



INDEPENDENT AUDITORS' REPORT

To the Board of Directors

BALLET WEST

We have audited the accompanying statement of financial position of Ballet West as of June 30, 2010 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Ballet West's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from the Ballet West's 2009 financial statements, and, in our report dated February 8, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Ballet West as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Arthur & Associates

Salt Lake City, Utah
December 6, 2010

BALLET WEST
STATEMENT OF FINANCIAL POSITION

June 30, 2010 with summarized information for 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Summarized Totals 2009</u>
<u>ASSETS</u>					
CURRENT ASSETS					
Cash and cash equivalents	\$ 283,551	\$ 632,864	\$ -	\$ 916,415	\$ 736,189
Certificates of deposit	34,334	-	-	34,334	34,236
Accounts receivable	1,565	-	-	1,565	4,575
Promises to give, net	24,559	29,480	-	54,039	81,585
Prepaid and deferred expenses	171,854	-	-	171,854	195,754
Due from temporarily restricted net assets	89,477	-	-	89,477	38,913
TOTAL CURRENT ASSETS	<u>605,340</u>	<u>662,344</u>	<u>-</u>	<u>1,267,684</u>	<u>1,091,252</u>
Promises to give, net	-	5,838,689	-	5,838,689	5,760,482
Property and equipment, net	1,286,154	-	-	1,286,154	1,278,212
Construction in progress	1,047,816	-	-	1,047,816	1,047,816
Interest in perpetual trusts	-	-	1,002,761	1,002,761	826,728
Restricted cash in endowment fund	(220,339)	-	1,725,565	1,505,226	1,504,662
	<u>2,113,631</u>	<u>5,838,689</u>	<u>2,728,326</u>	<u>10,680,646</u>	<u>10,417,900</u>
TOTAL ASSETS	<u>\$ 2,718,971</u>	<u>\$ 6,501,033</u>	<u>\$ 2,728,326</u>	<u>\$ 11,948,330</u>	<u>\$ 11,509,152</u>
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES					
Accounts payable, trade	\$ 653,036	\$ -	\$ -	\$ 653,036	652,848
Accrued liabilities	213,885	-	-	213,885	112,898
Deferred revenue	715,535	-	-	715,535	647,526
Line of credit	2,075,000	-	-	2,075,000	1,425,000
Short-term note payable	-	-	-	-	550,000
Current portion of retirement obligation	19,881	-	-	19,881	19,881
Due to unrestricted net assets	-	89,477	-	89,477	38,913
TOTAL CURRENT LIABILITIES	<u>3,677,337</u>	<u>89,477</u>	<u>-</u>	<u>3,766,814</u>	<u>3,447,066</u>
LONG-TERM RETIREMENT OBLIGATION, less current portion	<u>10,532</u>	<u>-</u>	<u>-</u>	<u>10,532</u>	<u>10,532</u>
NET ASSETS					
Unrestricted	(968,898)	-	-	(968,898)	(829,088)
Temporarily restricted	-	6,411,556	-	6,411,556	6,328,349
Permanently restricted	-	-	2,728,326	2,728,326	2,552,293
TOTAL NET ASSETS	<u>(968,898)</u>	<u>6,411,556</u>	<u>2,728,326</u>	<u>8,170,984</u>	<u>8,051,554</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,718,971</u>	<u>\$ 6,501,033</u>	<u>\$ 2,728,326</u>	<u>\$ 11,948,330</u>	<u>\$ 11,509,152</u>

See Notes to Financial Statements

BALLET WEST
STATEMENT OF ACTIVITIES

Year Ended June 30, 2010 with summarized information for 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Summarized Totals 2009</u>
OPERATING REVENUE					
Admission and performance fees	\$ 2,202,277	\$ -	\$ -	\$ 2,202,277	\$ 2,373,804
Tuition, rental revenues, and merchandise	738,163	-	-	738,163	680,686
In-kind donations	87,012	-	-	87,012	324,837
TOTAL OPERATING REVENUE	<u>3,027,452</u>	<u>-</u>	<u>-</u>	<u>3,027,452</u>	<u>3,379,327</u>
OPERATING EXPENSES					
Production and program costs	5,314,815	-	-	5,314,815	6,476,994
General and administrative	1,031,891	-	-	1,031,891	1,025,443
TOTAL OPERATING EXPENSES	<u>6,346,706</u>	<u>-</u>	<u>-</u>	<u>6,346,706</u>	<u>7,502,437</u>
TOTAL LOSS FROM OPERATIONS	<u>(3,319,254)</u>	<u>-</u>	<u>-</u>	<u>(3,319,254)</u>	<u>(4,123,110)</u>
SUPPORT AND LOSSES					
Grants and contributions	3,426,850	83,207	-	3,510,057	2,797,725
Adjustment of discount	-	-	-	-	(1,375,136)
Special events (less direct expenses of \$67,604 in 2009)	71,661	-	-	71,661	89,701
Net realized and unrealized gains (losses) on long-term investments	336	-	176,033	176,369	(515,785)
Interest and dividends	3,793	-	-	3,793	33,944
Loss on disposal of assets	(1,000)	-	-	(1,000)	-
Loss in interest in perpetual trusts	-	-	-	-	(624,409)
TOTAL SUPPORT AND LOSSES	<u>3,501,640</u>	<u>83,207</u>	<u>176,033</u>	<u>3,760,880</u>	<u>406,040</u>
SATISFACTION OF RESTRICTIONS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT, LOSSES AND SATISFACTION OF RESTRICTIONS	<u>3,501,640</u>	<u>83,207</u>	<u>176,033</u>	<u>3,760,880</u>	<u>406,040</u>
Fundraising	322,196	-	-	322,196	372,273
INCREASE (DECREASE) IN NET ASSETS	<u>(139,810)</u>	<u>83,207</u>	<u>176,033</u>	<u>119,430</u>	<u>(4,089,343)</u>
NET ASSETS, BEGINNING OF YEAR	<u>(829,088)</u>	<u>6,328,349</u>	<u>2,552,293</u>	<u>8,051,554</u>	<u>12,140,897</u>
NET ASSETS, END OF YEAR	<u>\$ (968,898)</u>	<u>\$ 6,411,556</u>	<u>\$ 2,728,326</u>	<u>\$ 8,170,984</u>	<u>\$ 8,051,554</u>

See Notes to Financial Statements

BALLET WEST

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2010 with summarized information for 2009

	Production and program costs						Supporting services			Summarized Totals 2009		
	Artistic	Production	Costume department	Touring	Academy	Education and outreach	Marketing	production and program costs	General and administrative		Fundraising	Totals
Salaries and benefits	\$ 2,113,608	\$ 403,112	\$ 90,649	\$ 12,749	\$ 252,090	\$ 121,270	\$ 274,225	\$ 3,267,703	\$ 485,015	\$ 165,436	\$ 3,918,154	\$ 4,633,771
Orchestra	336,603	-	-	19,653	-	-	-	356,256	-	-	356,256	507,250
Contract labor	170,113	218,266	-	20,298	28,088	65	-	436,830	-	-	436,830	660,772
Travel and trucking	11,582	6,882	1,712	67,949	-	11,459	156	99,740	-	1,305	101,045	159,711
Rights and royalties	112,052	-	-	3,792	-	-	-	115,844	-	-	115,844	85,474
Rent	5,180	206,529	23,203	-	8,965	2,072	5,180	251,129	7,253	4,144	262,526	264,222
Equipment rent	-	2,659	-	-	-	45	62	2,766	10,361	5	13,132	18,006
Maintenance and repairs	3,915	22,571	2,570	-	25	1,188	-	30,269	11,165	-	41,434	41,388
Telephone and utilities	1,383	12,907	3,779	-	417	683	2,979	22,148	8,867	1,415	32,450	31,562
Office supplies	607	3,519	721	46	308	-	157	5,358	9,980	5,027	20,365	30,502
Materials and supplies	18	88,520	118,498	845	772	1,199	-	209,852	-	-	209,852	97,052
Sets	-	13,414	-	-	-	-	-	13,414	-	-	13,414	90,824
Advertising and promotions	-	-	-	-	1,247	500	432,647	434,394	68,902	455	503,751	728,459
Postage and shipping	164	1,538	1,650	-	430	192	4,580	8,554	2,316	2,428	13,298	15,217
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-
and amortization	-	-	-	-	-	-	-	-	227,511	-	227,511	242,752
Insurance	-	-	-	-	900	-	-	900	42,092	-	42,992	40,171
Professional fees	-	-	-	-	-	-	-	-	24,047	-	24,047	33,989
Bank and other fees	-	-	-	-	-	-	-	-	45,633	-	45,633	55,355
Interest expense	-	-	-	-	-	-	-	-	75,368	-	75,368	54,101
Special events	-	-	-	-	3,549	-	1,087	4,636	-	82,927	87,563	44,742
Seminars and meetings	2,636	131	-	-	-	58	362	3,187	2,573	58,349	64,109	8,573
Other program costs	22,318	-	-	-	16,478	865	-	39,661	-	-	39,661	3,667
Miscellaneous	6,458	312	-	-	701	4,943	(240)	12,174	10,788	705	23,667	25,152
	\$ 2,786,637	\$ 980,360	\$ 242,782	\$ 125,332	\$ 313,970	\$ 144,539	\$ 721,195	\$ 5,314,815	\$ 1,031,891	\$ 322,196	\$ 6,668,902	\$ 7,872,712

See Notes to Financial Statements

BALLET WEST
STATEMENT OF CASH FLOWS

Year Ended June 30, 2010 with summarized information for 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ 119,430	\$ (4,089,343)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	227,511	242,752
Amortization of discount on long-term promises to give	(78,207)	1,372,682
Unrealized (gain) loss in interest in perpetual trust	(176,695)	624,408
Realized and unrealized losses on long-term investments, net	-	515,785
Adjustment to allowance for doubtful accounts	-	2,453
Decrease (increase) in operating assets:		
Accounts receivable	3,010	9,437
Grants receivable	-	493,960
Promises to give	27,546	26,112
Prepaid and deferred expenses	23,900	(72,342)
Increase in operating liabilities:		
Accounts payable, trade	188	283,744
Accrued liabilities	100,987	47,382
Deferred revenue	68,009	125,813
NET CASH FLOWS FROM OPERATING ACTIVITIES	315,679	(417,157)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of long-term investments	-	1,495,797
Purchase of long-term investments	-	(1,614,595)
Purchase of property and equipment	(235,453)	(240,302)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(235,453)	(359,100)
CASH FLOWS FROM FINANCING ACTIVITIES		
Checks drawn in excess of cash in bank	-	(56,451)
Borrowings on line of credit	1,342,193	309,374
Payments on line of credit	(692,193)	-
(Payments) borrowings on short-term note payable	(550,000)	550,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	100,000	802,923
NET INCREASE IN CASH AND CASH EQUIVALENTS	180,226	26,666
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	736,189	709,523
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 916,415	\$ 736,189

SUPPLEMENTAL INFORMATION

Cash paid:		
Interest	\$ 75,368	\$ 54,100
Income taxes	\$ -	\$ -

See Notes to Financial Statements

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of activities – Ballet West (the “Ballet”) is a non-profit corporation established in 1963 and 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 is comprised of dancers who perform in numerous cities in the United States and abroad. In addition to its more than 70 annual performances, the Ballet’s highly acclaimed Education Outreach program reaches approximately 80,000 students each year.

Revenue is obtained through grants and donations from public and private sources, and through ticket sales. The Ballet is a recipient of funding from the State of Utah and the Salt Lake County Zoo, Arts and Parks (ZAP) funding. The intent of the Ballet and the funding restrictions require the use of these funds as follows: 1) support programs aimed at lower-income households; 2) improve operating cash flows; 3) strengthen the statement of financial position for the future; 4) provide the education outreach programs to students throughout the State of Utah.

Basis of presentation – The Ballet prepares its financial statements on the accrual basis of accounting and follows U.S. generally accepted accounting principles (U.S. GAAP) for non-profit organizations and reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted based upon the following criteria:

- **Unrestricted net assets** represent expendable funds available for operations which are not otherwise limited by donor restrictions.
- **Temporarily restricted net assets** consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Ballet may spend the funds.
- **Permanently restricted net assets** are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Use of estimates – The preparation of financial statements in conformity with 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 highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Accounts, grants receivable and promises to give – Accounts and grants receivable and promises to give 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 later than 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 received.

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. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. 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 is 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 - 7 years

Long-lived assets – The Ballet accounts for long-lived assets in accordance with U.S. GAAP, which requires that long-lived assets be reviewed 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 to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of 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 June 30, 2010 or 2009.

Investments – Investments in marketable securities with readily determinable fair values and investments in debt securities are shown on the statement of financial position at their fair values. Unrealized gains and losses are included in the statement of activities.

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Admissions and deferred revenue – Season ticket revenue is deferred and recognized over the ballet season as the performances are given by the Ballet.

Contributions and in-kind donations – Contributions are recorded as unrestricted, temporarily or permanently restricted support depending on the existence or nature of the donor restrictions. All unconditional unrestricted contributions are considered to be available for unrestricted use in the current accounting period. Amounts restricted for future periods or restricted for specific purposes are reported as temporarily restricted or permanently restricted support. When a stipulated time restriction ends or a purpose restriction is accomplished, the restricted net assets are reclassified to unrestricted net assets and reported as satisfactions of program restrictions.

Temporary restrictions on net assets as of June 30, 2010 and 2009 relate to the future capital project. Permanent restrictions on net assets as of June 30, 2010 and 2009 relate to the Ballet's beneficial interests in two trusts and a variety of permanent gifts made to the Ballet.

In-kind donations of property, equipment, supplies and other goods and services are recorded as support at their estimated fair market value on the date of gift. These donations are reported as unrestricted support unless the donor has restricted the donated gifts for a specific purpose. Assets, goods and services donated with explicit restrictions regarding their use are reported as temporarily restricted support and reclassified to unrestricted net assets when used or placed in service.

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 statements for this donated time as it does not meet the criteria for recognition in the financial statements.

Functional allocation of expenses – The costs of production and programs and supporting services have been summarized on a functional basis in the statement of activities. 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.

Collective bargaining agreements – The Ballet's dancers, musicians and production staff (approximately 70% of employees) are covered by collective bargaining agreements. The agreements expire on June 30, 2011.

Advertising costs – Advertising costs are charged to operations when incurred. Advertising expense was approximately \$326,305 and \$570,200 for the years ended June 30, 2010 and 2009, respectively.

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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.

Fair value of financial instruments – The Ballet utilizes various methods to measure fair value of its financial statements on a recurring basis. U.S. GAAP establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are as follows:

Level 1 – Valuations are based on quoted market prices in active markets for identical assets or liabilities. Valuation of these does not require a significant degree of judgment.

Level 2 – Valuations are 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. Valuations require a degree of judgment higher than level one valuations.

Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Valuations require a significant degree of judgment.

New accounting pronouncements adopted - FASB ASC 825, Financial Instruments, (ASC 825), ASC 825-10-65, *Transition and Open Effective Date Information*, (formerly referred to as FSP FAS No. 107-1 and APB Opinion No. 28) requires disclosures about fair value of financial instruments in the financial statements. This pronouncement is effective for periods ending after June 15, 2009. The adoption did not have a material impact on the financial statements.

Effective January 1, 2009 the Organization adopted ASC 740, *Income taxes* (formerly referred to as FIN No. 48). This guidance clarifies the accounting for uncertainty in income taxes recognized in the financial statements (Note 1- Income taxes). The adoption did not have a material impact on the financial statements.

FASB ASC 855, *Subsequent Events*, (formerly referred to as SFAS No. 165), modified the subsequent event disclosure guidance and was adopted by the Ballet for the year ended June 30, 2010 (Note 14).

In August 2009, the FASB issued Accounting Standards Update No. 2009-05 (ASC Update 2009-05), an update to FASB 820, *Fair Value Measurements and Disclosures*. This update provides amendments to reduce potential ambiguity in the financial reporting when measuring the fair value of liabilities. This pronouncement was effective for the Ballet's year ended June 30, 2010. The adoption did not have a material impact on the financial statements.

Subsequent events – Subsequent events were evaluated by management through December 6, 2010, which is the date the financial statements were available to be issued. No events requiring disclosure were identified.

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(2) Prior year summarized financial information

The financial statements include prior year summarized information in total and not by net asset class. The information should be read in conjunction with the Ballet's financial statements as of June 30, 2009, from which the summarized information was derived.

(3) Realization of assets

The accompanying financial statements have been prepared in conformity with U.S. GAAP and assume that the Ballet will continue as a going concern. For the years ended June 30, 2010 and 2009 the Ballet generated an increase (decrease) in net assets of \$119,430 and (\$4,089,343) respectively. The increase in 2010 included realized and unrealized gains in investments of \$176,369. In 2009 the decrease in net assets included realized and unrealized losses on investments of \$1,140,194 and a loss on discount adjustment of \$1,375,136.

In 2010 and 2009 the Ballet generated (used) cash in operations of \$315,682 and (\$417,157) respectively. As of June 30, 2010 and 2009 current liabilities exceeded current assets by approximately \$2,498,930 and \$2,355,814 respectively. In addition the line of credit in 2010 and 2009 was collateralized by unrestricted and permanently restricted net assets.

While certain financial trends are improving realization of the assets in the accompanying balance sheet, both unrestricted and restricted, is dependent upon the continuing operations of the Ballet, which in turn is dependent upon the Ballet's ability to continue to generate surpluses and cash from operations. In 2010 the Ballet was able to reduce expenses by \$1,155,731 and increase overall support by \$425,178 compared to 2009.

In September 2009, management and the board of directors organized a strategic planning committee to develop a plan to combat financial challenges to the Ballet and to plan for the future. As of June 30, 2010 the results have been positive. In September of 2010 the Ballet approved and adopted The Heritage Project which is a development plan for the Ballet which seeks to partner with foundation, government, corporate and individual donors to secure funding to retire the line of credit and other liabilities and expand the Capitol Theatre facility in partnership with Salt Lake County.

The Ballet believes they have implemented effective cost containment and resource development programs that will allow them to continue as a going concern.

(4) Investments and restricted cash

During the year the Ballet held investments in equities and cash equivalent instruments. The following summarizes the related investment return for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Investment return:		
Interest and dividends	\$ 3,793	\$ 33,944
Net realized and unrealized gain (loss)	176,369	(515,785)
Total investment return	<u>\$ 180,162</u>	<u>\$ (481,841)</u>

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(4) Investments and restricted cash (continued)

In November 2008, the value of the long-term investments fell below the minimum required as collateral for the line of credit. As a result, the bank issued a default letter and requested a margin call for \$50,000. The Ballet made a decision to convert the entire investment balance to cash in order to avoid additional margin calls and become compliant with the bank's line of credit requirements. As of June 30, 2010 and 2009, the balance of the endowment fund remains in cash and is considered permanently restricted. There were no investment management fees incurred in 2010 as the portfolio was converted to cash. Total investment management fees were approximately \$5,900 for the year ended June 30, 2009.

(5) Promises to give

Promises to give consist primarily of pledges restricted for the capital campaign and other miscellaneous gifts. The Ballet began a fundraising effort to build a new facility in 2002 (Note 7). The goal of the campaign is to raise \$18,000,000 dollars, of which approximately \$11,000,000 dollars has been pledged. It was determined during the year ending June 30, 2007 that the Ballet would not move and build at a new location but would instead stay in downtown as part of the new "arts block" and renovate the current location in partnership with Salt Lake County.

Approximately 99% of the outstanding promises to give are pledged by three donors. These donors have adjusted the timing of their payments on the promises to mirror the anticipated construction start date. During 2009, due to the change in the timing of the payments the discount on long-term pledges was increased by \$1,372,682 to reflect this change in the timing of the payments. This is shown as an adjustment to contributions in the temporarily restricted net asset class. The discount will be amortized to contribution income over the period of the pledge payments through year 2020.

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:

	2010	2009
Amounts due:		
1 year or less	\$ 54,039	\$ 81,585
1 - 5 years	2,575,635	2,575,634
Thereafter	5,475,000	5,475,000
	8,104,674	8,132,219
Less: allowance for doubtful pledges	(10,000)	(10,000)
Less: unamortized discount	(2,201,946)	(2,280,152)
Total promises to give	\$ 5,892,728	\$ 5,842,067

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(6) Property and equipment

	<u>2010</u>	<u>2009</u>
Cost		
Props, scenery and costumes	\$ 4,024,293	\$ 3,795,114
Production equipment	360,442	359,847
Office furniture and equipment	357,727	352,048
Leasehold improvements	105,695	105,695
Total cost of property and equipment	<u>4,848,157</u>	<u>4,612,704</u>
Accumulated depreciation and amortization	<u>(3,562,003)</u>	<u>(3,334,492)</u>
Net property and equipment	<u>\$ 1,286,154</u>	<u>\$ 1,278,212</u>

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 was \$227,511 and \$242,752, respectively. The Ballet has capitalized approximately \$1,048,000 in costs relating to the renovation and expansion of the facility which is recorded as construction in progress at June 30, 2010 and 2009 (Note 7).

(7) Ballet West/Salt Lake County Center for the Arts

The Ballet is partnering with the Salt Lake County Center for the Arts to build a new building adjacent to the existing Capitol Theatre to house the company and the Ballet West Academy. The Ballet has secured funds and promises to give to fund the new facility which will:

- Increase studio and rehearsal space
- Provide the opportunity to expand enrollment in the Ballet West Academy
- Expand the company's community education and outreach capacity

This project, which is being undertaken with the support of the Salt Lake County Center for the Arts, will also facilitate renovations and updates to the historic Capitol Theatre in downtown Salt Lake City which will provide:

- Expanded theater, lobby, and concession areas
- Increased restroom facilities and improved HVAC systems
- Improvements to auditorium seating, sightlines, and compliance with American's with Disabilities Act

The estimated cost of the project is \$34,600,000 according to the 2010 cost review performed by Construction Control Corporation, SLC, on behalf of Salt Lake County. Currently, Ballet West has secured funding and promises to give in the amount of \$11,000,000 towards its portion of the project. Salt Lake County plans to commit to its agreed participation in the project and will act as project manager, owner and operator of the facilities. The parties are currently in the process of completing a Memorandum of Understanding to formalize their respective commitments.

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(8) Interest in perpetual trusts

A major corporation has established an arts foundation perpetual trust to benefit specific Utah arts organizations, one of which is the Ballet. Assets held in this trust consist of publicly traded equity securities. The Ballet must meet certain requirements established by the foundation's articles of incorporation and by-laws in order to receive funding and benefits from the foundation.

The market value of the investments held by the foundation trust for the benefit of the Ballet was approximately \$728,700 and \$606,200 as of June 30, 2010 and 2009, respectively. The recorded value of the interest in the trust is evaluated each year and the change in value recognized in the statement of activities as a permanently restricted gain or loss. The unrealized loss due to market declines was approximately \$564,000 for the year ended June 30, 2009. Interest and dividends earned by the trust are distributed annually to the Ballet for its unrestricted use. There were no distributions received during the year ended June 30, 2010 or 2009.

The Ballet is a beneficiary of an additional perpetual trust. The Ballet's pro-rata interest in the trust is recorded at the fair value of the assets contributed to the trust and is permanently restricted. The market value of the investments held by the trust for the benefit of the Ballet is approximately \$274,000 and \$220,600 as of June 30, 2010 and 2009, 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 permanently restricted gain or loss. The loss due to market declines was approximately \$61,000 for the year ended June 30, 2009. Interest and dividends distributed to the Ballet are available for its unrestricted use. There were no distributions received during the years ended June 30, 2010 or 2009.

(9) Line of credit

The Ballet has a \$2,075,000 line of credit with interest set at prime on the outstanding balance. The interest rate was 3.25% at June 30, 2010 and 2009. The line of credit is renewable annually and collateralized by unrestricted and permanently restricted assets. The balance on the line of credit was \$2,075,000 and \$1,425,000 as of June 30, 2010 and 2009, respectively. Interest expense was \$75,368 and \$54,100 for the year ended June 30, 2010 and 2009, respectively.

(10) Short-term note payable

The Ballet had a \$550,000 short-term note payable as of June 30, 2009, with interest set at prime on the outstanding balance. During 2010, the note was paid in full.

(11) Operating leases

The Ballet rents theatre, 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. Other stage and rehearsal facilities are rented as needed. The Ballet also maintains office equipment under operating leases with terms in excess of one year.

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(11) Operating leases (continued)

Future minimum annual rental payments required under operating leases that have an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2010, are as follows:

Years Ending June 30,

2010	\$	12,744
2011		8,209
Total minimum lease payments	\$	<u>20,953</u>

Total rent and lease expense under equipment operating leases with terms in excess of one year was \$40,406 and \$42,068 for the years ended June 30, 2010 and 2009, respectively.

(12) Retirement benefit obligation

The Ballet provides a retirement benefit for the surviving spouse of its artistic founder. This agreement provides for an annual retirement benefit of \$19,881, which is paid on a weekly basis. The present value of future payments was \$30,413 as of June 30, 2010 and 2009, and is based on the term of the agreement and applicable interest rate.

(13) 401(k) plan

The Ballet sponsors a 401(k) plan in which all employees are eligible to participate. The Ballet makes weekly matching contributions to the plan equal to 50% of each employee's elective contributions not to exceed 3% of total compensation for the period. There were no employer contributions to the plan for 2010. Employer contributions were approximately \$78,000 for the year ended June 30, 2009.

(14) Temporarily restricted net assets

The temporarily restricted net asset class is reserved for the capital project and totaled \$6,501,033 and \$6,328,349 on June 30, 2010 and 2009, respectively. The restricted assets consist of promises to give.

(15) Permanently restricted net assets

The permanently restricted net asset class is comprised of interests in perpetual trusts (Note 8) and other permanently restricted endowment fund contributions. Returns from these funds provide a steady source of income to help cover operating costs. Contributions donated to this fund are permanently restricted and cannot be used for any other purpose.

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(16) Fair value measurement of financial instruments

The following fair value hierarchy table presents information about the Ballet's assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 and 2009. See note 1 for a discussion of the Ballet's policies regarding this fair value hierarchy.

Assets and liabilities measured at fair value on a recurring basis are as follows as of June 30, 2010 and 2009:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market and cash equivalents	\$ 26,961	\$ 26,961	\$ -	\$ -
Mutual funds	80,496	80,496	-	-
Equity securities	692,303	692,303	-	-
Other funds	26,968	-	26,968	-
June 30, 2010	<u>\$ 826,728</u>	<u>\$ 799,760</u> (a)	<u>\$ 26,968</u> (b)	<u>\$ -</u>

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market and cash equivalents	\$ 16,269	\$ 16,269	\$ -	\$ -
Mutual funds	70,449	70,449	-	-
Equity securities	837,377	837,377	-	-
Other funds	78,666	-	78,666	-
June 30, 2009	<u>\$ 1,002,761</u>	<u>\$ 924,095</u> (a)	<u>\$ 78,666</u> (b)	<u>\$ -</u>

(a) This category consists of mutual funds and equities held at a brokerage. The fair value of this instrument is determined based on quoted market prices at June 30, 2010.

(b) This category consists of managed real estate funds, including oil and gas and real property, held at a brokerage. Pricing for this instrument provided by issuer, investment manager, fund accountant, client, etc. or default price if price is not provided.

(17) Endowment

In August 2008, the FASB issued FSP No. 117-1, *Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA")*, and *Enhanced Disclosures for All Endowment Funds* (FSP No. 117-1). FSP No. 117-1 improves disclosures about an organization's endowment funds (both donor restricted and board designated) whether the organization is subject to the Uniform Management of Institutional Funds Act ("UMIFA"), or its replacement legislation, UPMIFA. The Ballet has adopted FSP No. 117-1 for the year ended June 30, 2009. The State of Utah enacted UPMIFA effective April 30, 2007. The Ballet's endowment consists only of donor-restricted funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(17) Endowment (continued)

Interpretation of relevant law – The Board of Directors and management of Ballet West has 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 permanently restricted net assets (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 that is not classified as permanently restricted net assets is classified as temporarily restricted net assets 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) The duration and preservation of the fund
- (2) The purposes of the organization and the donor restricted endowment fund
- (3) General economic conditions, inflation, deflation
- (4) The expected total return from income and appreciation of investments
- (5) Other resources of the Ballet
- (6) The investment policies of the Ballet

For 2010 all endowment net assets are donor restricted. Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	\$ (231,640)	\$ -	\$ 2,552,293	\$ 2,320,653
Investment return:				
Investment return	11,301	-	-	11,301
Net realized and unrealized loss	-	-	176,033	176,033
Investment return	11,301	-	176,033	187,334
	\$ (220,339)	\$ -	\$ 2,728,326	\$ 2,507,987

BALLET WEST

NOTES TO FINANCIAL STATEMENTS

(17) Endowment (continued)

For 2009 all endowment net assets were donor restricted. Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets,				
Beginning of year	\$ 250,201	\$ -	\$ 3,176,702	3,426,903
Investment return:				
Investment return	33,944	-	-	33,944
Net realized and unrealized loss	<u>(515,785)</u>	<u>-</u>	<u>(624,409)</u>	<u>(1,140,194)</u>
Investment return	<u>(481,841)</u>	<u>-</u>	<u>(624,409)</u>	<u>(1,106,250)</u>
	<u>\$ (231,640)</u>	<u>\$ -</u>	<u>\$ 2,552,293</u>	<u>\$ 2,320,653</u>

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. In accordance with U.S.GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$220,339 and \$231,640 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations during the years ended June 30, 2010 and 2009.

Return objectives and risk parameters – The Ballet is in the process of reviewing investment and spending policies for endowment assets. The objective will be to adopt policies that attempt to maximize long-term gains with an acceptable level of risk and to provide funding for special projects or initiatives, to act as an emergency funding source, or to fund capital expenditures. Endowment assets include donor restricted funds that the Ballet must hold in perpetuity. Under their policy, the endowment funds will be invested in a manner that is intended to produce results that meet or exceed appropriate nationally recognized performance indices (benchmarks) selected by the investment committee over a five-year rolling period. Actual returns in any given year may vary.

As part of the review prudent spending policies will be adopted to provide guidance at the time the corpus of the endowment is recovered. Spending policy and how the investment objective relates to the spending policy – distributions of endowment funds - are approved by the board of directors and are made when deemed appropriate. There were no amounts appropriated for expenditure for the year ended June 30, 2010 or 2009.

(18) 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.

Accounts and grants receivable and promises to give have concentrations of credit risk as they are due from individuals and organizations located in Utah. The Ballet has three contributors who have made significant promises to give and comprise approximately 99% of the outstanding promises to give at June 30, 2010 and 2009, respectively.