Financial Reports

BALLET ARIZONA

IB ANDERSEN ARTISTIC DIRECTOR

Phoenix, Arizona

FINANCIAL STATEMENTS
June 30, 2018

Henry+Horne

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ballet Arizona
Phoenix, Arizona

We have audited the accompanying financial statements of Ballet Arizona (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 Ballet Arizona as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 12 to the financial statements, the June 30, 2017 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Henry + Horne, LLP

Tempe, Arizona
November 19, 2018

BALLET ARIZONA
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS		
CURRENT ASSETS		
Cash	$	792,435
Certificates of deposit		249,384
Promises to give, current portion		349,004
Grants and other receivables		248,143
Other current assets		96,343
TOTAL CURRENT ASSETS		1,735,309
PROMISES TO GIVE, net of current portion, discount and allowance of $10,056 and $25,000, respectively		233,520
CERTIFICATE OF DEPOSIT		148,421
PROPERTY AND EQUIPMENT, net		3,926,356
INVESTMENTS		4,582,147
TOTAL ASSETS	$	10,625,753
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	225,070
Advance ticket sales		390,765
Deferred tuition revenue		174,920
TOTAL CURRENT LIABILITIES		790,755
TOTAL LIABILITIES		790,755
NET ASSETS		
Unrestricted		
Undesignated		2,995,018
Board designated		1,071,479
Total unrestricted		4,066,497
Temporarily restricted		1,533,063
Permanently restricted		4,235,438
TOTAL NET ASSETS		9,834,998
TOTAL LIABILITIES AND NET ASSETS	$	10,625,753

See accompanying notes.

BALLET ARIZONA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND EARNED REVENUES				
Ticket sales	$ 2,979,978	$ -	$ -	$ 2,979,978
Ticket handling fees	295,924	-	-	295,924
Ballet school tuition	1,392,512	-	-	1,392,512
Contributions	1,273,648	776,470	-	2,050,118
Government grants	159,911	30,000	-	189,911
In-kind contributions	283,019	-	-	283,019
Investment income	20,694	76,578		97,272
Other	106,070	-	-	106,070
Net assets released from restrictions	1,140,549	(1,140,549)	-	-
	7,652,305	(257,501)	-	7,394,804
RETAIL SALES				
Boutique sales	84,510	-	-	84,510
Boutique cost of sales	(33,248)	-	-	(33,248)
	51,262	-	-	51,262
SPECIAL EVENTS				
Special events revenue	529,075	-	-	529,075
Direct benefit to donors	(100,411)	-	-	(100,411)
	428,664	-	-	428,664
TOTAL SUPPORT AND EARNED REVENUES	8,132,231	(257,501)	-	7,874,730
OPERATING EXPENSES				
Program services	5,894,962	-	-	5,894,962
Supporting services				-
Management and general	1,219,609	-	-	1,219,609
Fundraising	641,256	-	-	641,256
TOTAL OPERATION EXPENSES	7,755,827	-	-	7,755,827
CHANGE IN NET ASSETS	376,404	(257,501)	-	118,903
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	3,690,093	1,790,564	4,235,438	9,716,095
NET ASSETS, END OF YEAR	$ 4,066,497	$ 1,533,063	$ 4,235,438	$ 9,834,998

BALLET ARIZONA
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Direct Donor Benefit	Total
Personnel costs					
Salaries and wages	$ 2,510,514	$ 299,651	$ 279,678	$ -	$ 3,089,843
Employee benefits and payroll taxes	791,149	54,462	61,185	-	906,796
Total personnel costs	3,301,663	354,113	340,863	-	3,996,639
Production costs	1,551,633	-	-	-	1,551,633
Marketing and advertising	-	567,480	-	-	567,480
Special events - food and venue	-	-	-	100,411	100,411
Special events - supplies	-	-	17,147	-	17,147
Occupancy	189,962	16,090	10,611	-	216,663
Computers and software	45,106	32,702	27,617	-	105,425
Professional fees	203,206	109,580	32,100	-	344,886
Publication	29,055	87,831	68,371	-	185,257
Bank and investment fees	127,956	18,764	1,698	-	148,418
Interest	-	7,935	-	-	7,935
Bad debt expense	-	-	62,998	-	62,998
Licenses and subscriptions	2,800	8,114	-	-	10,914
Transportation	18,900	236	2,936	-	22,072
Cost of goods sold	33,248	-	-	-	33,248
Supplies	28,429	1,190	3,401	-	33,020
Insurance	24,037	3,428	613	-	28,078
Other	48,948	601	64,654	-	114,203
	5,604,943	1,208,064	633,009	100,411	7,546,427
Depreciation	323,267	11,545	8,247	-	343,059
Total operating expenses	5,928,210	1,219,609	641,256	100,411	7,889,486
Amounts reported in total support and other revenue on the statement of activities:					
Cost of goods sold	(33,248)	-	-	-	(33,248)
Direct benefit to donors	-	-	-	(100,411)	(100,411)
TOTAL EXPENSES	$ 5,894,962	$ 1,219,609	$ 641,256	$ -	$ 7,755,827

See accompanying notes.

BALLET ARIZONA
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 118,903
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	343,059
Loss on sale of property and equipment	2,345
Non-cash contribution of stock	(96,643)
Realized and unrealized loss on investments	13,515
Loss on uncollectible promises to give	62,998
Change in discount on contributions receivable	(36,814)
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Promises to give	333,888
Grants and other receivables	(236,152)
Other current assets	(39,024)
Increase (decrease) in:	
Accounts payable and accrued expenses	(2,517)
Advance ticket sales	59,671
Deferred tuition	16,370
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	539,599
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(59,417)
Proceeds from sale of property and equipment	800
Purchases of investments	(5,238,028)
Proceeds from sales and maturities of investments	4,940,066
Purchases of certificates of deposit	(219,000)
Redemption of certificates of deposit	419,000
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(156,579)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash collected on fundraising campaign contributions	22,233
Payments on line of credit	(450,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(427,767)
NET CHANGE IN CASH	(44,747)
CASH, BEGINNING OF YEAR	837,182
CASH, END OF YEAR	$ 792,435
SUPPLEMENTAL DISCLOSURES:	
Cash paid for interest	$ 7,935

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. In addition, the Ballet also operates The School of Ballet Arizona and offers beginner through advanced level ballet programs for students and adults.

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. The Ballet reports information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Ballet considers all highly liquid investments with maturities of ninety days or less at date of acquisition to be cash equivalents.

Promises to Give and Grants Receivable

Unconditional promises to give and grants receivable are recognized as revenues in the period the promise is made and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are expected 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 recorded at the present value of their estimated future cash flows. The discount on those amounts are computed using risk-free interest rates as determined by management applicable to the years in which the promises to give are received. Amortization of the discounts is reflected in contributions. An allowance for uncollectible promises to give has been established by management using a specific identification method and an additional allowance based on historical collections. Promises to give are charged off against the allowance when they are deemed to be uncollectible.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Acquisitions of property and equipment in excess of $2,000 are capitalized. Property and equipment is stated at cost, or if donated, at the approximate fair value at the date of gift to the Ballet. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Depreciation and amortization is provided using the straight-line method over their respective useful lives.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

The Ballet reviews long-lived assets 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 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.

Fair Value Measurements

A framework for measuring fair value has been established by Accounting Standards and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Ballet has the ability to access.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Ballet's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments are measured at fair value in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in net assets in the statement of activities, unless the income or loss is restricted by donor or law.

Risks and Uncertainty

The Ballet invests in various type of investments which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amount reported in the statement of financial position.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

<u>Endowment Funds</u>

The Ballet's endowments consist of four donor restricted funds and one board designated fund which are established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Ballet follows Arizona's Management of Charitable Funds Act ("MCFA") and its own governing documents. MCFA requires the preservation of endowment funds. When a donor's intent is not expressed, MCFA directs the Ballet to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the funds continue in perpetuity.

The Ballet classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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.

In accordance with MCFA, the Ballet considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the Ballet's other resources, and (7) the Ballet's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Ballet has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which include, but are not limited to equities, bond funds, equity funds, alternative investments and cash equivalents.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Funds (Continued)

Spending policy. The Ballet has allowed for appropriating for distributions each year not to exceed 5.5% of its endowment fund's trailing three-year average of the total value of the fund. In establishing this policy, the Ballet considered the long-term expected return on its endowment. This is consistent with the Ballet's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Revenue Recognition and Deferred Revenue

Earned revenue includes revenue from ticket sales, including ticket handling fees, ballet school tuition and sales of merchandise. Revenue from ticket sales and ticket handling fees are recognized in the period that the related production takes place. Any amounts from ticket sales received in advance of the period of the production are recorded as advance ticket sales. Revenue from school tuition is recognized in the period the related educational instruction is performed. Tuition revenue received in advance of the educational instruction services being performed is recorded as deferred tuition revenue. Revenue from sales of merchandise is recognized at the time of sale.

Contributions

Contributions 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 restriction. When a restriction expires, (that is, when a stipulated time restriction ends or purpose restrictions are accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of non-monetary assets (in-kind contributions) are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donated services, are recorded at their fair market values in the period received. 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 the financial statements since the services did not require specialized skills and it was not susceptible to objective measurement

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The cost of providing program and other activities has been summarized on a functional basis in the accompanying statement of functional expenses. 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 approximately $567,000 for the year ended June 30, 2018.

Income Tax Status

The Ballet qualifies as a tax-exempt Ballet under Section 501(c)(3) of the Internal Revenue Code and, therefore, 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 under Section 509(a)(2). Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Ballet recognizes uncertain tax positions in the financial statements when it is more-likely-than-not the positions will not be sustained upon examination by the tax authorities. At June 30, 2018, the Ballet had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Ballet recognizes interest and penalties associated with income taxes in operating expenses. During the year ended June 30, 2018, the Ballet did not have any income tax related interest and penalty expense.

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

In preparing these financial statements, the Ballet has evaluated events and transactions for potential recognition or disclosure through, November 19, 2018 the date the financial statements were available to be issued.

NOTE 2 CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Ballet to significant concentration of credit risk consist principally of cash, promises to give and grants receivable. The Ballet maintains its cash in bank accounts, which at times may exceed federally insured limits. The Ballet has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

The Ballet had a concentration in promises to give and grants receivable for amounts due from four donors whose outstanding balances represented approximately 73% of total net promises to give and grants receivable as of June 30, 2018. Credit risks related to these concentrations are limited due to the Ballet's relationships with the donors.

NOTE 3 PROMISES TO GIVE

Promises to give consist of the following as of June 30, 2018:

Capital campaign	$ 10,596
Non-capital campaign	606,984
Total promises to give	617,580
Discount to present value	(10,056)
Allowance for uncollectible promises to give	(25,000)
Net promises to give	$ 582,524

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

Promises to give as of June 30, 2018, before the discount to present value and allowance for collectible promises, are due as follows:

Promises to give due in less than one year	$ 349,004
Promises to give due in two to five years	268,576
	$ 617,580

Promises to give include approximately $264,000 at June 30, 2018 from employees and members of the Board of Directors.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2018:

Building and leasehold improvements	$ 3,937,586
Production equipment	2,504,786
Office furniture and equipment	449,508
	6,891,880
Accumulated depreciation	(2,965,524)
	$ 3,926,356

Depreciation expense was $343,059 for the year ended June 30, 2018.

NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following is a summary of investments measured at fair value and net asset value on a recurring basis at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash and money market funds	$ 64,188	$ -	$ -	$ 64,188
Bond funds	920,027	-	-	920,027
Equity funds	2,906,720	-	-	2,906,720
Exchange traded funds	195,708	-	-	195,708
Total investments measured at fair value	$ 4,086,643	$ -	$ -	4,086,643
Investment measured at net asset value:				
Private LTD partnership				495,504
Total investments				$ 4,582,147

The private LTD partnership has been valued at net asset value as a practical expedient, based on the Ballet’s partnership interest.

NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Investment income for the year ended June 30, 2018 is summarized as follows:

Interest and dividends	$ 110,787
Realized gain	51,289
Unrealized loss	(64,804)
Total investment income	$ 97,272

NOTE 6 LINE OF CREDIT

The Ballet has a line of credit with a financial institution which allows for maximum borrowings up to $750,000 and matures on February 22, 2019. The line of credit bears interest based upon an index which is the lender's prime rate. The balance outstanding under the line is callable by the financial institution at any time. The line is secured by certain assets of the Ballet. At June 30, 2018, there were no outstanding balance on the line of credit.

NOTE 7 ENDOWMENT FUNDS

The endowment net asset composition by type of fund as of June 30, 2018, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ -	$ 4,235,438	$ 4,235,438
Board-designated	497,384	-	-	497,384
Total endowment funds	$ 497,384	$ -	$ 4,235,438	$ 4,732,822

NOTE 7 ENDOWMENT FUNDS (Continued)

Changes in endowment funds are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2017	$ 500,000	$ 11,429	$ 4,235,438	$ 4,746,867
Contributions	-	-	-	-
Interest and dividend income	12,063	88,518	-	100,581
Realized gains	5,979	43,871	-	49,850
Unrealized loss	(6,704)	(41,422)	-	(48,126)
Investment fees	(1,961)	(14,389)	-	(16,350)
Amounts appropriated for expenditure	(11,993)	(88,007)	-	(100,000)
Balance at June 30, 2018	$ 497,384	$ -	$ 4,235,438	$ 4,732,822

Donor restricted endowment funds include $173,030 that is included in promises to give as of June 30, 2018. All other endowment funds are included in investments as of June 30, 2018.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018, consist of the following:

Purpose Restricted:	
Desert Botanical Garden performances	$ 601,639
Other performances	319,000
Education and community engagement	132,319
Marketing	78,668
Fundraising campaign	10,596
Board leadership	9,736
Scholarships	7,500
Other	13,635
Portion of perpetual endowment funds subject to a restriction under MCFA	-
Time Restricted:	
Promises to give	255,350
Operations for fiscal year 2019	104,620
Total temporarily restricted net assets	$ 1,533,063

NOTE 9 BOARD DESIGNATED NET ASSETS

Board designated net assets at June 30, 2018, consist of the following:

Endowment fund	$ 497,384
Strategic initiative	523,097
Operating reserve	50,998
	$ 1,071,479

NOTE 10 DONATED MATERIALS AND SERVICES

Donated materials and services consist of the following for the year ended June 30, 2018:

Gala lighting and other	$	39,572
Marketing and advertising		117,143
Professional fees		17,490
Travel		13,275
Theater rental		95,539
Total in-kind expenses	$	283,019

NOTE 11 LEASE COMMITMENTS

The Ballet has an operating agreement with The City of Phoenix and under which the Ballet is contracted to occupy and manage a 52,864 square foot facility owned by the City in exchange for an annual usage/service arrangement as described below. The operating agreement expires on August 31, 2037. The Ballet is responsible for all operating expenses and improvements. The agreement requires the Ballet occupy and use the premises for the purpose of creating a headquarters for the Ballet, a community Ballet, 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 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.

For the year ended June 30, 2018, 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 year ended June 30, 2018.

In addition, the Ballet leases storage space and office equipment under various operating lease agreements expiring through January 2022. The Ballet is responsible for certain monthly operating and maintenance expenses.

NOTE 11 LEASE COMMITMENTS (Continued)

Approximate minimum future rental payments under these non-cancelable operating leases are as follows at June 30, 2018:

Years Ending June 30,		
2019	$	18,900
2020		14,700
2021		15,700
2022		9,500
	$	58,800

Total rent expense was $36,500 for the year ended June 30, 2018.

NOTE 12 RESTATEMENT

During the year ended June 30, 2018, management has determined that temporarily restricted net assets as of June 30, 2017 was overstated by $400,000 for a conditional multi-year promise to give that was incorrectly classified as a time restricted unconditional contribution and included in temporarily restricted net assets. Accordingly, management has restated its temporarily restricted net assets at June 30, 2017 for this misstatement. During the year ended June 30, 2018, the Ballet recognized $150,000 as revenue from the collection of this conditional promise to give and subsequent to June 30, 2018 the Ballet received an additional $50,000 related to this conditional promise to give. Management believes that the likelihood of collecting the remaining conditional amounts is probable.

In addition, during the year ended June 30, 2018, management determined that school tuition revenue for the year ended June 30, 2017 was overstated for a portion of the amounts collected for the summer intensive program that relates to the year ended June 30, 2018. These advance tuition payments should have been recognized as deferred tuition revenue as of June 30, 2017. Management has restated its unrestricted net assets at June 30, 2017 for this misstatement.

NOTE 12 RESTATEMENT (Continued)

The effect of these restatements on the Ballet's previously issued June 30, 2017 financial statements is summarized below:

	As previously reported	Restated	Change
Net assets at June 30, 2017:			
Unrestricted	$ 3,837,769	$ 3,690,093	$ (147,676)
Temporarily restricted	2,190,564	1,790,564	(400,000)
Total restatement	$ 6,028,333	$ 5,480,657	$ (547,676)

NOTE 13 NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2016-14, Not-For-Profit Entities: Presentation of Financial Statements of Not-For-Profit Entities. This Standard is effective for years beginning after December 15, 2017. The Standard requires several changes to how not-for-profit entities report certain financial statement information including net asset classification, cash flows, underwater endowment funds, investment expenses, and other areas. In addition, the new guidance requires disclosures on the entity's liquidity policy and quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the Statement of Financial Position date. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. For nonpublic companies, this standard must be adopted for annual reporting periods beginning after December 15, 2018. The standard's core principle is that an Ballet will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Ballet expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

NOTE 13 NEW ACCOUNTING PRONOUNCEMENTS (Continued)

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2016-02, Leases. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.