

FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
JULY 31, 2020

PREPARED BY



BALLET WEST

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Independent Auditor's Report

To the Board of Directors
Ballet West

We have audited the accompanying financial statements of **Ballet West** (the "Ballet"), which comprise the statements of financial position as of July 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Ballet West** as of July 31, 2020 and 2019, 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.

Larson & Company P.C.

Salt Lake City, Utah
October 27, 2020

BALLET WEST
Statements of Financial Position
As of July 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 297,688	\$ 44,876
Certificates of deposit	35,703	35,597
Accounts receivable, net	8,649	423
Agency receivables, current	1,000,000	500,000
Promises to give, current	213,075	350,287
Prepaid and deferred expenses	445,645	507,436
Total current assets	2,000,760	1,438,619
Agency receivables, net of current portion	513,220	1,509,902
Promises to give, net of current portion	351,388	623,864
Property and equipment, net	4,039,134	4,140,221
Goodwill and other intangibles, net	279,341	295,769
Deferred 457b investments	76,275	38,086
Interest in charitable remainder annuity trust	34,565	39,803
Investments in perpetual trust	473,339	416,692
Investments in endowment	1,989,343	1,830,147
Total assets	\$ 9,757,365	\$ 10,333,103
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 107,466	\$ 292,891
Accrued liabilities	549,407	362,701
Deferred revenue	915,973	957,039
Deferred rent	132,439	145,456
Refundable advance	1,686,752	-
Line of credit	605,843	1,661,521
Accrued interest on notes payable	377,170	392,228
Notes payable, current	1,038,903	12,769
Annuity obligation, current	9,028	8,445
Total current liabilities	5,422,981	3,833,050
Deferred 457b compensation	76,275	38,086
Notes payable, net of current portion	1,132,573	2,521,576
Annuity obligation, net of current portion	-	6,846
Total liabilities	6,631,829	6,399,558
Net assets:		
Without donor restrictions	(76,342)	(329,919)
With donor restrictions	3,201,878	4,263,464
Total net assets	3,125,536	3,933,545
Total liabilities and net assets	\$ 9,757,365	\$ 10,333,103

The accompanying notes to the financial statements
are an integral part of these statements

BALLET WEST
Statement of Activities
For the Year Ended July 31, 2020

	Without donor restrictions	With donor restrictions	Totals
Revenues, support, other income and gains:			
Admission and performance fees	\$ 2,660,693	\$ -	\$ 2,660,693
Tuition, rental revenues and merchandise	4,037,849	-	4,037,849
Grants and contributions	5,322,642	536,936	5,859,578
Interest and dividends	38,464	-	38,464
Net unrealized gain on investments in endowment	140,912	56,646	197,558
Total revenues, support, other income and gains	12,200,560	593,582	12,794,142
Net assets released from restrictions	1,655,168	(1,655,168)	-
Total revenues, support, other income, gains and net assets released from restrictions	13,855,728	(1,061,586)	12,794,142
Expenses:			
Program services:			
Performance and artistic	8,318,996	-	8,318,996
Academy	2,575,105	-	2,575,105
Education	233,397	-	233,397
Supporting services:			
General and administrative	1,542,758	-	1,542,758
Fundraising	814,456	-	814,456
Total expenses	13,484,712	-	13,484,712
Increase (decrease) in net assets before interest expense for capital campaign	371,016	(1,061,586)	(690,570)
Interest expense for capital campaign	(117,439)	-	(117,439)
Increase (decrease) in net assets	253,577	(1,061,586)	(808,009)
Net assets, beginning of year	(329,919)	4,263,464	3,933,545
Net assets, end of year	\$ (76,342)	\$ 3,201,878	\$ 3,125,536

The accompanying notes to the financial statements
are an integral part of these statements

BALLET WEST
Statement of Activities
For the Year Ended July 31, 2019

	Without donor restrictions	With donor restrictions	Totals
Revenues, support, other income and gains:			
Admission and performance fees	\$ 3,235,419	\$ -	\$ 3,235,419
Tuition, rental revenues and merchandise	4,872,065	-	4,872,065
Grants and contributions	4,524,765	1,416,668	5,941,433
Interest and dividends	34,164	-	34,164
Net unrealized gain on investments in endowment	32,489	5,350	37,839
Total revenues, support, other income and gains	12,698,902	1,422,018	14,120,920
Net assets released from restrictions	1,281,789	(1,281,789)	-
Total revenues, support, other income, gains and net assets released from restrictions	13,980,691	140,229	14,120,920
Expenses:			
Program services:			
Performance and artistic	8,902,271	-	8,902,271
Academy	2,681,557	-	2,681,557
Education	241,648	-	241,648
Supporting services:			
General and administrative	1,437,654	-	1,437,654
Fundraising	566,292	-	566,292
Total expenses	13,829,422	-	13,829,422
Increase in net assets before interest expense for capital campaign	151,269	140,229	291,498
Interest expense for capital campaign	(124,341)	-	(124,341)
Increase in net assets	26,928	140,229	167,157
Net assets, beginning of year	(356,847)	4,123,235	3,766,388
Net assets, end of year	\$ (329,919)	\$ 4,263,464	\$ 3,933,545

The accompanying notes to the financial statements
are an integral part of these statements

BALLET WEST
Statement of Functional Expenses
For the Year Ended July 31, 2020

	Program services			Supporting services		
	Performance and artistic	Academy	Education	General and administrative	Fundraising	Total
Salary and benefits	\$ 4,461,464	\$ 1,424,083	\$ 207,727	\$ 778,808	\$ 514,152	\$ 7,386,234
Orchestra	458,744	-	-	-	-	458,744
Contract labor	382,847	8,330	500	-	-	391,677
Travel and trucking	463,116	8,981	15,292	2,725	3,900	494,014
Right and royalties	83,277	-	-	-	-	83,277
Rent	549,188	608,040	7,197	31,329	3,070	1,198,824
Equipment rent	29	-	-	12,590	-	12,619
Maintenance and repairs	41,828	31,454	172	8,236	712	82,402
Telephone and utilities	35,777	13,692	815	4,481	2,387	57,152
Office supplies	38,671	27,450	1,611	30,096	3,568	101,396
Material and supplies	248,221	21,914	-	-	-	270,135
Sets	123,456	-	-	-	-	123,456
Advertising and promotions	523,540	30,755	15	82,222	25,289	661,821
Postage and shipping	10,486	179	68	4,253	3,788	18,774
Depreciation and amortization	450,027	52,726	-	-	12,662	515,415
Insurance	-	-	-	65,586	-	65,586
Professional fees	136,446	150	-	225,886	18,595	381,077
Bad debt expense	433	-	-	-	200,000	200,433
Bank and other fees	6,057	2,606	-	160,245	-	168,908
Interest on line of credit, notes and other	-	-	-	93,177	-	93,177
Special events	-	21,318	-	-	22,832	44,150
Events and meetings	4,609	30	-	1,366	459	6,464
Other program costs	296,532	301,774	-	-	-	598,306
Miscellaneous	4,248	21,623	-	41,758	3,042	70,671
Total expenses	\$ 8,318,996	\$ 2,575,105	\$ 233,397	\$ 1,542,758	\$ 814,456	\$ 13,484,712

The accompanying notes to the financial statements
are an integral part of these statements

BALLET WEST
Statement of Functional Expenses
For the Year Ended July 31, 2019

	Program services			Supporting services		
	Performance and artistic	Academy	Education	General and administrative	Fundraising	Total
Salary and benefits	\$ 4,620,163	\$ 1,431,777	\$ 209,730	\$ 769,973	\$ 412,714	\$ 7,444,357
Orchestra	595,555	-	-	-	-	595,555
Contract labor	815,272	13,396	-	-	-	828,668
Travel and trucking	461,589	14,729	15,938	1,121	26,383	519,760
Right and royalties	186,326	11,200	-	-	-	197,526
Rent	596,384	557,976	6,989	14,574	4,008	1,179,931
Equipment rent	1,177	-	-	12,477	-	13,654
Maintenance and repairs	65,637	25,289	206	3,573	853	95,558
Telephone and utilities	32,073	14,816	739	4,062	2,497	54,187
Office supplies	24,982	11,116	-	13,670	4,671	54,439
Material and supplies	242,697	2,821	-	-	665	246,183
Sets	109,618	35	-	-	-	109,653
Advertising and promotions	340,627	7,752	-	127,885	31,276	507,540
Postage and shipping	19,792	233	70	3,955	2,392	26,442
Depreciation and amortization	434,308	51,141	-	4,130	13,143	502,722
Insurance	500	-	-	66,452	-	66,952
Professional fees	13,064	-	-	74,084	3,495	90,643
Bank and other fees	8,089	327	-	176,362	-	184,778
Interest on line of credit, notes and other	-	-	-	110,432	-	110,432
Special events	301	46,907	7,976	-	49,543	104,727
Events and meetings	13,602	817	-	661	4,274	19,354
Boutique merchandise	152,443	-	-	-	-	152,443
Other program costs	168,072	479,499	-	-	-	647,571
Miscellaneous	-	11,726	-	54,243	10,378	76,347
Total expenses	\$ 8,902,271	\$ 2,681,557	\$ 241,648	\$ 1,437,654	\$ 566,292	\$ 13,829,422

The accompanying notes to the financial statements
are an integral part of these statements

BALLET WEST
Statements of Cash Flows
For the Years Ended July 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (808,009)	\$ 167,157
Adjustment to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	515,415	502,722
Bad debt expense	200,433	5,575
Unrealized gain on interest in perpetual trust	(56,647)	(5,349)
Change in value of interest in charitable remainder annuity trust	5,238	7,792
Interest earned on certificates of deposit	106	178
Amortization of goodwill and other intangibles	16,428	16,248
Interest earned on endowment	(18,285)	(10,202)
Net unrealized gain on cash and investments in endowment	(140,911)	(37,839)
Change in annuity obligation	(6,263)	(7,726)
(Increase) decrease in operating assets:		
Accounts receivable, net	(208,659)	11,935
Agency receivable	496,682	
Promises to give	409,688	88,622
Prepaid and deferred expenses	61,791	(136,521)
Increase (decrease) in operating liabilities:		
Accounts payable	(185,425)	(363,087)
Accrued liabilities	186,706	(31,456)
Deferred revenue	(41,066)	256,658
Deferred rent	(13,017)	39,772
Proceeds from refundable advance	1,686,752	-
457b deferred compensation liability	38,189	38,086
Accrued interest on notes payable	(15,058)	(2,775)
Net cash flows from operating activities	2,124,088	539,790
Cash flows from investing activities:		
Purchase of deferred 457b investment assets	(38,189)	(38,086)
Purchase of property and equipment	(414,540)	(386,659)
Net cash flows from investing activities	(452,729)	(424,745)
Cash flows from financing activities:		
Additions to line of credit	7,060,069	8,204,800
Payments on line of credit	(8,115,747)	(8,214,880)
Payments on notes payable	(744,769)	(18,863)
Proceeds from issuance of notes payable	381,900	-
Net cash flows from financing activities	(1,418,547)	(28,943)
Change in cash and cash equivalents	252,812	86,102
Cash and cash equivalents, beginning of year	44,876	(41,226)
Cash and cash equivalents, end of year	\$ 297,688	\$ 44,876
Supplemental disclosures:		
Interest paid	\$ 225,674	\$ 237,548

The accompanying notes to the financial statements are an integral part of these statements

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Ballet West (the “Ballet”) is a 501(c)(3) nonprofit corporation that operates a dance company and ballet school. Established in 1963, Ballet West ranks among the premier professional ballet companies in the United States. The Ballet strives to bring new levels of excellence to ballet through innovative choreography, and to present balanced programs that represent a wide range of ballet styles and viewpoints. The Ballet currently presents more than 80 performances annually in Salt Lake City, Utah, and other communities in the intermountain region, as well as annual tours to domestic and international locations.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in accordance with ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement for Not-for-Profit Entities*. The standard requires the Ballet to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Ballet. These net assets may be used at the discretion of the Ballet’s management and Board of Directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Ballet by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Adoption of New Accounting Standards

During the year ended July 31, 2020, the Ballet adopted ASU 2018-09, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or an exchange transaction. This update has been applied retrospectively to all periods presented. However, the revenue recognized in prior periods was not modified as a result of adopting this guidance retrospectively.

Additionally, the Ballet has adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended as management believes the standard improves the usefulness and understandability of the Ballet’s financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Ballet recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

BALLET WEST

Notes to the Financial Statements For the Years Ended July 31, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Ballet considers all bank and savings accounts, cash on hand, and highly liquid investments purchased with an original maturity of three months or less which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Accounts Receivable and Promises to Give

Accounts receivable and promises to give that are unconditional are recorded at their estimated fair value less an appropriate allowance for uncollectible amounts. Allowances are based on historical experience and management's analysis of specific balances. An account is written off when it is determined that all collection efforts have been exhausted.

Promises to give due beyond one year are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using various interest rates applicable to the years and risk factors associated with the various promises to give. Discounts on promises to give that are measured at present value are amortized between the date the promise to give is initially recognized and the date the cash or other contributed assets are to be received.

Investments

Investments in equity and debt securities are measured at fair values in the statements of financial position to the extent such investments have quoted market values. Investments that do not have quoted market values are measured using alternative methods to estimate their fair values. Investments held by the Ballet include certificates of deposit and cash and investments held as an endowment. Interest income and unrealized gains and losses are included in the statement of activities.

Property and Equipment

Acquisitions of property and equipment in excess of \$500 and all expenditures for repairs and maintenance that materially prolong the useful lives of property and equipment are capitalized. Contributions of property and equipment are considered unrestricted unless donors stipulate how the assets must be used, in which case the contributions are recorded as donor-restricted support.

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment (Continued)

Property and equipment are stated at cost less accumulated depreciation and amortization, or if acquired by donation, at estimated fair value at the date of the donation. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in the statement of activities for the period.

Depreciation and amortization are computed over the following estimated useful lives using the straight-line method:

<u>Assets</u>	<u>Useful Lives</u>
Props, scenery and costumes	5 – 20 years
Production equipment	5 – 20 years
Office furniture and equipment	3 – 10 years
Leasehold improvements	3 – 10 years

Long-lived Assets

The Ballet reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is measured by the amount the carrying value of the assets exceeds the estimated fair value of the assets. Assets which are impaired are reported at the lower of the carrying amount or fair value, less costs to sell. Management does not believe impairment indicators are present for the years ended July 31, 2020 and 2019.

Goodwill and Intangible Assets

Goodwill and indefinite-lived intangibles are not amortized but are evaluated for impairment annually or when indicators of a potential impairment are present. Impairment testing of goodwill is performed separately from impairment testing of indefinite-lived intangibles. The annual evaluation for impairment of goodwill and indefinite-lived intangibles is based on valuation models that incorporate assumptions and internal projections of expected future cash flows and operating plans. The Ballet believes such assumptions are also comparable to those that would be used by other marketplace participants.

The cost of intangible assets with determinable useful lives is amortized to reflect the pattern of economic benefits consumed, either on a straight-line or accelerated basis over the estimated periods benefited. Patents, technology and other intangibles with contractual terms are generally amortized over their respective legal or contractual lives. Customer relationships, brands and other non-contractual intangible assets with determinable lives are amortized over periods generally ranging from 5 to 30 years.

When certain events or changes in operating conditions occur, an impairment assessment is performed and the lives of intangible assets with determinable lives may be adjusted.

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Investment Policy and Objectives

Included in the endowment are cash and investment balances and an interest in a perpetual trust established by a donor with the Ballet as the beneficiary. The balances for the endowment fund reside in investment accounts controlled by the Ballet. The perpetual trust is controlled and managed by the original donor.

The basic objectives of the Ballet's endowment investment program are, in order of priority (1) safety and preservation of the invested assets, (2) liquidity of investments sufficient to meet current needs, (3) optimum returns while diversifying risk, and (4) fiduciary control of all investments. The endowment fund is intended to provide support for the operations of the Ballet and is composed of permanently restricted contributions. The Board of Directors has established appropriate spending policies for the endowment.

Refundable Advance

During the year ended July 31, 2020, the Ballet obtained a Paycheck Protection Program Loan ("PPP Loan") from a financial institution in the amount of **\$1,686,752**. The Ballet has elected to account for its PPP Loan in accordance with FASB ASC 958-605 as a conditional contribution. The refundable advance will be reduced and recognized as a contribution as the conditions of release have been met or explicitly waived. The application for forgiveness of the Ballet's PPP Loan must be submitted no later than April 2021, ten months after the last day of the loan forgiveness covered period.

Revenue and Deferred Revenue

The Ballet begins selling tickets to its programs and performances several months beforehand. Revenue from performance fees and season tickets sold in advance of the annual season is deferred and recognized when the programs are held and over the season when the ballets are performed.

Enrollment for the Ballet Academy begins several months before classes start. The revenue from tuition paid in advance of the academy year is deferred and recognized when classes are held.

Contributions

Contributions are recorded as with or without donor restricted support depending on the existence or nature of the donor restrictions. All unconditional contributions without donor restrictions are considered to be available for unrestricted use in the current accounting period. Contributions with donor restrictions, which are received and satisfied in the same fiscal year, are reported as contributions without donor restrictions.

Other contributions restricted for future periods or restricted for specific purposes by the donor are reported as donor restricted support. When a stipulated time restriction ends or a purpose restriction is accomplished, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as released from restrictions.

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Contributions

In-kind donations of property, equipment, supplies and other goods and services are recorded at their estimated fair value on the date of donation. These donations are reported as contributions without donor restrictions unless the donor has restricted the donated gifts for a specific purpose or period of time. Assets, goods, and services donated with explicit restrictions regarding their use are reported as support with donor restrictions and reclassified to net assets without donor restrictions when used or placed in service. In-kind contributions recorded in the financial statements at their estimated fair value totaled \$573,707 and \$530,866 for the years ended July 31, 2020 and 2019, respectively. These contributions were used primarily for programs.

Included in the in-kind contributions are donated services that create or enhance non-financial assets, require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by volunteers. These services are recorded at a fair value of **\$96,430** and \$149,361 for the years ended July 31, 2020 and 2019, respectively.

In-kind contributions recorded in the financial statements at estimated fair value were as follows for the years ended July 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Advertising and promotions	\$ 17,611	\$ 12,919
Miscellaneous	8,668	1,750
Office supplies	1,110	714
Professional services	96,430	149,361
Travel and trucking	59,510	60,886
Rent	390,378	355,236
Total in-kind contributions	\$ 573,707	\$ 580,866

Many individuals have donated significant amounts of time in providing organizational governance and resource development for the Ballet. No amounts have been reflected in the financial statements for this donated time as it does not meet the criteria for recognition.

Functional Allocation of Expenses

The costs of artistic production, the Academy and other programs and supporting services have been summarized on a functional basis in the statement of functional expenses. All direct costs are charged to the functional area they pertain to. Indirect costs are charged to production and programs and supporting services based on estimates made by management, taking into account the nature of the expense and how it relates to the functional area. General and administrative costs include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Ballet.

Advertising Costs

Advertising costs are charged to expense when incurred. Advertising expense was **\$661,821** and \$659,983 for the years ended July 31, 2020 and 2019, respectively.

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collective Bargaining Agreements

The Ballet's dancers, musicians, and production staff (approximately 60% of employees) are covered by collective bargaining agreements. The agreements have varying expiration dates ranging from June 30, 2019 through June 30, 2021.

Income Taxes

The Ballet qualifies as a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code and under state of Utah tax regulations and therefore, is not subject to federal or state income taxes in connection with its activities. Accordingly, no provision has been made in the financial statements for federal or state income taxes. The Ballet has evaluated tax positions and believes it does not have and, accordingly, has not recorded, a liability for any uncertain tax positions. The Ballet is subject to routine audits by taxing jurisdictions. There are no income tax audits in progress for any periods. Generally, the Ballet's tax filings are subject to examination by the IRS for three years from the date filed.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of July 31, 2020 and 2019, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 297,688	\$ 44,876
Certificates of deposit	35,703	35,597
Accounts receivable, net	8,649	423
Promises to give, current portion	<u>213,075</u>	<u>350,287</u>
Financial assets available to meet general expenditures within one year	<u>\$ 555,115</u>	<u>\$ 431,183</u>

The Ballet has a budget for annual operating expenses of approximately \$14,000,000. The organization covers these expenses with revenue from ticket sales, tuition and rental fees which average \$8,000,000 annually. The remaining balance is covered by grants and contributions from the state of Utah, Salt Lake County, national and local foundations and individual donors.

The Ballet has a \$2,250,000 line of credit which had an outstanding balance of **\$605,843** and \$1,661,521 as of July 31, 2020 and 2019, respectively. The line is utilized to manage cash flow and cover any operating deficits as they arise.

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

3. PROMISES TO GIVE

Promises to give, which meet the definition of unconditional, consist primarily of pledges to programs and general operations. Promises to give due in more than one year are reflected at the present value of estimated future cash flows using various discount rates and consist of the following as of July 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Amounts due:		
1 year or less	\$ 213,075	\$ 388,762
1 - 5 years	502,600	600,000
Thereafter	<u>50,000</u>	<u>50,000</u>
	765,675	1,038,762
Less: allowance for doubtful pledges	(200,000)	(38,475)
Less: unamortized discount	<u>(1,212)</u>	<u>(26,136)</u>
Unconditional promises to give, net	<u>\$ 564,463</u>	<u>\$ 974,151</u>

4. AGENCY RECEIVABLES AND AGENCY LIABILITIES

Agency receivables consist of amounts pledged for naming rights for the Jessie Eccles Quinney Ballet Centre and the Janet Quinney Lawson Capitol Theatre (the "Project"). Under the Memorandum of Understanding for the Project, the donations for the naming rights to these buildings were stipulated as pass-through funding for the Project in written agreements between Salt Lake County, the donors, and Ballet West. Pursuant to the agreements, the funds are remitted to the Ballet and then transferred to Salt Lake County.

The Ballet has agency receivables outstanding of **\$1,513,220** and \$2,009,902 as of July 31, 2020 and 2019, for amounts due from a donor pertaining to these agreements. Estimated amounts due in future years are as follows as of July 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Amounts due:		
1 year or less	\$ 1,000,000	\$ 500,000
1 - 5 years	<u>513,220</u>	<u>1,509,902</u>
Total	<u>\$ 1,513,220</u>	<u>\$ 2,009,902</u>

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of July 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Props, scenery and costumes	\$ 6,955,774	\$ 6,795,980
Production equipment	870,831	843,591
Office furniture and equipment	562,096	540,059
Leasehold improvements	<u>430,926</u>	<u>225,669</u>
Total cost of property and equipment	8,819,627	8,405,299
Accumulated depreciation and amortization	<u>(4,780,493)</u>	<u>(4,265,078)</u>
Property and equipment, net	<u>\$ 4,039,134</u>	<u>\$ 4,140,221</u>

Depreciation and amortization for property and equipment totaled **\$498,986** and \$486,474 for the years ended July 31, 2020 and 2019, respectively.

6. GOODWILL AND OTHER INTANGIBLES

The Ballet acquired an existing ballet studio in February 2016 for \$375,000 and recorded the fair value of the acquired assets, which include goodwill and other intangible assets that are subject to amortization.

The Ballet acquired an existing ballet studio in July 2014 for \$250,000 and recorded the fair value of the acquired assets, which include goodwill and other intangible assets that are subject to amortization.

The Ballet completed an annual impairment test of goodwill as of July 31, 2020 and 2019 and determined that there was no impairment. Goodwill and other intangibles were as follows as of July 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Goodwill	<u>\$ 237,709</u>	<u>\$ 237,709</u>
Other amortized intangibles		
Customer lists and relationships	115,000	115,000
Less: accumulated amortization	<u>(73,368)</u>	<u>(56,940)</u>
	<u>41,632</u>	<u>58,060</u>
Goodwill and other intangibles, net	<u>\$ 279,341</u>	<u>\$ 295,769</u>

Amortization expense for the years ended July 31, 2020 and 2019 totaled **\$16,428** and \$16,248, respectively.

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

7. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Ballet applies the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value on a recurring basis.

The fair values of the financial instruments shown in the following tables as of July 31, 2020 and 2019 represent the amount that would be received to sell those assets in an orderly transaction between market participants at that date. In determining fair value, the Ballet uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 – Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Investment assets measured at fair value on a recurring basis as of July 31, 2020 and 2019 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
July 31, 2020				
Money market and cash equivalents	\$ 60,330	\$ 60,330	\$ -	\$ -
Mutual and other funds	<u>2,402,352</u>	<u>2,402,352</u>		
Total	<u><u>\$2,462,682</u></u>	<u><u>\$2,462,682</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
July 31, 2019				
Money market and cash equivalents	\$ 138,774	\$ 138,774	\$ -	\$ -
Mutual and other funds	<u>2,108,065</u>	<u>2,108,065</u>		
Total	<u><u>\$2,246,839</u></u>	<u><u>\$2,246,839</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

7. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The Ballet's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, 2 or 3 for the years ended July 31, 2020 and 2019.

Components of investment return net of fees for the years ended July 31, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Investment return:		
Interest and dividends	\$ 38,464	\$ 34,164
Net realized/unrealized gain	<u>197,558</u>	<u>37,839</u>
Total investment return	<u>\$ 236,022</u>	<u>\$ 72,003</u>

8. INTEREST IN CHARITABLE REMAINDER ANNUITY TRUST

The Ballet is a beneficiary of a charitable remainder annuity trust in which the donor has contributed assets to the Ballet in exchange for a promise from the Ballet to pay the donor a fixed amount for a specified period of time. Assets received have been recognized at fair value, and an annuity payment liability has been recognized at the present value of the projected future cash flows. At the time of the gift, restricted contribution revenue was recognized as the difference between these two amounts.

Under terms of the trust agreement, the Ballet has agreed to pay the donor an annuity equal to 9% of the initial fair market value of \$106,016, payable in quarterly payments of \$2,385. Upon execution of the agreement, the Ballet recognized an initial liability of \$41,621 for estimated payments due to the donor based on life expectancy, and recorded contribution revenue of \$64,395 for the year ended June 30, 2012. The Ballet's interest was recorded at the fair value of the net assets contributed to the trust. During the year ended July 31, 2019, the Ballet revised the initial liability based on life expectancy. The annuity obligation as of July 31, 2020 and 2019 was **\$9,028** and \$15,291, respectively.

Estimated payments under the annuity obligation are as follows:

For the years ending July 31,

2021	<u>\$ 9,028</u>
Total	<u>\$ 9,028</u>

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

9. LINE OF CREDIT

The Ballet has a \$2,250,000 line of credit agreement with interest set at prime plus 0.74% (**3.99%** and 5.99% at July 31, 2020 and 2019, respectively) on the outstanding balance. The line of credit is renewable annually and collateralized by outstanding pledges and investments. The outstanding balance on the line of credit was **\$605,843** and \$1,661,521 as of July 31, 2020 and 2019, respectively. Interest expense on the line of credit was **\$78,902** and \$52,552 for the years ended July 31, 2020 and 2019, respectively.

10. NOTES PAYABLE

Notes payable were as follows as of July 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
5% note payable to a foundation, periodic principal payments through 2023, all unpaid principal and accrued interest due December 2023. Secured by agency receivables.	\$ 1,999,672	\$ 2,499,672
6.2% note payable to a financial institution, monthly payments of \$1,213, all unpaid principal and accrued interest due February 2022. Secured by trailers.	21,904	34,673
2.75% note payable to a financial institution, monthly payments of \$641, all unpaid principal and accrued interest due May 2051. Secured by various assets and letter of credit rights.	149,900	-
Total notes payable	2,171,476	2,534,345
Less current portion	(1,038,903)	(12,769)
Notes payable, net of current portion	\$ 1,132,573	\$ 2,521,576

Estimated maturities of notes payable are as follows:

For the years ending July 31,

2021	\$ 1,038,903
2022	555,817
2023	59,341
2024	60,594
2025	79,589
Thereafter	<u>377,232</u>
Total	\$ 2,171,476

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

10. NOTES PAYABLE (Continued)

During October 2013, the Ballet borrowed \$13,440,963 from four foundations which are long-term supporters of the Ballet. The funds secured with this debt were transferred to Salt Lake County in order to commence the building and remodel project on the Janet Quinney Lawson Capitol Theatre and the Jessie Eccles Quinney Ballet Centre. The debt is collateralized by the agency receivables secured to fund the Project. The repayment terms mirror the schedule of anticipated payments on the agency receivables which totaled **\$1,513,220** and \$2,009,902 as of July 31, 2020 and 2019, respectively.

11. OPERATING LEASES

The Ballet rents theatre, studio, office, warehouse, and costume production facilities under various leasing arrangements. The theatre and office spaces are rented on an annual basis, while warehouse space is rented on a month-to-month basis. Commitments under operating leases with terms in excess of one year are as follows:

For the years ending July 31,

2021	\$ 604,055
2022	315,392
2023	299,719
2024	302,369
2025	302,369
Thereafter	<u>961,384</u>
Total	<u>\$ 2,785,288</u>

Total rent expense under operating leases with terms in excess of one year was **\$602,814** and \$502,826 for the years ended July 31, 2020 and 2019, respectively.

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Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of July 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Foundations, corporations and individuals	\$ 556,000	\$ 611,000
Subject to the passage of time:		
Foundations, corporations and individuals	15,000	435,133
Subject to specified purpose and passage of time:		
Foundations, corporations, and individuals	433,331	1,076,430
Not subject to appropriation or expenditure:		
Foundations and individuals	<u>2,197,547</u>	<u>2,140,901</u>
Total net assets with donor restrictions	<u><u>\$ 3,201,878</u></u>	<u><u>\$ 4,263,464</u></u>

13. ENDOWMENT FUNDS

The Ballet's endowment funds consist of donor restricted funds and is classified and reported as net assets with donor restrictions and is not subject to appropriation or expenditure. The endowment is made up of two components which include cash and investments in endowment and an interest in a perpetual trust.

Cash and investments in endowment – This endowment held by the Ballet includes cash and investments and is restricted in perpetuity by the donor. In November 2008, the fair market value of the endowment investments declined below the original corpus of \$1,742,208. This decline was recorded in net assets without donor restrictions. The fair market value of the endowment has since recovered up to the original corpus amount. As of July 31, 2020 and 2019, the balance was **\$1,989,343** and \$1,830,147, respectively, of which \$1,724,208 is held as net assets with donor restrictions.

Interest in perpetual trust endowment- The Ballet is a beneficiary of a perpetual trust. The Ballet's interest in the trust was recorded at the fair value of the trust assets on the date of gift. The trust is restricted in perpetuity and included as part of net assets with donor restrictions and is not subject to appropriation or expenditure. The fair value of the investments held by the trust was **\$473,339** and \$416,692 as of July 31, 2020 and 2019, respectively. The recorded value of the interest in the trust is evaluated annually and the change in value is recognized in the statement of activities as a donor restricted gain or loss. The unrealized gain on the interest in the perpetual trust was **\$56,646** and \$5,350 for the years ended July 31, 2020 and 2019, respectively. There were no trust distributions during the years ended July 31, 2020 and 2019.

BALLET WEST

Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

13. ENDOWMENT FUNDS (Continued)

Changes in endowment net assets for the year ended July 31, 2020 are as follows:

	Without donor Restrictions	With donor Restrictions	Total
Endowment net assets,			
Beginning of year	\$ 105,939	\$ 2,140,901	\$ 2,246,840
Interest and dividends	18,885	-	18,885
Net investment return	140,311	56,646	196,957
Endowment net assets,			
End of year	<u>\$ 265,135</u>	<u>\$ 2,197,547</u>	<u>\$ 2,462,682</u>

Changes in endowment net assets for the year ended July 31, 2019 are as follows:

	Without donor Restrictions	With donor Restrictions	Total
Endowment net assets,			
Beginning of year	\$ 57,898	\$ 2,135,551	\$ 2,193,449
Interest and dividends	15,552	-	15,552
Net investment return	32,489	5,350	37,839
Endowment net assets,			
End of year	<u>\$ 105,939</u>	<u>\$ 2,140,901</u>	<u>\$ 2,246,840</u>

Interpretation of relevant law – The Board of Directors and management of the Ballet have interpreted the law (“UPMIFA”) as requiring the preservation of the fair value of the original gift 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 donor restrictions (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund is classified as net assets with donor restrictions until those amounts are expended by the Ballet in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Ballet considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) safety and preservation of the invested assets, (2) liquidity of investments sufficient to meet current needs, (3) optimum returns while diversifying risk, and (4) fiduciary control of all investments. As of July 31, 2020 and 2019, all endowment net assets were classified as net assets with donor restrictions.

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Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

13. ENDOWMENT FUNDS (Continued)

Funds with deficiencies – From time to time, the fair value associated with individual donor restricted endowment funds may fall below the level that the donor or the applicable state law requires the Ballet to retain as a fund of perpetual duration. There were no deficiencies to report as of July 31, 2020 and 2019.

The Board of Directors monitors investment policies. Spending policy, investment objectives, and distribution of endowment funds are subject to approval by the Board of Directors and are changed when deemed appropriate. There were no amounts appropriated for expenditure for the years ended July 31, 2020 and 2019.

14. BENEFIT PLANS

401k Plans - The Ballet sponsors two 401k plans. Employees not covered under collective bargaining agreements are eligible to participate in one 401k plan. Such employees become eligible to participate following six months of service. The Ballet makes discretionary matching or profit sharing contributions under the terms of the plan. There were no employer contributions to this plan for the years ended July 31, 2020 and 2019.

The Ballet also sponsors a plan for the dancers under terms of a collective bargaining agreement. The Ballet makes matching or profit sharing contributions under the terms of this plan. The Ballet made matching and profit sharing contributions to the plan of **\$37,068** and \$40,070 for the years ended July 31, 2020 and 2019, respectively .

Deferred 457b Compensation – The Ballet Sponsors a deferred 457b compensation plan for certain employees to allow additional retirement savings options. The Ballet has recorded an asset and corresponding liability of **\$76,275** and \$38,086 as of July 31, 2020 and 2019, respectively. There is no employer matching for this plan.

15. CONCENTRATIONS OF CREDIT AND MARKET RISK

The Ballet maintains its cash and cash equivalent balances at two financial institutions located in Salt Lake City, Utah. The deposits may exceed their federally insured limits of \$250,000 established by the Federal Deposit Insurance Corporation. The Ballet has not experienced any losses related to these accounts and believes it is not exposed to any significant credit risk on these balances as the sum of all balances is below the federally insured limit.

The Ballet had concentrations in promises to give and agency receivables as of July 31, 2020 and 2019. For the year ended July 31, 2020, five donors made up **85%** of the promises to give balance and one donor made up the agency receivables balance. For the year ended July 31, 2019, five donors made up 81% of the promises to give balance and one donor made up the agency receivables balance.

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Notes to the Financial Statements
For the Years Ended July 31, 2020 and 2019

16. RELATED PARTY TRANSACTIONS

Members of the Ballet's Board of Directors provided financial support to the Ballet in the form of contributions of **\$278,504** and \$336,169 during the years ended July 31, 2020 and 2019, respectively. As of July 31, 2020 and 2019 board member promises to give totaled **\$72,425** and \$144,833, respectively.

During the year ended July 31, 2020, the Ballet also obtained loans of \$57,000 and \$175,000 from an employee and board member, respectively. These loans were short term and paid off within a month of issuance. Due to the short-term nature of the loans, interest incurred and paid on these loans was insignificant.

17. SUBSEQUENT EVENTS

Subsequent events were evaluated by management through October 27, 2020, which is the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The subsequent COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of various industry business operations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. At this point, the extent to which COVID-19 may impact the Company's financial condition or results of operations is uncertain.