



**FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

BOSTON LYRIC OPERA COMPANY

Contents
June 30, 2016 and 2015

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Independent Auditor's Report

To the Board of Directors of
Boston Lyric Opera Company:

Report on the Financial Statements

We have audited the accompanying financial statements of Boston Lyric Opera Company (a Massachusetts corporation, not for profit), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditor's Responsibility

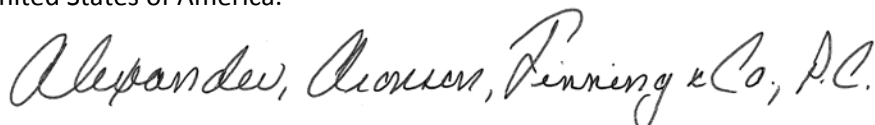
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 auditor's 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 Boston Lyric Opera Company as of June 30, 2016 and 2015, 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.



Boston, Massachusetts
September 14, 2016

BOSTON LYRIC OPERA COMPANY

 Statements of Financial Position
 June 30, 2016 and 2015

Assets	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:								
Cash and cash equivalents	\$ 306,270	\$ 387,418	\$ -	\$ 693,688	\$ 521,251	\$ 269,010	\$ -	\$ 790,261
Accounts receivable	29,307	-	-	29,307	23,750	-	-	23,750
Current portion of pledges receivable, net of allowance for doubtful accounts of \$25,000	1,739,224	1,150,650	-	2,889,874	795,465	1,993,450	-	2,788,915
Prepaid expenses and other	362,500	-	-	362,500	258,596	-	-	258,596
Total current assets	<u>2,437,301</u>	<u>1,538,068</u>	<u>-</u>	<u>3,975,369</u>	<u>1,599,062</u>	<u>2,262,460</u>	<u>-</u>	<u>3,861,522</u>
Investments	48,037	631,557	12,448,461	13,128,055	185,577	549,456	11,183,461	11,918,494
Pledges Receivable, net of current portion and discount	-	799,948	1,452,286	2,252,234	-	1,812,688	2,688,761	4,501,449
Deposits	24,000	-	-	24,000	25,208	-	-	25,208
Property and Equipment, net	<u>73,585</u>	<u>-</u>	<u>-</u>	<u>73,585</u>	<u>41,705</u>	<u>-</u>	<u>-</u>	<u>41,705</u>
Total assets	<u>\$ 2,582,923</u>	<u>\$ 2,969,573</u>	<u>\$ 13,900,747</u>	<u>\$ 19,453,243</u>	<u>\$ 1,851,552</u>	<u>\$ 4,624,604</u>	<u>\$ 13,872,222</u>	<u>\$ 20,348,378</u>
Liabilities and Net Assets								
Current Liabilities:								
Line of credit	\$ 750,000	\$ -	\$ -	\$ 750,000	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued expenses	274,654	-	-	274,654	261,202	-	-	261,202
Advance ticket subscriptions and other deferred revenue	813,125	-	-	813,125	824,481	-	-	824,481
Total current liabilities	<u>1,837,779</u>	<u>-</u>	<u>-</u>	<u>1,837,779</u>	<u>1,085,683</u>	<u>-</u>	<u>-</u>	<u>1,085,683</u>
Accrued Rent, net of current portion	<u>14,714</u>	<u>-</u>	<u>-</u>	<u>14,714</u>	<u>24,281</u>	<u>-</u>	<u>-</u>	<u>24,281</u>
Total liabilities	<u>1,852,493</u>	<u>-</u>	<u>-</u>	<u>1,852,493</u>	<u>1,109,964</u>	<u>-</u>	<u>-</u>	<u>1,109,964</u>
Net Assets:								
Unrestricted:								
Operating	656,845	-	-	656,845	699,883	-	-	699,883
Property and equipment	73,585	-	-	73,585	41,705	-	-	41,705
Total unrestricted	<u>730,430</u>	<u>-</u>	<u>-</u>	<u>730,430</u>	<u>741,588</u>	<u>-</u>	<u>-</u>	<u>741,588</u>
Temporarily restricted	-	2,969,573	-	2,969,573	-	4,624,604	-	4,624,604
Permanently restricted	-	-	13,900,747	13,900,747	-	-	13,872,222	13,872,222
Total net assets	<u>730,430</u>	<u>2,969,573</u>	<u>13,900,747</u>	<u>17,600,750</u>	<u>741,588</u>	<u>4,624,604</u>	<u>13,872,222</u>	<u>19,238,414</u>
Total liabilities and net assets	<u>\$ 2,582,923</u>	<u>\$ 2,969,573</u>	<u>\$ 13,900,747</u>	<u>\$ 19,453,243</u>	<u>\$ 1,851,552</u>	<u>\$ 4,624,604</u>	<u>\$ 13,872,222</u>	<u>\$ 20,348,378</u>

The accompanying notes are an integral part of these statements.

BOSTON LYRIC OPERA COMPANY

 Statements of Activities and Changes in Net Assets
 For the Years Ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Support and Revenue:								
Operating support:								
Contributions	\$ 3,140,739	\$ 284,349	\$ -	\$ 3,425,088	\$ 2,680,627	\$ 898,135	\$ -	\$ 3,578,762
Special events	431,541	142,750	-	574,291	548,847	77,250	-	626,097
Grants	317,120	224,000	-	541,120	481,643	222,093	-	703,736
In-kind contributions	183,929	-	-	183,929	242,589	-	-	242,589
Net assets released from restrictions:								
Time - other	2,076,069	(2,076,069)	-	-	1,831,250	(1,831,250)	-	-
Time - special events	130,750	(130,750)	-	-	86,500	(86,500)	-	-
Purpose	181,412	(181,412)	-	-	16,057	(16,057)	-	-
Total operating support	6,461,560	(1,737,132)	-	4,724,428	5,887,513	(736,329)	-	5,151,184
Operating revenue:								
Ticket sales	1,338,609	-	-	1,338,609	1,509,580	-	-	1,509,580
Investment income designated for current operations	530,000	-	-	530,000	530,000	-	-	530,000
Rental and other	112,937	-	-	112,937	128,813	-	-	128,813
Total operating revenue	1,981,546	-	-	1,981,546	2,168,393	-	-	2,168,393
Total operating support and revenue	8,443,106	(1,737,132)	-	6,705,974	8,055,906	(736,329)	-	7,319,577
Operating Expenses:								
Ongoing productions	5,346,800	-	-	5,346,800	5,272,677	-	-	5,272,677
Development	1,208,393	-	-	1,208,393	1,076,475	-	-	1,076,475
Marketing and promotion	933,212	-	-	933,212	777,191	-	-	777,191
General and administrative	690,925	-	-	690,925	648,772	-	-	648,772
Community engagement	217,030	-	-	217,030	218,898	-	-	218,898
Total operating expenses	8,396,360	-	-	8,396,360	7,994,013	-	-	7,994,013
Changes in net assets from operations	46,746	(1,737,132)	-	(1,690,386)	61,893	(736,329)	-	(674,436)
Non-Operating Revenue (Expenses):								
Investment income, net	14,952	612,101	-	627,053	4,506	154,517	-	159,023
Endowment contributions and grants	-	-	28,525	28,525	-	-	5,164,724	5,164,724
Venue search, fees and related costs	(72,856)	-	-	(72,856)	-	-	-	-
Investment income designated for current operations	-	(530,000)	-	(530,000)	-	(530,000)	-	(530,000)
Total non-operating revenue (expenses)	(57,904)	82,101	28,525	52,722	4,506	(375,483)	5,164,724	4,793,747
Changes in net assets	(11,158)	(1,655,031)	28,525	(1,637,664)	66,399	(1,111,812)	5,164,724	4,119,311
Net Assets:								
Beginning of year	741,588	4,624,604	13,872,222	19,238,414	675,189	5,736,416	8,707,498	15,119,103
End of year	\$ 730,430	\$ 2,969,573	\$ 13,900,747	\$ 17,600,750	\$ 741,588	\$ 4,624,604	\$ 13,872,222	\$ 19,238,414

The accompanying notes are an integral part of these statements.

BOSTON LYRIC OPERA COMPANYStatements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (1,637,664)	\$ 4,119,311
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	49,736	43,408
Net (gains) losses on investments	(317,395)	48,414
Change in discount of pledges receivable	(7,404)	(29,308)
Bad debt	8,250	812
Endowment contributions and grants	(28,525)	(5,164,724)
Changes in operating assets and liabilities:		
Accounts receivable	(5,557)	38,917
Pledges receivable	910,935	298,900
Prepaid expenses and other	(103,904)	(101,409)
Deposits	1,208	-
Accounts payable and accrued expenses	16,414	18,757
Advance ticket subscriptions and other deferred revenue	(11,356)	1,024
Accrued rent	(12,529)	-
	<u>(1,137,791)</u>	<u>(725,898)</u>
Net cash used in operating activities		
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(81,616)	(9,894)
Purchase of investments	(3,271,251)	(6,528,699)
Proceeds from sale of investments	2,379,085	1,370,944
	<u>(973,782)</u>	<u>(5,167,649)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities:		
Proceeds from line of credit	750,000	-
Endowment cash contributions and pledge payments	1,265,000	5,480,000
	<u>2,015,000</u>	<u>5,480,000</u>
Net cash provided by financing activities		
Net Change in Cash and Cash Equivalents	(96,573)	(413,547)
Cash and Cash Equivalents:		
Beginning of year	790,261	1,203,808
End of year	<u>\$ 693,688</u>	<u>\$ 790,261</u>
Supplemental Disclosures of Non-Cash Transactions:		
Unrealized gains (losses) on investments	<u>\$ 88,845</u>	<u>\$ (239,438)</u>
Interest paid	<u>\$ 28,263</u>	<u>\$ 13,563</u>

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2016 and 2015

1. OPERATIONS AND NONPROFIT STATUS

Boston Lyric Opera Company (BLO) is a Massachusetts nonprofit institution incorporated in 1976. Now in its 40th season, BLO is New England's largest opera company. Celebrated for its artistic excellence and diverse repertoire, BLO's mission is to build curiosity, enthusiasm and support for opera by creating musically and theatrically compelling productions, events, and educational resources for the Boston community and beyond.

BLO's long-term success is rooted in its commitment to offering the highest caliber productions of both classic and contemporary operas; providing an internationally renowned platform on which emerging artists can grow and develop; engaging new and diverse audiences through innovations in technology, outreach and strategic communications; and by offering collaborative education and community events both on its own and in partnership with other world-leading, Boston-based cultural institutions. Through the whole of its efforts, BLO achieves its mission by ensuring the availability and accessibility of one of the world's greatest and oldest art forms for generations to come.

Funded in part by a grant from the Massachusetts Cultural Council and the National Endowment for the Arts, BLO reaches annual audiences of nearly 35,000 people through the staging of four productions each season in fiscal years 2016 and 2015 - three at the Citi Performing Arts Center Shubert Theatre in Boston and one Opera Annex production in an alternate location - and community outreach programming.

BLO is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). BLO is also exempt from state income taxes. Donors may deduct contributions made to BLO within the IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

BLO prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Property and Equipment and Depreciation

Purchased property and equipment over \$1,000 and with a useful life of more than one year is recorded at cost. Donated property and equipment is recorded at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred. Sets and properties are expensed as production costs in the year of the related performance.

Depreciation of property and equipment (see Note 5) is computed using the straight-line method over estimated useful lives of three to seven years. Depreciation expense for the years ended June 30, 2016 and 2015, was \$49,736 and \$43,408, respectively.

Revenue Recognition

Ticket sales revenue is recognized as productions are performed. Ticket sales and production set rentals received in advance of performances are recorded as advance ticket subscriptions and other deferred revenue in the accompanying statements of financial position. Special events income is recognized as the events occur.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

BLO records revenue from grants and contributions when received or unconditionally committed. BLO reports gifts of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. All other revenue is recognized when earned.

For investment income (see Note 6), interest, dividends, and mutual fund distributions are recorded when earned. Gains and losses are recognized as incurred or based on market value changes during the period.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the 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 periods. Actual results could differ from those estimates.

Allowance for Doubtful Accounts and Pledges

An allowance for doubtful accounts and pledges (see Note 8) is recorded based on BLO's policy, which takes into account factors such as management's review of accounts and pledges receivable and their estimate of amounts that may become uncollectible. Amounts are written off as they are determined to be uncollectible.

Cash and Cash Equivalents

Cash and cash equivalents include checking and money market accounts, excluding those included in the investment portfolio (see Note 6).

Fair Value Measurements

BLO follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that BLO would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

BLO uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of BLO. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Investments

Investments are recorded in the financial statements at fair value. BLO values its investments in certain fixed income investments (certain government, agency, and corporate bonds) using significant other observable, or Level 2 inputs, as explained further in Note 6. BLO values all other investments, which are publicly traded, using observable, or Level 1 inputs – the quoted price in an active market.

A summary of inputs used in valuing BLO's investments as of June 30, 2016 and 2015, is included in Note 6.

Charitable Remainder Trust

A summary of inputs used in valuing BLO's Charitable Remainder Trust as of June 30, 2016 and 2015, is included in Note 8.

All Other Assets and Liabilities

The carrying value of all other assets and liabilities does not differ materially from its estimated fair value and these are considered Level 1 in the fair value hierarchy.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Return Allocations

Massachusetts state law allows BLO to appropriate as much of the appreciation of its endowment as is prudent considering BLO's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

The Board of Directors has voted to allow for the use of a portion of total investment return for operations each year. BLO may annually distribute from its investment portfolios an amount in accordance with its current spending policy. Transfers to operating net assets, in accordance with this policy, are reflected in the accompanying statements of activities and changes in net assets as investment income designated for current operations (see Note 4).

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating support and revenue and operating expenses on the accompanying statements of activities and changes in net assets. Peripheral or incidental transactions are reported as non-operating revenue (expenses). Non-operating revenue (expenses), consistent with industry practice, includes endowment contributions and grants (see Note 4), net investment income (see Note 6), and investment income designated for current operations (see Note 4 and page 7).

Non-operating revenue (expenses) also includes approximately \$73,000 of venue search, fees, and related expenses. During fiscal year 2016, BLO incurred certain costs to explore the feasibility of a new permanent venue for its performances. BLO also incurred costs related to the cancellation of productions originally planned at Tremont Theater, Inc. (see Note 10). These costs are reflected as venue search, fees, and related costs on the accompanying fiscal year 2016 statement of activities and changes in net assets.

Donated Goods and Services

Other organizations contribute goods and services to BLO in support of various aspects of its programs. These goods and services are reflected as in-kind contributions and as expenses in the accompanying financial statements based upon the estimated value assigned to them by the donating organizations or by management.

The value of these goods and services for the years ended June 30, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Legal and other consulting	\$ 136,248	\$ 184,609
Event catering, rental and supplies	46,181	54,480
Production supplies and services	<u>1,500</u>	<u>3,500</u>
	<u>\$ 183,929</u>	<u>\$ 242,589</u>

BLO receives additional donated services relating to various aspects of its operations. The value of these services does not meet the criteria for recording under U.S. GAAP; accordingly, no value is reflected in the accompanying financial statements.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocations

Expenses related directly to a function are distributed to that function, while other expenses are allocated to functions based upon management's estimate.

Prepaid Expenses

At June 30, 2016 and 2015, prepaid expenses include approximately \$306,000 and \$206,000, respectively, of costs incurred relating to productions to be performed during the next fiscal year. These costs are expensed at the time of the related productions.

Advertising Costs

BLO expenses advertising costs in the year of the related performance. During fiscal years 2016 and 2015, BLO incurred \$195,365 and \$175,874, respectively, of advertising costs. These costs are included in marketing and promotion in the accompanying statements of activities and changes in net assets.

Subsequent Events

Subsequent events have been evaluated through September 14, 2016, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements, except as disclosed in Note 7.

Income Taxes

BLO accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. BLO has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2016 and 2015. However, BLO's information returns are subject to examination by the appropriate jurisdictions.

3. NET ASSETS

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by BLO. BLO has grouped its unrestricted net assets into the following categories:

Operating net assets represent funds available to carry on the operations of BLO.

Property and equipment net assets reflect the net book value of BLO's property and equipment.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2016 and 2015

3. NET ASSETS (Continued)

Temporarily Restricted Net Assets

BLO receives contributions and grants which are designated by donors for specific time periods or purposes and are recorded as temporarily restricted net assets until they are expended for their designated purposes or as time restrictions expire. Temporarily restricted net assets also include appreciation on permanently restricted net assets in accordance with Massachusetts state law and BLO's spending policy.

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

	<u>2016</u>	<u>2015</u>
Time restricted – other	\$ 2,015,428	\$ 3,763,631
Time restricted – special events	259,250	246,500
Appreciation on permanently restricted net assets	593,082	510,981
Purpose restricted	<u>101,813</u>	<u>103,492</u>
	<u>\$ 2,969,573</u>	<u>\$ 4,624,604</u>

Permanently Restricted Net Assets

Permanently restricted net assets include endowment funds accumulated from donor restricted gifts. Earnings from these gifts may be used for operations, but the principal may not be spent. In accordance with Massachusetts law, all earnings, including interest and dividends, and appreciation of a donor-restricted endowment are temporarily restricted until appropriated by the Board of Directors, and are released to unrestricted net assets based on BLO's investment spending policy (see Notes 2 and 4).

Permanently restricted net assets include a grant from the National Endowment for the Arts and matching funds totaling \$160,000. The grant terms stipulate that the funds are to be used to create a permanent reserve fund, which may be loaned to the unrestricted net assets for a period of up to one year.

The investment return on the permanently restricted net assets is expendable for the support of BLO's operations, consistent with its spending policy (see Notes 2 and 4).

BOSTON LYRIC OPERA COMPANYNotes to Financial Statements
June 30, 2016 and 2015

4. ENDOWMENT

BLO's endowment consists of donor restricted funds established for a variety of purposes (see Note 3). As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

A reconciliation of endowment activity for the years ended June 30, 2016 and 2015, is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets, June 30, 2014	\$ 886,464	\$ 8,707,498	\$ 9,593,962
Endowment contributions	<u>-</u>	<u>5,164,724</u>	<u>5,164,724</u>
Investment income, net:			
Interest and dividends	261,943	-	261,943
Net realized gains	182,417	-	182,417
Investment fees	(57,588)	-	(57,588)
Net unrealized losses	<u>(232,255)</u>	<u>-</u>	<u>(232,255)</u>
Total investment income, net	<u>154,517</u>	<u>-</u>	<u>154,517</u>
Investment return designated for current operations	<u>(530,000)</u>	<u>-</u>	<u>(530,000)</u>
Endowment net assets, June 30, 2015	<u>510,981</u>	<u>13,872,222</u>	<u>14,383,203</u>
Endowment contributions	<u>-</u>	<u>28,525</u>	<u>28,525</u>
Investment income, net:			
Interest and dividends	372,201	-	372,201
Net realized gains	221,538	-	221,538
Net unrealized gains	87,068	-	87,068
Investment fees	<u>(68,706)</u>	<u>-</u>	<u>(68,706)</u>
Total investment income, net	<u>612,101</u>	<u>-</u>	<u>612,101</u>
Investment return designated for current operations	<u>(530,000)</u>	<u>-</u>	<u>(530,000)</u>
Endowment net assets, June 30, 2016	<u>\$ 593,082</u>	<u>\$ 13,900,747</u>	<u>\$ 14,493,829</u>

The temporarily restricted portion is included in total temporarily restricted net assets of \$2,969,573 and \$4,624,604 at June 30, 2016 and 2015, respectively (see page 10).

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2016 and 2015

4. ENDOWMENT (Continued)

BLO has adopted investment and spending policies for endowment assets. Endowment assets include those assets of donor restricted funds that BLO must hold in perpetuity. Under this policy, as approved by the Board of Directors, the primary long-term financial objective is to preserve the real (i.e. inflation adjusted) value of the endowment investment portfolio. This objective is measured on an intermediate and long-term basis (three, five and ten years). The secondary financial objectives are to provide within the parameters of moderate risk; 1) annual income, defined as total return from interest, dividends and appreciation in excess of inflation and; 2) long-term growth of the assets.

To satisfy its objectives, BLO relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). BLO targets a diversified asset allocation that includes equities and fixed income investments within prudent risk constraints.

BLO has adopted an investment spending policy related to its endowment assets (see page 10) that incorporates the transfer of a portion of the value of endowment assets to the operating budget subject to various factors.

The spending policy is calculated as follows: In the fourth quarter of each fiscal year BLO may, under the advisement of the Finance Committee, transfer to the operating budget an amount equal to the sum of the following:

- 70 percent of the prior fiscal year's draw
- 30 percent of 5 percent of the prior fiscal year's average quarterly market value of the endowment fund, inclusive of the endowment fund's pro rata share of investment management and custodial fees, but exclusive of prior years' new gifts
- 5 percent of the cash contributions (1.25 percent per quarter) for four consecutive quarters beginning with the quarter of receipt

In accordance with current state law - the Uniform Prudent Management of Institutional Funds Act, known as "UPMIFA", (adopted by the Commonwealth of Massachusetts on June 30, 2009) - BLO considers the following standards of prudence as it annually reviews the effects of the spending policy detailed above:

- 1) The policy and preservation of the endowment fund
- 2) The purposes of BLO and the endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation or deflation
- 5) The expected total return from income and appreciation of investments
- 6) Other resources of BLO
- 7) The investment policy of BLO

BLO appropriated \$530,000 of net assets during each of the years ended June 30, 2016 and 2015, to be used for operations in accordance with the spending policy.

BOSTON LYRIC OPERA COMPANYNotes to Financial Statements
June 30, 2016 and 2015**5. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Software	\$ 151,149	\$ 111,174
Equipment	59,279	58,322
Computer hardware	58,635	54,965
Furniture and fixtures	<u>54,616</u>	<u>47,702</u>
	323,679	272,163
Less - accumulated depreciation	<u>250,094</u>	<u>230,458</u>
	<u>\$ 73,585</u>	<u>\$ 41,705</u>

6. INVESTMENTS

Investments are carried at fair value. The following is a summary of the investment portfolio as of June 30, 2016 and 2015, by level within the valuation framework (see Note 2):

<u>Description</u>	<u>2016</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Corporate bonds	\$ -	\$ 2,200,014	\$ -	\$ 2,200,014
Money market accounts	505,572	-	-	505,572
Government and agency bonds	-	225,336	-	225,336
Preferred stocks:				
Domestic preferred stocks	1,866,378	-	-	1,866,378
Foreign preferred stocks	73,988	-	-	73,988
Equities:				
Consumer non-durables	1,545,219	-	-	1,545,219
Financial	1,358,690	-	-	1,358,690
Business products and services	1,223,318	-	-	1,223,318
Other	937,331	-	-	937,331
Foreign equities	936,152	-	-	936,152
Consumer services	493,866	-	-	493,866
Capital goods	430,606	-	-	430,606
Energy	401,204	-	-	401,204
Basic industries	333,510	-	-	333,510
Mutual fund - foreign	-	<u>596,871</u>	-	<u>596,871</u>
	<u>\$ 10,105,834</u>	<u>\$ 3,022,221</u>	<u>\$ -</u>	<u>\$ 13,128,055</u>

BOSTON LYRIC OPERA COMPANYNotes to Financial Statements
June 30, 2016 and 2015**6. INVESTMENTS (Continued)**

Description	2015			Total
	Level 1	Level 2	Level 3	
Corporate bonds	\$ -	\$ 1,402,613	\$ -	\$ 1,402,613
Money market accounts	662,037	-	-	662,037
Government and agency bonds	-	169,516	-	169,516
Preferred stocks:				
Domestic preferred stocks	1,415,397	-	-	1,415,397
Foreign preferred stocks	65,568	-	-	65,568
Equities:				
Consumer non-durables	694,174	-	-	694,174
Financial	1,696,754	-	-	1,696,754
Business products and services	1,240,931	-	-	1,240,931
Other	930,228	-	-	930,228
Foreign equities	1,347,129	-	-	1,347,129
Consumer services	295,554	-	-	295,554
Capital goods	309,864	-	-	309,864
Energy	498,308	-	-	498,308
Basic industries	602,388	-	-	602,388
Mutual fund - foreign	-	588,033	-	588,033
	<u>\$ 9,758,332</u>	<u>\$ 2,160,162</u>	<u>\$ -</u>	<u>\$ 11,918,494</u>

Bonds are valued using several factors, including the credit rating relative to a corporate bond or government security with similar maturity or duration.

Money market accounts, preferred stocks, and equities are valued based on quoted market prices in active markets.

Shares in mutual fund are based on share prices reported by the fund as of the last business day of the fiscal year.

BLO believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2016 and 2015. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

Investments are classified as long-term due to management's intent to hold these investments for long-term purposes. Investments are not insured and are subject to ongoing market fluctuations.

Investment income, net consists of the following for the years ended June 30:

	2016	2015
Net realized gains on sale of investments	\$ 228,550	\$ 191,024
Net unrealized gains (losses) on investments	88,845	(239,438)
Interest and dividends	379,796	266,853
Investment fees	(70,138)	(59,416)
	<u>\$ 627,053</u>	<u>\$ 159,023</u>

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2016 and 2015

7. LINE OF CREDIT AGREEMENT

BLO maintains a line of credit agreement with a bank which allows borrowings up to \$1,500,000 at June 30, 2016. Prior to November 2015, the line of credit allowed borrowings up to \$1,000,000. Borrowings under the agreement are due on demand and interest is payable monthly at the higher of 4.5% or the bank's base lending rate (3.5% and 3.25% at June 30, 2016 and 2015, respectively), plus .75%. The line of credit is secured by all assets of BLO. BLO must comply with certain covenants as specified in the agreement. BLO was in compliance with these covenants at June 30, 2016 and 2015. In fiscal year 2016, BLO drew down \$1,500,000, \$750,000 of which was repaid during the year. The remaining \$750,000 was still outstanding as of June 30, 2016, and was repaid as of September 14, 2016. In fiscal year 2015, BLO drew down and repaid \$500,000. There was no balance outstanding on the line of credit as of June 30, 2015. This line of credit is renewable by the bank annually in October.

8. PLEDGES RECEIVABLE

Pledges receivable include numerous gifts which are expected to be collected over the next five years, and a charitable remainder trust which will be disbursed to BLO upon the death of the named survivors. Accordingly, this trust has been classified as long-term.

Pledges receivable are due as follows at June 30:

	<u>2016</u>	<u>2015</u>
Due in one year	\$ 3,779,874	\$ 4,098,915
Due in two to five years	<u>1,358,500</u>	<u>3,194,750</u>
	5,138,374	7,293,665
Less - discount	6,404	13,808
Less - allowance for doubtful accounts	<u>25,000</u>	<u>25,000</u>
	5,106,970	7,254,857
Charitable Remainder Trust	<u>35,138</u>	<u>35,507</u>
	<u>\$ 5,142,108</u>	<u>\$ 7,290,364</u>

Long-term pledges receivable in the accompanying statements of financial position as of June 30, 2016 and 2015, include approximately \$865,000 and \$1,285,000, respectively, of permanently restricted pledges which are due in the following fiscal year. These have been reflected as long-term pledges receivable based on the permanent restriction of the gift.

The pledges have been discounted using rates ranging from 0.28% to 1.01%.

The Charitable Remainder Trust is invested in a diversified suite of global equity and fixed income assets which are valued using Level 1 and 2 inputs under the fair value measurement framework (see Note 2). The value of the Charitable Remainder Trust is adjusted based on the survivor life expectancy and on prevailing interest rates, which are considered Level 2 inputs.

9. LEASE AGREEMENTS

BLO leases office space under an eight-year lease agreement which expires on July 31, 2019. The lease requires monthly payments of \$10,833, which increased to \$11,333 effective August 1, 2015, as defined in the lease agreement. BLO received three months of free rent during fiscal year 2012. The lease requires BLO to pay for its proportionate share of real estate taxes, if applicable, and operating expenses. BLO has the option to extend this lease for two five-year periods at a price as defined in the agreement.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2016 and 2015

9. LEASE AGREEMENTS (Continued)

BLO had a lease agreement for storage space which expired on November 30, 2015. The lease required monthly payments of \$5,208, which increased to \$6,008 in July 2015, to reflect additional space. BLO received five months of reduced rent at \$1,458 per month during previous fiscal years.

In August 2015, BLO leased new storage space. The new lease expires in July 2020, with monthly payments of \$2,550, which increase slightly each year.

BLO is recognizing rent expense on a straight-line basis over the term of the lease agreements described in accordance with *Accounting for Leases* standard under U.S. GAAP. Accrued rent as of June 30, 2016 and 2015, was \$21,776 and \$34,305, respectively. The current portion of accrued rent of \$7,062 and \$10,024, as of June 30, 2016 and 2015, respectively, is included in accounts payable and accrued expenses on the statements of financial position.

Future minimum cash lease payments under these agreements are as follows:

<u>Fiscal Year</u>	
2017	\$ 167,212
2018	\$ 167,836
2019	\$ 168,473
2020	\$ 44,456

10. LICENSE AGREEMENTS AND COMMITMENTS

BLO had a license agreement with Tremont Theater, Inc. (TTI) to present certain operatic or other theatrical productions at TTI's theater through August 31, 2016. BLO had the option to extend this lease for an additional two years following the expiration date. After a period of negotiations, BLO decided not to extend its lease with TTI. The license agreement included facility rental, box office and phone sales, and production labor.

Total amounts paid to TTI, which included facility rental, box office and variable fees for security and stage staff for the years ended 2016 and 2015, were \$966,507 and \$980,026, respectively. Of the total amounts, base payments for facility rental and box office fees were approximately \$291,775 and \$268,000, respectively.

BLO has entered agreements with the Boston Opera House (BOH), Emerson College and the Back Bay Events Center to present certain operatic productions during its upcoming 2016/2017 season. These license agreements include facility and box office rental, and production labor.

Base payments to the licensors for the upcoming season, which include facility rental, box office and certain labor costs, are projected to be \$340,400.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2016 and 2015

11. CONCENTRATIONS

Concentration of Credit

BLO maintains its cash balances in various financial institutions in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances at each institution up to certain limits. At certain times during the year, cash balances exceeded the insured amounts. Management monitors on a regular basis, the financial condition of the financial institutions, along with their balances, to keep this potential risk to a minimum.

Concentration of Pledges Receivable and Revenue

At June 30, 2016, BLO had three donors who represented 45% of outstanding pledges receivable. At June 30, 2015, BLO had two donors who represented 27% of outstanding pledges receivable (see Note 8).

Pledges from Board members represent approximately 74% and 82% of outstanding pledges receivable as of June 30, 2016 and 2015, respectively.

One donor represents approximately 88% of endowment contributions and grants for the year ended June 30, 2016. Another donor represents approximately 97% of endowment contributions and grants for the year ended June 30, 2015.

12. RETIREMENT PLAN

BLO has a defined contribution retirement plan (the Plan) covering all eligible employees under IRC Section 401(k). Employees become eligible to participate after completing three months of service and attaining the age of 21. BLO may make matching or discretionary contributions to the Plan. Employee contributions vest immediately and employer contributions vest based upon a vesting schedule as specified in the Plan document. During fiscal years 2016 and 2015, BLO contributed \$16,050 and \$12,474, respectively, to the Plan.

13. UNION CONTRACTS

BLO has collective bargaining agreements with the American Federation of Musicians (AFM), the American Guild of Musical Artists (AGMA) and the International Alliance of Theatrical Stage Employees (IATSE). During fiscal year 2016, BLO and AFM entered into a new Collective Bargaining Agreement covering the period September 1, 2015 through August 31, 2019; the agreement includes provisions covering wages, pension and other benefits. The AGMA and IATSE Collective Bargaining Agreements cover the periods August 1, 2014, through July 31, 2017, and August 1, 2013, through July 31, 2016, respectively. BLO and IATSE currently are negotiating a new agreement.