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# **CHARLOTTE BALLET**

Financial Statements for the  
Years Ended June 30, 2019 and 2018  
and Independent Auditors' Report



GreerWalker



# GreerWalker

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Charlotte Ballet:

We have audited the accompanying financial statements of Charlotte Ballet (the "Ballet") which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities 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 generally accepted accounting principles 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.

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charlotte Ballet as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America.

*Greer Walker LLP*

Certified Public Accountants  
December 12, 2019  
Charlotte, NC

GreerWalker LLP | GreerWalker Wealth Management LLC | GreerWalker Corporate Finance LLC

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# **CHARLOTTE BALLET**

## STATEMENTS OF FINANCIAL POSITION JUNE 30, 2019 AND 2018

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<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 212,948	\$ 126,626
Unconditional promises to give, net	291,068	463,063
Other receivables	416,759	30,101
Prepaid expenses	193,049	93,477
Total current assets	<u>1,113,824</u>	<u>713,267</u>
PROPERTY, NET	<u>11,888,897</u>	<u>12,250,416</u>
OTHER ASSETS:		
Unconditional promises to give, net	1,800	25,000
Beneficial interests in endowments	5,848,078	5,913,351
Total other assets	<u>5,849,878</u>	<u>5,938,351</u>
TOTAL	<u>\$ 18,852,599</u>	<u>\$ 18,902,034</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 351,776	\$ 275,968
Deferred revenue	1,029,366	712,825
Total current liabilities	<u>1,381,142</u>	<u>988,793</u>
NET ASSETS:		
Without donor restrictions	11,438,662	11,758,056
With donor restrictions	6,032,795	6,155,185
Total net assets	<u>17,471,457</u>	<u>17,913,241</u>
TOTAL	<u>\$ 18,852,599</u>	<u>\$ 18,902,034</u>

See notes to financial statements.

## **CHARLOTTE BALLET**

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	Year Ended June 30, 2019			Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT AND RECLASSIFICATIONS:						
Contributions	\$ 476,506	\$ 683,568	\$ 1,160,074	\$ 892,082	\$ 208,890	\$ 1,100,972
Grants:						
Federal	-	-	-	10,000	-	10,000
State	83,500	-	83,500	82,250	-	82,250
Arts and Science Council	609,696	-	609,696	617,780	-	617,780
Other grants	-	211,099	211,099	50,325	198,750	249,075
Ticket and subscription sales	2,147,767	-	2,147,767	1,989,737	-	1,989,737
Touring fees	89,575	-	89,575	249,625	-	249,625
Charlotte Ballet Academy	1,500,173	-	1,500,173	1,365,384	-	1,365,384
Education and community engagement income	160,036	-	160,036	110,098	-	110,098
Contributed materials and services	56,564	-	56,564	530,870	-	530,870
Change in beneficial interest, net	280,089	(84,023)	196,066	259,443	193,318	452,761
Special events (net of related expenses of \$876,960 and \$750,759 as of June 30, 2019 and 2018, respectively)	709,371	-	709,371	629,489	-	629,489
Miscellaneous	99,562	-	99,562	78,918	-	78,918
Reclassifications:						
Contributions released from time restrictions	218,217	(218,217)	-	224,174	(224,174)	-
Contributions released from purpose restrictions	714,817	(714,817)	-	469,995	(469,995)	-
Total revenue, support and reclassifications	<u>7,145,873</u>	<u>(122,390)</u>	<u>7,023,483</u>	<u>7,560,170</u>	<u>(93,211)</u>	<u>7,466,959</u>
EXPENSES:						
Program services:						
Production costs	4,106,437	-	4,106,437	4,520,194	-	4,520,194
Academy and education	1,648,776	-	1,648,776	1,788,772	-	1,788,772
Supporting services:						
Management and general	741,948	-	741,948	812,168	-	812,168
Fundraising	447,596	-	447,596	400,088	-	400,088
Depreciation	520,510	-	520,510	516,000	-	516,000
Total expenses	<u>7,465,267</u>	<u>-</u>	<u>7,465,267</u>	<u>8,037,222</u>	<u>-</u>	<u>8,037,222</u>
CHANGE IN NET ASSETS	(319,394)	(122,390)	(441,784)	(477,052)	(93,211)	(570,263)
NET ASSETS, BEGINNING OF YEAR	<u>11,758,056</u>	<u>6,155,185</u>	<u>17,913,241</u>	<u>12,235,108</u>	<u>6,248,396</u>	<u>18,483,504</u>
NET ASSETS, END OF YEAR	<u>\$ 11,438,662</u>	<u>\$ 6,032,795</u>	<u>\$ 17,471,457</u>	<u>\$ 11,758,056</u>	<u>\$ 6,155,185</u>	<u>\$ 17,913,241</u>

See notes to financial statements.

## **CHARLOTTE BALLET**

### STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2019

	Program Services			Supporting Services			Total
	Artistic	Academy	Education & Community Engagement	Administrative	Fundraising	Depreciation	
Salaries and wages	\$ 1,284,820	\$ 767,064	\$ 284,422	\$ 452,006	\$ 266,374	\$ -	\$ 3,054,686
Payroll taxes	311,053	97,266	30,280	65,366	37,759	-	541,724
Employee benefits	141,499	25,041	6,261	26,122	9,061	-	207,984
Production fees and royalties	1,358,670	17,745	259	-	-	-	1,376,674
Advertising and marketing	635,015	45,127	10,907	6,717	81,300	-	779,066
Dues and subscriptions	-	285	185	25,920	12,761	-	39,151
Depreciation	-	-	-	-	-	520,510	520,510
Rent, utilities, and maintenance	175,670	83,508	3,684	8,185	4,213	-	275,260
Academy and community engagement	-	146,300	12,527	-	-	-	158,827
Professional services	112,887	-	-	53,363	2,432	-	168,682
Travel and conferences	41,750	20,550	3,616	42,483	80	-	108,479
Technology expenses	19,228	40,929	5,763	13,923	7,204	-	87,047
Bank and credit card processing fees	3,596	34,422	-	6,764	23,293	-	68,075
Office expenses	7,739	4,790	2,418	5,918	2,995	-	23,860
Insurance	14,262	4,999	124	3,086	124	-	22,595
Interest expense	-	-	-	3,813	-	-	3,813
Miscellaneous expenses	248	-	304	28,282	-	-	28,834
<b>Total expenses</b>	<b>\$ 4,106,437</b>	<b>\$ 1,288,026</b>	<b>\$ 360,750</b>	<b>\$ 741,948</b>	<b>\$ 447,596</b>	<b>\$ 520,510</b>	<b>\$ 7,465,267</b>

See notes to financial statements.

## **CHARLOTTE BALLET**

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (441,784)	\$ (570,263)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Change in allowance for bad debt and present value of unconditional promises to give	-	(595)
Change in fair value of beneficial interests in endowments	65,273	(438,318)
Depreciation	520,510	516,000
Changes in operating assets and liabilities:		
Unconditional promises to give	195,195	85,893
Other receivables	(386,658)	(13,135)
Prepaid expenses	(99,572)	44,409
Accounts payable and accrued expenses	75,808	146,323
Deferred revenue	<u>316,541</u>	<u>(10,922)</u>
Net cash provided by (applied to) operating activities	<u>245,313</u>	<u>(240,608)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of and improvements to property	<u>(158,991)</u>	<u>(440,739)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	86,322	(681,347)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>126,626</u>	<u>807,973</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 212,948</u>	<u>\$ 126,626</u>

See notes to financial statements.

# **CHARLOTTE BALLET**

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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### 1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Operations - Charlotte Ballet (the "Ballet") is a nonprofit organization, incorporated in North Carolina, whose mission is to provide artistically excellent programming to diverse audiences in its home city of Charlotte, the Southeast region, and to the varied communities it serves while on tour across the nation. The Ballet has received critical recognition nationally for excellence in programming, education, community engagement, and dance training.

New Accounting Pronouncement - On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU is effective for annual periods beginning after December 15, 2017. The Ballet has adjusted the presentation of these financial statements accordingly. The changes to net asset classification has been applied retrospectively to all periods presented such that the temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions and the unrestricted net asset class has been renamed net assets without donor restrictions.

Financial Statement Presentation - The Ballet reports 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.

*Net assets without donor restrictions* - Net assets that are not restricted by donors or for which donor-imposed restrictions have expired.

*Net assets with donor restrictions* - Net assets that contain donor-imposed time or purpose restrictions that have not currently been met and restrictions stipulating that the amounts be maintained by the Ballet in perpetuity. For net assets held in perpetuity, the Ballet may expend part or all of the income earned according to donor stipulations.

Basis of Accounting - The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Use of Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

Cash and Cash Equivalents - The Ballet considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Ballet maintains cash deposits with financial institutions that at times may exceed federally insured limits.

Unconditional Promises to Give - Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their net realizable value. The discounts on those amounts are computed using a discount rate applicable to the year in which the promise is received. Subsequent amortization of the discount is included in contribution revenue.

Investments - Investments are recorded at fair value with realized and unrealized gains and losses included in the statements of activities.



Property - Property is recorded at cost, if purchased, or at an estimated fair value on the date of receipt, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Donated property is reported as support without donor restrictions unless the donor restricts the donated asset to a specific purpose. (See Note 4.) The Ballet has determined that items purchased with a value exceeding \$2,500, and a lifetime of more than 1 year, are to be treated as capitalized assets.

Donated Services and Materials - A number of volunteers, including members of the Board of Directors and its committees as well as various volunteer assistants, contribute significant amounts of time to the Ballet. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected as support in the accompanying financial statements. Donated services that do meet the criteria for recognition, along with donated materials, are recorded at the estimated fair value as revenue and expense. (See Note 9.)

Revenue Recognition - Deferred revenue represents prepayments for tickets and sponsorships to shows that have not been performed and tuition for summer and fall classes. The Ballet recognizes these amounts as revenue when the events and programs are held.

The Ballet recognizes contributions that are given unconditionally in the period the contributions are received or promised, whichever is earlier. Promises to give are recorded net of estimated uncollectible amounts. Conditional promises to give and sponsorship agreements are not included as support until such time as the conditions or requirements are substantially met. (See Note 3.)

Contributions containing donor-imposed restrictions are reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a time or purpose restriction is satisfied, net asset 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 that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the period in which the support is recognized.

Advertising - The Ballet's policy is to expense the cost of advertising as it is incurred. Advertising expense totaled approximately \$421,000 and \$473,000 for the years ended June 30, 2019 and 2018, respectively.

Income Taxes - The Ballet is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for income taxes has been made in the accompanying financial statements.

The Ballet records liabilities for income tax positions taken or expected to be taken when those positions are deemed uncertain to be upheld in an examination by taxing authorities. No liabilities for uncertain income tax positions were recorded as of June 30, 2019 and 2018.

Functional Expense Classification - The Ballet's functional expense classification and allocation policy is based on a review of the current organizational structure, and the identification, reclassification and allocation of certain employee, facility, and departmental expenses, which serve multiple functional areas.

Subsequent Events - In preparing its financial statements, the Ballet has evaluated subsequent events through December 12, 2019, which is the date the financial statements were available to be issued.

## 2. LIQUIDITY AND AVAILABILITY

The table below represents financial assets available for general expenditures within one year at June 30, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 212,948
Unconditional promises to give, net	291,068
Other receivables	416,759
Beneficial interests in endowments	<u>5,848,078</u>
Total financial assets	<u>6,768,853</u>
Less amounts not available to be used for general expenditures within one year:	
Restricted by donors with time and purpose restrictions	1,503,562
Restricted by donors with time restrictions greater than one year	340,857
Portion of donor-restricted endowment to be retained in perpetuity	<u>4,180,459</u>
Financial assets not available to be used within one year	<u>6,024,878</u>
Financial assets available to meet general expenditures within one year	<u>\$ 743,975</u>

As part of the Ballet's liquidity management, it invests excess cash in short-term investments, such as money market funds, which can be drawn upon for current expenditures.

## 3. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give as of June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Promises to give due in less than one year	\$ 293,492	\$ 467,372
Promises to give due in one to five years	<u>1,800</u>	<u>25,000</u>
Total promises to give	295,292	492,372
Less: Allowance for uncollectible promises to give	<u>2,425</u>	<u>4,309</u>
Promises to give, net	292,867	488,063
Current portion, net	<u>291,067</u>	<u>463,063</u>
Long-term portion, net	<u>\$ 1,800</u>	<u>\$ 25,000</u>

As of June 30, 2019 and 2018, approximately \$43,000 and \$117,000, respectively, of the unconditional promises to give are due from members of the Ballet's Board of Directors. Total contributions from the Board of Directors was approximately \$243,000 for the year ended June 30, 2019.

The Ballet has entered into a five year sponsorship agreement with Bank of America. The sponsorship totals \$550,000, with \$110,000 due by the close of each fiscal year on or before June 30, 2017 through June 30, 2021. As the agreement is considered an exchange transaction, in accordance with generally accepted accounting principles in the United States of America, each year's payment will be recognized as income following the completion of sponsorship requirements. This agreement is not recognized as a promise to give.

#### 4. PROPERTY

Property as of June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Sets, props, and costumes	\$ 2,683,214	\$ 2,592,641
Furniture, fixtures, and equipment	1,020,894	960,901
Building	7,952,437	7,952,437
Land	<u>4,380,250</u>	<u>4,380,250</u>
Total	16,036,795	15,886,229
Less accumulated depreciation	<u>(4,147,898)</u>	<u>(3,635,813)</u>
Property, net	<u>\$ 11,888,897</u>	<u>\$ 12,250,416</u>

Continued ownership of the land and building is conditional on use for not-for-profit purposes.

#### 5. BENEFICIAL INTERESTS IN ENDOWMENTS

Beneficial interests in endowments are valued at the fair value of the underlying assets. Changes in the fair value of the endowed assets are reflected in revenue with donor restrictions in accordance with donor stipulations. Reclassifications into net assets without donor restrictions are made as distributable income is released from restriction.

As a result of a community wide cultural fund drive, various donors designated the Ballet as the beneficiary of gifts to a cultural endowment established by the Charlotte Mecklenburg Arts and Science Council (the "ASC"). The ASC has contracted with The Greater Charlotte Cultural Trust (the "Cultural Trust"), an unrelated organization, to manage the endowment. Under the terms of the endowment, the endowed principal is restricted in perpetuity. The Ballet annually receives 5% of the average daily market value of the endowment for the prior twelve quarters, but only so long as the Ballet continues to operate. There are no restrictions on the usage of income or appreciation.

The Joan H. Hanes Fund Endowment was established for the benefit of the Ballet by Mrs. Hanes upon her death and is being administered by the Winston-Salem Foundation. Under the terms of the endowment, the endowed principal is restricted in perpetuity. The Ballet annually receives 4% of the average daily market value of the endowment for the prior twelve quarters. There are no restrictions on the usage of income or appreciation.

The Donald H. and Barbara K. Bernstein NCDT Continuity Fund Endowment (Bernstein Endowment) is managed by the Foundation for the Charlotte Jewish Community. Under the terms of the endowment, the endowed principal is restricted in perpetuity. The Ballet annually receives 5% of the average daily market value of the endowment for the prior twelve quarters. This endowment was established to support and offset the operations and long-term needs of facilities. Distributions are restricted for this purpose.

In connection with the construction of new administrative offices, dance studios, and theatre (the "Facility"), the Ballet established Building Funds, each managed by the Cultural Trust with the purpose of funding the operations and maintenance of and capital expenditures related to the Facility. The principal amount of the endowment fund is invested in perpetuity and related income and appreciation is restricted for use on the Facility. There is no restriction on the amount of income or appreciation that may be distributed for the intended purpose.

The Knight Foundation established an endowment which is managed by the Miami Foundation for the benefit of the Ballet. While the endowed principal invested in perpetuity, each year the Knight Foundation will instruct the Miami Foundation to make grants, net of all its administrative costs, that equal no less than 5% of the total value of the fund, subject to cumulative income limitations. Funds will support increased audience engagement through the creation and acquisition of contemporary dance works.

The Bretscher Family Foundation established the Charlotte Ballet Pre-Professional Fund endowment for the benefit of the Ballet. The endowment is managed by the Cultural Trust. Under the terms of the endowment, the endowed principal is restricted in perpetuity. The Foundation's Board of Directors establishes the annual spendable amount which is available for distribution from the endowment each year. Currently, the spendable amount is 5% of the average daily market value of the endowment for the prior twelve quarters, subject to cumulative income limitations. Funds are restricted by the donor to support recruitment efforts by offering partial scholarships, recruitment expenses, and enabling the Academy to be more competitive with offers of non-tuition financial assistance.

The fair values of the beneficial interests endowed assets as of June 30, 2019 are as follows:

	<u>Time/ Purpose Restrictions</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Cultural Trust - ASC Fund	\$ 179,140	\$ 964,610	\$ 1,143,750
Joan H. Hanes Fund	159,917	150,000	309,917
Donald H. & Barbara K. Bernstein NCDT Continuity Fund	6,261	70,000	76,261
Cultural Trust - Building Fund	1,225,034	1,795,849	3,020,883
Knight Foundation Fund	88,519	1,000,000	1,088,519
Charlotte Ballet Pre-Professional Fund	<u>8,748</u>	<u>200,000</u>	<u>208,748</u>
Total	<u>\$ 1,667,619</u>	<u>\$ 4,180,459</u>	<u>\$ 5,848,078</u>

The fair values of the beneficial interests endowed assets as of June 30, 2018 are as follows:

	<u>Time/ Purpose Restrictions</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Cultural Trust - ASC Fund	\$ 193,117	\$ 964,610	\$ 1,157,727
Joan H. Hanes Fund	161,058	150,000	311,058
Donald H. & Barbara K. Bernstein NCDT Continuity Fund	7,933	70,000	77,933
Cultural Trust - Building Fund	1,249,897	1,795,849	3,045,746
Knight Foundation Fund	110,360	1,000,000	1,110,360
Charlotte Ballet Pre-Professional Fund	<u>10,527</u>	<u>200,000</u>	<u>210,527</u>
Total	<u>\$ 1,732,892</u>	<u>\$ 4,180,459</u>	<u>\$ 5,913,351</u>

The following represents the changes in the beneficial interests in endowment net assets for the years ended June 30, 2019 and 2018:

<u>Year Ended June 30, 2019</u>	<u>Time/ Purpose Restrictions</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,732,892	\$ 4,180,459	\$ 5,913,351
Investment return:			
Contributions	18,750		18,750
Distributions	(269,272)		(269,272)
Net appreciation	<u>185,249</u>		<u>185,249</u>
Endowment net assets, end of year	<u>\$ 1,667,619</u>	<u>\$ 4,180,459</u>	<u>\$ 5,848,078</u>

<u>Year Ended June 30, 2018</u>	<u>Time/ Purpose Restrictions</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,494,574	\$ 3,980,456	\$ 5,475,033
Investment return:			
Contributions	45,000	200,000	245,000
Distributions	(248,186)		(248,186)
Net appreciation	<u>441,504</u>	<u>                    </u>	<u>441,504</u>
Endowment net assets, end of year	<u>\$ 1,732,892</u>	<u>\$ 4,180,459</u>	<u>\$ 5,913,351</u>

## 6. INVESTMENTS

The Board of Directors of the Ballet has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 donor restrictions (a) the original value of subsequent gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment held in perpetuity, and (c) accumulations to the 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 that is not held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Ballet in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Ballet considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Ballet and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Ballet
- 7) The investment policy of the Ballet

The Ballet has beneficial interests in endowments that are reported at fair value in the accompanying statements of financial position. (See Note 5.)

Fair value is defined as 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.

The inputs used for valuing the Ballet's investments are summarized in the three broad levels listed below:

- Level 1 - quoted prices in active markets for identical assets
- Level 2 - other significant observable inputs either directly or indirectly (including quoted prices for similar securities, interest rates, yield curves, credit risk, etc.)
- Level 3 - significant unobservable inputs

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

- Beneficial Interests in Endowments: Valued at the fair value of the underlying assets using unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Investment Pool Managers believe valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Ballet's assets at fair values as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial Interests in Endowments (See Note 5)	\$ _____ -	\$ _____ -	\$ 5,848,078	\$ 5,848,078
Total Assets at Fair Value	<u>\$ _____ -</u>	<u>\$ _____ -</u>	<u>\$ 5,848,078</u>	<u>\$ 5,848,078</u>

The following table sets forth by level, within the fair value hierarchy, the Ballet's assets at fair values as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial Interests in Endowments (See Note 5)	\$ _____ -	\$ _____ -	\$ 5,913,351	\$ 5,913,351
Total Assets at Fair Value	<u>\$ _____ -</u>	<u>\$ _____ -</u>	<u>\$ 5,913,351</u>	<u>\$ 5,913,351</u>

The following table sets forth a summary of changes in the fair value of the pooled assets for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 5,913,351	\$ 5,475,033
Unrealized gains and losses, net	185,249	441,504
Grants	(269,272)	(248,186)
Purchases	<u>18,750</u>	<u>245,000</u>
Balance, end of year	<u>\$ 5,848,078</u>	<u>\$ 5,913,351</u>

## 7. LINE OF CREDIT

The Ballet has a line of credit with a bank that provides for maximum unsecured borrowings of \$500,000. Interest on outstanding advances is payable monthly and accrues at the greater of the bank's prime rate (5.5% as of June 30, 2019) plus .5% or the Floor Rate of 5%. The line of credit is scheduled to expire in April 2020. As of June 30, 2019 and 2018, there were no borrowings outstanding. Maximum borrowings were \$355,000 and \$150,000 for the years ending June 30, 2019 and 2018, respectively. Average borrowings during the years ending June 30, 2019 and 2018 were approximately \$57,000 and \$39,000, respectively.

## 8. NET ASSETS

Net assets with donor restrictions as of June 30, 2019 and 2018 included the following:

	<u>2019</u>	<u>2018</u>
Time restrictions:		
Beneficial interests in endowments	\$ 339,057	\$ 1,732,892
Contributions receivable - annual fund	9,717	212,603
Contributions receivable - capital campaign	-	20,691
Purpose restrictions:		
Beneficial interests in endowments	1,328,562	-
Grants receivable	25,000	8,540
Contributions receivable - new works	150,000	-
Restricted in perpetuity:		
Beneficial interests in endowments - principal	<u>4,180,459</u>	<u>4,180,459</u>
Total net assets with donor restrictions	<u>\$ 6,032,795</u>	<u>\$ 6,155,185</u>

Unrestricted net assets were reduced by \$520,510 and \$516,000 for the years ended June 30, 2019 and 2018, respectively, related to the depreciation of property.

9. DONATED SERVICES AND MATERIALS

The Ballet records the estimated fair value of contributed materials and services provided as revenue and expense. During the years ended June 30, 2019 and 2018, the Ballet recognized \$56,564 and \$530,870, respectively, as contributed revenue for consulting services, special event expenses, marketing expense and legal services.

10. BARTER TRANSACTIONS

During the years ended June 30, 2019 and 2018, the Ballet received services and other benefits as a result of barter transactions. Revenue and expenses recorded as a result of barter transactions were as follows for the years ended June 30, 2019 and 2018:

	2019		
	<u>Ticket Revenue</u>	<u>Advertising Revenue</u>	<u>Total</u>
Program expenses:			
Marketing benefits	<u>\$ 11,060</u>	<u>\$ 11,060</u>	<u>\$ 22,120</u>
	2018		
	<u>Ticket Revenue</u>	<u>Advertising Revenue</u>	<u>Total</u>
Program expenses:			
Marketing benefits	<u>\$ 4,403</u>	<u>\$ 4,403</u>	<u>\$ 8,806</u>