

**BALLET**  
**ARIZONA**

IB ANDERSEN ARTISTIC DIRECTOR

Phoenix, Arizona

FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

BALLET ARIZONA  
TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
Statements of Financial Position	4
Statements of Activities	5
Statement of Functional Expenses	
Year Ended June 30, 2022	6
Statement of Functional Expenses	
Year Ended June 30, 2021	7
Statements of Cash Flows	8
Notes to Financial Statements	10
UNIFORM GUIDANCE SUPPLEMENTARY REPORTS	32
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	35
Schedule of Expenditures of Federal Awards	38
Notes to Schedule of Expenditures of Federal Awards	39
Schedule of Findings and Questioned Costs	40

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Ballet Arizona  
Phoenix, Arizona

### **Opinion**

We have audited the accompanying financial statements of Ballet Arizona (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ballet Arizona and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ballet Arizona's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Ballet Arizona's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ballet Arizona's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reported dated November 21, 2022, on our consideration of Ballet Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the test results of that testing, and not to provide an opinion on the effectiveness of Ballet Arizona's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ballet Arizona's internal control over financial reporting and compliance.

Henry + Home, LLP

Tempe, Arizona  
November 21, 2022

BALLET ARIZONA  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,375,311	\$ 1,782,034
Promises to give, current portion	381,340	497,015
Employee Retention Tax Credit receivable	543,210	-
Prepaid expenses	92,643	61,691
Other current assets	<u>50,392</u>	<u>37,479</u>
TOTAL CURRENT ASSETS	<u>7,442,896</u>	<u>2,378,219</u>
ASSETS RESTRICTED FOR LONG-TERM PURPOSES		
Cash designated for board designated endowment	350,000	-
Promise to give for donor restricted endowment	<u>5,785</u>	<u>5,785</u>
	<u>355,785</u>	<u>5,785</u>
PROMISES TO GIVE, net of current portion; discount of \$14,190 and \$10,829, respectively; and allowance of \$10,000 and \$5,785, respectively	426,609	327,405
INVESTMENTS		
Operating	-	562,719
Donor restricted endowment	4,095,839	4,882,937
Board designated endowment	<u>780,242</u>	<u>-</u>
	<u>4,876,081</u>	<u>5,445,656</u>
PROPERTY AND EQUIPMENT, net	<u>3,034,329</u>	<u>3,308,256</u>
TOTAL ASSETS	<u>\$ 16,135,700</u>	<u>\$ 11,465,321</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 482,524	\$ 425,679
Advance ticket sales	306,955	89,622
Deferred tuition revenue	<u>158,565</u>	<u>109,963</u>
TOTAL CURRENT LIABILITIES	<u>948,044</u>	<u>625,264</u>
TOTAL LIABILITIES	<u>948,044</u>	<u>625,264</u>
NET ASSETS		
Without donor restrictions:		
Board designated	3,634,242	-
Undesignated	<u>5,993,434</u>	<u>4,330,110</u>
	9,627,676	4,330,110
With donor restrictions	<u>5,559,980</u>	<u>6,509,947</u>
TOTAL NET ASSETS	<u>15,187,656</u>	<u>10,840,057</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,135,700</u>	<u>\$ 11,465,321</u>

See accompanying notes.

BALLET ARIZONA  
STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2022 and 2021

	2022			2021*		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND EARNED REVENUES</b>						
Ticket sales	\$ 2,854,590	\$ -	\$ 2,854,590	\$ 525,116	\$ -	\$ 525,116
Ticket handling fees	405,402	-	405,402	51,080	-	51,080
Ballet school tuition	1,106,142	-	1,106,142	870,046	-	870,046
Contributions	3,990,432	1,861,405	5,851,837	2,241,105	1,039,245	3,280,350
Government grants	336,975	-	336,975	219,234	-	219,234
Shuttered Venue Operators grant	2,454,473	-	2,454,473	-	-	-
Employee Retention Credit	543,210	-	543,210	-	-	-
Paycheck Protection Program government grants	-	-	-	847,556	-	847,556
In-kind contributions	148,906	-	148,906	31,170	-	31,170
Investment return	(83,179)	(620,866)	(704,045)	90,173	1,021,695	1,111,868
Other revenue	47,137	-	47,137	21,237	-	21,237
Net assets released from restrictions	2,190,506	(2,190,506)	-	1,201,431	(1,201,431)	-
	<u>13,994,594</u>	<u>(949,967)</u>	<u>13,044,627</u>	<u>6,098,148</u>	<u>859,509</u>	<u>6,957,657</u>
<b>RETAIL SALES</b>						
Boutique sales	132,158	-	132,158	3,832	-	3,832
Boutique cost of sales	(68,049)	-	(68,049)	(14,973)	-	(14,973)
	<u>64,109</u>	<u>-</u>	<u>64,109</u>	<u>(11,141)</u>	<u>-</u>	<u>(11,141)</u>
<b>SPECIAL EVENTS</b>						
Special events revenue	439,526	-	439,526	244,310	-	244,310
Direct benefit to donors	(111,578)	-	(111,578)	(21,716)	-	(21,716)
	<u>327,948</u>	<u>-</u>	<u>327,948</u>	<u>222,594</u>	<u>-</u>	<u>222,594</u>
<b>TOTAL SUPPORT AND EARNED REVENUES</b>	<u>14,386,651</u>	<u>(949,967)</u>	<u>13,436,684</u>	<u>6,309,601</u>	<u>859,509</u>	<u>7,169,110</u>
<b>OPERATING EXPENSES</b>						
Program services	6,152,626	-	6,152,626	4,051,720	-	4,051,720
Supporting services						
Management and general	2,317,852	-	2,317,852	1,082,981	-	1,082,981
Fundraising	618,607	-	618,607	674,174	-	674,174
<b>TOTAL OPERATION EXPENSES</b>	<u>9,089,085</u>	<u>-</u>	<u>9,089,085</u>	<u>5,808,875</u>	<u>-</u>	<u>5,808,875</u>
<b>CHANGE IN NET ASSETS</b>	5,297,566	(949,967)	4,347,599	500,726	859,509	1,360,235
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>4,330,110</u>	<u>6,509,947</u>	<u>10,840,057</u>	<u>3,829,384</u>	<u>5,650,438</u>	<u>9,479,822</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 9,627,676</u>	<u>\$ 5,559,980</u>	<u>\$ 15,187,656</u>	<u>\$ 4,330,110</u>	<u>\$ 6,509,947</u>	<u>\$ 10,840,057</u>

\* Reclassified to conform to current year presentation

See accompanying notes.

BALLET ARIZONA  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2022

	Production	School	Education and Community Engagement	Total Program	Supporting Services		Direct Donor Benefit	Total
					Management and General	Fundraising		
Personnel costs								
Salaries and wages	\$ 2,038,901	\$ 666,727	\$ 84,350	\$ 2,789,978	\$ 419,704	\$ 281,801	\$ -	\$ 3,491,483
Employee benefits and payroll taxes	549,146	173,899	18,396	741,441	333,855	64,353	-	1,139,649
Total personnel costs	2,588,047	840,626	102,746	3,531,419	753,559	346,154	-	4,631,132
Production costs	1,774,076	10,596	16	1,784,688	60,852	100	-	1,845,640
Marketing and advertising	-	33,754	1,840	35,594	584,749	19,714	-	640,057
Occupancy	163,154	71,961	8,397	243,512	22,873	13,488	23,586	303,459
Computers and software	35,215	33,940	1,165	70,320	57,716	36,647	-	164,683
Professional fees	6,750	21,920	2,750	31,420	546,584	65,001	-	643,005
Publications	22,810	7,170	-	29,980	69,251	52,723	-	151,954
Bank and credit card fees	3,966	19,568	7	23,541	137,177	5,284	-	166,002
Interest	-	-	-	-	-	-	-	-
Bad debt expense	-	-	-	-	-	13,576	-	13,576
Licenses and subscriptions	2,440	149	-	2,589	13,998	1,781	-	18,368
Transportation	39,881	8,163	-	48,044	13,492	11	-	61,547
Cost of goods sold	54,194	13,855	-	68,049	-	-	-	68,049
Supplies	4,768	1,040	467	6,275	10,985	648	17,504	35,412
Insurance	33,636	14,365	1,012	49,013	2,276	1,315	-	52,604
Other	-	2,048	-	2,048	30,678	54,272	70,488	157,486
Depreciation	201,890	86,221	6,072	294,183	13,662	7,893	-	315,738
Total operating expenses	4,930,827	1,165,376	124,472	6,220,675	2,317,852	618,607	111,578	9,268,712
Amounts reported in total support and other revenue on the statement of activities:								
Cost of goods sold	(54,194)	(13,855)	-	(68,049)	-	-	-	(68,049)
Direct benefit to donors	-	-	-	-	-	-	(111,578)	(111,578)
TOTAL EXPENSES	\$ 4,876,633	\$ 1,151,521	\$ 124,472	\$ 6,152,626	\$ 2,317,852	\$ 618,607	\$ -	\$ 9,089,085

See accompanying notes.



BALLET ARIZONA  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2021

	Production	School	Education and Community Engagement	Total Program	Supporting Services		Direct Donor Benefit	Total
					Management and General	Fundraising		
Personnel costs								
Salaries and wages	\$ 1,469,288	\$ 567,324	\$ 46,820	\$ 2,083,432	\$ 458,559	\$ 255,922	\$ -	\$ 2,797,913
Employee benefits and payroll taxes	401,345	145,624	14,755	561,724	248,329	62,952	-	873,005
Total personnel costs	1,870,633	712,948	61,575	2,645,156	706,888	318,874	-	3,670,918
Production costs	605,370	11,936	-	617,306	-	-	-	617,306
Marketing and advertising	1,493	-	-	1,493	77,492	29,534	-	108,519
Occupancy	151,870	67,173	4,731	223,774	45,235	11,966	-	280,975
Computers and software	27,354	24,263	800	52,417	41,031	34,227	-	127,675
Professional fees	2,500	-	-	2,500	130,247	148,497	6,897	288,141
Publications	42,938	17,039	1,267	61,244	13,094	39,478	-	113,816
Bank and credit card fees	30,622	-	-	30,622	25,729	3,959	-	60,310
Interest	-	-	-	-	6,319	-	-	6,319
Bad debt expense	-	-	-	-	-	17,989	-	17,989
Licenses and subscriptions	240	-	-	240	4,950	1,014	-	6,204
Transportation	3,840	2,629	-	6,469	1,944	665	-	9,078
Cost of goods sold	-	3,344	-	3,344	11,629	-	-	14,973
Supplies	2,265	874	-	3,139	15,503	6,966	526	26,134
Insurance	30,332	12,996	913	44,241	1,580	1,129	-	46,950
Other	-	-	-	-	-	50,613	14,293	64,906
Depreciation	249,199	106,425	7,495	363,119	12,969	9,263	-	385,351
Total operating expenses	3,018,656	959,627	76,781	4,055,064	1,094,610	674,174	21,716	5,845,564
Amounts reported in total support and other revenue on the statement of activities:								
Cost of goods sold	(3,344)	-	-	(3,344)	(11,629)	-	-	(14,973)
Direct benefit to donors	-	-	-	-	-	-	(21,716)	(21,716)
TOTAL EXPENSES	\$ 3,015,312	\$ 959,627	\$ 76,781	\$ 4,051,720	\$ 1,082,981	\$ 674,174	\$ -	\$ 5,808,875

See accompanying notes.

BALLET ARIZONA  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,347,599	\$ 1,360,235
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	315,738	385,351
(Gain) loss on sale of property and equipment	-	8,333
Realized and unrealized (gain) loss on investments	1,004,911	(853,886)
Provision for uncollectible promises to give	10,215	15,919
Change in discount on promises to give	3,361	8,070
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Promises to give	2,895	17,958
Employee Retention Credit receivable	(543,210)	-
Other current assets	(43,865)	4,273
Increase (decrease) in:		
Accounts payable and accrued expenses	56,845	144,693
Advance ticket sales	217,333	(286,113)
Deferred tuition revenue	48,602	(12,731)
Deferred special event income	-	(37,200)
Deferred conditional contribution - Paycheck Protection Program	-	(97,695)
	<u>5,420,424</u>	<u>657,207</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(41,811)	(6,007)
Purchases of investments	(624,336)	(3,178,035)
Proceeds from sales and maturities of investments	189,000	3,187,351
	<u>(477,147)</u>	<u>3,309</u>
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		

See accompanying notes.

BALLET ARIZONA  
STATEMENTS OF CASH FLOWS (Continued)  
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	<u>-</u>	<u>(430,000)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>-</u>	<u>(430,000)</u>
NET CHANGE IN CASH	4,943,277	230,516
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,782,034</u>	<u>1,551,518</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,725,311</u>	<u>\$ 1,782,034</u>
RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents - current	\$ 6,375,311	\$ 1,782,034
Cash and cash equivalents - long-term purposes	<u>350,000</u>	<u>-</u>
	<u>\$ 6,725,311</u>	<u>\$ 1,782,034</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	<u>\$ -</u>	<u>\$ 14,287</u>

See accompanying notes.

BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

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. Cash and highly liquid financial instruments restricted to endowments that are perpetual in nature, or other long-term purposes are also 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 is 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  
Years Ended June 30, 2022 and 2021

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 are 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. Management does not believe impairment indicators are present.

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  
Years Ended June 30, 2022 and 2021

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. Alternative investments are valued using net asset value of the shares held at year-end as the practical expedient for fair value.

Investments

Investments are measured at fair value or net asset value on the statements 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 statements 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 statements of financial position.

BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

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. During the year ended June 30, 2021, the board removed the designation on the board designated fund. The funds are included in operating investments on the accompany statements of financial position at June 30, 2021. 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  
Years Ended June 30, 2022 and 2021

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

Earned revenues where performance obligations are satisfied at a point in time with a single performance obligation consist of performance ticket sales, ticket handling fees, school tuition, sales of merchandise and Gala ticket revenue. Payment for these services is due in advance of the performance and instruction, or at the time the goods and services are transferred. Revenue from ticket sales and ticket handling fees are recognized in the period that the related production takes place. Revenue from school tuition is recognized in the period the related educational instruction is performed. Retail sales revenue is reported net of sales tax.

Contract liabilities (deferred revenue) include proceeds from advance ticket sales and event revenues received prior to the fiscal year in which the performance or event occurs, which are presented as deferred revenue. Additionally, tuition revenue received in advance of the educational instruction services being performed is recorded as deferred tuition revenue.

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.



BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

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

In-kind Contributions and Change in Accounting Principle

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires the Ballet to present contributed nonfinancial assets in a separate line item in the statement of activities and to disclose certain information about the contributed nonfinancial assets, including whether the assets were monetized or utilized by the Ballet. In addition, the Ballet is required to disclose a description of how these assets are valued.

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.

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 \$528,000 and \$113,000 for the years ended June 30, 2022 and 2021, respectively.

BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

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

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, employee investment reserve, strategic initiative 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.

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, 2022 and 2021 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, 2022 and 2021, the Ballet did not have any income tax related interest and penalty expense.

BALLET ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended June 30, 2022 and 2021

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

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 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. Accordingly, actual results could differ from these estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Date of Management's Review

In preparing these financial statements, the Ballet has evaluated events and transactions for potential recognition or disclosure through November 21, 2022, the date the financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

The following reflects the Ballet's financial assets as of June 30, 2022 and 2021, 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.

	<u>2022</u>	<u>2021</u>
Current assets	\$ 7,442,896	\$ 2,378,219
Cash and cash equivalents subject to board designation	(2,504,000)	-
Inventory included in other current assets	(15,604)	(11,161)
Operating investments	-	562,719
Prepaid expenses	(92,643)	(61,691)
Endowment spending appropriation	189,000	246,680
	<u>\$ 5,019,649</u>	<u>\$ 3,114,766</u>

BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

NOTE 2 LIQUIDITY AND AVAILABILITY (Continued)

The Ballet is striving to reach and sustain a balance of liquid financial assets sufficient to cover over 90 days of general expenditures. The Ballet conducts a periodic review of cash flows with the Board 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. To manage liquidity the Ballet maintains a line of credit with a maximum available amount of \$750,000 with a bank that is drawn upon as needed during the year to manage cash flow.

NOTE 3 CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Ballet to significant concentration of credit risk consist principally of cash and promises to give. 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 for amounts due from two donors whose outstanding balances represented approximately 85% of total net promises to give as of June 30, 2022. The Ballet had a concentration in promises to give for amounts due from three donors whose outstanding balances represented approximately 95% of total net promises to give as of June 30, 2021. Credit risks related to these concentrations are limited due to the Ballet's relationships with the donors.

BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

NOTE 4 PROMISES TO GIVE

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

	<u>2022</u>	<u>2021</u>
Promises to give due in less than one year	\$ 387,125	\$ 502,800
Promises to give due in two to five years	<u>450,799</u>	<u>344,019</u>
Total promises to give	837,924	846,819
Discount to present value	(14,190)	(10,829)
Allowance for uncollectible promises to give	<u>(10,000)</u>	<u>(5,785)</u>
Net promises to give	813,734	830,205
Current portion	<u>(387,125)</u>	<u>(502,800)</u>
Non-current portion	<u>\$ 426,609</u>	<u>\$ 327,405</u>

The estimated future cash flows for promises to give are discounted over the collection period using a discount rate of 3.25% for the years ended June 30, 2022 and 2021.

Promises to give include approximately \$331,000 and \$461,000 at June 30, 2022 and 2021, respectively, from employees and members of the Board of Directors.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following on June 30:

	<u>2022</u>	<u>2021</u>
Building and leasehold improvements	\$ 3,955,826	\$ 3,946,617
Production equipment	2,890,898	2,871,398
Office furniture and equipment	<u>471,368</u>	<u>458,266</u>
	7,318,092	7,276,281
Accumulated depreciation	<u>(4,283,763)</u>	<u>(3,968,025)</u>
	<u>\$ 3,034,329</u>	<u>\$ 3,308,256</u>

Depreciation expense was \$315,738 and \$385,351 for the years ended June 30, 2022 and 2021, respectively.

BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

NOTE 6 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments with readily determinable fair values are measured at fair value in the statements of financial position as determined by quoted prices in active markets (Level 1). The investment in a partnership is an alternative investment measured at net asset value based on information provided by the investment fund manager. The following is a summary of investments measured at fair value and net asset value on a recurring basis as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and money market funds	\$ 20,071	\$ -	\$ -	\$ 20,071
Bond funds	1,662,422	-	-	1,662,422
Equity funds	<u>3,179,363</u>	<u>-</u>	<u>-</u>	<u>3,179,363</u>
Total investments measured at fair value	<u>\$ 4,861,856</u>	<u>\$ -</u>	<u>\$ -</u>	4,861,856
Investment measured at net asset value:				
Private LTD partnership				<u>14,225</u>
Total investments				<u>\$ 4,876,081</u>

The following is a summary of investments measured at fair value and net asset value on a recurring basis as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and money market funds	\$ 31,723	\$ -	\$ -	\$ 31,723
Bond funds	1,441,202	-	-	1,441,202
Equity funds	<u>3,824,663</u>	<u>-</u>	<u>-</u>	<u>3,824,663</u>
Total investments measured at fair value	<u>\$ 5,297,588</u>	<u>\$ -</u>	<u>\$ -</u>	5,297,588
Investment measured at net asset value:				
Private LTD partnership				<u>148,068</u>
Total investments				<u>\$ 5,445,656</u>

BALLET ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended June 30, 2022 and 2021

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

In accordance with the Financial Accounting Standards Board (“FASB”), certain investments that are measured using the net asset value per share as a practical expedient have not been classified in the fair value hierarchy. The net asset value amounts presented in the above tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

In accordance with the FASB Accounting Standards Codification (“ASC”) 820, the Ballet is required to disclose the nature and risks of the investments reported at net asset value (“NAV”). The following table summarizes the funding commitment and redemption restrictions of investments in private LTD partnerships as of June 30, 2022:

	<u>Net Asset Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private LTD partnership	\$ 14,225	\$ -	n/a	30 day notice

The following table summarizes the funding commitment and redemption restrictions of investments in private LTD partnerships as of June 30, 2021:

	<u>Net Asset Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private LTD partnership	\$ 148,068	\$ -	n/a	30 day notice

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

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 337,048	\$ 289,365
Realized loss	(20,281)	(30,046)
Unrealized gain/(loss)	(984,630)	883,932
Investment fees	(36,182)	(31,383)
Total investment income	<u>\$ (704,045)</u>	<u>\$ 1,111,868</u>

BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

NOTE 7 DEFERRED REVENUES

The Ballet collects ticket revenue in advance of the next season and collects tuition revenue in advance of school services being performed for the students. These amounts received in advance are recorded as deferred revenue on the accompanying statements of financial position. The table below shows the activity in the deferred revenue accounts:

	<u>Advance Ticket Sales</u>	<u>Deferred Tuition Revenue</u>
Balance at June 30, 2020	\$ 375,735	\$ 122,694
Revenue recognized	(525,116)	(870,046)
Amounts received	<u>239,003</u>	<u>857,315</u>
Balance at June 30, 2021	89,622	109,963
Revenue recognized	(2,854,590)	(1,106,142)
Amounts received	<u>3,071,923</u>	<u>1,154,744</u>
Balance at June 30, 2022	<u>\$ 306,955</u>	<u>\$ 158,565</u>

NOTE 8 LINE OF CREDIT

The Ballet has a line of credit with a financial institution which allows for maximum borrowings up to \$750,000. The line of credit bears interest at 0.55% over an index which is the prime rate as published in the Wall Street Journal, is secured by certain assets of the Ballet and matures in February 2025. The balance outstanding under the line is callable by the financial institution at any time. There was no outstanding balance as of June 30, 2022 and 2021.



BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

NOTE 9 ENDOWMENT FUNDS

The endowment net asset composition by type of fund as of June 30, 2022, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 1,130,242	\$ -	\$ 1,130,242
Donor-restricted endowment funds:			
Original donor-restricted amounts	-	4,236,938	4,236,938
Underwater portion of endowments	<u>-</u>	<u>(135,314)</u>	<u>(135,314)</u>
	<u>\$ 1,130,242</u>	<u>\$ 4,101,624</u>	<u>\$ 5,231,866</u>

The endowment net asset composition by type of fund as of June 30, 2021, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds:			
Original donor-restricted amounts	-	4,236,938	4,236,938
Accumulated investment earnings	<u>-</u>	<u>651,784</u>	<u>651,784</u>
	<u>\$ -</u>	<u>\$ 4,888,722</u>	<u>\$ 4,888,722</u>

BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

NOTE 9 ENDOWMENT FUNDS (Continued)

Changes in endowment funds for the years ended June 30, 2022 and 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Endowment funds, June 30, 2020	\$ 494,664	\$ 4,112,207	\$ 4,606,871
Contributions	-	1,500	1,500
Interest and dividends	23,321	265,583	288,904
Realized losses	(30,046)	-	(30,046)
Unrealized gains	98,975	784,962	883,937
Investment fees	(2,533)	(28,850)	(31,383)
Amounts appropriated for expenditure	<u>(584,381)</u>	<u>(246,680)</u>	<u>(831,061)</u>
Endowment funds, June 30, 2021	-	4,888,722	4,888,722
Contributions	1,237,719	-	1,237,719
Interest and dividends	40,356	295,164	335,520
Realized losses	(2,443)	(17,838)	(20,281)
Unrealized losses	(118,407)	(866,225)	(984,632)
Investment fees	(4,214)	(31,967)	(36,181)
Amounts appropriated for expenditure	<u>(22,769)</u>	<u>(166,232)</u>	<u>(189,001)</u>
Endowment funds, June 30, 2022	<u>\$ 1,130,242</u>	<u>\$ 4,101,624</u>	<u>\$ 5,231,866</u>

Donor restricted endowment funds include \$5,785 that is included in promises to give at both June 30, 2022 and 2021. Board designated endowment funds include \$350,000 that is included in cash at June 30, 2022. All other endowment funds are included in investments as of June 30, 2022 and 2021.

BALLET ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended June 30, 2022 and 2021

NOTE 9 ENDOWMENT FUNDS (Continued)

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. On June 30, 2022, certain endowment funds had fair values less than the original gift values resulting in deficiencies. 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 Ballet's policy to continue to apply the spending policy to underwater endowment funds.

The original gift amounts, fair values and deficiency (underwater) amounts as of June 30, 2022, were as follows:

	<u>Original Gift Value</u>	<u>Deficiency</u>	<u>Fair Value</u>
Hazel Hare	\$ 4,109,039	\$ (130,659)	\$ 3,978,380
William R. Hearst Foundation	101,399	(3,601)	97,798
Margaret T. Morris Foundation	15,000	(487)	14,513
Susan Bansak (via Dorrance Foundation)	10,000	(325)	9,675
Constance Stine & Doug Ball	1,000	(161)	839
Greene Family	500	(81)	419
	<u>\$ 4,236,938</u>	<u>\$ (135,314)</u>	<u>\$ 4,101,624</u>

BALLET ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended June 30, 2022 and 2021

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
<u>Purpose Restricted:</u>		
Performances	\$ 349,634	\$ 550,000
Assistive hearing	22,338	-
Marketing and development	12,000	235,420
Other	15,650	5,600
	<u>399,622</u>	<u>791,020</u>
<u>Time and Purpose Restricted:</u>		
Future performances	450,000	450,000
Scholarships	95,000	100,000
	<u>545,000</u>	<u>550,000</u>
<u>Time Restricted:</u>		
Promises to give, net of discount and allowance	513,735	280,205
<u>Endowment Funds:</u>		
Portion of perpetual endowment funds that are required to be permanently retained	4,236,938	4,236,938
Portion of perpetual endowment funds subject to a restriction under MCFA	(135,314)	651,784
	<u>4,101,624</u>	<u>4,888,722</u>
Total net assets with donor restrictions	<u>\$ 5,559,981</u>	<u>\$ 6,509,947</u>

BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

NOTE 11 NET ASSETS RELEASED FROM RESTRICTION

Donor restricted net assets released from restriction during the years ended June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
<u>Purpose Restricted:</u>		
Performances	\$ 946,020	\$ 83,281
Education and community engagement	299,600	315,350
Marketing	223,420	71,100
Gala underwriting	143,000	-
Board leadership and sustainability	-	104,630
Other	1,600	20,000
Amounts appropriated for expenditure from donor restricted endowment funds	<u>166,232</u>	<u>246,680</u>
	<u>1,779,872</u>	<u>841,041</u>
<u>Time and Purpose Restricted:</u>		
Scholarships	<u>10,500</u>	<u>-</u>
<u>Time Restricted:</u>		
Future operations	-	324,150
Promises to give	<u>400,134</u>	<u>36,240</u>
	<u>400,134</u>	<u>360,390</u>
Total net assets with donor restriction releases	<u>\$ 2,190,506</u>	<u>\$ 1,201,431</u>

BALLET ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended June 30, 2022 and 2021

NOTE 12 BOARD DESIGNATED NET ASSETS

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

	2022	2021
Endowment fund	\$ 1,130,242	\$ -
Operating reserve	656,000	-
Strategic initiative	898,000	-
Employee investment reserve	950,000	-
	\$ 3,634,242	\$ -

NOTE 13 GOVERNMENT GRANTS

Paycheck Protection Program:

During the year ended June 30, 2021, the Ballet received proceeds in the amount of \$749,861 under the Paycheck Protection Program (PPP) through the U.S. Small Business Administration. The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, provided funding to qualifying businesses for amounts up to 2.5 times the average monthly payroll costs incurred during the year prior to the loan date of the qualifying business. The total amount and accrued interest were forgivable after 24 weeks as long as the Ballet uses the proceeds for eligible purposes, including payroll costs, interest on mortgage obligations, rent and utilities. The amount of the forgiveness will be reduced if the Ballet reduces the number of employees or reduces salaries by more than 25% during the 24-week period beginning on the loan origination date. The Ballet determined that the proceeds represented a conditional contribution as full forgiveness was anticipated for the amount received. Conditions to be met for recognition of this contribution included the incurring of eligible expenses as well as maintaining the full-time equivalent employee count.

During the year ending June 30, 2021, the Ballet received forgiveness for the remaining \$97,695 from the first draw of PPP funding which was recognized as contribution income. As of June 30, 2021 the Ballet had met these conditions for the second draw of PPP funding and had recorded contribution income in the amount of \$749,861 and during the year ended June 30, 2022, the Ballet received full forgiveness from the lender.

BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

NOTE 13 GOVERNMENT GRANTS (Continued)

Employee Retention Tax Credit:

On March 27, 2020, in response to the COVID-19 pandemic, the U.S. Congress enacted the Coronavirus Aid, Relief and Economic Security Act, which among other things, contains an employee retention tax credit (“ERTC”). On December 27, 2020, the Consolidated Appropriations Act, 2021 was signed into law, which among other things, provides the retroactive ability for entities that received PPP loans to also obtain the ERTC. The ERTC allows, based on certain eligibility rules, for a credit against certain payroll taxes based on a percentage of wages paid to each employee commencing on March 13, 2020, and through September 30, 2021, to be paid by the Internal Revenue Service (“IRS”).

Eligibility and the amount of the credit is determined on a quarter-by-quarter basis throughout 2020 and through the third quarter of 2021 based on various factors including, the number of full-time employees employed during 2019, whether there was a partial or full shutdown of the business due to government orders and/or whether a certain percentage decline of gross receipts occurred during each quarter in 2020 or 2021 versus the same quarter in 2019. The Ballet has determined that it has qualified for the credit for certain quarters in the available time period. As a result, the Ballet has recognized this wage credit in the amount of \$543,210 during the year ended June 30, 2022, as Employee Retention Tax Credit income on the accompanying statement of activities. This income was determined to meet the definition of a conditional contribution where the income is recognized when the conditions are substantially met. This amount was included in accounts receivable on the accompanying statement of financial position as of June 30, 2022. The Ballet is subject to possible audit or investigation by the IRS to determine whether the tax credit amounts were used for allowable purposes and whether the Ballet met the eligibility requirements relating to decreased revenue.

Shuttered Venue Operators Grant:

The Shuttered Venue Operators Grant (“SVOG”) program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act. The U.S. Small Business Administration provides SVOG funding for emergency assistance for eligible performing arts businesses affected by COVID-19. Eligible entities include live venue operators, live performing arts organization operators, museum operators, and others. SVOG funds may be used for certain expenses including payroll costs, rent payments, utility payments, and other ordinary and necessary business expenses. This income was determined to meet the definition of a conditional contribution where the income is recognized when the conditions are substantially met which is as eligible costs are incurred. The SVOG income recognized during the year ended June 30, 2022, was \$2,454,473, which was the full amount received. The Ballet will be subject to SBA’s monitoring program to determine whether award funds were used for eligible and allowable purposes.

BALLET ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended June 30, 2022 and 2021

NOTE 14 IN-KIND CONTRIBUTIONS

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

	<u>2022</u>	<u>2021</u>
Production services	\$ 142,297	\$ 24,645
Other	6,609	6,525
	<u>          </u>	<u>          </u>
Total in-kind expenses	<u>\$ 148,906</u>	<u>\$ 31,170</u>

Production services has been valued based on the current market rate for production services provided by the production companies operating in the greater Phoenix metropolitan area. These amounts were used in the production program and there was no restriction related to these donated services.

NOTE 15 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, 2022 and 2021, 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, 2022 and 2021.

In addition, the Ballet leases storage space and office equipment under various operating lease agreements requiring monthly lease payments of approximately \$5,000 expiring through April 2026. The Ballet is responsible for certain monthly operating and maintenance expenses.



BALLET ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2022 and 2021

NOTE 15 LEASE COMMITMENTS (Continued)

Approximate minimum future rental payments under these non-cancelable operating leases are as follows at June 30, 2022:

<u>Years Ending June 30,</u>	
2023	\$ 25,600
2024	23,100
2025	22,900
2026	<u>18,000</u>
	<u>\$ 89,600</u>

Total rent expense was approximately \$63,000 and \$53,000 for the years ended June 30, 2022 and 2021, respectively.

NOTE 16 NEW ACCOUNTING PRONOUNCEMENT

The Financial Accounting Standards Board (FASB) 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, 2021. 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.

BALLET ARIZONA  
UNIFORM GUIDANCE SUPPLEMENTARY REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS

To the Board of Directors  
Ballet Arizona  
Phoenix, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ballet Arizona (a nonprofit organization) which comprise the statement of financial position as of June 30, 2022 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Ballet Arizona's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ballet Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Ballet Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Henry + Horne, LLP

Tempe, Arizona  
November 21, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE

To the Board of Directors  
Ballet Arizona  
Phoenix, Arizona

**Report on Compliance for Each Major Federal Program**

*Opinion on Each Major Federal Program*

We have audited Ballet Arizona's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Ballet Arizona's major federal programs for the year ended June 30, 2022. Ballet Arizona's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Ballet Arizona complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

*Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Ballet Arizona and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Ballet Arizona's compliance with the compliance requirements referred to above.

### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Ballet Arizona's federal programs.

### *Auditors' Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Ballet Arizona's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Ballet Arizona's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Ballet Arizona's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Ballet Arizona's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Ballet Arizona's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Henry + Horne, LLP

Tempe, Arizona  
November 21, 2022

BALLET ARIZONA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended June 30, 2022

<u>Federal Grantor / Pass-Through Grantor / Program</u>	<u>Federal Assistance Listing Number</u>	<u>Grantor's Number</u>	<u>Federal Expenditures</u>
<b>U.S. SMALL BUSINESS ADMINISTRATION</b>			
COVID-19 Shuttered Venue Operators Grant Program	59.075	SBAHQ21SV006482.2	<u>\$ 2,454,473 *</u>
Total U.S. Small Business Administration			<u>2,454,473</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 2,454,473</u></u>

See accompanying notes.



BALLET ARIZONA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2022

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Ballet Arizona under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule of Expenditures of Federal Awards presents only a portion of the operations of Ballet Arizona, it is not intended to and does not present the financial position, changes in net position, or cash flows of the organization.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B) Ballet Arizona has not elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

BALLET ARIZONA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2022

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?                           yes   X   no
- Significant deficiency(ies) identified that are not  
 considered to be a material weakness(es)?                   yes   X   no

Noncompliance material to financial statements noted?           yes   X   none reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?                           yes   X   no
- Significant deficiency(ies) identified that are  
 not considered to be a material weakness(es)?                   yes   X   none reported

Type of auditors’ report issued on compliance for major  
 program listed below:

Unmodified

Any audit findings disclosed that are required to be reported  
 in accordance with the Uniform Guidance?                   yes   X   no

Identification of major program:

Assistance

Listing Numbers	Name of Federal Program or Cluster
-----------------	------------------------------------

59.075	COVID-19 Shuttered Venue Operators Grant Program
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Dollar threshold used to distinguish between Type A and  
 Type B programs:

\$750,000

Auditee qualified as low risk auditee?                           yes   X   no

BALLET ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended June 30, 2022

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

None Noted

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None Noted