

PITTSBURGH BALLET THEATRE, INC.
Pittsburgh, Pennsylvania

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2017 and 2016

and Independent Auditors' Report Thereon



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CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position, June 30, 2017 and 2016	2
Statements for the years ended June 30, 2017 and 2016:	
Activities and Changes in Net Assets	3
Cash Flows	4
Notes to Financial Statements	5
SUPPLEMENTARY FINANCIAL INFORMATION	
Independent Auditors' Report on Supplementary Financial Information	19
Schedules of Unrestricted Activities for the years ended June 30, 2017 and 2016	20



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Pittsburgh Ballet Theatre, Inc.
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of the Pittsburgh Ballet Theatre, Inc. (Ballet) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets 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 Ballet as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
October 16, 2017

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PITTSBURGH BALLET THEATRE, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30	
	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 774,614	\$ 639,528
Accounts receivable	57,166	33,834
Pledges receivable	1,048,081	1,225,380
Prepaid expenses and other current assets	442,336	370,981
	<u>2,322,197</u>	<u>2,269,723</u>
Total Current Assets		
ENDOWMENT ASSETS		
Cash and cash equivalents	157,962	1,537
Investments	7,827,187	7,429,129
	<u>7,985,149</u>	<u>7,430,666</u>
INVESTMENT HELD BY TRUST		
	364,243	347,186
PLEDGES RECEIVABLE		
	281,815	916,994
FIXED ASSETS, net		
	9,708,397	7,650,146
PRODUCTION ASSETS (less accumulated amortization of \$567,819 and \$550,506 in 2017 and 2016, respectively)		
	<u>290,301</u>	<u>264,710</u>
Total Assets	<u>\$ 20,952,102</u>	<u>\$ 18,879,425</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payments due within one year on long-term debt	\$ 111,937	\$ 124,935
Lines of credit	2,100,000	170,000
Accounts payable and accrued expenses	334,172	209,144
Construction costs payable	-	397,901
Deferred revenue	1,492,234	1,450,711
	<u>4,038,343</u>	<u>2,352,691</u>
Total Current Liabilities		
LONG-TERM DEBT		
	<u>63,214</u>	<u>175,398</u>
Total Liabilities	4,101,557	2,528,089
NET ASSETS:		
Unrestricted	507,767	551,189
Temporarily restricted	7,909,916	7,918,647
Permanently restricted	8,432,862	7,881,500
	<u>16,850,545</u>	<u>16,351,336</u>
Total Net Assets		
Total Liabilities And Net Assets	<u>\$ 20,952,102</u>	<u>\$ 18,879,425</u>

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE	\$ 5,867,540	-	-	\$ 5,867,540	\$ 5,163,903	-	-	\$ 5,163,903
OPERATING EXPENSES	(10,789,216)	-	-	(10,789,216)	(9,767,818)	-	-	(9,767,818)
NET REALIZED AND UNREALIZED LOSSES, INTEREST AND DIVIDENDS	-	-	\$ 1,044,862	1,044,862	-	-	\$ (453,815)	(453,815)
Changes In Net Assets Before Public And Private Support, Releases From Restrictions And Depreciation On Leaseholds, Machinery And Equipment And Land Improvements	(4,921,676)	-	1,044,862	(3,876,814)	(4,603,915)	-	(453,815)	(5,057,730)
PUBLIC AND PRIVATE SUPPORT	2,881,982	\$ 1,967,559	60,500	4,910,041	2,353,847	\$ 3,218,593	1,500	5,573,940
Changes In Net Assets Before Releases From Restrictions And Depreciation On Leaseholds, Machinery And Equipment And Land Improvements	(2,039,694)	1,967,559	1,105,362	1,033,227	(2,250,068)	3,218,593	(452,315)	516,210
NET ASSETS RELEASED FROM OPERATING RESTRICTIONS								
Investment income spending	554,000	-	(554,000)	-	597,500	-	(597,500)	-
Other support	1,516,357	(1,516,357)	-	-	1,670,230	(1,670,230)	-	-
Total Net Assets Released From Operating Restrictions	2,070,357	(1,516,357)	(554,000)	-	2,267,730	(1,670,230)	(597,500)	-
Changes In Net Assets From Operations	30,663	451,202	551,362	1,033,227	17,662	1,548,363	(1,049,815)	516,210
Net assets released from capital restrictions	459,933	(459,933)	-	-	111,629	(111,629)	-	-
Depreciation on leaseholds, machinery and equipment and land improvements	(534,018)	-	-	(534,018)	(225,067)	-	-	(225,067)
Changes In Net Assets	(43,422)	(8,731)	551,362	499,209	(95,776)	1,436,734	(1,049,815)	291,143
NET ASSET TRANSFERS	-	-	-	-	-	250,000	(250,000)	-
NET ASSETS								
Beginning of year	551,189	7,918,647	7,881,500	16,351,336	646,965	6,231,913	9,181,315	16,060,193
End of year	\$ 507,767	\$ 7,909,916	\$ 8,432,862	\$ 16,850,545	\$ 551,189	\$ 7,918,647	\$ 7,881,500	\$ 16,351,336

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 499,209	\$ 291,143
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	706,592	257,934
Bad debts	1,900	1,158
Net realized and unrealized (gains) losses on investments	(1,094,627)	735,606
Contributions and grants restricted for investment in endowment	(60,500)	(1,500)
Changes in assets and liabilities:		
Accounts receivable	(25,232)	(3,256)
Pledges receivable	792,278	(10,139)
Prepaid expenses	(71,355)	44,782
Accounts payable and accrued expenses	125,028	(98,063)
Deferred revenue	41,523	280,864
Net Cash Provided By Operating Activities	914,816	1,498,529
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and production assets	(2,790,434)	(3,823,025)
Proceeds from sale of investments	7,818,611	1,147,613
Purchase of investments	(7,139,099)	(944,990)
Net Cash Used In Investing Activities	(2,110,922)	(3,620,402)
CASH FLOWS FROM FINANCING ACTIVITIES		
Lines of credit, net	1,930,000	(200,000)
Construction costs payable	(397,901)	314,488
Payments on long-term debt	(125,182)	(120,691)
Contributions and grants restricted for investment in endowment	80,700	231,000
Net Cash Provided By Financing Activities	1,487,617	224,797
Net Increase (Decrease) In Cash And Cash Equivalents	291,511	(1,897,076)
CASH AND CASH EQUIVALENTS		
Beginning of year	641,065	2,538,141
End of year	\$ 932,576	\$ 641,065
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 23,795	\$ 21,723

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 - ORGANIZATION

The Pittsburgh Ballet Theatre, Inc. (Ballet) is committed to the development of a regionally rooted but internationally recognized ballet company that exposes its audiences, both in Pittsburgh and on tour, to world-class ballet through: presentation of traditional ballets of the legendary masters; commission and presentation of new works by innovative choreographers; and building of an outstanding company and school by attracting, developing and retaining excellent dancers and artistic, production and administrative personnel. The Ballet relies principally on contributions, ticket sales, tour performances, boutique sales, special events and the operation of a ballet school to fund its operating costs.

The Ballet has a collective bargaining agreement covering the costume dressers, which expires June 30, 2021. Additionally, the Ballet has a collective bargaining agreement with the orchestra musicians of the work force, which expires June 30, 2018. Additionally, the Ballet has a collective bargaining agreement with the stagehands, which expires June 30, 2021 and a collective bargaining agreement with the dancers which expires June 30, 2019.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements follows:

Basis of Accounting - The financial statements are prepared on the accrual basis of accounting.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure 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.

The accounts of the Ballet are organized on the basis of net assets. Unrestricted net assets account for all resources over which the Ballet's Board of Trustees (Board) has discretionary control to use in carrying on the operations of the Ballet. Temporarily restricted net assets are those resources expendable only for purposes specified by the donor or grantor. Permanently restricted net assets are those resources subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income be used to support the Ballet's operations.

Unrestricted contributions are recorded as revenue when received or pledged. Temporarily restricted contributions are reclassified to unrestricted contributions and reported in the statement of activities as revenues if a restriction is met in the same period the revenue is recognized. Temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restriction when a stipulated time restriction ends or purpose restriction is accomplished. Conditional promises to give are not included as support until the conditions are substantially met.

Ticket and advertising sales collected for performances of the upcoming season are included in deferred revenue and recognized as revenue in the year such performances are completed. Deferred revenues also are composed of tuition and housing revenues for amounts received in advance of the period in which they relate.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Ballet evaluates the need for an allowance for doubtful accounts based on historical collection, experience, a review of current status of the receivables and judgment. Decisions to charge-off receivables are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts. Management has determined that an allowance is not necessary at either June 30, 2017 or 2016. It is reasonably possible that the Ballet's estimate of uncollectible receivables could change.

For purposes of the statement of cash flows, the Ballet considers all interest-bearing money market funds and non-interest-bearing accounts to be cash or cash equivalents. The Ballet maintains, at various financial institutions, cash that may exceed federally insured amounts at times. In accordance with a grant agreement, the Ballet is required to maintain a cash reserve fund, which is to be fully funded at the conclusion of each fiscal year or for a period of 30 consecutive days during the fiscal year. The Ballet has met the requirements of this covenant for the years ended June 30, 2017 and 2016.

Investments are recorded at fair value. The change in unrealized appreciation (depreciation) on investments is the difference between the excess of fair market value over the cost of the portfolio at the end of the current period and the difference at the end of the prior period. Realized losses on security transactions are the result of all gains and losses realized in the current period using the specific identification method. Investments received by gift are recorded at market value on the date of the donation. During the year ended June 30, 2017, the Ballet changed its investment manager. Due to this change, a large portion of the investment portfolio was liquidated and reinvested during 2017. This is reflected as purchases and sales of investments on the statement of cash flows.

Investments are exposed to various risks, such as interest rates and credit conditions. Due to the level of risk associated with investments and the level of uncertainty related to the change in the value of investments, it is at least reasonably possible that changes in the near term could materially affect the amounts reported in the statement of financial position.

The cost of costumes, sets and props and production costs for major, recurring ballets are capitalized and depreciated on a units-of-performance basis. All other costs are charged to operations as incurred.

Furniture and fixtures and machinery and equipment are recorded at cost or, with respect to acquisition by gift, at market value at the date of acquisition, and are depreciated on the straight-line basis over the estimated useful life of the assets ranging from 3 to 15 years.

Leasehold and land improvements are recorded at cost and are amortized over the remaining life of the lease or the estimated useful life of the improvements, whichever is less. For those assets constructed with restricted funds for the Byham House (Phase I), for the lobby renovation (Phase II) and the building expansion (Phase IV), the depreciation is released over the life of the assets from temporarily restricted net assets to unrestricted net assets. The building expansion was completed and placed in service in September 2016. The net book value of the assets for the Byham House, lobby renovation, and building expansion at June 30, 2017 and 2016 approximated:

	<u>2017</u>	<u>2016</u>
Byham house	\$ 562,000	\$ 628,000
Lobby renovation	430,000	475,000
Building expansion	5,921,000	4,254,000

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Ballet is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is recorded in the financial statements. The Ballet's statement of financial position at June 30, 2017 and 2016 does not include any liabilities associated with uncertain tax positions; further, the Ballet has no unrecognized tax benefits. There were no interest or penalties recognized in the statements of activities for the years ended June 30, 2017 and 2016. The Ballet is no longer subject to examinations of its tax returns for years before 2014.

Generally, advertising costs are expensed in the period incurred. However, the Ballet may from time to time defer advertising costs related to specific productions and expense such costs in the period in which the productions take place. Advertising expense for the fiscal years 2017 and 2016 approximated \$456,000 and \$429,000, respectively.

Recently Issued Accounting Pronouncements - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 is the result of a joint project of FASB and the International Accounting Standards Board (IASB) to clarify the principles for recognizing revenue and to develop a common revenue standard for use in the U.S. and internationally. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605 of the FASB Codification and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09 enhances comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, reduces the number of requirements an entity must consider for recognizing revenue, and requires improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. In August 2015, the FASB issued ASU 2015-14, a deferral on the implementation date; and this guidance is effective for annual reporting periods beginning after December 15, 2018. ASU 2014-09 requires either retrospective application by restating each prior period presented in the financial statements, or retrospective application by recording the cumulative effect on prior reporting periods to beginning retained earnings in the year that the standard becomes effective. The Ballet is assessing the impact that ASU 2014-09 will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact the Ballet's financial statements, since the Ballet has certain operating lease arrangements for which it is the lessee and others for which it is the lessor. ASU 2016-02 supersedes the previous leases standard, Leases (Topic 840). The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Ballet is assessing the impact that ASU 2016-02 will have on its financial statements.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2016, the FASB completed Phase I of its Presentation of Financial Statements of Not-for-Profit Entities and issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This new ASU is intended to simplify and improve not-for-profit financial reporting.

Specifically, the new guidance:

- Revises the net asset classification scheme to two classes (net assets with donor restrictions and net assets without donor restrictions) instead of the previous three, while maintaining the requirement to report total net assets and changes in the classes of and total net assets.
- Continues to allow for a choice between the direct and indirect method of reporting operating cash flows; however, presentation of the indirect reconciliation is no longer required if using the direct method.
- Enhances disclosures for:
 - Self-imposed limits on the use of resources without donor-imposed restrictions
 - Composition of net assets with donor restrictions, and how the restrictions affect the use of resources
 - Qualitative disclosures on how a not-for-profit manages its available liquid resources, to meet cash needs for general expenditures within one year of the balance sheet date
 - Quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date
 - Methods used to allocate costs among program and support functions
- Requires the presentation of expenses by nature as well as function, including an analysis of expenses showing the relationship between functional and natural classification for all expenses.
- Updates the accounting and disclosure requirements for underwater endowment funds, which include required disclosure of (1) policy concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate original gift amount (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater, which are to be classified as part of net assets with donor restrictions.
- Requires net presentation of investment expenses against investment return on the statement of activities and eliminates the requirement to disclose investment expenses that have been netted.
- Requires the use of, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expiration of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassification of amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restrictions over the estimated useful life of the acquired asset).

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 with early application permitted. The Ballet is currently evaluating the impact this standard will have on its financial statements.

Subsequent events are events or transactions that occur after the statement of net assets available for benefits date, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through October 16, 2017, the date on which the financial statements were issued.

NOTE 3 - ENDOWMENT

The Ballet's endowment consists of donor-restricted investment funds established for perpetual support of the organization's mission. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Ballet to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Trustees (Board) of the Ballet has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141). Act 141 is a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's permanently restricted investments as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. On an annual basis, the Board must elect a spending rate of between 2% and 7%. In accordance with Act 141, and to comply with a donor-imposed restriction, the Ballet usually transfers no more than 5% of the previous three years' market value average of the endowment fund. For the year ended June 30, 2016, the Ballet obtained the donor's permission to increase the maximum investment draw percentage to 7%. Starting for the year ended June 30, 2017, the Ballet will begin a gradual reduction in draw over five years to return to 5% in 2021. The maximum investment draw percentage for the year ended June 30, 2017 was 6.6%. This percentage is applied to a three-year average market value of the investments at June 30th of the previous year. The Ballet classifies as permanently restricted net assets the original and subsequent value of gifts donated to the permanent endowment. In accordance with Act 141, the Ballet has adopted a written investment policy, of which a section specifically relates to the endowment fund. The Ballet considers the following factors in making a determination to set a spending rate:

1. Protecting the corpus of the endowment fund.
2. Preserving the spending power of the assets.
3. Obtaining maximum investment return with reasonable risk and operational consideration.
4. Complying with applicable laws and donor-imposed restrictions.

The donor-designated endowment funds of \$8,068,550 and \$7,531,156 as of June 30, 2017 and 2016, respectively, are included in permanently restricted net assets.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 - ENDOWMENT (Continued)

The changes in donor-designated endowment funds for the years ended June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Endowment net assets, beginning of year	\$ 7,531,156	\$ 8,743,213
Contributions	60,500	1,500
Investment return:		
Investment income	204,594	341,148
Net appreciation (depreciation)	<u>826,300</u>	<u>(707,205)</u>
	1,030,894	(366,057)
Transfer to temporarily restricted net assets	-	(250,000)
Appropriation of endowment assets for expenditure	<u>(554,000)</u>	<u>(597,500)</u>
Endowment net assets, end of year	\$ <u>8,068,550</u>	\$ <u>7,531,156</u>

During the year ended June 30, 2016, the Ballet received notification from a donor to redesignate \$250,000 received in a prior year that was originally designated for endowment to now be utilized for the temporarily restricted purpose of future production support. This amount is included within net asset transfers on the statement of activities and changes in net assets.

Return Objectives and Risk Parameters - The Ballet has adopted investment and spending policies for endowment assets that attempt to provide a reasonable level of funding to programs supported by its endowment while seeking to enhance the purchasing power of the fund's corpus. These policies are geared towards long-term growth that will enable the Ballet to continue to operate at an elite level. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a blended benchmark of equity and fixed-income peer groups.

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 a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Investment advisors, at the discretion of the Investment Committee of the Board of Trustees, are given guidelines to the percentage that can be committed to a particular investment or investment category.

Spending Policy and Investment Objectives Related to Spending Policy - In accordance with Act 141, the Ballet annually transfers no more than 7% of the previous three years' market value average of the permanently restricted endowment fund to unrestricted net assets for use in current and future operations. For the years ended June 30, 2017 and 2016, the spendable return totaled \$554,000 and \$597,500, respectively, all of which was expended. The Ballet believes that this spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with the Ballet's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Annually, the Ballet is required to maintain, among other things, certain stipulated ratios and cash reserve requirements in accordance with a grant agreement. The Ballet was in compliance with all stipulations as of June 30, 2017.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 4 - INVESTMENTS - RESTRICTED

Permanently restricted investments consist of pooled investment funds, which are presented at their aggregate market value. Carrying values and unrealized appreciation at June 30 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Equity funds	\$ 5,122,783	\$ 5,095,586
Bond funds	<u>2,704,404</u>	<u>2,333,543</u>
Total market value	<u>\$ 7,827,187</u>	<u>\$ 7,429,129</u>
Cost or donated value	<u>\$ 7,272,243</u>	<u>\$ 6,960,979</u>
Unrealized appreciation	<u>\$ 554,944</u>	<u>\$ 468,150</u>

NOTE 5 - INVESTMENT HELD BY TRUST

The Ballet is a partial beneficiary of the trust of Pauline Beamer Pickens, and the trustee holds title to the assets. This is included within permanently restricted net assets.

Distributions are made at the discretion of the trustee in accordance with the trust agreement and are unrestricted. Distributions approximated \$20,000 and \$22,000 for fiscal years 2017 and 2016, respectively. Carrying values and unrealized appreciation at June 30 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Cost or donated value	<u>\$ 323,423</u>	<u>\$ 334,762</u>
Market value	<u>\$ 364,243</u>	<u>\$ 347,186</u>
Unrealized appreciation	<u>\$ 40,820</u>	<u>\$ 12,424</u>

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 - PLEDGES RECEIVABLE

The Ballet has recorded pledges receivable at June 30, consisting of the receipt of unconditional promises to give, which are summarized as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted:		
Due in less than 1 year	\$ 460,206	\$ 503,656
Temporarily restricted:		
Capital/operations		
Due in less than 1 year	582,375	680,624
Due in 1 to 5 years	266,415	916,994
	<u>848,790</u>	<u>1,597,618</u>
Permanently restricted:		
Endowment:		
Due in less than 1 year	5,500	41,000
Due in 1 to 5 years	15,400	-
	<u>20,900</u>	<u>41,100</u>
Total	<u>\$ 1,329,896</u>	<u>\$ 2,142,374</u>

NOTE 7 - CONDITIONAL PLEDGES

During the year ended June 30, 2016, the Ballet was undergoing expansion of its facilities and had undertaken a capital campaign to assist in financing the expansion. As part of the capital campaign, the Ballet was a recipient of conditional pledges from local foundations. The Ballet recognized \$2,125,000 of revenue during 2016 upon acknowledgement of meeting fundraising milestones by the grantors. The Ballet did not receive any such payments during the year ended June 30, 2017.

NOTE 8 - FIXED ASSETS

Fixed assets at June 30 consist of the following:

	<u>2017</u>	<u>2016</u>
Building and leasehold improvements	\$ 13,514,224	\$ 7,235,761
Costumes, sets and props	3,257,771	2,578,310
Machinery and equipment	159,328	116,179
Land improvements	123,540	122,612
	<u>17,054,863</u>	<u>10,052,862</u>
Less - Accumulated depreciation	8,404,501	7,715,225
	<u>8,650,362</u>	<u>2,337,637</u>
Construction-in-progress	-	4,254,474
Land	1,058,035	1,058,035
	<u>\$ 9,708,397</u>	<u>\$ 7,650,146</u>

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 8 - FIXED ASSETS (Continued)

In 2014, the Ballet began Phase IV of its building expansion. The costs associated with Phase IV were included in construction-in-progress at June 30, 2016. This expansion was completed and placed in service in September 2016. Total costs associated with construction of Phase IV were approximately \$6,300,000 and were funded through a capital campaign in which funds were temporarily restricted. See Note 12 for reference to the total temporarily restricted net assets for the Capital Project Phase IV.

NOTE 9 - LINES OF CREDIT

In December 2014, the Ballet entered into a construction line-of-credit note that allows for a maximum of \$5,200,000 with interest on any unpaid balance at the bank's prime lending rate (4.25% at June 30, 2017). The line is collateralized by all of the Ballet's unrestricted assets and is subject to restrictive financial covenants. As of June 30, 2017, there was \$1,850,000 of borrowings on the line of credit. As of June 30, 2016, there were no borrowings on the line of credit. All outstanding amounts are due no later than the agreement's expiration date, December 18, 2017. In July 2017, this agreement was extended through December 18, 2020 and reduced the maximum borrowing to \$2,000,000. This line of credit is subject to certain financial covenants. The Ballet has complied with these covenants.

The Ballet maintains a line of credit with a financial institution. The maximum borrowings available under the agreement are \$1,000,000 with interest on any unpaid balance accruing at the bank's prime lending rate (4.25% at June 30, 2017). The line is collateralized through a blanket lien on all of the Ballet's unrestricted assets. As of June 30, 2017 and 2016, there were \$250,000 and \$170,000 of borrowings on the line of credit, respectively. All outstanding amounts were due no later than the agreement's expiration date, August 31, 2017. This line of credit was paid off at the expiration date.

NOTE 10 - LONG-TERM DEBT

Long-term debt at June 30 consists of the following:

	2017	2016
Note payable to PNC Bank, payable in monthly installments of \$7,807 plus interest at 5.46% through March 6, 2019, guaranteed by the Heinz Endowments.	\$ 150,457	\$ 233,306
Note payable to PNC Bank, payable in monthly installments of \$3,528, including interest at prime (4.25% as of June 30, 2017) plus 0.50% through January 2018, collateralized by land purchased by the Ballet.	24,694	67,027
	175,151	300,333
Less - Payments due within one year on long-term debt	111,937	124,935
	\$ 63,214	\$ 175,398

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 10 - LONG-TERM DEBT (Continued)

The aggregate annual principal payments due subsequent to June 30, 2017 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Long-Term</u> <u>Debt</u>
2018	\$ 111,937
2019	<u>63,214</u>
	<u>\$ 175,151</u>

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Ballet's financial instruments consist primarily of cash and cash equivalents, accounts receivable, pledges receivable, investments, investment held by trust, accounts payable and accrued expenses, lines of credit and long-term debt.

The carrying amount of cash and cash equivalents, accounts receivable, pledges receivable, accounts payable and accrued liabilities approximates their fair value due to the short-term nature of such instruments.

The carrying value of the Ballet's lines of credit and long-term debt approximates fair value at June 30, 2017 and 2016, since the interest rates were either market-based and adjusted periodically, or reflect current market rates available to the Ballet.

The valuation of the Ballet's investments and investment held in trust at June 30 according to the fair value hierarchy is summarized as follows:

	2017			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 7,827,187	-	-	\$ 7,827,187
Investment held in trust	<u>-</u>	<u>-</u>	<u>\$ 364,243</u>	<u>364,243</u>
	<u>\$ 7,827,187</u>	<u>-</u>	<u>\$ 364,243</u>	<u>\$ 8,191,430</u>
	2016			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 7,429,129	-	-	\$ 7,429,129
Investment held in trust	<u>-</u>	<u>-</u>	<u>\$ 347,186</u>	<u>347,186</u>
	<u>\$ 7,429,129</u>	<u>-</u>	<u>\$ 347,186</u>	<u>\$ 7,776,315</u>

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value of the mutual funds categorized as Level 1 is based on quoted market prices for identical securities traded in active markets that are readily and regularly available to the Ballet.

Investment held in trust includes underlying investments that are primarily based on readily quoted active markets. Since the investment held in trust is not readily tradable, but significant inputs are observable in active markets, the trust uses primarily Level 1 and Level 2 inputs valuing their own investments.

The Ballet's ownership in this trust is represented by an undivided interest in these investments, not in the underlying assets themselves. The undivided interests are not traded themselves, and they cannot be valued based on observable direct or indirect inputs. Accordingly, it is classified as Level 3.

The changes in those items measured at fair value for which the Ballet has used Level 3 inputs to determine fair value are as follows:

Balance, June 30, 2015	\$	375,587
Distributions		(22,459)
Unrealized depreciation		(5,942)
Balance, June 30, 2016		347,186
Distributions		(20,416)
Unrealized appreciation		37,473
Balance, June 30, 2017	\$	364,243

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. There were no transfers between levels during the years ended June 30, 2017 and 2016.

NOTE 12 - RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets at June 30 consisted of the following:

	2017		2016
Capital project Phase IV	\$ 4,851,510	\$	4,731,727
Future production support	1,362,211		1,084,334
Future operating support	581,000		947,922
Capital project Phase I	552,165		618,551
Capital project Phase II	347,532		392,775
Scholarships	121,356		69,873
Capital project Phase III	85,006		60,006
Pilates program	9,136		13,459
	\$ 7,909,916	\$	7,918,647

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 - RELEASE OF TEMPORARILY RESTRICTED ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors and grantors.

	<u>2017</u>	<u>2016</u>
Production support	\$ 903,210	\$ 744,782
Capital project Phase IV	682,642	673,266
Time restrictions	208,269	216,667
Capital project Phase I	66,386	66,386
Capital project Phase II	45,243	45,843
Scholarships	56,217	23,213
Pilates program	<u>14,323</u>	<u>11,702</u>
	<u>\$ 1,976,290</u>	<u>\$ 1,781,859</u>

NOTE 14 - FUNCTIONAL EXPENSES

The cost of providing the various programs has been summarized on a functional basis in the statement of activities. Certain costs have been allocated between program and supporting services.

	<u>2017</u>		<u>2016</u>	
Program services	\$ 9,233,236	81.5 %	\$ 8,151,067	81.6 %
Management and general	1,041,791	9.2	982,213	9.8
Fund-raising and special events	<u>1,048,207</u>	<u>9.3</u>	<u>859,605</u>	<u>8.6</u>
	<u>\$ 11,323,234</u>	<u>100.0 %</u>	<u>\$ 9,992,885</u>	<u>100.0 %</u>

NOTE 15 - DONATED SERVICES

The Ballet receives certain donated professional services that assist in accomplishing its goals. The Ballet assigns values to such services based on rates commensurate with the type of services performed. Such expenses are reflected in the accompanying financial statements as both revenue and expense.

Though Board members have donated a substantial amount of time to the operation of the Ballet, no amounts have been reflected in the accompanying financial statements for donated services because no objective basis is available to measure the value of such services.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 16 - COMMITMENTS AND CONTINGENCIES

The Ballet leases a portion of its facilities from a related party, the Pittsburgh Ballet Theatre Charitable Foundation, a charitable trust. One trustee is also an emeritus trustee of the Ballet. The term of the lease provides for rental payments of \$1 per year. The lease expires November 30, 2018.

The Ballet has a 15-year lease agreement with the City of Pittsburgh for the use of a parking facility across the street from its dance studios, which expires in December 2025. The lease provides for the maintenance costs of the parking facility to be the sole cost to the Ballet.

NOTE 17 - EMPLOYEE BENEFIT PLANS

The Ballet participates in a multiemployer pension plan under a union agreement. The contributions to the multiemployer pension plan can vary significantly year to year, and the plan listed below may not be indicative of all the plans that the Ballet has contributed to in the past.

The Ballet does not control this plan. Generally, the plan provides defined benefits to substantially all employees covered by the stagehand collective bargaining agreement. The risks of participating in this multiemployer plan are different from a single-employer plan in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- Under the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006, a contributor to a multiemployer plan may be liable, upon termination or withdrawal from a plan, for its proportionate share of a plan’s unfunded vested liability. However, such potential liability, if any, would be determined by the plan’s trustee at the point of termination or withdrawal and not necessarily tied to the Ballet’s level of contributions to the plan.

The following table presents information as of June 30, 2017 and 2016 concerning the Ballet’s participation in a significant multiemployer defined benefit pension plan:

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status (a)		FIP/RP Status Pending/ Implemented (b)	Ballet Contributions		Expiration Date of Collective- Bargaining Labor Agreement
		2017	2016	2017	2016		
I.A.T.S.E National Pension Fund	13-1849172/001	Green	Green	N/A	\$47,672	\$41,876	6/30/21

(a) The requirement for financial improvement plans, “FIP,” or rehabilitation plans, “RP,” is determined by the funding level or zone of the applicable plan.

(b) As defined by the Pension Protection Act, “PPA,” the zone status indicates the percent the plan is funded for plan years presented. Red Zone: plans generally funded less than 65%; Yellow Zone: plans generally funded less than 80%; Green Zone: at least 80% funded.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 17 - EMPLOYEE BENEFIT PLANS (Continued)

The Ballet's contributions to the plan do not exceed 5% of the total contributions to the plan for both of the plan years December 31, 2016 and 2015.

The information required to determine the total amount of the contingent obligation is not readily available. However, the plan in which the Ballet has participated in has not asserted entitlement to a withdrawal liability payment, and the Ballet has not been notified by the multiemployer plan of a claim for any unfunded liability.

In addition to the multiemployer plan, the Ballet also contributes to a union-sponsored defined benefit pension plan covering the musicians. The contribution was based on 5% of gross compensation. For the fiscal years 2017 and 2016, the Ballet contributed \$8,000 and \$7,000, respectively, to the plan covering the musicians.

The Ballet also contributes to a defined contribution plan covering the staff employees and dancers. The Ballet's contributions are based on weekly salaries at amounts and percentages set by the Ballet's Board each fiscal year. The contribution was based on 3% of gross compensation for fiscal years 2017 and 2016. For fiscal years 2017 and 2016, the Ballet contributed \$117,000 and \$113,000, respectively, to this plan.

SUPPLEMENTARY FINANCIAL INFORMATION



Big Thinking. Personal Focus.

INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY FINANCIAL INFORMATION

Board of Trustees
Pittsburgh Ballet Theatre, Inc.
Pittsburgh, Pennsylvania

We have audited the financial statements of the Pittsburgh Ballet Theatre, Inc. as of and for the years ended June 30, 2017 and 2016, and have issued our report thereon dated October 16, 2017, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of unrestricted activities are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
October 16, 2017

PITTSBURGH BALLET THEATRE, INC.
SCHEDULES OF UNRESTRICTED ACTIVITIES
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE		
Ticket sales	\$ 2,943,767	\$ 2,509,006
School	2,152,443	1,996,315
Special events	574,560	421,406
Boutique	108,118	102,370
Program advertising	39,355	32,005
Rentals, sales and other income	21,739	45,779
Investment income	20,416	22,459
Tour	7,142	34,563
Total Operating Revenue	<u>\$ 5,867,540</u>	<u>\$ 5,163,903</u>
OPERATING EXPENSES		
Salaries, wages and fringe benefits	\$ 3,674,432	\$ 3,680,557
Direct production costs	2,591,602	2,152,403
School	1,744,870	1,636,449
Marketing	671,878	648,624
In-kind	332,768	252,077
General production	290,613	210,392
Ball/special events	288,961	197,242
Arts education	266,403	217,723
General and administrative	265,971	284,615
Fund-raising	198,140	119,894
Depreciation and amortization from operations	172,574	32,867
Occupancy	168,227	191,837
Boutique	65,111	59,696
Tour	31,971	60,561
Debt service	23,795	21,723
Bad debts	1,900	1,158
Total Operating Expenses	<u>\$ 10,789,216</u>	<u>\$ 9,767,818</u>
PUBLIC AND PRIVATE SUPPORT		
Special projects	\$ 1,003,146	\$ 444,885
Foundations	575,375	691,154
Individuals	528,014	530,746
In-kind contributions	332,767	252,077
Government	244,501	251,759
Corporations	198,179	183,226
Total Public And Private Support	<u>\$ 2,881,982</u>	<u>\$ 2,353,847</u>
NET ASSETS RELEASED FROM OPERATING RESTRICTIONS		
Investment income spending	\$ 554,000	\$ 597,500
Other support	1,516,357	1,670,230
	<u>\$ 2,070,357</u>	<u>\$ 2,267,730</u>
Total Surplus Before Depreciation	<u>\$ 30,663</u>	<u>\$ 17,662</u>

The independent auditors' report on supplementary financial information should be read with these schedules.