

THE WASHINGTON BALLET

FINANCIAL STATEMENTS

JUNE 30, 2021

THE WASHINGTON BALLET
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
The Washington Ballet

We have audited the accompanying financial statements of The Washington Ballet (the Ballet), which comprise the statements of financial position as of June 30, 2021 and 2020, the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Washington Ballet as of June 30, 2021 and 2020, 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.

Calibre CPA Group, PLLC

Bethesda, MD
December 13, 2021

THE WASHINGTON BALLET
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,304,165	\$ 1,892,052
Accounts receivable	562,421	141,974
Pledges receivable	320,111	698,247
Grants receivable	292,284	-
Prepaid expenses	<u>23,970</u>	<u>21,171</u>
Total current assets	<u>3,502,951</u>	<u>2,753,444</u>
OTHER ASSETS	<u>122,135</u>	<u>122,135</u>
INVESTMENTS	<u>565,748</u>	<u>361,669</u>
PROPERTY AND EQUIPMENT		
Land	712,314	712,314
Building	2,723,592	2,723,592
Building improvements	794,094	794,094
Furniture and equipment	1,274,082	1,124,776
Leasehold improvements	1,714,239	1,714,239
Website	<u>29,977</u>	<u>29,977</u>
	7,248,298	7,098,992
Less: accumulated depreciation and amortization	<u>(4,285,325)</u>	<u>(3,831,877)</u>
Net property and equipment	<u>2,962,973</u>	<u>3,267,115</u>
Total assets	<u>\$ 7,153,807</u>	<u>\$ 6,504,363</u>

See accompanying notes to financial statements.

THE WASHINGTON BALLET

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Loan payable	\$ 100,000	\$ 318,311
Accounts payable	1,004,082	779,489
Accrued expenses	569,858	390,434
Deferred subscription income	182,244	378,819
Deferred school income	608,097	319,913
Refundable advance (Paycheck Protection Program)	1,252,110	1,252,110
Accrued rent and deferred lease incentive, current portion	<u>50,719</u>	<u>65,297</u>
Total current liabilities	<u>3,767,110</u>	<u>3,504,373</u>
LONG-TERM LIABILITIES		
Loan payable, net of current portion	-	100,000
Accrued rent and deferred lease incentive, net of current portion	<u>262,507</u>	<u>270,789</u>
Total long-term liabilities	<u>262,507</u>	<u>370,789</u>
Total liabilities	<u>4,029,617</u>	<u>3,875,162</u>
NET ASSETS		
Without donor restrictions	2,250,728	1,677,139
With donor restrictions	<u>873,462</u>	<u>952,062</u>
Total net assets	<u>3,124,190</u>	<u>2,629,201</u>
Total liabilities and net assets	<u><u>\$ 7,153,807</u></u>	<u><u>\$ 6,504,363</u></u>

See accompanying notes to financial statements.

THE WASHINGTON BALLET

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
Ticket sales/performance	\$ 194,301	\$ -	\$ 194,301
Tuition	2,179,899	-	2,179,899
Other	132,770	-	132,770
Total operating revenue	2,506,970	-	2,506,970
OPERATING EXPENSES			
Program services			
Production costs	822,236	-	822,236
Artistic	2,788,236	-	2,788,236
School	2,057,689	-	2,057,689
Town Hall Education Arts Recreation Campus (The ARC)	773,900	-	773,900
Total program services	6,442,061	-	6,442,061
Support services			
Marketing and public relations	468,010	-	468,010
Development	1,129,579	-	1,129,579
General and administrative	1,082,766	-	1,082,766
Total support services	2,680,355	-	2,680,355
Total operating expenses	9,122,416	-	9,122,416
CHANGE IN NET ASSETS FROM OPERATIONS	(6,615,446)	-	(6,615,446)
PUBLIC SUPPORT AND OTHER CHANGES IN NET ASSETS			
Contributions	2,563,425	184,400	2,747,825
Government grants	921,094	2,478,274	3,399,368
Special events	956,276	-	956,276
Net investment return	3,633	3,333	6,966
Net assets released from restrictions	2,744,607	(2,744,607)	-
Total support and other changes in net assets	7,189,035	(78,600)	7,110,435
CHANGE IN NET ASSETS	573,589	(78,600)	494,989
NET ASSETS			
Beginning of year	1,677,139	952,062	2,629,201
End of year	\$ 2,250,728	\$ 873,462	\$ 3,124,190

See accompanying notes to financial statements.

THE WASHINGTON BALLET

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
Ticket sales/performance	\$ 3,581,541	\$ -	\$ 3,581,541
Tuition	3,614,407	-	3,614,407
Other	485,177	-	485,177
Total operating revenue	7,681,125	-	7,681,125
OPERATING EXPENSES			
Program services			
Production costs	3,319,414	-	3,319,414
Artistic	2,881,289	-	2,881,289
School	2,702,112	-	2,702,112
Town Hall Education Arts Recreation Campus (The ARC)	1,114,320	-	1,114,320
Total program services	10,017,135	-	10,017,135
Support services			
Marketing and public relations	677,394	-	677,394
Development	1,122,097	-	1,122,097
General and administrative	1,429,548	-	1,429,548
Total support services	3,229,039	-	3,229,039
Total operating expenses	13,246,174	-	13,246,174
CHANGE IN NET ASSETS FROM OPERATIONS	(5,565,049)	-	(5,565,049)
PUBLIC SUPPORT AND OTHER CHANGES IN NET ASSETS			
Contributions	3,866,436	295,387	4,161,823
Government grants	1,202,823	-	1,202,823
Special events	917,529	-	917,529
Net investment return	-	3,388	3,388
Gain on sale of property and equipment	121,399	-	121,399
Net assets released from restrictions	24,838	(24,838)	-
Total support and other changes in net assets	6,133,025	273,937	6,406,962
CHANGE IN NET ASSETS	567,976	273,937	841,913
NET ASSETS			
Beginning of year	1,109,163	678,125	1,787,288
End of year	\$ 1,677,139	\$ 952,062	\$ 2,629,201

See accompanying notes to financial statements.

THE WASHINGTON BALLET

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

YEAR ENDED JUNE 30, 2021

	Program Services					Support Services				Total
	Production	Artistic	School	The ARC	Total Program Services	Marketing and Public Relations	Development	General and Administrative	Total Support Services	
Salaries	\$ 292,864	\$ 1,857,078	\$ 859,548	\$ 275,539	\$ 3,285,029	\$ 237,631	\$ 245,839	\$ 580,209	\$ 1,063,679	\$ 4,348,708
Benefits and payroll taxes	36,615	460,526	136,020	63,948	697,109	35,816	37,923	84,758	158,497	855,606
Professional fees	78,210	132,329	6,513	27,726	244,778	82,946	125,453	334,266	542,665	787,443
Service fees	9,595	61,431	19,472	9,237	99,735	7,843	8,125	18,544	34,512	134,247
Occupancy	231,331	22,603	520,840	128,640	903,414	9,486	9,345	10,082	28,913	932,327
Meetings and events	120	-	-	6,935	7,055	-	492,167	-	492,167	499,222
Printing and promotion	6,772	-	13,994	-	20,766	11,531	76,672	-	88,203	108,969
Scholarships	-	-	103,413	241,831	345,244	-	-	-	-	345,244
Costs of goods sold	1,826	-	-	-	1,826	-	-	-	-	1,826
Depreciation	18,337	67,854	322,507	5,882	414,580	10,136	9,586	19,146	38,868	453,448
Supplies	22,429	16,244	2,206	346	41,225	386	122	846	1,354	42,579
Equipment	32,487	1,474	3,547	-	37,508	220	207	416	843	38,351
Insurance	7,644	91,743	18,350	7,486	125,223	6,881	7,004	27,383	41,268	166,491
Travel	2,454	3,730	-	-	6,184	-	-	-	-	6,184
Information technology	5,996	38,388	12,168	5,772	62,324	46,608	5,077	11,240	62,925	125,249
Postage and shipping	2,836	87	46	13	2,982	261	5,718	26	6,005	8,987
Other	74,546	34,749	39,065	545	148,905	18,265	106,341	(4,150)	120,456	269,361
	824,062	2,788,236	2,057,689	773,900	6,443,887	468,010	1,129,579	1,082,766	2,680,355	9,124,242
Less: costs of goods sold included with operating revenue in the statement of activities and changes in net assets	(1,826)	-	-	-	(1,826)	-	-	-	-	(1,826)
Total expenses reported in the statement of activities and changes in net assets	\$ 822,236	\$ 2,788,236	\$ 2,057,689	\$ 773,900	\$ 6,442,061	\$ 468,010	\$ 1,129,579	\$ 1,082,766	\$ 2,680,355	\$ 9,122,416

See accompanying notes to financial statements.

THE WASHINGTON BALLET

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

YEAR ENDED JUNE 30, 2020

	Program Services					Support Services				
	Production	Artistic	School	The ARC	Total Program Services	Marketing and Public Relations	Development	General and Administrative	Total Support Services	Total
Salaries	\$ 291,692	\$ 1,883,564	\$ 1,363,139	\$ 338,415	\$ 3,876,810	\$ 337,637	\$ 412,027	\$ 523,679	\$ 1,273,343	\$ 5,150,153
Benefits and payroll taxes	48,452	394,298	193,264	67,635	703,649	56,840	64,673	122,472	243,985	947,634
Professional fees	1,676,495	145,847	19,006	-	1,841,348	141,375	61,156	575,345	777,876	2,619,224
Service fees	10,933	71,465	35,336	10,934	128,668	12,836	15,794	25,917	54,547	183,215
Occupancy	557,350	22,971	512,028	175,338	1,267,687	8,919	8,770	9,808	27,497	1,295,184
Meetings and events	767	519	257	53,948	55,491	93	457,213	188	457,494	512,985
Printing and promotion	395,187	-	27,896	5,798	428,881	66,620	16,887	-	83,507	512,388
Scholarships	-	-	162,247	440,542	602,789	-	-	-	-	602,789
Costs of goods sold	56,753	-	17,783	-	74,536	-	-	-	-	74,536
Depreciation	29,073	107,585	258,940	-	395,598	16,070	15,199	30,356	61,625	457,223
Supplies	27,812	78,443	7,139	355	113,749	935	2,964	1,843	5,742	119,491
Equipment	178,825	13,416	34,397	-	226,638	2,034	4,146	3,785	9,965	236,603
Insurance	5,763	59,466	19,367	5,765	90,361	6,456	7,532	19,496	33,484	123,845
Travel	2,171	36,781	9,533	151	48,636	2,908	856	2,559	6,323	54,959
Information technology	5,989	39,143	19,355	5,990	70,477	14,413	8,651	14,197	37,261	107,738
Postage and shipping	62,995	211	190	551	63,947	288	1,187	57	1,532	65,479
Other	25,910	27,580	40,018	8,898	102,406	9,970	45,042	99,846	154,858	257,264
	3,376,167	2,881,289	2,719,895	1,114,320	10,091,671	677,394	1,122,097	1,429,548	3,229,039	13,320,710
Less: costs of goods sold included with operating revenue in the statement of activities and changes in net assets	(56,753)	-	(17,783)	-	(74,536)	-	-	-	-	(74,536)
Total expenses reported in the statement of activities and changes in net assets	<u>\$ 3,319,414</u>	<u>\$ 2,881,289</u>	<u>\$ 2,702,112</u>	<u>\$ 1,114,320</u>	<u>\$ 10,017,135</u>	<u>\$ 677,394</u>	<u>\$ 1,122,097</u>	<u>\$ 1,429,548</u>	<u>\$ 3,229,039</u>	<u>\$ 13,246,174</u>

See accompanying notes to financial statements.

THE WASHINGTON BALLET

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 494,989	\$ 841,913
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	453,448	457,223
Accrued rent and deferred lease incentive	(22,860)	(19,407)
Realized and unrealized gains, net	(6,464)	(2,217)
Bad debt expenses	14,723	47,456
Gain on sale of property and equipment	-	(121,399)
Changes in assets and liabilities		
Accounts receivable	(435,170)	(151,530)
Pledges receivable	378,136	(454,726)
Grants receivable	(292,284)	388,333
Prepaid expenses	(2,799)	63,261
Account payable	224,593	(244,957)
Accrued expenses	179,424	163,463
Deferred subscription income	(196,575)	90,438
Deferred school income	288,184	(424,006)
Deferred other income	-	(175,024)
Refundable advance	-	1,252,110
Net cash provided by operating activities	<u>1,077,345</u>	<u>1,710,931</u>

See accompanying notes to financial statements.

THE WASHINGTON BALLET

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES		
Purchases of investments	\$ (322,803)	\$ (264,444)
Proceeds from sale of investments	125,188	219,149
Purchase of property and equipment	(149,306)	(143,247)
Proceeds from sale of property and equipment	<u>-</u>	<u>1,850,000</u>
Net cash provided by (used for) investing activities	<u>(346,921)</u>	<u>1,661,458</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on loans payable	<u>(318,311)</u>	<u>(1,973,144)</u>
Net cash used for financing activities	<u>(318,311)</u>	<u>(1,973,144)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	412,113	1,399,245
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,892,052</u>	<u>492,807</u>
End of year	<u>\$ 2,304,165</u>	<u>\$ 1,892,052</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 7,903</u>	<u>\$ 46,573</u>

See accompanying notes to financial statements.

THE WASHINGTON BALLET

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1. ORGANIZATION

The Washington Ballet (the Ballet) is a not-for-profit organization incorporated under the laws of the District of Columbia in September 1966. The Washington Ballet provides classes in dance and related arts (The Washington School of Ballet) and offers performances in Washington and on tour (The Washington Ballet Company). The Washington Ballet Company dancers are covered under a collective-bargaining agreement, which expires July 31, 2022.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation - Financial statement presentation follows the recommendations of U.S. generally accepted accounting principles in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *Not-for-Profit Entities - Presentation of Financial Statements*. Under those principles, the Ballet is required to report information regarding its financial position and activities according to two classes of net assets - net assets without donor restrictions and net assets with donor restrictions. The Ballet also distinguishes between donor restrictions that are temporary and those that are perpetual in nature.

Basis of Accounting - The accompanying financial statements are presented in accordance with the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenue is recognized when earned and expenses are recognized when received.

Use of Estimates - Management uses estimates and assumptions in preparing the financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue, support and expenses. Actual results could differ from those estimates.

Income Taxes - The Ballet is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). However, the Ballet is subject to income tax on its unrelated business income. The Ballet did not have any unrelated business taxable income for the years ended June 30, 2021 and 2020. The Ballet recognizes interest expense and penalties related to income taxes in general and administrative expenses on the statements of activities and change in net assets and accounts payable on the statements of financial position. There is no provision in these financial statements for penalties and interest related to income taxes for the years ended June 30, 2021 and 2020. For tax years prior to 2017, the Ballet is no longer subject to examination by the Internal Revenue Service (IRS) or the tax jurisdiction of the District of Columbia.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Ballet considers cash in operating bank accounts, cash on hand, and cash in money market bank accounts to be cash and cash equivalents.

Receivables - The Ballet records accounts receivable net of allowances for doubtful accounts when necessary. The allowances are determined based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be uncollectible. Based on management's evaluation of the collectability of accounts receivable, the allowance for doubtful accounts was \$-0- as of June 30, 2021 and June 30, 2020. Bad debt expense related to accounts receivable was \$14,723 and \$47,456 for the years ended June 30, 2021 and 2020, respectively.

Pledges receivable represent unconditional promises to give from donors to contribute monies to the Ballet. Unconditional promises to give from donors are recorded when the promise is made. Unconditional promises to give from donors where payments are due within the next year are reflected as current pledges receivable and are recorded at their net realizable amount. Unconditional promises to give from donors where payments are due in the subsequent years are reflected as long-term pledges receivable and are reflected at the present value of their net realizable amounts, using risk-adjusted discount rates. The amortization of the discount on long-term pledges receivable is recorded as contributions in the statements of activities and changes in net assets. The need for an allowance is determined based on a review of the estimated collectability of specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be uncollectible. As of June 30, 2021 and 2020, management deemed all receivables to be collectible and, as such, no allowance for doubtful accounts has been included in these financial statements. There was no bad debt expense (recovery) related to pledges receivable for the years ended June 30, 2021 and 2020.

Grants receivable represents amounts due to the Ballet for costs incurred under reimbursable grants, whether billed or unbilled. Grants receivable was \$292,284 and \$-0- at June 30, 2021 and 2020, respectively. The need for an allowance is determined based on a review of the estimated collectability of specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be uncollectible. As of June 30, 2021 and 2020, management has deemed all grants receivable to be collectible and, as such, no allowance for doubtful accounts has been included in these financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments - Investments consist of fixed-income exchange-traded funds, equity exchange-traded funds, equity and fixed income mutual funds and money market funds which are reported at their fair value based on quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There have been no changes in methodologies used as of June 30, 2021 and 2020. Purchases are recognized on a trade-date basis. Interest income is recognized on the accrual basis. Dividends are recognized on the ex-dividend date. Realized and unrealized gains (losses) are calculated using a specific identification method and are recognized, along with interest and dividend income, on the statements of activities and changes in net assets. Money market funds held in investment accounts with investment institutions are classified as investments. Management intends to hold investments for long-term purposes. Investment income is reported in the statements of activities and changes in net assets net of all external and direct internal investment expenses.

Property and Equipment - Property and equipment is stated at cost and is depreciated over estimated useful lives ranging between 3 and 40 years. Leasehold improvements are depreciated over the remaining non-cancellable term of the lease. The website is amortized over its estimated useful life (four years). The straight-line method of depreciation and amortization is followed for all assets. Property and equipment in excess of \$2,000 and with an acquisition life of more than one year is capitalized.

In December 2019, property owned by the Ballet at 3704 Porter Street, N.W., Washington, D.C., was sold for \$1,850,000. The cost of the assets plus the accumulated depreciation and remaining unrecorded depreciation were written off, \$2,146,396 and \$417,795, respectively, netting a gain of \$121,399.

Deferred Revenue - Deferred revenue includes revenue received in advance for subscriptions, school tuition and set rentals and is recognized on the statements of activities and changes in net assets when the events or services take place.

Revenue Recognition - Revenue is derived from both exchange transactions and contribution transactions. Revenue from exchange transactions is recognized when control of promised goods or services is transferred to the Ballet's members and customers, in an amount that reflects the consideration the Ballet expects to be entitled to in exchange for those goods or services. All goods and services are transferred at a point in time or ratably over time. Payments are generally required in advance and are reported as deferred revenue until the related revenue is recognized. Unconditional contributions are recognized upon receipt of cash or other assets, or when a donor promises to transfer cash or other assets in the future. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return or release, are not recognized until the conditions on which they depend have been substantially met.

Contributions and Government Grants - Contributions are reported as increases in net assets without donor restrictions unless received with donor stipulations that require the assets be used for specific purposes or in specific time periods. All donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

stipulated time restriction ends or purpose restriction is 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. Contributions and non-federal grants which are both received and released from restriction in the same year are reported as revenue without donor restrictions in that year.

Revenue from government funding sources are recognized when the related expenses are incurred. Expenses charged to government grants, including allocable indirect costs and fringe benefits, are subject to audit and adjustment. Revenue received in excess of the related expenses is recorded as refundable advances. Grant expenses incurred before the related grant revenue is received are reported as grant receivables.

Special Events - Special events revenue is comprised of an exchange element based on the fair value of direct benefits provided to donors, and a contribution element for the difference. The exchange element is recognized when the special event takes place. The contribution element is recognized immediately, unless there is a right of return if the special event does not take place, in which case the contribution element is recognized when the special event takes place.

Exchange Transactions - Revenue from contracts with customers consists of ticket sales and performances, special events, and tuition. Ticket sales and performances revenue is recognized when the related performances are held. Special events revenue is recognized when the related special events are held. Tuition entitles customers to the curriculum of classes offered by the Ballet and is considered a single performance obligation provided ratably over the tuition period.

Other revenue includes merchandise sales revenues of \$-0- and \$236,729, net of related costs of goods sold of \$1,826 and \$74,536 for the years ended June 30, 2021 and 2020, respectively.

Noncash Contributions - Donated securities are reflected as contributions revenue and are recorded at their fair value as of the date of the contribution. Donated securities are converted to cash nearly immediately upon receipt and reported as cash flows from operating activities. Any gain or loss on conversion to cash is recognized as other income in the statements of activities and changes in net assets. The Ballet received donated securities of \$320,608 and \$260,407 for the years ended June 30, 2021 and 2020, respectively, which are recorded as contributions in the statements of activities and changes in net assets. Noncash contributions are recorded as revenue and expenses at fair value when received and have been presented in the statements of activities and changes in net assets as contributions and expensed in the appropriate functional category. Included in noncash contributions were donations of services rendered. These donated services required specialized skills which would typically need to be purchased if not donated.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The value of the donated goods and services, reported in the accompanying statements of activities and changes in net assets as contributions, is as follows:

	<u>2021</u>	<u>2020</u>
Development	\$ -	\$ 106,465
General and administrative	230,849	442,276
Marketing	<u>50,000</u>	<u>-</u>
	<u>\$ 280,849</u>	<u>\$ 548,741</u>

The Ballet received approximately 1,980 hours and 3,393 hours of volunteer service for the years ended June 30, 2021 and 2020, respectively. The value of hours volunteered at the Ballet is not recorded in the financial statements, as it does not create or enhance nonfinancial assets or require specialized skills. The amount of such unrecorded labor was estimated by management to be \$29,700 and \$53,151 for the years ended June 30, 2021 and 2020, respectively.

Discounted Tuition - The Ballet gives discounted tuition to certain students at Washington Ballet @ Town Hall Education Art Recreation Campus. For the years ended June 30, 2021 and 2020, the discounted tuition was recorded in the financial statements at \$225,234 and \$401,982, respectively.

Net Assets - Net assets are reported in two distinct classes as follows:

Net assets without donor restrictions - These net assets are available to finance the general operations of the Ballet. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Ballet, the environment in which it operates, and the purposes specified in its organizing documents.

Net assets with donor restrictions - These net assets result from contributions and other inflows of assets, the use of which by the Ballet is limited by donor-imposed time or purpose restrictions that are either temporary or perpetual.

Net assets with perpetual donor restrictions to be held in perpetuity as required by donor stipulation are classified as endowment assets. Investment income on net assets with donor restrictions, which includes interest, dividends, and realized and unrealized appreciation or depreciation, is classified as net assets with donor restrictions. Upon appropriation for expenditure, the amounts for current year expenditures are reclassified to net assets without donor restrictions, subject to any purpose restrictions. All other investment income is classified as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses - The costs of providing the various programs and supporting activities of the Ballet have been summarized on a functional basis in the statements of activities and changes in net assets and functional expenses. Costs that can be specifically identified with a final cost objective are charged directly to that activity, such as salaries and related taxes and health benefits. Other costs, such as occupancy, depreciation, and related infrastructure, are allocated among the program and supporting services benefited based on management's best estimates using a space allocation.

Financial Risk - The Ballet maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Ballet has not experienced any losses in such accounts. The Ballet believes it is not exposed to any significant financial risk on cash. As of June 30, 2021, the Ballet had cash in excess of the FDIC insurance limit of approximately \$2,020,000.

NOTE 3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

As part of the Ballet's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Ballet invests cash in excess of its current requirements in a portfolio of investments designed to maximize long-term earnings with acceptable risk to investment principle.

Financial assets available for general expenditure within one year of June 30, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Total assets at end of year	\$ 7,153,807	\$ 6,504,363
Less nonfinancial assets		
Prepaid expenses	(23,970)	(21,171)
Other assets	(122,135)	(122,135)
Net property and equipment	<u>(2,962,973)</u>	<u>(3,267,115)</u>
Total financial assets at end of year	4,044,729	3,093,942
Less amounts not available to meet general expenditures coming due within one year, due to		
Donor-imposed restrictions	(380,462)	(489,062)
Endowment	<u>(310,000)</u>	<u>(310,000)</u>
Total financial assets available for general expenditures coming due in the next year	<u>\$ 3,354,267</u>	<u>\$ 2,294,880</u>

NOTE 4. PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2021	2020
Receivable in less than one year	\$ 320,111	\$ 698,247
Receivable in one to five years	-	-
	<u>\$ 320,111</u>	<u>\$ 698,247</u>

NOTE 5. INVESTMENTS

Investments are recorded at fair value and consist of the following:

	2021	2020
Money market funds	\$ 539,488	\$ 340,217
Fixed-income exchange-traded funds and mutual funds	9,943	8,259
Equity exchange-traded funds and mutual funds	<u>16,317</u>	<u>13,193</u>
	<u>\$ 565,748</u>	<u>\$ 361,669</u>

Net investment income consists of the following:

	2021	2020
Dividends and interest	\$ 502	\$ 1,171
Realized and unrealized gains on investments	<u>6,464</u>	<u>2,217</u>
	<u>\$ 6,966</u>	<u>\$ 3,388</u>

NOTE 6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with temporary donor restrictions consist of the following:

	<u>2021</u>	<u>2020</u>
Purpose restrictions		
Scholarships	\$ 205,462	\$ 204,062
Pointe Shoes Fund	-	10,000
Building and capital campaign	45,000	145,000
GOH Fund	65,000	65,000
Berherend/Goldstein Fund	<u>65,000</u>	<u>65,000</u>
Total purpose restrictions	380,462	489,062
Time restricted only - general support for use in future periods	<u>183,000</u>	<u>153,000</u>
	<u>\$ 563,462</u>	<u>\$ 642,062</u>

Net assets with perpetual donor restrictions consist of the following:

	<u>2021</u>	<u>2020</u>
Faye Katz Ratner Fund	\$ 15,000	\$ 15,000
England Endowment	<u>295,000</u>	<u>295,000</u>
	<u>\$ 310,000</u>	<u>\$ 310,000</u>

NOTE 7. ADVERTISING COSTS

Advertising costs related to performances and telemarketing services for season subscriptions are recognized as incurred. Advertising expenses totaled \$313,634 and \$548,710 for the years ended June 30, 2021 and 2020, respectively.

NOTE 8. LOANS PAYABLE

The Ballet has a loan with an original principal balance of \$808,391 for which the loan terms were amended on November 20, 2018. The loan still bears interest at LIBOR plus 2.5%. The maturity date was extended to August 31, 2021; the Ballet paid interest on November 30, 2018, and then monthly principal payments of \$25,000 plus accrued interest each month thereafter. The loan is secured by the Ballet's inventory, receivables, equipment and fixtures, and a lien on its Wisconsin Avenue property. The loan is subject to certain covenants as defined in the agreement, including limitations on incurring additional debt or lease obligations, creating liens or security interests, selling, leasing or assigning assets, and making advances or loans to or investments in others. The loan is cross-defaulted with other obligations of the Ballet. The loan also provides for a \$43,000 letter of credit facility. The loan had an outstanding balance of \$100,000 and \$400,000 as of June 30, 2021 and 2020, respectively. Interest expense related to the loan was \$7,064 and \$21,033 for the years ended June 30, 2021 and 2020, respectively.

NOTE 8. LOANS PAYABLE (CONTINUED)

On June 28, 2016, the Ballet obtained a \$500,000 loan from a financial institution which matured June 30, 2020. The loan bore an interest rate of 4.67%. The Ballet was required to repay outstanding principal and accrued interest in equal combined installments of \$14,927 beginning on July 28, 2016 and each month until June 30, 2020. The loan was secured by the Ballet's inventory, receivables, and equipment and fixtures. The loan was subject to certain negative covenants as defined in the agreement, including limitations on incurring additional debt or lease obligations, creating liens or security interests, selling, leasing or assigning assets, and making advances or loans to or investments in others. The loan was paid in full as of June 30, 2020. Interest expense related to the loan payable was \$5,195 for the year ended June 30, 2020.

In August 2018, the Ballet obtained a \$1,500,000 loan from a foundation expiring August 28, 2020 and bearing an interest rate of 1.8%. The Ballet was required to repay interest and principal due by the expiration of the loan. The Foundation promised to donate \$100,000 to the Ballet upon the successful payment of the balance of the loan at the end of the term. The loan was secured by the Ballet's Porter Street property. In September 2019, the Porter Street property was put on the market for sale and subsequently sold. The sale settled on December 20, 2019 and the foundation loan was paid in full, including accrued interest at the time of closing. The early payment of the loan triggered the \$100,000 donation from the foundation during the year ended June 30, 2020. Interest expense related to the loan was \$15,750 for the year ended June 30, 2020.

Between September 2017 and November 2017, a board member provided three unsecured noninterest-bearing loans to the Ballet totaling \$300,000. The loans matured at various dates ranging from December 6, 2017 to June 30, 2018. During the year ended June 30, 2020, \$40,000 of loans were forgiven and reported as contributions (pledges and annual board dues) and the balance of \$135,000 was repaid. The Ballet agreed to pay interest commencing October 2019 amounting to \$2,309. There are no outstanding loans due to board members as of June 30, 2021.

NOTE 9. REFUNDABLE ADVANCE

On May 5, 2020, the Ballet received a loan in the amount of \$1,252,110 from the Small Business Administration (SBA) as part of Coronavirus Aid, Relief, and Economic Security Act's Paycheck Protection Program (PPP). The loan is unsecured, nonrecourse, accrues interest at one percent per annum, with a due date of May 5, 2022. Under the terms of the loan, a portion or all of the loan is forgivable to the extent that loan proceeds are used to fund qualifying payroll, rent and utilities during a designated 24-week period through October 31, 2020. The Ballet initially recorded the note payable as a refundable advance and subsequently recognized contribution income related to the debt forgiveness, received February 19, 2021. The amount of contribution income recognized during the year ended June 30, 2021 was \$1,252,110.

NOTE 9. REFUNDABLE ADVANCE (CONTINUED)

On February 8, 2021, the Ballet received a second loan in the amount of \$1,252,110 from the Small Business Administration (SBA) as part of the Coronavirus Aid, Relief, and Economic Security Act's Paycheck Protection Program (PPP). The loan is unsecured, nonrecourse, accrues interest at one percent per annum, with a due date of February 8, 2023. Under the terms of the loan, a portion or all of the loan is forgivable to the extent that loan proceeds are used to fund qualifying payroll, rent and utilities during a designated 24-week period through July 28, 2021. The Ballet applied for expected forgiveness in November 2022, at which time the proceeds will be recognized as contribution revenue.

NOTE 10. LEASES

The Ballet has a lease for warehouse space under a month-to-month lease. Rent expense, including operating expense reimbursements for the year ended June 30, 2020 was \$8,000. At June 30, 2020, \$36,528 was written off and recognized as other income because it relates to previous year expenses. The landlord forgave \$115,672 of unpaid rent through December 2018, of which \$34,702 was written off against rent expense during the year ended June 30, 2019 and \$80,970 was recognized as other income because it relates to previous year expenses.

The Ballet vacated the warehouse premises on August 31, 2019, moved into a new warehouse space in Landover, Maryland, and entered into a 15-year operating lease commencing November 1, 2019 and expiring on October 31, 2034, with the right to occupy the premises rent-free prior to the lease commencement date. The lease specifies scheduled rent increases over the lease term and reimbursement of certain defined operating costs. Additionally, under the term of the lease, the Ballet shall be entitled to a construction allowance for tenant improvements up to \$350,000 plus an additional \$75,000 to be paid by the Ballet, which will be amortized monthly over the life of the leases and included with monthly rent payments. The build out has not begun as of June 30, 2021. The Ballet paid a security deposit totaling \$70,759 as specified in the lease. Simultaneously, the Ballet entered into a sublease with the Shakespeare Theatre Company for 36.9% of the Ballet's leased space for the same 15-year period and financial obligations specified by the Ballet's original lease. Both the Ballet and the sublessee have the right to terminate the agreement after 10 years, with notice provided to the other on the last day of the 7th sublease year. Rent expense for the years ended June 30, 2021 and 2020, including operating expense reimbursements, was \$216,852 and \$131,875, respectively. The sublease income, including operating expense reimbursements, for the year ended June 30, 2021 and 2020 was \$67,289 and \$43,354, respectively, included in other revenue in the statement of activities and changes in net assets.

The Ballet also leases space at 4200 Wisconsin Avenue, N.W. that is used as a ballet studio. The lease term commenced on January 1, 2012, will end on December 31, 2022, and is cancelable by either party, with penalty, by no less than 12 months prior to the expiration of the fifth lease year. The lease contains one five-year renewal option. The lease specifies scheduled rent increases of 3% annually over the lease term and reimbursement of certain defined operating expenses. The effect of the scheduled rent increases is being recognized by the Ballet on a straight-line basis over the life of the lease. Additionally, under the terms of the lease, the Ballet received leasehold improvements from the landlord as a lease incentive. As of

NOTE 10. LEASES (CONTINUED)

June 30, 2021 and 2020, total deferred lease incentives of \$3,802 and \$13,682, respectively, represent the unamortized portion of the tenant allowance used for the leasehold improvements to be amortized over the remaining life of the lease which is reported in accrued rent and deferred lease incentive (a liability) in the statements of financial position. In lieu of giving a security deposit to the landlord, the Ballet obtained a standby Letter of Credit against its line of credit for \$16,609 secured by the assets of the Ballet. Rent expense for the 4200 Wisconsin Avenue, N.W. lease, including operating expense reimbursements, for the years ended June 30, 2021 and 2020 was \$94,088 and \$74,089, respectively. A modification to the lease executed in September 2020, deferred 100 percent of the April through June 2020 rent, pursuant to the Coronavirus pandemic and the District of Columbia Mayor's order effective from April 1 through October 9, 2020. As consideration for the deferral, the term of the lease was extended from January 31, 2022 to April 30, 2022.

In addition, the Ballet has a 15-year operating lease for space to be used as a dance studio at Building Bridges Across the River which expired July 2019. The lease is now operating on a month-to-month basis as of August 1, 2019. The lease requires the Ballet to reimburse the landlord for its share of the annual operating expenses. This lease may be terminated by the Ballet with at least six months' prior written notice. During the years ended June 30, 2021 and 2020, the Ballet reimbursed \$95,571 and \$127,897, respectively, in operating expenses.

The Ballet signed a lease on April 28, 2015 for space to be used as a dance studio. The Ballet took occupancy of the space in July 2015 and received abated rent through December 2015. The lease expires January 2026 and has an option to renew for two consecutive periods of five years each. The lease specifies scheduled rent increases over the lease term and reimbursement of certain defined operating expenses. The effect of the scheduled rent increases will be recognized by the Ballet on a straight-line basis over the life of the lease. Additionally, under the terms of the lease, the Ballet shall be entitled to a construction allowance of up to \$65 per square foot of leasable area towards the Ballet's work. As of June 30, 2021 and 2020, total deferred lease incentives of \$207,215 and \$254,132 represent the amount of the unamortized portion of the tenant allowance used for the leasehold improvements to be amortized over the remaining life of the lease which is reported in accrued rent and deferred lease incentive (a liability) in the statements of financial position. During the years ended June 30, 2021 and 2020, rent expense for this space totaled \$363,893 and \$374,444, respectively.

Accrued straight-line rent liability as of June 30, 2021 and 2020 for all leases was \$102,209 and \$68,272, respectively, and is included in accrued rent and deferred lease incentive (a liability) in the statements of financial position.

NOTE 10. LEASES (CONTINUED)

The following is a summary of the aggregate future minimum annual rental payments for the year ending June 30:

2022	\$ 509,998
2023	458,058
2024	471,483
2025	485,335
2026	302,589
Thereafter	<u>1,579,966</u>
	<u>\$ 3,807,429</u>

NOTE 11. RETIREMENT PLANS

The Ballet sponsors a tax deferred annuity retirement plan under Section 403(b) of the IRC that covers all eligible employees of the Ballet, as well as The Washington Ballet Company dancers (the “artists”). Participating employees are able to defer a portion of their compensation subject to certain IRS limitations. In addition, the Ballet may make discretionary contributions. The Ballet’s collective-bargaining agreement with the artists requires the Ballet to make 4% annual contributions to the plan. Contributions to the Plan for the years ended June 30, 2021 and 2020 were \$41,300 and \$35, 933, respectively.

The Ballet also contributed to two multi-employer defined benefit plans under the terms of collective bargaining agreements that cover its union-represented employees. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

- a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the Ballet chooses to stop participating in a multi-employer plan, the Ballet may be required to pay that plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Ballet had a collective bargaining agreement with the DC Federation of Musicians, Local 161 - 710 AFM (“AFM”), whereby the Ballet will contribute a sum equal to 10.9% of the employees’ scale wages to the American Federation of Musicians and Employers’ Pension Fund through the Local 161- 710 AFM.

NOTE 11. RETIREMENT PLANS (CONTINUED)

The Ballet had a collective bargaining agreement with the International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists and Allied Crafts of the United States and Canada Local No. 22 IATSE (“IATSE”), whereby the Ballet makes its contributions to the Local No. 22 IATSE for the following three funds:

Pension Fund - The Ballet contributed a sum equal to 7% of the employees’ gross earnings to the Local No. 22 IATSE Pension Fund.

Welfare Fund - The Ballet contributed a sum equal to 10% from July 1, 2019 through June 30, 2020 of the employees’ gross earnings to the Local No. 22 IATSE Welfare Fund. During the year ended June 30, 2020, the Ballet contributed \$524.

Annuity Fund - The Ballet contributed a sum equal to 4.5% from July 1, 2019 through June 30, 2020 of the employees’ gross earnings to the IATSE National Benefit Fund. During the year ended June 30, 2020, the Ballet contributed \$236.

The Ballet is now outsourcing certain production staff and performance musicians as of fiscal year ended June 30, 2020.

The Ballet’s information below in the AFM plan is for the annual period March 31, 2019 and the Ballet’s information below in the IATSE plan is for the annual period December 31, 2019. Both plans are outlined in their respective annual periods in the table below, except for the “Contributions by the Ballet” which reflect contributions made by the Ballet during its fiscal year. The “EIN/Pension Plan Number” column provides the Employee Identification Number (“EIN”) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (“PPA”) zone status available for the AFM plan is for the year ending March 31, 2019, and for the IATSE plan is for the plan year ending December 31, 2019. The zone status is based on the information that the Ballet received and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The “Financial Improvement Plan/Rehabilitation Plan Status Pending/Implemented” column indicates plans for which a financial improvement plan (“FIP”) or a rehabilitation plan (“RP”) is either pending or has been implemented:

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status 2019	FIP/RP Status Pending/Implemented	Contributions by the Ballet 2020	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
American Federation of Musicians and Employers’ Pension Fund	51-6120204 001	Red	Yes	\$ -	Yes	N/A
International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artist and Allied Crafts of the United States and Canada Pension Fund	52-6152307 001	Green	No	\$ 384	No	N/A

The Ballet was not listed in the plans’ Forms 5500 as providing more than 5% of the total contributions for the above plans.

NOTE 12. FAIR VALUE MEASUREMENTS

Accounting standards provide the framework for measuring fair value which 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 (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described 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 other significant observable inputs including:
- 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; and
 - 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 (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.

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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following tables set forth by level, within the fair value hierarchy, the Ballet's assets at fair value as of June 30, 2021 and 2020:

Description	June 30, 2021 Total	Quoted Market Price for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 539,488	\$ 539,488	\$ -	\$ -
Fixed-income exchange-traded funds and mutual funds	9,943	9,943	-	-
Equity exchange-traded funds and mutual funds	16,317	16,317	-	-
Total	<u>\$ 565,748</u>	<u>\$ 565,748</u>	<u>\$ -</u>	<u>\$ -</u>

Description	June 30, 2020 Total	Quoted Market Price for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 340,217	\$ 340,217	\$ -	\$ -
Fixed-income exchange-traded funds and mutual funds	8,259	8,259	-	-
Equity exchange-traded funds and mutual funds	13,193	13,193	-	-
Total	<u>\$ 361,669</u>	<u>\$ 361,669</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 13. ENDOWMENT

The Ballet's endowment consists of two individual funds established for fiscal emergency and related activities. Its endowment includes donor-restricted endowment funds. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Net Assets with Perpetual Donor Restrictions - Interpretation of Relevant Law

The Board has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") enacted into law in Washington, D.C. on January 23, 2008, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Ballet classifies as net assets with perpetual donor restrictions (a) the original value of gifts 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. The remaining portion of the donor-restricted endowment funds that are not classified in net assets with perpetual donor restrictions are classified as net assets with temporary donor restrictions until those amounts are appropriated for expenditure by the Ballet in a manner consistent with the standard prudence prescribed by SPMIFA. In accordance with SPMIFA, the Ballet considers factors in making a determination to appropriate or accumulate donor-restricted endowment funds, such as:

- a. The duration and preservation of the fund;
- b. The purposes of the Ballet and the donor-restricted endowment fund;
- c. General economic conditions;
- d. The possible effect of inflation and deflation;
- e. The expected total return from income and the appreciation of investments;
- f. Other resources of the Ballet; and
- g. The investment policies of the Ballet.

Net Assets with Perpetual Donor Restrictions - Return Objectives and Risk Parameters

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. Endowment assets include those assets of donor-restricted funds that the Ballet must hold in perpetuity or for a donor-specified period.

Net Assets with Perpetual Donor Restrictions - Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Ballet relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The endowment funds are managed by professional investment managers that invest the endowment funds in accordance with the diversified asset allocation plan that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 13. ENDOWMENT (CONTINUED)**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Ballet has a policy of appropriating for expenditure each year not more than 5% of the market value of all assets of the endowment. In establishing this policy, the Ballet considered the long-term expected return on its endowment net assets.

The following is a summary of the changes in donor-restricted endowment funds subject to SPMIFA for the years ended June 30:

	Without Donor Restrictions	With Temporary Donor Restrictions	With Perpetual Donor Restrictions	Total
Endowment net assets, June 30, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 310,000</u>	<u>\$ 310,000</u>
Investment income				
Interest and dividend income	-	1,171	-	1,171
Net realized and unrealized loss	<u>-</u>	<u>2,217</u>	<u>-</u>	<u>2,217</u>
Total investment income	<u>-</u>	<u>3,388</u>	<u>-</u>	<u>3,388</u>
Appropriation for expenditure	<u>-</u>	<u>(3,388)</u>	<u>-</u>	<u>(3,388)</u>
Transfer out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, June 30, 2020	<u>-</u>	<u>-</u>	<u>310,000</u>	<u>310,000</u>
Investment income				
Interest and dividend income	-	240	-	240
Net realized and unrealized gains	<u>-</u>	<u>3,093</u>	<u>-</u>	<u>3,093</u>
Total investment income	<u>-</u>	<u>3,333</u>	<u>-</u>	<u>3,333</u>
Appropriation for expenditure	<u>-</u>	<u>(3,333)</u>	<u>-</u>	<u>(3,333)</u>
Endowment net assets, June 30, 2021	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 310,000</u>	<u>\$ 310,000</u>

Net assets with perpetual donor restrictions represent the portion of the donor-restricted endowment funds to be held in perpetuity by explicit donor stipulation or by SPMIFA. Net assets with temporary donor restrictions represent the portion of the donor-restricted endowment funds to be held in the endowment subject to time and purpose restrictions under the donor agreement or SPMIFA and subject to appropriation for expenditure by the Board. There are no net assets without donor restrictions related to the donor-restricted endowment funds.

NOTE 14. COMMITMENTS

On February 26, 2015, the Ballet signed a three-year collective-bargaining agreement with approximately 24 artists of the Ballet commencing on August 1, 2015 and ending on July 31, 2018. On May 1, 2018, this agreement was extended through July 31, 2019. On October 21, 2019, this agreement was extended for the period August 1, 2019 through July 31, 2022. The agreement states that if an artist is not re-engaged for any subsequent season, he/she is entitled to a severance payment equal to either the artist's final weekly salary, one-half of the artist's final weekly salary, or one-third of the artist's final weekly salary, multiplied by the total number of years of service. Total amount accrued as a liability as of June 30, 2021 and 2020 was \$182,625 and \$135,583, respectively.

On February 23, 2016, the Ballet signed a separation agreement with its former Artistic Director whereas the Ballet will make scheduled lump payments through January 31, 2018. In addition, the Ballet will pay 20% of the income the Ballet receives for the rental of sets and costumes owned by the Ballet if the Artistic Director refers the rental opportunity to the Ballet, or if the Ballet or other entity licenses and uses choreography and works of the Artistic Director. There were no amounts owed as of June 30, 2021 and 2020.

NOTE 15. CONTRACT BALANCES

The timing of billings, cash collections, and revenue recognition result in contract assets and contract liabilities associated with revenue from exchange transactions. Contract assets consist of trade accounts receivable, which are recognized only to the extent it is probable that the Ballet will collect substantially all of the consideration to which we are entitled in exchange for the goods or services that will be or have been transferred. Contract liabilities consist entirely of deferred revenue that results when the Ballet receives advance payments from members and customers before revenue is recognized. Balances in these accounts as of the beginning and end of the years ended June 30, 2021 and 2020 are as follows:

	2021	2020	2019
Accounts receivable	<u>\$ 61,665</u>	<u>\$ 141,974</u>	<u>\$ 37,900</u>
Deferred revenue			
Subscription income	\$ 182,244	\$ 378,819	\$ 288,381
School income	608,097	319,913	743,919
Other	<u>-</u>	<u>-</u>	<u>20,325</u>
Total deferred revenue	<u>\$ 790,341</u>	<u>\$ 698,732</u>	<u>\$ 1,052,625</u>

NOTE 16. COLLECTIONS NOT CAPITALIZED

During the year ended June 30, 2019, sets for Journey Home (April 2002), created by artist, Sam Gilliam, that were commissioned and paid for by the Ballet, were discovered in storage at a warehouse leased by the Ballet. A recent valuation of the work by Sotheby's, if sold as a single unit, was \$2,000,000. As of the date of these financial statements, the Ballet has no intent to keep the sets.

NOTE 17. SIGNIFICANT UNCERTAINTIES

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The extent of the impact of the pandemic on the Ballet's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Ballet's donors, customers, employees and vendors, all of which, at present, cannot be determined. Accordingly, the extent to which the pandemic may impact the Ballet's financial position, changes in net assets, and cash flows is uncertain, and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

NOTE 18. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 13, 2021, which is the date the financial statements were available to be issued. This review and evaluation revealed no other material event or transaction which would require an adjustment to or disclosure in the accompanying financial statements, except as noted below.

In July 2021, the Ballet received a federal award from the U.S. Small Business Administration's Shuttered Venue Operators Grant. In October 2021, the grant was amended, and the total award was increased to approximately \$5,933,000 for the grant period July 3, 2021 through January 3, 2023.