

NASHVILLE BALLET  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
MAY 31, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Nashville Ballet  
Nashville, Tennessee

We have audited the accompanying statements of financial position of the Nashville Ballet (the "Ballet") as of May 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years 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 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 that 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, 2012 and 2011, 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.

*KraftCPAs PLLC*

Nashville, Tennessee  
September 11, 2012

NASHVILLE BALLET  
STATEMENTS OF FINANCIAL POSITION  
MAY 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 442,429	\$ 1,183,951
Receivables:		
Accounts	17,524	14,523
Grants	98,440	78,305
Contributions, net	71,353	62,900
Prepaid expenses and other	<u>37,463</u>	<u>59,540</u>
TOTAL CURRENT ASSETS	667,209	1,399,219
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	57,467	62,030
Investments	373,865	-
Contributions receivable, noncurrent, net	-	32,000
Property and equipment, net	2,492,828	2,671,515
Cash surrender value of donated life insurance policy	<u>118,312</u>	<u>112,683</u>
TOTAL ASSETS	<u>\$ 3,709,681</u>	<u>\$ 4,277,447</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 27,381	\$ 54,298
Payroll liabilities	80,449	23,787
Deferred revenue	410,169	290,687
Note payable, current portion	<u>8,114</u>	<u>7,734</u>
TOTAL CURRENT LIABILITIES	<u>526,113</u>	<u>376,506</u>
Note payable, less current portion	<u>239,177</u>	<u>247,084</u>
NET ASSETS		
Unrestricted:		
Designated as an endowment	125,000	125,000
Designated for the purchase of property and equipment	118,199	118,199
Designated for the Ballet Ball	50,000	50,000
Invested in property and equipment, less related debt	2,245,537	2,416,697
Undesignated (deficit)	<u>(106,329)</u>	<u>(59,781)</u>
Total unrestricted	2,432,407	2,650,115
Temporarily restricted	436,644	928,742
Permanently restricted	<u>75,340</u>	<u>75,000</u>
TOTAL NET ASSETS	<u>2,944,391</u>	<u>3,653,857</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,709,681</u>	<u>\$ 4,277,447</u>

See accompanying notes to financial statements.

NASHVILLE BALLET

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED MAY 31, 2012 AND 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Season ticket sales	\$ 208,911	\$ -	\$ -	\$ 208,911
Single and group ticket sales	722,578	-	-	722,578
Rentals and touring	22,204	-	-	22,204
Outreach	20,838	-	-	20,838
School tuition	701,697	-	-	701,697
Public Support:				
Grants	310,400	-	-	310,400
Individual contributions	317,402	23,925	340	341,667
Corporate and foundation contributions	144,432	15,000	-	159,432
Contributions from the Community Foundation of Middle Tennessee	199,040	-	-	199,040
Ballet Ball revenue	384,993	-	-	384,993
Friends support and benefits	37,651	-	-	37,651
Donated goods and services	169,729	-	-	169,729
Investment income (loss)	2,143	(4,563)	-	(2,420)
Miscellaneous	59,901	-	-	59,901
Net assets released from restrictions	526,460	(526,460)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>3,828,379</b>	<b>(492,098)</b>	<b>340</b>	<b>3,336,621</b>
<b>EXPENSES</b>				
Program services	3,320,049	-	-	3,320,049
Supporting services:				
Management and general	208,091	-	-	208,091
Fundraising	517,947	-	-	517,947
<b>TOTAL EXPENSES</b>	<b>4,046,087</b>	<b>-</b>	<b>-</b>	<b>4,046,087</b>
<b>CHANGE IN NET ASSETS</b>	<b>(217,708)</b>	<b>(492,098)</b>	<b>340</b>	<b>(709,466)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>2,650,115</b>	<b>928,742</b>	<b>75,000</b>	<b>3,653,857</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 2,432,407</b>	<b>\$ 436,644</b>	<b>\$ 75,340</b>	<b>\$ 2,944,391</b>

See accompanying notes to financial statements.

2011

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 220,940	\$ -	\$ -	\$ 220,940
662,028	-	-	662,028
21,779	-	-	21,779
22,141	-	-	22,141
598,175	-	-	598,175
243,250	-	-	243,250
263,911	45,153	25,000	334,064
640,139	473,000	-	1,113,139
190,400	-	-	190,400
552,914	-	-	552,914
19,622	-	-	19,622
104,934	-	-	104,934
(224)	7,887	-	7,663
46,109	-	-	46,109
16,069	(16,069)	-	-
<u>3,602,187</u>	<u>509,971</u>	<u>25,000</u>	<u>4,137,158</u>
2,956,133	-	-	2,956,133
243,452	-	-	243,452
<u>434,008</u>	<u>-</u>	<u>-</u>	<u>434,008</u>
<u>3,633,593</u>	<u>-</u>	<u>-</u>	<u>3,633,593</u>
(31,406)	509,971	25,000	503,565
<u>2,681,521</u>	<u>418,771</u>	<u>50,000</u>	<u>3,150,292</u>
<u>\$ 2,650,115</u>	<u>\$ 928,742</u>	<u>\$ 75,000</u>	<u>\$ 3,653,857</u>

NASHVILLE BALLET

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED MAY 31, 2012 AND 2011

	2012				
	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 1,594,892	\$ 144,011	\$ 197,002	\$ 341,013	\$ 1,935,905
Artist fees, licenses and royalties	361,355	-	140	140	361,495
Theatre and production	304,651	-	-	-	304,651
Professional and contract services	44,762	11,295	24,758	36,053	80,815
Advertising	259,915	4,206	12,563	16,769	276,684
Communication	4,848	312	427	739	5,587
Occupancy and housing	212,049	5,090	9,077	14,167	226,216
Equipment and supplies	40,254	25,611	9,076	34,687	74,941
Events	1,771	-	207,433	207,433	209,204
Travel	59,038	1,934	6,372	8,306	67,344
Insurance	24,732	2,233	8,055	10,288	35,020
Staff development and community involvement	51,789	3,610	11,339	14,949	66,738
Depreciation	236,379	6,839	9,356	16,195	252,574
Miscellaneous	1,797	428	277	705	2,502
Bank and ticket fees	121,817	2,522	22,072	24,594	146,411
<b>TOTAL EXPENSES</b>	<b>\$ 3,320,049</b>	<b>\$ 208,091</b>	<b>\$ 517,947</b>	<b>\$ 726,038</b>	<b>\$ 4,046,087</b>

See accompanying notes to financial statements.

2011

Program Services	Supporting Services			Total
	Management and General	Fundraising	Total Supporting Services	
\$ 1,384,297	\$ 119,492	\$ 179,607	\$ 299,099	\$ 1,683,396
297,624	1,033	-	1,033	298,657
272,644	-	-	-	272,644
38,944	29,915	21,200	51,115	90,059
345,166	-	5,755	5,755	350,921
2,701	1,033	238	1,271	3,972
155,910	18,780	7,396	26,176	182,086
59,338	12,781	3,716	16,497	75,835
348	-	179,616	179,616	179,964
27,895	1,166	269	1,435	29,330
20,613	7,881	7,918	15,799	36,412
22,421	3,808	9,083	12,891	35,312
222,298	22,881	5,280	28,161	250,459
-	4,995	54	5,049	5,049
105,934	19,687	13,876	33,563	139,497
<u>\$ 2,956,133</u>	<u>\$ 243,452</u>	<u>\$ 434,008</u>	<u>\$ 677,460</u>	<u>\$ 3,633,593</u>



NASHVILLE BALLET

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MAY 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (709,466)	\$ 503,565
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	252,574	251,460
Realized and unrealized losses on investments	6,142	-
Change in value of beneficial interest in agency endowment fund	4,563	(7,487)
Contributions - permanently restricted	(340)	(25,000)
(Increase) decrease in:		
Grants receivable	(20,135)	(10,508)
Contributions receivable	23,547	166,998
Accounts receivable	(3,001)	11,072
Prepaid expenses and other	22,077	(44,143)
Cash surrender value of donated life insurance policy	(5,629)	(10,003)
Increase (decrease) in:		
Accounts payable	(26,917)	(57,923)
Accrued expenses	56,662	15,284
Deferred revenue	119,482	125,437
TOTAL ADJUSTMENTS	<u>429,025</u>	<u>415,187</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(280,441)</u>	<u>918,752</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(73,887)	(319,056)
Proceeds from sale of investments	79,698	-
Purchases of investments	<u>(459,705)</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(453,894)</u>	<u>(319,056)</u>
FINANCING ACTIVITIES		
Proceeds from note payable	-	257,904
Principal payments on note payable	(7,527)	(3,086)
Proceeds from contributions restricted for permanent endowment	<u>340</u>	<u>25,000</u>
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(7,187)</u>	<u>279,818</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(741,522)	879,514
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,183,951</u>	<u>304,437</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 442,429</u>	<u>\$ 1,183,951</u>
OTHER CASH FLOW DISCLOSURES:		
Interest expense paid during the year	<u>\$ 12,288</u>	<u>\$ 6,841</u>

See accompanying notes to financial statements.

NASHVILLE BALLET  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

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 25,000 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, 2012 AND 2011

#### 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 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, 2012 AND 2011

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 GAAP.

Cash and Cash Equivalents

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

Contributions Receivable

Unconditional 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.

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, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

*Stocks, mutual funds, corporate bonds and liquid asset accounts* - Valued based on quoted market prices on the last business day of the reporting period.

There have been no changes in the valuation methodologies used at May 31, 2012 and 2011.

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").

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (Continued)

*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, 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.

*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.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (Continued)

*Investment return objective, risk parameters and strategies (continued)*

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 are stated 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.

Advertising

The Ballet's advertising costs are expensed as incurred. Advertising expense for the years ended May 31, 2012 and 2011 totaled approximately \$277,000 and \$351,000, 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 2009 are no longer open to examination.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.



NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Ballet has evaluated events and transactions that occurred between May 31, 2012 and September 11, 2012, 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. In the 2011 financial statements, \$125,000 was reclassified from undesignated unrestricted net assets to net assets designated as an endowment. Additionally, prior year depreciation expense allocated to program services increased \$51,986, with a corresponding decrease in management and general and fundraising of \$42,238 and \$9,748, respectively. These reclassifications had no effect on the change in net assets for the year.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at May 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Contributions receivable	\$ 79,725	\$ 101,450
Less allowance for contributions receivable	<u>(8,372)</u>	<u>(6,550)</u>
Net contributions receivable	<u>\$ 71,353</u>	<u>\$ 94,900</u>
Net amounts due in:		
Less than one year	\$ 71,353	\$ 62,900
One to five years	<u>-</u>	<u>32,000</u>
	<u>\$ 71,353</u>	<u>\$ 94,900</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.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

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 \$57,467 as of May 31, 2012 (\$62,030 as of May 31, 2011).

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 \$184,000 during fiscal year 2012 (\$181,500 during fiscal year 2011). Total assets held in these funds approximated \$3,600,000 at May 31, 2012 and \$3,900,000 at May 31, 2011.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 4 - 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:

	2012			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	\$ 11,795	\$ -	\$ -	\$ 11,795
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	373,865	-	-	373,865
Beneficial interest in agency endowment fund	-	57,467	-	57,467
Total	\$ 373,865	\$ 57,467	\$ -	\$ 431,332

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2011			
	Level 1	Level 2	Level 3	Total
Beneficial interest in agency endowment fund	\$ -	\$ 62,030	\$ -	\$ 62,030

NOTE 5 - INVESTMENTS

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

	2012	2011
Interest and dividend income	\$ 8,285	\$ 176
Realized and unrealized losses on investments - net	(6,142)	-
Change in value of beneficial interest in agency endowment fund	(4,563)	7,487
Total investment income	\$ (2,420)	\$ 7,663

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at May 31:

	<u>2012</u>	<u>2011</u>
Building	\$ 1,145,715	\$ 1,145,715
Building improvements	1,133,070	1,124,656
Costumes	1,032,789	1,024,941
Sets and props	971,847	917,052
Furniture and equipment	173,738	170,908
Vehicles	<u>41,748</u>	<u>41,748</u>
	4,498,907	4,425,020
Less: accumulated depreciation	<u>(2,006,079)</u>	<u>(1,753,505)</u>
	<u>\$ 2,492,828</u>	<u>\$ 2,671,515</u>

NOTE 7 - 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, 2012, follows:

<u>For the year ending May 31,</u>	
2013	\$ 8,114
2014	8,512
2015	8,930
2016	<u>221,735</u>
	<u>\$ 247,291</u>

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 7 - 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, 2012 was 4.25%. The line of credit is due on demand. As of May 31, 2012, 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 8 - RESTRICTIONS ON NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Nutcracker creation and renovation fund	\$ 261,615	\$ 295,880
Donations or pledges for subsequent periods	167,562	620,832
Unspent earnings on endowment fund	<u>7,467</u>	<u>12,030</u>
	<u>\$ 436,644</u>	<u>\$ 928,742</u>

NOTE 9 - ENDOWMENT

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.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 9 - ENDOWMENT (CONTINUED)

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

	2012			
	<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>
Total	<u>\$ 124,410</u>	<u>\$ 7,467</u>	<u>\$ 75,340</u>	<u>\$ 207,217</u>

  

	2011			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-designated endowment funds	\$ -	\$ 12,030	\$ 75,000	\$ 87,030
Board-designated endowment funds	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
	<u>\$ 125,000</u>	<u>\$ 12,030</u>	<u>\$ 75,000</u>	<u>\$ 212,030</u>

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 9 - ENDOWMENT (CONTINUED)

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

2012				
	<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
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	(1,186)	(119)	-	(1,305)
Contributions	<u>-</u>	<u>-</u>	<u>340</u>	<u>340</u>
Endowment net assets, May 31, 2012	<u>\$ 124,410</u>	<u>\$ 7,467</u>	<u>\$ 75,340</u>	<u>\$ 207,217</u>
2011				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 1, 2010	\$ -	\$ 4,543	\$ 50,000	\$ 54,543
Change in value of beneficial interest in agency endowment fund	-	7,487	-	7,487
Contributions	-	-	25,000	25,000
Transfer to create board-designated endowment fund	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
Endowment net assets, May 31, 2011	<u>\$ 125,000</u>	<u>\$ 12,030</u>	<u>\$ 75,000</u>	<u>\$ 212,030</u>



NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 9 - ENDOWMENT (CONTINUED)

From time to time, the fair value of assets associated with endowment funds may fall below the level that the donor or UPMIFA requires the Ballet to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature 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, 2011.

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.

At May 31, 2012, minimum rental payments due under this operating leases are as follows:

Year Ending May 31:

2013	\$ 45,393
2014	46,642
2015	<u>27,975</u>
Total	<u>\$ 120,010</u>

Rent expense totaled approximately \$45,000 for the years ended May 31, 2012 and 2011.

NOTE 11 - 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, 2012, receivables from two sources totaled approximately \$94,000, or 50% of total receivables. At May 31, 2011, receivables from four sources totaled approximately \$126,000 or 81% of total receivables.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2012 AND 2011

NOTE 11 - CONCENTRATIONS (CONTINUED)

Combined grants from two sources amounted to approximately \$268,000, or 86% of total grant revenues for the year ended May 31, 2012 (approximately \$215,000, or 88% of total grant revenues for the year ended May 31, 2011).

Combined contributions from one source amounted to approximately \$199,000, or 28% of total contribution revenues for the year ended May 31, 2012 (approximately \$1,131,000, or 69% of total contribution revenues from two sources for the year ended May 31, 2011).

The Ballet maintains cash accounts at reputable financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of May 31, 2012, the Ballet had no uninsured cash.

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. On April 11, 2012, the board approved a 2% employer matching contribution. Ballet contributions to the plan totaled \$17,527 for the year ended May 31, 2012 (\$0 in 2011).

NOTE 13 - RELATED PARTY TRANSACTIONS

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

NOTE 14 - OTHER MATTERS

Subsequent to year end, the Ballet entered into a contract to purchase the condominium unit adjacent to its unit from Brock-Sloss LLC, the owners of Climb Nashville. Also included in the contract is an adjacent, vacant residential parcel of land. The Ballet plans to acquire financing to fund the purchase and subsequently launch a capital campaign to expand the capacity of its School, build several new productions and expand office and administrative space.