performing arts organizations in the community.

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 are comprised of the following:

Operating – The operating fund represents the core operating activities of the Ballet. Revenue and expenses from performances, school, and the related fundraising and administrative support are earned and incurred within the operating fund.

Board designated – The board designated fund represents funds set aside by the Board of Trustees for strategic purposes to support operations and for amounts associated with the Ballet’s new premises located in Newton, Massachusetts. These amounts may only be used as authorized by the Board of Trustees.

Plant – The plant fund represents the value of long-lived assets acquired for programmatic or support services of the operating fund. Long-lived assets include buildings, equipment, leasehold improvements, artistic sets and costumes, net of depreciation.

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 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. Also included in this category is unexpended appreciation associated with permanently restricted net assets.

Permanently restricted net assets include gifts 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. Unexpended appreciation that is not required to be reinvested per the donor agreement 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 such as the passage of time. Donor-restricted gifts that are received and expended within the same year are reported as unrestricted revenues.

Gifts and Grants and Related Receivables

Gifts and grants are recorded as support at fair value when verifiably committed. Such amounts are accounted for in the appropriate net asset category based on 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 at net realizable value. Gifts of non-cash assets are recorded at their fair value at the date of the 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 within the Ballet's investment portfolio are considered part of investments given the expectation of near term reinvestment and donor restrictions that may affect such amounts held. 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. Cash and cash equivalents also include funds collected associated with restricted gifts pending their expenditure in accordance with donor restrictions.

Short-Term Investments

Short-term investments include money market funds with original maturities greater than three months and less than one year and are reported at cost plus accrued interest.

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.

Prepaid Expenses and Current Assets

Prepaid expenses and current assets consist of prepaid expenses for insurance premiums, artistic licenses, and residential housing for the School's summer dance program. In addition, prepaid expenses and current assets include retail merchandise inventory and other current assets used in the operations of the Ballet.

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, or as additions to permanently restricted if such amounts are required to be added to such funds per the donor agreement or 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 statements 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 recorded using a Level 3 market approach when applicable. 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.

Other Assets

Other assets consist of lease deposits and other long-term deposits.

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 occur.

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.

Deferred Tenant Improvement Allowance

Deferred tenant improvement allowances are amortized on a straight-line basis over the lease term.

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, 2017 and 2016 was approximately \$2,034,000 and \$1,909,000, respectively.

Advertising

Advertising costs are expensed as incurred. Advertising expense was approximately \$2,611,000 and \$2,659,000 for the years ended June 30, 2017 and 2016, respectively.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

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 three 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 allow for certain investments to be valued at the net asset value per share if certain criteria are met. In addition, the fair value standards also require the Ballet to classify and report recurring fair values of financial instruments (but for those measured using NAV which are separately stated) into a three-level hierarchy, based on the priority of inputs to the valuation technique, as follows:

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 actively traded on a public 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.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

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

Fair Value Measurements (Continued)

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 change in the value of these instruments will occur in the near term and that such changes could materially affect amounts reported in the financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the 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 as indicated in the statements of activities.

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 and pledges receivable, fair value of certain investments, useful lives of depreciable assets, deferred revenue, and the allocation of common expenses over program functions, and the satisfaction of donor restrictions.

Reclassifications

Certain amounts from the prior year's financial statements were reclassified in order to conform to the current year's financial statements. There was no change to total net assets as a result of the reclassifications.

Subsequent Events

The Ballet has evaluated subsequent events through October 4, 2017, 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 are expected to be realized as follows as of June 30:

	<i>2017</i>	<i>2016</i>
Amounts due in:		
Less than one year	\$ 1,968,904	\$ 600,008
One to two years	1,489,606	327,300
Two to three years	1,306,250	515,000
Three to four years	1,155,000	-
Four years and beyond	1,450,000	-
Total due	7,369,760	1,442,308
Less:		
Allowance for doubtful accounts	200,000	55,000
Net present value discount	537,000	5,900
Grants and pledges receivable, net	<u>\$ 6,632,760</u>	<u>\$ 1,381,408</u>

Note 3 - Investments and Fair Value of Financial Instruments

The following table represents financial assets at June 30, 2017 that the Ballet measures at fair value on a recurring basis, by level, within the fair value hierarchy:

<i>Description</i>	<i>Total Portion Carried at Fair Value</i>	<i>Investments Measured at NAV</i>	<i>Quoted Prices in Active Markets (Level 1)</i>
Long-term investments:			
Cash and cash equivalents	\$ 753,239	\$ -	\$ 753,239
Domestic equity funds	3,545,754	-	3,545,754
International equity funds	4,420,806	-	4,420,806
Short-term bond funds	12,333	-	12,333
Intermediate bond funds	2,610,851	-	2,610,851
Alternatives	2,580,768	2,580,768	-
Total	<u>\$ 13,923,751</u>	<u>\$ 2,580,768</u>	<u>\$ 11,342,983</u>

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, 2016 that the Ballet measures at fair value on a recurring basis, by level, within the fair value hierarchy:

<i>Description</i>	<i>Total Portion Carried at Fair Value</i>	<i>Investments Measured at NAV</i>	<i>Quoted Prices in Active Markets (Level 1)</i>
Long-term investments:			
Cash and cash equivalents	\$ 603,381	\$ -	\$ 603,381
Domestic equity funds	3,494,252	-	3,494,252
International equity funds	4,013,250	-	4,013,250
Short-term bond funds	1,164,570	-	1,164,570
Intermediate bond funds	1,263,939	-	1,263,939
Alternatives	<u>2,159,960</u>	<u>2,159,960</u>	<u>-</u>
Total	<u>\$ 12,699,352</u>	<u>\$ 2,159,960</u>	<u>\$ 10,539,392</u>

Investments measured at NAV have redemption periods of 90 days or less at June 30, 2017 and 2016.

Investment return consisted of the following for the years ended June 30:

	<i>2017</i>	<i>2016</i>
Interest and dividend income, net of fees of \$12,495 and \$12,394, respectively	\$ 256,709	\$ 242,545
Net realized gains (losses) on investments	52,863	(20,741)
Net unrealized gains (losses) on investments	<u>1,281,471</u>	<u>(159,707)</u>
Net return	<u>\$ 1,591,043</u>	<u>\$ 62,097</u>

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 4 - Property and Equipment, Net

Property and equipment consists of the following at June 30:

	<i>2017</i>	<i>2016</i>
Building and leasehold improvements	\$ 13,587,274	\$ 13,593,951
Production sets, costumes and recordings	9,374,274	9,046,379
Furniture, equipment and software	4,910,804	4,864,437
Newton studio lease renovation - in progress (see Note 6)	<u>2,363,252</u>	<u>-</u>
	30,235,604	27,504,767
Less: accumulated depreciation and amortization	<u>17,338,691</u>	<u>15,807,102</u>
Property and equipment, net	<u>\$ 12,896,913</u>	<u>\$ 11,697,665</u>

Building and leasehold improvements include the cost of constructing the Ballet's main facility in Boston, Massachusetts, any major renovations to the structure, and leasehold improvements made to the School facilities in Newton and Marblehead, Massachusetts.

The Ballet disposed of fixed assets summarized as follows at June 30:

	<i>2017</i>	<i>2016</i>
Cost basis	\$ 277,098	\$ 24,552
Accumulated depreciation	<u>(277,098)</u>	<u>(12,012)</u>
Net book value	-	12,540
Sale proceeds	<u>-</u>	<u>3,993</u>
Loss on sale and disposal of assets	<u>\$ -</u>	<u>\$ (8,547)</u>

Note 5 - Line of Credit

The Ballet has a \$3.5 million secured revolving line of credit with a bank to support the Ballet's general business operations. The line is renewed annually at the bank's discretion and expires on February 1, 2022. 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. At June 30, 2017, the revolving line of credit had an outstanding balance of \$2,500,000 secured by marketable securities totaling \$5,421,000. At June 30, 2016, the revolving line of credit had an outstanding balance of \$3,500,000 secured by marketable securities totaling \$4,727,000. The interest rate is charged at the lender's prime rate or one month LIBOR plus two and a half percent with a floor of 3.00% (3.72% and 3.00% at June 30, 2017 and 2016, respectively).

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 5 - Line of Credit (Continued)

In 2017, the Ballet obtained a \$2,300,000 line of credit with the same bank to finance the renovation of its new studio in Newton, Massachusetts (see Note 6). The line of credit is secured by pledge receivables and account receivables of \$2,300,000 directly attributable to the renovation of the new studio. The interest rate is charged at the lender's prime rate less 0.25% or one month LIBOR +2.75% (3.97% at June 30, 2017).

Both the \$3,500,000 revolving line of credit and the \$2,300,000 line of credit are subject to certain non-financial covenants. Interest expense was \$105,749 and \$96,354 for the years ended June 30, 2017 and 2016, respectively.

Note 6 - Newton Studio

In January 2016, a developer purchased the property and buildings that the School leases for its Newton, Massachusetts dance programs. In August 2016, the Ballet entered into an agreement with the developer accelerating the termination date of the Newton lease from December 2020 to September 2017. The lease termination agreement includes \$324,743 of rent abatement received in 2017, an early termination payment of \$450,000, and additional early termination payments of \$612,500 when the Ballet vacates the Newton studio in September 2017. Such amounts were recognized as a gain on lease termination in 2017.

In August 2016, the Ballet entered into a new lease in Newton, Massachusetts that included additional dance studios to meet the growing demand for programming in this community. The new lease commenced on July 1, 2017 and expires in 2032 with options to extend through 2047. The Ballet estimates the total cost to renovate the new lease plus purchase the necessary furniture and equipment will be approximately \$5,500,000 and has incurred \$2,363,252 at June 30, 2017. The new lease provides for \$1,726,000 of tenant improvement allowances of which \$1,407,272 was received by June 30, 2017. The Ballet intends to use the tenant improvement allowance plus the lease termination payments and \$3,000,000 of contributions raised for the new studio to cover the cost of opening this new studio. The incremental funds raised for this project will be used by the Ballet to cover the start-up costs of the new studio.

Note 7 - 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 Ballet also leases performance space to stage its ballets. The performance space rentals vary based on the number of performances and other factors as outlined in the lease. The leases expire at various dates through 2053. The leases provide for various escalations for operating costs. Lease expense is recorded on a straight-line basis over the lease term with deferred rent included in accounts payable and accrued expenses in the statements of financial position when straight-line rent exceeds the cumulative cash paid under the leases.

Rent expense, including theater rent, was approximately \$2,293,000 and \$2,232,000 for the years ended June 30, 2017 and 2016, respectively.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 7 - Commitments and Contingencies (Continued)

Leases (Continued)

Future minimum lease commitments applicable to operating leases, including the changes to the Newton Studio described above, were as follows at June 30, 2017:

2018	\$ 2,841,017
2019	1,958,533
2020	1,975,656
2021	1,856,582
2022	1,737,366
Thereafter	<u>25,877,523</u>
Total future lease commitments	<u>\$ 36,246,677</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 expired on June 30, 2017. The Ballet is currently negotiating its renewal and does not expect disruption given the expiration of the agreement. The agreement with Boston Musician's Association AFM Local 9-535 expires on August 31, 2019. The theatres at which the Ballet performs have collective bargaining agreements directly with IATSE Local #11 that expire on May 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 8 - Defined Contribution Plans

The Ballet has a voluntary tax-sheltered annuity program under Section 403(b) of the Internal Revenue Code (the Plan) covering substantially all non-union full-time employees. The Ballet has agreements with certain key employees to make annual contributions to the Plan totaling \$42,000 for the years ended June 30, 2017 and 2016. Such contributions are immediately vested. The Ballet has not incurred or made any contributions to the Plan for all other non-union employees during the years ended June 30, 2017 or 2016.

The Ballet participates in various union administered defined contribution pension plans under the terms of collective bargaining agreements (CBA) that cover certain union-represented employees. Employees covered by one union CBA are permitted to direct the Ballet to make contributions to the Ballet's Plan in lieu of the union administered defined contribution plan. The expense of the union defined contribution pension plans was \$272,000 and \$269,000 for the years ended June 30, 2017 and 2016, respectively.

Note 9 - Multiemployer Retirement Plans

The Ballet contributes to two multiemployer defined benefit pension plans, under the terms of CBAs that cover certain union-represented employees. The risks of participating in multiemployer plans 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 the 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 these plans for the years ended June 30, 2017 and 2016 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 is listed on the following page. 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.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 9 - Multiemployer Retirement Plans (Continued)

There have been no significant changes that affect the comparability of fiscal year 2017 and 2016 contributions.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions of the Ballet		Surcharge Imposed	Plan's Year End	Expiration Date of Collective Bargaining Agreement
		2017	2016		2017	2016			
American Federation of Musicians and Employers' Pension Plan	51-6120204/001	Red	Red	Implemented	\$161,000	\$166,600	10%	3/31/2017	8/31/2019
Pension Fund of Local 11, I.A.T.S.E.	04-6211188/001	Green	Green	N/A	\$70,800	\$68,500	No	8/31/2016	N/A

The American Federation of Musicians and Employers' Pension Plan Form 5500 for the plan year 4/1/2016 - 3/31/2017 is not yet available.

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.

No employer contributed more than 5 percent of the total contributions to the A.F. of M. Plan during plan year ended March 31, 2015. Seven employers contributed more than 5% of the total contributions to the I.A.T.S.E Local 11 Plan during the plan years ended August 31, 2016 and 2015 representing 88% of the total contributions for each respective plan year. The Ballet's contribution was 5.0% and 5.6% for the plan years ended August 31, 2016 and 2015, respectively.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 10 - Components of Temporarily and Permanently Restricted Net Assets

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

	<i>2017</i>	<i>2016</i>
Funds for donor-restricted initiatives	\$ 837,507	\$ 812,310
Funds to support subsequent years activities	111,700	119,074
Pledges receivable	4,432,760	1,381,408
Charitable remainder trusts	252,675	261,724
Accumulated appreciation of endowment funds not appropriated for expenditure	2,563,461	1,517,613
Total temporarily restricted net assets	\$ 8,198,103	\$ 4,092,129

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

	<i>2017</i>	<i>2016</i>
Endowment spending allowance	\$ 479,755	\$ 444,091
Pledges receivable collections	392,987	116,283
Boston Ballet School	417,864	341,882
Education and community initiatives	12,500	1,600
Other programmatic initiatives	293,705	3,297
Other time restricted gifts	119,075	104,875
Total net asset releases	\$ 1,715,886	\$ 1,012,028

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

	<i>2017</i>	<i>2016</i>
Endowment corpus to support the Ballet	\$ 11,096,577	\$ 10,983,777
Pledges receivable	2,200,000	-
Total permanently restricted net assets	\$ 13,296,577	\$ 10,983,777

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 11 - Endowment

The Ballet's endowment consists of over fifteen donor restricted funds established for a variety of purposes that align to the ongoing needs of the Ballet. 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, and expected total return on its investments, price level trends and general economic conditions. The Ballet employed a spending policy which bases 70% of its spending on the prior year amount adjusted for inflation and 30% on the beginning of year investments times 4.5% subject to further donor restrictions on spending.

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, 2017 and 2016, the Ballet had withdrawn \$0 from the Barrett Fund. The Barrett Fund represents approximately 32% of endowed resources.

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. Deficits reported in unrestricted net assets were \$0 and \$50,529 as of June 30, 2017 and 2016, respectively. These deficits resulted from unfavorable market fluctuations and continued appropriation for certain programs and expenditures that were deemed prudent. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

THE BOSTON BALLET, INCORPORATED

Notes to Financial Statements

Note 11 - Endowment (Continued)

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.

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.

Changes in endowment by net asset class for the year ended June 30, 2017 are as follows:

	<i>2017</i>			<i>Total</i>
	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	
Endowment assets, beginning of year	\$ (50,529)	\$ 1,517,613	\$ 10,983,777	\$ 12,450,861
Investment returns:				
Interest and dividends	-	262,684	-	262,684
Net realized and unrealized losses, net of investment management fees of \$10,000 for the year ended June 30, 2017	50,529	1,262,919	-	1,313,448
Total investment returns	50,529	1,525,603	-	1,576,132
Gifts and additions	-	-	112,800	112,800
Amounts appropriated for operations	-	(479,755)	-	(479,755)
Change in endowment assets and those functioning as endowment assets	50,529	1,045,848	112,800	1,209,177
Endowment assets and those functioning as endowment assets, end of year	\$ -	\$ 2,563,461	\$ 11,096,577	\$ 13,660,038

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Notes to Financial Statements

Note 11 - Endowment (Continued)

Changes in endowment by net asset class for the year ended June 30, 2016 are as follows:

	<i>2016</i>			<i>Total</i>
	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	
Endowment assets, beginning of year	\$ -	\$ 1,835,252	\$ 9,858,377	\$ 11,693,629
Investment returns:				
Interest and dividends	-	244,690	-	244,690
Net realized and unrealized losses, net of investment management fees of \$10,000 for the year ended June 30, 2016	(50,529)	(118,238)	-	(168,767)
Total investment returns	<u>(50,529)</u>	<u>126,452</u>	<u>-</u>	<u>75,923</u>
Gifts and additions	-	-	1,125,400	1,125,400
Amounts appropriated for operations	<u>-</u>	<u>(444,091)</u>	<u>-</u>	<u>(444,091)</u>
Change in endowment assets and those functioning as endowment assets	<u>(50,529)</u>	<u>(317,639)</u>	<u>1,125,400</u>	<u>757,232</u>
Endowment assets and those functioning as endowment assets, end of year	<u><u>\$ (50,529)</u></u>	<u><u>\$ 1,517,613</u></u>	<u><u>\$ 10,983,777</u></u>	<u><u>\$ 12,450,861</u></u>

Note 12 - Cash Flows Information

Cash paid for interest totaled \$105,749 and \$103,956 for the years ended June 30, 2017 and 2016, respectively.