

BALLET HISPANICO OF NEW YORK, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

BALLET HISPANICO OF NEW YORK, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ballet Hispanico of New York, Inc.

We have audited the accompanying financial statements of Ballet Hispanico of New York, Inc. (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, 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 audit 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 entity'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 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 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 Ballet Hispanico of New York, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
October 12, 2018

BALLET HISPANICO OF NEW YORK, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Assets								
Cash and cash equivalents (Notes 1b and 4)	\$ 81,756	\$ 1,023,116	\$ 300,249	\$ 1,405,121	\$ -	\$ 1,455,615	\$ 286,348	\$ 1,741,963
Interfund receivable (payable)	(340,238)	-	340,238	-	(657,370)	209,305	448,065	-
Unconditional promises to give (Notes 1c and 5)								
Unrestricted	161,119	-	-	161,119	86,373	-	-	86,373
Restricted to future programs and periods	-	747,613	-	747,613	-	287,375	-	287,375
Accounts receivable	58,165	-	-	58,165	96,297	-	-	96,297
Prepaid expenses and other assets	38,583	-	-	38,583	52,371	-	-	52,371
Investments (Notes 1d and 3)	-	-	780,613	780,613	-	-	725,007	725,007
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 7)	9,173,916	-	-	9,173,916	9,462,438	-	-	9,462,438
Artwork	15,650	-	-	15,650	15,650	-	-	15,650
Total Assets	\$ 9,188,951	\$ 1,770,729	\$ 1,421,100	\$12,380,780	\$ 9,055,759	\$ 1,952,295	\$ 1,459,420	\$12,467,474
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 301,439	\$ -	\$ -	\$ 301,439	\$ 309,938	\$ -	\$ -	\$ 309,938
Deferred revenue	151,773	-	-	151,773	150,986	-	-	150,986
Mortgage payable (Note 9)	2,996,245	-	-	2,996,245	3,953,334	-	-	3,953,334
Total Liabilities	3,449,457	-	-	3,449,457	4,414,258	-	-	4,414,258
Commitment and Contingency (Notes 8, 10 and 11)								
Net Assets (Note 2)								
Operating	5,771,915	1,372,931	-	7,144,846	4,718,857	1,687,546	-	6,406,403
Cash reserve	-	247,798	-	247,798	-	114,749	-	114,749
Working capital reserve	-	150,000	-	150,000	-	150,000	-	150,000
Endowment (Note 6)	(32,421)	-	1,421,100	1,388,679	(77,356)	-	1,459,420	1,382,064
Total Net Assets	5,739,494	1,770,729	1,421,100	8,931,323	4,641,501	1,952,295	1,459,420	8,053,216
Total Liabilities and Net Assets	\$ 9,188,951	\$ 1,770,729	\$ 1,421,100	\$12,380,780	\$ 9,055,759	\$ 1,952,295	\$ 1,459,420	\$12,467,474

See notes to financial statements.

BALLET HISPANICO OF NEW YORK, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Changes in Net Assets								
Revenue and Operating Support								
Performance income	\$ 914,829	\$ -	\$ -	\$ 914,829	\$ 456,156	\$ -	\$ -	\$ 456,156
Tuition	1,413,444	-	-	1,413,444	1,274,145	-	-	1,274,145
Studio rental income	343,340	-	-	343,340	279,244	-	-	279,244
Endowment spending allocation (Note 6)	46,419	-	-	46,419	45,482	-	-	45,482
Miscellaneous	26,836	-	-	26,836	29,428	-	-	29,428
Contributions								
Government	374,567	-	-	374,567	296,571	-	-	296,571
Foundations (Note 1a)	1,439,506	691,389	-	2,130,895	1,579,896	1,487,249	-	3,067,145
Corporations	295,175	-	-	295,175	288,909	-	-	288,909
Individuals	442,152	249,849	-	692,001	439,061	-	-	439,061
Donated services	-	-	-	-	13,530	-	-	13,530
Fundraising benefits	1,176,772	54,434	-	1,231,206	1,094,243	-	-	1,094,243
Less: Direct fundraising costs	(199,890)	-	-	(199,890)	(161,368)	-	-	(161,368)
	<u>6,273,150</u>	<u>995,672</u>	<u>-</u>	<u>7,268,822</u>	<u>5,635,297</u>	<u>1,487,249</u>	<u>-</u>	<u>7,122,546</u>
Net assets released from restrictions								
Satisfaction of time and program restrictions	1,215,558	(1,215,558)	-	-	364,194	(364,194)	-	-
	<u>7,488,708</u>	<u>(219,886)</u>	<u>-</u>	<u>7,268,822</u>	<u>5,999,491</u>	<u>1,123,055</u>	<u>-</u>	<u>7,122,546</u>
Expenses								
Program Services								
Dance Company	2,351,522	-	-	2,351,522	2,257,690	-	-	2,257,690
School of Dance	1,920,261	-	-	1,920,261	1,898,098	-	-	1,898,098
Community Arts Partnerships	742,502	-	-	742,502	688,031	-	-	688,031
Arnhold Center	223,155	-	-	223,155	-	-	-	-
Total Program Services	<u>5,237,440</u>	<u>-</u>	<u>-</u>	<u>5,237,440</u>	<u>4,843,819</u>	<u>-</u>	<u>-</u>	<u>4,843,819</u>
Supporting Services								
Management and general	560,556	-	-	560,556	486,175	-	-	486,175
Fundraising	637,772	-	-	637,772	563,939	-	-	563,939
Total Supporting Services	<u>1,198,328</u>	<u>-</u>	<u>-</u>	<u>1,198,328</u>	<u>1,050,114</u>	<u>-</u>	<u>-</u>	<u>1,050,114</u>
Total Expenses	<u>6,435,768</u>	<u>-</u>	<u>-</u>	<u>6,435,768</u>	<u>5,893,933</u>	<u>-</u>	<u>-</u>	<u>5,893,933</u>
Increase (Decrease) in Net Assets from Operating Activity	<u>1,052,940</u>	<u>(219,886)</u>	<u>-</u>	<u>833,054</u>	<u>105,558</u>	<u>1,123,055</u>	<u>-</u>	<u>1,228,613</u>
Non-Operating Activity								
Insurance claim from flood damage (Note 12)	-	-	-	-	522,485	-	-	522,485
Loss on flood damage (Note 12)	-	-	-	-	(256,667)	-	-	(256,667)
Net investment income (Note 3)	91,472	-	-	91,472	109,725	-	-	109,725
Reclassification of donor restriction	-	38,320	(38,320)	-	-	-	-	-
Endowment spending allocation (Note 6)	(46,419)	-	-	(46,419)	(45,482)	-	-	(45,482)
Total Non-Operating Activity	<u>45,053</u>	<u>38,320</u>	<u>(38,320)</u>	<u>45,053</u>	<u>330,061</u>	<u>-</u>	<u>-</u>	<u>330,061</u>
Increase (decrease) in net assets	1,097,993	(181,566)	(38,320)	878,107	435,619	1,123,055	-	1,558,674
Net assets, beginning of year	4,641,501	1,952,295	1,459,420	8,053,216	4,205,882	829,240	1,459,420	6,494,542
Net Assets, End of Year	<u>\$ 5,739,494</u>	<u>\$ 1,770,729</u>	<u>\$ 1,421,100</u>	<u>\$8,931,323</u>	<u>\$ 4,641,501</u>	<u>\$ 1,952,295</u>	<u>\$ 1,459,420</u>	<u>\$8,053,216</u>

See notes to financial statements.

BALLET HISPANICO OF NEW YORK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program Services				Supporting Services			Total Expenses	
	Dance Company	School of Dance	Community Arts Partnerships	Arnhold Center	Total	Management and General	Fundraising		Total
Salaries, payroll taxes and employee benefits	\$1,053,872	\$1,138,015	\$ 330,799	\$133,768	\$2,656,454	\$ 420,231	\$ 491,525	\$ 911,756	\$3,568,210
Professional fees	171,063	62,901	133,367	17,628	384,959	33,600	14,500	48,100	433,059
Transportation, lodging and per diems	382,037	12,929	77,061	1,052	473,079	3,126	7,811	10,937	484,016
Advertising, printing and promotion	71,633	28,216	8,311	6,984	115,144	2,163	1,402	3,565	118,709
Production	171,113	34,424	10,158	18,179	233,874	13,084	2,742	15,826	249,700
Office supplies and expenses	31,629	33,226	12,896	4,895	82,646	5,658	36,441	42,099	124,745
Theatre and studio rental	38,048	15,570	-	-	53,618	-	-	-	53,618
Warehouse rental, facility maintenance and utilities	147,824	135,404	84,041	26,447	393,716	42,020	-	42,020	435,736
Interest expense	50,078	42,924	28,616	7,154	128,772	14,307	-	14,307	143,079
Scholarships	-	212,976	-	-	212,976	-	-	-	212,976
Insurance	27,770	15,084	9,520	2,186	54,560	4,760	-	4,760	59,320
Indirect benefit expense	-	-	-	-	-	-	49,503	49,503	49,503
Bank/credit card fees and other expenses	25,108	60,458	10,168	4,862	100,596	3,800	5,791	9,591	110,187
Total expenses before depreciation and amortization	2,170,175	1,792,127	704,937	223,155	4,890,394	542,749	609,715	1,152,464	6,042,858
Depreciation and amortization	181,347	128,134	37,565	-	347,046	17,807	28,057	45,864	392,910
Total Expenses	<u>\$2,351,522</u>	<u>\$1,920,261</u>	<u>\$ 742,502</u>	<u>\$223,155</u>	<u>\$5,237,440</u>	<u>\$ 560,556</u>	<u>\$ 637,772</u>	<u>\$1,198,328</u>	<u>\$6,435,768</u>

See notes to financial statements.

BALLET HISPANICO OF NEW YORK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Program Services				Supporting Services			Total Expenses
	Dance Company	School of Dance	Community Arts Partnerships	Total	Management and General	Fundraising	Total	
Salaries, payroll taxes and employee benefits	\$ 981,912	\$1,084,363	\$ 356,514	\$2,422,789	\$ 370,653	\$ 441,664	\$ 812,317	\$3,235,106
Professional fees	275,962	117,245	71,411	464,618	27,543	17,050	44,593	509,211
Transportation, lodging and per diems	193,918	21,345	88,004	303,267	851	3,965	4,816	308,083
Advertising, printing and promotion	63,316	28,390	2,878	94,584	1,634	2,097	3,731	98,315
Production	193,437	25,080	5,692	224,209	377	765	1,142	225,351
Office supplies and expenses	40,236	51,133	9,871	101,240	5,744	10,621	16,365	117,605
Theatre and studio rental	35,000	16,054	-	51,054	-	-	-	51,054
Warehouse rental, facility maintenance and utilities	194,786	172,542	73,101	440,429	48,695	-	48,695	489,124
Interest expense	53,348	46,680	20,006	120,034	13,337	-	13,337	133,371
Scholarships	-	147,326	-	147,326	-	-	-	147,326
Insurance	24,381	16,473	6,715	47,569	4,477	-	4,477	52,046
Indirect benefit expense	-	-	-	-	-	55,799	55,799	55,799
Bank/credit card fees and other expenses	20,047	43,333	16,274	79,654	3,929	3,921	7,850	87,504
Total expenses before depreciation and amortization	2,076,343	1,769,964	650,466	4,496,773	477,240	535,882	1,013,122	5,509,895
Depreciation and amortization	181,347	128,134	37,565	347,046	8,935	28,057	36,992	384,038
Total Expenses	<u>\$2,257,690</u>	<u>\$1,898,098</u>	<u>\$ 688,031</u>	<u>\$4,843,819</u>	<u>\$ 486,175</u>	<u>\$ 563,939</u>	<u>\$1,050,114</u>	<u>\$5,893,933</u>

See notes to financial statements.

BALLET HISPANICO OF NEW YORK, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 878,107	\$1,558,674
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Bad debt expense	14,378	26,105
Depreciation and amortization	392,910	384,038
Loss from flood (Note 12)	-	256,667
Net realized and unrealized gains	(73,952)	(95,605)
Donated stock	-	(21,479)
Donated equipment	-	(106,524)
(Increase) decrease in:		
Unconditional promises to give	(535,184)	(115,162)
Accounts receivable	23,954	(8,371)
Prepaid expenses and other assets	31,239	46,275
Increase (decrease) in:		
Accounts payable and accrued expenses	(25,950)	50,701
Deferred revenue	787	(17,994)
Net Cash Provided By Operating Activities	<u>706,289</u>	<u>1,957,325</u>
 Cash Flows From Investing Activities		
Acquisition of property and equipment	(104,388)	(330,334)
Purchase of investments	(5,283)	(563)
Sale of investments	23,629	648
Net Cash Used By Investing Activities	<u>(86,042)</u>	<u>(330,249)</u>
 Cash Flows From Financing Activities		
Repayment of line of credit	-	(250,000)
Mortgage and line of credit repayments	(957,089)	(279,999)
Net Cash Used By Financing Activities	<u>(957,089)</u>	<u>(529,999)</u>
 Net increase (decrease) in cash and cash equivalents	(336,842)	1,097,077
Cash and cash equivalents, beginning of year	<u>1,741,963</u>	<u>644,886</u>
 Cash and Cash Equivalents, End of Year	<u><u>\$1,405,121</u></u>	<u><u>\$1,741,963</u></u>
 Supplemental Disclosure		
Interest paid	<u>\$ 143,079</u>	<u>\$ 133,371</u>

See notes to financial statements.

BALLET HISPANICO OF NEW YORK, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2018 AND 2017****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Ballet Hispanico of New York, Inc. (the "Organization") the premier Latino dance organization in the United States for nearly 50 years, brings individuals and communities together to celebrate and explore Latino cultures through dance. Whether dancing on stage, in school, or in the street, Ballet Hispanico creates a space where few institutions are breaking ground.

The Organization's founder, National Medal of Arts recipient Tina Ramirez, sought to give voice to the Hispanic experience and break through stereotypes. Today, Ballet Hispanico is led by Eduardo Vilaro, an acclaimed choreographer and former member of the Company, whose vision of social equity, cultural identity and quality arts education for all drives its programs.

Ballet Hispanico, a role model in and for the Latino community, is inspiring creativity and social awareness in our neighborhoods and across the country by providing access to arts education.

For the year ended June 30, 2017, 44% of the Organization's contributions came from a foundation.

During the year ended June 30, 2015, the Organization was awarded grants from two foundations, aggregating \$4,500,000, primarily for the purpose of building the Organization's administrative staff capacity and strengthen its administrative infrastructure. \$1,000,000 of these grants was received during the year ended June 30, 2018, \$2,400,000 of these grants was received during the year ended June 30, 2017 and \$1,000,000 of these grants was received during the year ended June 30, 2015, and recognized as income in the financial statements in the year received. The balance, \$100,000, will be recognized as income as the conditions are met.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all short-term highly liquid investments, such as money market funds, to be cash equivalents.

c - Contributions and Unconditional Promises to Give

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.

BALLET HISPANICO OF NEW YORK, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2018 AND 2017****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****d - Investments**

The Organization reflects investments at fair value in the statement of financial position. Interest, dividends, and gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Gains and other investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted net assets if the restrictions are met in the same fiscal year in which the gains and other investment income are recognized.

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-based measurement. Generally accepted accounting principles establish a framework for measuring fair value which maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are those the market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset developed based on the best information available in the circumstances.

Fair value measurements are categorized into three levels as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs that are 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. All of the Organization's investments are classified as Level 1.

BALLET HISPANICO OF NEW YORK, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2018 AND 2017****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****e - Property and Equipment and Capitalized Financing Costs**

Property and equipment acquired are recorded at cost and are depreciated using the straight-line method over the estimated useful life of the related asset. Costs incurred in connection with the refinancing of the Organization's long-term obligation have been capitalized and are being amortized on a straight-line basis over the life of the loan.

f - Advertising

Advertising costs are charged to operations when the advertising first takes place.

g - Financial Statement Presentation

The Organization is required to report 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.

h - Estimates

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

i - Tax Status

Ballet Hispanico of New York, 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.

j - Subsequent Events

The Organization has evaluated subsequent events through October 12, 2018, the date that the financial statements are considered available to be issued.

Note 2 - Restrictions on Net Assets**a - Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of amounts that are restricted for future programs and future years. Temporarily restricted net assets include a cash reserve fund of \$247,798 and working capital reserve fund of \$150,000.

b - Permanently Restricted Net Assets

The Organization's endowment funds were \$1,421,100 and \$1,459,420 at June 30, 2018 and 2017, respectively.

BALLET HISPANICO OF NEW YORK, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 3 - Investments

Investments, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2018</u>		<u>2017</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Common stocks	\$ -	\$ -	\$ 21,479	\$ 21,479
Mutual index and equity funds	<u>780,613</u>	<u>336,526</u>	<u>703,528</u>	<u>333,404</u>
	<u>\$780,613</u>	<u>\$336,526</u>	<u>\$725,007</u>	<u>\$354,883</u>

Net investment income consists of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$17,520	\$ 14,120
Net realized gain (loss)	(11)	58
Net unrealized gain	<u>73,963</u>	<u>95,547</u>
	<u>\$91,472</u>	<u>\$109,725</u>

Note 4 - Concentration of Credit Risk

The Organization maintains its cash and cash equivalents in bank accounts and money market funds, which at times may exceed federally insured limits.

Note 5 - Unconditional Promises to Give

Pledges receivable are due as follows:

	<u>2018</u>	<u>2017</u>
Due within one year	\$657,494	\$373,748
Due within one to four years	<u>270,000</u>	<u>-</u>
	927,494	373,748
Less: Discount to present value	<u>(18,762)</u>	<u>-</u>
	<u>\$908,732</u>	<u>\$373,748</u>

At June 30, 2018, approximately 77% of the Organization's unconditional promises to give are from two foundations and one individual.

BALLET HISPANICO OF NEW YORK, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 5 - Unconditional Promises to Give (continued)

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

Note 6 - Endowment Fund

The Organization's endowment funds are donor-restricted endowment funds and are described in Note 2b. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Consistent with New York State Not-for-Profit Corporation Law and the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), 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 any applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with NYPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (i) the duration and preservation of the endowment fund;
- (ii) the purposes of the Organization and the endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of the Organization;
- (vii) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Organization; and
- (viii) the investment policy of the Organization

The Organization's endowment fund net asset classification is summarized as follows at June 30:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds, 2018	<u>\$(32,421)</u>	<u>\$1,421,100</u>	<u>\$1,388,679</u>
Donor-restricted endowment funds, 2017	<u>\$(77,356)</u>	<u>\$1,459,420</u>	<u>\$1,382,064</u>

BALLET HISPANICO OF NEW YORK, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 6 - Endowment Fund (continued)

Changes in the Organization's endowment fund for the years ended June 30, 2018 and 2017 are summarized as follows:

	2018		
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	<u>\$(77,356)</u>	<u>\$1,459,420</u>	<u>\$1,382,064</u>
Reclassification of donor restrictions	<u>-</u>	<u>(38,320)</u>	<u>(38,320)</u>
Net Investment Return:			
Investment income	17,402	-	17,402
Net realized and unrealized gain	<u>73,952</u>	<u>-</u>	<u>73,952</u>
Total Net Investment Return	<u>91,354</u>	<u>-</u>	<u>91,354</u>
Appropriation of endowment assets for expenditure	<u>(46,419)</u>	<u>-</u>	<u>(46,419)</u>
Endowment Funds, End of Year	<u>\$(32,421)</u>	<u>\$1,421,100</u>	<u>\$1,388,679</u>
	2017		
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	<u>\$(140,980)</u>	<u>\$1,459,420</u>	<u>\$1,318,440</u>
Net Investment Return:			
Investment income	13,705	-	13,705
Net realized and unrealized gain	<u>95,401</u>	<u>-</u>	<u>95,401</u>
Total Net Investment Return	<u>109,106</u>	<u>-</u>	<u>109,106</u>
Appropriation of endowment assets for expenditure	<u>(45,482)</u>	<u>-</u>	<u>(45,482)</u>
Endowment Funds, End of Year	<u>\$ (77,356)</u>	<u>\$1,459,420</u>	<u>\$1,382,064</u>

The fair value of assets associated with an individual donor-restricted endowment fund may fall below the level required to be retained as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$32,421 and \$77,356 as of June 30, 2018 and 2017, respectively. This deficiency resulted from prior years' excess spending of endowment funds.

BALLET HISPANICO OF NEW YORK, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 6 - Endowment Fund (continued)

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to support programs 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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that keep pace with the market return of the asset classes invested while assuming an acceptable level of risk. The Organization expects its endowment funds, over time, to provide an average return to support an increasing demand for its programs and services.

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 that maintains a balance between equity-based and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy of appropriating for distribution each year at least 5%, but not more than 6% of the average fair value of endowment funds over the prior three fiscal years that precedes the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment to maintain the purchasing power of the assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Note 7 - Property and Equipment and Capitalized Financing Cost

Property and equipment consist of the following:

	<u>Life</u>	<u>2018</u>	<u>2017</u>
Building and improvements	10-40 years	\$ 3,798,528	\$ 3,695,740
Condominium - Cocodrilo Development Corporation	40 years	9,715,751	9,715,751
Capitalized financing cost	20 years	61,496	61,496
Furniture, fixtures and equipment	3-10 years	<u>610,324</u>	<u>608,724</u>
		14,186,099	14,081,711
Less: Accumulated depreciation and amortization		<u>(5,012,183)</u>	<u>(4,619,273)</u>
		<u>\$ 9,173,916</u>	<u>\$ 9,462,438</u>

BALLET HISPANICO OF NEW YORK, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2018 AND 2017****Note 7 - Property and Equipment and Capitalized Financing Cost (continued)**

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$392,910 and \$384,038, respectively.

During the year ended June 30, 2017, The City of New York spent \$106,524 for capital appropriations relating to the Organization's dance facilities. The City's investment of capital funding obligated the Organization to operate the facility and/or maintain equipment as a non-profit entity, open to be used and maintained for the benefit of the people of the City of New York for cultural, educational or artistic uses and/or related purposes approved by the City.

Note 8 - Line of Credit

Ballet Hispanico has a revolving line of credit with JPMorgan Chase of \$250,000. Interest is based on the prime rate plus 1.150%. At June 30, 2018 and 2017, there were no borrowings from the line of credit. Interest expense for the years ended June 30, 2017 was \$3,799.

Note 9 - Mortgage Payable

In August of 2002, Ballet Hispanico began work on the acquisition and development of the vacant plot of land, which lay adjacent to its current building. On August 4, 2003, Ballet Hispanico entered into an agreement with the Stephen Gaynor School to form a not-for-profit development entity, Cocodrilo Development Corporation, to purchase the property and build a ten-story, 50,000 square feet building; the property was purchased on December 23, 2003. The building was completed in the summer of 2006, and as agreed with the School, Ballet Hispanico acquired 12,500 square feet on the top three floors for a project cost of \$9,652,629. On June 29, 2007, Cocodrilo Development Corporation, on behalf of Ballet Hispanico, closed on its permanent financing with a mortgage in the amount of \$5,676,000 from the North Fork Bank, replacing the interim construction loan secured by the Gaynor School. The interest on the construction loan was included as part of the acquisition and development costs.

Under the terms of the mortgage, Ballet Hispanico was obligated to make monthly payments of \$41,385, applied first to interest at the rate of 7.24%, and the balance to principal, through July 1, 2012, the maturity date.

BALLET HISPANICO OF NEW YORK, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2018 AND 2017****Note 9 - Mortgage Payable (continued)**

On April 23, 2012, the Cocodrilo Development Corporation refinanced the mortgage with Chase Bank and borrowed an additional \$344,144. The mortgage requires monthly principal payments of \$23,333, plus interest at the LIBOR rate plus 2.4%, through its maturity on April 23, 2032.

On June 18, 2018, the Cocodrilo Development Corporation refinanced the mortgage with Chase Bank. The mortgage requires monthly principal payments of \$17,942, plus a fixed interest rate at 4%, through its maturity on May 18, 2032. The mortgage may be prepaid in whole or in part with a prepayment penalty. The Gaynor School and Cocodrilo Development Corporation are required to maintain a minimum Consolidated Debt Service Coverage ratio as defined in the mortgage agreement.

Interest expense for the years ended June 30, 2018 and 2017 was \$143,079 and \$129,493, respectively.

Note 10 - Commitment and Contingency

Government supported projects are subject to audit by the applicable government granting agency.

Note 11 - Retirement Plan

a - The Organization has a voluntary salary reduction tax deferred annuity plan for the benefit of all qualifying employees under Section 403(b) of the IRC (Internal Revenue Code). The Organization matches the employee's contributions up to 1% of their gross salaries. Contributions to the plan were \$18,756 and \$14,356 for the years ended June 30, 2018 and 2017, respectively.

b - During the year ended June 30, 2018, the Organization adopted a deferred compensation (Sec. 457(b)) plan for eligible employees. The assets of this plan remain the property of the Organization until distributed to the employee or their beneficiary at retirement or severance from employment. At June 30, 2018, \$17,451 of deferred compensation is included in prepaid and other assets and accounts payable and accrued expenses in the accompanying Statement of Financial Position.

BALLET HISPANICO OF NEW YORK, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2018 AND 2017****Note 12 - Flood Income and Losses**

The Organization lost costumes, props, sets and lighting equipment when a flood devastated the Organization's facilities on August 29, 2016. The Organization also incurred structural damages to its facilities. During the year ended June 30, 2017, the Organization received \$522,485 of proceeds and wrote off property and equipment with a net book value of \$256,667.

Note 13 - Functional Allocation of Expenses

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