

NASHVILLE BALLET  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
MAY 31, 2014 AND 2013

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Nashville Ballet  
Nashville, Tennessee

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Nashville Ballet (the "Ballet") which comprise the statements of financial position as of May 31, 2014 and 2013, 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 of material misstatement, whether due to fraud or error.

### AUDITOR'S 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 auditor's 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 Nashville Ballet as of May 31, 2014 and 2013, 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.

Kreft CPAs PLLC

Nashville, Tennessee  
September 16, 2014

NASHVILLE BALLET  
STATEMENTS OF FINANCIAL POSITION  
MAY 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Cash and cash equivalents:		
Operations	\$ 610,331	\$ 549,856
Capital campaign	569,655	-
Accounts receivable	78,260	25,313
Grants receivable	95,900	85,260
Contributions receivable - other, net	530,001	31,747
Capital campaign contributions receivable, net	1,944,069	826,804
Investments	576,333	542,606
Prepaid expenses and other	114,537	55,814
Property and equipment, net	4,010,434	3,858,730
Cash surrender value of donated life insurance policy	140,218	129,153
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>67,253</u>	<u>61,606</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 8,736,991</u></u>	<u><u>\$ 6,166,889</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
<b>LIABILITIES</b>		
Accounts payable	\$ 47,783	\$ 44,512
Payroll liabilities	77,764	79,506
Deferred revenue	745,146	523,497
Note payable	<u>1,649,448</u>	<u>1,714,844</u>
<b>TOTAL LIABILITIES</b>	<u>2,520,141</u>	<u>2,362,359</u>
<b>NET ASSETS</b>		
Unrestricted:		
Board designated	2,733,664	1,241,845
Invested in property and equipment, less related debt	2,360,986	2,143,886
Undesignated (deficit)	<u>(171,889)</u>	<u>(152,734)</u>
Total unrestricted	4,922,761	3,232,997
Temporarily restricted	1,159,624	441,318
Permanently restricted	<u>134,465</u>	<u>130,215</u>
<b>TOTAL NET ASSETS</b>	<u>6,216,850</u>	<u>3,804,530</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 8,736,991</u></u>	<u><u>\$ 6,166,889</u></u>

See accompanying notes to financial statements.

NASHVILLE BALLET

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED MAY 31, 2014 AND 2013

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Season ticket sales	\$ 173,280	\$ -	\$ -	\$ 173,280
Single and group ticket sales	1,012,802	-	-	1,012,802
Rentals and touring	37,081	-	-	37,081
Outreach	23,938	-	-	23,938
School tuition	1,092,676	-	-	1,092,676
Public Support:				
Grants	243,500	-	-	243,500
Capital campaign contributions	1,972,527	206,901	-	2,179,428
Individual contributions	334,493	11,065	4,250	349,808
Corporate and foundation contributions	597,552	543,000	-	1,140,552
Contributions from the Community Foundation of Middle Tennessee	210,830	-	-	210,830
Ballet Ball revenue	371,491	-	-	371,491
Friends support and benefits	17,579	-	-	17,579
Donated goods and services	120,332	-	-	120,332
Investment income	37,075	13,573	-	50,648
Property rental income	90,000	-	-	90,000
Miscellaneous	55,655	-	-	55,655
Net assets released from restrictions	56,233	(56,233)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>6,447,044</b>	<b>718,306</b>	<b>4,250</b>	<b>7,169,600</b>
<b>EXPENSES</b>				
Program services	3,973,894	-	-	3,973,894
Supporting services:				
Management and general	162,592	-	-	162,592
Fundraising	620,794	-	-	620,794
<b>TOTAL EXPENSES</b>	<b>4,757,280</b>	<b>-</b>	<b>-</b>	<b>4,757,280</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,689,764</b>	<b>718,306</b>	<b>4,250</b>	<b>2,412,320</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>3,232,997</b>	<b>441,318</b>	<b>130,215</b>	<b>3,804,530</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 4,922,761</b>	<b>\$ 1,159,624</b>	<b>\$ 134,465</b>	<b>\$ 6,216,850</b>

See accompanying notes to financial statements.

2013

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 209,261	\$ -	\$ -	\$ 209,261
967,301	-	-	967,301
91,449	-	-	91,449
27,927	-	-	27,927
897,202	-	-	897,202
253,250	-	-	253,250
1,029,804	-	-	1,029,804
253,990	31,362	54,875	340,227
591,714	10,400	-	602,114
203,690	-	-	203,690
404,450	-	-	404,450
31,280	-	-	31,280
139,517	-	-	139,517
47,662	11,401	-	59,063
46,000	-	-	46,000
28,433	-	-	28,433
48,489	(48,489)	-	-
5,271,419	4,674	54,875	5,330,968
3,717,943	-	-	3,717,943
151,143	-	-	151,143
601,743	-	-	601,743
4,470,829	-	-	4,470,829
800,590	4,674	54,875	860,139
2,432,407	436,644	75,340	2,944,391
<u>\$ 3,232,997</u>	<u>\$ 441,318</u>	<u>\$ 130,215</u>	<u>\$ 3,804,530</u>

NASHVILLE BALLET

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED MAY 31, 2014 AND 2013

	2014				
	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 1,824,753	\$ 139,094	\$ 283,315	\$ 422,409	\$ 2,247,162
Artist fees, licenses and royalties	557,466	-	728	728	558,194
Theatre and production	314,026	-	12	12	314,038
Professional and contract services	34,788	1,683	29,972	31,655	66,443
Advertising	339,336	65	10,886	10,951	350,287
Communication	4,835	261	532	793	5,628
Occupancy and housing	232,436	5,080	16,583	21,663	254,099
Interest	37,580	2,864	7,782	10,646	48,226
Equipment and supplies	85,225	1,803	9,231	11,034	96,259
Events	29	-	198,498	198,498	198,527
Travel	68,313	759	1,770	2,529	70,842
Insurance	27,897	2,122	9,322	11,444	39,341
Staff development and community involvement	26,258	330	8,006	8,336	34,594
Depreciation	254,115	7,912	16,115	24,027	278,142
Miscellaneous	2,465	163	392	555	3,020
Bank and ticket fees	164,372	456	27,650	28,106	192,478
<b>TOTAL EXPENSES</b>	<u>\$ 3,973,894</u>	<u>\$ 162,592</u>	<u>\$ 620,794</u>	<u>\$ 783,386</u>	<u>\$ 4,757,280</u>

See accompanying notes to financial statements.



2013

Program Services	Supporting Services			Total
	Management and General	Fundraising	Total Supporting Services	
\$ 1,743,299	\$ 120,457	\$ 202,776	\$ 323,233	\$ 2,066,532
405,892	-	510	510	406,402
356,391	35	161	196	356,587
53,408	2,039	83,206	85,245	138,653
319,484	129	30,377	30,506	349,990
4,996	254	428	682	5,678
222,246	4,030	8,889	12,919	235,165
26,140	1,806	3,349	5,155	31,295
66,168	11,497	6,701	18,198	84,366
915	8	181,696	181,704	182,619
85,981	493	2,901	3,394	89,375
27,219	1,812	8,051	9,863	37,082
37,644	1,679	11,840	13,519	51,163
231,739	6,294	10,594	16,888	248,627
683	8	13	21	704
135,738	602	50,251	50,853	186,591
<u>\$ 3,717,943</u>	<u>\$ 151,143</u>	<u>\$ 601,743</u>	<u>\$ 752,886</u>	<u>\$ 4,470,829</u>

NASHVILLE BALLET

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MAY 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 2,412,320	\$ 860,139
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	278,142	248,627
Realized and unrealized gains on investments	(31,925)	(42,755)
Change in value of beneficial interest in agency endowment fund	(5,647)	(4,139)
Contributions for capital campaign	(2,179,428)	(1,029,804)
Contributions - permanently restricted	(4,250)	(54,875)
(Increase) decrease in:		
Grants receivable	(10,640)	13,180
Contributions receivable	(498,254)	39,606
Accounts receivable	(52,947)	(7,789)
Prepaid expenses and other	(58,723)	(18,351)
Cash surrender value of donated life insurance policy	(11,065)	(10,841)
Increase (decrease) in:		
Accounts payable	3,271	17,131
Payroll liabilities	(1,742)	(943)
Deferred revenue	221,649	113,328
TOTAL ADJUSTMENTS	<u>(2,351,559)</u>	<u>(737,625)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>60,761</u>	<u>122,514</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(432,380)	(111,590)
Proceeds from sale of property and equipment	2,534	-
Proceeds from sale of investments	16,046	4,923
Purchases of investments	(17,848)	(130,909)
NET CASH USED IN INVESTING ACTIVITIES	<u>(431,648)</u>	<u>(237,576)</u>
FINANCING ACTIVITIES		
Collections for capital campaign	1,062,163	203,000
Principal payments on notes payable	(65,396)	(35,386)
Proceeds from contributions restricted for permanent endowment	4,250	54,875
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,001,017</u>	<u>222,489</u>
INCREASE IN CASH AND CASH EQUIVALENTS	630,130	107,427
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>549,856</u>	<u>442,429</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,179,986</u>	<u>\$ 549,856</u>

(Continued on next page)

See accompanying notes to financial statements.

NASHVILLE BALLET

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED MAY 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OTHER CASH FLOW DISCLOSURES:		
Interest expense paid during the year	<u>\$ 48,226</u>	<u>\$ 31,295</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase price of new facility and closing costs	\$ -	\$ 1,532,171
Less: escrow payment and other adjustments at closing	-	(65,662)
Less: proceeds of mortgage loan from bank, net of payoff of previous loan balance of \$247,061	<u>-</u>	<u>(1,502,939)</u>
Net cash received at closing	<u>\$ -</u>	<u>\$ (36,430)</u>

See accompanying notes to financial statements.

NASHVILLE BALLET  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Nashville Ballet (the "Ballet") was incorporated in 1986 as a Tennessee not-for-profit corporation. The Ballet's mission is to create, perform, teach and promote dance as an essential and inspiring element of our community. The Ballet presents classical and contemporary works by new and renowned choreographers and is a resident group of the Tennessee Performing Arts Center. The Ballet regularly collaborates with other arts organizations to promote community cultural enrichment. The School of Nashville Ballet trains dancers ages two to adult and Nashville Ballet's second company engages more than 30,000 Middle Tennesseans every year through education and community engagement programming.

Basis of Presentation

The accompanying financial statements present the financial position and change in net assets of the Ballet on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Resources are classified as unrestricted, temporarily restricted, or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

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 restricted by the donor for future periods or 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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

The Ballet receives grant revenue from various federal, state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grants received in advance of the expenditure are recorded as deferred revenue.

The Ballet reports gifts of equipment or materials (in-kind contributions) at their fair value in the period received as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long - lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long - lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long - lived assets are placed in service.

Ticket sale revenues received prior to the fiscal year to which they apply are reported as deferred revenue. Such revenue is recognized and reported in the statement of activities in the year the production is performed.

Ballet school tuition received prior to the fiscal year in which the classes are held is reported as deferred revenue. Such revenue is recognized and reported in the statement of activities in the year in which the classes are held.

Agency Endowment Fund

The Ballet'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 increases (decreases) in the beneficial interest.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

Donated services are recognized if they create or enhance non-financial assets, or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Ballet if not donated. Such services are recognized at fair value as support and expense in the period the services are performed, and related primarily to professional services for the years ended May 31, 2014 and 2013.

Other individuals volunteer their time and perform a variety of tasks that assist the Ballet with program services and fundraising events. No amounts have been reflected in the financial statements for these donated services since the volunteer's time does not meet the criteria for recognition under GAAP.

Cash and Cash Equivalents

The Ballet considers cash and cash equivalents to be all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The cash and cash equivalents held in the investment accounts are reported with investments.

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (1.69% in 2014, 1.05% in 2013). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible.

NASHVILLE BALLET  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MAY 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are recorded at cost. Donated assets are capitalized at fair market value in the period received. The Ballet capitalizes all property and equipment over \$2,500. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

Building	40 years
Building improvements	5 to 39 years
Furniture and equipment	5 to 7 years
Sets and props	7 to 12 years
Costumes	4 to 12 years
Vehicles	5 years

Fair Value Measurements

The Ballet classifies its investments based on a hierarchy consisting of: Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market but for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

*Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee* - The agency endowment fund held at the Community Foundation represents the Ballet's interest in pooled investments with other participants in the funds. The Community Foundation prepares a valuation of the fund based on the fair value of the underlying investments using quoted market prices and allocates income or loss to each participant based on market results. The Ballet reflects this asset within Level 2 of the valuation hierarchy.

*Corporate bonds, mutual funds, and equities* - Valued based on quoted market prices on the last business day of the reporting period.

NASHVILLE BALLET  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MAY 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

There have been no changes in the valuation methodologies used at May 31, 2014 and 2013.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Ballet believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Endowment Funds

The Ballet has both donor-restricted endowment funds and funds designated by the Board to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Ballet's permanently restricted endowment funds are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act ("SUPMIFA").

*Interpretation of applicable law* - The Board of Directors has interpreted SUPMIFA 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 Ballet classified 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 investment funds designated as an endowment that is not classified in permanently restricted net assets is classified as unrestricted as part of the Board-designated endowment fund, which is consistent with the standard of prudence prescribed by UPMIFA.

*Spending policy* - The Ballet has a policy that applies a smoothing rule to mitigate the effects of short-term market volatility on spending. A moving average of 4 to 5% is used to determine annual withdrawals, if any are made. This moving average is based on the quarter-end values of the portfolio over the previous three years. The spending amount resulting from this calculation is considered by the Investment Committee no more frequently than once per fiscal year (June to May). An annual determination is made by the Committee on the amount and timing of a withdrawal, if any, withdrawn over four quarters. The Investment Committee votes annually on the exact percentage to be withdrawn over the upcoming fiscal year.



NASHVILLE BALLET  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MAY 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (Continued)

*Investment return objective, risk parameters and strategies* - The Ballet has adopted investment and spending policies to establish asset allocation targets, investment objectives and guidelines and the degree of investment risk the Board deems acceptable. The goal of the investment program is for the purpose of providing funds that grow in value and provide a source of income primarily for the support of operating costs. Investment objectives are as follows:

- Maintain the purchasing power of current assets and all future contributions by protecting and growing the investments with a total return strategy.
- Maintain a consistent spending rate. The desire, at a minimum, is to maintain the level of programs and services currently provided.
- Apply a smoothing rule to mitigate the effects of short-term volatility on spending.
- Maximize return within reasonable and prudent levels of risk.
- Maintain an appropriate asset allocation based on a total return policy that is compatible with the spending policy, while still having the potential to produce positive real returns.

The Ballet recognizes and acknowledges some risk must be assumed in order to achieve the long-term investment objectives, and there are uncertainties and complexities associated with contemporary investment markets. The Ballet's prospects for the future, current financial condition and level of funding suggest collectively some interim fluctuations in market value rates of return may be tolerated in order to achieve longer-term objectives.

The asset allocation target is 20% to 30% large cap growth equity, 3% to 10% mid cap equity, 0% to 10% small cap equity, 2% to 10% public alternatives, 10% to 18% international equity, 25% to 50% fixed income, 2% to 7% emerging markets and 2% to 12% cash.

Investments

Investments consist of money market accounts, certificates of deposit, corporate bonds, mutual funds and equities. Money market accounts and certificates of deposit are carried at cash value plus accrued interest. All other investments are carried at fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses are reflected in the statement of activities.

NASHVILLE BALLET  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MAY 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The Ballet's advertising costs are primarily expensed as incurred. Significant expenses incurred in preparation for the subsequent performance season are recorded as prepaid expenses and recognized in the year in which the correlative revenue is recognized. Advertising expense for the years ended May 31, 2014 and 2013 totaled approximately \$350,000 each year.

Income Taxes

The Ballet qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Ballet's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

The Ballet files a U.S. federal Form 990 for organizations exempt from income tax and a U.S. federal Form 990-T for organizations exempt from income tax with unrelated business income. In addition, the Ballet files an income tax return in the State of Tennessee. The Ballet's Form 990 for the years prior to fiscal year 2011 are no longer open to examination. The Ballet initially filed its Form 990-T and Tennessee return for fiscal year 2012, therefore, the 2012 and 2013 fiscal year returns remain open to examination.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services

The Ballet maintains high standards for programming and education activities that benefit the entire community. In addition to offering a diverse season of culturally engaging performances by world class dancers, the Ballet also provides distinct programs that provide dance classes to children and adults at Ballet facilities. The Ballet also uses community outreach and education to spread the mission of the organization.

## NASHVILLE BALLET

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Program and Supporting Services (Continued)

##### Supporting Services

Management and general - relates to the overall direction of the Ballet. These expenses are not identifiable with a particular program or event, or with fundraising, but are indispensable to the conduct of those activities and are essential to the Ballet. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the creation and distribution of fundraising materials.

##### 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 based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

##### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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.

##### Events Occurring After Reporting Date

The Ballet has evaluated events and transactions that occurred between May 31, 2014 and September 16, 2014, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

##### Reclassifications

Certain reclassifications have been made in the 2013 financial statements to conform to the 2014 presentation. These reclassifications had no effect on the change in net assets previously reported.

NASHVILLE BALLET  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MAY 31, 2014 AND 2013

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at May 31:

	<u>2014</u>	<u>2013</u>
Capital campaign:		
Due in less than one year	\$ 555,718	\$ 223,810
One to five years	<u>1,490,969</u>	<u>659,190</u>
	2,046,687	883,000
Less: discount to present value	(63,618)	(17,196)
Less: allowance for uncollectible pledges	<u>(39,000)</u>	<u>(39,000)</u>
	<u>\$ 1,944,069</u>	<u>\$ 826,804</u>
Contributions receivable - other		
Due in less than one year	\$ 532,207	\$ 34,117
Less: allowance for uncollectible pledges	<u>(2,206)</u>	<u>(2,370)</u>
	<u>\$ 530,001</u>	<u>\$ 31,747</u>

During 2013, the Ballet initiated a capital campaign initiative to fund the acquisition of the neighboring building space for the renovation and expansion of the Ballet's facility.

NOTE 3 - DONOR-DESIGNATED AND AGENCY ENDOWMENT FUNDS

The Ballet has a beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee (the "Community Foundation"). The Ballet 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. Upon request by the Ballet, income from the fund representing a 5% annual return may be distributed to the Ballet or to another suggested beneficiary. The Ballet's beneficial interest in this fund was \$67,253 as of May 31, 2014 (\$61,606 as of May 31, 2013).

Two donor-designated endowment funds have been established by donors with the Community Foundation for the benefit of the Ballet. The Community Foundation has the ultimate authority and control over these funds and, therefore, these investments are not included in the financial statements of the Ballet. Income distributed to the Ballet from these funds, which is recognized by the Ballet in the year received, amounted to \$204,400 during fiscal year 2014 (\$200,710 during fiscal year 2013). Total assets held in these funds approximated \$4,340,000 at May 31, 2014 and \$4,000,000 at May 31, 2013.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

NOTE 4 - INVESTMENTS

Investments consisted of the following at May 31:

	<u>2014</u>	<u>2013</u>
Money market accounts	\$ 81,869	\$ 42,595
Certificate of deposit	67,118	65,836
Corporate bonds	115,038	117,314
Mutual funds	262,846	285,994
Equities	<u>49,462</u>	<u>30,867</u>
Total	<u>\$ 576,333</u>	<u>\$ 542,606</u>

A summary of investment income follows for the years ended May 31:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 13,076	\$ 12,169
Realized and unrealized gains on investments - net	31,925	42,755
Change in value of beneficial interest in agency endowment fund	<u>5,647</u>	<u>4,139</u>
Total investment income	<u>\$ 50,648</u>	<u>\$ 59,063</u>

# NASHVILLE BALLET

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

### NOTE 5 - FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Ballet's assets at fair value as of May 31:

	2014			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Corporate bonds	\$ 115,038	\$ -	\$ -	\$ 115,038
Mutual funds:				
Bank loan funds	4,514	-	-	4,514
Commodities broad basket funds	4,422	-	-	4,422
Emerging markets bond funds	39,700	-	-	39,700
Foreign large blend funds	22,418	-	-	22,418
High yield bond funds	5,358	-	-	5,358
International equity funds	8,753	-	-	8,753
Large blend funds	14,377	-	-	14,377
Large growth funds	31,056	-	-	31,056
Large value funds	66,038	-	-	66,038
Market neutral	6,131	-	-	6,131
Mid-cap blend funds	21,536	-	-	21,536
Moderate allocation funds	10,907	-	-	10,907
Multi-alternative funds	8,987	-	-	8,987
Natural resources funds	5,511	-	-	5,511
Small value funds	8,864	-	-	8,864
Utilities	4,274	-	-	4,274
Equities:				
Services	13,789	-	-	13,789
Utilities	14,343	-	-	14,343
Mining	3,918	-	-	3,918
Chemical	7,264	-	-	7,264
Financial	10,148	-	-	10,148
Total investments at fair value	427,346	-	-	427,346
Beneficial interest in agency endowment fund	-	67,253	-	67,253
Total	\$ 427,346	\$ 67,253	\$ -	\$ 494,599

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2013			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Corporate bonds	\$ 117,314	\$ -	\$ -	\$ 117,314
Mutual funds:				-
Bank loan funds	4,518	-	-	4,518
Commodities broad basket funds	4,496	-	-	4,496
Emerging markets bond funds	31,124	-	-	31,124
Foreign large blend funds	18,999	-	-	18,999
High yield bond funds	5,310	-	-	5,310
International equity funds	8,273	-	-	8,273
Large blend funds	22,537	-	-	22,537
Large growth funds	40,263	-	-	40,263
Large value funds	53,691	-	-	53,691
Market neutral	6,051	-	-	6,051
Mid-cap blend funds	23,374	-	-	23,374
Moderate allocation funds	6,132	-	-	6,132
Multi-alternative funds	8,433	-	-	8,433
Natural resources funds	8,264	-	-	8,264
Short-term bond funds	40,290	-	-	40,290
Small value funds	4,239	-	-	4,239
Equities:				
Services	16,448	-	-	16,448
Utilities	7,264	-	-	7,264
Financial	7,155	-	-	7,155
Total investments at fair value	434,175	-	-	434,175
Beneficial interest in agency endowment fund	-	61,606	-	61,606
Total	\$ -	\$ 61,606	\$ -	\$ 495,781

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at May 31:

	<u>2014</u>	<u>2013</u>
Building	\$ 2,566,163	\$ 2,547,886
Building improvements	1,168,947	1,156,758
Land	130,000	130,000
Costumes	1,192,681	1,056,892
Sets and props	1,209,586	1,000,041
Furniture and equipment	204,579	180,111
Vehicles	<u>70,283</u>	<u>41,748</u>
	6,542,239	6,113,436
Less: accumulated depreciation	<u>(2,531,805)</u>	<u>(2,254,706)</u>
	<u>\$ 4,010,434</u>	<u>\$ 3,858,730</u>

In November 2012, the Ballet purchased neighboring building space and land for the expansion and renovation of its facilities. The purchase price, including closing costs, was approximately \$1,530,000. The building space purchased is being leased back to the seller. The arrangement was terminated in June 2014. The Ballet received \$90,000 in rent revenue during the year ended May 31, 2014 (\$46,000 in 2013).

NOTE 7 - NOTES PAYABLE

In November 2012, the Ballet entered into a mortgage agreement with SunTrust Bank for \$1,750,000 at a fixed interest rate of 2.95%. Monthly principal and interest payments of \$9,465 were due until maturity on November 21, 2017, at which time a balloon payment was due. This note was paid off in connection with the new non-revolving and revolving credit notes described below.



NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

NOTE 7 - NOTES PAYABLE (CONTINUED)

Annual principal maturities under the original note as of May 31, 2014, follows:

For the year ending May 31,

2015	\$ 65,025
2016	66,870
2017	69,024
2018	<u>1,448,529</u>

\$ 1,649,448

On February 25, 2011 the Ballet entered into a \$100,000 operating line of credit with SunTrust Bank. On August 13, 2013 the line was amended to increase the amount to \$550,000. The line is evidenced by a promissory note which bears interest, payable monthly, on the amount borrowed at a variable interest rate based on the bank's prime rate. The interest rate at May 31, 2014 was 3.25%. The line of credit matured on August 13, 2014. As of May 31, 2014 and 2013, there was no outstanding balance.

Both the mortgage agreement and the line of credit were secured by a deed of trust on the Ballet's building.

Subsequent to year end, the Ballet entered into a \$4,207,500 non-revolving line of credit note and a \$2,292,500 revolving credit note with CapStar Bank to fund the renovations of its facility and refinance the existing debt. The Ballet also entered into a new \$150,000 line of credit with SunTrust Bank.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

NOTE 8 - NET ASSETS

Board designated net assets consisted of the following at May 31:

	<u>2014</u>	<u>2013</u>
Designated as endowment	\$ 125,000	\$ 125,000
Designated for the purchase of property and equipment	83,332	104,661
Designated for the Ballet Ball	50,000	50,000
Designated as cash reserve	100,000	100,000
Designated for capital campaign expenses and related debt service	2,295,922	819,959
Designated for Peter Pan	15,000	-
Designated other	<u>64,410</u>	<u>42,225</u>
	<u>\$ 2,733,664</u>	<u>\$ 1,241,845</u>

Temporarily restricted net assets consisted of the following at May 31:

	<u>2014</u>	<u>2013</u>
Nutcracker creation and renovation fund	\$ 240,667	\$ 260,533
Donations or pledges for subsequent periods	683,218	162,554
Capital campaign pledges	206,901	-
Unspent earnings on endowment fund	<u>28,838</u>	<u>18,231</u>
	<u>\$ 1,159,624</u>	<u>\$ 441,318</u>

NOTE 9 - ENDOWMENT

Permanently restricted net assets consist of endowment funds to support both the production of professional ballet performances as well as students of the School of Nashville Ballet. Contributions to the endowment fund were subject to donor restrictions that the original principal of the gifts are to be held and invested by the Ballet indefinitely, and income from the funds are to be used to fund professional ballet activities as well as to support the dance training of students.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

NOTE 9 - ENDOWMENT (CONTINUED)

The endowment net asset composition by type of fund was as follows as of May 31:

	2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-designated endowment funds	\$ -	\$ 28,838	\$ 134,315	\$ 163,153
Board-designated endowment funds	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
Total	<u>\$ 125,000</u>	<u>\$ 28,838</u>	<u>\$ 134,315</u>	<u>\$ 288,153</u>

  

	2013			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-designated endowment funds	\$ -	\$ 18,231	\$ 130,215	\$ 148,446
Board-designated endowment funds	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
	<u>\$ 125,000</u>	<u>\$ 18,231</u>	<u>\$ 130,215</u>	<u>\$ 273,446</u>

# NASHVILLE BALLET

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

### NOTE 9 - ENDOWMENT (CONTINUED)

A summary of changes in endowments follows for the years ended May 31:

	<u>2014</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 1, 2013	\$ 125,000	\$ 18,231	\$ 130,215	\$ 273,446
Contributions	-	-	4,100	4,100
Interest and dividend income	3,576	2,235	-	5,811
Realized and unrealized gains on investments	8,912	5,691	-	14,603
Change in value of beneficial interest in agency endowment fund	-	5,647	-	5,647
Amounts appropriated for expenditure or other designation	<u>(12,488)</u>	<u>(2,966)</u>	<u>-</u>	<u>(15,454)</u>
Endowment net assets, May 31, 2014	<u>\$ 125,000</u>	<u>\$ 28,838</u>	<u>\$ 134,315</u>	<u>\$ 288,153</u>

  

	<u>2013</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 1, 2012	\$ 124,410	\$ 7,467	\$ 75,340	\$ 207,217
Contributions	-	-	54,875	54,875
Interest and dividend income	3,715	1,629	-	5,344
Realized and unrealized gains on investments	12,859	5,632	-	18,491
Change in value of beneficial interest in agency endowment fund	-	4,139	-	4,139
Amounts appropriated for expenditure or other designation	<u>(15,984)</u>	<u>(636)</u>	<u>-</u>	<u>(16,620)</u>
Endowment net assets, May 31, 2013	<u>\$ 125,000</u>	<u>\$ 18,231</u>	<u>\$ 130,215</u>	<u>\$ 273,446</u>

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

NOTE 9 - ENDOWMENT (CONTINUED)

From time to time, the fair value of assets associated with endowment funds may fall below the level that the donor or UPMIFA requires the Ballet to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of May 31, 2014 and 2013.

NOTE 10 - LEASE COMMITMENTS

The Ballet has an agreement to lease a general office and dance studio in Brentwood, Tennessee. Subsequent to year end, the Ballet renegotiated the terms of the lease extending the expiration date to December 31, 2017 with monthly lease payments ranging from \$3,896 to \$4,270.

Future minimum rental payments due under this operating lease, including the subsequent amendment, follows:

Year Ending May 31:

2015	\$	48,041
2016		49,482
2017		49,739
2018		<u>29,768</u>
	\$	<u>177,030</u>

Rent expense totaled approximately \$47,000 for the year ended May 31, 2014 (\$45,000 for the year ended May 31, 2013).

NOTE 11 - CONCENTRATIONS

Financial instruments that potentially subject the Ballet to concentrations of credit risk consist of cash and cash equivalents, investments and various contributions, grants and other receivables. Contributions receivable consist of individual and corporate contribution pledges. Grant and other receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. At May 31, 2014, receivables from two sources totaled approximately \$758,000, or 29% of total receivables. At May 31, 2013, receivables from three sources totaled approximately \$845,000 or 87% of total receivables.

Combined grants from two sources amounted to approximately \$223,500, or 92% of total grant revenues for the year ended May 31, 2014 (approximately \$243,250, or 96% of total grant revenues for the year ended May 31, 2013).

## NASHVILLE BALLET

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2014 AND 2013

#### NOTE 11 - CONCENTRATIONS (CONTINUED)

Combined contributions from one source amounted to approximately \$901,000, or 23% of total contribution revenues for the year ended May 31, 2014 (approximately \$1,000,000, or 47% of total contribution revenues from three sources for the year ended May 31, 2013).

The Ballet maintains cash accounts at reputable financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Ballet's cash balances may, at times, exceed statutory limits. The Ballet has not experienced any losses in such accounts and management considers this to be a normal business risk.

Investments are subject to market risk, the risk inherent in a fluctuating market. The custodians of the Ballet's securities are covered by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances, such as fraud or failure of the institution. Coverage is limited to \$500,000 per broker/dealer custodian, including up to \$250,000 in cash. The SIPC does not insure against market risk.

#### NOTE 12 - EMPLOYEE RETIREMENT PLAN

The Ballet sponsors a 401(k) qualified retirement plan. Employees are eligible to participate in the plan after 600 hours of service completed within the first six months of employment or after the first year of service completed, whichever is sooner. The Ballet can make discretionary contributions to the plan equal to a uniform percentage of employee's salary deferrals. Ballet contributions to the plan totaled \$15,891, a 1.5% employer matching contribution, for the year ended May 31, 2014 (\$23,135 in 2013, a 2% employer matching contribution).

#### NOTE 13 - RELATED PARTY TRANSACTIONS

Three of the Ballet's Board members are employed with financial institutions where the Ballet has accounts. One Board member provides chiropractic services to the Ballet at no charge. Additionally, one Board member is employed by an organization which provides workers compensation services for the Ballet.

#### NOTE 14 - COMMITMENTS

The Ballet has entered into a contract with R.C. Mathews Contractor, LLC to perform the expansion and renovation of the Ballet facilities. The amount of the contract is approximately \$4,840,000.