

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE
ASSOCIATION

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION

AND

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2005 AND 2004

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION

NASHVILLE, TENNESSEE

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AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2005 AND 2004

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Nashville Academy Theatre and
Nashville Children's Theatre Association
Nashville, Tennessee

We have audited the accompanying balance sheets of the Nashville Academy Theatre and Nashville Children's Theatre Association, a Tennessee not-for-profit corporation (the "Academy"), as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Academy's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nashville Academy Theatre and Nashville Children's Theatre Association at June 30, 2005 and 2004, 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KraftCPAs PLLC

Nashville, Tennessee
August 8, 2005

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION

BALANCE SHEETS

JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 31,946	\$ 118,401
Accounts receivable	21,412	38,824
Prepaid expenses and other	<u>16,008</u>	<u>1,179</u>
TOTAL CURRENT ASSETS	69,366	158,404
INVESTMENTS - Note 2	147,875	137,723
PROPERTY AND EQUIPMENT - at cost, less accumulated depreciation of: 2005 - \$521,933; 2004 - \$510,551 - Note 3	177,378	178,751
BENEFICIAL INTEREST IN AGENCY ENDOWMENT FUND HELD BY COMMUNITY FOUNDATION OF MIDDLE TENNESSEE - Note 9	<u>124,573</u>	<u>120,756</u>
TOTAL ASSETS	<u>\$ 519,192</u>	<u>\$ 595,634</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 1,156	\$ 10,912
Accrued expenses	20,766	21,954
Deferred revenues	<u>34,121</u>	<u>30,460</u>
TOTAL CURRENT LIABILITIES	<u>56,043</u>	<u>63,326</u>
COMMITMENTS AND CONTINGENCIES - Notes 6, 7 and 11		
NET ASSETS		
Unrestricted:		
Designated for beneficial interest in agency endowment fund - Note 9	124,573	120,756
Board designated - Note 10	-	889
Undesignated	<u>338,576</u>	<u>410,663</u>
TOTAL NET ASSETS	<u>463,149</u>	<u>532,308</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 519,192</u>	<u>\$ 595,634</u>

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

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005			2004		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUES AND SUPPORT						
Admissions	\$ 288,000	\$ -	\$ 288,000	\$ 395,188	\$ -	\$ 395,188
Dividends and interest	6,403	-	6,403	4,152	-	4,152
Theatre academy	79,850	-	79,850	66,259	-	66,259
Gain (loss) on investments	3,907	-	3,907	2,168	-	2,168
Change in value of beneficial interest in agency endowment fund held by Community Foundation of Middle Tennessee - Note 9	10,049	-	10,049	16,554	-	16,554
Contributions	151,469	-	151,469	138,234	-	138,234
Donated facilities	126,000	-	126,000	126,000	-	126,000
Donated goods and services	-	-	-	40,965	-	40,965
Government grants	198,000	-	198,000	185,409	-	185,409
Benefit events (less expenses of: 2005 - \$28,835; 2004 - \$24,697)	56,186	-	56,186	46,999	-	46,999
Capital campaign - Note 12	-	5,000	5,000	-	-	-
Other	12,825	-	12,825	24,657	-	24,657
Net assets released from restrictions	5,000	(5,000)	-	-	-	-
TOTAL REVENUE AND SUPPORT	937,689	-	937,689	1,046,585	-	1,046,585
COSTS AND EXPENSES						
Production costs	691,826	-	691,826	734,501	-	734,501
Educational expenses	186,536	-	186,536	185,940	-	185,940
General and administrative expenses	84,375	-	84,375	84,184	-	84,184
Fundraising expenses	34,868	-	34,868	34,000	-	34,000
Capital campaign expenses - Note 12	9,243	-	9,243	-	-	-
TOTAL COSTS AND EXPENSES	1,006,848	-	1,006,848	1,038,625	-	1,038,625
INCREASE (DECREASE) IN NET ASSETS	(69,159)	-	(69,159)	7,960	-	7,960
NET ASSETS - BEGINNING OF YEAR	532,308	-	532,308	524,348	-	524,348
NET ASSETS - END OF YEAR	\$ 463,149	\$ -	\$ 463,149	\$ 532,308	\$ -	\$ 532,308

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

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (69,159)	\$ 7,960
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	25,503	26,149
(Gain) loss on investments	(3,907)	(2,168)
Change in value of beneficial interest in agency endowment fund	(10,049)	(16,554)
(Increase) decrease in:		
Accounts receivable	17,412	(33,550)
Prepaid expenses and other	(14,829)	(857)
Deposit	-	12,842
Increase (decrease) in:		
Accounts payable	(9,756)	8,464
Accrued expenses	(1,188)	1,202
Deferred revenues	<u>3,661</u>	<u>(822)</u>
Total adjustments	<u>6,847</u>	<u>(5,294)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(62,312)</u>	<u>2,666</u>
INVESTING ACTIVITIES		
Additions to property and equipment	(24,130)	(20,218)
Proceeds from sale of investments	73,258	107,769
Purchase of investments	(79,503)	(111,772)
Distributions from agency endowment fund	<u>6,232</u>	<u>5,500</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(24,143)</u>	<u>(18,721)</u>
NET DECREASE IN CASH	(86,455)	(16,055)
CASH - BEGINNING OF YEAR	<u>118,401</u>	<u>134,456</u>
CASH - END OF YEAR	<u>\$ 31,946</u>	<u>\$ 118,401</u>

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

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Nashville Academy Theatre and Nashville Children's Theatre Association, a Tennessee not-for-profit corporation (the "Academy"), is a professional theatre for young audiences of Nashville, the surrounding communities and adjacent states. In addition to theatre presentations, the Academy provides young people with opportunities for education, experience and participation in theatre arts through drama classes. Funding for the Academy is provided principally by admissions, public and private contributions, and government grants.

The Academy conducts business as the "Nashville Children's Theatre."

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation

The financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Contributions and support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Other current funds are reported as revenue in the period received or accrued. Theatre academy revenues received in advance are reported as deferred revenues and recognized in the year earned.

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are stated at current market value based on the last reported sale price on the last business day of the period. Realized and unrealized gains and losses on investments are recognized in current period operations.

Property and equipment

Building improvements and theatre equipment are stated at cost (or fair market value at date of gift, if donated, with a corresponding credit to contributions). Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

Agency endowment fund

The Academy's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee is recognized as an asset. Investment income and changes in the value of the fund are recognized in the statement of activities, and distributions received from the fund are recorded as decreases in the beneficial interest.

Income tax status

The Academy is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, federal income taxes are not provided for in the accompanying financial statements.

In-kind donations

The Academy occupies certain premises owned by the Metropolitan Government of Nashville and Davidson County. The estimated fair rental value of the facility is recognized as support and rent expense. There were also certain goods and services donated to the Academy each year, which have been recognized at their fair value.

A number of unpaid volunteers contribute their time to assist in the Academy's operation. The value of these services is not recognized in the financial statements since the requirements for recognition are not met.

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Vacation leave

Accruals for accumulated unpaid vacation have been provided for. No accrual is made for accumulated sick leave, since such benefits do not vest.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity benefited based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by the Academy's management.

NOTE 2 - INVESTMENTS

Investments consist of the following as of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Liquid asset accounts	\$ 10,550	\$ 7,351
Mutual funds	<u>137,325</u>	<u>130,372</u>
	<u>\$ 147,875</u>	<u>\$ 137,723</u>

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Building improvements	\$ 398,266	\$ 389,714
Theatre equipment	<u>301,046</u>	<u>299,588</u>
	699,312	689,302
Less accumulated depreciation	<u>521,934</u>	<u>510,551</u>
	<u>\$ 177,378</u>	<u>\$ 178,751</u>

Depreciation expense totals \$25,503 in 2005 (\$26,149 in 2004). The general range of useful lives is 10 to 25 years for improvements and 5 to 20 years for equipment. Fully depreciated assets had an original cost totaling approximately \$383,000 in 2005 (\$317,000 in 2004).

NOTE 4 - DEPOSIT

In July 1998, the Academy entered into an agreement with an actors union, which bound the Academy to certain contractual arrangements with production employees regarding salary, benefits, and other personnel related matters. The Academy was also required to place \$9,776 on deposit with the union, to be held in a non-interest-bearing escrow account, to cover severance payroll in the event the Academy is ever unable to meet its obligations to union members. In 2002, the Academy was required to place an additional \$3,066 on deposit with the union, for a total deposit of \$12,842. In 2004, the full amount of the deposit was refunded to the Academy. Therefore, there is no deposit balance at June 30, 2005 or 2004.

NOTE 5 - LINE OF CREDIT

The Academy has a maximum \$100,000 unsecured line of credit arrangement with a bank. Interest on outstanding borrowings is payable monthly at the Eurodollar Daily Floating Rate plus 1.75 percent, per annum. No borrowings on the line were outstanding at June 30, 2005 or 2004. The arrangement expires February 1, 2006.

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 6 - CONTINGENCIES

The Academy receives support from state and local governments. In the event of a significant reduction in the level of this support, the Academy's programs and activities could be affected. In addition, funding received by the Academy from governmental agencies is subject to audit and retroactive adjustment. In management's opinion, no provision for audit or retroactive adjustment is considered necessary.

NOTE 7 - LEASES

The Academy is lessee under a noncancelable operating lease for certain equipment. Total rental expense incurred under the lease was \$3,884 for 2005 (\$3,431 for 2004). Future minimum payments required under the lease, which runs through November 1, 2006, amount to \$3,680 as of June 30, 2005.

The building occupied by the Academy is leased through the year 2018 from the Metropolitan Board of Parks and Recreation of the Metropolitan Government of Nashville and Davidson County for one dollar per year. The lease includes three five-year extension terms. An in-kind contribution and rent expense in the amount of \$126,000, the estimated fair rental value of the facility, have been recognized for the years ended June 30, 2005 and 2004.

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Academy sponsors a Simplified Employee Pension Plan under Internal Revenue Code §403(b). The plan allows all employees over the age of twenty-one to participate. The Academy makes discretionary contributions based on a uniform contribution allocation formula. Participant salary reduction contributions are not permitted by the plan; however, participants may make self-directed contributions to their account. The amount of the Academy's contributions to a participant's account for any plan year may not exceed the lesser of 15% of the participant's salary or \$35,000. Total contributions to the plan by the Academy for the year ended June 30, 2005, were \$13,263 (\$13,823 for the year ended June 30, 2004).

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 9 - AGENCY ENDOWMENT FUND

The Academy has a beneficial interest in the Nashville Children's Theatre Agency Endowment Fund held by the Community Foundation of Middle Tennessee (the "Community Foundation"). Earnings on this fund are used to support professional theatre for young audiences in the Middle Tennessee area. The Academy has granted variance power to the Community Foundation, and the Community Foundation has the ultimate authority and control over the Fund and the income derived therefrom. The fund is charged a .4% administrative fee annually. Upon request by the Academy, income from the Fund representing a 5% annual return may be distributed to the Academy or to another suggested beneficiary.

A schedule of changes in the Academy's beneficial interest in this fund for the years ended June 30, 2005 and 2004, follows:

	<u>2005</u>	<u>2004</u>
Balance - beginning of year	\$ 120,756	\$ 109,702
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	-	-
Investment income (loss)	10,887	17,352
Administrative expenses	<u>(838)</u>	<u>(798)</u>
	10,049	16,554
Distributions to the Academy	<u>(6,232)</u>	<u>(5,500)</u>
Balance - end of year	<u>\$ 124,573</u>	<u>\$ 120,756</u>

NOTE 10 - BOARD DESIGNATED NET ASSETS

The Board of Directors has designated a portion of the Academy's unrestricted net assets to be used for future scholarships. At June 30, 2005 and 2004, the balance so designated amounted to \$-0- and \$889, respectively.

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Academy to concentrations of credit risk consist principally of cash and investments. The Academy maintains cash accounts with two financial institutions. Accounts at the financial institutions are insured by the Federal Deposit Insurance Corporation or the Security Investors Protection Corporation up to \$100,000 or \$500,000, respectively. Balances per bank in excess of applicable insurance limits totaled \$-0- at June 30, 2005 (\$37,518 at June 30, 2004). Management considers bank balances in excess of FDIC limits to be a normal business risk, mitigated by the underlying quality of the financial institutions used by the Academy.

NOTE 12 - CAPITAL CAMPAIGN

During 2005, the Academy began a capital campaign to raise funds for a redesign of the campus. The redesign is necessary because Metro is turning the entrance of the theatre into a greenway. Total estimated cost of the redesign is approximately \$4.4 million dollars, of which the Academy's capital campaign goal is to raise \$3 million.

ADDITIONAL INFORMATION

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION

SCHEDULES OF COSTS AND EXPENSES

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
PRODUCTION COSTS		
Salaries	\$ 356,907	\$ 365,740
Fringe benefits	92,701	94,181
Rent	75,600	75,600
Royalties	16,441	28,066
Scenery/shop	8,001	10,959
Costumes	4,974	5,964
Scripts	377	480
Lighting	1,797	2,404
Properties/special effects	417	2,217
Sound/music	2,335	1,235
Production records	-	185
Tour	203	194
Conferences/membership	2,164	3,857
Other artistic expenses	15,963	16,152
Property and casualty insurance	17,789	16,437
Office equipment-maintenance	437	634
Office equipment-rental	2,331	2,059
Plant equipment-maintenance	8,886	6,205
Professional fees	5,460	7,658
Ticket printing	670	600
Depreciation	15,302	15,689
Season brochures/programs	11,401	17,635
Production marketing	29,796	10,729
Utilities	21,874	20,945
Donated goods and services	-	28,676
	<u>691,826</u>	<u>734,501</u>
TOTAL PRODUCTION COSTS		
EDUCATIONAL EXPENSES		
Salaries	76,697	71,822
Fringe benefits	13,461	13,177
Academy	542	172
Study guides	1,835	2,067
Property casualty insurance	8,894	8,218

(Continued on next page)

NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION

SCHEDULES OF COSTS AND EXPENSES (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
EDUCATIONAL EXPENSES (CONTINUED)		
Rent	\$ 37,800	\$ 37,800
Office equipment-maintenance	219	367
Office equipment-rental	1,165	1,029
Plant equipment-maintenance	4,443	3,103
Professional fees	2,730	3,829
Conferences and memberships	1,092	1,194
Depreciation	7,651	7,844
Other education expenses	7,360	7,111
Utilities	10,937	10,473
Education marketing	11,710	5,444
Donated goods and services	-	12,290
TOTAL EDUCATIONAL EXPENSES	<u>186,536</u>	<u>185,940</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries	46,194	49,736
Fringe benefits	8,946	8,765
Rent	12,600	12,600
Depreciation	2,550	2,615
Property casualty insurance	2,965	2,740
Office equipment-maintenance	73	73
Office equipment-rental	388	343
Plant equipment-maintenance	1,481	1,034
Professional fees	910	1,276
Conferences and memberships	357	358
Hospitality	202	286
Utilities	3,646	3,491
Interest on loan	863	27
Miscellaneous	3,200	840
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>84,375</u>	<u>84,184</u>
FUNDRAISING EXPENSES		
Salaries	26,581	24,831
Fringe benefits	5,019	4,584
Annual appeal	80	1,427
Corporate solicitation	22	140
Foundation solicitation	354	478
Other events	1,314	-
Publications/dues	195	-
Hospitality	511	257
Miscellaneous	792	2,283
TOTAL FUNDRAISING EXPENSES	<u>34,868</u>	<u>34,000</u>
CAPITAL CAMPAIGN EXPENSES	<u>9,243</u>	<u>-</u>
TOTAL COSTS AND EXPENSES	<u>\$ 1,006,848</u>	<u>\$ 1,038,625</u>