

PITTSBURGH BALLET THEATRE, INC.
Pittsburgh, Pennsylvania

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2014 and 2013

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, 2014 and 2013, 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 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 the Ballet as of June 30, 2014 and 2013, 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 13, 2014

PITTSBURGH BALLET THEATRE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	-	\$1,103,737	\$ 62,651	\$ 1,166,388	\$ 564,797	\$ 537,354	\$ 62,596	\$ 1,164,747
Investments	\$ 1,285	-	-	1,285	1,285	-	-	1,285
Accounts receivable	35,479	-	-	35,479	27,095	-	-	27,095
Pledges receivable	(174,811)	174,811	-	-	-	-	-	-
Due (to) from other funds	259,914	815,135	60,000	1,135,049	112,679	469,811	-	582,490
Inventory	11,269	-	-	11,269	12,977	-	-	12,977
Prepaid expenses	349,808	-	-	349,808	348,749	-	-	348,749
Total Current Assets	482,944	2,093,683	122,651	2,699,278	1,067,582	1,007,165	62,596	2,137,343
ENDOWMENT ASSETS								
Cash and cash equivalents	-	-	63,303	63,303	-	-	23,363	23,363
Investments	-	-	8,904,673	8,904,673	-	-	8,154,165	8,154,165
	-	-	8,967,976	8,967,976	-	-	8,177,528	8,177,528
INVESTMENT HELD BY TRUST								
	-	-	388,793	388,793	-	-	361,642	361,642
PLEDGES RECEIVABLE								
	-	284,598	660,000	944,598	-	289,990	-	289,990
FIXED ASSETS, net								
	2,636,595	1,327,059	-	3,963,654	2,318,739	1,435,420	-	3,754,159
OTHER ASSETS								
Production assets (less accumulated amortization of \$737,584 in 2013 and 2012)	232,817	-	-	232,817	235,196	-	-	235,196
	<u>\$3,352,356</u>	<u>\$3,705,340</u>	<u>\$10,139,420</u>	<u>\$17,197,116</u>	<u>\$3,621,517</u>	<u>\$2,732,575</u>	<u>\$8,601,766</u>	<u>\$14,955,858</u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Payments due within one year on long-term debt	\$ 86,952	-	-	\$ 86,952	\$ 638,396	-	-	\$ 638,396
Line of credit - construction	127,000	-	-	127,000	-	-	-	-
Line of credit	370,000	-	-	370,000	-	-	-	-
Accounts payable and accrued expenses	178,340	-	-	178,340	236,417	-	-	236,417
Construction costs payable	211,714	-	-	211,714	107,600	-	-	107,600
Deferred revenue	1,230,347	-	-	1,230,347	1,252,631	-	-	1,252,631
Total Current Liabilities	2,204,353	-	-	2,204,353	2,235,044	-	-	2,235,044
LONG-TERM DEBT								
	311,963	-	-	311,963	399,175	-	-	399,175
NET ASSETS								
	<u>836,040</u>	<u>\$3,705,340</u>	<u>\$10,139,420</u>	<u>14,680,800</u>	<u>987,298</u>	<u>\$2,732,575</u>	<u>\$8,601,766</u>	<u>12,321,639</u>
	<u>\$3,352,356</u>	<u>\$3,705,340</u>	<u>\$10,139,420</u>	<u>\$17,197,116</u>	<u>\$3,621,517</u>	<u>\$2,732,575</u>	<u>\$8,601,766</u>	<u>\$14,955,858</u>

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014			2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE	\$4,920,369	-	-	\$ 4,920,369	\$4,696,129	-	-	\$ 4,696,129
OPERATING EXPENSES	(8,702,468)	-	-	(8,702,468)	(8,222,324)	-	-	(8,222,324)
NET REALIZED AND UNREALIZED GAINS INTEREST AND DIVIDENDS	-	-	\$ 1,258,404	1,258,404	-	-	\$ 1,020,984	1,020,984
Changes In Net Assets Before Public And Private Support, Releases From Restrictions And Depreciation On Leaseholds, Machinery And Equipment And Land Improvements	(3,782,099)	-	1,258,404	(2,523,695)	(3,526,195)	-	1,020,984	(2,505,211)
PUBLIC AND PRIVATE SUPPORT	2,470,857	\$1,862,490	850,250	5,183,597	2,341,224	\$2,407,000	-	4,748,224
Changes In Net Assets Before Releases From Restrictions And Depreciation On Leaseholds, Machinery And Equipment And Land Improvements	(1,311,242)	1,862,490	2,108,654	2,659,902	(1,184,971)	2,407,000	1,020,984	2,243,013
NET ASSETS RELEASED FROM OPERATING RESTRICTIONS								
Investment income spending	571,000	-	(571,000)	-	558,000	-	(558,000)	-
Other support	760,371	(760,371)	-	-	717,042	(717,042)	-	-
Total Net Assets Released From Operating Restrictions	1,331,371	(760,371)	(571,000)	-	1,275,042	(717,042)	(558,000)	-
Changes In Net Assets From Operations	20,129	1,102,119	1,537,654	2,659,902	90,071	1,689,958	462,984	2,243,013
NET ASSETS RELEASED FROM CAPITAL RESTRICTIONS								
Depreciation on leaseholds, machinery and equipment and land improvements	(300,741)	-	-	(300,741)	(318,576)	-	-	(318,576)
Changes In Net Assets	(151,258)	972,765	1,537,654	2,359,161	824,872	636,581	462,984	1,924,437
NET ASSETS								
Beginning of year	987,298	2,732,575	8,601,766	12,321,639	162,426	2,095,994	8,138,782	10,397,202
End of year	\$ 836,040	\$3,705,340	\$10,139,420	\$14,680,800	\$ 987,298	\$2,732,575	\$ 8,601,766	\$12,321,639

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$2,359,161	\$1,924,437
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	339,878	364,050
Bad debts	11,483	26,379
Net realized and unrealized gains on investments	(1,137,867)	(804,766)
Contributions and grants restricted for investment in endowment	(130,250)	-
Changes in assets and liabilities:		
Accounts receivable	(8,644)	(1,232)
Pledges receivable	(1,218,390)	(348,291)
Inventory	1,708	3,356
Prepaid expenses	(1,059)	(3,962)
Accounts payable and accrued expenses	(58,077)	(132,179)
Deferred revenue	(22,284)	81,531
Net Cash Provided By Operating Activities	<u>135,659</u>	<u>1,109,323</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(546,994)	(1,126,753)
Proceeds from sale of investments	1,810,191	3,338,205
Purchase of investments	(1,449,983)	(2,983,428)
Net Cash Used In Investing Activities	<u>(186,786)</u>	<u>(771,976)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit, net	497,000	(500,561)
Proceeds on long-term debt	-	552,000
Construction payable	104,114	107,600
Payments on long-term debt	(638,656)	(108,991)
Contributions and grants restricted for investment in endowment	130,250	-
Net Cash Provided By Financing Activities	<u>92,708</u>	<u>50,048</u>
 Net Increase In Cash And Cash Equivalents	 41,581	 387,395
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,188,110</u>	<u>800,715</u>
End of year	<u><u>\$1,229,691</u></u>	<u><u>\$1,188,110</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u><u>\$ 30,347</u></u>	<u><u>\$ 31,296</u></u>

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 orchestra, which expired June 30, 2014. As of the date of this report, the orchestra is performing without a contract. Additionally, the Ballet has collective bargaining agreements with dancers, the stagehands and costume dressers of the work force, which expire June 30, 2016, June, 30, 2017 and July 31, 2014, respectively.

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 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.

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, 2014 or 2013. It is reasonably possible that the Ballet's estimate of uncollectible receivables could change.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014 and 2013.

Investments are recorded at fair value. The change in unrealized 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 gains 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, 2014 and 2013 approximated \$759,000 and \$825,000, respectively, and the net book value of the assets for the lobby renovation at June 30, 2014 and 2013 approximated \$566,000 and \$611,000, respectively.

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, 2014 and 2013 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, 2014 and 2013. The Ballet is no longer subject to examinations of its tax returns for years before 2011.

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 2014 and 2013 approximated \$355,000 and \$294,000, respectively.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 and 2013, the Ballet obtained the donor's permission to increase the maximum investment draw percentage to 7%. This percentage is applied to a three-year average market value of the investments at June 30th of the previous year. The Ballet classifies as permanently restricted net assets the original and subsequent value of gifts donated to the permanent endowment. In accordance with Act 141, the Ballet has adopted a written investment policy, of which a section specifically relates to the endowment fund. The Ballet considers the following factors in making a determination to set a spending rate:

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

The donor-designated endowment funds of \$9,687,976 and \$8,177,528 as of June 30, 2014 and 2013, respectively, are included in permanently restricted net assets.

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

	<u>2014</u>	<u>2013</u>
Endowment net assets, beginning of year	\$ 8,177,528	\$ 7,726,636
Contributions	850,250	-
Investment return:		
Investment income	120,482	390,430
Net realized and unrealized appreciation	<u>1,110,716</u>	<u>618,462</u>
	1,231,198	1,008,892
Withdrawals	<u>(571,000)</u>	<u>(558,000)</u>
Endowment net assets, end of year	<u>\$ 9,687,976</u>	<u>\$ 8,177,528</u>

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 3 - ENDOWMENT (Continued)

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

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Ballet relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Ballet targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Investment advisors, at the discretion of the Investment Committee of the Board of Trustees, are given guidelines to the percentage that can be committed to a particular investment or investment category.

Spending Policy and Investment Objectives Related to Spending Policy - In accordance with Act 141, the Ballet annually transfers no more than 7% of the previous three years' market value average of the permanently restricted endowment fund to unrestricted net assets for use in current and future operations. For the years ended June 30, 2014 and 2013, the spendable return totaled \$571,000 and \$558,000, 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, 2014.

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>2014</u>	<u>2013</u>
Equity funds	\$ 6,048,942	\$ 5,418,293
Bond funds	<u>2,855,731</u>	<u>2,735,872</u>
Total market value	<u>\$ 8,904,673</u>	<u>\$ 8,154,165</u>
Cost or donated value	<u>\$ 6,943,015</u>	<u>\$ 7,033,874</u>
Unrealized appreciation	<u>\$ 1,961,658</u>	<u>\$ 1,120,291</u>

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 4 - INVESTMENTS - RESTRICTED (Continued)

Investment income includes the net realized gain on the sale of marketable securities in the amount of \$134,674 and \$110,686 for 2014 and 2013, respectively. The rate of return on investments totaled 16.73% and 14.91% for 2014 and 2013, 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.

Distributions are made at the discretion of the trustee in accordance with the trust and are unrestricted. Distributions approximated \$19,000 and \$20,000 for fiscal years 2014 and 2013, respectively. Carrying values and unrealized appreciation at June 30 are summarized as follows:

	2014	2013
Cost or donated value	\$ 348,547	\$ 353,352
Market value	\$ 388,793	\$ 361,642
Unrealized appreciation	\$ 40,246	\$ 8,290

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:

	2014	2013
Temporarily restricted:		
Capital/operations		
Due in less than 1 year	\$ 815,135	\$ 469,811
Due in 1 to 5 years	284,598	289,990
	\$ 1,099,733	\$ 759,801
Permanently restricted:		
Endowment:		
Due in less than 1 year	\$ 60,000	-
Due in 1 to 5 years	660,000	-
Due in 1 to 5 years	\$ 720,000	-

All unrestricted pledges are due in less than one year.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 7 - CONDITIONAL PLEDGES

The Ballet is undergoing expansion to 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 \$2,375,000 grants were based on meeting certain stipulated fundraising milestones. The Ballet has received \$250,000 from these grants in 2014 and reported the revenue. The Ballet will recognize the remaining \$2,125,000 of revenue upon acknowledgement of meeting milestones by the grantors.

NOTE 8 - FIXED ASSETS

Fixed assets at June 30 consist of the following:

	2014	2013
Leasehold improvements	\$ 7,194,939	\$ 7,183,864
Costumes, sets and props	2,142,786	2,086,846
Machinery and equipment	758,939	752,314
Land improvements	122,612	122,612
	10,219,276	10,145,636
Less - Accumulated depreciation	7,784,736	7,447,487
	2,434,540	2,698,149
Construction-in-progress	471,079	-
Land	1,058,035	1,056,010
	\$ 3,963,654	\$ 3,754,159

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 is approximately \$6,500,000.

NOTE 9 - LINES OF CREDIT

The Ballet maintains a line of credit with a financial institution. The maximum borrowings available under the agreement are \$400,000 with interest on any unpaid balance accruing at the bank's prime lending rate (3.25% at June 30, 2014). The line is collateralized through a blanket lien on all of the Ballet's unrestricted assets. As of June 30, 2014 and 2013, there were \$370,000 and \$170,000, respectively, of borrowings on the line of credit. In September 2014, this line of credit was paid in its entirety.

In July 2013, the Ballet entered into a construction line of credit that allows for maximum borrowings up to \$200,000 with interest on any unpaid balance at the bank's prime lending rate plus .50% (3.75% at June 30, 2014) and is collateralized by land purchased by the Ballet during 2013. The line of credit expires in January 2018. As of June 30, 2014, there were \$127,000 borrowings on the line of credit.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 10 - LONG-TERM DEBT

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

	2014	2013
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.	\$ 385,850	\$ 456,050
Note payable to PNC Bank, payable in monthly installments of \$2,300 plus interest at the bank's prime lending rate (3.25% at June 30, 2014), with a final principal and interest payment of \$417,555 due November 7, 2017. The remaining balance was paid on July 19, 2013.	-	538,200
Note payable to PNC Bank, payable in monthly installments of \$3,333, including interest at 5.00%, through November 2014.	<u>13,065</u>	<u>43,321</u>
	398,915	1,037,571
Less - Payments due within one year on long-term debt	<u>86,952</u>	<u>638,396</u>
	<u>\$ 311,963</u>	<u>\$ 399,175</u>

The aggregate annual principal payments due subsequent to June 30, 2015 are as follows:

Fiscal Year Ending June 30		Long-Term Debt
2016	\$	78,023
2017		82,392
2018		87,004
2019		<u>64,544</u>
	\$	<u>311,963</u>

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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, 2014 and 2013, since the interest rates were either market-based and adjusted periodically, or reflect current market rates available to the Ballet.

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

	2013			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Equity	\$ 3,879,069	-	-	\$ 3,879,069
Fixed income	2,855,731	-	-	2,855,731
International	1,704,065	-	-	1,704,065
Real estate	465,808	-	-	465,808
Money market	63,303	-	-	63,303
Investment held in trust	-	-	\$ 388,793	388,793
	<u>\$ 8,967,976</u>	<u>-</u>	<u>\$ 388,793</u>	<u>\$ 9,356,769</u>
	2012			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Equity	\$ 3,503,024	-	-	\$ 3,503,024
Fixed income	2,735,872	-	-	2,735,872
International	1,534,916	-	-	1,534,916
Real estate	380,353	-	-	380,353
Money market	23,363	-	-	23,363
Investment held in trust	-	-	\$ 361,642	361,642
	<u>\$ 8,177,528</u>	<u>-</u>	<u>\$ 361,642</u>	<u>\$ 8,539,170</u>

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.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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 as defined by Fair Value Measurements and Disclosure topic. 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, 2012	\$	349,627
Realized losses		3,725
Unrealized losses		8,290
Balance, June 30, 2013		361,642
Realized losses, net		(2,903)
Unrealized gains		30,054
Balance, June 30, 2014	\$	388,793

Realized gains and unrealized appreciation are included in net realized and unrealized gains, interest and dividends.

NOTE 12 - RESTRICTIONS OF NET ASSETS

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

		2014		2013
Capital project Phase I	\$	751,323	\$	817,220
Capital project Phase II		483,868		590,787
Capital project Phase IV		1,277,414		360,000
Future production support		819,124		444,124
Future operating support		223,333		440,000
Capital project Phase III		60,006		72,506
Scholarships		84,061		-
Pilates program		6,211		7,938
	\$	3,705,340	\$	2,732,575

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 13 - RELEASE OF 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.

	2014	2013
Capital project Phase IV	\$ 269,020	-
Time restrictions	216,667	\$ 210,000
Production support	200,000	110,000
Capital project Phase II	106,926	65,243
Capital project Phase I	65,890	65,640
Israel tour	-	37,275
Pilates program	7,938	7,768
Capital project Phase III	12,500	1,274,493
Scholarships	10,784	-
	\$ 889,725	\$ 1,770,419

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.

	2014		2013	
Program services	\$ 7,048,966	81.0 %	\$ 6,702,597	81.5 %
Management and general	765,170	8.8	807,485	9.8
Fund-raising and special events	888,332	10.2	712,242	8.7
	\$ 8,702,468	100.0 %	\$ 8,222,324	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 the Board members have donated a substantial amount of time to the operation of the Ballet, no amounts have been reflected in the accompanying financial statements for donated services because no objective basis is available to measure the value of such services.

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 is different from a single-employer plan in the following aspects:

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

The following table presents information as of June 30, 2014 and 2013 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
		2013	2012	2013	2012		
I.A.T.S.E National Pension Fund	13-1849172/001	Green	Green	N/A	\$30,090	\$29,002	

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

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

PITTSBURGH BALLET THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 18 - EMPLOYEE BENEFIT PLANS (Continued)

The Ballet's contributions to the plan does not exceed 5% of the total contributions to the plan for both of the plan years December 31, 2014 and 2013.

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 contributes to a union-sponsored defined benefit pension plan covering the dancers. For fiscal years 2014 and 2013, the Ballet contributed approximately \$1,000 and \$800, respectively, to the plan covering the dancers.

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 2014 and 2013, the Ballet contributed \$8,000 and \$7,000, respectively, to the plan covering the musicians.

The Ballet also contributes to a defined contribution plan covering the staff employees and dancers. The Ballet's contributions are based on weekly salaries at amounts and percentages set by the Ballet's board of directors each fiscal year. The contribution was based on 3% and 2.2% of gross compensation for fiscal years 2014 and 2013, respectively. For fiscal years 2014 and 2013, the Ballet contributed \$90,000 and \$78,000, respectively, to this plan.

NOTE 18 - SUBSEQUENT EVENTS

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 13, 2014, the date on which the financial statements were issued.

SUPPLEMENTARY FINANCIAL INFORMATION

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, 2013 and 2012, and have issued our report thereon dated October 13, 2014, 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 13, 2014

PITTSBURGH BALLET THEATRE, INC.
SCHEDULES OF UNRESTRICTED ACTIVITIES
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUE		
Ticket sales	\$2,434,264	\$2,443,570
School	1,888,956	1,661,900
Special events	380,156	400,280
Boutique	84,703	59,364
Tour	44,632	26,471
Program advertising	43,708	38,994
Rentals, sales and other income	24,225	45,352
Investment income	19,725	20,198
	<u>\$4,920,369</u>	<u>\$4,696,129</u>
OPERATING EXPENSES		
Salaries, wages and fringe benefits	\$3,336,836	\$2,961,692
Direct production costs	1,820,535	1,710,892
School	1,457,773	1,355,477
Marketing	563,754	507,432
In-kind	257,961	273,010
General and administrative	252,254	277,553
Fund-raising	186,719	244,387
General production	174,163	188,221
Ball/special events	155,512	142,005
Occupancy	138,965	133,658
Arts education	119,716	104,875
Tour	110,642	192,128
Boutique	46,931	27,845
Depreciation and amortization from operations	39,137	45,474
Debt service	30,347	31,296
Bad debts	11,223	26,379
	<u>\$8,702,468</u>	<u>\$8,222,324</u>
PUBLIC AND PRIVATE SUPPORT		
Individuals	\$ 622,580	\$ 520,335
Special projects	564,419	452,018
Foundations	524,752	502,572
Corporations	275,534	390,391
In-kind contributions	257,961	273,010
Government	225,611	202,898
	<u>\$2,470,857</u>	<u>\$2,341,224</u>
NET ASSETS RELEASED FROM OPERATING RESTRICTIONS		
Investment income spending	\$ 571,000	\$ 558,000
Other support	760,371	717,042
	<u>\$1,331,371</u>	<u>\$1,275,042</u>
	<u>\$ 20,129</u>	<u>\$ 90,071</u>

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