



**FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**BOSTON LYRIC OPERA COMPANY**

Contents  
June 30, 2017 and 2016

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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, 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.

***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, 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.

*Alexander, Brown, Fenning & Co., P.C.*  
Boston, Massachusetts  
September 14, 2017

**BOSTON LYRIC OPERA COMPANY**

Statements of Financial Position  
June 30, 2017 and 2016

Assets	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Current Assets:</b>								
Cash and cash equivalents	\$ 383,947	\$ 138,837	\$ -	\$ 522,784	\$ 306,270	\$ 387,418	\$ -	\$ 693,688
Accounts receivable	30,000	-	-	30,000	29,307	-	-	29,307
Current portion of pledges receivable, net of allowance for doubtful accounts of \$25,000	1,509,344	700,500	-	2,209,844	1,739,224	1,150,650	-	2,889,874
Prepaid expenses and other	216,008	-	-	216,008	362,500	-	-	362,500
Total current assets	<u>2,139,299</u>	<u>839,337</u>	<u>-</u>	<u>2,978,636</u>	<u>2,437,301</u>	<u>1,538,068</u>	<u>-</u>	<u>3,975,369</u>
Investments	53,143	1,333,165	12,583,461	13,969,769	48,037	631,557	12,448,461	13,128,055
Pledges Receivable, net of current portion and discount	-	350,452	1,349,442	1,699,894	-	799,948	1,452,286	2,252,234
Deposits	24,000	-	-	24,000	24,000	-	-	24,000
Property and Equipment, net	<u>101,648</u>	<u>-</u>	<u>-</u>	<u>101,648</u>	<u>73,585</u>	<u>-</u>	<u>-</u>	<u>73,585</u>
Total assets	<u>\$ 2,318,090</u>	<u>\$ 2,522,954</u>	<u>\$ 13,932,903</u>	<u>\$ 18,773,947</u>	<u>\$ 2,582,923</u>	<u>\$ 2,969,573</u>	<u>\$ 13,900,747</u>	<u>\$ 19,453,243</u>
<b>Liabilities and Net Assets</b>								
<b>Current Liabilities:</b>								
Line of credit	\$ 650,000	\$ -	\$ -	\$ 650,000	\$ 750,000	\$ -	\$ -	\$ 750,000
Accounts payable and accrued expenses	244,124	-	-	244,124	274,654	-	-	274,654
Advance ticket subscriptions and other deferred revenue	620,143	-	-	620,143	813,125	-	-	813,125
Total current liabilities	<u>1,514,267</u>	<u>-</u>	<u>-</u>	<u>1,514,267</u>	<u>1,837,779</u>	<u>-</u>	<u>-</u>	<u>1,837,779</u>
Accrued Rent, net of current portion	7,652	-	-	7,652	14,714	-	-	14,714
Total liabilities	<u>1,521,919</u>	<u>-</u>	<u>-</u>	<u>1,521,919</u>	<u>1,852,493</u>	<u>-</u>	<u>-</u>	<u>1,852,493</u>
<b>Net Assets:</b>								
<b>Unrestricted:</b>								
Operating	694,523	-	-	694,523	656,845	-	-	656,845
Property and equipment	101,648	-	-	101,648	73,585	-	-	73,585
Total unrestricted	<u>796,171</u>	<u>-</u>	<u>-</u>	<u>796,171</u>	<u>730,430</u>	<u>-</u>	<u>-</u>	<u>730,430</u>
Temporarily restricted	-	2,522,954	-	2,522,954	-	2,969,573	-	2,969,573
Permanently restricted	-	-	13,932,903	13,932,903	-	-	13,900,747	13,900,747
Total net assets	<u>796,171</u>	<u>2,522,954</u>	<u>13,932,903</u>	<u>17,252,028</u>	<u>730,430</u>	<u>2,969,573</u>	<u>13,900,747</u>	<u>17,600,750</u>
Total liabilities and net assets	<u>\$ 2,318,090</u>	<u>\$ 2,522,954</u>	<u>\$ 13,932,903</u>	<u>\$ 18,773,947</u>	<u>\$ 2,582,923</u>	<u>\$ 2,969,573</u>	<u>\$ 13,900,747</u>	<u>\$ 19,453,243</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, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Support and Revenue:</b>								
Operating support:								
Contributions	\$ 3,383,260	\$ 307,048	\$ -	\$ 3,690,308	\$ 3,140,739	\$ 284,349	\$ -	\$ 3,425,088
Grants	1,196,701	12,786	-	1,209,487	317,120	224,000	-	541,120
Special events	386,695	40,250	-	426,945	431,541	142,750	-	574,291
In-kind contributions	128,243	-	-	128,243	183,929	-	-	183,929
Net assets released from restrictions:								
Time - other	1,286,061	(1,286,061)	-	-	2,076,069	(2,076,069)	-	-
Time - special events	219,250	(219,250)	-	-	130,750	(130,750)	-	-
Purpose	3,000	(3,000)	-	-	181,412	(181,412)	-	-
Total operating support	<u>6,603,210</u>	<u>(1,148,227)</u>	<u>-</u>	<u>5,454,983</u>	<u>6,461,560</u>	<u>(1,737,132)</u>	<u>-</u>	<u>4,724,428</u>
Operating revenue:								
Ticket sales	1,700,005	-	-	1,700,005	1,338,609	-	-	1,338,609
Investment income designated for current operations	570,000	-	-	570,000	530,000	-	-	530,000
Rental and other	80,368	-	-	80,368	112,937	-	-	112,937
Total operating revenue	<u>2,350,373</u>	<u>-</u>	<u>-</u>	<u>2,350,373</u>	<u>1,981,546</u>	<u>-</u>	<u>-</u>	<u>1,981,546</u>
Total operating support and revenue	<u>8,953,583</u>	<u>(1,148,227)</u>	<u>-</u>	<u>7,805,356</u>	<u>8,443,106</u>	<u>(1,737,132)</u>	<u>-</u>	<u>6,705,974</u>
<b>Operating Expenses:</b>								
Ongoing productions	5,481,467	-	-	5,481,467	5,346,800	-	-	5,346,800
Marketing and promotion	1,278,454	-	-	1,278,454	933,212	-	-	933,212
Development	1,116,263	-	-	1,116,263	1,208,393	-	-	1,208,393
General and administrative	744,227	-	-	744,227	690,925	-	-	690,925
Community engagement	270,716	-	-	270,716	217,030	-	-	217,030
Total operating expenses	<u>8,891,127</u>	<u>-</u>	<u>-</u>	<u>8,891,127</u>	<u>8,396,360</u>	<u>-</u>	<u>-</u>	<u>8,396,360</u>
Changes in net assets from operations	<u>62,456</u>	<u>(1,148,227)</u>	<u>-</u>	<u>(1,085,771)</u>	<u>46,746</u>	<u>(1,737,132)</u>	<u>-</u>	<u>(1,690,386)</u>
<b>Non-Operating Revenue (Expenses):</b>								
Investment income, net	5,848	1,271,608	-	1,277,456	14,952	612,101	-	627,053
Endowment contributions and grants	-	-	32,156	32,156	-	-	28,525	28,525
Venue search, fees and related costs	-	-	-	-	(72,856)	-	-	(72,856)
Loss on disposal of property and equipment	(2,563)	-	-	(2,563)	-	-	-	-
Investment income designated for current operations	-	(570,000)	-	(570,000)	-	(530,000)	-	(530,000)
Total non-operating revenue (expenses)	<u>3,285</u>	<u>701,608</u>	<u>32,156</u>	<u>737,049</u>	<u>(57,904)</u>	<u>82,101</u>	<u>28,525</u>	<u>52,722</u>
Changes in net assets	<u>65,741</u>	<u>(446,619)</u>	<u>32,156</u>	<u>(348,722)</u>	<u>(11,158)</u>	<u>(1,655,031)</u>	<u>28,525</u>	<u>(1,637,664)</u>
<b>Net Assets:</b>								
Beginning of year	<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>
End of year	<u>\$ 796,171</u>	<u>\$ 2,522,954</u>	<u>\$ 13,932,903</u>	<u>\$ 17,252,028</u>	<u>\$ 730,430</u>	<u>\$ 2,969,573</u>	<u>\$ 13,900,747</u>	<u>\$ 17,600,750</u>

The accompanying notes are an integral part of these statements.

**BOSTON LYRIC OPERA COMPANY**Statements of Cash Flows  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ (348,722)	\$ (1,637,664)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	41,747	49,736
Net gains on investments	(956,592)	(317,395)
Change in discount of pledges receivable	(3,512)	(7,404)
Loss on disposal of property and equipment	2,563	-
Bad debt	20,885	8,250
Endowment contributions and grants	(32,156)	(28,525)
Changes in operating assets and liabilities:		
Accounts receivable	(693)	(5,557)
Pledges receivable	1,112,153	910,935
Prepaid expenses and other	146,492	(103,904)
Deposits	-	1,208
Accounts payable and accrued expenses	(30,530)	16,414
Advance ticket subscriptions and other deferred revenue	(192,982)	(11,356)
Accrued rent	(7,062)	(12,529)
Net cash used in operating activities	<u>(248,409)</u>	<u>(1,137,791)</u>
<b>Cash Flows from Investing Activities:</b>		
Acquisition of property and equipment	(72,373)	(81,616)
Purchase of investments	(1,788,815)	(3,271,251)
Proceeds from sale of investments	<u>1,903,693</u>	<u>2,379,085</u>
Net cash provided by (used in) investing activities	<u>42,505</u>	<u>(973,782)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from (payments on) line of credit	(100,000)	750,000
Endowment cash contributions and pledge payments	<u>135,000</u>	<u>1,265,000</u>
Net cash provided by financing activities	<u>35,000</u>	<u>2,015,000</u>
<b>Net Change in Cash and Cash Equivalents</b>	(170,904)	(96,573)
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>693,688</u>	<u>790,261</u>
End of year	<u>\$ 522,784</u>	<u>\$ 693,688</u>
<b>Supplemental Disclosures of Non-Cash Transactions:</b>		
Unrealized gains on investments	<u>\$ 782,899</u>	<u>\$ 88,845</u>
Interest paid	<u>\$ 39,784</u>	<u>\$ 28,263</u>

The accompanying notes are an integral part of these statements.

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## **BOSTON LYRIC OPERA COMPANY**

Notes to Financial Statements  
June 30, 2017 and 2016

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### **1. OPERATIONS AND NONPROFIT STATUS**

Boston Lyric Opera Company (BLO) is a Massachusetts nonprofit institution incorporated in 1976. Now in its 41<sup>st</sup> season, BLO is New England's largest and longest established 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 and community outreach programs each season. In fiscal year 2017, BLO staged its four productions at the Boston Opera House, the Emerson/Cutler Majestic and Emerson/Paramount theaters, and the John Hancock Hall at the Back Bay Events Center.

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, 2017 and 2016, was \$41,747 and \$49,736, respectively.

## **BOSTON LYRIC OPERA COMPANY**

Notes to Financial Statements  
June 30, 2017 and 2016

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### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **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.

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.



## BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements  
June 30, 2017 and 2016

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Fair Value Measurements (Continued)**

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. 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, 2017 and 2016, is included in Note 6.

#### **Charitable Remainder Trust**

A summary of inputs used in valuing BLO's Charitable Remainder Trust as of June 30, 2017 and 2016, is included in Note 8.

#### **All Other Assets and Liabilities**

The carrying value of all other qualifying 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, 2017 and 2016

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### 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. Non-operating revenue (expenses), consistent with industry practice, includes endowment, investment, and capital activity.

Non-operating revenue (expenses) also includes approximately \$73,000 of venue search, fees, and related expenses for the year ended June 30, 2016. 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. These costs are reflected as venue search, fees, and related costs in the accompanying fiscal year 2016 statement of activities and changes in net assets. Management deemed these costs as not being part of BLO's normal operations for fiscal year 2016.

In fiscal year 2017, BLO incurred venue search costs of approximately \$47,000, which are included in general and administrative operating expenses in the accompanying fiscal year 2017 statement of activities and changes in net assets. During upcoming seasons, BLO will stage its operas in multiple venues while it concurrently identifies a permanent venue, and expects to incur additional venue search costs.

#### 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, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Legal and other consulting	\$ 127,493	\$ 136,248
Production supplies and services	750	1,500
Event catering, rental and supplies	-	<u>46,181</u>
	<u>\$ 128,243</u>	<u>\$ 183,929</u>

## BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements  
June 30, 2017 and 2016

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Donated Goods and Services (Continued)

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.

#### 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, 2017 and 2016, prepaid expenses include approximately \$193,000 and \$306,000, 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 2017 and 2016, BLO incurred \$235,000 and \$195,000, 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, 2017, 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, 2017 and 2016. 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, 2017 and 2016

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### 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 unspent appreciation on permanently restricted net assets in accordance with Massachusetts state law and BLO's spending policy (see page 11).

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

	<u>2017</u>	<u>2016</u>
Unspent appreciation on permanently restricted net assets	\$ 1,294,690	\$ 593,082
Time restricted – other	1,029,665	2,015,428
Purpose restricted	118,349	101,813
Time restricted – special events	<u>80,250</u>	<u>259,250</u>
	<u>\$ 2,522,954</u>	<u>\$ 2,969,573</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 COMPANY**Notes to Financial Statements  
June 30, 2017 and 2016

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**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, 2017 and 2016, is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets, June 30, 2015	\$ 510,981	\$ 13,872,222	\$ 14,383,203
Endowment contributions	<u>-</u>	<u>28,525</u>	<u>28,525</u>
Investment income, net:			
Net unrealized gains	87,068	-	87,068
Interest and dividends	372,201	-	372,201
Net realized gains	221,538	-	221,538
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>
Endowment contributions	<u>-</u>	<u>32,156</u>	<u>32,156</u>
Investment income, net:			
Net unrealized gains	779,768	-	779,768
Interest and dividends	393,965	-	393,965
Net realized gains	172,259	-	172,259
Investment fees	<u>(74,384)</u>	<u>-</u>	<u>(74,384)</u>
Total investment income, net	<u>1,271,608</u>	<u>-</u>	<u>1,271,608</u>
Investment return designated for current operations	<u>(570,000)</u>	<u>-</u>	<u>(570,000)</u>
Endowment net assets, June 30, 2017	<u>\$ 1,294,690</u>	<u>\$ 13,932,903</u>	<u>\$ 15,227,593</u>

The temporarily restricted portion of the endowment is included in total temporarily restricted net assets of \$2,522,954 and \$2,969,573 at June 30, 2017 and 2016, respectively (see page 10).

## BOSTON LYRIC OPERA COMPANY

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June 30, 2017 and 2016

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### 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 11) 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: 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 \$570,000 and \$530,000 of net assets during the years ended June 30, 2017 and 2016, respectively, to be used for operations in accordance with the spending policy.

**BOSTON LYRIC OPERA COMPANY**

Notes to Financial Statements  
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**5. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Software	\$ 151,149	\$ 151,149
Equipment	118,553	59,279
Computer hardware	65,610	58,635
Furniture and fixtures	<u>53,936</u>	<u>54,616</u>
	389,248	323,679
Less - accumulated depreciation	<u>287,600</u>	<u>250,094</u>
	<u>\$ 101,648</u>	<u>\$ 73,585</u>

**6. INVESTMENTS**

Investments are carried at fair value. The following is a summary of the investment portfolio as of June 30, 2017 and 2016, by level within the valuation framework (see Note 2):

<u>Description</u>	<u>2017</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Corporate bonds	\$ -	\$ 2,380,697	\$ -	\$ 2,380,697
Government and agency bonds	-	246,296	-	246,296
Money market accounts	38,475	-	-	38,475
Preferred stocks:				
Domestic preferred stocks	1,822,821	-	-	1,822,821
Foreign preferred stocks	59,873	-	-	59,873
Equities:				
Financial	2,051,729	-	-	2,051,729
Consumer non-durables	1,496,228	-	-	1,496,228
Foreign equities	1,132,998	-	-	1,132,998
Business products and services	1,107,881	-	-	1,107,881
Capital goods	507,408	-	-	507,408
Energy	454,670	-	-	454,670
Consumer services	415,672	-	-	415,672
Information technology	312,648	-	-	312,648
Other	297,074	-	-	297,074
Utilities	272,166	-	-	272,166
Basic industries	239,666	-	-	239,666
Consumer durables and staples	230,082	-	-	230,082
Industrial electronics	151,710	-	-	151,710
Mutual fund - foreign	<u>-</u>	<u>751,675</u>	<u>-</u>	<u>751,675</u>
	<u>\$ 10,591,101</u>	<u>\$ 3,378,668</u>	<u>\$ -</u>	<u>\$ 13,969,769</u>

**BOSTON LYRIC OPERA COMPANY**

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**6. INVESTMENTS (Continued)**

Description	2016			Total
	Level 1	Level 2	Level 3	
Corporate bonds	\$ -	\$ 2,200,014	\$ -	\$ 2,220,014
Government and agency bonds	-	225,336	-	225,336
Money market accounts	505,572	-	-	505,572
Preferred stocks:				
Domestic preferred stocks	1,866,378	-	-	1,866,378
Foreign preferred stocks	73,988	-	-	73,988
Equities:				
Financial	1,358,690	-	-	1,358,690
Consumer non-durables	1,545,219	-	-	1,545,219
Foreign equities	936,152	-	-	936,152
Business products and services	1,223,318	-	-	1,223,318
Capital goods	430,606	-	-	430,606
Energy	401,204	-	-	401,204
Consumer services	493,866	-	-	493,866
Information technology	149,691	-	-	149,691
Other	322,974	-	-	322,974
Basic industries	333,510	-	-	333,510
Consumer durables and staples	354,218	-	-	354,218
Industrial electronics	110,448	-	-	110,448
Mutual fund - foreign	-	596,871	-	596,871
	<u>\$ 10,105,834</u>	<u>\$ 3,022,221</u>	<u>\$ -</u>	<u>\$ 13,128,055</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, 2017 and 2016. 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:

	<u>2017</u>	<u>2016</u>
Net unrealized gains on investments	\$ 782,899	\$ 88,845
Interest and dividends	395,546	379,796
Net realized gains on sale of investments	173,693	228,550
Investment fees	(74,682)	(70,138)
	<u>\$ 1,277,456</u>	<u>\$ 627,053</u>



## BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements  
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### 7. LINE OF CREDIT AGREEMENT

BLO maintains a \$1,750,000 line of credit agreement with a commercial bank. The line of credit was increased from \$1,500,000 in March 2017. Borrowings under the line of credit agreement are due on demand and interest is payable monthly at the higher of 4.0% or the bank's base lending rate (4.25% and 3.50% at June 30, 2017 and 2016, 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, 2017 and 2016. In fiscal year 2017, BLO drew down \$1,750,000, \$1,100,000 of which was repaid during the year. The remaining \$650,000 was outstanding as of June 30, 2017, and was repaid on July 17, 2017. 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. The line of credit is renewable by the bank annually in March. Interest expense on the line of credit for fiscal years 2017 and 2016 was \$39,784 and \$28,263, respectively.

### 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>2017</u>	<u>2016</u>
Due in one year	\$ 3,539,844	\$ 3,779,874
Due in two to five years	<u>358,500</u>	<u>1,358,500</u>
	3,898,344	5,138,374
Less - discount	2,892	6,404
Less - allowance for doubtful accounts	<u>25,000</u>	<u>25,000</u>
	3,870,452	5,106,970
Charitable Remainder Trust	<u>39,286</u>	<u>35,138</u>
	<u>\$ 3,909,738</u>	<u>\$ 5,142,108</u>

Long-term pledges receivable in the accompanying statements of financial position as of June 30, 2017 and 2016, include approximately \$1,305,000 and \$865,000, 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 1.41%.

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 \$11,333 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  
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### 9. LEASE AGREEMENTS (Continued)

BLO leases storage space under a five-year lease agreement which expires in July 2020. The lease requires 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, 2017 and 2016, was \$14,714 and \$21,776, respectively. The current portion of accrued rent of \$7,062 as of June 30, 2017 and 2016, 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>	
2018	\$ 167,836
2019	\$ 168,473
2020	\$ 44,456
2021	\$ 2,760

### 10. LICENSE AGREEMENTS AND COMMITMENTS

BLO has entered into license agreements for fiscal year 2018 with Emerson College, the Boston Center for the Arts, Inc., and the Huntington Theatre Company to stage three of its four operatic productions for the upcoming 2017/2018 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 and other costs, are projected to be approximately \$265,000.

### 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.

At June 30, 2017, BLO had one donor who represented 26% of outstanding pledges receivable. At June 30, 2016, BLO had three donors who represented 45% of outstanding pledges receivable.

Pledges from Board members represent approximately 72% and 74% of outstanding pledges receivable as of June 30, 2017 and 2016, respectively.

### 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 2017 and 2016, BLO contributed \$17,348 and \$16,050, respectively, to the Plan.

## **BOSTON LYRIC OPERA COMPANY**

Notes to Financial Statements  
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### **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 Collective Bargaining Agreement covers the period August 1, 2014, through July 31, 2017. BLO and AGMA currently are negotiating a new agreement. During fiscal year 2017, BLO and IATSE entered into a new Collective Bargaining Agreement covering the period August 1, 2016 through July 31, 2018. This agreement includes provisions covering wages, pension and other benefits.

### **14. CONDITIONAL GRANT**

During fiscal year 2017, a foundation awarded BLO a \$1,000,000 conditional Endowment grant for fiscal year 2019. The grant is conditional upon BLO raising an additional \$2 million of new funds during fiscal year 2019: \$1 million for operating, unrestricted support and \$1 million for the Endowment. The grant further stipulates that the funds for the Endowment must be raised from donors who have not previously provided support to BLO's Endowment.

To the extent that BLO does not raise the full amount of qualifying gifts by June 30, 2019, the conditional grant will be extended to fiscal year 2020. If BLO does not raise the funds by June 30, 2020, the conditional grant will lapse.

No amounts have been reflected in the accompanying financial statements for this conditional grant.