

**ATLANTA BALLET, INC.**

**FINANCIAL STATEMENTS**  
**YEARS ENDED JULY 31, 2016 AND 2015**

**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, 2016 and 2015, 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, 2016 and 2015, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Smith + Howard*

October 31, 2016

**ATLANTA BALLET, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JULY 31, 2016 AND 2015**

**ASSETS**

	<b><u>2016</u></b>	<b><u>2015</u></b>
Assets		
Cash and cash equivalents	\$ 215,397	\$ 162,017
Restricted cash	850,861	2,132
Receivables, net of allowance for doubtful accounts of \$6,964 and \$6,796 for 2016 and 2015, respectively	89,110	72,135
Unconditional promises to give, net	2,755,756	2,735,678
Prepaid expenses and other assets	591,933	522,861
Production development	270,976	354,425
Other investments	5,171	5,171
Endowment	1,269,106	1,163,718
Property and equipment, net	<u>9,506,697</u>	<u>9,772,418</u>
 Total Assets	 <u>\$ 15,555,007</u>	 <u>\$ 14,790,555</u>

**LIABILITIES AND NET ASSETS**

Liabilities		
Accounts payable and accrued expenses	\$ 632,918	\$ 509,884
Deferred revenue	728,617	701,246
Borrowings under line of credit	<u>1,522,500</u>	<u>1,429,000</u>
 Total Liabilities	 <u>2,884,035</u>	 <u>2,640,130</u>
 Net Assets		
Unrestricted	8,412,669	8,758,659
Temporarily restricted	1,902,950	1,044,455
Permanently restricted	<u>2,355,353</u>	<u>2,347,311</u>
 Total Net Assets	 <u>12,670,972</u>	 <u>12,150,425</u>
 Total Liabilities and Net Assets	 <u>\$ 15,555,007</u>	 <u>\$ 14,790,555</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, 2016**

	<b>2016</b>				<b>2015</b>
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>	<b><u>Total (for Comparative Purposes Only)</u></b>
Revenues and Other Support					
Nutcracker ticket sales	\$ 2,395,989	\$ -	\$ -	\$ 2,395,989	\$ 2,262,682
Other ticket sales	917,608	-	-	917,608	807,175
Centre for Dance Education and Outreach fees	2,414,434	-	-	2,414,434	2,362,667
Contributions and grants	2,898,912	1,927,121	8,042	4,834,075	4,866,494
Special events	635,898	-	-	635,898	485,730
Interest and dividends	30,083	-	-	30,083	31,296
Merchandise sales	386,675	-	-	386,675	376,500
Less: cost of sales	(164,705)	-	-	(164,705)	(163,209)
Other income	104,997	-	-	104,997	106,781
Net assets released from restrictions	<u>1,068,626</u>	<u>(1,068,626)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Support	<u>10,688,517</u>	<u>858,495</u>	<u>8,042</u>	<u>11,555,054</u>	<u>11,136,116</u>
Expenses and Other Losses					
Program services:					
Production	3,758,619	-	-	3,758,619	3,471,797
Centre for Dance Education and Outreach	2,274,392	-	-	2,274,392	2,290,893
Marketing and box office	<u>1,903,085</u>	<u>-</u>	<u>-</u>	<u>1,903,085</u>	<u>1,900,989</u>
Total program services	<u>7,936,096</u>	<u>-</u>	<u>-</u>	<u>7,936,096</u>	<u>7,663,679</u>
Supporting services:					
Management and general	1,669,583	-	-	1,669,583	1,184,027
Fundraising and development	<u>1,048,231</u>	<u>-</u>	<u>-</u>	<u>1,048,231</u>	<u>975,518</u>
Total supporting services	<u>2,717,814</u>	<u>-</u>	<u>-</u>	<u>2,717,814</u>	<u>2,159,545</u>
Total Expenses	<u>10,653,910</u>	<u>-</u>	<u>-</u>	<u>10,653,910</u>	<u>9,823,224</u>
Net Operating Results	<u>34,607</u>	<u>858,495</u>	<u>8,042</u>	<u>901,144</u>	<u>1,312,892</u>
Other income (losses):					
Depreciation and amortization	(426,681)	-	-	(426,681)	(476,396)
Realized and unrealized gain on investments	<u>46,084</u>	<u>-</u>	<u>-</u>	<u>46,084</u>	<u>93,336</u>
Total other income (losses)	<u>(380,597)</u>	<u>-</u>	<u>-</u>	<u>(380,597)</u>	<u>(383,060)</u>
Total Expenses and Other Income (Losses)	<u>11,034,507</u>	<u>-</u>	<u>-</u>	<u>11,034,507</u>	<u>10,206,284</u>
Increase (Decrease) in Net Assets	<u>(345,990)</u>	<u>858,495</u>	<u>8,042</u>	<u>520,547</u>	<u>929,832</u>
Net Assets, Beginning of Year	<u>8,758,659</u>	<u>1,044,455</u>	<u>2,347,311</u>	<u>12,150,425</u>	<u>11,220,593</u>
Net Assets, End of Year	<u>\$ 8,412,669</u>	<u>\$ 1,902,950</u>	<u>\$ 2,355,353</u>	<u>\$ 12,670,972</u>	<u>\$ 12,150,425</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, 2015**

	<b>2015</b>				<b>2014</b>
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>	<b><u>Total (for Comparative Purposes Only)</u></b>
Revenues and Other Support					
Nutcracker ticket sales	\$ 2,262,682	\$ -	\$ -	\$ 2,262,682	\$ 2,065,995
Other ticket sales	807,175	-	-	807,175	1,002,666
Centre for Dance Education and Outreach fees	2,362,667	-	-	2,362,667	2,441,845
Contributions and grants	3,043,917	1,465,051	357,526	4,866,494	2,905,848
Special events	485,730	-	-	485,730	350,038
Interest and dividends	31,296	-	-	31,296	38,850
Merchandise sales	376,500	-	-	376,500	373,127
Less: cost of sales	(163,209)	-	-	(163,209)	(158,403)
Other income	106,781	-	-	106,781	214,946
Net assets released from restrictions	529,143	(529,143)	-	-	-
<b>Total Revenues and Other Support</b>	<b>9,842,682</b>	<b>935,908</b>	<b>357,526</b>	<b>11,136,116</b>	<b>9,234,912</b>
Expenses and Other Losses					
Program services:					
Production	3,471,797	-	-	3,471,797	3,924,001
Centre for Dance Education and Outreach	2,290,893	-	-	2,290,893	2,205,998
Marketing and box office	1,900,989	-	-	1,900,989	2,033,572
Total program services	7,663,679	-	-	7,663,679	8,163,571
Supporting services:					
Management and general	1,184,027	-	-	1,184,027	1,378,110
Fundraising and development	975,518	-	-	975,518	868,875
Total supporting services	2,159,545	-	-	2,159,545	2,246,985
<b>Total Expenses</b>	<b>9,823,224</b>	<b>-</b>	<b>-</b>	<b>9,823,224</b>	<b>10,410,556</b>
<b>Net Operating Results</b>	<b>19,458</b>	<b>935,908</b>	<b>357,526</b>	<b>1,312,892</b>	<b>(1,175,644)</b>
Other income (losses):					
Depreciation and amortization	(476,396)	-	-	(476,396)	(448,628)
Realized and unrealized gain on investments	93,336	-	-	93,336	79,063
Total other income (losses)	(383,060)	-	-	(383,060)	(369,565)
<b>Total Expenses and Other Income (Losses)</b>	<b>10,206,284</b>	<b>-</b>	<b>-</b>	<b>10,206,284</b>	<b>10,780,121</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(363,602)</b>	<b>935,908</b>	<b>357,526</b>	<b>929,832</b>	<b>(1,545,209)</b>
<b>Net Assets, Beginning of Year</b>	<b>9,122,261</b>	<b>108,547</b>	<b>1,989,785</b>	<b>11,220,593</b>	<b>12,765,802</b>
<b>Net Assets, End of Year</b>	<b>\$ 8,758,659</b>	<b>\$ 1,044,455</b>	<b>\$ 2,347,311</b>	<b>\$ 12,150,425</b>	<b>\$ 11,220,593</b>

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

**ATLANTA BALLET, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JULY 31, 2016**

	<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	\$ 1,831,074	\$ 1,215,121	\$ 448,108	\$ 3,494,303	\$ 601,716	\$ 351,841	\$ 953,557	\$ 4,447,860
Payroll taxes and benefits	415,974	195,563	94,622	706,159	87,182	47,625	134,807	840,966
Total Personnel	2,247,048	1,410,684	542,730	4,200,462	688,898	399,466	1,088,364	5,288,826
Office supplies	-	10,148	5,594	15,742	16,326	1,985	18,311	34,053
Performance hall expenses	252,180	-	34,900	287,080	-	77,640	77,640	364,720
Interest expense	-	-	-	-	63,336	-	63,336	63,336
Postage	167	3,750	5,849	9,766	-	985	985	10,751
Credit card processing expenses	-	40,390	36,869	77,259	-	15,894	15,894	93,153
Music purchases and royalties	53,438	-	-	53,438	-	-	-	53,438
Production expense	801,775	1,298	39	803,112	84	2,127	2,211	805,323
Costumes	11,614	-	-	11,614	-	-	-	11,614
Equipment rental and maintenance	22,304	10,269	3,967	36,540	34,191	-	34,191	70,731
Facility expenses and maintenance	-	275,436	-	275,436	70,362	-	70,362	345,798
Telemarketing	-	-	64,718	64,718	-	20,598	20,598	85,316
Ballet ball expense	-	-	-	-	35	200,530	200,565	200,565
Student programs	-	244,595	-	244,595	-	-	-	244,595
Scholarship	-	12,102	-	12,102	-	-	-	12,102
Photography	-	3,000	46,893	49,893	-	625	625	50,518
Printing	-	2,683	9,696	12,379	1,045	12,147	13,192	25,571
Travel expenses	115,596	35,444	352	151,392	861	297	1,158	152,550
Janitorial services and supplies	-	18,654	-	18,654	55,325	240	55,565	74,219
Advertising and public relation	771	782	1,083,704	1,085,257	26,963	500	27,463	1,112,720
Mailings	-	-	35,690	35,690	2,733	12,357	15,090	50,780
Cultivation	-	2,903	-	2,903	-	75,199	75,199	78,102
Special events	-	-	-	-	-	24,636	24,636	24,636
Insurance	4,500	-	-	4,500	54,662	-	54,662	59,162
Utilities and telephone	1,915	44,875	-	46,790	109,355	-	109,355	156,145
Professional services	210,453	154,077	27,472	392,002	82,934	9,687	92,621	484,623
Dues and subscriptions	-	1,888	1,919	3,807	2,319	5,645	7,964	11,771
Human resource expense	-	-	-	-	296,220	1,418	297,638	297,638
Capital campaign expense	-	-	-	-	-	168,051	168,051	168,051
Bad debt	-	-	-	-	100,000	2,221	102,221	102,221
Other	36,858	1,414	2,693	40,965	63,934	15,983	79,917	120,882
Total Expenses	\$ 3,758,619	\$ 2,274,392	\$ 1,903,085	\$ 7,936,096	\$ 1,669,583	\$ 1,048,231	\$ 2,717,814	\$ 10,653,910

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

**ATLANTA BALLET, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JULY 31, 2015**

	<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	\$ 1,737,011	\$ 1,297,972	\$ 441,564	\$ 3,476,547	\$ 553,554	\$ 327,387	\$ 880,941	\$ 4,357,488
Payroll taxes and benefits	435,465	201,577	80,615	717,657	129,015	53,267	182,282	899,939
Total Personnel	2,172,476	1,499,549	522,179	4,194,204	682,569	380,654	1,063,223	5,257,427
Office supplies	-	17,683	7,214	24,897	15,716	19,465	35,181	60,078
Performance hall expenses	249,620	-	32,200	281,820	-	63,103	63,103	344,923
Interest expense	-	-	-	-	40,028	-	40,028	40,028
Postage	190	2,500	9,922	12,612	1,566	5,471	7,037	19,649
Credit card processing expenses	-	44,831	32,268	77,099	-	11,802	11,802	88,901
Music purchases and royalties	56,771	-	-	56,771	-	-	-	56,771
Production expense	637,243	689	-	637,932	57	1,786	1,843	639,775
Costumes	7,200	1,463	-	8,663	-	-	-	8,663
Equipment rental and maintenance	7,141	165	-	7,306	31,029	1,170	32,199	39,505
Facility expenses and maintenance	-	273,384	-	273,384	49,816	63	49,879	323,263
Telemarketing	-	-	100,174	100,174	-	26,191	26,191	126,365
Ballet ball expense	-	-	-	-	-	199,039	199,039	199,039
Student programs	-	224,104	-	224,104	-	-	-	224,104
Scholarship	-	356	-	356	-	1,500	1,500	1,856
Photography	53	2,150	42,259	44,462	-	2,225	2,225	46,687
Printing	798	305	7,915	9,018	-	8,780	8,780	17,798
Travel expenses	115,507	37,386	1,222	154,115	2,233	112	2,345	156,460
Janitorial services and supplies	-	23,060	-	23,060	53,445	-	53,445	76,505
Advertising and public relation	-	2,703	1,079,359	1,082,062	30,738	500	31,238	1,113,300
Mailings	-	-	35,796	35,796	-	13,372	13,372	49,168
Cultivation	-	225	-	225	-	24,722	24,722	24,947
Special events	-	-	-	-	-	19,159	19,159	19,159
Insurance	2,400	-	-	2,400	52,273	31	52,304	54,704
Utilities and telephone	1,481	45,621	-	47,102	96,787	-	96,787	143,889
Professional services	213,093	109,376	20,383	342,852	45,112	26,502	71,614	414,466
Dues and subscriptions	-	2,285	5,984	8,269	4,694	695	5,389	13,658
Human resource expense	-	-	-	-	3,168	-	3,168	3,168
Capital campaign expense	-	-	-	-	-	163,758	163,758	163,758
Bad debt	-	-	-	-	58,334	-	58,334	58,334
Other	7,824	3,058	4,114	14,996	16,462	5,418	21,880	36,876
Total Expenses	\$ 3,471,797	\$ 2,290,893	\$ 1,900,989	\$ 7,663,679	\$ 1,184,027	\$ 975,518	\$ 2,159,545	\$ 9,823,224

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

**ATLANTA BALLET, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED JULY 31, 2016 AND 2015**

	<u><b>2016</b></u>	<u><b>2015</b></u>
Cash Flows from Operating Activities:		
Increase in Net Assets	\$ 520,547	\$ 929,832
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Required) by Operating Activities:		
Depreciation and amortization	426,681	476,396
Loss on sale of property and equipment	-	6,757
Bad debt expense	102,221	58,334
Contributions restricted for endowment	(8,042)	(357,526)
Net realized and unrealized gain on investments	(46,084)	(93,336)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(16,975)	(31,369)
Unconditional promises to give	(272,035)	(1,678,673)
Prepaid expenses and other assets	(69,072)	46,705
Increase (decrease) in:		
Accounts payable and accrued expenses	123,034	(58,652)
Deferred revenue	27,371	367
Total adjustments	<u>267,099</u>	<u>(1,630,997)</u>
Net Cash Provided (Required) by Operating Activities	<u>787,646</u>	<u>(701,165)</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(43,280)	(197,564)
Increase in production development	(34,231)	(128,853)
Purchase of investments	(304,461)	(435,481)
Proceeds from the sale of investments	<u>245,157</u>	<u>569,816</u>
Net Cash Required by Investing Activities	<u>(136,815)</u>	<u>(192,082)</u>
Cash Flows from Financing Activities:		
Net borrowings under line of credit	93,500	539,000
Contributions restricted for endowment	<u>157,778</u>	<u>55,000</u>
Net Cash Provided by Financing Activities	<u>251,278</u>	<u>594,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	902,109	(299,247)
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	<u>164,149</u>	<u>463,396</u>
Cash and Cash Equivalents and Restricted Cash at End of Year	<u>\$ 1,066,258</u>	<u>\$ 164,149</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest	<u>\$ 63,336</u>	<u>\$ 40,028</u>

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

**ATLANTA BALLET, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**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

The accompanying financial statements present “net assets”. 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, 2016 AND 2015**

**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, 2016 and 2015.

- 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) 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, 2016 AND 2015**

**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, 2016 AND 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Endowment and Permanently Restricted Funds (Continued)

Changes in endowment net assets for years ending July 31, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 31, 2014	\$ -	\$ 55,311	\$ 989,785	\$ 1,045,096
Investment Return:				
Investment income	-	29,657	-	29,657
Net appreciation	-	93,238	-	93,238
Investment fees	-	(9,866)	-	(9,866)
Contributions collected	-	-	55,000	55,000
Earnings used in operations	-	(49,407)	-	(49,407)
Endowment net assets, July 31, 2015	-	118,933	1,044,785	1,163,718
Investment Return:				
Investment income	-	28,426	-	28,426
Net appreciation	-	46,084	-	46,084
Investment fees	-	(8,006)	-	(8,006)
Contributions collected	-	-	96,001	96,001
Earnings used in operations	-	(57,117)	-	(57,117)
Endowment net assets, July 31, 2016	\$ -	\$ 128,320	\$ 1,140,786	\$ 1,269,106

**ATLANTA BALLET, INC.  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2016 AND 2015**

**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 ending July 31, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Restricted cash funds, July 31, 2014	\$ (998,175)	\$ -	\$ 1,000,000	\$ 1,825
Repayment of restricted cash funds (Note 8)	<u>307</u>	<u>-</u>	<u>-</u>	<u>307</u>
Restricted cash funds, July 31, 2015	(997,868)	-	1,000,000	2,132
Repayment of restricted cash funds (Note 8)	<u>848,729</u>	<u>-</u>	<u>-</u>	<u>848,729</u>
Restricted cash funds, July 31, 2016	<u>\$ (149,139)</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 850,861</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, 2016, the funds had a fair market value of approximately \$2,900,000. 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, 2016 and 2015, the Organization received unrestricted income earned on these endowment funds of approximately \$144,000 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, 2016 AND 2015**

**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 choreographer and design fees relating to a specific production. The Organization has a license agreement for this production in the United States and the fees will be amortized over the license period of five years.

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, 2016 AND 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Values Measured on Recurring Basis

The FASB issued a pronouncement on fair value measurement defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements.

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.

**ATLANTA BALLET, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Fair Value Measurement (Continued)

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

		<u>2016</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 53,981	\$ -	\$ -	\$ 53,981
Mutual Funds & ETFs:				
Mid-cap growth	29,830	-	-	29,830
Mid-cap blend	51,080	-	-	51,080
Large blend	62,050	-	-	62,050
Long-short equity	43,527	-	-	43,527
Global real estate	39,292	-	-	39,292
Health	82,720	-	-	82,720
Fixed income	98,713	-	-	98,713
World stock	63,892	-	-	63,892
Ultrashort bond	85,170	-	-	85,170
Intermediate-term bond	107,287	-	-	107,287
Total Mutual Funds & ETFs	663,561	-	-	663,561
Equities:				
Financial	54,165	-	-	54,165
Energy	120,866	-	-	120,866
Consumer goods	16,948	-	-	16,948
Technology	89,770	-	-	89,770
Healthcare	64,131	-	-	64,131
Industrial goods	147,561	-	-	147,561
Services	63,294	-	-	63,294
Total Equities	556,735	-	-	556,735
	<u>\$ 1,274,277</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,274,277</u>

**ATLANTA BALLET, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Fair Value Measurement (Continued)

		<b>2015</b>		
	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
Money market funds	\$ 151,568	\$ -	\$ -	\$ 151,568
Mutual Funds & ETFs:				
Mid-cap growth	53,579	-	-	53,579
Large blend	145,595	-	-	145,595
Diversified emerging markets	30,562	-	-	30,562
Long-short equity	43,599	-	-	43,599
Global real estate	36,396	-	-	36,396
Health	84,249	-	-	84,249
Fixed income	53,444	-	-	53,444
World stock	63,404	-	-	63,404
High yield bond	44,393	-	-	44,393
Intermediate-term bond	104,243	-	-	104,243
Total Mutual Funds & ETFs	<u>659,464</u>	<u>-</u>	<u>-</u>	<u>659,464</u>
Equities:				
Financial	79,211	-	-	79,211
Energy	27,724	-	-	27,724
Technology	55,236	-	-	55,236
Healthcare	42,605	-	-	42,605
Industrial goods	129,993	-	-	129,993
Real estate	23,088	-	-	23,088
Total Equities	<u>357,857</u>	<u>-</u>	<u>-</u>	<u>357,857</u>
	<u>\$ 1,168,889</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,168,889</u>

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

**ATLANTA BALLET, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Depreciation and Amortization

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 and all costs for new productions, including sets, costumes, and choreography, are charged to expense as incurred or in the year of initial performance with the exception of costs associated with full-length works. Full-length works are capitalized and depreciated on a straight-line basis over the life of license.

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, 2016 and 2015.

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.

**ATLANTA BALLET, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions (Continued)

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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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. At July 31, 2016 and 2015, 47% of contributions and grants were from two donors and 42% of contributions and grants were from one donor, 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.

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 \$347,000 in 2016 and \$296,000 in 2015. 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.

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.

**ATLANTA BALLET, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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, 2013.

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.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 financial presentation.

**ATLANTA BALLET, INC.  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2016 AND 2015**

**NOTE 2 – UNCONDITIONAL PROMISES TO GIVE**

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

	<u><b>2016</b></u>	<u><b>2015</b></u>
Capital improvements	\$ 4,500	\$ 71,000
General operations	2,841,047	2,569,140
Endowment	172,188	330,000
Centre for dance education and outreach	140,000	-
Other	<u>463</u>	<u>72,135</u>
	3,158,198	3,042,275
Less discount for present value	(352,544)	(258,752)
Less allowance for doubtful accounts	<u>(49,898)</u>	<u>(47,845)</u>
	<u><u>\$ 2,755,756</u></u>	<u><u>\$ 2,735,678</u></u>

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

2017	\$ 1,231,215
2018	844,167
2019	714,536
2020	348,000
2021	<u>20,280</u>
	<u><u>\$ 3,158,198</u></u>

During 2014, the Organization initiated its multi-year campaign to build its endowment, cash reserve for general operations, and program initiatives. Through July 31, 2016, the Organization received campaign pledges approximating \$6,500,000 and had collected approximately \$3,450,000. At July 31, 2016 and 2015, unconditional promises to give were discounted to their present values using an interest rate ranging from 3.40% to 3.75%.

At July 31, 2016 and 2015, 58% of unconditional promises to give were from two donors and 43% of unconditional promises to give were from one donor, respectively.

**ATLANTA BALLET, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at July 31:

	<u><b>2016</b></u>	<u><b>2015</b></u>
Stage equipment	\$ 1,496,742	\$ 1,464,504
Costumes	1,260,458	1,249,425
Office equipment	507,962	507,962
Furniture and fixtures	161,778	161,778
Leasehold improvements	619,242	619,242
Building	9,015,961	9,015,961
Land	<u>1,360,602</u>	<u>1,360,602</u>
	14,422,745	14,379,474
Less accumulated depreciation	<u>(4,916,048)</u>	<u>(4,607,056)</u>
Total property and equipment, net	<u><u>\$ 9,506,697</u></u>	<u><u>\$ 9,772,418</u></u>

**NOTE 4 – LINE OF CREDIT**

In 2013, the Organization entered into a \$1,000,000 line of credit agreement with a financial institution that was subsequently amended and increased to \$2,000,000. The line of credit carries interest at the London Interbank Offered Rate (LIBOR) plus 3.25% (an effective rate of 3.75% at July 31, 2016). The line is secured by the assets of the Organization and expires on June 29, 2017. 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. At July 31, 2016, the Organization was in compliance with the covenant. Total outstanding borrowings under the line of credit were \$1,522,500 at July, 31, 2016.

**ATLANTA BALLET, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**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:

2017	\$ 214,636
2018	125,546
2019	120,646
2020	40,413
	<u>\$ 501,241</u>

Lease expense for 2016 and 2015 approximated and \$263,000 and \$255,000, 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><b>2016</b></u>	<u><b>2015</b></u>
Program restrictions	\$ 757,387	\$ 46,887
Building repair and maintenance	533,755	59,170
Time restrictions	611,808	938,398
	<u>\$ 1,902,950</u>	<u>\$ 1,044,455</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><b>2016</b></u>	<u><b>2015</b></u>
Program restrictions	\$ 90,416	\$ 13,991
Time restrictions	878,210	515,152
Pledge write-off	100,000	-
	<u>\$ 1,068,626</u>	<u>\$ 529,143</u>

**ATLANTA BALLET, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**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><b>2016</b></u>	<u><b>2015</b></u>
<u>Endowment Fund Investments:</u>		
General support	\$ 275,401	\$ 272,786
Productions	500,000	500,000
Scholarships	384,479	384,479
Music	195,473	190,046
	<u>1,355,353</u>	<u>1,347,311</u>
<u>Permantely Restricted Cash Fund:</u>		
Cash reserve fund	1,000,000	1,000,000
	<u><u>\$ 2,355,353</u></u>	<u><u>\$ 2,347,311</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 outstanding borrowings of \$149,139 and \$997,868 from the cash reserve funds at July 31, 2016 and 2015, respectively.