

NASHVILLE BALLET  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
MAY 31, 2013 AND 2012

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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 the Nashville Ballet (the "Ballet") which comprise the statements of financial position as of May 31, 2013 and 2012, 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 statement 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 the Nashville Ballet as of May 31, 2013 and 2012, 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.

Kretz CPAs PLLC

Nashville, Tennessee  
September 25, 2013

NASHVILLE BALLET

STATEMENTS OF FINANCIAL POSITION

MAY 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 549,856	\$ 442,429
Accounts receivable	25,313	17,524
Grants receivable	85,260	98,440
Contributions receivable - other, net	31,747	71,353
Capital campaign contributions receivable, net	826,804	-
Investments	542,606	373,865
Prepaid expenses and other	55,814	37,463
Property and equipment, net	3,858,730	2,492,828
Cash surrender value of donated life insurance policy	129,153	118,312
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>61,606</u>	<u>57,467</u>
TOTAL ASSETS	<u>\$ 6,166,889</u>	<u>\$ 3,709,681</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 44,512	\$ 27,381
Payroll liabilities	79,506	80,449
Deferred revenue	523,497	410,169
Note payable	<u>1,714,844</u>	<u>247,291</u>
TOTAL LIABILITIES	<u>2,362,359</u>	<u>765,290</u>
<u>NET ASSETS</u>		
Unrestricted:		
Board designated	1,241,845	293,199
Invested in property and equipment, less related debt	2,143,886	2,245,537
Undesignated (deficit)	<u>(152,734)</u>	<u>(106,329)</u>
Total unrestricted	3,232,997	2,432,407
Temporarily restricted	441,318	436,644
Permanently restricted	<u>130,215</u>	<u>75,340</u>
TOTAL NET ASSETS	<u>3,804,530</u>	<u>2,944,391</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,166,889</u>	<u>\$ 3,709,681</u>

See accompanying notes to financial statements.

NASHVILLE BALLET

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED MAY 31, 2013 AND 2012

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Season ticket sales	\$ 209,261	\$ -	\$ -	\$ 209,261
Single and group ticket sales	967,301	-	-	967,301
Rentals and touring	91,449	-	-	91,449
Outreach	27,927	-	-	27,927
School tuition	897,202	-	-	897,202
Public Support:				
Grants	253,250	-	-	253,250
Individual contributions	1,283,794	31,362	54,875	1,370,031
Corporate and foundation contributions	591,714	10,400	-	602,114
Contributions from the Community Foundation of Middle Tennessee	203,690	-	-	203,690
Ballet Ball revenue	404,450	-	-	404,450
Friends support and benefits	31,280	-	-	31,280
Donated goods and services	139,517	-	-	139,517
Investment income (loss)	47,662	11,401	-	59,063
Miscellaneous	74,433	-	-	74,433
Net assets released from restrictions	48,489	(48,489)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<u>5,271,419</u>	<u>4,674</u>	<u>54,875</u>	<u>5,330,968</u>
<b>EXPENSES</b>				
Program services	3,717,943	-	-	3,717,943
Supporting services:				
Management and general	151,143	-	-	151,143
Fundraising	601,743	-	-	601,743
<b>TOTAL EXPENSES</b>	<u>4,470,829</u>	<u>-</u>	<u>-</u>	<u>4,470,829</u>
<b>CHANGE IN NET ASSETS</b>	800,590	4,674	54,875	860,139
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>2,432,407</u>	<u>436,644</u>	<u>75,340</u>	<u>2,944,391</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,232,997</u>	<u>\$ 441,318</u>	<u>\$ 130,215</u>	<u>\$ 3,804,530</u>

See accompanying notes to financial statements.

2012

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 208,911	\$ -	\$ -	\$ 208,911
722,578	-	-	722,578
22,204	-	-	22,204
20,838	-	-	20,838
701,697	-	-	701,697
310,400	-	-	310,400
317,402	23,925	340	341,667
144,432	15,000	-	159,432
199,040	-	-	199,040
384,993	-	-	384,993
37,651	-	-	37,651
169,729	-	-	169,729
2,143	(4,563)	-	(2,420)
59,901	-	-	59,901
526,460	(526,460)	-	-
<u>3,828,379</u>	<u>(492,098)</u>	<u>340</u>	<u>3,336,621</u>
3,320,049	-	-	3,320,049
208,091	-	-	208,091
517,947	-	-	517,947
<u>4,046,087</u>	<u>-</u>	<u>-</u>	<u>4,046,087</u>
(217,708)	(492,098)	340	(709,466)
<u>2,650,115</u>	<u>928,742</u>	<u>75,000</u>	<u>3,653,857</u>
<u>\$ 2,432,407</u>	<u>\$ 436,644</u>	<u>\$ 75,340</u>	<u>\$ 2,944,391</u>

NASHVILLE BALLET

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED MAY 31, 2013 AND 2012

	2013				
	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 1,743,299	\$ 120,457	\$ 202,776	\$ 323,233	\$ 2,066,532
Artist fees, licenses and royalties	405,892	-	510	510	406,402
Theatre and production	356,391	35	161	196	356,587
Professional and contract services	53,408	2,039	83,206	85,245	138,653
Advertising	319,484	129	30,377	30,506	349,990
Communication	4,996	254	428	682	5,678
Occupancy and housing	222,246	4,030	8,889	12,919	235,165
Interest	26,140	1,806	3,349	5,155	31,295
Equipment and supplies	55,882	11,139	5,729	16,868	72,750
Events	915	8	181,696	181,704	182,619
Travel	85,981	493	2,901	3,394	89,375
Insurance	27,219	1,812	8,051	9,863	37,082
Staff development and community involvement	47,930	2,037	12,812	14,849	62,779
Depreciation	231,739	6,294	10,594	16,888	248,627
Miscellaneous	683	8	13	21	704
Bank and ticket fees	135,738	602	50,251	50,853	186,591
<b>TOTAL EXPENSES</b>	<b>\$ 3,717,943</b>	<b>\$ 151,143</b>	<b>\$ 601,743</b>	<b>\$ 752,886</b>	<b>\$ 4,470,829</b>

See accompanying notes to financial statements.



2012

Program Services	Supporting Services			Total
	Management and General	Fundraising	Total Supporting Services	
\$ 1,594,892	\$ 144,011	\$ 197,002	\$ 341,013	\$ 1,935,905
361,355	-	140	140	361,495
304,651	-	-	-	304,651
44,762	11,295	24,758	36,053	80,815
259,915	4,206	12,563	16,769	276,684
4,848	312	427	739	5,587
212,049	5,090	9,077	14,167	226,216
10,124	914	1,250	2,164	12,288
40,254	25,611	9,076	34,687	74,941
1,771	-	207,433	207,433	209,204
59,038	1,934	6,372	8,306	67,344
24,732	2,233	8,055	10,288	35,020
51,789	3,610	11,339	14,949	66,738
236,379	6,839	9,356	16,195	252,574
1,797	428	277	705	2,502
111,693	1,608	20,822	22,430	134,123
<u>\$ 3,320,049</u>	<u>\$ 208,091</u>	<u>\$ 517,947</u>	<u>\$ 726,038</u>	<u>\$ 4,046,087</u>

NASHVILLE BALLET

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MAY 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 860,139	\$ (709,466)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	248,627	252,574
Realized and unrealized losses on investments	(42,755)	6,142
Change in value of beneficial interest in agency endowment fund	(4,139)	4,563
Contributions for capital campaign	(985,804)	-
Contributions - permanently restricted	(54,875)	(340)
(Increase) decrease in:		
Grants receivable	13,180	(20,135)
Contributions receivable	39,606	23,547
Accounts receivable	(7,789)	(3,001)
Prepaid expenses and other	(18,351)	22,077
Cash surrender value of donated life insurance policy	(10,841)	(5,629)
Increase (decrease) in:		
Accounts payable	17,131	(26,917)
Accrued expenses	(943)	56,662
Deferred revenue	113,328	119,482
TOTAL ADJUSTMENTS	(693,625)	429,025
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	166,514	(280,441)
INVESTING ACTIVITIES		
Purchase of property and equipment	(111,590)	(73,887)
Proceeds from sale of investments	4,923	79,698
Purchases of investments	(130,909)	(459,705)
NET CASH USED IN INVESTING ACTIVITIES	(237,576)	(453,894)
FINANCING ACTIVITIES		
Collections for capital campaign	159,000	-
Principal payments on notes payable	(35,386)	(7,527)
Proceeds from contributions restricted for permanent endowment	54,875	340
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	178,489	(7,187)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	107,427	(741,522)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	442,429	1,183,951
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 549,856	\$ 442,429

(Continued on next page)

See accompanying notes to financial statements.

NASHVILLE BALLET

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED MAY 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OTHER CASH FLOW DISCLOSURES:		
Interest expense paid during the year	<u>\$ 31,295</u>	<u>\$ 12,288</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>(1,502,939)</u>	<u>-</u>
Net cash received at closing	<u>\$ (36,430)</u>	<u>\$ -</u>

See accompanying notes to financial statements.

NASHVILLE BALLET  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2013 AND 2012

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, 2013 AND 2012

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, 2013 AND 2012

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, 2013 and 2012.

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. Cash on the statement of cash flows does not include amounts designated as capital campaign assets.

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 (1.05% 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, 2013 AND 2012

#### 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, 2013 AND 2012

#### 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, 2013 and 2012.

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 of appropriating for distribution each year a payout of 4 to 5% of the moving average of the permanently restricted investment balance, which is based on the quarter-end values of the portfolio over the previous three years. The spending amount resulting from this calculation is withdrawn over four quarters. The Investment Committee votes annually on the exact percentage to be withdrawn over the upcoming fiscal year. Earnings on the Board designated endowment are designated for other purposes and do not increase the endowment balance.



NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2013 AND 2012

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, 5% to 10% mid cap equity and small cap equity, 12% to 18% international equity, and 35% to 50% fixed income.

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, 2013 AND 2012

#### 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, 2013 and 2012 totaled approximately \$350,000 and \$277,000, 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.

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. The Ballet's returns for the years prior to fiscal year 2010 are no longer open to examination. For the year ended May 31, 2013, the Ballet will also file form 990T for organizations exempt from income tax with unrelated business income related directly to the rental of property purchased in 2012. This expense is expected to be nominal and was not accrued in these financial statements.

##### 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, 2013 AND 2012

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, 2013 and September 25, 2013, 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 2012 financial statements to conform to the 2013 presentation. These reclassifications had no effect on the change in net assets previously reported.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2013 AND 2012

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at May 31:

	<u>2013</u>	<u>2012</u>
Capital campaign:		
Due in less than one year	\$ 223,810	\$ -
One to five years	<u>659,190</u>	<u>-</u>
	883,000	-
Less: discount to present value	(17,196)	-
Less: allowance for uncollectible pledges	<u>(39,000)</u>	<u>-</u>
	<u>\$ 826,804</u>	<u>\$ -</u>
Contributions receivable - other		
Due in less than one year	\$ 34,117	\$ 79,725
Less: allowance for uncollectible pledges	<u>(2,370)</u>	<u>(8,372)</u>
	<u>\$ 31,747</u>	<u>\$ 71,353</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 \$61,606 as of May 31, 2013 (\$57,467 as of May 31, 2012).

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 \$200,710 during fiscal year 2013 (\$184,000 during fiscal year 2012). Total assets held in these funds approximated \$4,000,000 at May 31, 2013 and \$3,600,000 at May 31, 2012.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2013 AND 2012

NOTE 4 - INVESTMENTS

Investments consisted of the following at May 31:

	<u>2013</u>	<u>2012</u>
Money market accounts	\$ 42,595	\$ 11,795
Certificate of deposit	65,836	-
Corporate bonds	117,314	82,280
Mutual funds	285,994	241,123
Equities	<u>30,867</u>	<u>38,667</u>
Total	<u>\$ 542,606</u>	<u>\$ 373,865</u>

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

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 12,169	\$ 8,285
Realized and unrealized gains (losses) on investments - net	42,755	(6,142)
Change in value of beneficial interest in agency endowment fund	<u>4,139</u>	<u>(4,563)</u>
Total investment income	<u>\$ 59,063</u>	<u>\$ (2,420)</u>

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2013 AND 2012

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:

	2013			
	Level 1	Level 2	Level 3	Total
Investments:				
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	434,175	-	-	434,175
Beneficial interest in agency endowment fund	-	61,606	-	61,606
Total	\$ 434,175	\$ 61,606	\$ -	\$ 495,781

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2013 AND 2012

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2012			
	Level 1	Level 2	Level 3	Total
Investments:				
Corporate bonds	\$ 82,280	\$ -	\$ -	\$ 82,280
Mutual funds:				-
Bank loan funds	4,365	-	-	4,365
Commodities broad basket funds	4,563	-	-	4,563
Consumer defensive funds	8,512	-	-	8,512
Emerging markets bond funds	28,450	-	-	28,450
Equity energy funds	4,627	-	-	4,627
Foreign large blend funds	17,669	-	-	17,669
High yield bond funds	4,888	-	-	4,888
International equity funds	7,298	-	-	7,298
Large blend funds	18,985	-	-	18,985
Large growth funds	33,128	-	-	33,128
Large value funds	29,991	-	-	29,991
Mid-cap blend funds	17,956	-	-	17,956
Moderate allocation funds	5,289	-	-	5,289
Multi-alternative funds	6,863	-	-	6,863
Natural resources funds	4,680	-	-	4,680
Short-term bond funds	40,595	-	-	40,595
Small value funds	3,264	-	-	3,264
Equities:				
Services	26,932	-	-	26,932
Utilities	6,260	-	-	6,260
Financial	5,475	-	-	5,475
Total investments	362,070	-	-	362,070
Beneficial interest in agency endowment fund	-	57,467	-	57,467
Total	\$ 362,070	\$ 57,467	\$ -	\$ 419,537

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2013 AND 2012

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at May 31:

	<u>2013</u>	<u>2012</u>
Building	\$ 2,547,886	\$ 1,145,715
Building improvements	1,156,758	1,133,070
Land	130,000	-
Costumes	1,056,892	1,032,789
Sets and props	1,000,041	971,847
Furniture and equipment	180,111	173,738
Vehicles	<u>41,748</u>	<u>41,748</u>
	6,113,436	4,498,907
Less: accumulated depreciation	<u>(2,254,706)</u>	<u>(2,006,079)</u>
	<u>\$ 3,858,730</u>	<u>\$ 2,492,828</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 calls for the initial term to end in May 2014, and allows for a six-month extension. The tenant may terminate the agreement with 30 days written notice. The Ballet received \$46,000 in rent revenue during the year ended May 31, 2013.

NOTE 7 - NOTES PAYABLE

In August 2010, the Ballet entered into a draw note for building improvements with SunTrust Bank. Effective January 31, 2011, the note was converted to fixed monthly principal and interest installments of \$1,650 at 4.8%. In November 2012, this note was rolled into the new agreement executed for the building purchase (see below).

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 are due until maturity on November 21, 2017, at which time a balloon payment will be due.



NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2013 AND 2012

NOTE 7 - NOTES PAYABLE (CONTINUED)

Annual principal maturities under the note as of May 31, 2013, follows:

For the year ending May 31,

2014	\$ 63,111
2015	65,025
2016	66,870
2017	69,024
2018	<u>1,450,814</u>
	<u>\$ 1,714,844</u>

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, 2013 was 4.25%. The line of credit is due on demand. As of May 31, 2013 and 2012, there was no outstanding balance. In August 2013, the Ballet increased the line of credit to \$550,000 with interest payable monthly at the bank's prime rate. The revised line of credit will mature in August 2014.

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

NOTE 8 - NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Designated as endowment	\$ 125,000	\$ 125,000
Designated for the purchase of property and equipment	104,661	118,199
Designated for the Ballet Ball	50,000	50,000
Designated as cash reserve	100,000	-
Designated for capital campaign expenses and related debt service	819,959	-
Designated other	<u>42,225</u>	<u>-</u>
	<u>\$ 1,241,845</u>	<u>\$ 293,199</u>

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2013 AND 2012

NOTE 8 - NET ASSETS (CONTINUED)

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

	<u>2013</u>	<u>2012</u>
Nutcracker creation and renovation fund	\$ 260,533	\$ 261,615
Donations or pledges for subsequent periods	162,554	167,562
Unspent earnings on endowment fund	<u>18,231</u>	<u>7,467</u>
	<u>\$ 441,318</u>	<u>\$ 436,644</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.

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

	<u>2013</u>			
	<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>
Total	<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, 2013 AND 2012

NOTE 9 - ENDOWMENT (CONTINUED)

	<u>2012</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-designated endowment funds	\$ (98)	\$ 7,467	\$ 75,340	\$ 82,709
Board-designated endowment funds	<u>124,508</u>	<u>-</u>	<u>-</u>	<u>124,508</u>
	<u>\$ 124,410</u>	<u>\$ 7,467</u>	<u>\$ 75,340</u>	<u>\$ 207,217</u>

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

	<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 losses 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, 2013 AND 2012

NOTE 9 - ENDOWMENT (CONTINUED)

	<u>2012</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets,				
June 1, 2011	\$ 125,000	\$ 12,030	\$ 75,000	\$ 212,030
Contributions	-	-	340	340
Interest and dividend income	2,556	511	-	3,067
Realized and unrealized losses on investments	(1,960)	(392)	-	(2,352)
Change in value of beneficial interest in agency endowment fund	-	(4,563)	-	(4,563)
Amounts appropriated for expenditure	<u>(1,186)</u>	<u>(119)</u>	<u>-</u>	<u>(1,305)</u>
Endowment net assets,				
May 31, 2012	<u>\$ 124,410</u>	<u>\$ 7,467</u>	<u>\$ 75,340</u>	<u>\$ 207,217</u>

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 that are reported in unrestricted net assets were \$98 as of May 31, 2012. In addition, board-designated endowment funds had deficiencies of this nature reported in unrestricted net assets of \$492 as of May 31, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of the board-designated and a permanently restricted contribution received in 2011. There were no such deficiencies as of May 31, 2013.

NOTE 10 - LEASE COMMITMENTS

The Ballet has an agreement to lease a general office and dance studio in Brentwood, Tennessee. During the year ended 2012, the Ballet renegotiated the terms of the lease extending the expiration date to December 31, 2014 with monthly lease payments ranging from \$3,783 to \$4,013.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2013 AND 2012

NOTE 10 - LEASE COMMITMENTS (CONTINUED)

At May 31, 2013, minimum rental payments due under this operating leases are as follows:

Year Ending May 31:

2014	\$	46,642
2015		<u>27,975</u>
Total	\$	<u>74,617</u>

Rent expense totaled approximately \$45,000 for the years ended May 31, 2013 and 2012.

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, 2013, receivables from three sources totaled approximately \$845,000, or 87% of total receivables. At May 31, 2012, receivables from two sources totaled approximately \$94,000 or 50% of total receivables.

Combined grants from two sources amounted to approximately \$243,250, or 96% of total grant revenues for the year ended May 31, 2013 (approximately \$268,000, or 86% of total grant revenues for the year ended May 31, 2012).

Combined contributions from three sources amounted to approximately \$1,000,000, or 47% of total contribution revenues for the year ended May 31, 2013 (approximately \$199,000, or 28% of total contribution revenues from one source for the year ended May 31, 2012).

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.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2013 AND 2012

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. In May 2013 the board approved a 2.5% employer matching contribution (2% approved in April 2012). Ballet contributions to the plan totaled \$23,135 for the year ended May 31, 2013 (\$17,527 in 2012).

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.