

BALLET TECH FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015



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, 2016 and 2015, 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, 2016 and 2015, 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 2, 2016

BALLET TECH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents (Notes 1c and 3)	\$10,630,907	\$ 2,347,517
Unconditional promises to give (Notes 1d and 4)		
Unrestricted	13,000	57,960
Restricted for future periods	-	45,000
Investments (Notes 1e and 5)	3,688,995	3,657,037
Accounts receivable	24,853	12,397
Rents receivable	54,828	20,777
Prepaid expenses	15,501	38,172
Property and equipment, at cost, net of accumulated depreciation (Notes 1g, 7 and 8)	9,145,687	9,664,058
Security deposit	3,720	3,720
Deferred charges, net (Notes 1f and 6)	68,678	85,506
Reserve fund - condominium association (Note 8a)	396,000	396,000
	<u> </u>	<u> </u>
Total Assets	<u><u>\$24,042,169</u></u>	<u><u>\$16,328,144</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 122,394	\$ 113,888
Security deposits payable	19,861	17,466
Mortgage payable (Note 9)	-	7,500,000
Special assessment payable - building improvements (Note 7)	-	162,024
Total Liabilities	<u>142,255</u>	<u>7,793,378</u>
Commitment and Contingency (Note 10)		
Net Assets		
Unrestricted		
Board designated reserve (Note 2a)	800,000	800,000
Joyce Theater - land and building (Note 2b)	-	200,000
Other	23,069,914	7,459,766
Total Unrestricted	<u>23,869,914</u>	<u>8,459,766</u>
Temporarily restricted (Note 2c)	30,000	75,000
Total Net Assets	<u>23,899,914</u>	<u>8,534,766</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u><u>\$24,042,169</u></u>	<u><u>\$16,328,144</u></u>

See notes to consolidated financial statements.

BALLET TECH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Changes in Unrestricted Net Assets		
Revenue and Other Support		
Contributions	\$ 781,831	\$ 908,254
Fundraising benefit	22,999	27,788
Less: Direct benefit expenses	(1,479)	(1,661)
Studio rental income (Note 12)	818,768	795,344
New York City Department of Education rental income (Note 12)	962,613	951,729
Net rental income - Theater Unit, net of direct expenses of \$999,959 (2016) and \$1,114,713 (2015) (Note 10a)	138,360	10,688
Joyce Theater box office revenue	32,510	26,278
Tour fees	-	8,000
Investment income (Note 5)	28,351	22,475
Reimbursed expenses and miscellaneous income	96,770	112,882
	<u>2,880,723</u>	<u>2,861,777</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	75,000	20,000
	<u>75,000</u>	<u>20,000</u>
Total Revenue and Other Support	<u>2,955,723</u>	<u>2,881,777</u>
Expenses		
Program Services	2,790,139	2,664,260
Supporting Services		
Management and general	278,792	263,032
Fundraising	276,644	245,905
Total Supporting Services	<u>555,436</u>	<u>508,937</u>
Total Expenses	<u>3,345,575</u>	<u>3,173,197</u>
Decrease in Unrestricted Net Assets Before Sale of Joyce Theater	(389,852)	(291,420)
Sale of Joyce Theater (Note 11)	15,800,000	-
Increase (Decrease) in Unrestricted Net Assets	<u>15,410,148</u>	<u>(291,420)</u>
Changes in Temporarily Restricted Net Assets		
Contributions	30,000	75,000
Net assets released from restrictions	(75,000)	(20,000)
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(45,000)</u>	<u>55,000</u>
Increase (decrease) in net assets	15,365,148	(236,420)
Net assets, beginning of year	<u>8,534,766</u>	<u>8,771,186</u>
Net Assets, End of Year	<u><u>\$23,899,914</u></u>	<u><u>\$ 8,534,766</u></u>

See notes to consolidated financial statements.

BALLET TECH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$15,365,148	\$ (236,420)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	342,336	341,609
Amortization	16,828	19,156
Gain on sale of Joyce Theater	(15,800,000)	-
Unrealized gain	(1,958)	(5,226)
(Increase) decrease in:		
Unconditional promises to give	89,960	(47,490)
Accounts receivable	(12,456)	388
Rents receivable	(34,051)	39,263
Prepaid expenses	22,671	14,058
Increase (decrease) in:		
Accounts payable and accrued expenses	8,506	12,545
Security deposits payable	2,395	(2,018)
Net Cash Provided (Used) By Operating Activities	<u>(621)</u>	<u>135,865</u>
Cash Flows From Investing Activities		
Proceeds from sale of Joyce Theater	16,000,000	-
Proceeds from sale of investments	2,960,053	2,821,000
Purchase of investments	(2,990,053)	(3,175,000)
Acquisition of property and equipment	(185,989)	(370,498)
Net Cash Provided (Used) By Investing Activities	<u>15,784,011</u>	<u>(724,498)</u>
Cash Flows From Financing Activities		
Payment of mortgage payable	(7,500,000)	-
Net increase (decrease) in cash and cash equivalents	8,283,390	(588,633)
Cash and cash equivalents, beginning of year	<u>2,347,517</u>	<u>2,936,150</u>
Cash and Cash Equivalents, End of Year	<u><u>\$10,630,907</u></u>	<u><u>\$ 2,347,517</u></u>
Supplemental Information		
Interest paid	<u><u>\$ 273,229</u></u>	<u><u>\$ 463,854</u></u>

See notes to consolidated financial statements.

BALLET TECH FOUNDATION, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****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, 2016, Ballet Tech presented a one week season in the spring of 2016. The season, at the Joyce Theater, included two new ballets by guest choreographers and was attended by 2,433 people. The School auditioned 23,584 students, worked with 185 cooperating public schools throughout New York City and enrolled a total of 802 students. 649 beginners took introductory ballet classes for up to twelve weeks. 153 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-four students attended 9th and 10th grade at 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, 2016 AND 2015****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. Financing costs are being amortized over the related mortgage term. Condominium closing costs are amortized over thirty-nine years.

BALLET TECH FOUNDATION, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****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.

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.

Net rental income from rental of debt-financed property is subject to taxation as unrelated business income.

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 2, 2016, 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.

BALLET TECH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 2 - Restrictions on Assets (continued)

b - Joyce Theater

These unrestricted net assets represented the cost of the acquisition of the Joyce Theater land and building, net of accumulated depreciation (Note 11).

c - Temporarily Restricted Net Assets

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

At June 30, 2016 and 2015, temporarily restricted net assets are restricted for 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

Unconditional promises to give are due in less than one year. Uncollectible promises are expected to be insignificant.

Note 5 - Investments

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

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Certificates of deposit	<u>\$3,685,000</u>	<u>\$3,688,995</u>	<u>\$3,655,000</u>	<u>\$3,657,037</u>

BALLET TECH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 5 - Investments (continued)

Investment income is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$26,393	\$17,249
Unrealized gain	<u>1,958</u>	<u>5,226</u>
	<u>\$28,351</u>	<u>\$22,475</u>

Note 6 - Deferred Charges

Deferred charges consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Financing costs	\$ -	\$158,222
Condominium closing costs	<u>133,375</u>	<u>133,375</u>
	133,375	291,597
Less: Accumulated amortization	<u>(64,697)</u>	<u>(206,091)</u>
	<u>\$ 68,678</u>	<u>\$ 85,506</u>

Note 7 - Property and Equipment

Property and equipment consist of the following at June 30:

	<u>Life</u>	<u>2016</u>	<u>2015</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	3,957,409	3,938,522
Roof replacement	32 years	324,048	324,048
Joyce Theater – Building	20 years	-	194,083
Office furniture and equipment	5-10 years	345,164	545,351
Production equipment	3-5 years	88,898	88,898
Pianos	10 years	<u>42,180</u>	<u>42,180</u>
		15,503,440	15,878,823
Less: Accumulated depreciation		<u>(9,107,426)</u>	<u>(9,164,438)</u>
		6,396,014	6,714,385
Land - Joyce Theater		-	200,000
Land - Theater Unit		<u>2,749,673</u>	<u>2,749,673</u>
Total		<u>\$ 9,145,687</u>	<u>\$ 9,664,058</u>

BALLET TECH FOUNDATION, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****Note 7 - Property and Equipment (continued)**

Depreciation expense for the years ended June 30, 2016 and 2015 was \$342,336 and \$341,609, respectively.

The Company was charged a special assessment of \$324,048, its share of the cost to replace the roof at the 890 Broadway Condominium. During the year ended June 30, 2015, the Company paid \$162,024 to 890 Broadway Condominium; the balance was paid during the year ended June 30, 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 10a).

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, 2016 and 2015 totaled \$138,360 and \$10,688, respectively.

BALLET TECH FOUNDATION, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****Note 9 - Mortgage Payable**

The Organization was obligated under the term of a \$7,500,000 mortgage secured by the Theater Unit located at 890 Broadway (Note 8b), New York, New York and an assignment of leases and rents. The mortgage required payments of interest only at the rate of 6.1% per annum. The mortgage was repaid in February, 2016.

Note 10 - 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.

There was no additional rent from gross receipts for the years ending June 30, 2016 and 2015. The additional rent from real estate taxes, water, sewer and insurance income were \$238,319 (2016) and \$225,401 (2015).

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

Note 11 - 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.

BALLET TECH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 12 - 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, 2016 and 2015, \$209,040 and \$202,922 was received from short-term tenants, and \$1,572,341 and \$1,544,151 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, 2016 and 2015, \$962,613 and \$951,729, 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>	
2017	\$1,364,000
2018	831,000
2019	847,000
2020	865,000
2021	882,000
Thereafter	1,050,000

Note 13 - 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 2016, the Organization made matching contributions totaling \$12,730.

Note 14 - 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.