



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

3310 WEST END AVENUE, SUITE 550
NASHVILLE, TENNESSEE 37203
PHONE 615-383-6592, FAX 615-383-7094

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nashville Ballet
Nashville, Tennessee

We have audited the accompanying statements of financial position of the Nashville Ballet as of May 31, 2008 and 2007 and the related statements of activities, functional expenses and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nashville Ballet as of May 31, 2008 and 2007, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

August 20, 2008

NASHVILLE BALLET
STATEMENTS OF FINANCIAL POSITION
May 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,128,839	\$ 499,581
Certificate of deposit	-	355,590
Beneficial interest in assets	71,030	74,115
Grants and other receivables	131,265	81,332
Pledges receivable, net	269,634	307,947
Inventory	16,372	13,368
Prepaid expenses and other	<u>77,653</u>	<u>53,546</u>
Total current assets	1,694,793	1,385,479
Pledges receivable, noncurrent, net	52,885	98,166
Consortium production, net	5,597	8,676
Property and equipment, net	1,781,419	1,767,809
Cash surrender value of life insurance (donor)	<u>83,167</u>	<u>68,175</u>
Total assets	<u><u>\$ 3,617,861</u></u>	<u><u>\$ 3,328,305</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 51,222	\$ 17,441
Accrued expenses	12,925	13,185
Unearned school tuition	<u>125,811</u>	<u>160,031</u>
Total liabilities	<u>189,958</u>	<u>190,657</u>
Net assets:		
Unrestricted	2,121,971	1,987,362
Temporarily restricted	1,234,902	1,076,171
Permanently restricted	<u>71,030</u>	<u>74,115</u>
Total net assets	<u>3,427,903</u>	<u>3,137,648</u>
Total liabilities and net assets	<u><u>\$ 3,617,861</u></u>	<u><u>\$ 3,328,305</u></u>

See notes to financial statements.

NASHVILLE BALLET
STATEMENT OF ACTIVITIES
Year ended May 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Ticket sales	\$ 712,000	\$ -	\$ -	\$ 712,000
Individual contributions	667,931	14,992	-	682,923
Tuition	540,941	-	-	540,941
New Nutcracker capital campaign contributions	-	269,600	-	269,600
Contributions from The Community Foundation of Middle TN	264,443	-	-	264,443
Ballet Ball revenue	246,329	-	-	246,329
Corporate and foundation contributions	212,989	16,667	-	229,656
Grants	196,766	-	-	196,766
Miscellaneous	66,211	-	-	66,211
In-kind contributions	54,653	-	-	54,653
Investment income	42,117	-	(3,085)	39,032
Touring and special projects	24,660	-	-	24,660
Outreach	22,977	-	-	22,977
Friends support and benefits	13,200	-	-	13,200
School and workshops	12,851	-	-	12,851
Net assets released from restrictions	142,528	(142,528)	-	-
	<u>3,220,596</u>	<u>158,731</u>	<u>(3,085)</u>	<u>3,376,242</u>
Total support and revenue				
Expenses:				
Program services	2,403,916	-	-	2,403,916
Management and general	393,514	-	-	393,514
Fundraising	288,557	-	-	288,557
	<u>3,085,987</u>	<u>-</u>	<u>-</u>	<u>3,085,987</u>
Total expenses				
Net increase (decrease) in net assets	134,609	158,731	(3,085)	290,255
Net assets, beginning of year	<u>1,987,362</u>	<u>1,076,171</u>	<u>74,115</u>	<u>3,137,648</u>
Net assets, end of year	<u>\$ 2,121,971</u>	<u>\$ 1,234,902</u>	<u>\$ 71,030</u>	<u>\$ 3,427,903</u>

See notes to financial statements.

NASHVILLE BALLET
STATEMENT OF ACTIVITIES
Year ended May 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
New Nutcracker capital				
campaign contributions	\$ 70,909	\$ 1,001,514	\$ -	\$ 1,072,423
Individual contributions	589,336	72,171	-	661,507
Ticket sales	623,540	-	-	623,540
Tuition	553,376	-	-	553,376
Ballet Ball revenue	332,238	-	-	332,238
Corporate and foundation				
contributions	303,297	2,486	-	305,783
Contributions from The Community				
Foundation of Middle TN	246,854	-	-	246,854
Grants	156,507	-	-	156,507
In-kind contributions	107,184	-	-	107,184
Miscellaneous	57,416	-	-	57,416
Touring and special projects	39,275	-	-	39,275
Friends support and benefits	33,410	-	-	33,410
Outreach	21,900	-	-	21,900
School and workshops	8,424	-	-	8,424
Investment income	-	-	7,442	7,442
Net assets released from restrictions	161,890	(161,890)	-	-
	<u>3,305,556</u>	<u>914,281</u>	<u>7,442</u>	<u>4,227,279</u>
Total support and revenue				
Expenses:				
Program services	2,393,015	-	-	2,393,015
Management and general	295,005	-	-	295,005
Fundraising	355,489	-	-	355,489
	<u>3,043,509</u>	<u>-</u>	<u>-</u>	<u>3,043,509</u>
Total expenses				
Net increase (decrease) in net assets	262,047	914,281	7,442	1,183,770
Net assets, beginning of year	1,725,315	161,890	66,673	1,953,878
Net assets, end of year	<u>\$ 1,987,362</u>	<u>\$ 1,076,171</u>	<u>\$ 74,115</u>	<u>\$ 3,137,648</u>

See notes to financial statements.

NASHVILLE BALLET
STATEMENT OF FUNCTIONAL EXPENSES
Year ended May 31, 2008

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 896,006	\$ 261,335	\$ 87,112	\$ 1,244,453
Marketing	327,326	-	-	327,326
Theater rental and crew expense	194,479	-	-	194,479
Payroll taxes	141,396	35,820	11,312	188,528
Symphony fees	156,045	-	-	156,045
Rent and utilities	99,504	27,494	3,928	130,926
Ballet Ball expense	-	-	123,307	123,307
Depreciation	93,554	25,850	3,693	123,097
Production expense	94,521	-	-	94,521
Choreography and artistic fees	91,836	-	-	91,836
School expense	89,817	-	-	89,817
Employee benefits	52,049	11,344	3,336	66,729
Friends boutique and costs	39,533	-	-	39,533
Development	-	-	33,748	33,748
Miscellaneous	25,097	6,935	991	33,023
Office supplies and postage	17,564	8,468	5,332	31,364
Liability and property insurance	22,210	6,137	877	29,224
Interest and service charges	14,564	4,024	575	19,163
Outreach	18,258	-	-	18,258
Travel and vehicle expense	12,743	-	-	12,743
Capital campaign fees	-	-	12,000	12,000
Legal and professional	8,791	2,429	347	11,567
Equipment expense	6,282	3,029	1,907	11,218
Amortization	2,341	649	92	3,082
Total expenses	<u>\$ 2,403,916</u>	<u>\$ 393,514</u>	<u>\$ 288,557</u>	<u>\$ 3,085,987</u>

See notes to financial statements.

NASHVILLE BALLET
STATEMENT OF FUNCTIONAL EXPENSES
Year ended May 31, 2007

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 861,460	\$ 209,422	\$ 95,255	\$ 1,166,137
Marketing	325,821	-	-	325,821
Theater rental and crew expense	208,609	-	-	208,609
Payroll taxes	127,622	33,906	9,796	171,324
Symphony fees	145,931	-	-	145,931
Rent and utilities	120,589	12,620	7,011	140,220
Ballet Ball expense	-	-	131,299	131,299
Depreciation	107,468	11,247	6,248	124,963
Choreography and artistic fees	91,140	-	-	91,140
School expense	88,910	-	-	88,910
Production expense	80,897	-	-	80,897
Employee benefits	62,898	8,990	4,968	76,856
Capital campaign fees	-	-	64,652	64,652
Friends boutique and costs	46,866	-	-	46,866
Liability and property insurance	22,797	2,386	1,325	26,508
Development	-	-	25,105	25,105
Travel and vehicle expense	20,123	2,106	1,170	23,399
Interest and service charges	20,273	2,122	1,178	23,573
Office supplies and postage	11,544	5,566	3,504	20,614
Miscellaneous	15,039	1,574	874	17,487
Outreach	15,878	-	-	15,878
Equipment expense	8,112	3,911	2,462	14,485
Legal and professional	8,389	878	488	9,755
Amortization	2,649	277	154	3,080
Total expenses	<u>\$ 2,393,015</u>	<u>\$ 295,005</u>	<u>\$ 355,489</u>	<u>\$ 3,043,509</u>

See notes to financial statements.

NASHVILLE BALLET
STATEMENTS OF CASH FLOWS
Years ended May 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 290,255	\$ 1,183,770
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	126,178	128,043
Discount on pledges receivable	5,248	-
Bad debt provision	6,817	-
Change in operating assets and liabilities:		
Decrease in beneficial interest in assets	3,085	-
(Increase) in grants and other receivables	(49,933)	(26,527)
Decrease (increase) in pledges receivable	71,529	(314,997)
(Increase) in inventory	(3,004)	(3,957)
(Increase) in prepaid expenses and other	(24,107)	(26,429)
(Increase) in cash surrender value of life insurance	(14,992)	(68,175)
Increase (decrease) in accounts payable	33,781	(3,137)
(Decrease) in accrued expenses	(260)	(8,719)
(Decrease) increase in unearned school tuition	(34,220)	27,279
(Decrease) in fundraising fees payable	-	(25,343)
Net cash provided by operating activities	<u>410,377</u>	<u>861,808</u>
Cash flows from investing activities:		
Purchase of certificate of deposit	-	(355,590)
Redemption of certificate of deposit	355,590	-
Investment purchases	-	(7,442)
Purchase of property and equipment	<u>(136,709)</u>	<u>(57,615)</u>
Net cash provided by (used in) investing activities	<u>218,881</u>	<u>(420,647)</u>
Cash flows from financing activities:		
Payments on long-term debt	<u>-</u>	<u>(213,000)</u>
Net cash used in financing activities	<u>-</u>	<u>(213,000)</u>
Net increase in cash and cash equivalents	629,258	228,161
Cash and cash equivalents, beginning of year	<u>499,581</u>	<u>271,420</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,128,839</u></u>	<u><u>\$ 499,581</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	<u><u>\$ -</u></u>	<u><u>\$ 9,714</u></u>

See notes to financial statements.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS
Years ended May 31, 2008 and 2007

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 reflect 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)
Years ended May 31, 2008 and 2007

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, equipment, and miscellaneous other items. The fair value of the donated services is reflected as in-kind contributions, and the majority of the amount is included in marketing expenses under program services or is capitalized as property and equipment.

In addition, 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

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.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Years ended May 31, 2008 and 2007

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 \$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 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 years ended May 31, 2008 and 2007 totaled \$153,129 of which \$41,600 represents in-kind contributions and \$128,915 of which \$44,614 represents in-kind contributions, respectively.

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.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Years ended May 31, 2008 and 2007

NOTE 2 – CERTIFICATE OF DEPOSIT

The Ballet maintained a certificate of deposit with a balance of \$355,590 at May 31, 2007. The certificate of deposit earned interest at a rate of 4.7% and matured in August 2007, at which time the Organization redeemed the certificate of deposit.

NOTE 3 – 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 \$71,030 and \$74,115 at May 31, 2008 and 2007, respectively, as a beneficial interest in assets held by the Community Foundation of Middle Tennessee.

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 4 – PLEDGES RECEIVABLE

Pledges receivable at May 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Pledges receivable – Capital Campaigns	\$ 334,584	\$ 418,178
Less allowance for pledges receivable	(6,817)	(6,817)
Less discounts to net present value	<u>(5,248)</u>	<u>(5,248)</u>
Net pledges receivable	<u>\$ 322,519</u>	<u>\$ 406,113</u>
Net amounts due in:		
Less than one year	\$ 269,634	\$ 307,947
One to five years	<u>52,885</u>	<u>98,166</u>
	<u>\$ 322,519</u>	<u>\$ 406,113</u>

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Years ended May 31, 2008 and 2007

NOTE 4 – PLEDGES RECEIVABLE (Continued)

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 2.22%.

NOTE 5 – 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 years ended May 31, 2008 and 2007 amounted to \$3,082.

	<u>2008</u>	<u>2007</u>
Consortium production	\$ 33,596	\$ 33,596
Less: accumulated amortization	<u>(27,999)</u>	<u>(24,920)</u>
	<u>\$ 5,597</u>	<u>\$ 8,676</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Depreciation expense for the years ended May 31, 2008 and 2007 amounted to \$123,097 and \$124,963, respectively. 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Building	\$ 1,145,715	\$ 1,145,715
Building improvements	852,074	830,724
Costumes	466,644	381,297
Sets and props	474,405	446,484
Furniture and equipment	141,476	140,476
Vehicles	<u>39,083</u>	<u>39,083</u>
	3,119,397	2,983,779
Less: accumulated depreciation	<u>(1,337,978)</u>	<u>(1,215,970)</u>
	<u>\$ 1,781,419</u>	<u>\$ 1,767,809</u>

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Years ended May 31, 2008 and 2007

NOTE 7 – LONG-TERM DEBT

The Organization's long-term debt was paid in full during fiscal 2007. The agreement required monthly interest payments computed at 5.5%. Principal payments of \$200,000 were required each January. The note was secured by the deed to the Ballet's property at 3630 Redmon Street. Interest expense totaled \$9,714 for the year ended May 31, 2007.

NOTE 8 – RESTRICTIONS ON NET ASSETS

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

	<u>2008</u>	<u>2007</u>
New Nutcracker and building renovation pledges, net	\$ 1,149,065	\$ 1,001,514
For subsequent periods	<u>85,837</u>	<u>74,657</u>
	<u>\$ 1,234,902</u>	<u>\$ 1,076,171</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 9 – 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 began 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, 2008, minimum rental payments due under all operating leases are as follows:

Year Ending <u>May 31</u>	
2009	\$ 43,004
2010	44,082
2011	<u>3,681</u>
Total	<u>\$ 90,767</u>

Rent expense totaled \$42,191 and \$41,211 for the years ended May 31, 2008 and 2007, respectively.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Years ended May 31, 2008 and 2007

NOTE 10 – 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 \$873,116 and \$589,648 at May 31, 2008 and 2007, respectively. 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 2008 and 2007.

Amounts receivable from a major donor at May 31, 2007 totaled \$150,000.

NOTE 11 – 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.

NOTE 12 – CAPITAL CAMPAIGN

The Ballet began a new capital campaign in fiscal 2006. The new campaign is raising funds to complete the building renovation at the main campus location and to support a new Nutcracker production. The Ballet's goal for this campaign is to raise approximately \$2,000,000. As of May 31, 2008, the Ballet had received funds and pledges in the amount of \$1,442,123 for support of this campaign.

NOTE 13 – 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 makes 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 year ended May 31, 2008.