

BALLET TECH FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017



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, 2018 and 2017, 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, 2018 and 2017, 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
October 10, 2018

BALLET TECH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents (Notes 1c and 3)	\$ 9,756,046	\$ 9,744,800
Unconditional promises to give (Notes 1d and 4)		
Unrestricted	400	86,800
Restricted for future programs and periods	75,000	108,034
Investments (Notes 1e and 5)	4,747,634	4,553,417
Accounts receivable	31,457	17,519
Rents receivable	76,221	115,549
Prepaid expenses	18,145	19,568
Property and equipment, at cost, net of accumulated depreciation (Notes 1g, 7 and 8)	8,824,536	8,925,074
Deferred charges, net (Notes 1f and 6)	423,345	65,258
Deferred rental income (Note 1h)	24,208	-
Reserve fund - condominium association (Note 8a)	396,000	396,000
	<u> </u>	<u> </u>
Total Assets	<u><u>\$24,372,992</u></u>	<u><u>\$24,032,019</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 114,102	\$ 108,118
Deferred leasing costs payable	186,813	-
Special assessments payable (Note 7)	52,668	-
Security deposits payable	23,356	23,231
Total Liabilities	<u>376,939</u>	<u>131,349</u>
Commitments and Contingency (Notes 9 and 11)		
Net Assets		
Unrestricted		
Board designated reserve (Note 2a)	800,000	800,000
Other	23,086,053	22,957,636
Total Unrestricted	<u>23,886,053</u>	<u>23,757,636</u>
Temporarily restricted (Note 2b)	110,000	143,034
Total Net Assets	<u>23,996,053</u>	<u>23,900,670</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u><u>\$24,372,992</u></u>	<u><u>\$24,032,019</u></u>

See notes to consolidated financial statements.

BALLET TECH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Changes in Unrestricted Net Assets		
Revenue and Other Support		
Contributions	\$ 726,266	\$ 776,890
Fundraising benefit	-	19,950
Less: Direct benefit expenses	-	(1,479)
Studio rental income (Note 10)	872,691	852,316
New York City Department of Education rental income (Note 10)	1,008,445	956,703
Net rental income - Theater Unit, net of direct expenses of \$693,700 (2018) and \$681,594 (2017) (Note 9a)	765,330	505,358
Joyce Theater box office revenue	37,744	38,630
Net investment income (Note 5)	123,920	35,095
Reimbursed expenses and miscellaneous income	108,015	95,501
	<u>3,642,411</u>	<u>3,278,964</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	95,000	30,000
	<u>95,000</u>	<u>30,000</u>
Total Revenue and Other Support	<u>3,737,411</u>	<u>3,308,964</u>
Expenses		
Program Services	3,057,983	2,854,342
Supporting Services		
Management and general	289,606	282,357
Fundraising	261,405	284,543
Total Supporting Services	<u>551,011</u>	<u>566,900</u>
Total Expenses	<u>3,608,994</u>	<u>3,421,242</u>
Increase (Decrease) in Unrestricted Net Assets	<u>128,417</u>	<u>(112,278)</u>
Changes in Temporarily Restricted Net Assets		
Contributions	61,966	143,034
Net assets released from restrictions	<u>(95,000)</u>	<u>(30,000)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(33,034)</u>	<u>113,034</u>
Increase in net assets	95,383	756
Net assets, beginning of year	<u>23,900,670</u>	<u>23,899,914</u>
Net Assets, End of Year	<u><u>\$23,996,053</u></u>	<u><u>\$23,900,670</u></u>

See notes to consolidated financial statements.

BALLET TECH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 95,383	\$ 756
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	338,116	330,241
Amortization	15,538	3,420
Unrealized loss on investments	5,783	10,578
(Increase) decrease in:		
Unconditional promises to give	119,434	(181,834)
Accounts receivable	(13,938)	7,334
Rents receivable	39,328	(60,721)
Prepaid expenses	1,423	(4,067)
Deferred rent	(24,208)	-
Security deposit	-	3,720
Increase (decrease) in:		
Accounts payable and accrued expenses	5,984	(14,276)
Security deposits payable	125	3,370
Net Cash Provided By Operating Activities	<u>582,968</u>	<u>98,521</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	4,320,000	3,205,000
Purchase of investments	(4,520,000)	(4,080,000)
Acquisition of property and equipment	(184,910)	(109,628)
Leasing costs	(186,812)	-
Net Cash Used By Investing Activities	<u>(571,722)</u>	<u>(984,628)</u>
Net increase (decrease) in cash and cash equivalents	11,246	(886,107)
Cash and cash equivalents, beginning of year	<u>9,744,800</u>	<u>10,630,907</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,756,046</u>	<u>\$ 9,744,800</u>

See notes to consolidated financial statements.

BALLET TECH FOUNDATION, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2018 AND 2017****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, 2018, Ballet Tech presented a one-week season in the spring of 2018. The season, at the Joyce Theater, was attended by 2,334 people and included two new ballets by Eliot Feld (Pointing 2 and Pointing 3). The School auditioned 24,673 students, worked with 213 cooperating public schools throughout New York City, and selected a total of 777 students. 572 beginners took introductory ballet classes for up to 12 weeks. 145 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 36 students attended high school at the Professional Performing Arts School (PPAS) 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, 2018 AND 2017****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, 2018 AND 2017****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****h - Deferred Rental Income**

The Organization records rental income associated with its lease on a straight-line basis over the life of the lease. The difference between the straight-line amount and the amount actually received during the year is recorded as an asset and additional income in the accompanying financial statements.

i - 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.

j - 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.

k - 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.

l - Subsequent Events

The Organization has evaluated subsequent events through October 10, 2018, the date that the financial statements are considered available to be issued.

m - New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two net asset classes now entitled "net assets without donor restrictions" and "net assets with donor restrictions"; (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose the methods used to allocate costs; and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the impact of ASU 2016-14 on its 2019 financial statements.

BALLET TECH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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.

Note 4 - Unconditional Promises to Give

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

	<u>2018</u>			<u>2017</u>
	<u>Unrestricted</u>	<u>Future Programs and Periods</u>	<u>Total</u>	<u>Total</u>
Less than one year	\$ 400	\$ 75,000	\$75,400	\$146,800
One to two years	-	-	-	50,000
	400	75,000	75,400	196,800
Less: Discount to present value	-	-	-	(1,966)
Total, 2018	<u>\$ 400</u>	<u>\$ 75,000</u>	<u>\$75,400</u>	
Total, 2017	<u>\$86,800</u>	<u>\$108,034</u>		<u>\$194,834</u>

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

BALLET TECH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 5 - Investments

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

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Certificates of deposit	<u>\$4,760,000</u>	<u>\$4,747,634</u>	<u>\$4,560,000</u>	<u>\$4,553,417</u>

Investment income is summarized as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$129,703	\$45,673
Unrealized loss	<u>(5,783)</u>	<u>(10,578)</u>
	<u>\$123,920</u>	<u>\$35,095</u>

Note 6 - Deferred Charges

Deferred charges consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Condominium closing costs	\$133,375	\$133,375
Theater unit lease costs	<u>373,625</u>	<u>-</u>
	507,000	133,375
Less: Accumulated amortization	<u>(83,655)</u>	<u>(68,117)</u>
	<u>\$423,345</u>	<u>\$ 65,258</u>

BALLET TECH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 7 - Property and Equipment

Property and equipment consist of the following at June 30:

	<u>Life</u>	<u>2018</u>	<u>2017</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	4,025,124	3,972,632
Roof replacement	32 years	324,048	324,048
Office furniture and equipment	5-10 years	398,183	362,701
Fire panel	20 years	226,472	-
Production equipment	3-5 years	88,898	88,898
Pianos	10 years	42,180	42,180
Construction in progress		-	76,868
		<u>15,850,646</u>	<u>15,613,068</u>
Less: Accumulated depreciation		<u>(9,775,783)</u>	<u>(9,437,667)</u>
		6,074,863	6,175,401
Land - Theater Unit		<u>2,749,673</u>	<u>2,749,673</u>
Total		<u>\$ 8,824,536</u>	<u>\$ 8,925,074</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$338,116 and \$330,241, respectively.

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

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.

BALLET TECH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 8 - Investment in Condominium Units and Investment in Theater Unit (continued)

a - Investment in Condominium Units (continued)

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.

Net rental income for the years ended June 30, 2018 and 2017 totaled \$765,330 and \$505,358, respectively.

Note 9 - Commitment and Contingency

a - In January, 2018, the Organization entered into a new lease with an unaffiliated tenant occupying the Theater Unit. The term of the lease began January 2, 2018 and expires May 31, 2033. In addition to minimum annual base rent, the tenant is charged additional rent consisting of real estate taxes, condominium common charges and assessments, water, sewer and insurance expenses. During the years ended June 30, 2018 and 2017, rental income consisted of \$1,015,875 and \$900,000 of base rent and \$412,995 and \$248,553, respectively, of operating expense reimbursements.

The prior lease provided for additional rent based on the tenant's gross receipts. Additional rent from gross receipts for the years ended June 30, 2018 and 2017 was \$30,160 and \$38,399, respectively.

Future minimum lease income is as follows:

<u>Year Ending June 30,</u>	
2019	\$ 2,000,000
2020	2,000,000
2021	2,000,000
2022	2,000,000
2023	2,026,254
Thereafter, through May 31, 2033	24,164,591

BALLET TECH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 9 - Commitment and Contingency (continued)

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

Note 10 - 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, 2018 and 2017, \$224,170 and \$235,750 was received from short-term tenants, and \$1,656,966 and \$1,573,269 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, 2018 and 2017, \$1,008,445 and \$956,703, 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>	
2019	\$1,457,000
2020	1,474,000
2021	1,442,000
2022	900,000
2023	150,000

Note 11 - 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. The Organization will match the first 3% of salary that the employee contributes to begin after twelve months of employment. In 2018, the Organization made matching contributions totaling \$26,963.

Note 12 - 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.