



THE WASHINGTON BALLET

FINANCIAL STATEMENTS AND REPORTS
REQUIRED BY THE UNIFORM GUIDANCE

JUNE 30, 2022





THE WASHINGTON BALLET

FINANCIAL STATEMENTS AND REPORTS REQUIRED BY THE UNIFORM GUIDANCE

YEARS ENDED JUNE 30, 2022 AND 2021

CONTENTS

	PAGE
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	4
Statements of Activities and Changes in Net Assets	6
Statements of Functional Expenses	8
Statements of Cash Flows	10
Notes to Financial Statements	12
Reports Required by the Uniform Guidance	
Schedule of Expenditures of Federal Awards	28
Notes to Schedule of Expenditures of Federal Awards	29
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	30
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	32
Schedule of Findings and Questioned Costs	35



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Washington Ballet

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Washington Ballet (the Ballet), a nonprofit organization, which comprise the statements of financial position as of June 30, 2022 and 2021, 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.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

Supplemental Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2022, on our consideration of the Ballet's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Ballet's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ballet's internal control over financial reporting and compliance.

CairnsCPAGroup, PLLC

Bethesda, MD

December 14, 2022

(except for the schedule of

Expenditures of federal awards

For which the date is March 7, 2023)



THE WASHINGTON BALLET

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 5,716,288	\$ 2,304,165
Accounts receivable	617,017	562,421
Pledges receivable	180,477	320,111
Grants receivable	2,500	292,284
Prepaid expenses	24,833	23,970
Total current assets	<u>6,541,115</u>	<u>3,502,951</u>
Other assets	<u>122,135</u>	<u>122,135</u>
Investments	<u>693,243</u>	<u>565,748</u>
Property and equipment		
Land	712,314	712,314
Building and building improvements	3,481,395	3,517,686
Furniture and equipment	1,142,151	1,274,082
Leasehold improvements	1,647,486	1,714,239
Computers and website	91,547	29,977
Less: accumulated depreciation and amortization	7,074,893	7,248,298
Net property and equipment	<u>(4,120,048)</u>	<u>(4,285,325)</u>
Total assets	<u>2,954,845</u>	<u>2,962,973</u>
	<u>\$ 10,311,338</u>	<u>\$ 7,153,807</u>

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2022 AND 2021

	2022	2021
Liabilities and Net Assets		
Current liabilities		
Loan payable	\$ -	\$ 100,000
Accounts payable	676,028	1,004,082
Accrued expenses	472,545	569,858
Deferred subscription income	57,213	182,244
Deferred school income	783,061	608,097
Refundable advance (Paycheck Protection Program)	-	1,252,110
Accrued rent and deferred lease incentive, current portion	<u>71,795</u>	<u>50,719</u>
Total current liabilities	<u>2,060,642</u>	<u>3,767,110</u>
Long-term liabilities		
Accrued rent and deferred lease incentive, net of current portion	530,640	262,507
Other liabilities	<u>24,648</u>	<u>-</u>
Total long-term liabilities	<u>555,288</u>	<u>262,507</u>
Total liabilities	<u>2,615,930</u>	<u>4,029,617</u>
Net assets		
Without donor restrictions	7,014,685	2,250,728
With donor restrictions	<u>680,723</u>	<u>873,462</u>
Total net assets	<u>7,695,408</u>	<u>3,124,190</u>
Total liabilities and net assets	<u><u>\$ 10,311,338</u></u>	<u><u>\$ 7,153,807</u></u>

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue			
Ticket sales/performances	\$ 4,094,833	\$ -	\$ 4,094,833
Tuition	2,891,155	-	2,891,155
Other	<u>621,966</u>	<u>-</u>	<u>621,966</u>
Total operating revenue	<u>7,607,954</u>	<u>-</u>	<u>7,607,954</u>
Operating expenses			
Program services			
Production costs	4,001,430	-	4,001,430
Artistic	3,255,599	-	3,255,599
School	2,304,334	-	2,304,334
Town Hall Education Arts Recreation Campus (The ARC)	<u>894,282</u>	<u>-</u>	<u>894,282</u>
Total program services	<u>10,455,645</u>	<u>-</u>	<u>10,455,645</u>
Support services			
Marketing and public relations	1,043,765	-	1,043,765
Development	1,589,572	-	1,589,572
General and administrative	<u>1,556,284</u>	<u>-</u>	<u>1,556,284</u>
Total support services	<u>4,189,621</u>	<u>-</u>	<u>4,189,621</u>
Total operating expenses	<u>14,645,266</u>	<u>-</u>	<u>14,645,266</u>
Change in net assets from operations	<u>(7,037,312)</u>	<u>-</u>	<u>(7,037,312)</u>
Public support and other changes in net assets			
Contributions of cash and other financial assets	2,327,840	45,775	2,373,615
Contributions of nonfinancial assets	292,589	-	292,589
Government grants	6,569,428	1,252,110	7,821,538
Special events	1,123,714	-	1,123,714
Net investment return	(2,861)	-	(2,861)
Gain on sale of property and equipment	(65)	-	(65)
Net assets released from restrictions	<u>1,490,624</u>	<u>(1,490,624)</u>	<u>-</u>
Total public support and other changes in net assets	<u>11,801,269</u>	<u>(192,739)</u>	<u>11,608,530</u>
Change in net assets	<u>4,763,957</u>	<u>(192,739)</u>	<u>4,571,218</u>
Net assets			
Beginning of year	<u>2,250,728</u>	<u>873,462</u>	<u>3,124,190</u>
End of year	<u>\$ 7,014,685</u>	<u>\$ 680,723</u>	<u>\$ 7,695,408</u>

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)

YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue			
Ticket sales/performances	\$ 194,301	\$ -	\$ 194,301
Tuition	2,179,899	-	2,179,899
Other	<u>132,770</u>	<u>-</u>	<u>132,770</u>
Total operating revenue	<u>2,506,970</u>	<u>-</u>	<u>2,506,970</u>
Operating expenses			
Program services			
Production costs	898,828	-	898,828
Artistic	2,788,236	-	2,788,236
School	2,057,689	-	2,057,689
Town Hall Education Arts Recreation Campus (The ARC)	<u>766,965</u>	<u>-</u>	<u>766,965</u>
Total program services	<u>6,511,718</u>	<u>-</u>	<u>6,511,718</u>
Support services			
Marketing and public relations	391,418	-	391,418
Development	1,136,514	-	1,136,514
General and administrative	<u>1,082,766</u>	<u>-</u>	<u>1,082,766</u>
Total support services	<u>2,610,698</u>	<u>-</u>	<u>2,610,698</u>
Total operating expenses	<u>9,122,416</u>	<u>-</u>	<u>9,122,416</u>
Change in net assets from operations	<u>(6,615,446)</u>	<u>-</u>	<u>(6,615,446)</u>
Public support and other changes in net assets			
Contributions of cash and other financial assets	2,282,576	184,400	2,466,976
Contributions of nonfinancial assets	280,849	-	280,849
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	<u>2,744,607</u>	<u>(2,744,607)</u>	<u>-</u>
Total public support and other changes in net assets	<u>7,189,035</u>	<u>(78,600)</u>	<u>7,110,435</u>
Change in net assets	<u>573,589</u>	<u>(78,600)</u>	<u>494,989</u>
Net assets			
Beginning of year	<u>1,677,139</u>	<u>952,062</u>	<u>2,629,201</u>
End of year	<u>\$ 2,250,728</u>	<u>\$ 873,462</u>	<u>\$ 3,124,190</u>

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program Services				Total Program Services	Support Services				Total
	Production	Artistic	School	The ARC		Marketing and Public Relations	Development	General and Administrative	Total Support Services	
Salaries	\$ 508,575	\$ 2,115,208	\$ 1,027,408	\$ 310,619	\$ 3,961,810	\$ 227,313	\$ 324,955	\$ 383,879	\$ 936,147	\$ 4,897,957
Benefits and payroll taxes	64,607	469,449	138,684	58,796	731,536	37,944	50,716	169,134	257,794	989,330
Professional fees	174,875	222,008	74,645	57,401	528,929	160,316	18,528	507,022	685,866	1,214,795
Service fees	14,650	67,634	27,754	11,375	121,413	6,834	9,886	35,432	52,152	173,565
Occupancy	207,680	27,018	425,043	113,773	773,514	12,310	12,147	8,212	32,669	806,183
Performances, events and meetings	2,565,441	105,506	27,470	4,724	2,703,141	4,557	695,422	15,522	715,501	3,418,642
Printing and promotion	-	-	29,895	750	30,645	501,384	39,811	-	541,195	571,840
Scholarships	-	-	71,946	306,133	378,079	-	-	-	-	378,079
Costs of goods sold	37,119	-	-	-	37,119	-	-	-	-	37,119
Depreciation	117,188	72,748	325,911	-	515,847	18,443	10,277	44,606	73,326	589,173
Supplies and equipment	72,779	51,542	9,424	4,664	138,409	504	5,356	18,603	24,463	162,872
Rental, repairs and maintenance	4,796	18,101	38,623	417	61,937	2,584	2,567	13,770	18,921	80,858
Insurance	4,569	21,097	11,585	3,550	40,801	2,131	3,060	14,561	19,752	60,553
Travel	1,665	4,341	111	(20)	6,097	4,042	3,126	12,599	19,767	25,864
Bad debt expense	-	-	72,782	4,890	77,672	-	-	-	-	77,672
Contributed non-financial expenses	-	-	-	-	-	-	43,245	249,344	292,589	292,589
Postage and shipping	85,811	316	3,669	1,414	91,210	663	3,865	177	4,705	95,915
Other	178,794	80,631	19,384	15,796	294,605	64,740	366,611	83,423	514,774	809,379
	4,038,549	3,255,599	2,304,334	894,282	10,492,764	1,043,765	1,589,572	1,556,284	4,189,621	14,682,385
Less: costs of goods sold included with operating revenue in the statement of activities and changes in net assets	(37,119)	-	-	-	(37,119)	-	-	-	-	(37,119)
Total expenses reported in the statement of activities and changes in net assets	\$ 4,001,430	\$ 3,255,599	\$ 2,304,334	\$ 894,282	\$ 10,455,645	\$ 1,043,765	\$ 1,589,572	\$ 1,556,284	\$ 4,189,621	\$ 14,645,266

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENT OF FUNCTIONAL EXPENSES

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	\$ 1,857,077	\$ 859,549	\$ 302,301	\$ 3,311,791	\$ 237,631	\$ 245,839	\$ 580,007	\$ 1,063,477	\$ 4,375,268	
Benefits and payroll taxes	41,218	532,795	145,257	68,507	787,777	40,212	42,351	106,644	189,207	976,984	
Professional fees	105,553	80,401	11,231	5,601	202,786	49,494	131,825	111,883	293,202	495,988	
Service fees	10,162	65,063	20,623	9,783	105,631	8,307	8,605	19,592	36,504	142,135	
Occupancy	229,975	17,589	508,772	128,640	884,976	8,737	8,637	8,666	26,040	911,016	
Performances, events and meetings	61,315	88,111	-	-	149,426	-	429,457	-	429,457	578,883	
Printing and promotion	-	-	13,994	-	13,994	7,221	69,619	-	76,840	90,834	
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	19,144	38,866	453,446	
Supplies and equipment	48,612	16,244	2,206	346	67,408	386	426	845	1,657	69,065	
Rental, repairs and maintenance	3,471	16,027	22,815	1,134	43,447	2,231	4,371	4,603	11,205	54,652	
Insurance	3,042	19,472	9,112	2,927	34,553	2,486	2,576	5,702	10,764	45,317	
Travel	7,487	3,634	250	-	11,371	-	(116)	16	(100)	11,271	
Bad debt expense	-	-	14,723	-	14,723	-	-	-	-	14,723	
Contributed non-financial expenses	-	-	-	-	-	-	50,000	230,849	280,849	280,849	
Postage and shipping	2,836	87	46	13	2,982	5,838	19,453	24	25,315	28,297	
Other	73,956	23,882	23,191	-	121,029	18,739	113,885	(5,209)	127,415	248,444	
	900,654	2,788,236	2,057,689	766,965	6,513,544	391,418	1,136,514	1,082,766	2,610,698	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	\$ 898,828	\$ 2,788,236	\$ 2,057,689	\$ 766,965	\$ 6,511,718	\$ 391,418	\$ 1,136,514	\$ 1,082,766	\$ 2,610,698	\$ 9,122,416	

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 4,571,218	\$ 494,989
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	558,074	453,448
Accrued rent and deferred lease incentive	(19,693)	(22,860)
Realized and unrealized gains, net	3,866	(6,464)
Bad debt expenses	77,672	14,723
Gain on sale of property and equipment	65	-
Changes in assets and liabilities		
Accounts receivable	(132,268)	(435,170)
Pledges receivable	139,634	378,136
Grants receivable	289,784	(292,284)
Prepaid expenses	(863)	(2,799)
Accounts payable	(328,054)	224,593
Accrued expenses	(97,313)	179,424
Deferred subscription income	(125,031)	(196,575)
Deferred school income	174,964	288,184
Other liabilities	24,648	-
Refundable advance	<u>(1,252,110)</u>	<u>-</u>
Net cash provided by operating activities	<u>3,884,593</u>	<u>1,077,345</u>

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Cash flows from (used for) investing activities		
Purchases of investments	\$ (131,361)	\$ (322,803)
Proceeds from sale of investments	- -	125,188
Purchase of property and equipment	(241,109)	(149,306)
Proceeds from sale of property and equipment	- -	- -
Net cash used for investing activities	<u>(372,470)</u>	<u>(346,921)</u>
Cash flows from financing activities		
Principal payments on loans payable	<u>(100,000)</u>	<u>(318,311)</u>
Net cash used for financing activities	<u>(100,000)</u>	<u>(318,311)</u>
Net change in cash and cash equivalents	3,412,123	412,113
Cash and cash equivalents		
Beginning of year	<u>2,304,165</u>	<u>1,892,052</u>
End of year	<u>\$ 5,716,288</u>	<u>\$ 2,304,165</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 3,359</u>	<u>\$ 7,903</u>
Supplemental disclosure of non-cash investing and financing activities		

The Ballet received \$340,000 in leasehold improvements, paid for by the landlord during the fiscal year ended June 30, 2022.

The Ballet received donated securities of \$130,819 and \$320,608 for the years ended June 30, 2022 and 2021, respectively.



THE WASHINGTON BALLET

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

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 June, 2025.

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, 2022 and 2021. 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, 2022 and 2021. For tax years prior to 2018, 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, 2022 and 2021. Bad debt expense related to accounts receivable was \$77,672 and \$14,723 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021.

Grants receivable represents amounts due to the Ballet for costs incurred under reimbursable grants, whether billed or unbilled. Grants receivable was \$2,500 and \$292,284 at June 30, 2022 and 2021, 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, 2022 and 2021, 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, U.S. Government and government agency obligations 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, 2022 and 2021. 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.

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 stipulated time restriction ends or purpose restriction is

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$98,375 and \$-0-, net of related costs of goods sold of \$37,119 and \$1,826 for the years ended June 30, 2022 and 2021, respectively.

Donated Securities - 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 \$130,819 and \$320,608 for the years ended June 30, 2022 and 2021, respectively, which are recorded as contributions in the statements of activities and changes in net assets.

Contributed Nonfinancial 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 of nonfinancial assets and expensed in the appropriate functional category. Included in contributed nonfinancial assets were donations of services rendered, which were reported at their estimated fair value. There were no restrictions associated with these contributed nonfinancial assets. These donated services required specialized skills which would typically need to be purchased if not donated.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the years ended June 30, 2022 and 2021, contributed nonfinancial assets recognized within the statements of activities and changes in net assets included:

	June 30, 2022	June 30, 2021	Utilization in <u>Programs/Activities</u>	Donor <u>Restrictions</u>	Valuation techniques <u>and inputs</u>
	<u>Revenue recognized</u>	<u>Revenue recognized</u>	<u>Various Administrative legal matters</u>	<u>No associated donor restrictions</u>	
Services-attorney	\$ 249,344	\$ 230,849	Various Administrative legal matters	No associated donor restrictions	Contributed services from attorneys are valued at the estimated fair value based on current rates for similar legal services
Services-photographer	43,245	-	Various development matters	No associated donor restrictions	Contributed services from photographers are valued at the estimated fair value based on current rates for similar professional services
Food & beverage	-	50,000	Events for Development	No associated donor restrictions	The Ballet estimated the fair value on the basis of an invoice received for procuring the goods for the two events, which was based on wholesale pricing.

The Ballet received approximately 2,500 hours and 1,980 hours of volunteer service for the years ended June 30, 2022 and 2021, 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 \$37,500 and \$29,700 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, the discounted tuition was recorded in the financial statements at \$296,311 and \$225,234, 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, 2022, the Ballet had cash in excess of the FDIC insurance limit of approximately \$5,200,000.

New Accounting Pronouncement Adopted - During the year ended June 30, 2022, the Ballet adopted the provisions of Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (the Update), which increases the transparency of contributed nonfinancial assets within the financial statements of not-for-profit entities through the enhancement of the presentation and disclosure of such activities. The Update requires a not-for-profit to present contributed nonfinancial assets as a separate line item in the statements of activities and changes in net assets, apart from contributions of cash or other financial assets. The change in accounting principle resulting from ASU 2020-07 was adopted and applied retrospectively to each prior reporting period presented.

Reclassifications - Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported net assets or changes in net assets.

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.

NOTE 3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES (CONTINUED)

Financial assets available for general expenditure within one year of June 30, 2022 and 2021 consist of the following:

	2022	2021
Total assets at end of year	\$ 10,311,338	\$ 7,153,807
Less nonfinancial assets		
Prepaid expenses	(24,833)	(23,970)
Other assets	(122,135)	(122,135)
Net property and equipment	<u>(2,954,845)</u>	<u>(2,962,973)</u>
Total financial assets at end of year	7,209,525	4,044,729
Less amounts not available to meet general expenditures coming due within one year, due to		
Donor-imposed restrictions	(350,723)	(380,462)
Endowment	<u>(310,000)</u>	<u>(310,000)</u>
Total financial assets available for general expenditures coming due in the next year	<u>\$ 6,548,802</u>	<u>\$ 3,354,267</u>

NOTE 4. PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2022	2021
Receivable in less than one year	\$ 180,477	\$ 320,111
Receivable in one to five years	-	-
	<u>\$ 180,477</u>	<u>\$ 320,111</u>

NOTE 5. INVESTMENTS

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

	2022	2021
Money market funds	\$ 670,043	\$ 539,488
U.S. Government and government agency obligations	5,924	-
Fixed-income exchange-traded funds and mutual funds	13,394	9,943
Equity exchange-traded funds and mutual funds	<u>3,882</u>	<u>16,317</u>
	<u>\$ 693,243</u>	<u>\$ 565,748</u>

NOTE 5. INVESTMENTS (CONTINUED)

Net investment income consists of the following:

	2022	2021
Dividends and interest	\$ 1,005	\$ 502
Realized and unrealized gains on investments	<u>(3,866)</u>	<u>6,464</u>
	<u>\$ (2,861)</u>	<u>\$ 6,966</u>

NOTE 6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with temporary donor restrictions consist of the following:

	2022	2021
Purpose restrictions		
Scholarships	\$ 175,723	\$ 205,462
Pointe Shoes Fund	-	-
Building and capital campaign	45,000	45,000
GOH Fund	65,000	65,000
Berherend/Goldstein Fund	<u>65,000</u>	<u>65,000</u>
Total purpose restrictions	350,723	380,462
Time restricted only - general support for use in future periods	<u>20,000</u>	<u>183,000</u>
	<u>\$ 370,723</u>	<u>\$ 563,462</u>

Net assets with perpetual donor restrictions consist of the following:

	2022	2021
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 \$501,384 and \$313,634 for the years ended June 30, 2022 and 2021, respectively.

NOTE 8. LOANS PAYABLE

The Ballet had a loan with an original principal balance of \$808,391 for which the loan terms were amended on November 20, 2018. The loan bore 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 was secured by the Ballet's inventory, receivables, equipment and fixtures, and a lien on its Wisconsin Avenue property. The loan was 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 was cross-defaulted with other obligations of the Ballet. The loan also provided for a \$43,000 letter of credit facility. The loan had an outstanding balance of \$-0- and \$100,000 as of June 30, 2022 and 2021, respectively. Interest expense related to the loan was \$3,359 and \$7,064 for the years ended June 30, 2022 and 2021, respectively.

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.

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 2021, at which time the proceeds will be recognized as contribution revenue. The Ballet initially recorded the note payable as a refundable advance and subsequently recognized contribution income related to the debt forgiveness, received November 12, 2021. The amount of contribution income recognized during the year ended June 30, 2022 was \$1,252,110.

NOTE 10. LEASES

The Ballet entered into a lease for warehouse space in Landover, Maryland with a 15-year term 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 specified 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 if the total cost is more than \$350,000, which will be amortized monthly over the life of the leases and included with monthly rent payments. The build out was completed with a total cost of \$340,000, all paid by the tenant. 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, 2022 and 2021, including operating expense reimbursements, was \$211,766 and \$216,852, respectively. The sublease income, including operating expense reimbursements, for the year ended June 30, 2022 and 2021 was \$74,053 and \$67,289, respectively, included in other revenue in the statements 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 original lease term commenced on January 1, 2012, and ended on December 31, 2021, 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 was amended in January 2022 to re-commence on May 1, 2022 for 48 months, lease term ending April 30, 2026. The original and amended 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. 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, 2022 and 2021 was \$120,672 and \$94,088, respectively.

In September 2021, the Ballet extended a 15-year operating lease, retroactive to January 2020 for space to be used as a dance studio at Building Bridges Across the River which will expire December 31, 2035. Prior to September 2021, the lease was operating on a month-to-month basis. 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, 2022 and 2021, the Ballet reimbursed \$111,434 and \$95,571, 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 Ballet entered into an amendment for this space during the year ended June 30, 2022 and the lease will now expire November 2025. The current lease has

NOTE 10. LEASES (CONTINUED)

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, 2022 and 2021, total deferred lease incentives of \$160,298 and \$207,215, respectively, 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, 2022 and 2021, rent expense for this space totaled \$223,328 and \$363,893, respectively.

Accrued straight-line rent liability as of June 30, 2022 and 2021 for all leases was \$133,235 and \$102,209, respectively, and is included in accrued rent and deferred lease incentive (a liability) in the statements of financial position.

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

2023	\$ 496,588
2024	516,581
2025	537,431
2026	363,752
2027	165,626
Thereafter	<u>1,372,733</u>
	<u>\$ 3,452,711</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, 2022 and 2021 were \$56,759 and \$41,300, respectively.

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, 2022 and 2021:

Description	June 30, 2022	Quoted Market	Significant	Significant
		Price for Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market funds	\$ 670,043	\$ 670,043	\$ -	\$ -
U.S. Government and government agency obligations	5,924	-	5,924	-
Fixed-income exchange-traded funds and mutual funds	13,394	13,394	-	-
Equity exchange-traded funds and mutual funds	3,882	3,882	-	-
Total	\$ 693,243	\$ 687,319	\$ 5,924	\$ -

Description	June 30, 2021	Quoted Market	Significant	Significant
		Price for Assets (Level 1)	Other Observable Inputs (Level 2)	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	\$ 565,748	\$ 565,748	\$ -	\$ -

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

NOTE 13. ENDOWMENT (CONTINUED)

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.

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, 2020	\$ -	\$ -	\$ 310,000	\$ 310,000
Investment income				
Interest and dividend income	-	240	-	240
Net realized and unrealized loss	-	3,093	-	3,093
Total investment income	-	3,333	-	3,333
Appropriation for expenditure	-	(3,333)	-	(3,333)
Transfer out	-	-	-	-
Endowment net assets, June 30, 2021	-	-	310,000	310,000
Investment income				
Interest and dividend income	-	-	-	-
Net realized and unrealized gains	-	-	-	-
Total investment income	-	-	-	-
Appropriation for expenditure	-	-	-	-
Endowment net assets, June 30, 2022	\$ -	\$ -	\$ 310,000	\$ 310,000

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 was further extended for another three years, and will expire on June 30, 2025. 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, 2022 and 2021 was \$198,781 and \$182,625, 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, 2022 and 2021.

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, 2022 and 2021 are as follows:

	2022	2021	2020
Accounts receivable	<u>\$ 55,907</u>	<u>\$ 61,665</u>	<u>\$ 141,974</u>
Deferred revenue			
Subscription income	\$ 57,213	\$ 182,244	\$ 378,819
School income	783,061	608,097	319,913
Other	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred revenue	<u>\$ 840,274</u>	<u>\$ 790,341</u>	<u>\$ 698,732</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. CONCENTRATIONS

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. This represents approximately 51% of total public support and other changes in net assets.

NOTE 18. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 14, 2022, 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.



REPORTS REQUIRED BY THE UNIFORM GUIDANCE



THE WASHINGTON BALLET

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

Federal Granting Agency and Program Title	Federal Assistance Number	Grant Number	Passed Through to Subrecipients	Total Federal Expenditures
Small Business Administration				
COVID-19 - Shuttered Venue Operators Grant	59.075	SBAHQ21SV003496.2	N/A	\$ 5,932,958
Total Small Business Administration				<u>5,932,958</u>
Total Expenditures of Federal Awards				\$ 5,932,958

See accompanying notes to schedule of expenditures of federal awards.



THE WASHINGTON BALLET

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

NOTE 1. BASIS OF PRESENTATION

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where certain types of expenditures are not allowable or limited as to reimbursement. No indirect costs are included in this award.

NOTE 3. COVID-19 SHUTTERED VENUE OPERATORS GRANT

The Shuttered Venue Operators Grant (SVOG) program was created in Section 324 of the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (part of HR 133 Consolidated Appropriations Act, 2021) signed into law on December 27, 2020. The SVOG program provided grant awards of up to \$10 million to support the ongoing operations of eligible live venue organizations, including nonprofit museums, who have experienced significant revenue losses because of the COVID-19 pandemic.

In July 2021, the Ballet was awarded a \$5.933 million SVOG grant. Under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605 "Contributions Received and Contributions Made" entitlement to the payments and recognition of revenue is conditioned upon having incurred eligible expenses and noncompliance with the terms and conditions is grounds for recoupment by the Small Business Administration. For the year ending June 30, 2022, sufficient eligible expenses have been incurred and the Ballet has recognized the full amount of the grant as Government Grants, without donor restrictions, in its statement of activities and changes in net assets. The full amount awarded is also reflected on the Schedule for the year ended December 31, 2021.

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

To the Board of Directors
The Washington Ballet

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Washington Ballet (the Ballet), a nonprofit organization, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2022.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Calibre CPA Group, PLLC

Bethesda, MD

December 14, 2022

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

To the Board of Directors
The Washington Ballet

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The Washington Ballet's (the Ballet) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the Ballet's major federal program for the year ended June 30, 2022. The Ballet's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

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

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

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

CalibreCPAGroup, PLLC

Bethesda, MD
December 14, 2022



THE WASHINGTON BALLET

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

SECTION 1 – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting: **Unmodified**
2. Internal control over financial reporting:
 - Material weakness(es) identified? _____ Yes No
 - Significant deficiency(ies) identified? _____ Yes No
3. Noncompliance material to financial statements noted? _____ Yes No

Federal Awards

4. Internal control over major federal programs:
 - Material weakness(es) identified? _____ Yes No
 - Significant deficiency(ies) identified? _____ Yes No
5. Type of auditor's report issued on compliance for major federal programs: **Unmodified**
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes No
7. Identification of major federal programs:

Assistance Listing Number

59.075

Name of Federal Program or Cluster

COVID-19 Shuttered Venue Operators Grant



THE WASHINGTON BALLET

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2022

8. Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
9. Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

SECTION 2 – FINANCIAL STATEMENT FINDINGS

None.

SECTION 3 – FEDERAL AWARD FINDINGS

None.

SECTION 4 – PRIOR YEAR FINDINGS

There were no prior year audit findings.