



Financial Statements

June 30, 2025

Ballet Arizona

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Independent Auditors' Report

To the Board of Directors of
Ballet Arizona

Opinion

We have audited the financial statements of Ballet Arizona (the Ballet), which comprise the statement of

financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year 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 Ballet as of June 30, 2025, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Ballet 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 the Ballet'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 Ballet'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 Ballet'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.

POPE WALLER, PLLC

Tempe, Arizona
December 5, 2025

Ballet Arizona

Statement of Financial Position

Year ended June 30, 2025

Assets

Current Assets

Cash and cash equivalents	\$ 1,148,659
Accounts receivable	133,849
Promises to give, current portion	1,240,923
Tax credits receivable	387,897
Prepaid expenses	220,135
Other current assets	<u>41,095</u>

Total current assets	<u>3,172,558</u>
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Assets Restricted for Long-Term Purposes

Promise to give for donor restricted endowment	165,029
Promise to give for board designated endowment	<u>-</u>
	<u>165,029</u>

Promises to Give, Net of Current Portion

Discount of \$47,619 and allowance of \$10,000	<u>942,381</u>
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Investments

Operating	134,847
Donor restricted endowment	9,522,601
Board designated endowment	1,857,261
Board designated reserves	<u>2,344,154</u>
	<u>13,858,863</u>

Operating Lease Right-of-Use Assets	<u>88,888</u>
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Property and Equipment, Net	<u>3,139,983</u>
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Total assets	<u><u>\$ 21,367,702</u></u>
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See notes to financial statements

Ballet Arizona

Statement of Financial Position

Year ended June 30, 2025

Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued expenses	\$ 358,136
Advance ticket sales	309,692
Deferred tuition revenue	166,596
Current portion of operating lease liabilities	41,962
Other current liability	6,000

Total current liabilities 882,386

Operating Lease Liabilities, Net of Current

46,926

Total liabilities 929,312

Net Assets

Without donor restrictions:

Board designated	4,201,415
Undesignated	4,555,181

8,756,596

With donor restrictions 11,681,794

Total net assets 20,438,390

Total liabilities and net assets \$ 21,367,702

See notes to financial statements

Ballet Arizona

Statement of Activities

Year Ended June 30, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Earned Revenues			
Ticket sales	\$ 4,662,954	\$ -	\$ 4,662,954
Ticket handling fees	553,258	-	553,258
Ballet school tuition	1,222,297	-	1,222,297
Government grants	10,120	-	10,120
Contributions	1,349,382	4,127,332	5,476,714
Special event contributions	55,062	-	55,062
In-kind contributions	51,097	-	51,097
Other revenue	126,393	-	126,393
Net assets released from restrictions	2,655,725	(2,655,725)	-
	<u>10,686,288</u>	<u>1,471,607</u>	<u>12,157,895</u>
Retail Sales			
Boutique sales	210,449	-	210,449
Boutique cost of sales	(99,593)	-	(99,593)
	<u>110,856</u>	<u>-</u>	<u>110,856</u>
Special Events			
Special events revenue	270,275	-	270,275
Direct benefit to donors	(159,259)	-	(159,259)
	<u>111,016</u>	<u>-</u>	<u>111,016</u>
Total support and earned revenues	<u>10,908,160</u>	<u>1,471,607</u>	<u>12,379,767</u>
Operating Expenses			
Program services	8,306,827	-	8,306,827
Supporting services:			
Management and general	2,663,358	-	2,663,358
Fundraising	819,634	-	819,634
Total operating expenses	<u>11,789,819</u>	<u>-</u>	<u>11,789,819</u>
Change in net assets from operating activities	(881,659)	1,471,607	589,948
Investment return	<u>1,179,609</u>	<u>471,397</u>	<u>1,651,006</u>
Change in net assets	297,950	1,943,004	2,240,954
Net Assets, Beginning	<u>8,458,646</u>	<u>9,738,790</u>	<u>18,197,436</u>
Net Assets, Ending	<u>\$ 8,756,596</u>	<u>\$ 11,681,794</u>	<u>\$ 20,438,390</u>

See notes to financial statements

Ballet Arizona

Statement of Functional Expenses

Year Ended June 30, 2025

			Education and Community Engagement	Total Program	Supporting Services Management and General	Fundraising	Direct Donor Benefit	Total
	Production	School						
Personnel Costs								
Salaries and wages	\$ 2,599,162	\$ 763,604	\$ 175,564	\$ 3,538,330	\$ 673,527	\$ 362,983	\$ -	\$ 4,574,840
Employee benefits and payroll taxes	714,431	229,799	50,663	994,893	308,445	88,501	-	1,391,839
Total personnel costs	3,313,593	993,403	226,227	4,533,223	981,972	451,484	-	5,966,679
Production costs	1,787,497	38,288	117,254	1,943,039	115,708	374	-	2,059,121
Marketing and advertising	231	88,440	4,676	93,347	584,514	105,070	-	782,931
Occupancy	399,710	150,221	13,042	562,973	19,863	11,697	60,601	655,134
Computers and software	70,728	41,081	4,646	116,455	32,344	57,983	-	206,782
Professional fees	-	39,100	2,750	41,850	472,607	53,750	-	568,207
Publications	27,784	3,281	457	31,522	90,645	41,799	-	163,966
Bank and credit card fees	4,391	21,204	127	25,722	192,810	9,506	-	228,038
Bad debt expense	-	-	-	-	23,659	-	-	23,659
Licenses and subscriptions	24,844	6,053	476	31,373	41,497	4,968	-	77,838
Transportation	120,091	33,637	25,042	178,770	29,936	455	-	209,161
Supplies	360,488	13,615	6,727	380,830	16,046	1,528	29,217	427,621
Insurance	32,201	13,752	968	46,921	2,179	1,259	-	50,359
Cost of goods sold	87,037	11,410	-	98,447	1,146	-	-	99,593
Other	26,625	5,259	17,757	49,641	46,985	72,485	69,442	238,553
Depreciation	186,091	79,473	5,597	271,161	12,593	7,276	-	291,030
Total operating expenses	6,441,311	1,538,217	425,746	8,405,274	2,664,504	819,634	159,260	12,048,672
Amounts Reported in Total Support and Other Revenue on the Statement of Activities								
Cost of goods sold	(87,037)	(11,410)	-	(98,447)	(1,146)	-	-	(99,593)
Direct benefit to donors	-	-	-	-	-	-	(159,260)	(159,260)
Total expenses	<u>\$ 6,354,274</u>	<u>\$ 1,526,807</u>	<u>\$ 425,746</u>	<u>\$ 8,306,827</u>	<u>\$ 2,663,358</u>	<u>\$ 819,634</u>	<u>\$ -</u>	<u>\$ 11,789,819</u>

See notes to financial statements

Ballet Arizona

Statement of Cash Flows
Year Ended June 30, 2025

Cash Flows From Operating Activities

Change in net assets	\$ 2,240,954
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	291,030
Amortization of operating leases right-of-use assets	73,244
Realized and unrealized gain on investments	(565,817)
Donated investments	-
Provision for uncollectible promises to give	23,659
Change in discount on promises to give	35,126
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(25,070)
Promises to give	(931,186)
Employee Retention Tax Credit receivable	(122,545)
Prepaid expenses and other current assets	(144,548)
Increase (decrease) in:	
Accounts payable and accrued expenses	(84,083)
Advance ticket sales	(45,565)
Deferred tuition revenue	(26,454)
Operating lease liabilities	(73,244)
Other liabilities	6,000
Net cash provided by operating activities	<u>651,501</u>

Cash Flows From Investing Activities

Purchases of property and equipment	(499,478)
Purchases of investments	(2,430,826)
Proceeds from sales and maturities of investments	<u>1,021,056</u>
Net cash used in investing activities	<u>(1,909,248)</u>
Net change in cash	(1,257,747)

Cash and Cash Equivalents, Beginning

2,406,406

Cash and Cash Equivalents, Ending

\$ 1,148,659

See notes to financial statements

Ballet Arizona

Notes to Financial Statements

June 30, 2025

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.

Accounts Receivable

Accounts receivable consist primarily of amounts due from students for instructional services and are carried at their outstanding balance net of an allowance for credit losses. The Ballet recognizes an allowance for credit losses for trade receivables to present the net amount expected to be collected as of the statement of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and also future events based on our expectation as of the statement of financial position date. Receivables are written off when the Ballet determined that such receivables are deemed uncollectible. The Ballet pools its receivables based on similar risk characteristics in estimating its expected credit losses. In situations where a receivable does not share the same risk characteristics with other receivables, the Ballet measures those receivables individually. The Ballet also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change.

The Ballet utilizes the loss rate method in determining its lifetime expected credit losses on its receivables. This method is used for calculating an estimate of losses based primarily on the Ballet's historical loss experience. In determining its loss rates, the Ballet evaluates information related to its historical losses, adjusted for current conditions and further adjusted for the period of time that can be reasonably forecasted. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all the following: past due receivables, customer creditworthiness, changes in terms of receivables, effect of other external forces such as competition, and legal and regulatory requirements on the level of estimated credit losses in existing receivables. For trade receivables that are not expected to be collected within the normal business cycle, the Ballet considers current and forecasted direction of the economic and business environment. Such forecasted information includes: GDP Growth, unemployment rates and interest rates amongst others. Management has not recorded an allowance for credit losses as of June 30, 2025.

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. 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. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Ballet received conditional promises to give totaling \$100,000 for the year ended June 30, 2025 for future operating expenses of the Ballet.

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.

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.

Leasing Activities

The Ballet recognizes the assets and liabilities that arise from leases on the statements 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. Right-of-use assets and lease liabilities are recognized at the date of commencement of the lease. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the noncancelable lease term. The Ballet does not separate lease and nonlease components for all asset classes when determining the measurement of the right-of-use assets and lease liabilities. When the rate implicit in the lease is not determinable, rather than use the Ballet's incremental borrowing rate, the Ballet uses a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes. In addition, the Ballet does not apply the recognition requirements to any 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 are recorded on a straight-line basis over the lease term.

Leasing Activities (Continued)

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

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.

Endowment Funds

The Ballet's endowments consist of fifteen 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 appropriation of 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.

Ballet Arizona

Notes to Financial Statements
June 30, 2025

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, and sales of merchandise. 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 are recorded in the period the sale of goods takes place, and revenue is reported net of sales tax.

Accounts receivable includes amounts due from students for instructional services provided during the year. Accounts receivable on the accompanying statements of financial position at June 30, 2025 are \$133,849. The balance of accounts receivable at June 30, 2024 was \$108,779.

Deferred revenue includes proceeds from advance ticket sales and event revenues received prior to the fiscal year in which the performance or event occurs. Advance ticket sales at June 30, 2025 and 2024 was \$309,692 and \$355,257, respectively. Tuition revenue received in advance of the educational instruction services being performed is recorded as deferred tuition revenue. Deferred ticket revenue at June 30, 2025 and 2024 was \$166,596 and \$193,050, respectively.

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 statements of activities as net assets released from restrictions.

In-Kind Contributions

Contributions of non-monetary assets (in-kind contributions) are recorded at their fair value 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 they were not susceptible to objective measurement.

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 \$668,000 for the year ended June 30, 2025.

Measure of Operations

The Ballet's measure of operations is its changes in net assets from operating activities excluding investment return.

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, publications, computers and software 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.

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 released from restrictions when the assets are placed in service. Other 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, 2025 the Ballet had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Ballet recognizes interest and penalties associated with income taxes in operating expenses. During the year ended June 30, 2025, 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.

Ballet Arizona

Notes to Financial Statements
June 30, 2025

Date of Management's Review

In preparing these financial statements, the Ballet has evaluated events and transactions for potential recognition or disclosure through December 5, 2025, 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, 2025, 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.

Current assets	\$ 3,172,558
Inventory included in other current assets	(38,745)
Prepaid expenses	(220,135)
Endowment spending appropriation	<u>333,000</u>
	<u>\$ 3,246,678</u>

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 the 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 concentrations 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 one donor whose outstanding balances represented approximately 92% of total net promises to give as of June 30, 2025. Credit risks related to these concentrations are limited due to the Ballet's relationships with the donor.

Ballet Arizona

Notes to Financial Statements
June 30, 2025

4. Promises to Give

Promises to give consist of the following as of June 30, 2025:

Promises to give due in less than one year	\$ 1,405,952
Promises to give due in two to five years	<u>1,000,000</u>
Total promises to give	2,405,952
Discount to present value	(47,619)
Allowance for uncollectible promises to give	<u>(10,000)</u>
Net promises to give	2,348,333
Current portion	<u>(1,405,952)</u>
Non-current portion	<u>\$ 942,381</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 year ended June 30, 2025. Promises to give include approximately \$44,800 at June 30, 2025, from employees and members of the Board of Directors.

5. Property and Equipment

Property and equipment consisted of the following on June 30, 2025:

Building and leasehold improvements	\$ 4,426,578
Production equipment	3,203,297
Office furniture and equipment	524,360
Website	<u>107,100</u>
	8,261,335
Accumulated depreciation	<u>(5,121,352)</u>
	3,139,983
Construction-in-progress	<u>-</u>
	<u>\$ 3,139,983</u>

Depreciation expense was \$261,029 for the year ended June 30, 2025.

Ballet Arizona

Notes to Financial Statements
June 30, 2025

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 the real estate finance trust 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, 2025:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash and money market funds	\$ 92,073	\$ -	\$ -	\$ 92,073
Mutual Funds	9,370,960			9,370,960
Exchange Traded Funds	3,724,401	-	-	3,724,401
Total investments measured at fair value	<u>\$ 13,187,434</u>	<u>\$ -</u>	<u>\$ -</u>	13,187,434
Investment measured at net asset value:				
Alternative Investment Fund				536,581
Real Estate Finance Trust				<u>134,848</u>
Total investments				<u>\$ 13,858,863</u>

In accordance with the 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 an alternative investment fund and real estate finance trust as of June 30, 2025:

	Net Asset Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative Investment Fund	\$ 536,581	\$ -	Monthly	N/A
Real Estate Finance Trust	134,848	-	Quarterly	30 day notice

Investment return is summarized as follows for the year ended June 30, 2025:

Interest and dividends	\$ 1,126,969
Unrealized gain/(loss)	579,075
Investment fees	<u>(55,038)</u>
Total investment income	<u>\$ 1,651,006</u>

Ballet Arizona

Notes to Financial Statements
June 30, 2025

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, 2024	\$ 355,257	\$ 193,050
Revenue recognized	(4,631,398)	(1,222,297)
Amounts received	<u>4,585,833</u>	<u>1,195,843</u>
Balance at June 30, 2025	<u>\$ 309,692</u>	<u>\$ 166,596</u>

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 1.75% 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 2028. The balance outstanding under the line is callable by the financial institution at any time. There was no outstanding balance as of June 30, 2025.

9. Endowment Funds

The endowment net asset composition by type of fund as of June 30, 2025, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 1,857,261	\$ -	\$ 1,857,261
Donor-restricted endowment funds:			
Original donor-restricted amounts	-	7,965,500	7,965,500
Accumulated investment earnings	-	<u>1,722,130</u>	<u>1,722,130</u>
	<u>\$ 1,857,261</u>	<u>\$ 9,687,630</u>	<u>\$ 11,544,891</u>

Ballet Arizona

Notes to Financial Statements

June 30, 2025

9. Endowment Funds (Continued)

Changes in endowment funds for the year ended June 30, 2025 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Endowment funds, June 30, 2024	\$ 1,645,608	\$ 8,615,737	\$ 10,261,345
Contributions	32,500	188,906	221,406
Interest and dividends	145,919	674,117	820,036
Unrealized gains	94,099	518,044	612,143
Investment fees	(9,442)	(45,597)	(55,039)
Amounts appropriated for expenditure	(51,423)	(263,577)	(315,000)
Endowment funds, June 30, 2025	\$ 1,857,261	\$ 9,687,630	\$ 11,544,891

Donor restricted endowment funds include \$165,029 that are included in promises to give at June 30, 2025. Board designated endowment funds include \$-0- that are included in promises to give at June 30, 2025. All other endowment funds are included in investments as of June 30, 2025.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following on June 30, 2025:

Purpose Restricted:

Performances	\$ 1,378
Other	17,200
	<u>18,578</u>

Time and Purpose Restricted:

Performances	35,500
Other	55,000
	<u>90,500</u>

Time Restricted:

Promises to give, net of discount and allowance	<u>2,295,429</u>
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Endowment Funds:

Portion of perpetual endowment funds that are required to be permanently retained	8,053,791
Portion of perpetual endowment funds subject to a restriction under MCFA	<u>1,223,496</u>
	<u>9,277,287</u>

Total net assets with donor restrictions	<u>\$ 11,681,794</u>
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Ballet Arizona

Notes to Financial Statements

June 30, 2025

11. Net Assets Released From Restriction

Donor restricted net assets released from restriction during the year ended June 30, 2025 consist of the following:

<u>Purpose Restricted:</u>	
Performances	\$ 117,946
Education and community engagement	674,828
Rentals	48,240
Other	69,198
	<u>910,212</u>
<u>Time and Purpose Restricted:</u>	
Performances	364,685
Other	298,221
	<u>662,906</u>
<u>Time Restricted:</u>	
Promises to give	<u>1,092,607</u>
Total net assets with donor restriction releases	<u>\$ 2,665,725</u>

12. Board Designated Net Assets

Board designated net assets consist of the following at June 30, 2025:

Endowment fund	\$ 1,857,261
Operating reserve	703,131
Strategic initiative	822,407
Employee investment reserve	818,616
	<u>\$ 4,201,415</u>

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).

Ballet Arizona

Notes to Financial Statements

June 30, 2025

13. Government Grants (Continued)

Employee Retention Tax Credit (Continued)

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 during the year ended June 30, 2023, as Employee Retention Tax Credit income on the accompanying statement of activities. An additional amount was recognized as income during the year ended June 30, 2022. 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, 2025, \$231,371 in Employee Retention Tax Credit receivable on the accompanying statement of financial position as tax credit receivable which represents the remaining amount not yet paid by the IRS. 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. Additionally, at June 30, 2025, the Ballet has a solar tax credit receivable of \$156,476 which is included in the tax credit receivable in the accompanying statement of financial position.

14. In-Kind Contributions

Donated materials and services consist of the following for the year ended June 30, 2025:

Production services	\$	24,252
Audio/visual services		8,618
Other		<u>18,227</u>
Total in-kind expenses	\$	<u>51,097</u>

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.

Ballet Arizona

Notes to Financial Statements

June 30, 2025

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 year ended June 30, 2025, the estimated fair value of the facilities provided by the City of Phoenix approximates the value of services provided to the City by the Ballet in accordance with the operating agreement. Accordingly, the Ballet has determined that no donated facilities revenue or expense is necessary to be recorded for the year ended June 30, 2025.

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. The Ballet leases storage space and office equipment under operating lease agreements that expire at various dates through February 2030. The agreements require monthly payments ranging from approximately \$83 to \$3,400.

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.

The Ballet made significant assumptions and judgments relating to leases. 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, 2025:

Operating leases:	
Operating lease right-of-use assets	<u>\$ 88,888</u>
Current operating lease liabilities	\$ 41,962
Long-term operating lease liabilities	<u>46,926</u>
Total operating lease liabilities	<u>\$ 88,888</u>

Ballet Arizona

Notes to Financial Statements
June 30, 2025

15. Leasing Activities (Continued)

Below is a summary of expenses incurred pertaining to leases during the year ended June 30, 2025:

Operating lease expense	\$ 79,590
Short-term lease expense	<u>715,484</u>
Total operating lease expense	<u>\$ 795,074</u>

The right-of-use assets and lease liabilities were calculated using a weighted average discount rate and weighted average remaining lease term at June 30, 2025 of the following:

Weighted average discount rate	<u>5.31%</u>
Weighted average remaining lease term	<u>2.96 years</u>

The table below summarizes the Ballet's approximate future minimum lease payments for year ending after June 30, 2025:

Years ending June 30:	
2026	\$ 45,524
2027	16,887
2028	16,887
2029	16,887
2030	<u>738</u>
Total lease payments	96,924
Less present value discount	<u>(8,035)</u>
Total lease liabilities	88,888
Less current portion	<u>(41,962)</u>
Long-term lease liabilities	<u>\$ 46,926</u>

The following table includes supplemental cash flow and noncash information related to the leases for the year ended June 30, 2025:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 56,993
Operating lease right-of-use assets obtained in exchange for lease liabilities:	\$ 72,905

16. Subsequent Event

Subsequent to the year-end ended June 30, 2025, the Ballet was notified that it is the beneficiary of a bequest from the estate of a long-time donor. The total amount designated to the Ballet is estimated to be approximately \$1,100,000. The bequest is unconditional and is expected to be collected during the fiscal year ended June 30, 2026