

NASHVILLE BALLET
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

Year Ended May 31, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nashville Ballet

We have audited the accompanying statement of financial position of the Nashville Ballet as of May 31, 2005 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 provides 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 Ballet as of May 31, 2005, 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.

Frasier, Dean + Howard, PLLC

August 1, 2005

NASHVILLE BALLET
STATEMENT OF FINANCIAL POSITION
May 31, 2005

Assets

Current assets:	
Cash and cash equivalents	\$ 427,629
Beneficial interest in assets	62,943
Grants and other receivables	74,142
Pledges receivable, net	295,218
Inventory	10,626
Prepaid expenses and other	48,490
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Total current assets	919,048
 Pledges receivable, noncurrent, net	 22,720
Consortium production, net	14,836
Property and equipment, net	1,747,073
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Total assets	\$ 2,703,677
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Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 20,143
Fundraising fees payable	56,638
Accrued expenses	22,048
Unearned school tuition	109,471
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Total current liabilities	208,300
 Fundraising fees payable, noncurrent	 3,398
Long-term debt	333,000
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Total liabilities	544,698
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Net assets:	
Unrestricted	1,776,173
Temporarily restricted	319,863
Permanently restricted	62,943
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Total net assets	2,158,979
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Total liabilities and net assets	\$ 2,703,677
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See notes to financial statements.

NASHVILLE BALLET
STATEMENT OF ACTIVITIES
Year ended May 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Individual contributions	\$ 529,301	\$ -	\$ -	\$ 529,301
Corporate and foundation contributions	200,825	12,000	-	212,825
Capital campaign contributions	-	27,865	-	27,865
In-kind contributions	36,932	-	-	36,932
Ballet Ball revenue	223,580	-	-	223,580
Friends support and benefits	13,336	-	-	13,336
Grants	176,451	-	-	176,451
Ticket sales	591,546	-	-	591,546
Tuition	444,138	-	-	444,138
Touring and special projects	6,557	-	-	6,557
Outreach	24,111	-	-	24,111
School and workshops	6,313	-	-	6,313
Contributions from Community				
Foundation of Middle TN	224,819	-	-	224,819
Investment income	3,153	-	1,764	4,917
Miscellaneous	48,439	-	-	48,439
Net assets released from restrictions	350,549	(350,549)	-	-
	<u>2,880,050</u>	<u>(310,684)</u>	<u>1,764</u>	<u>2,571,130</u>
Total support and revenue				
Expenses:				
Program services	1,986,139	-	-	1,986,139
Management and general	276,659	-	-	276,659
Fundraising	274,058	-	-	274,058
	<u>2,536,856</u>	<u>-</u>	<u>-</u>	<u>2,536,856</u>
Total expenses				
Net increase (decrease) in net assets	343,194	(310,684)	1,764	34,274
Net assets, beginning of year	1,432,979	630,547	61,179	2,124,705
Net assets, end of year	<u>\$ 1,776,173</u>	<u>\$ 319,863</u>	<u>\$ 62,943</u>	<u>\$ 2,158,979</u>

See notes to financial statements.

NASHVILLE BALLET
STATEMENT OF FUNCTIONAL EXPENSES
Year ended May 31, 2005

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 718,276	\$ 194,198	\$ 88,384	\$ 1,000,858
Payroll taxes	104,650	24,510	10,392	139,552
Employee benefits	45,028	9,288	4,418	58,734
Symphony fees	120,342	-	-	120,342
Choreography and artistic fees	85,815	-	-	85,815
Production expense	109,728	-	-	109,728
Theater rental and crew expense	197,799	-	-	197,799
Ballet Ball expense	-	-	114,347	114,347
Friends boutique and costs	21,217	-	-	21,217
Travel and vehicle expense	9,519	1,410	822	11,751
Marketing	276,217	-	-	276,217
Outreach	18,991	-	-	18,991
School expense	64,764	-	-	64,764
Development	-	-	20,972	20,972
Capital campaign fees	-	-	3,183	3,183
Legal and professional	4,204	623	363	5,190
Rent and utilities	65,404	9,689	5,652	80,745
Liability and property insurance	18,552	2,749	1,603	22,904
Equipment expense	-	6,681	4,095	10,776
Office supplies and postage	-	9,397	5,760	15,157
Interest and service charges	24,139	3,576	2,086	29,801
Miscellaneous	10,979	1,627	949	13,555
Uncollectable pledges	-	-	3,500	3,500
Depreciation	87,155	12,911	7,532	107,598
Amortization	3,360	-	-	3,360
Total expenses	\$ 1,986,139	\$ 276,659	\$ 274,058	\$ 2,536,856

See notes to financial statements.

NASHVILLE BALLET
STATEMENT OF CASH FLOWS
Year ended May 31, 2005

Cash flows from operating activities:	
Change in net assets	\$ 34,274
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	110,958
Discount on pledges receivable	(14,225)
Bad debt provision	(5,000)
Change in operating assets and liabilities:	
Increase in grants and other receivables	(26,770)
Decrease in pledges receivable	331,834
Decrease in inventory	1,479
Increase in prepaid expenses	(34,722)
Decrease in accounts payable	(8,231)
Decrease in accrued expenses	(8,028)
Decrease in unearned school tuition	(73,180)
Decrease in fundraising fees payable	(26,771)
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Net cash provided by operating activities	281,618
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Cash flows from investing activities:	
Investment purchases	(1,764)
Purchase of property and equipment	(32,341)
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Net cash used in investing activities	(34,105)
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Cash flows from financing activities:	
Payments on long-term debt	(296,000)
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Net cash used by financing activities	(296,000)
	<hr/>
Net increase (decrease) in cash and cash equivalents	(48,487)
Cash and cash equivalents, beginning of year	476,116
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Cash and cash equivalents, end of year	\$ 427,629
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Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	\$ 24,549
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Supplemental disclosure of noncash financing activities:	
Refinancing of long-term debt	\$ 609,000
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See notes to financial statements.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS
Year ended May 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Nashville Ballet (the “Ballet”) was incorporated in 1981 as a Tennessee not-for-profit corporation. The Ballet’s mission is to maintain a resident professional ballet company with an affiliated school, mandated to educate and entertain. It is a resident group of the Tennessee Performing Arts Center and collaborates with other arts organizations to promote community cultural enrichment. The Ballet presents a varied repertoire of classical, neoclassical and contemporary works.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly reflects all significant receivables, payables and other liabilities.

Basis of Presentation

The Ballet is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted revenues and other support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions whose restrictions are met in the same reporting period are shown as increases in unrestricted net assets.

Contributions are generally available for unrestricted use in the current year unless specifically restricted by the donor. Pledges receivable are recorded as received. Pledges due in the next year are reflected as current pledges receivable and are recorded at their net realizable value. Pledges due in subsequent years are reflected as long-term pledges receivable and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the pledges are received to discount the amounts. An allowance for uncollectible pledges is provided based on management’s evaluation of potential uncollectible pledges receivable.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Year ended May 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (Continued)

The Ballet is the recipient of annual income distributions from two endowments held by the Community Foundation of Middle Tennessee for its exclusive benefit. The Foundation has ultimate authority and control over all property of these endowments, including income derived therefrom, for use in conjunction with the charitable purposes of the Foundation, and, therefore, these assets are not included in the financial statements of the Ballet. These annual income distributions are reflected as contributions in the accompanying statement of activities.

In-Kind Contributions

In-kind contributions that are usable for program services, fundraising, and support of management and general functions are recorded at their fair values in the period received. These contributions consist of donated advertising services. The fair value of the donated services is reflected as in-kind contributions and included in marketing expenses under program services.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization 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

For purposes of the statement of cash flows, the Ballet considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Allowance for Doubtful Grants and Other Receivables

No allowance is considered necessary for grants and other receivables based on estimates made by management.

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 \$300. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Year ended May 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Building	40 years
Building improvements	15 years
Furniture and equipment	5 years
Sets and props	7 years
Costumes	4 years
Vehicles	5 years

Revenue Recognition

Ballet school tuition is recognized over the course of the applicable school semester or session. Amounts received in advance are considered unearned.

Grant revenue is recognized to the extent qualifying expenditures have been made.

Amortization

The consortium production is amortized over its contractual life of ten years.

Advertising

The Ballet's advertising is non-direct and the costs are expensed as incurred. Advertising expense for the year ended May 31, 2005 totaled \$98,403 of which \$36,932 represents in-kind contributions.

Use of Estimates

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 financial statements and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – BENEFICIAL INTEREST IN ASSETS

The Ballet has entered into agreements with the Community Foundation of Middle Tennessee (the "Foundation") on three different funds. One of the funds is considered a beneficial interest in the assets of the Foundation under Statement of Financial Accounting Standards ("SFAS") 136 because the Ballet transferred the funds to the Foundation specifying itself as the beneficiary. There are no terms for distribution each year. Historically, 5% has been distributed to the Ballet annually. The accumulative amount recognized in the statement of financial position is \$62,943 at May 31, 2005, as a beneficial interest in assets held by the Community Foundation of Middle Tennessee.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Year ended May 31, 2005

NOTE 2 – BENEFICIAL INTEREST IN ASSETS (Continued)

The other two funds held by the Foundation are not considered a beneficial interest in assets held by the Community Foundation of Middle Tennessee but are considered the legal assets of the Foundation. These funds were established by transfers to the Foundation on behalf of the Ballet whereby the Foundation has full variance powers and is not obligated to any terms for distribution purposes. Historically, 5% has been distributed to the Ballet annually. Therefore, there is no recognition of the related investment assets in the Ballet's statement of financial position.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable at May 31, 2005 consist of the following:

Pledges receivable – Capital Campaign	\$ 329,301
Less allowance for pledges receivable	(10,000)
Less discounts to net present value	<u>(1,363)</u>
Net pledges receivable	<u>\$ 317,938</u>
Net amounts due in:	
Less than one year	\$ 295,218
One to five years	<u>22,720</u>
	<u>\$ 317,938</u>

Pledges receivable due in more than one year are reflected at the net present value of estimated future cash flows using a discount rate of 6%.

NOTE 4 – BALLET CONSORTIUM

The Ballet has a consortium agreement with The Fort Worth Dallas Ballet and the Oregon Ballet Theater to co-produce and equally fund an original ballet, *Alice in Wonderland*. To reflect its one-third interest in and rights to the production of the consortium, the Ballet has capitalized its costs accordingly. These costs will be amortized over the life of the production (straight-line method), which shall be a ten-year period in accordance with the consortium agreement. Related amortization expense for the year ended May 31, 2005 amounted to \$3,360.

Consortium production	\$ 33,596
Less accumulated depreciation	<u>(18,760)</u>
	<u>\$ 14,836</u>

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Year ended May 31, 2005

NOTE 5 – PROPERTY AND EQUIPMENT

Depreciation expense for the year ended May 31, 2005 amounted to \$107,598. The cost and accumulated depreciation of property and equipment consists of the following amounts, calculated on the straight-line method of depreciation at May 31, 2005.

Building	\$ 1,145,715
Building improvements	811,226
Costumes	305,515
Sets and props	347,154
Furniture and equipment	121,906
Vehicles	<u>22,333</u>
	2,753,849
Less accumulated depreciation	<u>(1,006,776)</u>
	<u>\$ 1,747,073</u>

NOTE 6– LONG-TERM DEBT

Long-term debt at May 31, 2005 consists of the following:

Note payable to bank. Interest is due monthly at 5.5%. Principal payments of \$200,000 are due on January 7, 2006 and 2007. However, these principal payments can be reduced by early principal payments made by the Ballet. All unpaid principal and interest is due on January 7, 2008. The note is secured by the deed to the Ballet's property at 3630 Redmon Street.	\$ 333,000
Less current portion	<u>-</u>
Long-term debt	<u>\$ 333,000</u>

Scheduled maturities of notes payable at May 31, 2005 are as follows:

Year Ending	
<u>May 31</u>	
2006	\$ -
2007	124,000
2008	<u>209,000</u>
Total	<u>\$ 333,000</u>

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Year ended May 31, 2005

NOTE 7 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

For subsequent periods	\$ 12,000
Time restricted building pledges, net	<u>307,863</u>
	<u>\$ 319,863</u>

Permanently restricted net assets consist of endowment fund investments to be held in perpetuity, the income from which is expendable to support activities of the Ballet.

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. The lease begins on July 1, 2005 and is a five-year lease expiring on June 30, 2010. The lease includes monthly payments of \$3,335 for the first year. On the anniversary date of the lease, the monthly base rent will increase in accordance with the lease agreement.

At May 31, 2005, minimum rental payments due under all operating leases are as follows:

Year Ending	
<u>May 31</u>	
2006	\$ 36,685
2007	40,933
2008	41,951
2009	43,004
2010	44,082
Thereafter	<u>3,681</u>
Total	<u>\$ 210,336</u>

NOTE 9 – CONCENTRATIONS

The Ballet maintains deposit accounts with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. Excess uninsured balances of the Ballet amounted to \$229,765 at May 31, 2005. It is the opinion of management that the solvency of its depository financial institutions is adequate, limiting its concentration risks.

The Ballet received unrestricted contributions in the form of cash from a major donor in excess of 10% of support and revenue in 2005.

Amounts receivable from a major donor at May 31, 2005 total \$225,000.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Year ended May 31, 2005

NOTE 10 – INCOME TAX STATUS

The Ballet is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as other than a private foundation. Accordingly, no provision for income tax has been made in the accompanying financial statements.