



Financial Statements

**For the Years Ended
June 30, 2020 and 2019**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Orlando Ballet, Inc.
Orlando, Florida

We have audited the accompanying financial statements of Orlando Ballet, Inc. (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and change in net assets, cash flows, and functional expenses for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Orlando Ballet, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Orlando Ballet's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent in all material respects, with the audited financial statements from which it has been derived.

Moss, Krusick & Associates, LLC

Winter Park, Florida
October 29, 2020

Orlando Ballet, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

ASSETS		
	2020	2019
ASSETS		
Cash and cash equivalents	\$ 790,266	\$ 572,652
Restricted cash	475,627	2,507,305
Accounts receivable	751,846	457,224
Pledge receivable	298,309	3,014,552
Investments	-	2,772,151
Inventory	7,983	3,787
Prepaid expenses	101,252	213,272
Total current assets	2,425,283	9,540,943
Property and equipment, net	11,892,197	4,931,945
Endowment fund	143,024	145,599
Other assets	35,004	44,055
Total assets	\$ 14,495,508	\$ 14,662,542
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accruals	\$ 148,912	\$ 361,788
Construction in process payable	-	571,271
Construction LOC	250,000	-
Paycheck Protection Program loan	506,600	-
Deferred revenue	559,312	1,279,493
Total current liabilities	1,464,824	2,212,552
Security deposits	5,545	-
Total liabilities	1,470,369	2,212,552
NET ASSETS		
Without donor restrictions	11,881,703	4,650,696
Board designated	235,000	66,439
Total net assets without donor restrictions	12,116,703	4,717,135
With donor restrictions	908,436	7,732,855
Total net assets	13,025,139	12,449,990
Total liabilities and net assets	\$ 14,495,508	\$ 14,662,542

The accompanying notes are an integral part of these financial statements.

Orlando Ballet, Inc.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2020

(with summarized financial information for the year ended June 30, 2019)

	Net Assets Without Donor Restrictions			With Donor Restrictions	2020 Total	2019 Total
	Operating	Board Designated	Total			
REVENUE AND SUPPORT						
Series ticket sales	\$ 107,483	\$ -	\$ 107,483	\$ -	\$ 107,483	\$ 188,134
Single ticket sales	1,487,694	-	1,487,694	-	1,487,694	1,693,945
Ballet school earned income	1,689,115	-	1,689,115	-	1,689,115	2,361,596
General revenue	64,977	-	64,977	-	64,977	183,504
Special fundraising events	223,979	-	223,979	-	223,979	227,945
Grants and contributed income	2,534,595	-	2,534,595	1,251,734	3,786,329	6,525,269
Donated services and materials	230,880	-	230,880	-	230,880	386,614
Interest	3,225	55,545	58,770	-	58,770	76,113
Other income	91,963	-	91,963	-	91,963	6,985
Net assets released from restrictions	7,963,137	113,016	8,076,153	(8,076,153)	-	-
Total revenue and support	14,397,048	168,561	14,565,609	(6,824,419)	7,741,190	11,650,105
EXPENSES						
Program services						
Season	2,711,975	-	2,711,975	-	2,711,975	2,160,809
Nutcracker	929,223	-	929,223	-	929,223	818,210
Ballet school	2,211,707	-	2,211,707	-	2,211,707	2,730,892
Total program services	5,852,905	-	5,852,905	-	5,852,905	5,709,911
Supporting services						
Development	344,859	-	344,859	-	344,859	310,299
Donated services and materials	230,880	-	230,880	-	230,880	405,362
General and administrative	737,397	-	737,397	-	737,397	618,347
Total supporting services	1,313,136	-	1,313,136	-	1,313,136	1,334,008
Total expenses	7,166,041	-	7,166,041	-	7,166,041	7,043,919
INCREASE IN NET ASSETS	7,231,007	168,561	7,399,568	(6,824,419)	575,149	4,606,186
Net assets, beginning of year	4,650,696	66,439	4,717,135	7,732,855	12,449,990	7,843,804
Net assets, end of year	\$11,881,703	\$ 235,000	\$12,116,703	\$ 908,436	\$13,025,139	\$12,449,990

The accompanying notes are an integral part of these financial statements.

Orlando Ballet, Inc.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 575,149	\$ 4,606,186
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	262,022	62,037
Unrealized loss on investments	1,262	-
Realized gain on investments	(3,922)	(8,668)
Loss on asset disposition	710,519	166,682
Donated property and equipment	-	(27,455)
Change in assets and liabilities:		
Increase in accounts receivable	(294,622)	(233,196)
Decrease in pledge receivable	2,716,243	1,985,448
(Increase) decrease in inventory	(4,196)	4,027
Decrease (increase) in prepaid expenses	112,020	(9,867)
Decrease (increase) in other assets	9,051	(7,300)
(Decrease) increase in accounts payable and accruals	(784,147)	599,005
Increase in security deposits	5,545	-
(Decrease) increase in deferred revenue	(720,181)	156,293
Net cash provided by operating activities	<u>2,584,743</u>	<u>7,293,192</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loch Haven building project	(7,923,781)	(3,567,454)
Purchase of equipment	(9,013)	(4,968)
Purchase of investments	-	(2,772,151)
Net proceeds from sale of investments	<u>2,777,387</u>	<u>5,190</u>
Net cash used in investing activities	<u>(5,155,407)</u>	<u>(6,339,383)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Construction LOC	250,000	-
Proceeds from Paycheck Protection Program loan	<u>506,600</u>	<u>-</u>
Net cash provided by financing activities	<u>756,600</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(1,814,064)	953,809
Cash and cash equivalents and restricted cash, beginning of year	<u>3,079,957</u>	<u>2,126,148</u>
Cash and cash equivalents and restricted cash, end of year	<u>\$ 1,265,893</u>	<u>\$ 3,079,957</u>
Supplemental disclosure:		
Cash paid for interest	<u>\$ 2,661</u>	<u>\$ 6,547</u>
Reconciliation of cash and cash equivalents and restricted cash		
Cash and cash equivalents	\$ 790,266	\$ 572,652
Restricted cash	<u>475,627</u>	<u>2,507,305</u>
Total cash, cash equivalents and restricted cash	<u>\$ 1,265,893</u>	<u>\$ 3,079,957</u>

The accompanying notes are an integral part of these financial statements.

Orlando Ballet, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020

(with summarized financial information for the year ended June 30, 2019)

Item of Expense	Season	Nutcracker	Ballet School	Total Program Services	Development	Donated Services and Materials	General and Administrative	Total Services 2020	Total Services 2019
Artistic salaries, taxes and benefits	\$ 819,833	\$ 204,958	\$ -	\$ 1,024,791	\$ -	\$ -	\$ -	\$ 1,024,791	\$ 945,125
School salaries, taxes and benefits	-	-	931,965	931,965	-	-	-	931,965	1,110,604
Staff salaries, taxes and benefits	236,390	71,559	92	308,041	253,444	-	240,485	801,970	728,227
Marketing	200,735	90,899	87,111	378,745	-	-	-	378,745	547,284
Program expenses	132,850	213,404	1,180	347,434	-	-	-	347,434	448,651
Scholarships	-	-	252,328	252,328	-	-	-	252,328	306,522
Other	26,000	26,000	29,104	81,104	320	-	150,272	231,696	113,538
In-kind	-	-	-	-	-	230,880	-	230,880	359,169
Crew	115,338	110,221	-	225,559	-	-	18	225,577	299,483
Live music	118,289	32,500	-	150,789	-	-	-	150,789	123,751
Guest and summer workshop	-	-	124,424	124,424	-	-	-	124,424	197,530
Sets and props	84,411	4,862	-	89,273	-	-	-	89,273	34,586
Choreography	82,126	-	-	82,126	-	-	4,000	86,126	5,000
Charge card fee	-	-	51,506	51,506	-	-	24,318	75,824	113,125
Printing	20,747	46,104	-	66,851	-	-	4,995	71,846	81,623
Special events	-	-	-	-	55,370	-	-	55,370	46,193
Payroll services	14,276	3,996	20,632	38,904	-	-	11,418	50,322	54,256
Costumes	13,049	9,536	26,223	48,808	-	-	137	48,945	79,535
Lights	20,288	16,520	-	36,808	-	-	-	36,808	49,066
Dance shoes	13,892	21,500	-	35,392	-	-	-	35,392	65,633
Development	-	-	-	-	35,346	-	-	35,346	51,860
Retail	389	21,000	10,340	31,729	-	-	-	31,729	36,542
Transportation and lodging	5,129	4,001	11,234	20,364	29	-	2,462	22,855	37,156
Professional fees	5,291	1,481	7,647	14,419	-	-	4,232	18,651	21,976
Office supplies and expenses	-	-	2,932	2,932	-	-	10,032	12,964	13,804
Automobile expense	2,022	-	84	2,106	-	-	10,614	12,720	11,306
Dues and subscriptions	1,923	538	4,299	6,760	350	-	5,896	13,006	22,947
Enrichment	-	-	7,914	7,914	-	-	-	7,914	-
Relocation	5,402	-	-	5,402	-	-	-	5,402	6,156
Postage	-	-	1,054	1,054	-	-	4,308	5,362	5,972
Video and photography	1,750	2,550	-	4,300	-	-	-	4,300	6,350
Bank fees	-	-	16	16	-	-	2,790	2,806	11,573
Interest	-	-	-	-	-	-	2,661	2,661	6,547
Total before allocated overhead	1,920,130	881,629	1,570,085	4,371,844	344,859	230,880	478,638	5,426,221	5,941,090
Loss on asset disposition	618,689	-	91,830	710,519	-	-	-	710,519	166,682
Rent	42,789	10,679	329,361	382,829	-	-	68,372	451,201	505,091
Depreciation	73,366	20,962	107,429	201,757	-	-	60,265	262,022	62,037
Repairs and maintenance	36,895	10,326	53,321	100,542	-	-	29,508	130,050	163,572
Utilities	-	-	30,624	30,624	-	-	84,533	115,157	112,017
Insurance	20,106	5,627	29,057	54,790	-	-	16,081	70,871	93,430
Total	\$ 2,711,975	\$ 929,223	\$ 2,211,707	\$ 5,852,905	\$ 344,859	\$ 230,880	\$ 737,397	\$ 7,166,041	\$ 7,043,919

The accompanying notes are an integral part of these financial statements.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Orlando Ballet, Inc. (the "Organization") is a nonprofit corporation organized in the state of Florida on April 8, 1974, as The Southern Ballet Theatre, Inc. The Articles of Incorporation were amended on February 21, 2002, changing the name of the corporation to Orlando Ballet, Inc. Its primary purpose is to operate a successful, highly regarded, professional dance company and ballet school in Central Florida and the State of Florida.

1. Basis of Presentation

The accompanying financial statements and accompanying schedules have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to the two classes of net assets as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are available for use at the discretion of the Board and/or management for general operating purposes. From time to time the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion. For example, the Board has designated a portion of net assets without donor restrictions as a quasi-endowment (an amount to be treated by management as if it were part of the donor restricted endowment) for the purpose of securing the Organization's long-term financial viability.

See Note H for more information on the composition of net assets with donor restrictions.

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed restrictions, time and/or purpose restrictions.

The Organization reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a Board approved spending policy.

See Note I for more information on the composition of net assets with donor restrictions.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Contributions

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASC 958), which clarifies how transactions should be accounted for as contributions (nonreciprocal transactions) or exchange transactions and whether a contribution is conditional. The Organization adopted ASC 958 and all related amendments effective July 1, 2019.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as net assets without donor restrictions.

3. Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, the Organization has made no provision for federal or state income taxes in the accompanying financial statements.

Management has analyzed its various federal and state filing positions and believes that its income tax filing positions and deductions are well documented and supported, and that no accruals for tax liabilities are necessary. Therefore, no reserves for uncertain income tax positions have been recorded. The Organization no longer is subject to U.S. Federal income tax examination by tax authorities for years prior to 2017.

4. Fair Market Value

Investments are stated at fair market value. Unrealized gains and losses are included in the accompanying statement of activities.

The Organization follows accounting guidance relating to fair value measurements, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access as of the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3 – unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fair Market Value (continued)

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 measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of the unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value.

Level 1 Fair Value Measurements

The Organization did not have any Level 1 investments.

Level 2 Fair Value Measurements

The Organization did not have any Level 2 investments.

Level 3 Fair Value Measurements

The Organization's Level 3 investments consist of funds held on the Organization's behalf by the Community Foundation. Given the absence of market quotations, their fair value is based on the net asset value as provided by the investment managers of the Community Foundation.

Gains and losses on investments are reported in the statements of activity as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Dividends, interest, and other investment income are reported in the period earned as increases in net assets without donor restrictions unless the use of the assets received is limited by donor-imposed restrictions. Donor-restricted investment income is reported as an increase in net assets with donor restrictions.

5. Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

6. Inventory

Inventory consists of Orlando Ballet merchandise and dance shoes sold through a retail store. It is stated at cost as determined by the first-in, first-out method.

7. Accounts Receivable

The Organization periodically reviews its outstanding receivables, determines which balances are not collectible, and records an appropriate allowance for doubtful accounts. As of June 30, 2020 and 2019, no such allowance was deemed necessary.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Property and Equipment

Property and equipment is recorded at cost or estimated fair value at the date of contribution. Expenditures for repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the item as follows:

	<u>Years</u>
Studio fixtures and equipment	3 - 39
Leasehold improvements	10 - 40
Office fixtures and equipment	3 - 10
Sets and props	7

9. Donated Services, Materials and Facilities

Donated services, materials and facilities that are measurable are recorded at their fair market values on the date of receipt by the Organization. A corresponding amount is recorded as an expense or is capitalized as property and equipment. Donated services include television, radio, and newspaper time and space for publicity purposes. Other donated services include medical services, printing and various other services. Donated property and equipment, for the years ended June 30, 2020 and 2019, was \$0 and \$27,455, respectively.

10. Deferred Revenue

Deferred revenue represents cash receipts for school tuition, ticket sales, and fundraising events received for the following school year or season. Amounts are removed from deferred revenue when the criteria for recognition have been met.

11. Functional Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. The allocation of expenses which cannot be directly attributed to specific functions is based on estimates by the Organization's management.

12. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of deposits and prepayments related to the Ballet School's nationally recognized summer training programs, which begin in late June and continue through July. It also consists of advance payments pertaining to the 2020 - 2021 Ballet season. Amounts are removed from prepaid expenses when the criteria for recognition have been met.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

13. Concentration of Credit Risk

Financial instruments, which potentially expose the Organization to concentrations of credit risk, consist principally of cash equivalents and investments. The Organization maintains its cash equivalents and investments in banks which participate in the Federal Deposit Insurance Corporation (FDIC) Program. Balances are insured up to \$250,000 per institution. At June 30, 2020 and 2019, the Organization had \$774,880 and \$2,437,936, respectively, in excess of federally insured limits. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates, and those differences could be material.

15. Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total, not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

16. Investments

Money market funds are an open-ended fund that invests in short-term debt securities such as US Treasury bills and these are recorded at cost, which approximates fair value. Investment return includes interest and unrealized gains on investments carried at fair value. Investment return is reflected in the statements of activities as unrestricted based upon the existence and nature of the investment.

17. Statement of Cash Flows

During fiscal 2020, the Organization adopted ASU 2016-18, *Statement of Cash Flows*, which requires that restricted cash be included in total cash in the statement of cash flows. Cash and cash equivalents and restricted cash in the statement of cash flows includes cash and cash equivalents and restricted cash.

18. Subsequent Events

Management has evaluated the effect subsequent events would have on the financial statements through the date these financial statements were available to be issued on October 29, 2020.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

18. Subsequent Events (continued)

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

As a result of COVID-19, the Organization canceled two performance series scheduled during 2020 and closed the Orlando Ballet School from mid-March 2020 through early-June 2020 resulting in significant decrease of performance and school revenue compared to 2019.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

19. Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. In 2019, the Organization changed its presentation of net assets classes, included a statement of functional expenses, and expanded the footnote disclosures in these financial statements as required by ASU 2016-14.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when contract performance obligations are met. The standard is effective for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the impact of adopting the new revenue standard on its financial statements.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

19. Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*, that requires lessees to put most leases on their balance sheets and recognize expenses on their income statements in a manner similar to today's capital lease accounting. For lessors, the guidance modifies the classification criteria for accounting for sales-type and direct financing leases. The new guidance is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Organization is evaluating the potential effects ASU 2016-02 will have on its financial statements.

NOTE B – PLEDGE RECEIVABLE

During the year ended June 30, 2020, the Organization received a pledge totaling \$500,000 from Dr. Philips Charities, and \$483,095 from Orange County to be used for auditorium equipment for Harriett's Orlando Ballet Centre. As of June 30, 2020, \$250,000 and \$48,309 of these pledges were due in the 2021 fiscal year.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation at June 30, are summarized as follows:

	<u>2020</u>	<u>2019</u>
Studio fixtures and equipment	\$ 103,107	\$ 268,007
Leasehold build-outs	11,628,735	518,124
Office fixtures and equipment	502,265	92,894
Sets and props	422,452	422,452
Construction in progress	<u>-</u>	<u>4,389,828</u>
	12,656,559	5,691,305
Less: accumulated depreciation	<u>(764,362)</u>	<u>(759,360)</u>
	<u>\$ 11,892,197</u>	<u>\$ 4,931,945</u>

NOTE D – INVESTMENTS

As of June 30, 2020 and 2019, investments consisted of Treasury Bills in the amount of \$0 and \$2,772,151, respectively. These were short term, liquid investments solely in U.S. Treasury Bills using donor funds pledged for construction of Harriett's Orlando Ballet Centre. As of June 30, 2020, these investments and accrued interest thereof have been entirely spent on construction of Harriett's Orlando Ballet Centre. The following table sets forth by level, within the fair value hierarchy, the Organization's assets carried at fair value as of June 30, 2020 and 2019:

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE D – INVESTMENTS (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2020:				
Assets:				
Assets held by Community Foundation	\$ -	\$ -	\$ 143,024	\$ 143,024
Total investment assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 143,024</u>	<u>\$ 143,024</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2019:				
Assets:				
Treasury Bills	\$ 2,772,151	\$ -	\$ -	\$ 2,772,151
Assets held by Community Foundation	-	-	145,599	145,599
Total investment assets at fair value	<u>\$ 2,772,151</u>	<u>\$ -</u>	<u>\$ 145,599</u>	<u>\$ 2,917,750</u>

The following table presents changes the Organization's Level 3 investment assets measured at fair value on a recurring basis for the years ending June 30:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 145,599	\$ 142,121
Unrealized gain (loss)	(1,262)	-
Withdrawals, net	(5,236)	(5,190)
Interest, dividends, realized gain, fees, net	<u>3,923</u>	<u>8,668</u>
Balance, end of year	<u>\$ 143,024</u>	<u>\$ 145,599</u>

NOTE E – NOTES PAYABLE

During the years ended June 30, 2020 and 2019, the Organization had a Line of Credit (LOC) with PNC Bank in the amount of \$600,000. Draws on the LOC accrued interest at the daily LIBOR rate plus 2.25%. The Organization relies on the LOC from time to time, and it was drawn up to \$395,000 during the fiscal year. There was no outstanding balance as of June 30, 2020 and 2019, respectively.

As of September 18, 2019, the Organization obtained a revolving Construction LOC with PNC Bank in the amount of \$500,000 to provide bridge funding for auditorium equipment for Harriett's Orlando Ballet Centre in an amount equal to a committed foundation pledge. Draws on the LOC accrued interest at the daily LIBOR rate plus 2.5%. The Construction LOC will be retired in 2021 when the remaining pledged foundation funds are disbursed. There was an outstanding balance of \$250,000 as of June 30, 2020.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE F – PAYROLL PROTECTION PROGRAM LOAN

On March 27, 2020, the Coronavirus Aid Relief, and Economic Security Act (“CARES Act”) was enacted in response to the COVID-19 pandemic. Under the CARES Act, the Paycheck Protection Program was established to provide assistance to small businesses with resources needed to maintain payroll and cover applicable overhead. On April 17, 2020, the Organization, through a financial institution, was approved for a loan in the amount of \$506,600 under this program. The proceeds of the loan shall be used by the Organization solely for the following transactions as set forth in Section 1102 of the CARES Act: (a) payments of “payroll costs”, (b) cost related to the continuation of group healthcare benefits, during period of paid sick, medical or family leave and insurance premium, (c) employee salaries, commissions or similar compensation, (d) payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a covered mortgage obligation), (e) payments on rent (including rent under a lease agreement), (f) utilities, and (g) interest on any other debt obligation that were incurred before the covered period. The unforgiven portion of the loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. Future principal maturities for the two-years succeeding June 30, 2020 are estimated as \$251,294 for 2021 and \$255,306 for 2022.

However, Management will seek forgiveness of the loan, and believes a significant portion of the loan will be forgiven in 2021 based on current interpretations of the CARES Act. As of the date of the financials, the forgiveness process is not complete.

NOTE G – COMPLETION OF HOBC

During the year ended June 30, 2020, the Organization completed construction of Harriett’s Orlando Ballet Centre at 600 North Lake Formosa Drive for approximately \$12,000,000, leaving a surplus of donor restricted funds of approximately \$355,000. Approximately \$120,000 has been set aside for additional fixtures and equipment to complete the project. The remaining funds of approximately \$235,000 have been set aside as Board Restricted for improvements to, and maintenance and repair of Harriett’s Orlando Ballet Centre.

NOTE H – NET ASSETS WITHOUT DONOR RESTRICTIONS

In 2019, in order to fully clarify donor intent, the Board of the Organization designated all interest earned on Donor Restricted Funds received from Harriett Lake as restricted entirely for purposes of constructing Harriett’s Orlando Ballet Centre. During the year ended June 30, 2020, all interest income associated with these funds were entirely applied to the costs of construction the facility.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as follows:

	2020	2019
Subject to expenditure for specific purpose or period:		
Harriet Lake	\$ 118,512	\$ 4,647,523
Dr. Phillips Charities	250,000	-
Various	136,139	-
Orlando Health	105,000	-
Orange County Cultural & Facilities Grant	86,431	331,420
Orange County Tourist Development Tax Grant	-	2,466,558
Frank Santos	-	75,000
	696,082	7,520,501
Subject to the Organization's spending policy and appropriation:		
Restricted Cash	108,818	108,818
Endowment net assets	103,536	103,536
	212,354	212,354
Tot net assets with donor restrictions	\$ 908,436	\$ 7,732,855

NOTE J – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors. The net assets released from restrictions are as follows:

	2020
Purpose or period restriction accomplished:	
Harriet Lake	\$ 4,529,011
Orange County Tourist Development Tax Grant	2,466,558
Orange County Cultural & Facilities Grant	728,084
Dr. Phillips Charities HOBC Phase	250,000
Frank Santos	75,000
Various	27,500
	8,076,153
Net assets released from restrictions	\$ 8,076,153

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE K – CONDITIONAL PROMISE TO GIVE

The Organization has entered into an agreement as a beneficiary with Krista and Jonathan Ledden. This agreement represents a conditional promise to give since the contribution will pass to the Organization when certain conditions are met. The aggregate value of this conditional promise to give totaled \$2,000,000, of which \$1,500,000 has been received at June 30, 2020.

NOTE L – ENDOWMENT

The Organization's endowment consist of donor-restricted funds held in cash and as endowment funds held in perpetuity by the Community Foundation. At June 30, endowment consisted of the following:

	2020	2019
Cash	\$ 108,818	\$ 108,818
Endowment fund held by Community Foundation	<u>103,536</u>	<u>103,536</u>
	<u>\$ 212,354</u>	<u>\$ 212,354</u>

The donor restricted endowment fund was established in 2001 with an initial contribution of \$10,000. Subsequent contributions total \$202,354. As required by generally accepted accounting principles, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (MIFA) 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 Organization classifies net assets with donor restrictions restricted for perpetuity as (a) the original value of 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 that is not classified in net assets with donor restrictions restricted for perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by "MIFA".

In accordance with "MIFA", the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Organization, and (7) the Organization's investment policies. See Note D for a reconciliation of annual earnings, contributions and withdrawals.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE L – ENDOWMENT (continued)

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are managed by the Community Foundation of Central Florida, Inc. Orlando Ballet has no input into how the funds are invested. Investment risk is measured in terms of the total endowment fund and investment assets and allocation.

Spending Policy. The Organization receives an annual distribution from the fund as determined by the Community Foundation of Central Florida.

NOTE M – LEASES AND COMMITMENTS

The Organization has entered into various non-cancelable operating lease agreements for the rental of office space and equipment. Future minimum lease payments under these operating leases are as follows:

Years ending June 30, 2021	\$ 100,946
2022	47,388
2023	47,810
2024	50,274
2025	51,782
Thereafter	<u>21,841</u>
	<u>\$ 320,041</u>

On May 27, 2014, the Organization leased a facility from the City of Orlando for nominal rent. The initial term is fifty years with one twenty-five year and one twenty-four year renewal option. During the year ended June 30, 2018, the Organization paid rent for the initial fifty years totaling \$50. The Organization is responsible for all capital improvements to the facility. As of June 30, 2020 and 2019, the Organization has received gifts totaling \$983,095 and \$4,600,000, respectively, for capital improvements on this facility. Unexpended gifts totaling \$696,082 and \$7,520,501 at June 30, 2020 and 2019, respectively, are classified as net assets with donor restrictions. As part of the lease, the Organization must also meet certain civic, performance and education goals.

During the 2020 and 2019 fiscal years, the Organization significantly consolidated its office, school and rehearsal facilities, closing three leased locations. The Organization recognized a non-cash, Loss on Disposal of these facilities, and various write-offs of previous, unfinished facility projects and designs of \$710,519.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE N – ADVERTISING COSTS

The Organization’s policy is to expense advertising costs when programs occurred. The Organization spent \$378,745 and \$539,535 in the years ended 2020, and 2019, respectively.

NOTE O – RECONCILIATION OF CHANGE IN NET POSITION (Non-GAAP)

The following table presents a reconciliation of the change in net assets to the Organization’s internal operating income (loss) for the years ending June 30:

	<u>2020</u>	<u>2019</u>
Change in net assets	\$ 575,149	\$ 4,606,186
Orange County contribution	-	(4,000,000)
Orange County contribution	-	(500,000)
Frank Santos contribution	-	(100,000)
Restricted contributions	(1,251,734)	-
Interest from Donor Restricted Funds	(55,545)	(66,439)
Non-asset capital expense	143,793	90,939
Loss on disposal	<u>710,519</u>	<u>166,682</u>
Net operating income (non-GAAP)	122,182	197,368
Non-cash depreciation expense	<u>262,022</u>	<u>62,037</u>
Net operating income before depreciation (non-GAAP)	<u>\$ 384,204</u>	<u>\$ 259,405</u>

NOTE P – FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, scholarships, guest and summer workshops, marketing, crew, sets and props, charge car fee, live music, costumes, printing, professional fees, lights, dance shoes, other, theater expenses, dues and subscriptions, retail, development, transportation and lodging, office supplies and expenses, video and photography, relocation, automobile expenses, payroll services, postage, repairs and maintenance, and insurance, which are allocated on the basis of estimates of time and effort.

Orlando Ballet, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE Q – EMPLOYEE RETIREMENT PLAN

During November 2018, the Organization started a tax deferred annuity retirement plan for its employees. An employee is eligible to participate on the first day of their first payroll. Participation is voluntary, and the employee may contribute from up to a maximum IRS allowable amount, which is \$19,500 for 2020. Additional catch up contributions up to \$6,500 are available to individuals who reach age 50 by the end of the year. Employees are eligible to receive employer matching contributions if they have attained age 16 and have completed one eligibility year of service. The match will be determined each year by the Organization. The Organization did not make an employer contribution for the year ended June 30, 2019.

NOTE R – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available within one year of the statements of financial position date for general expenditures are as follows:

	2020	2019
Cash and cash equivalents	\$ 1,265,893	\$ 3,079,957
Accounts receivable	751,846	457,224
	2,017,739	3,537,181
Total financial assets available within one year		
Accounts payable and accruals	(148,912)	(159,552)
Construction LOC	(250,000)	-
Payroll Protection Program loan	(506,600)	-
Deferred revenue	(559,312)	(1,279,493)
	(1,464,824)	(1,439,045)
Total financial liabilities due within one year		
Restricted cash	(475,627)	(2,507,305)
	(475,627)	(2,507,305)
Total amounts unavailable within one year		
Total financial assets available within one year	77,288	(409,169)
Pro forma assumed forgiveness of PPP Loan	506,600	-
Pro forma total financial assets available within one year	\$ 583,888	\$ (409,169)

As part of the Organization'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. To help manage unanticipated liquidity needs, the Organization has a committed line of credit for \$600,000, which it could utilize.

The PPP Loan is currently reflected as a liability. Management will seek forgiveness of the loan, and believes a significant portion of the loan will be forgiven in 2021 based on current interpretations of the CARES Act. As of the date of the financials, the forgiveness process is not complete.