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BALLET ARIZONA

IB ANDERSEN ARTISTIC DIRECTOR

Financial Statements

June 30, 2023 and 2022

Independent Auditors' Report

To the Board of Directors of
Ballet Arizona

Opinion

We have audited the accompanying financial statements of Ballet Arizona (the Organization), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, 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 (GAAS). 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 the Organization 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.

Emphasis of Matter

As described in Note 1 to the financial statements, on July 1, 2022, the Organization adopted Accounting Standards Codification Topic 842 as required by Accounting Standards Update No. 2016-02, *Leases* (Topic 842), and its related amendments. Our opinion is not modified with respect to this matter.

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 the Organization'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 auditors' 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 GAAS 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 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 GAAS, 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 the Organization’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 the Organization’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.

Baker Tilly US, LLP

Tempe, Arizona
December 8, 2023

Ballet Arizona

Statements of Financial Position
June 30, 2023 and 2022

	2023	2022 *
Assets		
Current Assets		
Cash and cash equivalents	$ 3,969,752	$ 6,375,311
Accounts receivable	110,057	17,438
Promises to give, current portion	669,894	381,340
Employee Retention Tax Credit receivable	265,352	543,210
Prepaid expenses	138,652	92,643
Other current assets	19,156	32,954
Total current assets	5,172,863	7,442,896
Assets Restricted for Long-Term Purposes		
Cash designated for board designated endowment	-	350,000
Promise to give for board designated endowment	26,000	-
Promise to give for donor restricted endowment	2,100,000	5,785
	2,126,000	355,785
Promises to Give, Net of Current Portion		
Discount of $3,148 and $14,190, respectively; and allowance of $10,000 and $10,000, respectively	196,852	426,609
Investments		
Operating	184,200	-
Donor restricted endowment	4,769,642	4,095,839
Board designated endowment	1,219,750	780,242
Board designated reserves	2,697,162	-
	8,870,754	4,876,081
Operating Lease Right-of-Use Assets	97,439	-
Property and Equipment, Net	2,871,662	3,034,329
Total assets	$ 19,335,570	$ 16,135,700

* Reclassified to conform to current year presentation

Ballet Arizona

Statements of Financial Position
June 30, 2023 and 2022

		2023		2022 *
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	$	410,577	$	482,524
Advance ticket sales		297,258		306,955
Deferred tuition revenue		159,663		158,565
Current portion of operating lease liabilities		54,883		-
Total current liabilities		922,381		948,044
Operating Lease Liabilities, Net of Current		43,150		-
Total liabilities		965,531		948,044
Net Assets				
Without donor restrictions:				
Board designated		3,942,912		3,634,242
Undesignated		5,816,515		5,993,434
		9,759,427		9,627,676
With donor restrictions		8,610,612		5,559,980
Total net assets		18,370,039		15,187,656
Total liabilities and net assets	$	19,335,570	$	16,135,700

* Reclassified to conform to current year presentation

Ballet Arizona

Statements of Activities
Years Ended June 30, 2023 and 2022

	2023			2022 *		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Earned Revenues						
Ticket sales	$ 3,691,513	$ -	$ 3,691,513	$ 2,854,590	$ -	$ 2,854,590
Ticket handling fees	454,384	-	454,384	405,402	-	405,402
Ballet school tuition	1,269,483	-	1,269,483	1,106,142	-	1,106,142
Contributions	970,555	4,392,601	5,363,156	3,990,432	1,861,405	5,851,837
Government grants	1,019,323	-	1,019,323	336,975	-	336,975
Shuttered Venue Operators grant	-	-	-	2,454,473	-	2,454,473
Employee Retention Tax Credit	26,076	-	26,076	543,210	-	543,210
Special event contributions	282,037	-	282,037	194,126	-	194,126
In-kind contributions	165,294	-	165,294	148,906	-	148,906
Investment return	208,424	407,100	615,524	(83,179)	(620,866)	(704,045)
Other revenue	102,141	-	102,141	47,137	-	47,137
Net assets released from restrictions	1,749,069	(1,749,069)	-	2,190,506	(2,190,506)	-
	9,938,299	3,050,632	12,988,931	14,188,720	(949,967)	13,238,753
Retail Sales						
Boutique sales	147,130	-	147,130	132,158	-	132,158
Boutique cost of sales	(86,456)	-	(86,456)	(68,049)	-	(68,049)
	60,674	-	60,674	64,109	-	64,109
Special Events						
Special events revenue	246,600	-	246,600	245,400	-	245,400
Direct benefit to donors	(156,473)	-	(156,473)	(111,578)	-	(111,578)
	90,127	-	90,127	133,822	-	133,822
Total support and earned revenues	10,089,100	3,050,632	13,139,732	14,386,651	(949,967)	13,436,684
Operating Expenses						
Program services	6,746,664	-	6,746,664	6,152,626	-	6,152,626
Supporting services:						
Management and general	2,601,461	-	2,601,461	2,317,852	-	2,317,852
Fundraising	609,225	-	609,225	618,607	-	618,607
Total operation expenses	9,957,349	-	9,957,349	9,089,085	-	9,089,085
Change in net assets	131,751	3,050,632	3,182,383	5,297,566	(949,967)	4,347,599
Net Assets, Beginning	9,627,676	5,559,980	15,187,656	4,330,110	6,509,947	10,840,057
Net Assets, Ending	$ 9,759,427	$ 8,610,612	$ 18,370,039	$ 9,627,676	$ 5,559,980	$ 15,187,656

* Reclassified to conform to current year presentation

See notes to financial statements

Ballet Arizona

Statement of Functional Expenses

Year Ended June 30, 2023

	Production	School	Education and Community Engagement	Total Program	Supporting Services: Management and General	Supporting Services: Fundraising	Direct Donor Benefit	Total
Personnel Costs								
Salaries and wages	$ 2,155,009	$ 669,857	$ 89,864	$ 2,914,730	$ 552,040	$ 256,883	$ -	$ 3,723,653
Employee benefits and payroll taxes	545,799	189,328	23,022	758,149	422,960	64,789	-	1,245,898
Total personnel costs	2,700,808	859,185	112,886	3,672,879	975,000	321,672	-	4,969,551
				-				
Production costs	2,103,851	59,862	2,367	2,166,080	64,620	1,244	-	2,231,944
Marketing and advertising	-	68,211	4,364	72,575	622,976	7,241	-	702,792
Occupancy	172,534	75,724	8,617	256,875	23,314	13,739	24,707	318,635
Computers and software	40,586	34,888	1,392	76,866	36,617	50,006	-	163,489
Professional fees	6,750	12,000	17,873	36,623	512,710	52,017	-	601,350
Publications	17,601	5,612	4,501	27,714	111,134	47,072	-	185,920
Bank and credit card fees	3,474	20,533	-	24,008	181,532	7,629	-	213,169
Bad debt expense	-	-	-	-	8,079	-	-	8,079
Licenses and subscriptions	2,712	1,424	-	4,135	12,818	2,196	-	19,149
Transportation	72,934	10,761	925	84,620	15,789	6,171	-	106,580
Cost of goods sold	68,753	17,703	-	86,456	-	-	-	86,456
Supplies	1,446	772	1,764	3,982	15,070	983	11,854	31,889
Insurance	35,571	15,191	1,070	51,832	2,407	1,152	-	55,391
Other	2,334	36	236	2,606	7,048	90,969	119,912	220,535
Depreciation	182,459	77,922	5,487	265,868	12,347	7,134	-	285,349
Total operating expenses	5,411,813	1,259,824	161,482	6,833,119	2,601,461	609,225	156,473	10,200,278
Amounts Reported in Total Support and Other Revenue on the Statement of Activities								
Cost of goods sold	(68,753)	(17,703)	-	(86,456)	-	-	-	(86,456)
Direct benefit to donors	-	-	-	-	-	-	(156,473)	(156,473)
Total expenses	$ 5,343,060	$ 1,242,121	$ 161,482	$ 6,746,664	$ 2,601,461	$ 609,225	$ -	$ 9,957,349

See notes to financial statements

Ballet Arizona

Statement of Functional Expenses

Year Ended June 30, 2022

	Production	School	Education and Community Engagement	Total Program	Supporting Services: Management and General	Supporting Services: Fundraising	Direct Donor Benefit	Total
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
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 notes to financial statements

Ballet Arizona

Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Change in net assets	$ 3,182,383	$ 4,347,599
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	285,349	315,738
Amortization of operating leases right-of-use assets	50,193	-
Realized and unrealized (gain) loss on investments	(242,738)	1,004,911
Donated investments	(184,177)	-
Provision for uncollectible promises to give	8,079	10,215
Change in discount on promises to give	(11,042)	3,361
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(92,619)	-
Promises to give	(2,181,834)	2,895
Employee Retention Tax Credit receivable	277,858	(543,210)
Other current assets	(32,211)	(43,865)
Increase (decrease) in:		
Accounts payable and accrued expenses	(71,947)	56,845
Advance ticket sales	(9,697)	217,333
Deferred tuition revenue	1,098	48,602
Operating lease liabilities	(49,599)	-
Net cash provided by operating activities	929,096	5,420,424
Cash Flows From Investing Activities		
Purchases of property and equipment	(122,682)	(41,811)
Purchases of investments	(5,749,758)	(624,336)
Proceeds from sales and maturities of investments	2,182,000	189,000
Net cash used in investing activities	(3,690,440)	(477,147)
Net change in cash	(2,761,344)	4,943,277
Cash and Cash Equivalents, Beginning	6,731,096	1,782,034
Cash and Cash Equivalents, Ending	$ 3,969,752	$ 6,725,311
Reconciliation to Statements of Financial Position		
Cash and cash equivalents, current	$ 3,969,752	$ 6,375,311
Cash and cash equivalents, long-term purposes	-	350,000
	$ 3,969,752	$ 6,725,311

See notes to financial statements

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

Unconditional promises to give 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.

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.

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.

Endowment Funds

The Ballet's endowments consist of ten 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.

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.

Accounts receivable include amounts due from students for instructional services provided during the year. Accounts receivable on the accompanying statements of financial position at June 30, 2023 and 2022 are $110,057 and $17,438, respectively. The balance of accounts receivable at June 30, 2021 is $8,968.

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.

In-Kind Contributions

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 $661,000 and $528,000 for the years ended June 30, 2023 and 2022, 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, employee investment reserve, strategic initiative, artistic 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.

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, 2023 and 2022 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, 2023 and 2022, 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 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.

Adoption of New Accounting Standard

Effective July 1, 2022, the Ballet adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach. The Ballet's 2022 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the non-cancelable lease term. At the date of adoption, the Ballet recorded operating lease right-of-use assets and lease liabilities of $147,632.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Ballet elected:

- The package of practical expedients permitted under the transition guidance which does not require the Ballet to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs;

- The practical expedient to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of the Ballet's right-of-use assets.

The new standard also provides for several accounting policy elections, as follows:

- The Ballet has elected the policy not to separate lease and non-lease components for all assets.

- When the rate implicit in the lease is not determinable, rather than use the Ballet's incremental borrowing rate, the Ballet elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all assets.

- The Ballet elected not to apply the recognition requirements to all leases with an original term of 12 months or less, for which the Ballet is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term.

Additional required disclosures for Topic 842 are contained in Note 15.

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 December 8, 2023, the date the financial statements were available to be issued.

2. Liquidity and Availability

The following reflects the Ballet's financial assets as of June 30, 2023 and 2022, 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.

	2023	2022
Current assets	$ 5,172,863	$ 7,442,896
Cash and cash equivalents subject to board designation	-	(2,504,000)
Inventory included in other current assets	(12,709)	(15,604)
Prepaid expenses	(138,652)	(92,643)
Endowment spending appropriation	189,000	189,000
Total	$ 5,210,502	$ 5,019,649

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.

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 80% of total net promises to give as of June 30, 2023. 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. Credit risks related to these concentrations are limited due to the Ballet's relationships with the donors.

4. Promises to Give

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

	2023	2022
Promises to give due in less than one year	$ 2,795,894	$ 387,125
Promises to give due in two to five years	210,000	450,799
Total promises to give	3,005,894	837,924
Discount to present value	(3,148)	(14,190)
Allowance for uncollectible promises to give	(10,000)	(10,000)
Net promises to give	2,992,746	813,734
Current portion	(2,795,894)	(387,125)
Noncurrent portion	$ 196,852	$ 426,609

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, 2023 and 2022.

Promises to give include approximately $7,000 and $331,000 at June 30, 2023 and 2022, respectively, from employees and members of the Board of Directors.

5. Property and Equipment

Property and equipment consisted of the following on June 30:

	2023	2022
Building and leasehold improvements	$ 3,965,034	$ 3,955,826
Production equipment	2,890,898	2,890,898
Office furniture and equipment	488,742	471,368
Website	96,100	-
	7,440,774	7,318,092
Accumulated depreciation	(4,569,112)	(4,283,763)
Total	$ 2,871,662	$ 3,034,329

Depreciation expense was $285,349 and $315,738 for the years ended June 30, 2023 and 2022, respectively.

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:

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and money market funds	$ 411,531	$ -	$ -	$ 411,531
Bond funds	1,564,190	-	-	1,564,190
Equity funds	3,900,311	-	-	3,900,311
Exchange Traded Funds	2,810,522	-	-	2,810,522
Total investments measured at fair value	$ 8,686,554	$ -	$ -	8,686,554
Investment measured at net asset value:				
Real Estate Finance Trust				184,200
Total investments				$ 8,870,754

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and money market funds	$ 20,071	$ -	$ -	$ 20,071
Bond funds	1,662,422	-	-	1,662,422
Equity funds	3,179,363	-	-	3,179,363
Total investments measured at fair value	$ 4,861,856	$ -	$ -	4,861,856
Investment measured at net asset value:				
Private LTD partnership				14,225
Total investments				$ 4,876,081

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 a real estate finance trust and private LTD partnerships as of June 30:

	2023			
	New Asset Value	**Unfunded Commitment**	**Redemption Frequency**	**Redemption Notice Period**
Real Estate Finance Trust	$ 184,200	$ -	Quarterly	30-day notice

	2022			
	New Asset Value	**Unfunded Commitment**	**Redemption Frequency**	**Redemption Notice Period**
Private LTD partnership	$ 14,225	$ -	n/a	30-day notice

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

	2023	**2022**
Interest and dividends	$ 407,633	$ 337,048
Realized loss	(25,372)	(20,281)
Unrealized gain (loss)	268,110	(984,630)
Investment fees	(34,847)	(36,182)
Total investment return	$ 615,524	$ (704,045)

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:

	Advance Ticket Sales	**Deferred Tuition Revenue**
Balance at June 30, 2021	$ 89,622	$ 109,963
Revenue recognized	(2,854,590)	(1,106,142)
Amounts received	3,071,923	1,154,744
Balance at June 30, 2022	306,955	158,565
Revenue recognized	(3,691,513)	(1,269,483)
Amounts received	3,681,816	1,270,581
Balance at June 30, 2023	$ 297,258	$ 159,663

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, 2023 and 2022.

9. Endowment Funds

The endowment net asset composition by type of fund as of June 30, 2023 and 2022, is as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	$ 1,245,750	$ -	$ 1,245,750
Donor-restricted endowment funds:			
Original donor-restricted amounts	-	6,748,366	6,748,366
Accumulated investment earnings	-	121,276	121,276
	$ 1,245,750	$ 6,869,642	$ 8,115,392

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
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	-	(135,314)	(135,314)
	$ 1,130,242	$ 4,101,624	$ 5,231,866

Changes in endowment funds for the years ended June 30, 2023 and 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
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	(22,769)	(166,232)	(189,001)
Endowment funds, June 30, 2022	1,130,242	4,101,624	5,231,866
Contributions	26,000	2,511,428	2,537,428
Interest and dividends	69,000	257,856	326,856
Realized losses	(4,225)	(21,147)	(25,372)
Unrealized gains	70,094	198,366	268,460
Investment fees	(6,871)	(27,975)	(34,846)
Amounts appropriated for expenditure	(38,490)	(150,510)	(189,000)
Endowment funds, June 30, 2023	$ 1,245,750	$ 6,869,642	$ 8,115,392

Donor restricted endowment funds include $2,100,000 and $5,785 that are included in promises to give at June 30, 2023 and 2022, respectively. Board designated endowment funds include $26,000 that is included in promises to give at June 30, 2023. 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, 2023 and 2022.

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:

	Original Gift Value	Deficiency	Fair Value
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
Total	$ 4,236,938	$ (135,314)	$ 4,101,624

10. Net Assets With Donor Restrictions

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

	2023	2022
Purpose restricted:		
Performances	$ 30,150	$ 293,319
Education and community development	678,250	-
Assistive hearing	-	22,338
Marketing and development	25,387	12,000
Other	6,350	15,650
	740,137	343,307
Time and purpose restricted:		
Performances	677,324	862,101
Scholarships	-	95,000
Other	1,311	-
	678,635	957,101
Time restricted:		
Promises to give, net of discount and allowance	322,198	157,948
Endowment funds:		
Portion of perpetual endowment funds that are required to be permanently retained	6,748,366	4,236,938
Portion of perpetual endowment funds subject to a restriction under MCFA	121,276	(135,314)
	6,869,642	4,101,624
Total net assets with donor restrictions	$ 8,610,612	$ 5,559,980

11. Net Assets Released From Restriction

Donor restricted net assets released from restriction during the years ended June 30, 2023 and 2022 consist of the following:

	2023	2022
Purpose restricted:		
Performances	$ 376,441	$ 946,000
Education and community engagement	62,310	299,600
Marketing	20,400	223,420
Gala	176,574	143,000
Assistive hearing	22,338	-
Other	41,775	1,600
Amounts appropriated for expenditure from donor restricted endowment funds	150,510	166,232
	850,348	1,779,852
Time and purpose restricted:		
Scholarships	95,000	10,500
Performances	673,585	-
Other	86,844	-
	855,429	10,500
Time restricted:		
Promises to give	43,292	400,134
Total net assets with donor restricted releases	$ 1,749,069	$ 2,190,486

12. Board Designated Net Assets

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

	2023	2022
Endowment fund	$ 1,245,750	$ 1,130,242
Operating reserve	668,146	656,000
Strategic initiative	922,565	898,000
Employee investment reserve	984,739	950,000
Artistic Reserve	121,712	-
	$ 3,942,912	$ 3,634,242

13. Government Grants

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 $26,076 and $543,210 during the years ended June 30, 2023 and 2022, as Employee Retention Tax Credit income on the accompanying statement of activities. This income was determined to meet the definitions of a conditional contribution where the income is recognized when the conditions are substantially met. As of June 30, 2023 and 2022, amounts of $265,352 and $543,210, respectively, are included in Employee Retention Tax Credit receivable on the accompanying statement of financial position. 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.

14. In-Kind Contributions

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

	2023	2022
Production services	$ 136,197	$ 142,297
Audio/visual services	25,000	-
Other	4,097	6,609
Total in-kind contributions	$ 165,294	$ 148,906

Production services are 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.

Audio/visual services and other are valued based on the current rates provided by the vendor operating in the greater Phoenix metropolitan area. These amounts were used in fundraising supporting services and there was no restriction related to these donated services.

15. Leasing Activities

The Ballet has an operating agreement with the City of Phoenix 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, 2023 and 2022, 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, 2023 and 2022.

In addition, the Ballet leases storage space and office equipment under operating lease agreements that expire at various dates through April 2026. The agreements require monthly payments ranging from approximately $113 to $2,800.

The Ballet also leases facilities, sets, costumes, equipment, and vehicles during the year for its performances, auditions, and summer intensive programs. These rentals are considered short-term leases and are recorded as lease expense on a straight-line basis over the lease term.

Right-of-use assets represent the Ballet’s right to use an underlying asset for the lease term, while lease liabilities represent the Ballet’s obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of the Ballet’s leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Ballet’s sole discretion. The Ballet regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Ballet includes such options in the lease term. Additionally, upon adoption of the new standard, the Ballet made judgments regarding lease terms for certain of its real property leases that contained auto-renewal clauses. The Ballet estimated a lease end date based on the required length of usage of the property and calculated a right-of-use asset and lease liability with the resulting estimated lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Ballet uses the rate implicit in the lease, or if not readily available, the Ballet uses a risk-free rate based on U.S. Treasury note or bond rates for a similar term.

Right-of-use assets are assessed for impairment in accordance with the Ballet’s long-lived asset policy. The Ballet reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Ballet made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Ballet:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Ballet obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights.

- Determined whether contracts contain embedded leases.

The Ballet does not have any material leasing transactions with any related parties.

The following table summarizes the operating lease right-of-use assets and operating lease liabilities as of June 30, 2023:

Operating lease right-of-use assets	$ 97,439
Operating lease liabilities:	
Current	$ 54,883
Long-term	43,150
Total operating lease liabilities	$ 98,033

Below is a summary of expense incurred pertaining to leases during the year ended June 30, 2023:

Operating lease expense	$ 53,699
Short-term lease expense	710,919
Total lease expense	$ 764,618

The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 2.90%. As of June 30, 2023, the weighted average remaining lease term was 2.17 years.

The table below summarizes the Ballet's approximate future minimum lease payments for years ending after June 30, 2023:

Years ending June 30:	
2024	$ 56,993
2025	25,875
2026	18,377
Total lease payments	101,245
Less present value discount	(3,212)
Total lease liabilities	98,033
Less current portion	(54,883)
Long-term lease liabilities	$ 43,150

The following table includes supplemental cash flow and noncash information related to the leases for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	53,105

The table below summarizes the Ballet's approximate future minimum lease payments for years ending after June 30, 2022:

Years ending June 30:		
2023	$	25,600
2024		23,100
2025		22,900
2026		18,000
Total	$	89,600

Total rental expense under these leases and month-to-month office leases was approximately $63,000 for the year ended June 30, 2022.