

PITTSBURGH BALLET THEATRE, INC.
Pittsburgh, Pennsylvania

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2016 and 2015

and Independent Auditors' Report Thereon



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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, 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.

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, 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.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
October 12, 2016

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PITTSBURGH BALLET THEATRE, INC.
STATEMENTS OF FINANCIAL POSITION

	June 30	
	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 639,528	\$ 2,404,485
Accounts receivable	33,834	31,736
Pledges receivable	1,225,380	1,199,144
Prepaid expenses and other current assets	370,981	415,763
Total Current Assets	2,269,723	4,051,128
ENDOWMENT ASSETS		
Cash and cash equivalents	1,537	133,656
Investments	7,429,129	8,338,957
	7,430,666	8,472,613
INVESTMENT HELD BY TRUST	347,186	375,587
PLEDGES RECEIVABLE	916,994	1,162,591
FIXED ASSETS, net	7,650,146	4,102,549
PRODUCTION ASSETS (less accumulated amortization of \$550,506 in 2016 and 2015)	264,710	247,217
Total Assets	\$18,879,425	\$18,411,685
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payments due within one year on long-term debt	\$ 124,935	\$ 120,458
Lines of credit	170,000	370,000
Accounts payable and accrued expenses	209,144	307,207
Construction costs payable	397,901	83,413
Deferred revenue	1,450,711	1,169,847
Total Current Liabilities	2,352,691	2,050,925
LONG-TERM DEBT	175,398	300,567
Total Liabilities	2,528,089	2,351,492
NET ASSETS:		
Unrestricted	551,189	646,965
Temporarily restricted	7,918,647	6,231,913
Permanently restricted	7,881,500	9,181,315
Total Net Assets	16,351,336	16,060,193
Total Liabilities And Net Assets	\$18,879,425	\$18,411,685

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.

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 REVENUE	\$5,163,903	-	-	\$ 5,163,903	\$5,576,940	-	-	\$ 5,576,940
OPERATING EXPENSES	(9,767,818)	-	-	(9,767,818)	(9,611,344)	-	-	(9,611,344)
NET REALIZED AND UNREALIZED LOSSES, INTEREST AND DIVIDENDS	-	-	\$ (453,815)	(453,815)	-	-	\$ (80,150)	(80,150)
Changes In Net Assets Before Public And Private Support, Releases From Restrictions And Depreciation On Leaseholds, Machinery And Equipment And Land Improvements	(4,603,915)	-	(453,815)	(5,057,730)	(4,034,404)	-	(80,150)	(4,114,554)
PUBLIC AND PRIVATE SUPPORT	2,353,847	\$3,218,593	1,500	5,573,940	2,296,063	\$3,293,441	202,400	5,791,904
Changes In Net Assets Before Releases From Restrictions And Depreciation On Leaseholds, Machinery And Equipment And Land Improvements	(2,250,068)	3,218,593	(452,315)	516,210	(1,738,341)	3,293,441	122,250	1,677,350
NET ASSETS RELEASED FROM OPERATING RESTRICTIONS								
Investment income spending	597,500	-	(597,500)	-	580,355	-	(580,355)	-
Other support	1,670,230	(1,670,230)	-	-	1,175,111	(1,175,111)	-	-
Total Net Assets Released From Operating Restrictions	2,267,730	(1,670,230)	(597,500)	-	1,755,466	(1,175,111)	(580,355)	-
Changes In Net Assets From Operations	17,662	1,548,363	(1,049,815)	516,210	17,125	2,118,330	(458,105)	1,677,350
Net assets released from capital restrictions	111,629	(111,629)	-	-	91,757	(91,757)	-	-
Depreciation on leaseholds, machinery and equipment and land improvements	(225,067)	-	-	(225,067)	(297,957)	-	-	(297,957)
Changes In Net Assets	(95,776)	1,436,734	(1,049,815)	291,143	(189,075)	2,026,573	(458,105)	1,379,393
NET ASSET TRANSFERS	-	250,000	(250,000)	-	-	500,000	(500,000)	-
NET ASSETS								
Beginning of year	646,965	6,231,913	9,181,315	16,060,193	836,040	3,705,340	10,139,420	14,680,800
End of year	\$ 551,189	\$7,918,647	\$7,881,500	\$16,351,336	\$ 646,965	\$6,231,913	\$9,181,315	\$16,060,193

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.

STATEMENTS 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	\$ 291,143	\$1,379,393
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	257,934	357,498
Bad debts	1,158	3,185
Net realized and unrealized losses on investments	735,606	158,181
Contributions and grants restricted for investment in endowment	(1,500)	(202,400)
Changes in assets and liabilities:		
Accounts receivable	(3,256)	558
Pledges receivable	(10,139)	(231,488)
Inventory	-	3,269
Prepaid expenses	44,782	(56,670)
Accounts payable and accrued expenses	(98,063)	128,867
Deferred revenue	280,864	(60,500)
Net Cash Provided By Operating Activities	<u>1,498,529</u>	<u>1,479,893</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(3,823,025)	(510,793)
Proceeds from sale of investments	1,147,613	2,178,161
Purchase of investments	(944,990)	(1,757,420)
Net Cash Used In Investing Activities	<u>(3,620,402)</u>	<u>(90,052)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit, net	(200,000)	(17,639)
Construction costs payable	314,488	(128,301)
Payments on long-term debt	(120,691)	(87,251)
Contributions and grants restricted for investment in endowment	231,000	151,800
Net Cash Provided By (Used In) Financing Activities	<u>224,797</u>	<u>(81,391)</u>
Net (Decrease) Increase In Cash And Cash Equivalents	(1,897,076)	1,308,450
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,538,141</u>	<u>1,229,691</u>
End of year	<u>\$ 641,065</u>	<u>\$2,538,141</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 21,723</u>	<u>\$ 25,550</u>

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 financial statements are prepared on the accrual basis of accounting. The Ballet has a collective bargaining agreement covering the costume dressers, which expired July 31, 2014. Additionally, the Ballet has collective bargaining agreements with the dancers and orchestra musicians of the work force, which expired June 30, 2016. As of the date of this report, the costume dressers, dancers and orchestra musicians are performing without a contract. As a result of the expired agreements, no adjustments have been made to the financial statements at June 30, 2016. Additionally, the Ballet has collective a bargaining agreement with the stagehands, which expires June 30, 2017.

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:

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, 2016 AND 2015

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, 2016 or 2015. 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, 2016 and 2015.

The unrestricted fund had an outstanding payable to the temporarily restricted fund of \$4,580,795 and \$807,916 at June 30, 2016 and 2015, respectively. These receivables/payables are temporary in nature and are expected to be settled within the next fiscal year.

Investments are recorded at fair value. The change in unrealized (depreciation) appreciation 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.

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.

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 for the Byham House (Phase I) and for the lobby renovation (Phase II), the depreciation is released over the life of the assets from temporarily restricted net assets to unrestricted net assets. The net book value of the assets for the Byham House at June 30, 2016 and 2015 approximated \$628,000 and \$695,000, respectively, and the net book value of the assets for the lobby renovation at June 30, 2016 and 2015 approximated \$475,000 and \$520,000, respectively.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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, 2016 and 2015 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, 2016 and 2015. The Ballet is no longer subject to examinations of its tax returns for years before 2013.

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. Generally, advertising costs are expensed in the period incurred. Advertising expense for the fiscal years 2016 and 2015 approximated \$390,000 and \$428,000, respectively.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02 Leases (Topic 842) (ASU 2016-02). The amendments in ASU 2016-02 create Topic 842 Leases and supersede the leases requirements in Topic 840 Leases. Topic 842 specifies the accounting for leases. ASU 2016-02 affects every organization that leases assets (Lessee). The lessee will be required to recognize on its balance sheet a right-of-use asset and a lease liability for all leases in which the lease term exceeds one year. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. Early application is permitted for all organizations. The Ballet is currently assessing the impact ASU 2016-02 will have on its financial statements.

In August 2016, the FASB completed Phase I of its Presentation of Financial Statements of Not-for-Profit Entities and issued ASU No. 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-01), which 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

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.)

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.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The FASB issued 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 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. 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. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date by one year. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Principal Versus Agent Considerations), to clarify the implantation guidance on principal versus agent considerations. The standard will be effective for annual reporting periods beginning after December 15, 2018. The Ballet is assessing the impact that that 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 12, 2016, 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 years ended June 30, 2016 and 2015, the Ballet obtained the donor's permission to increase the maximum investment draw percentage to 7%. Starting for the year ending June 30, 2017, the Ballet will begin a gradual reduction in draw over five years to return to 5% in 2021. 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:

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 - ENDOWMENT (Continued)

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 \$7,531,156 and \$8,743,213 as of June 30, 2016 and 2015, respectively, are included in permanently restricted net assets.

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

	2016	2015
Endowment net assets, beginning of year	\$ 8,743,213	\$ 9,687,976
Contributions	1,500	202,400
Investment return:		
Investment income	341,148	78,167
Net depreciation	(707,205)	(144,975)
	(366,056)	(66,808)
Transfer to temporarily restricted net assets	(250,000)	(500,000)
Appropriation of endowment assets for expenditure	(597,500)	(580,355)
Endowment net assets, end of year	\$ 7,531,156	\$ 8,743,213

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. Additionally, during the year ended June 30, 2015, the Ballet received notification from a donor to redesignate \$500,000 received in a prior year that was originally designated for endowment to now be utilized for the temporarily restricted purpose of the capital project Phase IV. Both amounts are 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.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 - ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Ballet relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Ballet targets 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, 2016 and 2015, the spendable return totaled \$597,500 and \$580,355, 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 the grant agreement. The Ballet was in compliance with all stipulations as of June 30, 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>2016</u>	<u>2015</u>
Equity funds	\$ 5,095,586	\$ 5,457,207
Bond funds	<u>2,333,543</u>	<u>2,881,750</u>
Total market value	<u>\$ 7,429,129</u>	<u>\$ 8,338,957</u>
Cost or donated value	<u>\$ 6,960,979</u>	<u>\$ 7,172,433</u>
Unrealized appreciation	<u>\$ 468,150</u>	<u>\$ 1,166,524</u>

Investment income includes the net realized gain on the sale of marketable securities in the amount of \$(361,600) and \$815 for 2016 and 2015, respectively. The rate of return on investments totaled 4.21% and -0-% for 2016 and 2015, respectively.

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.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 - INVESTMENT HELD BY TRUST (Continued)

Distributions are made at the discretion of the trustee in accordance with the trust and are unrestricted. Distributions approximated \$22,000 and \$21,000 for fiscal years 2016 and 2015, respectively. Carrying values and unrealized appreciation at June 30 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Cost or donated value	\$ <u>334,762</u>	\$ <u>344,795</u>
Market value	\$ <u>347,186</u>	\$ <u>375,587</u>
Unrealized appreciation	\$ <u>12,424</u>	\$ <u>30,792</u>

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>2016</u>	<u>2015</u>
Unrestricted:		
Due in less than 1 year	\$ <u>503,656</u>	\$ <u>223,690</u>
Temporarily restricted:		
Capital/operations		
Due in less than 1 year	680,624	764,854
Due in 1 to 5 years	<u>916,994</u>	<u>1,102,291</u>
	<u>1,597,618</u>	<u>1,867,145</u>
Permanently restricted:		
Endowment:		
Due in less than 1 year	41,000	210,300
Due in 1 to 5 years	<u>-</u>	<u>60,600</u>
	<u>41,100</u>	<u>270,900</u>
Total	\$ <u>2,142,374</u>	\$ <u>2,361,735</u>

NOTE 7 - CONDITIONAL PLEDGES

The Ballet is undergoing expansion of its facilities and has 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 payments in 2015.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 - FIXED ASSETS

Fixed assets at June 30 consist of the following:

	2016	2015
Leasehold improvements	\$ 7,235,761	\$ 7,227,085
Costumes, sets and props	2,578,310	2,204,915
Machinery and equipment	116,179	100,165
Land improvements	122,612	122,612
	10,052,862	9,654,777
Less - Accumulated depreciation	7,715,225	7,457,290
	2,337,637	2,197,487
Construction-in-progress	4,254,474	847,027
Land	1,058,035	1,058,035
	\$ 7,650,146	\$ 4,102,549

In 2014, the Ballet began initial costs associated with Phase IV of building expansion. The costs associated with Phase IV are included in construction-in-progress. Total costs associated with construction of Phase IV are expected to be approximately \$6,500,000. Costs for this building expansion are funded through a capital campaign in which funds are temporarily restricted. See Note 12 for reference to the total temporarily restricted net assets for the Capital Project Phase IV at June 30, 2016.

NOTE 9 - LINES OF CREDIT

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 (3.50% at June 30, 2016). The line is collateralized through a blanket lien on all of the Ballet's unrestricted assets. As of June 30, 2016 and 2015, there were \$170,000 and \$370,000 of borrowings on the line of credit, respectively.

In December 2014, the Ballet entered into a 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. The line is collateralized by all of the Ballet's unrestricted assets and is subject to restrictive financial covenants. This agreement expires in December 2017. As of June 30, 2016, there were no borrowings on the line of credit.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 - LONG-TERM DEBT

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

	2016	2015
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.	\$ 233,306	\$ 311,664
Note payable to PNC Bank, payable in monthly installments of \$3,528, including interest at prime (3.50% as of June 30, 2016) plus 0.50% through January 2018, collateralized by land purchased by the Ballet.	67,027	109,361
	300,333	421,025
Less - Payments due within one year on long-term debt	124,935	120,458
	\$ 175,398	\$ 300,567

The aggregate annual principal payments due subsequent to June 30, 2016 are as follows:

Fiscal Year Ending June 30	Long-Term Debt
2017	\$ 124,935
2018	111,938
2019	63,460
	\$ 300,333

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, 2016 and 2015, since the interest rates were either market-based and adjusted periodically, or reflect current market rates available to the Ballet.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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:

	2016			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 7,430,666	-	-	\$ 7,430,666
Investment held in trust	-	-	\$ 347,186	347,186
	\$ 7,430,666	-	\$ 347,186	\$ 7,777,852
	2015			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 8,472,613	-	-	\$ 8,472,613
Investment held in trust	-	-	\$ 375,587	375,587
	\$ 8,472,613	-	\$ 375,587	\$ 8,848,200

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, 2014	\$ 388,793
Unrealized depreciation	(13,206)
Balance, June 30, 2015	375,587
Unrealized depreciation	(28,401)
Balance, June 30, 2016	\$ 347,186

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, 2016 and 2015.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 12 - RESTRICTIONS OF NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Capital project Phase IV	\$ 4,731,727	\$ 3,702,111
Future production support	1,084,334	954,406
Future operating support	947,922	284,588
Capital project Phase I	618,551	684,937
Capital project Phase II	392,775	438,618
Scholarships	69,873	92,086
Capital project Phase III	60,006	60,006
Pilates program	<u>13,459</u>	<u>15,161</u>
	<u>\$ 7,918,647</u>	<u>\$ 6,231,913</u>

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>2016</u>	<u>2015</u>
Production support	\$ 744,782	\$ 620,000
Capital project Phase IV	673,266	316,059
Time restrictions	216,667	196,794
Capital project Phase I	66,386	66,386
Capital project Phase II	45,843	45,243
Scholarships	23,213	16,175
Pilates program	<u>11,702</u>	<u>6,211</u>
	<u>\$ 1,781,859</u>	<u>\$ 1,266,868</u>

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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.

	2016		2015	
Program services	\$ 8,151,067	81.6 %	\$ 8,054,186	81.3 %
Management and general	982,213	9.8	920,608	9.3
Fund-raising and special events	859,605	8.6	934,507	9.4
	\$ 9,992,885	100.0 %	\$ 9,909,301	100.0 %

NOTE 15 - DONATED SERVICES

The Ballet receives certain 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.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

The Ballet leases 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.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 17 - EMPLOYEE BENEFIT PLANS (Continued)

- 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, 2016 and 2015 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
		2016	2015	2016	2015		
I.A.T.S.E National Pension Fund	13-1849172/001	Green	Green	N/A	<u>\$41,876</u>	<u>\$40,337</u>	6/30/17

(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.

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, 2015 and 2014.

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 2016 and 2015, the Ballet contributed \$7,000 and \$9,000, 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 2016 and 2015. For fiscal years 2016 and 2015, the Ballet contributed \$113,000 and \$99,000, 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, 2016 and 2015, and have issued our report thereon dated October 12, 2016, 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 12, 2016

Schneider Downs & Co., Inc.
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PITTSBURGH BALLET THEATRE, INC.
SCHEDULES OF UNRESTRICTED ACTIVITIES
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUE		
Ticket sales	\$2,509,006	\$2,815,538
School	1,996,315	1,901,381
Special events	421,406	634,204
Boutique	102,370	96,818
Rentals, sales and other income	45,779	33,350
Tour	34,563	34,903
Program advertising	32,005	39,657
Investment income	22,459	21,089
	<u> </u>	<u> </u>
Total Operating Revenue	<u>\$5,163,903</u>	<u>\$5,576,940</u>
OPERATING EXPENSES		
Salaries, wages and fringe benefits	\$3,680,557	\$3,393,827
Direct production costs	2,152,403	2,268,036
School	1,636,449	1,533,713
Marketing	648,624	678,547
General and administrative	284,615	251,443
In-kind	252,077	292,579
Arts education	217,723	173,833
General production	210,392	210,444
Ball/special events	197,242	267,379
Occupancy	191,837	150,488
Fund-raising	119,894	150,952
Tour	60,561	95,958
Boutique	59,696	55,869
Depreciation and amortization from operations	32,867	59,541
Debt service	21,723	25,550
Bad debts	1,158	3,185
	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$9,767,818</u>	<u>\$9,611,344</u>
PUBLIC AND PRIVATE SUPPORT		
Foundations	\$ 691,154	\$ 568,836
Individuals	530,746	522,955
Special projects	444,885	467,610
In-kind contributions	252,077	292,579
Government	251,759	208,492
Corporations	183,226	235,591
	<u> </u>	<u> </u>
Total Public And Private Support	<u>\$2,353,847</u>	<u>\$2,296,063</u>
NET ASSETS RELEASED FROM OPERATING RESTRICTIONS		
Investment income spending	\$ 597,500	\$ 580,355
Other support	1,670,230	1,175,111
	<u> </u>	<u> </u>
	<u>\$2,267,730</u>	<u>\$1,755,466</u>
	<u> </u>	<u> </u>
Total Surplus Before Depreciation	<u>\$ 17,662</u>	<u>\$ 17,125</u>

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