

BALLET
ARIZONA

IB ANDERSEN ARTISTIC DIRECTOR

Phoenix, Arizona

FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

BALLET ARIZONA
TABLE OF CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	
Year Ended June 30, 2019	5
Statement of Functional Expenses	
Year Ended June 30, 2018	6
Statement of Cash Flows	7
Notes to Financial Statements	9

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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ballet Arizona as of June 30, 2019 and 2018, 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.

Henry + Horne, LLP

Tempe, Arizona
November 26, 2019

BALLET ARIZONA
STATEMENT OF FINANCIAL POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 709,228	\$ 792,435
Certificates of deposit	149,861	249,384
Promises to give, current portion	135,277	349,004
Grants and other receivables	40,000	248,143
Prepaid expenses	131,277	56,635
Other current assets	<u>60,381</u>	<u>39,708</u>
TOTAL CURRENT ASSETS	1,226,024	1,735,309
PROMISES TO GIVE, net of current portion, discount and allowance of \$2,742 and \$5,785, respectively	132,819	233,520
CERTIFICATE OF DEPOSIT	-	148,421
PROPERTY AND EQUIPMENT, net	3,820,359	3,926,356
ENDOWMENT INVESTMENTS	<u>4,665,014</u>	<u>4,582,147</u>
TOTAL ASSETS	<u>\$ 9,844,216</u>	<u>\$ 10,625,753</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 327,488	\$ 225,070
Advance ticket sales	484,584	390,765
Deferred tuition revenue	<u>170,716</u>	<u>174,920</u>
TOTAL CURRENT LIABILITIES	<u>982,788</u>	<u>790,755</u>
TOTAL LIABILITIES	<u>982,788</u>	<u>790,755</u>
NET ASSETS		
Without donor restrictions:		
Board designated	982,349	1,071,479
Undesignated	<u>3,034,325</u>	<u>2,995,018</u>
	4,016,674	4,066,497
With donor restrictions	<u>4,844,754</u>	<u>5,768,501</u>
TOTAL NET ASSETS	<u>8,861,428</u>	<u>9,834,998</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,844,216</u>	<u>\$ 10,625,753</u>

See accompanying notes.

BALLET ARIZONA
STATEMENT OF ACTIVITIES
Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND EARNED REVENUES						
Ticket sales	\$ 3,008,718	\$ -	\$ 3,008,718	\$ 2,979,978	\$ -	\$ 2,979,978
Ticket handling fees	311,408	-	311,408	295,924	-	295,924
Ballet school tuition	1,448,263	-	1,448,263	1,392,512	-	1,392,512
Contributions	1,093,184	664,905	1,758,089	1,273,648	776,470	2,050,118
Government grants	122,311	34,600	156,911	159,911	30,000	189,911
In-kind contributions	307,656	-	307,656	283,019	-	283,019
Investment return	29,353	110,254	139,607	3,368	76,578	79,946
Other	69,281	-	69,281	106,070	-	106,070
Net assets released from restrictions	1,733,506	(1,733,506)	-	1,140,549	(1,140,549)	-
	<u>8,123,680</u>	<u>(923,747)</u>	<u>7,199,933</u>	<u>7,634,979</u>	<u>(257,501)</u>	<u>7,377,478</u>
RETAIL SALES						
Boutique sales	99,872	-	99,872	84,510	-	84,510
Boutique cost of sales	(26,746)	-	(26,746)	(33,248)	-	(33,248)
	<u>73,126</u>	<u>-</u>	<u>73,126</u>	<u>51,262</u>	<u>-</u>	<u>51,262</u>
SPECIAL EVENTS						
Special events revenue	362,665	-	362,665	529,075	-	529,075
Direct benefit to donors	(65,498)	-	(65,498)	(100,411)	-	(100,411)
	<u>297,167</u>	<u>-</u>	<u>297,167</u>	<u>428,664</u>	<u>-</u>	<u>428,664</u>
TOTAL SUPPORT AND EARNED REVENUES	<u>8,493,973</u>	<u>(923,747)</u>	<u>7,570,226</u>	<u>8,114,905</u>	<u>(257,501)</u>	<u>7,857,404</u>
OPERATING EXPENSES						
Program services	6,402,680	-	6,402,680	5,877,636	-	5,877,636
Supporting services						
Management and general	1,452,945	-	1,452,945	1,219,609	-	1,219,609
Fundraising	688,171	-	688,171	641,256	-	641,256
TOTAL OPERATION EXPENSES	<u>8,543,796</u>	<u>-</u>	<u>8,543,796</u>	<u>7,738,501</u>	<u>-</u>	<u>7,738,501</u>
CHANGE IN NET ASSETS	(49,823)	(923,747)	(973,570)	376,404	(257,501)	118,903
NET ASSETS, BEGINNING OF YEAR	<u>4,066,497</u>	<u>5,768,501</u>	<u>9,834,998</u>	<u>3,690,093</u>	<u>6,026,002</u>	<u>9,716,095</u>
NET ASSETS, END OF YEAR	<u>\$ 4,016,674</u>	<u>\$ 4,844,754</u>	<u>\$ 8,861,428</u>	<u>\$ 4,066,497</u>	<u>\$ 5,768,501</u>	<u>\$ 9,834,998</u>

See accompanying notes.

BALLET ARIZONA
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	Program Services	Supporting Services		Direct Donor Benefit	Total
		Management and General	Fundraising		
Personnel costs					
Salaries and wages	\$ 2,638,401	\$ 423,871	\$ 229,409	\$ -	\$ 3,291,681
Employee benefits and payroll taxes	815,585	80,604	57,118	-	953,307
Total personnel costs	3,453,986	504,475	286,527	-	4,244,988
Production costs	1,790,823	-	-	-	1,790,823
Marketing and advertising	42,010	643,671	-	-	685,681
Special events - food and venue	-	-	-	65,498	65,498
Special events - supplies	-	-	116,514	-	116,514
Occupancy	196,443	16,312	10,743	-	223,498
Computers and software	43,329	59,046	31,762	-	134,137
Professional fees	194,198	68,664	36,618	-	299,480
Publications	22,231	90,672	70,579	-	183,482
Bank and credit card fees	108,789	32,975	1,728	-	143,492
Interest	-	122	-	-	122
Bad debt expense	-	-	1,827	-	1,827
Licenses and subscriptions	13,828	14,295	-	-	28,123
Transportation	21,693	4,184	4,441	-	30,318
Cost of goods sold	26,746	-	-	-	26,746
Supplies	24,573	1,443	13,566	-	39,582
Insurance	35,413	4,218	903	-	40,534
Other	119,862	886	104,404	-	225,152
Depreciation	335,502	11,982	8,559	-	356,043
Total operating expenses	6,429,426	1,452,945	688,171	65,498	8,636,040
Amounts reported in total support and other revenue on the statement of activities:					
Cost of goods sold	(26,746)	-	-	-	(26,746)
Direct benefit to donors	-	-	-	(65,498)	(65,498)
TOTAL EXPENSES	\$ 6,402,680	\$ 1,452,945	\$ 688,171	\$ -	\$ 8,543,796

See accompanying notes.

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

	Program Services	Supporting Services		Direct Donor Benefit	Total
		Management and General	Fundraising		
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
Publications	29,055	87,831	68,371	-	185,257
Bank and credit card fees	110,630	18,764	1,698	-	131,092
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
Depreciation	323,267	11,545	8,247	-	343,059
Total operating expenses	5,910,884	1,219,609	641,256	100,411	7,872,160
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	\$ 5,877,636	\$ 1,219,609	\$ 641,256	\$ -	\$ 7,738,501

See accompanying notes.

BALLET ARIZONA
STATEMENT OF CASH FLOWS
Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (973,570)	\$ 118,903
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	356,043	343,059
Loss on sale of property and equipment	8,089	2,345
Non-cash contribution of stock	(110,515)	(96,643)
Realized and unrealized loss on investments	36,769	13,515
Loss on uncollectible promises to give	1,827	62,998
Change in provision for uncollectible promises to give	(19,215)	-
Change in discount on contributions receivable	(7,314)	(36,814)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Promises to give	328,534	333,888
Grants and other receivables	208,143	(236,152)
Other current assets	(95,315)	(39,024)
Increase (decrease) in:		
Accounts payable and accrued expenses	102,418	(2,517)
Advance ticket sales	93,819	59,671
Deferred tuition	(4,204)	16,370
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(74,491)	539,599
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(258,135)	(59,417)
Proceeds from sale of property and equipment	-	800
Purchases of investments	(2,691,134)	(5,238,028)
Proceeds from sales and maturities of investments	2,679,723	4,940,066
Purchases of certificates of deposit	257,305	(219,000)
Redemption of certificates of deposit	(7,071)	419,000
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(19,312)	(156,579)

See accompanying notes.

BALLET ARIZONA
STATEMENT OF CASH FLOWS (Continued)
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash collected on fundraising campaign contributions	10,596	22,233
Draw on line of credit	100,000	-
Payments on line of credit	<u>(100,000)</u>	<u>(450,000)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>10,596</u>	<u>(427,767)</u>
NET CHANGE IN CASH	(83,207)	(44,747)
CASH, BEGINNING OF YEAR	<u>792,435</u>	<u>837,182</u>
CASH, END OF YEAR	<u>\$ 709,228</u>	<u>\$ 792,435</u>
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	<u>\$ 122</u>	<u>\$ 7,935</u>

See accompanying notes.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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. Cash held in stock brokerage firms are reported as investments as they represent amounts used for the purchases and sales of investments and are excluded from this definition.

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.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets.

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. |
|---------|---|

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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 less external investment expenses) 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.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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

Endowment Funds

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 net assets with donor restrictions (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 donor-restricted endowment fund also includes accumulated earnings in the fund that are also classified as net assets with donor restrictions 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.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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 received are recorded as either support with donor restrictions or as support without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, (that is, when a stipulated time restriction ends or purpose restrictions are accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Non-Cash Donations

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 estimated fair value 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.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Directly identifiable expenses are charged to program and supporting services. Certain employee positions are allocated based on time and effort. Other expenses, including supplies, computers and software, and publications are allocated based on a full-time employee equivalent basis. Occupancy and depreciation expense are allocated based on square footage utilized by the function. 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 \$686,000 and \$567,000 for the years ended June 30, 2019 and 2018, respectively.

Net Assets

The Ballet reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.
- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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

Income Tax Status (Continued)

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, 2019, and 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 years ended June 30, 2019 and 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 26, 2019 the date the financial statements were available to be issued.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Ballet has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented and resulted in the unrestricted net asset balance of \$4,066,497 at June 30, 2018 being renamed net assets without donor restrictions, and the temporarily restricted and permanently restricted net asset balances of \$1,533,063 and \$4,235,438, respectively, at June 30, 2018 being renamed net assets with donor restrictions. Also, a new disclosure about liquidity and availability has been added. In addition, investment fees have been netted against investment return, resulting in a reduction in total investments return for the year ended June 30, 2018 in the amount of approximately \$17,000.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 LIQUIDITY AND AVAILABILITY

The following reflects the Ballet's financial assets as of June 30, 2019, reduced by amounts not available for general use within one year because of donor-imposed or other restrictions or internal designations. Amounts available include the Board-approved appropriation from the endowment funds for the following year as well as donor-restricted amounts that are available for expenditure in the following year for program activities. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Ballet approves that action.

	June 30, 2019	December 31, 2018
	<u> </u>	<u> </u>
Current assets	1,226,024	1,887,183
Cash and cash equivalents subject to board restriction	(480,812)	(576,019)
Inventory included in other current assets	(34,952)	(32,549)
Endowment spending appropriation	<u>182,000</u>	<u>198,000</u>
	<u>\$ 892,260</u>	<u>\$ 1,476,615</u>

The Ballet is striving to reach and sustain a balance of liquid financial assets sufficient to cover over 90 days of general expenditures, which is estimated to be approximately \$1,800,000. The Ballet conducts a monthly review of cash flows with the Board, tracking out over 18 months, and conducts a thorough review of the operating budget with the Board during the budget approval process to ensure best practices in moving the Ballet towards sustainability and proper future maintenance of financial liquidity. The Ballet's working capital and cash flows have seasonal variations during the year due to timing of performances. The Ballet can utilize board-designated funds for general expenditures through a Board resolution. Board designated funds were \$982,349 as of June 30, 2019. To manage liquidity the Ballet maintains a line-of-credit of \$750,000 with a bank that is drawn upon as needed during the year to manage cash flow.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 3 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 two donors whose outstanding balances represented approximately 75% of total net promises to give and grants receivable as of June 30, 2019. 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 4 PROMISES TO GIVE

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

	<u>2019</u>	<u>2018</u>
Capital campaign	\$ -	\$ 10,596
Non-capital campaign	<u>276,623</u>	<u>606,984</u>
Total promises to give	276,623	617,580
Discount to present value	(2,742)	(10,056)
Allowance for uncollectible promises to give	<u>(5,785)</u>	<u>(25,000)</u>
Net promises to give	<u>\$ 268,096</u>	<u>\$ 582,524</u>

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

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 4 PROMISES TO GIVE (Continued)

Promises to give, before the discount to present value and allowance for collectible promises, consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Promises to give due in less than one year	\$ 135,277	\$ 349,004
Promises to give due in two to five years	<u>141,346</u>	<u>268,576</u>
	<u>\$ 276,623</u>	<u>\$ 617,580</u>

Promises to give include approximately \$141,000 and \$264,000 at June 30, 2019 and 2018, respectively, from employees and members of the Board of Directors.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Building and leasehold improvements	\$ 3,944,110	\$ 3,937,586
Production equipment	2,660,864	2,504,786
Office furniture and equipment	<u>420,029</u>	<u>449,508</u>
	7,025,003	6,891,880
Accumulated depreciation	<u>(3,204,644)</u>	<u>(2,965,524)</u>
	<u>\$ 3,820,359</u>	<u>\$ 3,926,356</u>

Depreciation expense was \$356,043 and 343,059 for the years ended June 30, 2019 and 2018, respectively.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 6 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 as of June 30:

	2019			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash and money market funds	\$ 37,870	\$ -	\$ -	\$ 37,870
Bond funds	952,569	-	-	952,569
Equity funds	3,184,071	-	-	3,184,071
Total investments measured at fair value	<u>\$ 4,174,510</u>	<u>\$ -</u>	<u>\$ -</u>	4,174,510
Investment measured at net asset value:				
Private LTD partnership				<u>490,504</u>
Total investments				<u>\$ 4,665,014</u>
	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	<u>\$ 4,086,643</u>	<u>\$ -</u>	<u>\$ -</u>	4,086,643
Investment measured at net asset value:				
Private LTD partnership				<u>495,504</u>
Total investments				<u>\$ 4,582,147</u>

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

BALLET ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 6 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Investment income is summarized as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 207,880	\$ 110,787
Realized gain/(loss)	(473,782)	51,289
Unrealized gain/(loss)	437,013	(64,804)
Investment fees	<u>(31,504)</u>	<u>(17,326)</u>
Total investment income	<u>\$ 139,607</u>	<u>\$ 79,946</u>

NOTE 7 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, 2020. 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, 2019, there was no outstanding balance on the line of credit.

NOTE 8 ENDOWMENT FUNDS

The endowment net asset composition by type of fund as of June 30, 2019, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 501,535	\$ -	\$ 501,535
Donor-restricted endowment funds:			
Original donor-restricted amounts	-	4,235,438	4,235,438
Underwater portion of endowments	<u>-</u>	<u>(66,151)</u>	<u>(66,151)</u>
	<u>\$ 501,535</u>	<u>\$ 4,169,287</u>	<u>\$ 4,670,822</u>

Endowment funds at June 30, 2019 include approximately \$5,800 included in promises to give and the remaining balance of approximately \$4,665,000 included in investments.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 8 ENDOWMENT FUNDS (Continued)

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 497,384	\$ -	\$ 497,384
Donor-restricted endowment funds:			
Original donor-restricted amounts	<u>-</u>	<u>4,235,438</u>	<u>4,235,438</u>
	<u>\$ 497,384</u>	<u>\$ 4,235,438</u>	<u>\$ 4,732,822</u>

Endowment funds at June 30, 2018 include approximately \$173,000 included in promises to give and the remaining balance of approximately \$4,560,000 included in investments.

Changes in endowment funds for the years ended June 30, 2019 and 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Funds</u>
Endowment funds, June 30, 2017	\$ 500,000	\$ 4,246,867	\$ 4,746,867
Contributions	-	-	-
Interest and dividends	12,063	88,518	100,581
Realized gains	5,979	43,871	49,850
Unrealized losses	(5,772)	(42,354)	(48,126)
Investment fees	(1,961)	(14,389)	(16,350)
Amounts appropriated for expenditure	<u>(12,925)</u>	<u>(87,075)</u>	<u>(100,000)</u>
Endowment funds, June 30, 2018	497,384	4,235,438	4,732,822
Contributions	12,252	-	12,252
Interest and dividends	21,168	172,889	194,057
Realized losses	(51,622)	(421,629)	(473,251)
Unrealized gains	47,365	386,853	434,218
Investment fees	(3,414)	(27,862)	(31,276)
Amounts appropriated for expenditure	<u>(21,598)</u>	<u>(176,402)</u>	<u>(198,000)</u>
Endowment funds, June 30, 2019	<u>\$ 501,535</u>	<u>\$ 4,169,287</u>	<u>\$ 4,670,822</u>

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 8 ENDOWMENT FUNDS (Continued)

Donor restricted endowment funds include \$5,785 and \$173,030 that is included in promises to give as of June 30, 2019 and 2018, respectively. All other endowment funds are included in investments as of June 30, 2019 and 2018.

The fair value of assets associated with individual donor-restricted endowments may have fair values less than the amount required to be maintained by donors or law (underwater endowments). We have interpreted MCFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2019, funds with original gift values of \$4,229,628, fair values of \$4,163,477, and deficiencies of \$66,151 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations and continued appropriations for certain programs that were deemed prudent by the Board of Directors. It is the Organization's policy to continue to apply the spending policy to underwater endowment funds. The total donor restricted portion of the investment balance at October 31, 2019, prior to the annual draw for the year ending June 30, 2020, was approximately \$4,255,000. The annual draw is subject to board approval.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
<u>Purpose Restricted:</u>		
Desert Botanical Garden performances	\$ 309,142	\$ 601,639
Other performances	-	319,000
Education and community engagement	63,182	132,319
Marketing	-	78,668
Fundraising campaign	-	10,596
Board leadership	-	9,736
Scholarships	-	7,500
Other	21,261	13,635
	<u>393,585</u>	<u>1,173,093</u>
<u>Time Restricted:</u>		
Promises to give	181,882	255,350
Future operations	100,000	104,620
	<u>281,882</u>	<u>359,970</u>
<u>Endowment funds:</u>		
Portion of perpetual endowment funds that are required to be permanently retained	4,235,438	4,235,438
Portion of perpetual endowment funds subject to a restriction under MCFA	(66,151)	-
	<u>4,169,287</u>	<u>4,235,438</u>
Total net assets with donor restrictions	<u>\$ 4,844,754</u>	<u>\$ 5,768,501</u>

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 10 NET ASSETS RELEASED FROM RESTRICTION

Donor restricted net assets released from restriction during the years ended June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
<u>Purpose Restricted:</u>		
Desert Botanical Garden performances	\$ 292,497	\$ 361,415
Other performances	724,500	119,000
Education and community engagement	142,541	32,681
Marketing	78,668	31,332
Fundraising campaign	10,596	368,780
Board leadership	9,736	5,264
Scholarships	22,500	57,647
Amounts appropriated for expenditure from donor restricted endowment funds	176,402	88,007
Other	97,978	42,223
	<u>1,555,418</u>	<u>1,106,349</u>
<u>Time Restricted:</u>		
Promises to give	63,118	34,200
Future operations	114,970	-
	<u>178,088</u>	<u>34,200</u>
Total net assets with donor restriction releases	<u>\$ 1,733,506</u>	<u>\$ 1,140,549</u>

NOTE 11 BOARD DESIGNATED NET ASSETS

Board designated net assets consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Endowment fund	\$ 501,537	\$ 497,384
Strategic initiative	429,508	523,097
Operating reserve	51,304	50,998
	<u>\$ 982,349</u>	<u>\$ 1,071,479</u>

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 12 DONATED MATERIALS AND SERVICES

Donated materials and services consist of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Gala lighting and other	\$ 78,000	\$ 39,572
Marketing and advertising	111,640	117,143
Professional fees	5,160	17,490
Other	16,471	-
Travel	14,577	13,275
Theater rental	<u>81,808</u>	<u>95,539</u>
Total in-kind expenses	<u>\$ 307,656</u>	<u>\$ 283,019</u>

NOTE 13 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 years ended June 30, 2019 and 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 years ended June 30, 2019 and 2018.

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

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 13 LEASE COMMITMENTS (Continued)

Approximate minimum future rental payments under these non-cancelable operating leases are as follows at June 30, 2019:

<u>Years Ending June 30,</u>	
2020	\$ 43,000
2021	43,000
2022	<u>38,000</u>
	<u>\$ 124,000</u>

Total rent expense was \$47,604 for the year ended June 30, 2019.

NOTE 14 NEW ACCOUNTING PRONOUNCEMENTS

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 organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization 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.

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2018-08, *Not-For-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard’s core principle is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This ASU should assist entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

BALLET ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 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, 2020. 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.