BALLET ARIZONA

FINANCIAL STATEMENTS

Year Ended June 30, 2017

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CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of *Ballet Arizona;*

Report on the Financial Statements
I have audited the accompanying financial statements of *Ballet Arizona* (a nonprofit organization),which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year 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
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements referred to above present fairly, in all material respects, the statement of financial position of *Ballet Arizona* as of June 30, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

I have previously audited Ballet Arizona's 2016 financial statements and in my report dated December 13, 2016 I expressed an unmodified opinion on those audited financial statements. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gregory Michael Coy, CPA, PLLC

Phoenix, Arizona
December 7, 2017

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BALLET ARIZONA

STATEMENT OF FINANCIAL POSITION

June 30, 2017
(with comparative totals at June 30, 2016)

A S S E T S

	2017	2016
CURRENT ASSETS		
Cash	$ 186,090	$ 205,306
Contributions receivable, net	860,030	3,625,525
Other current assets	69,310	113,175
TOTAL CURRENT ASSETS	1,115,430	3,944,006
PROPERTY AND EQUIPMENT, net	4,213,143	4,548,496
INVESTMENTS, UNRESTRICTED	500,000	-
INVESTMENTS RESTRICTED FOR FUTURE PERFORMANCES	663,159	858,310
CONTRIBUTIONS RECEIVABLE, NET	450,658	288,115
ENDOWMENT CASH	101,399	126,399
ENDOWMENT INVESTMENTS	3,773,837	-
ASSETS RESTRICTED TO INVESTMENT IN LONG-TERM PURPOSES:		
Cash	512,958	985,566
Contributions receivable, net	54,141	67,573
	567,099	1,053,139
TOTAL ASSETS	$ 11,283,326	$ 10,818,465

L I A B I L I T I E S   A N D   N E T   A S S E T S

	2017	2016
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 227,587	$ 228,892
Line of Credit	450,000	-
Advance ticket sales	341,968	422,315
Current maturities of long-term debt	-	95,000
TOTAL CURRENT LIABILITIES	1,019,555	746,207
LONG-TERM DEBT, less current maturities	-	-
TOTAL LIABILITIES	1,019,555	746,207
NET ASSETS, AS RESTATED		
Unrestricted, undesignated	3,337,769	4,023,981
Unrestricted, designated for endowment	500,000	500,000
Total unrestricted	3,837,769	4,523,981
Temporarily restricted	2,190,564	1,921,853
Permanently restricted	4,235,438	3,626,424
TOTAL NET ASSETS	10,263,771	10,072,258
TOTAL LIABILITIES AND NET ASSETS	$ 11,283,326	$ 10,818,465

BALLET ARIZONA

STATEMENT OF ACTIVITIES

For the year ended June 30, 2017
(with comparative totals for the year ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2017	Totals 2016
EARNED REVENUES					
Ticket sales	$ 2,546,728	$ -	$ -	$ 2,546,728	$ 3,082,352
Ballet School	1,381,401	-	-	1,381,401	1,384,625
Boutique sales	86,890	-	-	86,890	105,309
Boutique cost of sales	(34,756)	-	-	(34,756)	(51,318)
Ticket handling fees	318,156	-	-	318,156	365,688
Other	116,965	-	-	116,965	114,350
TOTAL EARNED REVENUES	4,415,384	-	-	4,415,384	5,001,006
OPERATING EXPENSES					
Artistic and production salaries	2,670,609	-	-	2,670,609	2,657,350
Production costs	1,357,199	-	-	1,357,199	1,472,479
Ballet School	1,028,532	-	-	1,028,532	1,142,963
Marketing and promotion	896,212	-	-	896,212	1,138,930
TOTAL OPERATING EXPENSES	5,952,552	-	-	5,952,552	6,411,722
DEFICIENCY FROM OPERATIONS	(1,537,168)	-	-	(1,537,168)	(1,410,716)
CONTRIBUTIONS, GRANTS AND SPECIAL EVENTS					
Contributions and grants:					
Contributions	995,714	1,092,379	609,014	2,697,107	5,228,297
Government grants	134,629	-	-	134,629	188,181
Donated materials, facilities and services	335,348	-	-	335,348	391,942
Special events:					
Revenue from special events	347,250	-	-	347,250	577,126
Less: costs of direct donor benefits	(114,069)	-	-	(114,069)	(146,708)
Net assets released from restrictions	791,692	(791,692)	-	-	-
TOTAL CONTRIBUTIONS, GRANTS AND SPECIAL EVENTS	2,490,564	300,687	609,014	3,400,265	6,238,838
SUPPORTING SERVICES EXPENSES					
Management and general	1,103,905	-	-	1,103,905	1,135,541
Fundraising	535,703	-	-	535,703	443,001
TOTAL SUPPORTING SERVICES EXPENSES	1,639,608	-	-	1,639,608	1,578,542
LOSS ON UNCOLLECTIBLE PLEDGES	-	(31,976)	-	(31,976)	(17,577)
CHANGE IN NET ASSETS	(686,212)	268,711	609,014	191,513	3,232,003
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	4,523,981	1,921,853	3,626,424	10,072,258	6,840,255
NET ASSETS, END OF YEAR	$ 3,837,769	$ 2,190,564	$ 4,235,438	$ 10,263,771	$ 10,072,258

See Accompanying Notes to Financial Statements

BALLET ARIZONA

STATEMENT OF CASH FLOWS

For the year ended June 30, 2017
(with comparative totals for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 191,513	$ 3,232,003
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	347,853	352,250
Realized and unrealized gain/loss	(6,367)	(8,121)
Fundraising campaign contributions	(50,000)	-
Loss on uncollectible contributions receivable	31,976	17,577
Change in allowance on campaign contributions receivable	-	(11,807)
Change in discount on contributions receivable	1,661	(2,707)
Forgiveness of debt	(95,000)	(95,000)
Loss on disposal of equipment	8,301	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Contributions receivable	2,570,976	(3,647,412)
Other current assets	43,865	11,132
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,305)	125,238
Advance ticket sales	(80,347)	(189,905)
Net cash provided by (used in) operating activities	2,963,126	(216,752)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(20,801)	-
Purchases of investments	(4,171,021)	(1,000,000)
Purchases from cash designated for future performances	(18)	-
Purchases from cash restricted to endowment, as restated	-	(25,000)
Proceeds from sales and maturities of investments	200,119	200,000
Proceeds from cash restricted to endowment	25,000	1,000,000
Proceeds from cash released from investment in long-term purposes	472,608	(395,871)
Net cash provided by (used) in investing activities	(3,494,113)	(220,871)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash collected on fundraising campaign contributions	61,771	346,734
Proceeds from line of credit	450,000	-
Payments on capital lease obligations	-	(7,691)
Net cash provided by (used) in financing activities	511,771	339,043
NET CHANGE IN CASH, AS RESTATED	(19,216)	(98,580)
CASH, BEGINNING OF YEAR	205,306	303,886
CASH, END OF YEAR	$ 186,090	$ 205,306
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ 2,996	$ 610
Cash paid for income taxes	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Forgiveness of debt	$ 95,000	$ 95,000

See Accompanying Notes to Financial Statements

(1) Organization purpose and summary of significant accounting policies

Ballet operations and organizational purpose - ***Ballet Arizona*** (the "Ballet") was incorporated under the laws of Arizona in 1986. The mission of the Ballet is to develop and maintain a nationally recognized professional resident ballet company. The Ballet produces ballet performances staged primarily in Phoenix, Arizona.

On July 1, 2004, the Ballet merged with the Arizona Ballet School, Inc., and formed the School of Ballet Arizona (the "School"), which operates as a program of the Ballet. The School offers beginner through advanced level ballet programs for students and adults.

In November 2010, the City of Phoenix (the "City") purchased a 52,864 square foot facility with a portion of a 2006 voter-approved $3.2 million bond which set aside funds for the purpose of acquiring and constructing cultural facilities. In October 2012, the City and the Ballet finalized an operating agreement under which the Ballet is contracted to occupy and manage the facility in exchange for an annual usage fee. The term of the operating agreement extends 25 years from the date of a certificate of occupancy. The agreement requires the Ballet to occupy and use the premises for the purpose of creating a headquarters for the Ballet, a community center, rehearsal space, civic space and a school of dance/ballet, as well as other performing or visual arts. In accordance with the operating agreement, the Ballet will also use the new facility to provide educational and cultural activities related to ballet, and access to ballet classes, rehearsals and performances to members of the public who may not otherwise have access to such cultural activities.

In October 2012, the Ballet broke ground, in partnership with the City, to renovate the facility. The Ballet spent 2012 and 2013 developing the site into its new headquarters, a community center, civic space and a school of dance/ballet. A portion of the facility was completed and opened in June 2013. The remaining portion of the facility was completed and opened in July 2013.

The significant accounting policies followed by the Ballet are summarized below:

The Financial Accounting Standards Board ("FASB") sets U.S. generally accepted accounting principles ("GAAP") to ensure consistent reporting. References to GAAP are to the *FASB Accounting Standards Codification* ("FASB ASC").

Basis of presentation - The accompanying financial statements are presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under FASB ASC 958-205, the Ballet is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Prior-year summarized information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Ballet's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Management's use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(1) Organization purpose and summary of significant accounting policies (continued)

Cash - Cash includes cash and, at times, cash equivalents, which include time deposits and other highly liquid debt instruments with original maturities of three months or less. Deposits at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

Endowment cash and investments – Cash and/or investments held in perpetuity in an amount equal to the permanently restricted net assets.

Contributions receivable - Unconditional promises to give (contributions receivable) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the pledge is expected to be collected, the creditworthiness of the donors, the Ballet's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable's collectability. Amortization of the discount is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and equipment and related depreciation and amortization - Purchased property and equipment is recorded at cost. Donated property and equipment is recorded at fair value at the date of donation. Maintenance and repairs are charged to operations when incurred. Property and equipment in excess of $2,000 is capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation and amortization accounts are relieved, and any gain or loss is included in operations. Depreciation and amortization is provided using the straight-line method over the following general range of estimated useful lives:

Production property and equipment	5-25 years
Office Furniture and equipment	5-10 years
Leasehold improvements	25 years

Donations of property and equipment are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions absent donor stipulations regarding how long those donated assets must be maintained. The Ballet reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Ballet reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Impairment of long-lived assets - The Ballet accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for 2017 and 2016.

(1) <u>Organization purpose and summary of significant accounting policies (continued)</u>

Other current assets - Other current assets consists primarily of prepaid costs relating to future performances. Performance related costs are reported as expenses in the period in which the related revenues are recognized.

Advance ticket sales - Revenue related to ticket sales is recognized upon completion of the related performance. Proceeds from ticket sales received prior to the accounting period in which the performance occurs are not recognized as revenue until the performance occurs.

Grants and contributions - The Ballet accounts for grants and contributions in accordance with FASB ASC 958-605*, Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Revenue recognition - Earned revenue consists primarily of performance ticket sales, ballet school tuition, and sales of merchandise. Revenue related to the current season's ticket sales is recognized in the current year. Proceeds from ticket sales including ticket handling fees received prior to the fiscal year in which the performance occurs are deferred and are not recognized as revenue until the performance occurs. Ticket sales for performances of *The Nutcracker* comprise approximately 17% and 21% of total revenue for the years ended June 30, 2017 and 2016, respectively.

Special events revenue - The Ballet conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Ballet. The direct costs of the special events which ultimately benefit the donor rather than the Ballet are recorded as costs of direct donor benefits in the accompanying statement of activities.

Donated materials, facilities and services - Donated materials, services and facilities are reflected in the accompanying financial statements at their estimated fair value as of the date of donation. Donated services are recognized as contributions in accordance with FASB ASC 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. The Ballet utilizes and depends on the services of volunteers to perform a variety of tasks that assist the Ballet with specific programs, campaign solicitations and various committee assignments. The value of this contributed time is not reflected in these financial statements since the services did not require specialized skills and it was not susceptible to objective measurement.

Functional allocation of expenses - The cost of providing program and other activities has been summarized on a functional basis in the accompanying statement of activities. Direct identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services based on an analysis of time and expenses.

Advertising - The Ballet uses advertising primarily to promote its performances to the audience it serves. Advertising and promotional costs are expensed as incurred. Advertising and promotional expense was $424,919 for 2017 and $488,814 for 2016.

(1) Organization purpose and summary of significant accounting policies (continued)

Fair value measurements - FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Ballet currently has no financial instruments subject to fair value measurement on a recurring basis.

Income tax status - The Ballet qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, there is no provision for income taxes. In addition, the Ballet qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Ballet has adopted Accounting for Uncertainty in Income Taxes. This standard clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The Ballet evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts. The Ballet has processes presently in place to ensure the maintenance of its tax-exempt status; its exemption; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions.

The Ballet's federal Return of Organizations Exempt From Income Tax (Form 990) for 2016, 2015 and 2014 are subject to examination by the IRS, generally for three years after they were filed. As of the date of this report, the Ballet's fiscal 2017 return had not yet been filed.

Subsequent events – The *Organization* has evaluated subsequent events through December 7, 2017. No conditions were noted that did not exist as of June 30, 2017, but arose subsequent to that date, other than the item described as follows:

- Subsequent to year end, and prior to the issuance of these financial statements, the Chief Financial Officer left the organization.
- As of November 27, 2017 the line of credit was paid in full.

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(2) Contributions receivable

Contributions receivable consist of:

	2017	2016
Contributions due in less than 1 year	$ 860,030	$ 3,625,525
Contributions due in 1 to 5 years	520,867	288,115
Gross contributions receivable	1,380,897	3,913,640
Allowance	(25,000)	-
Discount	(45,209)	-
Total contributions receivable, net	$ 1,310,688	$ 3,913,640

The estimated future cash flows for pledges receivable are discounted over the collection period using a discount rate of 2%. For the year ended June 30, 2016, no discount was considered necessary.

Contributions receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible contributions receivable based upon its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible pledges and a credit to pledges receivable. At June 30, 2016, contributions receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

Contributions receivable in 2016 that are due in less than 1 year, include a contribution receivable from a charitable trust in the amount of approximately $3.5 million that is permanently restricted by the donor to the endowment.

Contributions receivable include $44,500 and $248,500 at June 30, 2017 and 2016, respectively, from employees and members of the Board of Directors.

(3) Property and equipment

Property and equipment consist of:	2017	2016
Cost or donated value:		
Production property and equipment	2,438,132	2,438,132
Office furniture and equipment	464,445	470,266
Leasehold improvements	3,937,586	3,931,722
Construction in progress	-	-
Total cost or donated value	6,840,163	6,840,120
Accumulated depreciation	(2,627,020)	(2,291,624)
Net property and equipment	$ 4,213,143	$ 4,548,496

Depreciation and amortization expense charged to operations was $347,853 for 2017 and $352,250 for 2016.

(4) Investments

During 2015, the Organization entered into an agreement with a Foundation to change the restriction of the amounts previously restricted as operating reserve of $1,050,189 to fund future performances held at another local not-for-profit organization at an amount of $200,000 per year for a five year period (See note 5 - Assets restricted to investment in long-term purposes). During 2015, the board also released the prior designation of these funds as an operating reserve. The Foundation has also made a conditional promise to contribute an additional $1 million to fund the operating reserve once it has met the five year commitment to fund these future performances. During 2015, the entire amount of the amount restricted was held in a cash account. During 2016, the organization purchased $1,000,000 of certificates of deposit investments. $200,000 of the certificate of deposit investments matured during 2016 in order to fund the required amount for performances.

Investments consist of the following:

	2017	2016
Unrestricted investments	$ 500,000	$ -
Investments restricted to future performances	663,159	858,310
Endowment investments	3,773,837	-
	$ 4,936,996	$ 858,310

Investments categorized by investment type are as follows:

	2017	2016
Fixed income exchange traded funds	$ 1,884,572	$ -
Equity exchange traded funds	907,354	-
Corporate bonds	43,124	-
Equity mutual funds	75,227	-
Certificates of deposit	600,046	807,343
Invested cash	1,339,524	50,967
	$ 4,849,847	$ 858,310

Fair values of assets are measured on a recurring basis at June 30, 2017 and 2016 as follows:

	2017		
	Level 1	Level 2	Total
Fixed income exchange traded funds	$ 1,884,572	$ -	$ 1,884,572
Equity exchange traded funds	907,354	-	907,354
Corporate bonds	43,124	-	43,124
Equity mutual funds	75,227	-	75,227
Certificates of deposit	-	600,046	600,046
Invested cash	1,426,673	-	1,426,673
Total	$ 4,336,950	$ 600,046	$ 4,936,996

	2016		
	Level 1	Level 2	Total
Certificates of deposit	$ -	$ 807,343	$ 807,343
Invested cash	50,967	-	50,967
Total	$ 50,967	$ 807,343	$ 858,310

(5) Assets restricted to investment in long-term purposes

In January 2011, the Ballet began a fundraising campaign with an initial goal of raising $10 million. During 2013, this goal was increased to $13 million. Of the $13 million, approximately $3.2 million was provided by the City of Phoenix through the proceeds of a bond issued by the City of Phoenix to purchase and fund a portion of the renovation of a facility which now serves as the new home of the Ballet. In addition, the City utilized funds of $1.5 million through an “Energize Phoenix” grant provided by the U.S. Department of Energy to assist with energy efficient construction. The City of Phoenix entered into an operating agreement with the Ballet (for 25 years at a fee equal to the value of services provided at the facility, which would equal at least $128,000 per year) upon completion of the renovations and receipt of the certificate of occupancy. The fundraising campaign proceeds have been and will be used for renovation and outfitting of the facility, to establish a $1 million operating cash reserve, to repay debt related to *The Nutcracker*, and to build an endowment. Through June 30, 2017, in addition to the approximately $3.2 million in voter approved bond funds and $1.5 million “Energize Phoenix” grant, the Ballet raised approximately $8,917,000 under the fundraising campaign, for a total of approximately $13,904,000.

In connection with the fundraising campaign, certain assets are restricted to investment in long term purposes as follows:

Cash restricted to investment in long-term purposes – In connection with the fundraising campaign, the Ballet’s cash is received from contributions or collections on contributions receivable. Until this cash is utilized for restricted purposes of the campaign it is included in cash restricted to investment in long-term purposes. The balance of collected cash not utilized for the restricted purposes of the campaign is $512,958 and $985,566 at June 30, 2017 and 2016, respectively. In addition to the cash described above, the Ballet received a contribution of $1 million from a Foundation in May 2011 in connection with the fundraising campaign. During the year ended June 30, 2012, the Ballet received an additional contribution totaling $500,000 from the same Foundation. The purpose of these contributions was to establish an emergency operating reserve. The operating reserve may only be used in emergencies to sustain financial operations in the event of significant unbudgeted increases in operating expenses and/or losses in operating revenue.

In 2012, $500,000 of the contributions was released from restriction and $350,000 was utilized to fund unbudgeted operating expenses and $150,000 was utilized to pay existing indebtedness. In 2014, the remaining $1 million was released from restriction and approximately $299,000 of the funds were utilized to fund unbudgeted operating expenses. The Board has designated that the remaining funds continue to be held as an operating reserve, to be used in emergencies to sustain financial operations in the event of significant unbudgeted increases in operating expenses and/or losses in operating revenue. During 2015, the Foundation provided an additional $300,000 in order to bring the balance of these funds to a total of $1 million. The Organization entered into an agreement with the Foundation to restrict the entire amount of $1,050,189 to fund future performances held at another local not-for-profit organization at an amount of $200,000 per year for the a five year period (See note 4 - Cash and investments restricted to future performances). During 2015, the board also released the prior designation of these funds as an operating reserve. Accordingly, the Organization has reclassified the amount previously held as an unrestricted, board designated operating reserve to temporarily restricted net assets in the accompanying financial statements. The Foundation has also made a conditional promise to contribute an additional $1 million to fund the operating reserve once it has met the five year commitment to fund these future performances.

Contributions receivable restricted to investment in long-term purposes – In connection with the fundraising campaign, the Ballet has received certain contributions receivable that are restricted for purposes of the campaign.

(5) Assets restricted to investment in long-term purposes (continued)

Contributions receivable restricted to investment in long term purposes consist of:

	2017	2016
Contributions due in less than 1 year	35,973	$ 57,073
Contributions due in 1 to 5 years	19,829	10,500
Gross contributions receivable	55,802	67,573
Allowance for uncollectible	-	-
Discount	(1,661)	-
Total contributions receivable, net	$ 54,141	$ 67,573

The estimated future cash flows for pledges receivable are discounted over the collection period using a discount rate of 2%.

Contributions receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible contributions receivable based upon its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible pledges and a credit to pledges receivable. Contributions receivable includes $3,000 and $16,473, at June 30, 2017 and 2016, respectively, from members of the Board of Directors and employees of the Ballet.

(6) Line of credit

On August 22, 2012, the Ballet established a $200,000 line of credit with a bank. During 2015, the available balance on the line of credit was increased to $750,000. The line of credit bears interest based upon an index which is the prime rate as published in the Wall Street Journal (3.75% at June 30, 2017). The balance outstanding under the line is callable by the bank at any time. The line is secured by the Ballet's general business assets. At June 30, 2017, there was an outstanding balance of $450,000 on the line of credit. At, June 30, 2016, there were no amounts outstanding on the line of credit. This line of credit matures February 22, 2018.

(7) Foundation contribution

The Ballet has received three grants of $200,000 each from the Virginia G. Piper Charitable Trust, which were awarded in fiscal years 2003, 2006 and 2009. The purpose of the grants was to assist in creating an operating reserve for the Ballet. Each contribution required the Ballet to raise an additional $100,000 matching contribution, which was fulfilled each year. Prior to 2015, the Ballet was required in perpetuity to segregate the total of the grants and the matching contributions raised, including interest earned thereon, into a separate bank account for a minimum of 30 consecutive days within each fiscal year. In fiscal year 2016, the funds were segregated during the month of July. Prior to fiscal year ending June 30, 2017, the Trust removed the requirement to segregate the funds into a separate account for a 30 day period.

(8) Long-term debt

Long-term debt consists of:	2017	2016
Line of credit with a maximum borrowing availability of $500,000 provided through a Community Development Loan from SCF Arizona. In October 2012, the Ballet entered into a loan modification agreement with SCF Arizona. The term was extended from December 1, 2012 to December 1, 2016. In accordance with the loan modification agreement, SCF Arizona shall not make any further advances under the line of credit. Additionally SCF Arizona agreed to settle the outstanding balance in 2012 of $450,000 through a cash payment from the Ballet of $35,000 in December 2012 and a 5-year exclusive title sponsorship of the Ballet's annual production of The Nutcracker. The Ballet will continue to pay interest on or before December 1st of each year at the prime rate on the unpaid balance until the loan is repaid in full. The Ballet will receive a credit each year in the amount of $95,000 against the outstanding loan balance. If for any reason the Ballet does not produce The Nutcracker or is otherwise unable to deliver exclusive title sponsorship recognition, credit will not be applied.	$ -	$ 95,000
Total Long-Term Debt	-	95,000
Less: Current Maturities	-	-
Noncurrent Maturities	$ -	$ 95,000

(9) Temporarily restricted net assets

Temporarily restricted net assets consist of the following:

	2017	2016 Restated
Purpose restrictions:		
Fundraising Campaign	$ 272,067	$ 382,726
DBG performances	963,054	876,145
Other performances	9,000	9,000
Staff salaries	-	18,083
Scholarships	57,647	57,647
Education and outreach	15,000	-
Gala	-	100,000
School Growth	-	37,500
Endowment earnings	11,429	-
Other	2,337	27,137
Time restrictions:		
Contributions receivable	860,030	413,615
Total temporarily restricted net assets	$ 2,190,564	$ 1,921,853

(10) <u>Permanently restricted net assets and endowment</u>

During 2015 the Ballet's endowments consisted of an individual fund established to fund scholarships to the Ballet school. During 2016, the Ballet received a permanently restricted contribution receivable of approximately $3.5 million from a charitable trust. This contribution receivable is recognized June 30, 2016, and the Ballet collected the entire outstanding balance subsequent to year-end. The Ballet's endowments include only donor-restricted endowment funds. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. In September 2008, the State of Arizona enacted ARS§10-11801 et seq. Management of Charitable Funds Act (MCFA). The Board of Directors of the Ballet has interpreted MCFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Ballet classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Ballet in a manner consistent with the standard of prudence prescribed by MCFA.

The Ballet has adopted investment and spending policies for endowment assets that will attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets will be invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Ballet expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Ballet's investment policy 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 that consists of equity-based investments and short-term bonds.

In a previous year, the Ballet borrowed from its endowment funds in order to fund unrestricted operations.
The Ballet used a portion of the proceeds from the fundraising campaign to replenish the endowment as provided for in the campaign. During 2016, the endowment had not yet been invested in accordance with the Ballet's investment policy for endowment assets. Accordingly, the cash balance set aside for the endowment of $101,399 at June 30, 2016, is included as endowment cash in the accompanying statement of financial position. During 2017 the Ballet endowment invested the endowment funds, in various investment types, in accordance with the Ballet's investment policy for endowment assets. Accordingly, the investment balance set aside for the endowment of $3,773,837 at June 30, 2017, is included as endowment investments in the accompanying statement of financial position.

The Ballet's annual appropriations will be at the discretion of the Ballet's Board of Directors under specific instructions where provided by the endowment donor. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MCFA requires the Ballet to retain as a fund of perpetual duration. As of June 30, 2017 and 2016, the Ballet had sufficient funds allocated to the endowment.

(10) Permanently restricted net assets and endowment (continued)

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 500,000	$ -	$ 3,626,424	$ 4,126,424
Net realized & unrealized gains (losses)	-	-	-	-
Interest income	-	11,429	-	11,429
Contributions	-	-	609,014	609,014
Amounts appropriated for expenditure	-	-	-	-
Total	$ 500,000	$ 11,429	$ 4,235,438	$ 4,746,867

Changes in endowment net assets for the year ended June 30, 2016, as restated, are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 500,000	$ -	$ 101,399	$ 601,399
Net realized & unrealized gains (losses)	-	-	-	-
Interest income	-	-	-	-
Contributions	-	-	3,525,025	3,525,025
Amounts appropriated for expenditure	-	-	-	-
Total	$ 500,000	$ -	$ 3,626,424	$ 4,126,424

(11) Restatement

The Organization has restated its net assets at June 30, 2016, to correct a prior fiscal year misclassification related to the recording of contribution income and temporarily restricted net assets. These restatements reflect $25,000 of permanently restricted contributions that were recorded as temporarily restricted contribution income and a $500,000 unrestricted contribution that was recorded as temporarily restricted contribution income in a prior fiscal year. The board designated the $500,000 unrestricted contribution for the endowment.

The impact of these restatements is as follows:

Account	**As Originally Stated**	**Restatement Adjustments**	**As Restated**
Unrestricted, designated for endowment	$ -	$ 500,000	$ 500,000
Temporarily restricted net assets	$ 2,446,853	$ (525,000)	$ 1,921,853
Permanently restricted net assets	$ 3,601,424	$ 25,000	$ 3,626,424

(12) Lease commitments

The Ballet has a lease commitment under an operating lease agreement for storage space. The current agreement expires 2019. The Ballet is responsible for certain monthly operating and maintenance expenses. Minimum future rental payments under these non-cancelable operating leases are as follows:

Years Ending June 30,		
2017	$	26,280
2018		27,144
2019		2,268
Total minimum future lease payments	$	55,692

Rent expense was $36,500 for 2017 and $27,102 for 2016. In the normal course of business, operating leases are generally renewed or replaced by other leases. For the years ended June 30, 2017 and 2016, the estimated fair value of the facilities provided by the City of Phoenix approximates the value of services provided to the City by the Ballet in accordance with the operating agreement. Accordingly, the Ballet has determined that no donated facilities revenue or expense is necessary to be recorded for the years ended June 30, 2017 and 2016.