

ATLANTA BALLET, INC.

FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2018 AND 2017

with
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees Atlanta Ballet, Inc.

We have audited the accompanying financial statements of Atlanta Ballet, Inc. (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of July 31, 2018 and 2017, 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 of 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 Organization'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 Organization'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 Atlanta Ballet, Inc. as of July 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Smith + Howard

October 29, 2018

ATLANTA BALLET, INC.
STATEMENT OF FINANCIAL POSITION
JULY 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 711,364	\$ 246,836
Restricted cash	1,000,000	25,875
Receivables, net of allowance for doubtful accounts of \$17,918 and \$6,745 for 2018 and 2017, respectively	48,625	44,808
Unconditional promises to give, net	5,265,031	5,014,277
Prepaid expenses and other assets	904,849	704,470
Production development	321,884	244,136
Other investments	-	5,171
Endowment	1,535,511	1,453,811
Property and equipment, net	<u>12,142,180</u>	<u>9,596,320</u>
 Total Assets	 <u><u>\$ 21,929,444</u></u>	 <u><u>\$ 17,335,704</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 1,137,347	\$ 538,728
Deferred revenue	1,137,796	727,927
Borrowings under line of credit	<u>3,819,664</u>	<u>1,314,802</u>
 Total Liabilities	 <u>6,094,807</u>	 <u>2,581,457</u>
 Net Assets		
Unrestricted	8,418,343	8,231,103
Temporarily restricted	5,032,716	4,144,566
Permanently restricted	<u>2,383,578</u>	<u>2,378,578</u>
 Total Net Assets	 <u>15,834,637</u>	 <u>14,754,247</u>
 Total Liabilities and Net Assets	 <u><u>\$ 21,929,444</u></u>	 <u><u>\$ 17,335,704</u></u>

The accompanying notes are an integral part of these financial statements.

ATLANTA BALLET, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JULY 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Nutcracker ticket sales	\$ 2,866,978	\$ -	\$ -	\$ 2,866,978
Other ticket sales	1,089,692	-	-	1,089,692
Centre for Dance Education and Outreach fees	2,004,887	-	-	2,004,887
Contributions and grants	2,971,806	3,200,607	5,000	6,177,413
Special events, net direct donor expense of \$129,796	329,895	-	-	329,895
Interest and dividends	37,297	-	-	37,297
Merchandise sales	389,415	-	-	389,415
Less: cost of sales	(203,264)	-	-	(203,264)
Other income	113,486	-	-	113,486
Net assets released from restrictions	<u>2,312,457</u>	<u>(2,312,457)</u>	<u>-</u>	<u>-</u>
 Total Revenues and Other Support	 <u>11,912,649</u>	 <u>888,150</u>	 <u>5,000</u>	 <u>12,805,799</u>
Expenses and Other Losses				
Program services:				
Production	4,602,919	-	-	4,602,919
Centre for Dance Education and Outreach	2,118,244	-	-	2,118,244
Marketing and box office	1,896,654	-	-	1,896,654
Total program services	<u>8,617,817</u>	<u>-</u>	<u>-</u>	<u>8,617,817</u>
Supporting services:				
Management and general	1,803,749	-	-	1,803,749
Fundraising and development	933,692	-	-	933,692
Total supporting services	<u>2,737,441</u>	<u>-</u>	<u>-</u>	<u>2,737,441</u>
 Total Expenses	 <u>11,355,258</u>	 <u>-</u>	 <u>-</u>	 <u>11,355,258</u>
 Net Operating Results	 557,391	 888,150	 5,000	 1,450,541
Other income (losses):				
Depreciation and amortization	(459,720)	-	-	(459,720)
Realized and unrealized gain on investments	89,569	-	-	89,569
Total other income (losses)	<u>(370,151)</u>	<u>-</u>	<u>-</u>	<u>(370,151)</u>
 Total Expenses and Other Income (Losses)	 <u>11,725,409</u>	 <u>-</u>	 <u>-</u>	 <u>11,725,409</u>
 Increase in Net Assets	 187,240	 888,150	 5,000	 1,080,390
Net Assets, Beginning of Year	<u>8,231,103</u>	<u>4,144,566</u>	<u>2,378,578</u>	<u>14,754,247</u>
Net Assets, End of Year	<u>\$ 8,418,343</u>	<u>\$ 5,032,716</u>	<u>\$ 2,383,578</u>	<u>\$ 15,834,637</u>

The accompanying notes are an integral part of these financial statements.

ATLANTA BALLET, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JULY 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Nutcracker ticket sales	\$ 2,303,473	\$ -	\$ -	\$ 2,303,473
Other ticket sales	820,063	-	-	820,063
Centre for Dance Education and Outreach fees	2,366,079	-	-	2,366,079
Contributions and grants	3,908,626	3,012,731	23,225	6,944,582
Special events, net direct donor expense of \$168,036	337,830	-	-	337,830
Interest and dividends	27,431	-	-	27,431
Merchandise sales	382,563	-	-	382,563
Less: cost of sales	(193,536)	-	-	(193,536)
Other income	125,832	-	-	125,832
Net assets released from restrictions	<u>771,115</u>	<u>(771,115)</u>	<u>-</u>	<u>-</u>
 Total Revenues and Other Support	 <u>10,849,476</u>	 <u>2,241,616</u>	 <u>23,225</u>	 <u>13,114,317</u>
Expenses and Other Losses				
Program services:				
Production	4,126,700	-	-	4,126,700
Centre for Dance Education and Outreach	2,341,580	-	-	2,341,580
Marketing and box office	<u>1,827,791</u>	<u>-</u>	<u>-</u>	<u>1,827,791</u>
Total program services	<u>8,296,071</u>	<u>-</u>	<u>-</u>	<u>8,296,071</u>
Supporting services:				
Management and general	1,531,500	-	-	1,531,500
Fundraising and development	<u>858,627</u>	<u>-</u>	<u>-</u>	<u>858,627</u>
Total supporting services	<u>2,390,127</u>	<u>-</u>	<u>-</u>	<u>2,390,127</u>
 Total Expenses	 <u>10,686,198</u>	 <u>-</u>	 <u>-</u>	 <u>10,686,198</u>
 Net Operating Results	 163,278	 2,241,616	 23,225	 2,428,119
Other income (losses):				
Depreciation and amortization	(432,777)	-	-	(432,777)
Realized and unrealized gain on investments	<u>87,933</u>	<u>-</u>	<u>-</u>	<u>87,933</u>
Total other income (losses)	<u>(344,844)</u>	<u>-</u>	<u>-</u>	<u>(344,844)</u>
 Total Expenses and Other Income (Losses)	 <u>11,031,042</u>	 <u>-</u>	 <u>-</u>	 <u>11,031,042</u>
 Increase (Decrease) in Net Assets	 (181,566)	 2,241,616	 23,225	 2,083,275
Net Assets, Beginning of Year	<u>8,412,669</u>	<u>1,902,950</u>	<u>2,355,353</u>	<u>12,670,972</u>
Net Assets, End of Year	<u>\$ 8,231,103</u>	<u>\$ 4,144,566</u>	<u>\$ 2,378,578</u>	<u>\$ 14,754,247</u>

The accompanying notes are an integral part of these financial statements.

ATLANTA BALLET, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JULY 31, 2018

	<u>Production</u>	<u>Centre for Dance Education and Outreach</u>	<u>Marketing and Box Office</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 2,203,369	\$ 1,117,999	\$ 545,616	\$ 3,866,984	\$ 709,677	\$ 453,440	\$ 1,163,117	\$ 5,030,101
Payroll taxes and benefits	524,261	219,865	114,206	858,332	130,260	63,157	193,417	1,051,749
Total Personnel	2,727,630	1,337,864	659,822	4,725,316	839,937	516,597	1,356,534	6,081,850
Office supplies	78	13,773	7,518	21,369	11,106	2,050	13,156	34,525
Performance hall expenses	313,235	5,700	39,953	358,888	-	95,224	95,224	454,112
Interest expense	-	-	-	-	69,132	-	69,132	69,132
Postage	3,143	1,465	41,216	45,824	1,223	5,181	6,404	52,228
Credit card processing expenses	-	44,891	39,511	84,402	-	13,259	13,259	97,661
Music purchases and royalties	69,692	-	-	69,692	-	-	-	69,692
Production expense	919,533	-	-	919,533	-	54,957	54,957	974,490
Costumes	23,934	-	-	23,934	-	-	-	23,934
Equipment rental and maintenance	25,553	2,534	5,000	33,087	34,826	-	34,826	67,913
Facility expenses and maintenance	4,088	298,907	-	302,995	96,043	-	96,043	399,038
Telemarketing	-	-	61,575	61,575	-	3,419	3,419	64,994
Student programs	-	154,209	-	154,209	-	-	-	154,209
Scholarship	-	10,527	-	10,527	-	-	-	10,527
Photography	3,500	2,000	44,248	49,748	-	250	250	49,998
Printing	-	1,239	3,452	4,691	-	37,764	37,764	42,455
Travel expenses	139,922	34,769	2,407	177,098	3,028	6,229	9,257	186,355
Janitorial services and supplies	-	15,532	-	15,532	56,627	-	56,627	72,159
Advertising and public relation	191	1,237	885,196	886,624	113,139	1,046	114,185	1,000,809
Mailings	676	-	71,992	72,668	-	8,894	8,894	81,562
Cultivation	220	1,085	30	1,335	250	46,001	46,251	47,586
Special Events	-	-	-	-	-	29,180	29,180	29,180
Insurance	5,250	-	-	5,250	60,574	-	60,574	65,824
Utilities and telephone	322	29,884	-	30,206	104,051	-	104,051	134,257
Professional services	359,668	159,765	32,400	551,833	235,311	8,585	243,896	795,729
Dues and subscriptions	-	2,287	2,334	4,621	5,605	30,046	35,651	40,272
Human resource expense	-	-	-	-	33,011	-	33,011	33,011
Capital campaign expense	-	-	-	-	-	41,419	41,419	41,419
Bad debt	-	-	-	-	36,129	-	36,129	36,129
Other	6,284	576	-	6,860	103,757	33,591	137,348	144,208
Total Expenses	\$ 4,602,919	\$ 2,118,244	\$ 1,896,654	\$ 8,617,817	\$ 1,803,749	\$ 933,692	\$ 2,737,441	\$ 11,355,258

The accompanying notes are an integral part of these financial statements.

ATLANTA BALLET, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JULY 31, 2017

	<u>Production</u>	<u>Centre for Dance Education and Outreach</u>	<u>Marketing and Box Office</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 1,949,977	\$ 1,228,623	\$ 482,773	\$ 3,661,373	\$ 635,639	\$ 418,948	\$ 1,054,587	\$ 4,715,960
Payroll taxes and benefits	475,493	201,101	100,143	776,737	154,105	58,850	212,955	989,692
Total Personnel	2,425,470	1,429,724	582,916	4,438,110	789,744	477,798	1,267,542	5,705,652
Office supplies	-	7,422	7,232	14,654	18,241	2,053	20,294	34,948
Performance hall expenses	269,017	-	32,900	301,917	-	93,837	93,837	395,754
Interest expense	-	-	-	-	59,459	-	59,459	59,459
Postage	254	3,617	5,294	9,165	1,224	3,183	4,407	13,572
Credit card processing expenses	-	45,442	32,086	77,528	-	14,214	14,214	91,742
Music purchases and royalties	68,917	-	-	68,917	-	-	-	68,917
Production expense	849,859	-	-	849,859	-	-	-	849,859
Costumes	5,356	450	307	6,113	-	-	-	6,113
Equipment rental and maintenance	23,295	535	-	23,830	37,181	-	37,181	61,011
Facility expenses and maintenance	3,756	276,627	-	280,383	77,816	-	77,816	358,199
Telemarketing	-	-	68,773	68,773	-	7,970	7,970	76,743
Student programs	-	251,569	-	251,569	-	-	-	251,569
Scholarship	-	1,063	-	1,063	-	-	-	1,063
Photography	-	1,000	48,106	49,106	-	250	250	49,356
Printing	385	985	5,526	6,896	-	17,889	17,889	24,785
Travel expenses	140,819	36,670	3,807	181,296	222	6,350	6,572	187,868
Janitorial services and supplies	-	22,306	-	22,306	54,368	-	54,368	76,674
Advertising and public relation	3,660	3,056	978,312	985,028	29,482	-	29,482	1,014,510
Mailings	-	-	36,717	36,717	-	8,277	8,277	44,994
Cultivation	-	782	-	782	-	74,805	74,805	75,587
Events	-	-	-	-	-	30,411	30,411	30,411
Insurance	2,000	-	-	2,000	55,982	-	55,982	57,982
Utilities and telephone	-	42,368	-	42,368	110,945	-	110,945	153,313
Professional services	328,235	214,808	22,973	566,016	51,688	12,730	64,418	630,434
Dues and subscriptions	-	350	2,227	2,577	630	4,230	4,860	7,437
Human resource expense	-	-	11	11	83,859	-	83,859	83,870
Capital campaign expense	-	-	-	-	-	92,488	92,488	92,488
Bad debt	-	-	-	-	64,409	-	64,409	64,409
Other	5,677	2,806	604	9,087	96,250	12,142	108,392	117,479
Total Expenses	\$ 4,126,700	\$ 2,341,580	\$ 1,827,791	\$ 8,296,071	\$ 1,531,500	\$ 858,627	\$ 2,390,127	\$ 10,686,198

The accompanying notes are an integral part of these financial statements.

ATLANTA BALLET, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED JULY 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Increase in Net Assets	\$ 1,080,390	\$ 2,083,275
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Required) by Operating Activities:		
Depreciation and amortization	459,720	432,777
Bad debt expense	36,129	64,409
Contributions restricted for endowment	(45,095)	(138,510)
Net realized and unrealized gain on investments	(89,569)	(87,933)
Changes in assets and liabilities:		
Decrease (increase) in:		
Receivables	(3,817)	44,302
Unconditional promises to give	(286,883)	(2,322,930)
Prepaid expenses and other assets	(200,379)	(112,537)
(Decrease) increase in:		
Accounts payable and accrued expenses	293,434	(94,190)
Deferred revenue	409,869	(690)
Total adjustments	<u>573,409</u>	<u>(2,215,302)</u>
Net Cash Provided (Required) by Operating Activities	<u>1,653,799</u>	<u>(132,027)</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(2,622,214)	(393,307)
Increase in production development	(155,929)	(102,253)
Purchase of investments	(466,317)	(301,195)
Proceeds from the sale of investments	<u>479,357</u>	<u>204,423</u>
Net Cash Required by Investing Activities	<u>(2,765,103)</u>	<u>(592,332)</u>
Cash Flows from Financing Activities:		
Net borrowings (payments) under line of credit	2,504,862	(207,698)
Contributions restricted for endowment	<u>45,095</u>	<u>138,510</u>
Net Cash Provided (Required) by Financing Activities	<u>2,549,957</u>	<u>(69,188)</u>
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	1,438,653	(793,547)
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	<u>272,711</u>	<u>1,066,258</u>
Cash and Cash Equivalents and Restricted Cash at End of Year	<u>\$ 1,711,364</u>	<u>\$ 272,711</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest	<u>\$ 80,131</u>	<u>\$ 59,459</u>

Supplemental Disclosure of Non-Cash Investing and Operating Activities:

During the year ended July 31, 2018, accounts payable and accrued expenses included \$305,185 of payables relating to production development.

The accompanying notes are an integral part of these financial statements.

ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Atlanta Ballet, Inc. (the “Organization”) was formed in 1929 and incorporated under the laws of the state of Georgia in 1969. The purpose of the Organization is to actively serve the Atlanta community by providing enlightened arts education opportunities, inspire a diversity of audiences with a broad stylistic range of dance repertoire and to honor our past and contribute to the legacy of the art of ballet in an enduring way. The Organization’s revenue is generated primarily through ticket sales to the general public and tuition from students. Additional sources of revenue include support from contributions and grants from corporations, foundations and individuals.

Basis of Accounting

The Organization follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB sets accounting principles generally accepted in the United States of America (“GAAP”).

Presentation

Net assets, along with revenues, expenses, gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. When the stipulations expire or have been met by action of the Organization, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions.
- Permanently restricted net assets - Net assets that are subject to permanent donor-imposed stipulations include funds that must be maintained permanently by the Organization. The donors permit the Organization to use all of the income earned on the related investments for programmatic and operating purposes.

ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Organization considers all highly liquid investments, except for those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents.

Endowment and Permanently Restricted Funds

FASB requires the following financial statement disclosures for the Organization for the years ended July 31, 2018 and 2017:

- Classification of net assets

Endowment funds are used to account for investments in which the principal is temporarily or permanently restricted or Board-designated for a specific purpose.

- Interpretation of Relevant Law

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) under the state of Georgia as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment and Permanently Restricted Funds (Continued)

- Interpretation of Relevant Law (Continued)

- (1) The duration and preservation of the fund.
- (2) The purposes of the Organization and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Organization.
- (7) The investment policies of the Organization.

- Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Organization, the endowment assets are invested in a manner to attain an average annual real total return, net of investment management fees, of at least 5% over the long term. The annual real return should equal or exceed the spending rate indicated in the Organization's spending policy described below. Actual returns in any given year may vary from this amount.

- Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

- Spending Policy

The Organization has a spending policy approved by the Organization's Board of Trustees that is designed to ensure that the real value of both the funds and of the spending stream is maintained over time. The Organization may draw an amount on the endowment net asset value equal to 5% of the fiscal 12 month average.

ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment and Permanently Restricted Funds (Continued)

Changes in endowment net assets for years ended July 31, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 31, 2016	\$ -	\$ 128,320	\$ 1,140,786	\$ 1,269,106
Investment Return:				
Investment income	-	26,199	-	26,199
Net appreciation	-	87,933	-	87,933
Investment fees	-	(11,771)	-	(11,771)
Contributions collected	-	-	138,510	138,510
Earnings used in operations	-	(56,166)	-	(56,166)
Endowment net assets, July 31, 2017	-	174,515	1,279,296	1,453,811
Investment Return:				
Investment income	-	33,185	-	33,185
Net appreciation	-	89,569	-	89,569
Investment fees	-	(13,458)	-	(13,458)
Contributions collected	-	-	45,095	45,095
Earnings used in operations	-	(72,691)	-	(72,691)
Endowment net assets, July 31, 2018	<u>\$ -</u>	<u>\$ 211,120</u>	<u>\$ 1,324,391</u>	<u>\$ 1,535,511</u>

**ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment and Permanently Restricted Funds (Continued)

Changes in restricted cash funds, further discussed in Note 8, for years ended July 31, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Restricted cash funds, July 31, 2016	\$ (149,139)	\$ -	\$ 1,000,000	\$ 850,861
Restricted cash funds, used in operations (Note 8)	<u>(824,986)</u>	<u>-</u>	<u>-</u>	<u>(824,986)</u>
Restricted cash funds, July 31, 2017	(974,125)	-	1,000,000	25,875
Repayment of restricted cash funds (Note 8)	<u>974,125</u>	<u>-</u>	<u>-</u>	<u>974,125</u>
Restricted cash funds, July 31, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

The Organization is the beneficiary, but not the legal owner, of two donated endowments held and controlled by The Community Foundation of Greater Atlanta, Inc. (the "Foundation"). At July 31, 2018, the funds had a fair market value of approximately \$3,150,000. Since the funds are held in donor advised funds, the Organization does not record the endowed funds as assets. For the years ended July 31, 2018 and 2017, the Organization received unrestricted income earned on these endowment funds of approximately \$145,000 and \$142,000, respectively, and has recorded these as contributions and grants in the accompanying statement of activities and changes in net assets.

ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, receivables, unconditional promises to give and investments. At times, cash and cash equivalent balances exceed federally insured amounts. The Organization believes it reduces risks associated with balances in excess of federal insured amounts by maintaining its cash with major financial institutions with sound financial standing. Management continually monitors receivable and unconditional promises to give balances and believes that its exposure to credit risk is limited. Investment securities are exposed to various risks, such as interest rate risk, market risk and credit risk. If liquidity issues arise in the global credit and capital markets, it is at least reasonably possible that these changes in risks could materially affect the amounts reported in the accompanying financial statements.

Production Development

Production development includes artistic licenses for various productions. The Organization has the right to perform the productions over the license periods that range from four to seven years. The Organization's policy is to amortize artistic licenses over the applicable license period. For the years ended July 31, 2018 and 2017, production development amortization expense was \$77,823 and \$129,093, respectively.

Investments

The Organization's investments in equity securities with a readily determinable market value and all investments in debt securities are reported at fair market value with gains and losses included in the statement of activities and changes in net assets.

ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values Measured on Recurring Basis

FASB establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs in which little or no market data exists (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The table below represents fair value measurement hierarchy of the Organization's net assets at fair value as of July 31:

	<u>2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 210,233	\$ -	\$ -	\$ 210,233
Mutual funds & ETFs	786,214	-	-	786,214
Equities	<u>539,064</u>	<u>-</u>	<u>-</u>	<u>539,064</u>
	<u>\$ 1,535,511</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,535,511</u>

ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values Measured on Recurring Basis (Continued)

	<u>2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 241,406	\$ -	\$ -	\$ 241,406
Mutual funds & ETFs	722,507	-	-	722,507
Equities	<u>495,069</u>	<u>-</u>	<u>-</u>	<u>495,069</u>
	<u>\$ 1,458,982</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,458,982</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Property and Equipment

It is the policy of the Organization to capitalize property and equipment in excess of \$2,500. The cost of the property is depreciated over the estimated useful lives of the related assets using the straight-line method. Organization property and equipment is depreciated over lives ranging from 3 to 30 years.

Maintenance expenses are expensed as incurred. Costs for the creation of new productions, including sets, costumes, and choreography, are capitalized and depreciated on a straight-line basis over the estimated life of the production.

Impairment

The Organization evaluates the recoverability of its long-lived assets in accordance with GAAP. GAAP requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. If impairment is indicated, the carrying amount of the asset is written down to fair value. In the opinion of management, no long-lived assets were impaired as of July 31, 2018 and 2017.

ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Revenue derived from the sale of season tickets, tuition from students, and future sponsorships is recognized in the period in which the related performances are presented, services are rendered, or events are held.

Contributions

The Organization accounts for contributions in accordance with GAAP. Unconditional promises to give and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of donor restrictions which limit the use of the donated assets.

Accordingly, the Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the same reporting period in which the revenue is recognized. All other temporarily donor-restricted contributions are reported as increases in temporarily restricted net assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. All contributions and unconditional promises to give which do not have donor restrictions as to purpose or time are classified as unrestricted contributions and pledges receivable. For the years ended July 31, 2018 and 2017, 34% and 53% of contributions and grants were from two donors, respectively.

The Organization records gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, as well as gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (Continued)

Land held for sale, donated goods, other assets and marketable securities acquired by gift are recorded at their fair market value on the date of receipt. The value of donated goods, such as advertising, rent, and travel, included in the financial statements as contributions and as a corresponding expense were approximately \$203,000 in 2018 and \$217,000 in 2017. No amounts have been reflected in the financial statements for donated services; however, a substantial number of volunteers have donated significant amounts of their time to the Organization's programs and supporting services. If donated services received either created or enhanced non-financial assets or required specialized skills which would need to be purchased if not donated, the value of those donated services would be recorded in accordance with GAAP.

Contributions and grants consist of the following for the years ended July 31:

2018

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Individual	\$ 1,524,741	\$ 2,104,584	\$ 5,000	\$ 3,634,325
Corporate	560,265	-	-	560,265
Foundation	782,200	1,096,023	-	1,878,223
Government	<u>104,600</u>	<u>-</u>	<u>-</u>	<u>104,600</u>
	<u>\$ 2,971,806</u>	<u>\$ 3,200,607</u>	<u>\$ 5,000</u>	<u>\$ 6,177,413</u>

**ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (Continued)

2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Individual	\$ 1,371,016	\$ 449,343	\$ 23,110	\$ 1,843,469
Corporate	550,985	68,887	115	619,987
Foundation	891,708	2,494,501	-	3,386,209
Government	1,094,917	-	-	1,094,917
	<u>\$ 3,908,626</u>	<u>\$ 3,012,731</u>	<u>\$ 23,225</u>	<u>\$ 6,944,582</u>

Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the accompanying statement of activities and changes in net assets and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

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

Tax Exempt Status

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, as amended, and is classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision or liability for federal and state income taxes has been recorded in the accompanying financial statements.

**ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Exempt Status (Continued)

The Organization annually evaluates all federal and state income tax positions. This process includes an analysis of whether these income tax positions the Organization takes meet the definition of an uncertain tax position under the Income Taxes Topic of the Financial Accounting Standards Codification. In the normal course of business, the Organization is subject to examination by the federal and state taxing authorities. In general, the Organization is no longer subject to tax examinations for tax years ending before July 31, 2015.

During December 2017, the President of the United States of America signed into law the Tax Cuts and Jobs Act. Under this Act, maximum corporate tax rates were reduced from a rate of 35% to a flat rate of 21%. The Organization's tax liability for any potential unrelated business income tax should not be significant. There are other changes to the tax law that may affect the Organization, but the magnitude of such changes has not been determined.

Subsequent Events

Management has evaluated subsequent events through the date of this report, which is the date the financial statements were available to be issued.

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

At July 31, unconditional promises to give were as follows:

	<u>2018</u>	<u>2017</u>
Program	\$ 4,832,869	\$ 3,571,720
General operations	876,402	2,302,623
Endowment	40,000	80,000
Centre for dance education and outreach	510,000	50,000
Other	-	463
	<u>6,259,271</u>	<u>6,004,806</u>
Less discount for present value	(893,912)	(890,733)
Less allowance for doubtful accounts	<u>(100,328)</u>	<u>(99,796)</u>
	<u>\$ 5,265,031</u>	<u>\$ 5,014,277</u>

ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE (Continued)

The estimated future cash flows for the years ending July 31 are as follows:

2019	\$ 2,398,754
2020	1,307,501
2021	990,000
2022	938,016
2023	625,000
	<u>\$ 6,259,271</u>

During 2014, the Organization initiated its multi-year campaign to build its endowment, cash reserve for general operations, and program initiatives, including a new production of the *Nutcracker*. Through July 31, 2018, the Organization received campaign pledges approximating \$12,600,000 and had collected approximately \$7,900,000. At July 31, 2018 and 2017, unconditional promises to give were discounted to their present values using an interest rate ranging from 3.40% to 5.375%.

At July 31, 2018 and 2017, 64% and 74%, respectively, of unconditional promises to give were from two donors.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at July 31:

	<u>2018</u>	<u>2017</u>
Stage equipment	\$ 1,644,396	\$ 1,543,816
Costumes	1,404,538	1,282,427
Office equipment	711,411	676,197
Furniture and fixtures	201,923	163,856
Leasehold improvements	346,494	90,164
Building	9,150,178	9,015,961
Land	1,360,603	1,360,602
Land improvements	44,265	18,870
Production in progress	2,350,558	135,074
	<u>17,214,366</u>	<u>14,286,967</u>
Less accumulated depreciation and amortization	<u>(5,072,186)</u>	<u>(4,690,647)</u>
Total property and equipment, net	<u>\$ 12,142,180</u>	<u>\$ 9,596,320</u>

ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE 3 – PROPERTY AND EQUIPMENT (Continued)

Depreciation and amortization expense for the years ended July 31, 2018 and 2017 was \$459,720 and \$432,777, respectively.

NOTE 4 – LINE OF CREDIT

The Organization entered into a \$2,000,000 line of credit agreement with a financial institution. The line of credit carries interest at the London Interbank Offered Rate (LIBOR) plus 3.25% (an effective rate of 5.375% at July 31, 2018). The line is secured by the assets of the Organization and expires on June 27, 2019. The line of credit contains a restrictive covenant whereby the amount available under the line is limited to 90% of eligible unconditional promises to give excluding promises to give for the production of the new ballet. At July 31, 2018, the Organization was in compliance with the covenant. Total outstanding borrowings under the line of credit were \$1,035,874 at July, 31, 2018.

In 2017, the Organization entered into a \$5,000,000 line of credit agreement with a financial institution to fund production of a new ballet. The line of credit carries interest at LIBOR plus 3.25% (an effective rate of 5.375% at July 31, 2018). The line is secured by the assets of the Organization and expires on May 1, 2020. The line of credit contains a restrictive covenant whereby the amount available under the line is limited to 90% of eligible unconditional promises to give specifically for the new ballet production. At July 31, 2018, the Organization was in compliance with the covenant. Total outstanding borrowings under the line of credit were \$2,633,790 at July, 31, 2018.

In 2017, the Organization entered into a \$500,000 line of credit agreement with a member of the Board of Trustees. The line of credit carries interest at LIBOR and 3.25% (an effective rate of 5.375% at July 31, 2018), the Organization's current bank rate for borrowing at July 31, 2018. The line is open-ended and is not required to be secured by collateral. Outstanding borrowings under the line of credit were \$150,000 at July 31, 2018.

ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE 5 – OPERATING LEASE OBLIGATIONS

The Organization leases certain warehouse and dance studio space under non-cancelable operating leases. The following is a schedule by years of minimum future rentals on non-cancelable operating leases for years ending July 31:

2019	\$ 214,576
2020	136,222
2021	98,683
2022	<u>101,643</u>
	<u>\$ 551,124</u>

Lease expense for 2018 and 2017 approximated \$282,000 and \$270,000, respectively.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are comprised of contributions the Organization received subject to donor-imposed restrictions consisting of the following at July 31:

	<u>2018</u>	<u>2017</u>
Program restrictions	\$ 1,746,685	\$ 3,093,205
Building repair and maintenance	224,711	481,041
Time restrictions	<u>3,061,320</u>	<u>570,320</u>
	<u>\$ 5,032,716</u>	<u>\$ 4,144,566</u>

NOTE 7 – NET ASSETS RELEASED FROM RESTRICTIONS

The following net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended July 31:

	<u>2018</u>	<u>2017</u>
Program restrictions	\$ 1,981,127	\$ 540,101
Building repair and maintenance	256,330	-
Time restrictions	<u>75,000</u>	<u>231,014</u>
	<u>\$ 2,312,457</u>	<u>\$ 771,115</u>

**ATLANTA BALLET, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017**

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of cash and endowment fund investments to be held indefinitely, the income from which is either unrestricted for support of the operations of the Organization or to be used for Centre for Dance Education scholarships, as follows at July 31:

	<u>2018</u>	<u>2017</u>
<u>Endowment Fund Investments:</u>		
General support	\$ 299,330	\$ 294,330
Productions	500,000	500,000
Scholarships	384,479	384,479
Music	<u>199,769</u>	<u>199,769</u>
	<u>1,383,578</u>	<u>1,378,578</u>
 <u>Permanently Restricted Cash Fund:</u>		
Cash reserve fund	<u>1,000,000</u>	<u>1,000,000</u>
	<u><u>\$ 2,383,578</u></u>	<u><u>\$ 2,378,578</u></u>

Cash Reserve Fund

In 2012, the Organization received a \$1,000,000 donation to establish a permanently restricted fund to provide temporary cash flow for specified activities. Under the terms of the agreement, borrowings from the cash reserve fund must be approved by the Organization's Finance Committee and must have a written plan for repayment of the funds. The donor-designated cash reserve account is reported as permanently restricted net assets, and the earnings are recorded as unrestricted net assets. The Finance Committee recommended and Board of Trustees approved a resolution for the donor-designated cash reserve account to require a full repayment of the outstanding borrowings at least once during each fiscal year. The Organization meets this requirement each year. The Organization had no outstanding borrowings from the cash reserve funds at July 31, 2018. The Organization had outstanding borrowings of \$974,125 from the cash reserve funds at July 31, 2017.

NOTE 9 – RELATED-PARTY TRANSACTIONS

During 2018 and 2017, the Organization received contributions from members of the Board and entities with common Board members. During the years ended July 31, 2018 and 2017, contributions collected from such related parties were approximately \$1,347,000 and \$1,146,000, respectively. Undiscounted promises to give from related parties were approximately \$4,963,000 and \$5,257,000 at July 31, 2018 and 2017, respectively.