

NASHVILLE BALLET
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
MAY 31, 2011 AND 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Nashville Ballet
Nashville, Tennessee

We have audited the accompanying statement of financial position of the Nashville Ballet (the "Ballet") as of May 31, 2011 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Ballet's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Ballet for the year ended May 31, 2010, were audited by other auditors whose report, dated August 30, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 our audit provide a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Nashville Ballet as of May 31, 2011, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
September 15, 2011

NASHVILLE BALLET
STATEMENTS OF FINANCIAL POSITION
MAY 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,183,951 | \$ 304,437 |
| Grants and other receivables | 88,623 | 70,242 |
| Contributions receivable, net | 62,900 | 148,528 |
| Inventory | 9,765 | 10,062 |
| Prepaid expenses and other | <u>53,980</u> | <u>65,597</u> |
| TOTAL CURRENT ASSETS | 1,399,219 | 598,866 |
| Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee | 62,030 | 54,543 |
| Contributions receivable, noncurrent, net | 32,000 | 76,258 |
| Property and equipment, net | 2,671,515 | 2,603,919 |
| Cash surrender value of donated life insurance policy | <u>112,683</u> | <u>102,680</u> |
| TOTAL ASSETS | <u>\$ 4,277,447</u> | <u>\$ 3,436,266</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 46,145 | \$ 104,068 |
| Accrued expenses | 31,940 | 16,656 |
| Deferred revenue | 290,687 | 165,250 |
| Note payable, current portion | <u>7,734</u> | <u>-</u> |
| TOTAL CURRENT LIABILITIES | <u>376,506</u> | <u>285,974</u> |
| Note payable, less current portion | <u>247,084</u> | <u>-</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Designated for the purchase of property and equipment | 118,199 | 131,997 |
| Designated for the Ballet Ball | 50,000 | - |
| Invested in property and equipment, less related debt | 2,416,697 | 2,603,919 |
| Undesignated (deficit) | 65,219 | (54,395) |
| Temporarily restricted | 928,742 | 418,771 |
| Permanently restricted | <u>75,000</u> | <u>50,000</u> |
| TOTAL NET ASSETS | <u>3,653,857</u> | <u>3,150,292</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 4,277,447</u> | <u>\$ 3,436,266</u> |

See accompanying notes to financial statements.

NASHVILLE BALLET

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED MAY 31, 2011 AND 2010

| | 2011 | | | |
|--|---------------------|---------------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| SUPPORT AND REVENUE | | | | |
| Ticket sales | \$ 882,968 | \$ - | \$ - | \$ 882,968 |
| School tuition and workshops | 601,990 | - | - | 601,990 |
| Grants | 243,250 | - | - | 243,250 |
| Individual contributions | 301,220 | 45,153 | 25,000 | 371,373 |
| New Nutcracker capital campaign contributions | - | - | - | - |
| Contributions from the Community Foundation of Middle Tennessee | 191,922 | - | - | 191,922 |
| Corporate and Foundation contributions | 601,308 | 473,000 | - | 1,074,308 |
| Ballet Ball revenue | 552,914 | - | - | 552,914 |
| In-kind contributions | 104,934 | - | - | 104,934 |
| Miscellaneous | 64,073 | - | - | 64,073 |
| Friends support and benefits | 19,622 | - | - | 19,622 |
| Outreach | 22,141 | - | - | 22,141 |
| Investment income (loss) | (224) | 7,887 | - | 7,663 |
| Net assets released from restrictions | 16,069 | (16,069) | - | - |
| TOTAL SUPPORT AND REVENUE | 3,602,187 | 509,971 | 25,000 | 4,137,158 |
| EXPENSES | | | | |
| Program services | 2,904,147 | - | - | 2,904,147 |
| Supporting services: | | | | |
| Management and general | 285,690 | - | - | 285,690 |
| Fundraising | 443,756 | - | - | 443,756 |
| TOTAL EXPENSES | 3,633,593 | - | - | 3,633,593 |
| NET INCREASE (DECREASE) IN NET ASSETS | (31,406) | 509,971 | 25,000 | 503,565 |
| NET ASSETS - BEGINNING OF YEAR | 2,681,521 | 418,771 | 50,000 | 3,150,292 |
| NET ASSETS - END OF YEAR | \$ 2,650,115 | \$ 928,742 | \$ 75,000 | \$ 3,653,857 |

See accompanying notes to financial statements.

2010

| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------|-----------------------------------|-----------------------------------|---------------------|
| \$ 833,776 | \$ - | \$ - | \$ 833,776 |
| 596,463 | - | - | 596,463 |
| 286,691 | 20,000 | - | 306,691 |
| 247,435 | 20,869 | - | 268,304 |
| - | 2,739 | - | 2,739 |
| 174,742 | - | - | 174,742 |
| 579,731 | - | - | 579,731 |
| 276,894 | - | - | 276,894 |
| 63,535 | - | - | 63,535 |
| 56,263 | - | - | 56,263 |
| 21,628 | - | - | 21,628 |
| 20,749 | - | - | 20,749 |
| 6,217 | 854 | - | 7,071 |
| 52,987 | (52,987) | - | - |
| <u>3,217,111</u> | <u>(8,525)</u> | <u>-</u> | <u>3,208,586</u> |
| 2,719,592 | - | - | 2,719,592 |
| 418,444 | - | - | 418,444 |
| 288,682 | - | - | 288,682 |
| <u>3,426,718</u> | <u>-</u> | <u>-</u> | <u>3,426,718</u> |
| (209,607) | (8,525) | - | (218,132) |
| <u>2,891,128</u> | <u>427,296</u> | <u>50,000</u> | <u>3,368,424</u> |
| <u>\$ 2,681,521</u> | <u>\$ 418,771</u> | <u>\$ 50,000</u> | <u>\$ 3,150,292</u> |

NASHVILLE BALLET

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED MAY 31, 2011 AND 2010

| 2011 | | | | | |
|----------------------------------|------------------------------|-------------------|-------------------|---------------------------------|---------------------|
| Program Services | Supporting Services | | | Total Supporting Services | Total |
| | Management and General | Fundraising | | | |
| Salaries | \$ 1,060,655 | \$ 101,646 | \$ 153,818 | \$ 255,464 | \$ 1,316,119 |
| Payroll taxes | 165,660 | 14,025 | 16,442 | 30,467 | 196,127 |
| Employee benefits | 77,374 | 3,821 | 9,347 | 13,168 | 90,542 |
| Marketing | 345,167 | - | - | - | 345,167 |
| Theater rental and crew expense | 268,376 | - | - | - | 268,376 |
| Production expense | 88,437 | - | - | - | 88,437 |
| Symphony fees | 196,147 | - | - | - | 196,147 |
| Choreography and artistic fees | 188,408 | - | - | - | 188,408 |
| Ballet Ball expense | - | - | 167,514 | 167,514 | 167,514 |
| Occupancy expenses | 102,851 | 19,813 | 4,573 | 24,386 | 127,237 |
| School expense | 63,963 | - | - | - | 63,963 |
| Development | - | - | 43,939 | 43,939 | 43,939 |
| Uncollectible pledges | - | - | 11,955 | 11,955 | 11,955 |
| Liability and property insurance | 20,613 | 7,881 | 7,918 | 15,799 | 36,412 |
| Legal and professional | 38,944 | 29,916 | 3,437 | 33,353 | 72,297 |
| Gift shop costs | 25,911 | - | 127 | 127 | 26,038 |
| Interest and service charges | 21,766 | 19,687 | 1,920 | 21,607 | 43,373 |
| Equipment expense | 22,314 | 8,531 | 1,969 | 10,500 | 32,814 |
| Office supplies and postage | 11,113 | 4,249 | 981 | 5,230 | 16,343 |
| Travel and vehicle expense | 11,435 | 1,166 | 270 | 1,436 | 12,871 |
| Outreach | 14,742 | - | - | - | 14,742 |
| Depreciation | 171,313 | 65,119 | 15,028 | 80,147 | 251,460 |
| Amortization | - | - | - | - | - |
| Miscellaneous | 8,958 | 9,836 | 4,518 | 14,354 | 23,312 |
| TOTAL EXPENSES | \$ 2,904,147 | \$ 285,690 | \$ 443,756 | \$ 729,446 | \$ 3,633,593 |

See accompanying notes to financial statements.

2010

| Program Services | Supporting Services | | Total Supporting Services | Total |
|---------------------|------------------------------|-------------------|---------------------------------|---------------------|
| | Management and General | Fundraising | | |
| \$ 999,802 | \$ 304,116 | \$ 56,263 | \$ 360,379 | \$ 1,360,181 |
| 161,574 | 39,992 | 7,570 | 47,562 | 209,136 |
| 71,788 | 20,448 | 4,426 | 24,874 | 96,662 |
| 309,852 | - | - | - | 309,852 |
| 281,483 | - | - | - | 281,483 |
| 74,106 | - | - | - | 74,106 |
| 183,371 | - | - | - | 183,371 |
| 136,472 | - | - | - | 136,472 |
| - | - | 117,297 | 117,297 | 117,297 |
| 99,589 | 6,790 | 6,790 | 13,580 | 113,169 |
| 69,988 | - | - | - | 69,988 |
| - | - | 37,663 | 37,663 | 37,663 |
| - | - | 15,311 | 15,311 | 15,311 |
| 26,018 | 3,577 | 8,452 | 12,029 | 38,047 |
| 15,304 | 5,639 | 6,925 | 12,564 | 27,868 |
| 24,910 | - | - | - | 24,910 |
| 17,646 | 2,427 | 1,985 | 4,412 | 22,058 |
| 12,933 | 1,778 | 1,455 | 3,233 | 16,166 |
| 10,228 | 1,406 | 1,151 | 2,557 | 12,785 |
| 7,685 | 1,656 | - | 1,656 | 9,341 |
| 8,899 | - | - | - | 8,899 |
| 197,032 | 27,092 | 22,166 | 49,258 | 246,290 |
| 2,014 | 276 | 227 | 503 | 2,517 |
| 8,898 | 3,247 | 1,001 | 4,248 | 13,146 |
| <u>\$ 2,719,592</u> | <u>\$ 418,444</u> | <u>\$ 288,682</u> | <u>\$ 707,126</u> | <u>\$ 3,426,718</u> |

NASHVILLE BALLET

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MAY 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ 503,565 | \$ (218,132) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 251,460 | 248,807 |
| Discount on pledges receivable | - | 3,742 |
| Change in value of beneficial interest in agency endowment fund | (7,487) | (4,354) |
| Contributions - permanently restricted | (25,000) | - |
| (Increase) decrease in: | | |
| Grants and other receivables | (18,381) | 49,360 |
| Contributions receivable | 129,886 | 110,704 |
| Inventory | 297 | 6,310 |
| Prepaid expenses and other | 11,617 | (14,109) |
| Cash surrender value of donated life insurance policy | (10,003) | (14,770) |
| Increase (decrease) in: | | |
| Accounts payable | (57,923) | (19,380) |
| Accrued expenses | 15,284 | 8,704 |
| Deferred revenue | 125,437 | (47,502) |
| TOTAL ADJUSTMENTS | <u>415,187</u> | <u>327,512</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>918,752</u> | <u>109,380</u> |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | <u>(319,056)</u> | <u>(148,446)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(319,056)</u> | <u>(148,446)</u> |
| FINANCING ACTIVITIES | | |
| Proceeds from note payable | 257,904 | - |
| Principal payments on note payable | (3,086) | - |
| Proceeds from contributions restricted for permanent endowment | <u>25,000</u> | <u>-</u> |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>279,818</u> | <u>-</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 879,514 | (39,066) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>304,437</u> | <u>343,503</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 1,183,951</u> | <u>\$ 304,437</u> |
| OTHER CASH FLOW DISCLOSURES: | | |
| Interest expense paid during the year | <u>\$ 6,841</u> | <u>\$ -</u> |

See accompanying notes to financial statements.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Nashville Ballet (the "Ballet") was incorporated in 1981 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 40,000 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, 2011 AND 2010

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 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 in advance is deferred and recognized over the course of the applicable school semester or session.

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, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

Many 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 accounting principles generally accepted in the United States of America.

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.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give 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. 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.

Inventory

Inventory consists of goods available for sale prior to and following performances and is valued at cost with cost determined on a first-in, first-out basis.

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 |

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The Ballet's advertising costs are expensed as incurred. Advertising expense for the years ended May 31, 2011 and 2010 totaled approximately \$186,000 and \$132,000, respectively.

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.

The Ballet files a U.S. federal Form 990 for organizations exempt from income tax. The Ballet's returns for the years prior to fiscal year 2008 are closed.

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.

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.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2011 and September 15, 2011, 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 to prior year amounts in order to be comparative with the current year presentation.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2011 AND 2010

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at May 31, 2011 and 2010 consist of the following:

| | <u>2011</u> | <u>2010</u> |
|---|------------------|-------------------|
| Contributions receivable | \$ 101,450 | \$ 235,345 |
| Less allowance for contributions receivable | (6,550) | (6,817) |
| Less discounts to net present value | <u>-</u> | <u>(3,742)</u> |
| Net contributions receivable | <u>\$ 94,900</u> | <u>\$ 224,786</u> |
| Net amounts due in: | | |
| Less than one year | \$ 62,900 | \$ 148,528 |
| One to five years | <u>32,000</u> | <u>76,258</u> |
| | <u>\$ 94,900</u> | <u>\$ 224,786</u> |

As of May 31, 2011, the calculated discount to present value of contributions receivable due in more than one year was insignificant, therefore it was not recorded. As of May 31, 2010, pledges receivable due in more than one year were reflected at the net present value of estimated future cash flows using a range of discount rates of 1.42% to 2.22%.

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.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2011 AND 2010

NOTE 3 - DONOR-DESIGNATED AND AGENCY ENDOWMENT FUNDS (CONTINUED)

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 \$181,500 during fiscal year 2011 (\$172,540 during fiscal year 2010). Total assets held in these funds approximated \$3,900,000 at May 31, 2011 and \$3,400,000 at May 31, 2010.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at May 31:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------|---------------------|---------------------|
| Building | \$ 1,145,715 | \$ 1,145,715 |
| Building improvements | 1,124,656 | 869,780 |
| Costumes | 1,024,941 | 1,017,044 |
| Sets and props | 917,052 | 887,536 |
| Furniture and equipment | 170,908 | 146,806 |
| Vehicles | <u>41,748</u> | <u>39,083</u> |
| | 4,425,020 | 4,105,964 |
| Less: accumulated depreciation | <u>(1,753,505)</u> | <u>(1,502,045)</u> |
| | <u>\$ 2,671,515</u> | <u>\$ 2,603,919</u> |

Depreciation expense for the years ended May 31, 2011 and 2010 amounted to \$251,460 and \$246,290, respectively.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2011 AND 2010

NOTE 5 - 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.

Cash Surrender Value of Donated Life Insurance - Cash surrender value of life insurance is reported at fair value using Level 2 inputs. The Ballet obtains valuations from the insurance broker based on the value of the policy if it were converted to cash as of the valuation date.

Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - The carrying amount is based on information received from the Community Foundation indicating the financial performance of the endowment fund. The Ballet reflects this asset within Level 2 of the valuation hierarchy.

There have been no changes in the valuation methodologies used at May 31, 2011 and 2010.

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.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2011 AND 2010

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

| | 2011 | | | |
|--|-------------|-------------------|-------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Beneficial interest in agency endowment fund | \$ - | \$ 62,030 | \$ - | \$ 62,030 |
| Cash surrender value of donated life insurance | - | 112,683 | - | 112,683 |
| Total | <u>\$ -</u> | <u>\$ 174,713</u> | <u>\$ -</u> | <u>\$ 174,713</u> |

| | 2010 | | | |
|--|-------------|-------------------|-------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Beneficial interest in agency endowment fund | \$ - | \$ 54,543 | \$ - | \$ 54,543 |
| Cash surrender value of donated life insurance | - | 102,680 | - | 102,680 |
| Total | <u>\$ -</u> | <u>\$ 157,223</u> | <u>\$ -</u> | <u>\$ 157,223</u> |

NOTE 6 - NOTES PAYABLE

On August 31, 2010, the Ballet entered into a maximum \$265,000 draw note for building improvements with SunTrust Bank under which the Ballet borrowed \$257,904. Interest only payments of the prime rate plus 1% were required until January 1, 2011, at which time the rate became fixed at 4.80%. Effective January 31, 2011, the note is payable in monthly principal and interest installments of \$1,650, until maturity on August 31, 2015.

Annual principal maturities under the note as of May 31, 2011, follows:

For the year ending May 31,

| | |
|------|-------------------|
| 2012 | \$ 7,734 |
| 2013 | 8,114 |
| 2014 | 8,512 |
| 2015 | 8,930 |
| 2016 | <u>221,528</u> |
| | <u>\$ 254,818</u> |

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2011 AND 2010

NOTE 6 - NOTES PAYABLE (CONTINUED)

On February 25, 2011 the Ballet entered into a \$100,000 operating line of credit with SunTrust Bank. 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 plus 1.0%. The interest rate at May 31, 2011 was 4.25%. The line of credit is due on demand. As of May 31, 2011, there was no outstanding balance.

Both the draw note and the line of credit are secured by a deed of trust on the Ballet's building.

NOTE 7 - RESTRICTIONS ON NET ASSETS

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

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Nutcracker and building renovation donations | \$ 295,880 | \$ 300,044 |
| Donations or pledges for subsequent periods | 620,832 | 114,184 |
| Unspent earnings on endowment fund | <u>12,030</u> | <u>4,543</u> |
| | <u>\$ 928,742</u> | <u>\$ 418,771</u> |

Permanently restricted net assets consist of an endowment fund to support both professional company dancers 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 company dancers as well as to support the dance training of students. The Ballet has formally adopted investment and spending policies based on the requirements of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). Based on the Ballet's interpretation of UPMIFA, and in accordance with donor restrictions, contributions to the endowment fund are classified as permanently restricted net assets. The historic dollar value of those contributions must be maintained inviolate. Income from the fund is classified with temporarily restricted net assets until the purpose restriction is satisfied, at which time the net assets are reclassified to unrestricted.

At May 31, 2011, \$75,000 is classified as permanently restricted net assets (\$50,000 at May 31, 2010). Changes in endowment net assets for the year ended May 31, 2011 and 2010 were insignificant.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2011 AND 2010

NOTE 8 - LEASE COMMITMENTS

The Ballet entered into an agreement on May 1, 2005 to lease a general office and dance studio in Brentwood, Tennessee, expiring on June 30, 2010. During May 2010, the Ballet renegotiated the terms of the lease extending the expiration date to June 30, 2012. Beginning July 2010 monthly lease payments amount to \$3,682 and increase to \$3,783 for the second year of the lease term.

At May 31, 2011, minimum rental payments due under all operating leases are as follows:

Year Ending May 31:

| | |
|-------|------------------|
| 2012 | \$ 45,292 |
| 2013 | <u>3,783</u> |
| Total | <u>\$ 49,075</u> |

Rent expense totaled approximately \$44,000 for the years ended May 31, 2011 and 2010.

NOTE 9 - CONCENTRATIONS

Financial instruments that potentially subject the Ballet to concentrations of credit risk consist of cash and cash equivalents, 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, 2011, receivables from four sources totaled approximately \$126,000, or 69% of total receivables. At May 31, 2010, no concentration of receivables existed.

Combined grants from two sources amounted to approximately \$215,000, or 88% of total grant revenues for the year ended May 31, 2011 (approximately \$247,000, or 80% of total grant revenues for the year ended May 31, 2010).

Combined contributions from two sources amounted to approximately \$1,131,000, or 69% of total contribution revenues for the year ended May 31, 2011 (approximately \$678,000, or 59% of total contribution revenues from two sources for the year ended May 31, 2010).

The Ballet maintains cash accounts at a reputable financial institution whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of May 31, 2011, the Ballet had approximately \$167,000 of uninsured cash.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2011 AND 2010

NOTE 10 - EMPLOYEE RETIREMENT PLAN

During fiscal 2008, the Ballet began sponsoring 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 Company can make discretionary contributions to the plan equal to a uniform percentage of employee's salary deferrals. The Company did not make any contributions to the plan for the years ended May 31, 2011 or 2010.