



THE WASHINGTON BALLET

FINANCIAL STATEMENTS

JUNE 30, 2023





THE WASHINGTON BALLET

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Washington Ballet

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, 2023 and 2022, 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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

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 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, 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.

Calibre CPA Group, PLLC

Bethesda, MD
December 13, 2023



THE WASHINGTON BALLET

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	\$ 3,524,173	\$ 5,716,288
Accounts receivable, net	59,071	617,017
Pledges receivable	600,075	180,477
Grants receivable	100,000	2,500
Prepaid expenses	168,128	24,833
Right-of-use assets - operating leases	<u>387,405</u>	-
Total current assets	<u>4,838,852</u>	<u>6,541,115</u>
Other assets	<u>123,135</u>	<u>122,135</u>
Investments	<u>1,066,372</u>	<u>693,243</u>
Right-of-use assets - operating leases, net of current	<u>1,694,777</u>	-
Property and equipment		
Land	712,314	712,314
Building and building improvements	3,594,868	3,481,395
Furniture and equipment	1,164,595	1,142,151
Leasehold improvements	1,713,360	1,647,486
Computers and website	<u>97,175</u>	<u>91,547</u>
	7,282,312	7,074,893
Less: accumulated depreciation and amortization	<u>(4,501,250)</u>	<u>(4,120,048)</u>
Net property and equipment	<u>2,781,062</u>	<u>2,954,845</u>
Total assets	<u><u>\$ 10,504,198</u></u>	<u><u>\$ 10,311,338</u></u>

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2023 AND 2022

	2023	2022
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 524,335	\$ 676,028
Accrued expenses	384,764	472,545
Deferred subscription income	86,143	57,213
Deferred school income	898,123	783,061
Accrued rent and deferred lease incentive, current portion	-	71,795
Lease liability - operating leases	<u>455,687</u>	<u>-</u>
Total current liabilities	<u>2,349,052</u>	<u>2,060,642</u>
Long-term liabilities		
Accrued rent and deferred lease incentive, net of current portion	-	530,640
Other liabilities	24,648	24,648
Lease liability - operating leases, net of current	<u>2,180,640</u>	<u>-</u>
Total long-term liabilities	<u>2,205,288</u>	<u>555,288</u>
Total liabilities	<u>4,554,340</u>	<u>2,615,930</u>
Net assets		
Without donor restrictions	5,108,129	7,014,685
With donor restrictions	<u>841,729</u>	<u>680,723</u>
Total net assets	<u>5,949,858</u>	<u>7,695,408</u>
Total liabilities and net assets	<u>\$ 10,504,198</u>	<u>\$ 10,311,338</u>

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue			
Ticket sales/performances	\$ 5,085,550	\$ -	\$ 5,085,550
Tuition	3,411,277	-	3,411,277
Other	<u>1,090,109</u>	-	<u>1,090,109</u>
Total operating revenue	<u>9,586,936</u>	-	<u>9,586,936</u>
Operating expenses			
Program services			
Production costs	4,364,490	-	4,364,490
Artistic	3,477,185	-	3,477,185
School	2,238,091	-	2,238,091
Town Hall Education Arts Recreation Campus (The ARC)	780,989	-	780,989
Community engagement	<u>100,003</u>	-	<u>100,003</u>
Total program services	<u>10,960,758</u>	-	<u>10,960,758</u>
Support services			
Marketing and public relations	1,584,713	-	1,584,713
Development	1,816,525	-	1,816,525
General and administrative	<u>2,381,996</u>	-	<u>2,381,996</u>
Total support services	<u>5,783,234</u>	-	<u>5,783,234</u>
Total operating expenses	<u>16,743,992</u>	-	<u>16,743,992</u>
Change in net assets from operations	<u>(7,157,056)</u>	-	<u>(7,157,056)</u>
Public support and other changes in net assets			
Contributions of cash and other financial assets	2,601,837	250,000	2,851,837
Contributions of nonfinancial assets	289,214	-	289,214
Government grants	488,527	207,500	696,027
Special events	1,512,461	-	1,512,461
Net investment return	53,365	8,602	61,967
Net assets released from restrictions	<u>305,096</u>	<u>(305,096)</u>	<u>-</u>
Total public support and other changes in net assets	<u>5,250,500</u>	<u>161,006</u>	<u>5,411,506</u>
Change in net assets	<u>(1,906,556)</u>	<u>161,006</u>	<u>(1,745,550)</u>
Net assets			
Beginning of year	<u>7,014,685</u>	<u>680,723</u>	<u>7,695,408</u>
End of year	<u>\$ 5,108,129</u>	<u>\$ 841,729</u>	<u>\$ 5,949,858</u>

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)

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 FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023

	Program Services						Support Services						Total
	Production	Artistic	School	The ARC	Community Engagement	Total Program Services	Marketing and Public Relations	Development	General and Administrative	Total Support Services			
Salaries	\$ 526,099	\$ 2,240,212	\$ 1,129,030	\$ 339,811	\$ 50,689	\$ 4,285,841	\$ 304,868	\$ 383,153	\$ 765,560	\$ 1,453,581	\$ 5,739,422		
Benefits and payroll taxes	67,562	429,322	148,118	59,061	9,254	713,317	59,036	44,416	130,579	234,031	947,348		
Professional fees	6,102	24,540	37,667	1,600	-	69,909	99,172	237,301	791,309	1,127,782	1,197,691		
Service fees	44	-	237	-	7	288	10,395	30,246	160,773	201,414	201,702		
Occupancy	202,289	68,740	431,563	79,476	1,555	783,623	9,505	11,757	23,491	44,753	828,376		
Performances, events and meetings	3,146,458	339,281	35,990	2,595	3,857	3,528,181	490,307	783,898	123,353	1,397,558	4,925,739		
Printing and promotion	1,992	-	37,679	-	27,593	67,264	544,502	31,106	-	575,608	642,872		
Scholarships	-	-	119,328	257,585	-	376,913	-	-	-	-	376,913		
Costs of goods sold	-	-	5,827	-	-	5,827	97,606	-	-	-	97,606	103,433	
Depreciation	96,705	112,349	170,109	1,677	-	380,840	17,173	19,216	38,393	74,782	455,622		
Supplies and equipment	248,947	1,213	6,118	6,583	-	262,861	2,006	2,585	20,816	25,407	288,268		
Rental, repairs and maintenance	26,870	113,842	57,374	17,268	2,576	217,930	16,413	19,471	38,904	74,788	292,718		
Insurance	19,304	82,308	41,428	12,469	1,860	157,369	11,667	14,059	28,091	53,817	211,186		
Travel	21,809	21,232	6,049	99	-	49,189	14,645	5,132	3,850	23,627	72,816		
Bad debt expense	-	-	17,201	2,765	-	19,966	-	99,365	-	99,365	119,331		
Contributed non-financial expenses	-	-	-	-	-	-	-	41,454	247,760	289,214	289,214		
Postage and shipping	309	-	200	-	-	509	2,298	4,889	1,733	8,920	9,429		
Other	-	44,146	-	-	2,612	46,758	2,726	88,477	7,384	98,587	145,345		
	4,364,490	3,477,185	2,243,918	780,989	100,003	10,966,585	1,682,319	1,816,525	2,381,996	5,880,840	16,847,425		
Less: costs of goods sold included with operating revenue in the statement of activities and changes in net assets	-	-	(5,827)	-	-	(5,827)	(97,606)	-	-	(97,606)	(103,433)		
Total expenses reported in the statement of activities and changes in net assets	\$ 4,364,490	\$ 3,477,185	\$ 2,238,091	\$ 780,989	\$ 100,003	\$ 10,960,758	\$ 1,584,713	\$ 1,816,525	\$ 2,381,996	\$ 5,783,234	\$ 16,743,992		

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	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	\$ 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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ (1,745,550)	\$ 4,571,218
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation and amortization	455,621	558,074
Accrued rent and deferred lease incentive	(602,435)	(19,693)
Realized and unrealized gains, net	695	3,866
Bad debt expenses	119,331	77,672
Gain on sale of property and equipment	-	65
Changes in assets and liabilities		
Accounts receivable	438,615	(132,268)
Pledges receivable	(419,598)	139,634
Grants receivable	(97,500)	289,784
Prepaid expenses	(143,295)	(863)
Other assets	(1,000)	-
Right-of-use assets - operating leases	(2,082,182)	-
Accounts payable	(151,693)	(328,054)
Accrued expenses	(87,781)	(97,313)
Deferred subscription income	28,930	(125,031)
Deferred school income	115,062	174,964
Other liabilities	-	24,648
Lease liability - operating leases	2,636,327	-
Refundable advance	-	(1,252,110)
Net cash provided by (used for) operating activities	<u>(1,536,453)</u>	<u>3,884,593</u>

See accompanying notes to financial statements.



THE WASHINGTON BALLET

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Cash flows used for investing activities		
Purchases of investments	\$ (373,824)	\$ (131,361)
Purchase of property and equipment	<u>(281,838)</u>	<u>(241,109)</u>
Net cash used for investing activities	<u>(655,662)</u>	<u>(372,470)</u>
Cash flows from financing activities		
Principal payments on loans payable	- -	(100,000)
Net cash used for financing activities	<u>- -</u>	<u>(100,000)</u>
Net change in cash and cash equivalents	(2,192,115)	3,412,123
Cash and cash equivalents		
Beginning of year	<u>5,716,288</u>	2,304,165
End of year	<u>\$ 3,524,173</u>	<u>\$ 5,716,288</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ - -</u>	<u>\$ 3,359</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 \$344,360 and \$130,819 for the years ended June 30, 2023 and 2022, respectively.



THE WASHINGTON BALLET

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

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, 2023 and 2022. The Ballet recognizes interest expense and penalties related to income taxes in general and administrative expenses on the statements of activities and changes 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, 2023 and 2022. For tax years prior to 2019, 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 \$99,365 and \$-0- as of June 30, 2023 and 2022. Bad debt expense related to accounts receivable was \$119,331 and \$77,672 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022.

Grants receivable represents amounts due to the Ballet for costs incurred under reimbursable grants, whether billed or unbilled. Grants receivable was \$100,000 and \$2,500 at June 30, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022. 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 \$167,961 and \$98,375, net of related costs of goods sold of \$103,433 and \$37,119 for the years ended June 30, 2023 and 2022, 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 \$344,360 and \$130,819 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022, contributed nonfinancial assets recognized within the statements of activities and changes in net assets included:

	June 30, 2023 Revenue Recognized	June 30, 2022 Revenue Recognized	Utilization in Programs/ Activities	Donor Restrictions	Valuation Techniques and Inputs
Services-attorney	\$ 247,760	\$ 249,344	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	25,575	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
Banquet Food, beverage, and other	<u>15,879</u>	<u>-</u>	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.
	<u><u>\$ 289,214</u></u>	<u><u>\$ 292,589</u></u>			

The Ballet received approximately 2,600 hours and 2,500 hours of volunteer service for the years ended June 30, 2023 and 2022, 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 \$40,000 and \$37,500 for the years ended June 30, 2023 and 2022, respectively.

Discounted Tuition and Scholarships - The Ballet gives discounted tuition and scholarships to certain students at Washington Ballet @ Town Hall Education Art Recreation Campus. For the years ended June 30, 2023 and 2022, the discounted tuition and scholarships was recorded in the financial statements at \$247,747 and \$296,311, 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)

Leases - In its statements of financial position, the Ballet records a right-of-use asset and lease liability, initially measured at the present value of total lease payments using a risk-free rate that approximates the remaining term of the lease. The Ballet considers the likelihood of exercising renewal or termination clauses (if any) in measuring its right-of-use assets and lease liabilities. A single lease cost is calculated so that the cost of the lease is allocated over the lease term on a straight-line basis. Short-term leases (those with an initial term of twelve months or less and no purchase option) are expensed over their terms, with no corresponding right-of-use asset or lease liability recorded. The Ballet does not separate non-lease components (if any) from lease components in determining the lease payments for leases of office equipment.

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, 2023, the Ballet had cash in excess of the FDIC insurance limit of approximately \$3,200,000.

New Accounting Pronouncement Adopted - During the year ended June 30, 2023, the Ballet adopted the provisions of Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). This guidance is intended to increase transparency and comparability among lessees by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements. ASU 2016-02 requires lessees to report a right-of-use asset along with a lease liability.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases* (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases in the statements of financial position. Additionally, in July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842) – *Targeted Improvements*, which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The Ballet adopted ASU 2016-02 and its related amendments as of July 1, 2022, which resulted in the recognition of operating right-of-use assets totaling \$2,457,073, as well as operating lease liabilities totaling \$3,059,508.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Ballet elected to adopt the transition relief provisions from ASU 2018-11 and recorded the impact of adoption as of July 1, 2022, without restating any prior-year amounts or disclosures. The related additional lease disclosures can be found in Note 10. There was no cumulative effect adjustment to the opening balance of net assets required.

The Ballet elected to apply all practical expedients available under the ASU, allowing it to 1) not reassess whether any expired or existing contracts previously assessed as not containing leases are, or contain, leases; 2) not reassess the lease classification for any expired or existing leases; 3) not reassess initial direct costs for any existing leases; and 4) to utilize the risk-free interest rate for all underlying assets. The Ballet also elected to apply the practical expedient to use hindsight in determining the lease term which in the year of implementation the Ballet has determined to be the remaining lease term.

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, 2023 and 2022 consist of the following:

	2023	2022
Total assets at end of year	\$ 10,504,198	\$ 10,311,338
Less: nonfinancial assets		
Prepaid expenses	(168,128)	(24,833)
Other assets	(123,135)	(122,135)
Right-of-use assets - operating leases	(2,082,182)	-
Net property and equipment	<u>(2,781,062)</u>	<u>(2,954,845)</u>
Total financial assets at end of year	5,349,691	7,209,525
Less: amounts not available to meet general expenditures coming due within one year, due to		
Donor-imposed restrictions	(531,729)	(350,723)
Endowment	<u>(310,000)</u>	<u>(310,000)</u>
Total financial assets available for general expenditures coming due in the next year	<u>\$ 4,507,962</u>	<u>\$ 6,548,802</u>

NOTE 4. PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2023	2022
Receivable in less than one year	\$ 699,440	\$ 180,477
Receivable in one to five years	-	-
	<u>\$ 699,440</u>	<u>\$ 180,477</u>

NOTE 5. INVESTMENTS

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

	2023	2022
Money market funds	\$ 1,045,344	\$ 670,043
U.S. Government and government agency obligations	3,884	5,924
Fixed-income exchange-traded funds and mutual funds	3,777	13,394
Equity exchange-traded funds and mutual funds	<u>13,367</u>	<u>3,882</u>
	<u>\$ 1,066,372</u>	<u>\$ 693,243</u>

Net investment income consists of the following:

	2023	2022
Dividends and interest	\$ 63,273	\$ 1,005
Realized and unrealized gains (losses) on investments	(695)	(3,866)
Investment expense	<u>(611)</u>	<u>-</u>
	<u>\$ 61,967</u>	<u>\$ (2,861)</u>

NOTE 6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with temporary donor restrictions consist of the following:

	2023	2022
Purpose restrictions		
Scholarships	\$ 169,832	\$ 175,723
Building and capital campaign	231,897	45,000
GOH Fund	65,000	65,000
Berherend/Goldstein Fund	<u>65,000</u>	<u>65,000</u>
Total purpose restrictions	531,729	350,723
Time restricted only - general support for use in future periods	-	20,000
	<u>\$ 531,729</u>	<u>\$ 370,723</u>

Net assets with perpetual donor restrictions consist of the following:

	2023	2022
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 \$495,686 and \$501,384 the years ended June 30, 2023 and 2022, 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 was paid off during 2022. Interest expense related to the loan was \$0- and \$3,359 for the years ended June 30, 2023 and 2022, respectively.

NOTE 9. REFUNDABLE ADVANCE

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 were 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. The sublease income, including operating expense reimbursements, for the year ended June 30, 2023 and 2022 was \$67,911 and \$74,053, 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. 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.

NOTE 10. LEASES (CONTINUED)

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.

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 an option to renew for two consecutive periods of five years each. As of June 30, 2023, the Ballet is uncertain of whether these options to renew will be exercised. The lease specifies scheduled rent increases over the lease term and reimbursement of certain defined operating expenses. 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, total deferred lease incentives of \$160,298 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.

The Ballet signed a lease for copiers to be used for operations, commencing September 2021 for sixty months, to end August 2026.

During 2023, the Ballet adopted the new lease standards, see Note 2, which removed the liability for deferred lease incentives and instead added a related right-of-use asset and lease liability to the statements of financial position. The operating lease cost was \$625,336 for the year ended June 30, 2023. The Ballet does not have any financing leases or short term lease cost.

Supplemental qualitative information related to operating leases is as follows:

Weighted-average remaining lease term (in years) - operating leases	8.21
Weighted-average discount rate - operating leases	2.87%
Right-of-use assets obtained in exchange for lease obligations	\$ 2,457,073

NOTE 10. LEASES (CONTINUED)

The maturity of the lease liability under the Ballet's operating lease as of June 30, 2023 is as follows:

Year ended June 30,	
2024	\$ 525,465
2025	546,315
2026	372,637
2027	167,108
2028	170,502
Thereafter	<u>1,202,232</u>
Undiscounted future cash flows	2,984,259
Less: effects of discounting	<u>(347,931)</u>
Lease liability recognized	<u>\$ 2,636,328</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, 2023 and 2022 were \$52,680 and \$56,759, 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.

NOTE 12. FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2023 and 2022:

Description	June 30, 2023	Quoted Market Price for Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Total	Price for Assets (Level 1)	Other Observable Inputs (Level 2)		
Money market funds	\$ 1,045,344	\$ 1,045,344		\$ -	\$ 3,884	\$ -
U.S. Government and government agency obligations	3,884	-				
Fixed-income exchange-traded funds and mutual funds	3,777	3,777				
Equity exchange-traded funds and mutual funds	13,367	13,367				
Total	<u>\$ 1,066,372</u>	<u>\$ 1,062,488</u>		<u>\$ 3,884</u>		<u>\$ -</u>

Description	June 30, 2022	Quoted Market Price for Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Total	Price for Assets (Level 1)	Other Observable Inputs (Level 2)		
Money market funds	\$ 670,043	\$ 670,043		\$ -	\$ 5,924	\$ -
U.S. Government and government agency obligations	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	<u>\$ 693,243</u>	<u>\$ 687,319</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

NOTE 13. ENDOWMENT (CONTINUED)

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.

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.

NOTE 13. ENDOWMENT (CONTINUED)

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, 2021	\$ -	\$ -	\$ 310,000	\$ 310,000
Investment income				
Interest and dividend income	-	-	-	-
Net realized and unrealized loss	-	-	-	-
Total investment income	-	-	-	-
Appropriation for expenditure	-	-	-	-
Transfer out	-	-	-	-
Endowment net assets, June 30, 2022	-	-	310,000	310,000
Investment income				
Interest and dividend income	-	8,804	-	8,804
Net realized and unrealized gains	-	(202)	-	(202)
Total investment income	-	8,602	-	8,602
Appropriation for expenditure	-	(8,602)	-	(8,602)
Endowment net assets, June 30, 2023	\$ -	\$ -	\$ 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

NOTE 14. COMMITMENTS (CONTINUED)

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, 2023 and 2022 was \$152,681 and \$198,781, 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, 2023 and 2022.

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, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Accounts receivable	<u>\$ 59,071</u>	<u>\$ 55,907</u>	<u>\$ 61,665</u>
Deferred revenue			
Subscription income	\$ 86,143	\$ 57,213	\$ 182,244
School income	<u>898,123</u>	<u>783,061</u>	<u>608,097</u>
Total deferred revenue	<u>\$ 984,266</u>	<u>\$ 840,274</u>	<u>\$ 790,341</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 intention 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 for the year ended June 30, 2022.

NOTE 18. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 13, 2023, 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.