

BALLET TECH FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Ballet Tech Foundation, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Ballet Tech Foundation, Inc. (a not-for-profit corporation) and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ballet Tech Foundation, Inc. and Subsidiary as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
September 15, 2017

BALLET TECH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents (Notes 1c and 3)	\$ 9,744,800	\$10,630,907
Unconditional promises to give (Notes 1d and 4)		
Unrestricted	86,800	13,000
Restricted for future programs and periods	108,034	-
Investments (Notes 1e and 5)	4,553,417	3,688,995
Accounts receivable	17,519	24,853
Rents receivable	115,549	54,828
Prepaid expenses	19,568	15,501
Property and equipment, at cost, net of accumulated depreciation (Notes 1g, 7 and 8)	8,925,074	9,145,687
Security deposit	-	3,720
Deferred charges, net (Notes 1f and 6)	65,258	68,678
Reserve fund - condominium association (Note 8a)	<u>396,000</u>	<u>396,000</u>
Total Assets	<u><u>\$24,032,019</u></u>	<u><u>\$24,042,169</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 108,118	\$ 122,394
Security deposits payable	<u>23,231</u>	<u>19,861</u>
Total Liabilities	<u>131,349</u>	<u>142,255</u>
Commitments and Contingency (Notes 9 and 12)		
Net Assets		
Unrestricted		
Board designated reserve (Note 2a)	800,000	800,000
Other	<u>22,957,636</u>	<u>23,069,914</u>
Total Unrestricted	<u>23,757,636</u>	<u>23,869,914</u>
Temporarily restricted (Note 2b)	<u>143,034</u>	<u>30,000</u>
Total Net Assets	<u>23,900,670</u>	<u>23,899,914</u>
Total Liabilities and Net Assets	<u><u>\$24,032,019</u></u>	<u><u>\$24,042,169</u></u>

See notes to consolidated financial statements.

BALLET TECH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets		
Revenue and Other Support		
Contributions	\$ 776,890	\$ 781,831
Fundraising benefit	19,950	22,999
Less: Direct benefit expenses	(1,479)	(1,479)
Studio rental income (Note 11)	852,316	818,768
New York City Department of Education rental income (Note 11)	956,703	962,613
Net rental income - Theater Unit, net of direct expenses of \$681,594 (2017) and \$999,959 (2016) (Note 9a)	505,358	138,360
Joyce Theater box office revenue	38,630	32,510
Net investment income (Note 5)	35,095	28,351
Reimbursed expenses and miscellaneous income	95,501	96,770
	<u>3,278,964</u>	<u>2,880,723</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	30,000	75,000
	<u>3,308,964</u>	<u>2,955,723</u>
Total Revenue and Other Support		
	<u>3,308,964</u>	<u>2,955,723</u>
Expenses		
Program Services	2,854,342	2,790,139
Supporting Services		
Management and general	282,357	278,792
Fundraising	284,543	276,644
Total Supporting Services	<u>566,900</u>	<u>555,436</u>
Total Expenses	<u>3,421,242</u>	<u>3,345,575</u>
Decrease in Unrestricted Net Assets Before Sale of Joyce Theater	(112,278)	(389,852)
Sale of Joyce Theater (Note 10)	<u>-</u>	<u>15,800,000</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(112,278)</u>	<u>15,410,148</u>
Changes in Temporarily Restricted Net Assets		
Contributions	143,034	30,000
Net assets released from restrictions	<u>(30,000)</u>	<u>(75,000)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>113,034</u>	<u>(45,000)</u>
Increase in net assets	756	15,365,148
Net assets, beginning of year	<u>23,899,914</u>	<u>8,534,766</u>
Net Assets, End of Year	<u><u>\$23,900,670</u></u>	<u><u>\$23,899,914</u></u>

See notes to consolidated financial statements.

BALLET TECH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 756	\$15,365,148
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	330,241	342,336
Amortization	3,420	16,828
Gain on sale of Joyce Theater	-	(15,800,000)
Unrealized (gain) loss	10,578	(1,958)
(Increase) decrease in:		
Unconditional promises to give	(181,834)	89,960
Accounts receivable	7,334	(12,456)
Rents receivable	(60,721)	(34,051)
Prepaid expenses	(4,067)	22,671
Security deposit	3,720	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(14,276)	8,506
Security deposits payable	3,370	2,395
Net Cash Provided (Used) By Operating Activities	<u>98,521</u>	<u>(621)</u>
Cash Flows From Investing Activities		
Proceeds from sale of Joyce Theater	-	16,000,000
Proceeds from sale of investments	3,205,000	2,960,053
Purchase of investments	(4,080,000)	(2,990,053)
Acquisition of property and equipment	(109,628)	(185,989)
Net Cash Provided (Used) By Investing Activities	<u>(984,628)</u>	<u>15,784,011</u>
Cash Flows From Financing Activities		
Payment of mortgage payable	-	(7,500,000)
Net increase (decrease) in cash and cash equivalents	(886,107)	8,283,390
Cash and cash equivalents, beginning of year	<u>10,630,907</u>	<u>2,347,517</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,744,800</u>	<u>\$10,630,907</u>
Supplemental Information		
Interest paid	<u>\$ -</u>	<u>\$ 273,229</u>

See notes to consolidated financial statements.

BALLET TECH FOUNDATION, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Ballet Tech Foundation, Inc. supports the creation and presentation of new ballets by choreographer Eliot Feld and operates the Ballet Tech School (the "School"). The School identifies talented children in New York City's public school system and provides those most talented with tuition-free professional ballet training.

Odette LLC is a Delaware Limited Liability Company formed on April 6, 2006, and owned 100% by Ballet Tech Foundation, Inc. Odette LLC owns the Theater Unit at the 890 Broadway Condominium in New York, New York.

During the year ended June 30, 2017, Ballet Tech presented a one-week season in the spring of 2017. The season, at the Joyce Theater, included two new ballets by guest choreographers and was attended by 2,487 people. The School auditioned 25,231 students, worked with 194 cooperating public schools throughout New York City and enrolled a total of 727 students. 549 beginners took introductory ballet classes for up to twelve weeks. 149 students in grades 4 through 8 attended an on-site New York City public school program created to provide them with a challenging academic curriculum alongside their intensive dance program. The academic program, which takes place at 890 Broadway, is a collaboration between the Organization and the New York City Department of Education. Another twenty-nine students attended 9th, 10th and 11th grade at Professional Performing Arts School and returned to Ballet Tech in the afternoons for dance classes.

b - Principles of Consolidation

The consolidated financial statements include the accounts of Ballet Tech Foundation, Inc. and Odette LLC. All significant intercompany transactions and accounts have been eliminated.

c - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments, purchased with a maturity of three months or less and money market funds, to be cash equivalents.

d - Contributions and Unconditional Promises to Give

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

BALLET TECH FOUNDATION, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****d - Contributions and Unconditional Promises to Give (continued)**

Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years experience and management's analysis of specific promises made.

e - Investments

The Organization reflects investments in certificates of deposit at fair value in the statement of financial position. Interest, dividends, gains and losses on investments are reflected in the statement of activities as increase and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income restricted by the donor is reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the income is recognized.

Generally accepted accounting principles establish a fair value measurement hierarchy that prioritizes the inputs to valuation techniques. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs and have the lowest priority. The Organization uses the higher priority valuation techniques based on available inputs to measure fair values. The fair value of the Organization's investments is measured using Level 1 inputs, quoted prices in active markets.

f - Deferred Charges

All costs are amortized using the straight-line method. Leasing costs are being amortized over the related lease term. Condominium closing costs are amortized over thirty-nine years.

g - Property and Equipment

Property, furniture, equipment and studio improvements are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

BALLET TECH FOUNDATION, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****h - Financial Statement Presentation**

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

i - Use of Estimates

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

j - Tax Status

Ballet Tech Foundation, Inc. is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

Odette, LLC is a Delaware Limited Liability Company. The results of its operations are reportable on the tax return of the Ballet Tech Foundation, Inc.

k - Subsequent Events

The Organization has evaluated subsequent events through September 15, 2017, the date that the financial statements are considered available to be issued.

Note 2 - Restrictions on Assets**a - Board Designated Reserve**

The unrestricted board designated cash reserve net assets represent funds specifically reserved by the Board for future activities of the Organization.

b - Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions to the Organization which are restricted to either future periods or future programs.

Note 3 - Concentration of Credit Risk

The Organization maintains cash balances in various financial institutions located in New York, New York. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 for each institution.

BALLET TECH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 4 - Unconditional Promises to Give

At June 30, unconditional promises to give are due as follows:

	2017			2016
	Unrestricted	Future Programs and Periods	Total	Total
Less than one year	\$86,800	\$ 60,000	\$146,800	\$13,000
One to two years	-	50,000	50,000	-
	86,800	110,000	196,800	13,000
Less: Discount to present value	-	(1,966)	(1,966)	-
Total, 2017	\$86,800	\$108,034	\$194,834	\$ -
Total, 2016	\$13,000	\$ -	\$ -	\$13,000

Uncollectible promises are expected to be insignificant. Promises to give due after one year are discounted to net present value using a discount rate of 3%.

Note 5 - Investments

Investments, which are classified as Level 1 in the fair value hierarchy, consist of the following at June 30:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Certificates of deposit	\$4,560,000	\$4,553,417	\$3,685,000	\$3,688,995

Investment income is summarized as follows:

	2017	2016
Interest and dividends	\$45,673	\$26,393
Unrealized gain (loss)	(10,578)	1,958
	\$35,095	\$28,351

BALLET TECH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 6 - Deferred Charges

Deferred charges consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Condominium closing costs	\$133,375	\$133,375
Less: Accumulated amortization	<u>(68,117)</u>	<u>(64,697)</u>
	<u>\$ 65,258</u>	<u>\$ 68,678</u>

Note 7 - Property and Equipment

Property and equipment consist of the following at June 30:

	<u>Life</u>	<u>2017</u>	<u>2016</u>
Condominium units (Note 8a)	5-39 years	\$ 1,780,074	\$ 1,780,074
Theater Unit (Note 8b)	5-39 years	8,965,667	8,965,667
Studio improvements	20 years	3,972,632	3,957,409
Roof replacement	32 years	324,048	324,048
Office furniture and equipment	5-10 years	362,701	345,164
Production equipment	3-5 years	88,898	88,898
Pianos	10 years	42,180	42,180
Construction in progress		<u>76,868</u>	<u>-</u>
		15,613,068	15,503,440
Less: Accumulated depreciation		<u>(9,437,667)</u>	<u>9,107,426)</u>
		6,175,401	6,396,014
Land - Theater Unit		<u>2,749,673</u>	<u>2,749,673</u>
Total		<u>\$ 8,925,074</u>	<u>\$ 9,145,687</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$330,241 and \$342,336, respectively.

During the year ended June 30, 2017, the Organization paid \$52,668 to 890 Broadway Condominium for the replacement of the fire panel. The balance of \$158,004 will be billed monthly through December, 2018.

BALLET TECH FOUNDATION, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****Note 8 - Investment in Condominium Units and Investment in Theater Unit****a - Investment in Condominium Units**

In 1986, the Organization purchased, jointly with Ballet Theatre Foundation, Inc. ("ABT"), the building at 890 Broadway, New York City (the "Building"). In 1997, the Organization and ABT effected a condominiumization of the building (in accordance with a declaration of condominium dated June 4, 1997).

Under the declaration of condominium, four condominium units were created. The Organization owns three units representing the first, fifth, sixth, seventh and eighth floors, and ABT owns one unit representing the second, third and fourth floors.

The Board of Managers of the condominium maintains a reserve fund in accordance with the declaration of condominium and has the ability to assess the unit owners in order to replenish the reserve fund or to increase it as necessary. The Organization's current share of the reserve fund of \$396,000 has been reflected in the accompanying statement of financial position.

b - Theater Unit

Under the original condominiumization of the building, in 1997, the Organization and ABT owned the first floor equally as a tenancy-in-common. This floor is leased to a tenant who uses the space as a movie theater (Note 9a).

The Organization formed its subsidiary, Odette LLC, for the purpose of acquiring the entire interest in the first floor. The Organization had borrowed \$7.5 million under a mortgage that was used to repay the Organization's share of the existing debt held by the tenancy-in-common and acquire the other 50% interest in the Theater Unit previously owned by ABT.

Net rental income for the years ended June 30, 2017 and 2016 totaled \$505,358 and \$138,360, respectively.

Note 9 - Commitment and Contingency

- a - The Theater Unit is occupied by an unaffiliated tenant pursuant to a lease, which provides for minimum annual rental payments of \$900,000 per annum through May 31, 2018. In addition, the lease provides for additional rent based on the tenant's gross receipts, and payments for real estate taxes, water, sewer and insurance assessments to the property.

Additional rent from gross receipts for the year ended June 30, 2017 was \$38,398. There was no additional rent from gross receipts for the year ended June 30, 2016. Additional rent from real estate taxes, water, sewer and insurance income were \$248,553 (2017) and \$238,319 (2016).

BALLET TECH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 9 - Commitment and Contingency (continued)

b - Government supported projects are subject to audit by the applicable government agencies.

Note 10 - Joyce Theater

Ballet Tech Foundation, Inc. had owned the Joyce Theater, which was leased to the Joyce Theater Foundation, Inc., in accordance with a lease dated March 6, 1981, for a rental of \$1 per annum through March 5, 2016. All costs relating to the upkeep of the building (including any permanent improvements to the property) was the responsibility of the tenant.

On September 7, 2012, the Organization entered into an agreement with the Joyce Theater Foundation, Inc. ("Buyer") for the sale of the Joyce Theater property and related trademarks. During the year ended June 30, 2013, \$4,000,000 was received for the purchase of the Joyce Theater trademarks.

The Buyer purchased the property for \$16,000,000 in August of 2015, resulting in a gain of \$15,800,000.

Note 11 - Studio Rental Income

The Organization receives rental income for the use of space in the condominium units it owns. During the years ended June 30, 2017 and 2016, \$235,750 and \$209,040 was received from short-term tenants, and \$1,573,269 and \$1,572,341 was received from long-term (permanent) tenants. A significant portion of one of the condominium units is leased to the New York City Department of Education, which provides academic education to students enrolled in the dance program. The lease expires August 31, 2022. During the years ended June 30, 2017 and 2016, \$956,703 and \$962,613, respectively, was received from the Department of Education (included in the long-term totals above).

Future minimum annual rentals are as follows:

<u>Year Ending June 30,</u>	
2018	\$1,392,000
2019	847,000
2020	865,000
2021	882,000
2022	900,000
Thereafter	150,000

BALLET TECH FOUNDATION, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****Note 12 - Pension**

The Organization has a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all non-union full-time employees of the Organization. Employees may make voluntary contributions to the plan up to the maximum amount allowed by the Internal Revenue Service. Beginning January 1, 2016, the Organization will match the first 3% of salary that the employee contributes to begin after twelve months of employment. In 2017, the Organization made matching contributions totaling \$25,306.

Note 13 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.