

PITTSBURGH BALLET THEATRE, INC.
Pittsburgh, Pennsylvania

Financial Statements
and
Supplementary Information
For the years ended June 30, 2020 and 2019
and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pittsburgh Ballet Theatre, Inc.
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of the Pittsburgh Ballet Theatre, Inc. (Ballet) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 the Ballet as of June 30, 2020 and 2019, and the changes in its net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 2, 2020

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PITTSBURGH BALLET THEATRE, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30	
	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,342,222	\$ 714,301
Accounts receivable	62,180	20,608
Pledges receivable	609,043	1,117,021
Prepaid expenses and other current assets	455,792	402,296
Total Current Assets	2,469,237	2,254,226
ENDOWMENT ASSETS		
Cash and cash equivalents	349,873	299,906
Investments	8,419,259	8,444,856
	<u>8,769,132</u>	<u>8,744,762</u>
INVESTMENT HELD BY TRUST	354,035	372,162
PLEDGES RECEIVABLE	108,650	117,761
FIXED ASSETS, net	9,033,777	9,188,616
PRODUCTION ASSETS (less accumulated amortization of \$823,123 and \$813,624 in 2020 and 2019, respectively)	<u>191,668</u>	<u>201,167</u>
Total Assets	<u>\$ 20,926,499</u>	<u>\$ 20,878,694</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	\$ 319,330	\$ 200,000
Accounts payable and accrued expenses	122,998	335,832
Deferred revenue	930,051	1,489,868
Deferred grant revenue	1,085,400	-
Total Current Liabilities	2,457,779	2,025,700
NET ASSETS:		
Without Donor Restrictions	5,468,451	6,042,284
With Donor Restrictions	<u>13,000,269</u>	<u>12,810,710</u>
Total Net Assets	<u>18,468,720</u>	<u>18,852,994</u>
Total Liabilities And Net Assets	<u>\$ 20,926,499</u>	<u>\$ 20,878,694</u>

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE	\$ 5,628,580	-	\$ 5,628,580	\$ 6,350,875	-	\$ 6,350,875
OPERATING EXPENSES	(10,749,265)	-	(10,749,265)	(11,715,627)	-	(11,715,627)
Changes In Net Assets Before Public And Private Support, Releases From Restrictions And Depreciation On Leaseholds, Machinery And Equipment And Land Improvements	(5,120,685)	-	(5,120,685)	(5,364,752)	-	(5,364,752)
PUBLIC AND PRIVATE SUPPORT	3,106,419	\$ 2,134,536	5,240,955	3,604,127	\$ 2,358,241	5,962,368
Changes In Net Assets Before Releases From Restrictions And Depreciation On Leaseholds, Machinery And Equipment And Land Improvements	(2,014,266)	2,134,536	120,270	(1,760,625)	2,358,241	597,616
NET ASSETS RELEASED FROM OPERATING RESTRICTIONS						
Investment income spending	454,000	(454,000)	-	462,300	(462,300)	-
Other support	1,638,143	(1,638,143)	-	1,890,295	(1,890,295)	-
Total Net Assets Released From Operating Restrictions	2,092,143	(2,092,143)	-	2,352,595	(2,352,595)	-
Changes In Net Assets From Operations	77,877	42,393	120,270	591,970	5,646	597,616
Net realized and unrealized gains, interest and dividends	-	147,166	147,166	-	352,613	352,613
Public and private support related to capital and other non-operating restrictions	-	-	-	-	1,000,000	1,000,000
Net assets released from capital restrictions	-	-	-	22,429	(22,429)	-
Depreciation on leaseholds, machinery and equipment and land improvements	(651,710)	-	(651,710)	(640,545)	-	(640,545)
Changes In Net Assets	(573,833)	189,559	(384,274)	(26,146)	1,335,830	1,309,684
NET ASSETS						
Beginning of year	6,042,284	12,810,710	18,852,994	6,068,430	11,474,880	17,543,310
End of year	\$ 5,468,451	\$ 13,000,269	\$ 18,468,720	\$ 6,042,284	\$ 12,810,710	\$ 18,852,994

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Activities			Total Program Activities	Supporting Activities		Total Supporting Activities	Totals
	Performances	School	Arts Education		Management and General	Fundraising and Special Events		2020
Salaries, wages, fees and fringe benefits	\$ 3,774,760	\$ 883,357	\$ 325,973	\$ 4,984,090	\$ 1,002,560	\$ 559,306	\$ 1,561,866	\$ 6,545,956
Production costs	1,451,441	515,428	37,966	2,004,835	-	-	-	2,004,835
Depreciation/amortization	518,356	221,749	4,406	744,511	25,806	18,164	43,970	788,481
Marketing	611,603	-	-	611,603	33,869	-	33,869	645,472
Occupancy	147,384	88,411	-	235,795	11,294	9,134	20,428	256,223
Development and special events	-	-	-	-	-	366,495	366,495	366,495
Professional fees and other	274,576	-	-	274,576	165,435	78,939	244,374	518,950
In-kind	271,122	-	-	271,122	669	2,772	3,441	274,563
Total Functional Expenses	\$ 7,049,242	\$ 1,708,945	\$ 368,345	\$ 9,126,532	\$ 1,239,633	\$ 1,034,810	\$ 2,274,443	\$ 11,400,975

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.

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

	Program Activities			Total Program Activities	Supporting Activities		Total Supporting Activities	Totals
	Performances	School	Arts Education		Management and General	Fundraising and Special Events		2019
Salaries, wages, fees and fringe benefits	\$ 3,726,657	\$ 796,252	\$ 319,395	\$ 4,842,304	\$ 1,089,083	\$ 459,413	\$ 1,548,496	\$ 6,390,800
Production costs	2,170,808	535,685	48,244	2,754,737	-	-	-	2,754,737
Depreciation/amortization	581,743	127,210	-	708,953	30,241	22,283	52,524	761,477
Marketing	614,156	57,636	-	671,792	24,265	-	24,265	696,057
Occupancy	272,913	90,176	-	363,089	17,391	14,064	31,455	394,544
Development and special events	-	-	-	-	-	487,559	487,559	487,559
Professional fees and other	258,006	6,394	265	264,665	147,906	180,080	327,986	592,651
Inkind	237,354	-	-	237,354	550	40,443	40,993	278,347
Total Functional Expenses	\$ 7,861,637	\$ 1,613,353	\$ 367,904	\$ 9,842,894	\$ 1,309,436	\$ 1,203,842	\$ 2,513,278	\$ 12,356,172

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (384,274)	\$ 1,309,684
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	788,481	761,477
Net realized and unrealized gains on investments	18,907	(133,946)
Contributions restricted for investment in endowment	(1,000)	(179,917)
Provision for bad debts	(10,000)	117,500
Changes in assets and liabilities:		
Accounts receivable	(41,572)	13,653
Pledges receivable	212,706	(125,109)
Prepaid expenses	(53,496)	(33,694)
Accounts payable and accrued expenses	(212,834)	117,880
Deferred revenue	(559,817)	30,709
Deferred grant revenue	1,085,400	-
Net Cash Provided By Operating Activities	<u>842,501</u>	<u>1,878,237</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and production assets	(624,143)	(615,833)
Proceeds from sale of investments	4,401,221	2,860,336
Purchase of investments	(4,376,404)	(3,046,439)
Net Cash Used In Investing Activities	<u>(599,326)</u>	<u>(801,936)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit, net	119,330	(1,275,000)
Payments on long-term debt	-	(62,905)
Contributions restricted for investment in endowment	315,383	248,917
Net Cash Provided By (Used In) Financing Activities	<u>434,713</u>	<u>(1,088,988)</u>
Net Increase (Decrease) In Cash And Cash Equivalents	677,888	(12,687)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,014,207</u>	<u>1,026,894</u>
End of year	<u>\$ 1,692,095</u>	<u>\$ 1,014,207</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 32,928</u>	<u>\$ 17,210</u>

See notes to financial statements.

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 1 - ORGANIZATION

The Pittsburgh Ballet Theatre, Inc. (Ballet) is committed to being Pittsburgh's source and ambassador for extraordinary ballet experiences that give life to the classical tradition, nurture new ideas and, above all, inspire. The Ballet relies principally on contributions, ticket sales, tour performances, boutique sales, special events and the operation of a ballet school to fund its operating costs.

The Ballet has multiple collective bargaining agreements covering costume dressers, which expires June 30, 2021; orchestra musicians of the work force, which expires June 30, 2021; stagehands, which expires June 30, 2021; and dancers, which expires June 30, 2022.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements follows:

Basis of Accounting - The financial statements are prepared on the accrual basis of accounting.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain 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.

Accounts of the Ballet are organized on the basis of net assets. Net assets without donor restrictions account for all resources over which there are no donor restrictions or stipulations and the Ballet's Board of Trustees (Board) has discretionary control to use in carrying out the operations of the Ballet. Net assets with donor restrictions are those resources expendable only for purposes specified by the donor or grantor. Some donor-imposed stipulations are temporary in nature, such as those that may or will be satisfied by actions of the Ballet and/or the passage of time. Other donor-imposed stipulations are perpetual in nature, where the donor stipulates that the assets be maintained in perpetuity by the Ballet.

Contributions without donor restrictions are recorded as revenue when received or pledged. Contributions with donor restrictions are reclassified to contributions without donor restrictions and reported in the statement of activities as revenues if a restriction is met in the same period the revenue is recognized. Net assets with donor restrictions are reclassified to without donor restrictions and reported in the statement of activities as net assets released from restriction when a stipulated time restriction ends or purpose restriction is accomplished. Conditional promises to give are not included as support until the conditions are substantially met.

Ticket and advertising sales collected for performances of the upcoming season are included in deferred revenue and recognized as revenue in the year such performances are completed. Deferred revenues also are composed of tuition and housing revenues for amounts received in advance of the period in which they relate.

The Ballet evaluates the need for an allowance for doubtful accounts based on historical collection, experience, a review of current status of the receivables and judgment. Decisions to charge off receivables are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts. Management has determined that an allowance is not necessary at either June 30, 2020 or 2019. It is reasonably possible that the Ballet's estimate of uncollectible receivables could change.

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For purposes of the statement of cash flows, the Ballet considers all interest-bearing money market funds and noninterest-bearing accounts to be cash or cash equivalents. The Ballet maintains, at various financial institutions, cash that may exceed federally insured amounts at times. In accordance with a grant agreement, the Ballet is required to maintain a cash reserve fund, which is to be fully funded at the conclusion of each fiscal year or for a period of 30 consecutive days during the fiscal year. The Ballet has met the requirements of this covenant for the years ended June 30, 2020 and 2019.

Investments are recorded at fair value. The change in unrealized appreciation on investments is the difference between the excess of fair market value over the cost of the portfolio at the end of the current period and the difference at the end of the prior period. Realized gains on security transactions are the result of all gains and losses realized in the current period using the specific identification method. Investments received by gift are recorded at market value on the date of the donation.

Investments are exposed to various risks, such as interest rates and credit conditions. Due to the level of risk associated with investments and the level of uncertainty related to the change in the value of investments, it is at least reasonably possible that changes in the near term could materially affect the amounts reported in the statement of financial position.

The cost of costumes, sets and props and production costs for major, recurring ballets are capitalized and depreciated on a units-of-performance basis. All other costs are charged to operations as incurred.

Furniture and fixtures and machinery and equipment are recorded at cost or, with respect to acquisition by gift, at market value at the date of acquisition, and are depreciated on the straight-line basis over the estimated useful life of the assets ranging from three to 15 years.

Leasehold and land improvements are recorded at cost and are amortized over the remaining life of the lease or the estimated useful life of the improvements, whichever is less.

The costs of providing the Ballet's various programs and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Salaries, wages, fees and fringe benefits are allocated on the basis of time and effort. All other expenses are allocated based on actual usage. These expenses are allocated on a reasonable basis that is consistently applied.

The Ballet is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is recorded in the financial statements. The Ballet's statements of financial position at June 30, 2020 and 2019 do not include any liabilities associated with uncertain tax positions; further, the Ballet has no unrecognized tax benefits. There were no interest or penalties recognized in the statements of activities for the years ended June 30, 2020 and 2019. The Ballet is no longer subject to examinations of its tax returns for years before 2017.

Generally, advertising costs are expensed in the period incurred, however the Ballet may from time to time defer advertising costs related to specific productions and expense such costs in the period in which the productions take place. Advertising expense for the fiscal years 2020 and 2019 approximated \$408,000 and \$429,000, respectively.

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements - In June 2018, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08), which should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for transactions in which the entity serves as the resource recipient for annual periods beginning after December 15, 2018. For transactions in which the entity serves as the resource provider, ASU 2018-08 is effective for annual periods beginning after December 15, 2019. The Ballet has retrospectively adopted ASU 2018-08 in the current year, which did not have a significant impact on the financial statements.

In August 2018, the FASB issued ASU No. 2018-13 Fair Value Measurement (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which clarifies that entities should disclose information about the uncertainty of fair value measurements as of the reporting date. ASU 2018-13 removes the requirement to disclose the amount and reasons for transfers between Level 1 and 2 of the fair value hierarchy table, the policy for timing of transfers between levels, the valuation processes for Level 3 fair value measurements, and the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. ASU 2018-13 requires transfers out of and into Level 3 and purchases and issues of Level 3 assets and liabilities to be disclosed. Also required to be disclosed is liquidation timing of an investee's assets and the date when restrictions from redemption might lapse. ASU 2018-13 is effective for nonpublic entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. A reporting entity should apply amendments retrospectively to all periods presented. Early application is permitted. The Ballet adopted ASU 2018-13 for the year ending June 30, 2020. Adoption of these changes did not have a material impact on Ballet's financial statements.

Recently Issued Accounting Pronouncements - The FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), the result of a joint project of FASB and the International Accounting Standards Board (IASB) to clarify the principles for recognizing revenue and to develop a common revenue standard for use in the U.S. and internationally. ASU 2014-09 supersedes revenue recognition requirements in Topic 605 of the FASB Codification and most industry-specific guidance throughout the Industry Topics of the Codification. It enhances comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, reduces the number of requirements an entity must consider for recognizing revenue, and requires improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. In August 2015, the FASB issued ASU 2015-14, a deferral on the implementation date, making this guidance effective for annual reporting periods beginning after December 15, 2019. ASU 2014-09 requires either retrospective application by restating each prior period presented in the financial statements, or retrospective application by recording the cumulative effect on prior reporting periods to beginning retained earnings in the year that the standard becomes effective. The Ballet is assessing the impact that ASU 2014-09 will have on its financial statements and related disclosures.

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASU 2016-02 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact the Ballet's financial statements, since the Ballet has certain operating lease arrangements for which it is the lessee and others for which it is the lessor. ASU 2016-02 supersedes the previous leases standard, Leases (Topic 840). The standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Ballet is assessing the impact that ASU 2016-02 will have on its financial statements.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available to meet cash needs for general expenditures within one year of the statement of financial position date, without donor or other restrictions limiting their use include the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,342,222	\$ 714,301
Accounts receivable	62,180	20,608
Pledges receivable without donor restrictions	94,872	205,838
Investments appropriated for current use	<u>430,953</u>	<u>453,827</u>
	<u>\$ 1,930,227</u>	<u>\$ 1,394,574</u>

As part of the Ballet's liquidity management, it has a line of credit agreement with maximum borrowings of \$1,000,000. (See Note 9.) At June 30, 2020, there was approximately \$319,000 outstanding borrowings. The Ballet has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Ballet's funds include net assets with donor restrictions that are subject to expenditure for specific purposes, and, therefore, are not available for general expenditure.

The Ballet's endowment consists of various investment funds established or designated primarily for support of the organization's mission. As described in Note 4, the Ballet annually elects a spending rate of between 2% and 7% for use in current and future operations.

For purposes of analyzing resources available to meet general expenditures, the Ballet considers all expenditures related to ongoing activities of the Ballet's program implementation, general and administrative functions and fundraising to be general expenditures.

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 4 - ENDOWMENT

The Ballet's endowment consists of donor-restricted investment funds established for perpetual support of the organization's mission. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Ballet to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141), a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's donor-restricted investments as income each year. The long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. On an annual basis, the Board must elect a spending rate of between 2% and 7%. In accordance with Act 141, and to comply with a donor-imposed restriction, the Ballet usually transfers no more than 5% of the previous three years' market value average of the endowment fund. For the year ended June 30, 2016, the Ballet obtained the donor's permission to increase the maximum investment draw percentage to 7%. Starting for the year ended June 30, 2017, the Ballet began a gradual reduction in draw over five years to return to 5% in 2021. The maximum investment draw percentage for the years ended June 30, 2020 and 2019 was 5.4% and 5.8%, respectively. This percentage is applied to a three-year average market value of the investments at June 30 of the previous year. The Ballet classifies as net assets with donor restrictions the original and subsequent value of gifts donated to the endowment with donor restrictions. In accordance with Act 141, the Ballet has adopted a written investment policy, of which a section specifically relates to the endowment fund. The Ballet considers the following factors in making a determination to set a spending rate:

1. Protecting the corpus of the endowment fund.
2. Preserving the spending power of the assets.
3. Obtaining maximum investment return with reasonable risk and operational consideration.
4. Complying with applicable laws and donor-imposed restrictions.

The donor-restricted endowment funds of \$8,946,495 and \$9,227,247 as of June 30, 2020 and 2019, respectively, are included in net assets with donor restrictions.

The changes in donor-restricted endowment funds for the years ended June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Endowment net assets, beginning of year	\$ 9,227,247	\$ 9,157,017
Contributions	1,000	179,917
Investment return:		
Investment income	244,095	265,945
Net (depreciation) appreciation	<u>(71,847)</u>	<u>86,668</u>
	172,248	352,613
Appropriation of endowment assets for expenditure	<u>(454,000)</u>	<u>(462,300)</u>
Endowment net assets, end of year	<u>\$ 8,946,495</u>	<u>\$ 9,227,247</u>

Return Objectives and Risk Parameters - The Ballet has adopted investment and spending policies for endowment assets that attempt to provide a reasonable level of funding to programs supported by its endowment, while seeking to enhance the purchasing power of the fund's corpus. These policies are geared toward long-term growth that will enable the Ballet to continue to operate at an elite level. Under this policy, as approved by the Board, the endowment assets are invested in a manner intended to produce results that exceed the price and yield results of a blended benchmark of equity and fixed-income peer groups.

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 4 - ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives - To satisfy long-term rate-of-return objectives, the Ballet relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Ballet targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Investment advisors, at the discretion of the Investment Committee of the Board, are given guidelines to the percentage that can be committed to a particular investment or investment category.

Spending Policy and Investment Objectives Related to Spending Policy - In accordance with Act 141, the Ballet annually transfers no more than 7% of the previous three years' market value average of the donor restricted endowment fund to net assets without donor-restrictions for use in current and future operations. For the years ended June 30, 2020 and 2019, the spendable return totaled \$454,000 and \$462,300, respectively, all of which was expended. The Ballet believes that this spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with the Ballet's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Annually, the Ballet is required to maintain, among other things, certain stipulated ratios and cash reserve requirements in accordance with a grant agreement. The Ballet was in compliance with all stipulations as of June 30, 2020.

NOTE 5 - INVESTMENTS WITH DONOR RESTRICTIONS

Donor-restricted investments consist of pooled investment funds and securities, which are presented at their aggregate market value. Carrying values and unrealized appreciation at June 30 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Equity funds and securities	\$ 5,472,194	\$ 5,646,844
Bond funds	<u>2,947,065</u>	<u>2,798,012</u>
Total market value	<u>\$ 8,419,259</u>	<u>\$ 8,444,856</u>
Cost or donated value	<u>\$ 7,651,389</u>	<u>\$ 7,535,739</u>
Unrealized appreciation	<u>\$ 767,870</u>	<u>\$ 909,117</u>

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 6 - INVESTMENT HELD BY TRUST

The Ballet is a partial beneficiary of the trust of Pauline Beamer Pickens, and the trustee holds title to the assets. This is included within net assets with donor restrictions.

Distributions are made at the discretion of the trustee in accordance with the trust agreement and are without donor restrictions. Distributions approximated \$20,000 and \$21,000 for fiscal years 2020 and 2019, respectively. Carrying values and unrealized appreciation at June 30 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Cost or donated value	\$ <u>322,786</u>	\$ <u>334,560</u>
Market value	\$ <u>354,035</u>	\$ <u>372,162</u>
Unrealized appreciation	\$ <u>31,249</u>	\$ <u>37,602</u>

NOTE 7 - PLEDGES RECEIVABLE

The Ballet has recorded pledges receivable at June 30 consisting of the receipt of unconditional promises to give, which are summarized as follows:

	<u>2020</u>	<u>2019</u>
Without donor restrictions:		
Due in less than one year	\$ <u>94,872</u>	\$ <u>205,838</u>
With donor restrictions:		
Due in less than one year	514,171	911,183
Due in one to five years	<u>108,650</u>	<u>117,761</u>
	<u>622,821</u>	<u>1,028,944</u>
Total	\$ <u>717,693</u>	\$ <u>1,234,782</u>

The discount to present value of these future receipts is not material.

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 8 - FIXED ASSETS

Fixed assets at June 30 consist of the following:

	<u>2020</u>	<u>2019</u>
Building and leasehold improvements	\$ 14,506,485	\$ 13,735,704
Costumes, sets and props	4,291,923	4,164,034
Machinery and equipment	267,751	242,278
Land improvements	127,618	127,618
	<u>19,193,777</u>	<u>18,269,634</u>
Less - Accumulated depreciation	<u>(11,218,035)</u>	<u>10,139,053</u>
	7,975,742	8,130,581
Land	<u>1,058,035</u>	<u>1,058,035</u>
	<u>\$ 9,033,777</u>	<u>\$ 9,188,616</u>

The Ballet previously leased a portion of its facilities from a related party, the Pittsburgh Ballet Theatre Charitable Foundation (Foundation), a charitable trust. The term of the lease provided for rental payments of \$1 per year. In September 2019, the lease was terminated, the Foundation ceased operations and the Trust was terminated. As part of this, the Foundation transferred ownership of the building to the Ballet under a deed dated September 25, 2019. Due to the related party relationship, the transfer has been recorded on the Ballet's financial statements at the Foundation's carrying value of the asset. The original purchase price of the building was \$300,000 and was fully depreciated at the time of the transfer. During 2020, the Ballet obtained an appraisal on the building that was transferred which suggested a fair value of approximately \$3,875,000.

NOTE 9 - LINE OF CREDIT

The Ballet maintains a line of credit with a financial institution. The maximum borrowings available under the agreement are \$1,000,000 with interest on any unpaid balance accruing at the bank's prime lending rate (3.25% at June 30, 2020). The line is collateralized through a blanket lien on all of the Ballet's assets without donor restrictions. As of June 30, 2020 and 2019, there were \$319,000 and \$200,000 of borrowings outstanding on the line of credit, respectively. All outstanding amounts are due no later than the agreement's expiration date, November 30, 2020.

NOTE 10 – GOVERNMENT GRANT

The Ballet is a recipient of a Paycheck Protection Program (PPP) loan with a bank of approximately \$1,085,000 granted by the Small Business Administration under the Coronavirus Aid, Relief and Economic Security Act (CARES Act), that is reflected as deferred revenue as of June 30, 2020. Under the program terms, PPP loans are forgiven and recognized as grant revenue if the loan proceeds are used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following the receipt of the loan. The Ballet has determined that it will meet the criteria for forgiveness; therefore, the amount included in deferred grant revenue will be recognized as grant revenue in fiscal year 2021.

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Ballet's financial instruments consist primarily of cash and cash equivalents, accounts receivable, pledges receivable, investments, investment held by trust, accounts payable and accrued expenses, line of credit and long-term debt.

The carrying amount of cash and cash equivalents, accounts receivable, pledges receivable, accounts payable and accrued liabilities approximates their fair value due to the short-term nature of such instruments.

The carrying value of the Ballet's line of credit and long-term debt approximates fair value at June 30, 2020 and 2019, since the interest rates were either market-based and adjusted periodically, or reflect current market rates available to the Ballet.

The valuation of the Ballet's investments and investment held in trust at June 30 according to the fair value hierarchy is summarized as follows:

	2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds and securities	\$ 8,419,259	-	-	\$ 8,419,259
Investment held in trust	<u>-</u>	<u>-</u>	<u>\$ 354,035</u>	<u>354,035</u>
	<u>\$ 8,419,259</u>	<u>-</u>	<u>\$ 354,035</u>	<u>\$ 8,773,294</u>
	2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds and securities	\$ 8,444,856	-	-	\$ 8,444,856
Investment held in trust	<u>-</u>	<u>-</u>	<u>\$ 372,162</u>	<u>372,162</u>
	<u>\$ 8,444,856</u>	<u>-</u>	<u>\$ 372,162</u>	<u>\$ 8,817,018</u>

The fair value of the mutual funds categorized as Level 1 is based on quoted market prices for identical securities traded in active markets that are readily and regularly available to the Ballet.

Investment held in trust includes underlying investments that are primarily based on readily quoted active markets. Since the investment held in trust is not readily tradable, but significant inputs are observable in active markets, the trust uses primarily Level 1 and Level 2 inputs valuing their own investments.

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Ballet's ownership in this trust is represented by an undivided interest in these investments, not in the underlying assets themselves. The undivided interests are not traded themselves, and they cannot be valued based on observable direct or indirect inputs. Accordingly, it is classified as Level 3.

The changes in those items measured at fair value for which the Ballet has used Level 3 inputs to determine fair value are as follows:

Balance, June 30, 2018	\$	379,117	
Distributions		(21,246)	
Unrealized appreciation		14,291	
Balance, June 30, 2019		372,162	
Distributions		(20,356)	
Unrealized appreciation		2,229	
Balance, June 30, 2020	\$	<u>354,035</u>	

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. There were no transfers between levels during the years ended June 30, 2020 and 2019.

NOTE 12 - NET ASSETS

Net assets with donor restrictions at June 30 consisted of the following:

	<u>2020</u>	<u>2019</u>
Subject to passage of time	\$ 256,000	\$ 466,000
Subject to expenditure for specified purpose:		
Capital projects	629,322	718,661
Future production support	2,547,006	1,838,422
Scholarships	<u>267,411</u>	<u>181,283</u>
	3,443,739	2,738,366
Restriction in perpetuity (including approximately \$111,000 and \$425,000 of pledges receivable at June 30, 2020 and 2019, respectively)	<u>9,300,530</u>	<u>9,606,344</u>
	<u>\$ 13,000,269</u>	<u>\$ 12,810,710</u>

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 12 - NET ASSETS (Continued)

Net assets were released from donor restrictions at June 30 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors and grantors as follows:

	<u>2020</u>	<u>2019</u>
Subject to passage of time	\$ 210,000	\$ 210,000
Subject to expenditure for specified purpose:		
Capital projects	74,742	762,698
Production support	1,245,954	856,253
Scholarships	<u>107,447</u>	<u>83,773</u>
	<u>1,428,143</u>	<u>1,702,724</u>
	<u>\$ 1,638,143</u>	<u>\$ 1,912,724</u>

NOTE 13 - DONATED SERVICES

The Ballet receives certain donated professional services that assist in accomplishing its goals. The Ballet assigns values to such services based on rates commensurate with the type of services performed. Such expenses are reflected in the accompanying financial statements as both revenue and expense.

Though Board members have donated a substantial amount of time to the operation of the Ballet, no amounts have been reflected in the accompanying financial statements for donated services because no objective basis is available to measure the value of such services.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The Ballet has a 15-year lease agreement with the City of Pittsburgh for the use of a parking facility across the street from its dance studios, which expires in December 2025. The lease provides for the maintenance costs of the parking facility to be the sole cost to the Ballet.

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 15 - EMPLOYEE BENEFIT PLANS

The Ballet participates in a multiemployer pension plan under a union agreement. Contributions to the plan can vary significantly year to year, and the plan listed below may not be indicative of all plans the Ballet has contributed to in the past.

The Ballet does not control this plan. Generally, the plan provides defined benefits to substantially all employees covered by the stagehand collective bargaining agreement. The risks of participating in this multiemployer plan are different from a single-employer plan in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- Under the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006, a contributor to a multiemployer plan may be liable, upon termination or withdrawal from a plan, for its proportionate share of a plan's unfunded vested liability. However, such potential liability, if any, would be determined by the plan's trustee at the point of termination or withdrawal and not necessarily tied to the Ballet's level of contributions to the plan.

The following table presents information as of June 30 concerning the Ballet's participation in a significant multiemployer defined benefit pension plan:

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status (a)		FIP/RP Status Pending/ Implemente	Ballet Contributions		Expiration Date of Collective Bargainin Labor Agreemen
		2020	2019	(b)	2020	2019	

I.A.T.S.E National

Pension Fund	13-1849172/001	Green	Green	N/A	\$40,883	\$55,690	6/30/21
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(a) The requirement for financial improvement plans, "FIP," or rehabilitation plans, "RP," is determined by the funding level or zone of the applicable plan.

(b) As defined by the Pension Protection Act, "PPA," the zone status indicates the percent the plan is funded for plan years presented. Red Zone: plans generally funded less than 65%; Yellow Zone: plans generally funded less than 80%; Green Zone: at least 80% funded.

The Ballet's contributions to the plan do not exceed 5% of the total contributions to the plan for both of the plan years December 31, 2019 and 2018.

PITTSBURGH BALLET THEATRE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 15 - EMPLOYEE BENEFIT PLANS (Continued)

The information required to determine the total amount of the contingent obligation is not readily available. However, the plan in which the Ballet has participated has not asserted entitlement to a withdrawal liability payment, and the Ballet has not been notified by the multiemployer plan of a claim for any unfunded liability.

In addition to the multiemployer plan, the Ballet also contributes to a union-sponsored defined benefit pension plan covering the musicians. The contribution was based on 5% of gross compensation. For the fiscal years 2020 and 2019, the Ballet contributed \$7,000 and \$11,000, respectively, to the plan covering the musicians.

The Ballet also contributes to a defined contribution plan covering the staff employees and dancers. The Ballet's contributions are based on weekly salaries at amounts and percentages set by the Ballet's Board each fiscal year. The contribution was based on 3% of gross compensation for fiscal years 2020 and 2019. For fiscal years 2020 and 2019, the Ballet contributed approximately \$145,000 and \$133,000, respectively, to this plan.

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through November 2, 2020, the date that the financial statements were available to be issued and determined that there have been no events that have occurred that would require adjustments to the disclosures in the financial statements except for the matters described in the following paragraphs.

The Ballet entered into a term loan with the U.S. Small Business Administration in July 2020, with a principal amount of \$150,000, bearing interest at a fixed annual rate of 2.75%, collateralized by certain property, and a 30 year maturity. Monthly installment payments, including principal and interest, of \$641 will begin in 2021.

The effects of the novel coronavirus pandemic could materially and adversely affect the Ballet and its operations. The Ballet has postponed a majority of productions until late fiscal year 2021, and is unable to accurately predict how restrictions related to the pandemic will affect the results of its operations because the severity and duration of the outbreak are uncertain. While it is premature to accurately predict the ultimate impact of these developments, the Ballet expects its results for the year ended June 30, 2021 to be impacted.

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SUPPLEMENTARY INFORMATION



Big Thinking. Personal Focus.

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

Board of Trustees
Pittsburgh Ballet Theatre, Inc.
Pittsburgh, Pennsylvania

We have audited the financial statements of the Pittsburgh Ballet Theatre, Inc. as of and for the years ended June 30, 2020 and 2019, and have issued our report thereon dated November 2, 2020, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of activities without donor restrictions are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 2, 2020

PITTSBURGH BALLET THEATRE, INC.

SCHEDULES OF ACTIVITIES WITHOUT DONOR RESTRICTIONS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING REVENUE		
Ticket sales	\$ 2,445,388	\$ 3,052,277
School	2,056,623	2,392,529
Special events	786,956	570,362
Tour	146,500	52,000
Boutique	90,151	100,008
Rentals, sales and other income	53,947	119,788
Program advertising	28,659	42,665
Investment income	20,356	21,246
	<u>\$ 5,628,580</u>	<u>\$ 6,350,875</u>
OPERATING EXPENSES		
Salaries, wages and fringe benefits	\$ 4,098,553	\$ 3,993,782
School	1,894,257	1,964,755
Direct production costs	1,664,372	2,536,106
Marketing	652,503	646,150
General and administrative	407,649	397,543
Arts education	363,940	362,904
General production	301,972	319,667
Ball/special events	279,250	324,710
In-kind	274,563	278,348
Occupancy	197,971	341,413
Depreciation and amortization from operations	136,771	120,932
Fund-raising	122,250	171,209
Boutique	83,614	71,245
Tour	226,172	51,853
Debt service	32,928	17,210
Bad debts	12,500	117,800
	<u>\$ 10,749,265</u>	<u>\$ 11,715,627</u>
PUBLIC AND PRIVATE SUPPORT WITHOUT DONOR RESTRICTIONS		
Foundations	\$ 716,500	\$ 746,500
Special projects	713,926	1,323,650
Government	649,537	482,537
Individuals	609,136	574,999
In-kind contributions	274,563	278,347
Corporations	142,757	198,094
	<u>\$ 3,106,419</u>	<u>\$ 3,604,127</u>
NET ASSETS RELEASED FROM OPERATING RESTRICTIONS		
Investment income spending	\$ 454,000	\$ 462,300
Other support	1,638,143	1,890,295
	<u>\$ 2,092,143</u>	<u>\$ 2,352,595</u>
	<u>\$ 77,877</u>	<u>\$ 591,970</u>

The independent auditors' report on supplementary information should be read with these schedules.