

NASHVILLE BALLET
CONSOLIDATED FINANCIAL STATEMENTS,
CONSOLIDATING INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT
MAY 31, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Nashville Ballet
Nashville, Tennessee

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Nashville Ballet (the "Ballet") which comprise the consolidated statements of financial position as of May 31, 2019 and 2018, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nashville Ballet as of May 31, 2019 and 2018, 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.

REPORT ON CONSOLIDATING INFORMATION

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 28-29 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Knight CPAs PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee
September 24, 2019

NASHVILLE BALLET

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

MAY 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,714,245	\$ 1,709,169
Accounts receivable, net of allowance of \$15,345 and \$10,500 respectively	190,285	143,307
Grants receivable	199,024	90,600
Contributions receivable - other, net	293,686	196,760
Prepaid expenses and other	483,699	456,329
Investments	1,258,054	1,031,267
Capital campaign contributions receivable, net	50,216	335,735
Property and equipment, net	7,452,663	7,801,392
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>61,350</u>	<u>64,357</u>
TOTAL ASSETS	<u>\$ 11,703,222</u>	<u>\$ 11,828,916</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 81,429	\$ 101,220
Payroll liabilities	116,182	183,668
Deferred revenue	1,169,429	1,122,795
Notes payable	<u>2,421,449</u>	<u>2,522,641</u>
TOTAL LIABILITIES	<u>3,788,489</u>	<u>3,930,324</u>
<u>NET ASSETS</u>		
Without donor restrictions:		
Board designated	598,807	916,809
Invested in property and equipment, less related debt	5,031,214	5,278,751
Undesignated (deficit)	<u>159,704</u>	<u>(140,687)</u>
Total without donor restrictions	5,789,725	6,054,873
With donor restrictions	<u>2,125,008</u>	<u>1,843,719</u>
TOTAL NET ASSETS	<u>7,914,733</u>	<u>7,898,592</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,703,222</u>	<u>\$ 11,828,916</u>

See accompanying notes to consolidated financial statements.

NASHVILLE BALLET

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED MAY 31, 2019 AND 2018

	2019		
	Without Donor	With Donor	Total
	Restrictions	Restrictions	
SUPPORT AND REVENUE			
Season ticket sales	\$ 300,019	\$ -	\$ 300,019
Single and group ticket sales	1,457,356	-	1,457,356
Rentals and touring	120,275	-	120,275
Community engagement	18,139	-	18,139
School tuition	1,821,223	-	1,821,223
Public Support:			
Grants	248,744	75,480	324,224
Capital campaign contributions	8,225	-	8,225
Individual contributions	596,905	525,255	1,122,160
Corporate and foundation contributions	418,758	517,000	935,758
Contributions from the Community Foundation of Middle Tennessee	201,000	-	201,000
Ballet Ball revenue	568,201	-	568,201
Friends support and benefits	15,056	-	15,056
Donated goods and services	246,286	-	246,286
Investment income (loss), net	2,377	(6,302)	(3,925)
Loss on disposal of property and equipment	-	-	-
Miscellaneous	48,888	-	48,888
Net assets released from restrictions	830,144	(830,144)	-
TOTAL SUPPORT AND REVENUE	6,901,596	281,289	7,182,885
EXPENSES			
Program services	5,895,204	-	5,895,204
Supporting services:			
Management and general	450,879	-	450,879
Fundraising	820,661	-	820,661
TOTAL EXPENSES	7,166,744	-	7,166,744
CHANGE IN NET ASSETS	(265,148)	281,289	16,141
NET ASSETS - BEGINNING OF YEAR	6,054,873	1,843,719	7,898,592
NET ASSETS - END OF YEAR	\$ 5,789,725	\$ 2,125,008	\$ 7,914,733

See accompanying notes to consolidated financial statements.

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 259,832	\$ -	\$ 259,832
1,355,227	-	1,355,227
91,492	-	91,492
17,250	-	17,250
1,766,308	-	1,766,308
233,500	-	233,500
10,227	-	10,227
486,874	241,832	728,706
180,911	548,250	729,161
200,700	-	200,700
637,886	-	637,886
16,517	-	16,517
528,029	-	528,029
11,811	47,016	58,827
(188,051)	-	(188,051)
65,541	-	65,541
809,129	(809,129)	-
<u>6,483,183</u>	<u>27,969</u>	<u>6,511,152</u>
5,749,836	-	5,749,836
410,842	-	410,842
<u>770,696</u>	<u>-</u>	<u>770,696</u>
<u>6,931,374</u>	<u>-</u>	<u>6,931,374</u>
(448,191)	27,969	(420,222)
<u>6,503,064</u>	<u>1,815,750</u>	<u>8,318,814</u>
<u>\$ 6,054,873</u>	<u>\$ 1,843,719</u>	<u>\$ 7,898,592</u>

NASHVILLE BALLET

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED MAY 31, 2019 AND 2018

	2019				
	Supporting Services				Total
	Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 2,783,864	\$ 249,506	\$ 372,037	\$ 621,543	\$ 3,405,407
Artist fees, licenses and royalties	708,165	8,081	-	8,081	716,246
Theatre and production	565,528	480	1,177	1,657	567,185
Professional and contract services	90,184	29,101	55,052	84,153	174,337
Advertising	343,048	7,837	5,313	13,150	356,198
Communication	9,286	1,304	1,328	2,632	11,918
Occupancy and housing	426,684	13,938	25,747	39,685	466,369
Interest	64,067	6,149	9,162	15,311	79,378
Equipment and supplies	87,943	79,218	2,877	82,095	170,038
Events	285	2,278	276,469	278,747	279,032
Travel	181,061	5,464	4,397	9,861	190,922
Insurance	34,952	6,026	4,829	10,855	45,807
Staff development and community involvement	6,806	15,253	14,028	29,281	36,087
Depreciation	404,301	15,042	36,102	51,144	455,445
Miscellaneous	8,926	4,003	1,255	5,258	14,184
Bank and ticket fees	180,104	7,199	10,888	18,087	198,191
TOTAL EXPENSES	<u>\$ 5,895,204</u>	<u>\$ 450,879</u>	<u>\$ 820,661</u>	<u>\$ 1,271,540</u>	<u>\$ 7,166,744</u>

See accompanying notes to consolidated financial statements.

2018

Program Services	Supporting Services			Total Supporting Services	Total
	Management and General	Fundraising			
\$ 2,582,871	\$ 193,586	\$ 399,519	\$ 593,105	\$ 3,175,976	
654,128	1,209	208	1,417	655,545	
436,411	7,032	-	7,032	443,443	
43,734	67,020	1,421	68,441	112,175	
601,170	1,402	6,960	8,362	609,532	
8,052	861	1,789	2,650	10,702	
387,516	30,098	26,927	57,025	444,541	
67,113	7,180	14,908	22,088	89,201	
168,426	27,430	5,234	32,664	201,090	
-	3,249	249,440	252,689	252,689	
139,702	7,392	1,903	9,295	148,997	
38,372	4,106	8,524	12,630	51,002	
37,385	13,605	4,642	18,247	55,632	
397,170	15,187	36,449	51,636	448,806	
8,678	933	1,255	2,188	10,866	
179,108	30,552	11,517	42,069	221,177	
<u>\$ 5,749,836</u>	<u>\$ 410,842</u>	<u>\$ 770,696</u>	<u>\$ 1,181,538</u>	<u>\$ 6,931,374</u>	

NASHVILLE BALLET

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MAY 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 16,141	\$ (420,222)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	455,445	448,806
Realized and unrealized loss (gain) on investments	39,336	(26,370)
Loss on disposal of property and equipment	-	188,051
Donated securities received	(269,878)	-
Change in value of beneficial interest in agency endowment fund	3,007	(1,211)
Contributions - capital campaign	-	(10,227)
Contributions - endowment	(286,645)	(9,791)
(Increase) decrease in:		
Grants receivable	(108,424)	1,804
Contributions receivable	(100,293)	(38,396)
Accounts receivable	(46,978)	(63,593)
Prepaid expenses and other	(27,370)	(169,102)
Increase (decrease) in:		
Accounts payable	(19,791)	23,006
Payroll liabilities	(67,486)	(10,613)
Deferred revenue	46,634	112,378
TOTAL ADJUSTMENTS	(382,443)	444,742
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(366,302)	24,520
INVESTING ACTIVITIES		
Purchase of property and equipment	(106,716)	(77,562)
Proceeds from sale of investments	804,200	727,507
Purchases of investments	(800,445)	(662,265)
NET CASH USED IN INVESTING ACTIVITIES	(102,961)	(12,320)
FINANCING ACTIVITIES		
Collections for capital campaign	285,519	459,927
Principal payments on notes payable	(101,192)	(91,362)
Proceeds from contributions restricted for endowment	290,012	21,158
NET CASH PROVIDED BY FINANCING ACTIVITIES	474,339	389,723
INCREASE IN CASH AND CASH EQUIVALENTS	5,076	401,923
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,709,169	1,307,246
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,714,245</u>	<u>\$ 1,709,169</u>
OTHER CASH FLOW DISCLOSURES:		
Interest expense paid during the year	<u>\$ 86,894</u>	<u>\$ 89,492</u>

See accompanying notes to consolidated financial statements.

NASHVILLE BALLET
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE 1 - NATURE OF ACTIVITIES

Nashville 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 organization reaches more than 34,000 people through season performances. The School of Nashville Ballet trains dancers age two and older and has more than 1,400 students enrolled in classes annually. The Ballet's second company engages more than 25,000 Middle Tennesseans every year through education and community engagement programming.

Nashville Ballet Foundation (the "Foundation") was established in 2012 for the purpose of supporting the activities and mission of Nashville Ballet. There was no activity in the Foundation until the year ended May 31, 2019 when Nashville Ballet transferred certain donor-restricted and Board-designated net assets and corresponding investments to the Foundation upon receiving donor and Board approval.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Nashville Ballet and the Nashville Ballet Foundation (collectively referred to as the "Ballet"). All material intercompany transactions have been eliminated.

Basis of Presentation

The consolidated financial statements of the Ballet have been prepared accordance with accounting principles generally accepted in the United States of America ("GAAP"), which require the Ballet to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Ballet's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Ballet or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Donor restricted contributions are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities.

Support and Revenue

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions.

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 consolidated statements 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 consolidated statements 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 ("Community Foundation") is recognized as an asset. Investment income and changes in the value of the fund are recognized in the consolidated statements of activities, and distributions received from the fund are recorded as increases (decreases) in the beneficial interest.

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 2 - 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, 2019 and 2018.

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 consolidated 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 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 (1.93% in 2019, 2.68% in 2018). 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 2 - 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.

Bonds, mutual funds and equities - Valued based on quoted market prices on the last business day of the reporting period.

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

There have been no changes in the valuation methodologies used at May 31, 2019 and 2018.

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 Nashville Ballet Foundation Board ("Foundation Board") to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Foundation Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Ballet's donor-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 Foundation Board 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 net assets with donor restrictions (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 net assets with donor restrictions is classified as net assets without donor restrictions 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 that applies a smoothing rule to mitigate the effects of short-term market volatility on spending. A moving average of 4 to 5% is used to determine annual withdrawals, if any are made. This moving average is based on the quarter-end values of the portfolio over the previous three years. The spending amount resulting from this calculation is considered by the Foundation Board no more frequently than once per fiscal year (June to May). An annual determination is made by the Foundation Board on the amount and timing of a withdrawal, if any, withdrawn over four quarters. The Foundation Board votes annually on the exact percentage to be withdrawn.

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 2 - 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 Foundation 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, which was modified during the year ended May 31, 2019, is 60% to 80% equities, 0% to 10% public alternatives, 10% to 30% fixed income, and 0% to 10% cash.

Investments

Investments consist of money market accounts, certificates of deposit, treasury bonds, 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 consolidated statements of activities.

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 2 - 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 corresponding revenue is recognized. Advertising expense for the year ended May 31, 2019, totaled approximately \$356,000 (\$610,000 in 2018).

Income Taxes

The Nashville Ballet and Nashville Ballet Foundation both qualify as not-for-profit organizations 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 consolidated financial statements.

The Nashville Ballet and Nashville Ballet Foundation each file a U.S. federal Form 990 for organizations exempt from income tax.

Program and Supporting Services

The following program and supporting services are included in the accompanying consolidated 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 engagement and education to spread the mission of the organization.

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. 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 and supporting services benefited. Such allocations are determined by management on a reasonable basis. The expenses that are allocated include personnel, professional and contract services, communication, occupancy and housing, insurance depreciation and interest, which are allocated on the basis of estimates of time and effort.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Additionally, ASU 2016-14 requires all not-for-profit organizations to present expenses by their natural and functional expense classifications. The Ballet has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U. S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Ballet has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Ballet is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Ballet beginning on January 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Ballet is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. As the Ballet is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after June 15, 2018, including interim periods. The Ballet is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Ballet has evaluated events and transactions that occurred between May 31, 2019 and September 24, 2019, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

Reclassifications

Certain reclassifications were made to the 2018 financial statements to conform to the current year presentation. Such reclassifications had no impact on the change in net assets previously reported.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position, comprise the following as of May 31, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 1,714,245
Accounts receivable	190,285
Grants receivable	199,024
Contributions receivable	293,686
Investments	1,258,054
Capital campaign contributions receivable	50,216
Beneficial interest in agency endowment fund	<u>61,350</u>
Total financial assets	<u>3,766,860</u>
Less amounts not available to be used within one year:	
Contributions receivable due after one year, net	(83,336)
Donor-restricted endowment funds	(1,144,795)
Board-designated funds	<u>(598,807)</u>
Amounts not available to be used within one year	<u>(1,826,938)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,939,922</u>

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 3 - LIQUIDITY AND AVAILABILITY (CONTINUED)

The Ballet's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Ballet keeps the majority of its cash in an interest-bearing money market account and is moved to its operating account as needed to cover expenditures. Any operating surplus at year end is discussed with the Board and reserved for future years and/or projects. The Board has set aside a cash reserve fund as well as funds for several projects. See Note 10 for the description and amount of all Board-designated funds. Although the Ballet does not intend to spend from the Board-designated endowment (other than amounts appropriated for general expenditure as part of the annual budget approval and appropriation) and other Board-designated funds, these amounts could be made available if necessary.

The Ballet also has two lines of credit with availability totaling \$400,000 to meet cash flow needs.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at May 31:

	<u>2019</u>	<u>2018</u>
Capital campaign:		
Due in less than one year	\$ 68,852	\$ 332,081
One to five years	<u>16,057</u>	<u>26,294</u>
	84,909	358,375
Less: discount to present value	(509)	(10,946)
Less: allowance for uncollectible pledges	<u>(34,184)</u>	<u>(11,694)</u>
	<u><u>\$ 50,216</u></u>	<u><u>\$ 335,735</u></u>
Contributions receivable - other		
Due in less than one year	\$ 225,898	\$ 211,161
One to five years	<u>70,000</u>	<u>-</u>
	295,898	211,161
Less: discount to present value	(2,212)	-
Less: allowance for uncollectible pledges	<u>-</u>	<u>(14,401)</u>
	<u><u>\$ 293,686</u></u>	<u><u>\$ 196,760</u></u>

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 4 - CONTRIBUTIONS RECEIVABLE (CONTINUED)

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. The renovation and expansion was substantially completed in the 2015 fiscal year.

NOTE 5 - DONOR-DESIGNATED AND AGENCY ENDOWMENT FUNDS

The Ballet has a beneficial interest in an agency endowment fund held by 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 \$61,350 as of May 31, 2019 (\$64,357 as of May 31, 2018).

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 consolidated 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 \$201,000 during fiscal year 2019 (\$200,700 during fiscal year 2018). Total assets held in these funds approximated \$3,781,000 at May 31, 2019 and \$3,998,000 at May 31, 2018.

NOTE 6 - INVESTMENTS

Investments consisted of the following at May 31:

	<u>2019</u>	<u>2018</u>
Money market accounts	\$ 45,049	\$ 16,130
Certificate of deposit	70,222	-
Treasury bonds	42,996	42,380
Corporate bonds	148,694	178,369
Mutual funds	912,119	733,706
Equities	<u>38,974</u>	<u>60,682</u>
Total	<u>\$ 1,258,054</u>	<u>\$ 1,031,267</u>

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 7 - 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:

	2019			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Corporate bonds	\$ -	\$ 148,694	\$ -	\$ 148,694
Treasury bonds	-	42,996	-	42,996
Mutual funds:				
Commodities funds	16,195	-	-	16,195
Emerging markets bond funds	38,839	-	-	38,839
Energy limited partnership	12,532	-	-	12,532
Foreign large blend funds	108,914	-	-	108,914
Foreign large value	15,802	-	-	15,802
International equity funds	44,268	-	-	44,268
Large growth funds	252,872	-	-	252,872
Large value funds	248,521	-	-	248,521
Market neutral	19,693	-	-	19,693
Mid-cap blend funds	46,986	-	-	46,986
Mid-cap growth funds	26,627	-	-	26,627
Multi-alternative funds	52,849	-	-	52,849
REIT	6,517	-	-	6,517
Small value funds	21,504	-	-	21,504
Equities:				
Services	26,584	-	-	26,584
Utilities	12,390	-	-	12,390
Total investments at fair value	<u>\$ 951,093</u>	<u>\$ 191,690</u>	<u>\$ -</u>	<u>1,142,783</u>
Investments at cost				<u>115,271</u>
Total investments				<u>\$ 1,258,054</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 61,350</u>	<u>\$ -</u>	<u>\$ 61,350</u>

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 7 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2018			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Corporate bonds	\$ -	\$ 178,369	\$ -	\$ 178,369
Treasury bonds	-	42,380	-	42,380
Mutual funds:				
Allocation - 50% to 70% equity	30,115	-	-	30,115
Bank loan funds	12,225	-	-	12,225
Commodities funds	19,311	-	-	19,311
Emerging markets bond funds	77,783	-	-	77,783
Energy limited partnership	14,170	-	-	14,170
Equity energy	9,503	-	-	9,503
Foreign large blend funds	160,662	-	-	160,662
Foreign large value	19,564	-	-	19,564
High yield bond funds	10,975	-	-	10,975
Inflation-protected bond funds	28,120	-	-	28,120
International equity funds	45,021	-	-	45,021
Large growth funds	122,951	-	-	122,951
Large value funds	78,180	-	-	78,180
Market neutral	20,146	-	-	20,146
Mid-cap blend funds	15,671	-	-	15,671
Mid-cap growth funds	15,619	-	-	15,619
Multi-alternative funds	34,192	-	-	34,192
REIT	5,917	-	-	5,917
Small value funds	13,581	-	-	13,581
Equities:				
Basic materials	11,199	-	-	11,199
REIT	17,388	-	-	17,388
Services	12,807	-	-	12,807
Utilities	19,288	-	-	19,288
Total investments at fair value	<u>\$ 794,388</u>	<u>\$ 220,749</u>	<u>\$ -</u>	<u>1,015,137</u>
Investments at cost				<u>16,130</u>
Total investments				<u>\$ 1,031,267</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 64,357</u>	<u>\$ -</u>	<u>\$ 64,357</u>

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at May 31:

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 8,226,979	\$ 8,226,979
Land and improvements	28,108	28,108
Costumes	1,241,587	1,179,343
Sets and props	1,283,747	1,243,153
Furniture and equipment	454,915	451,037
Vehicles	<u>38,685</u>	<u>38,685</u>
	11,274,021	11,167,305
Less: accumulated depreciation	<u>(3,821,358)</u>	<u>(3,365,913)</u>
	<u>\$ 7,452,663</u>	<u>\$ 7,801,392</u>

NOTE 9 - NOTES PAYABLE

The Ballet has a non-revolving line of credit note and a revolving credit note with a bank. The non-revolving line of credit requires monthly principal and interest payments at a fixed rate of 3.46% through July 2021, at which time all outstanding principal is due. As of May 31, 2019, the outstanding balance under this note was \$2,421,449 (\$2,522,641 as of May 31, 2018).

The Ballet also has a \$250,000 revolving credit note that requires interest payments at a variable rate (LIBOR + 2.75%). All outstanding principal and interest is due November 30, 2019. As of May 31, 2019 and 2018, there was no outstanding balance under the revolving credit note.

Both notes are secured by a deed of trust on the Ballet's building and a security agreement on substantially all other assets of the Ballet. The Ballet is also subject to certain covenant requirements.

Annual principal maturities under the notes are as follows:

<u>For the year ending May 31,</u>	
2020	\$ 106,042
2021	109,769
2022	<u>2,205,638</u>
	<u>\$ 2,421,449</u>

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 9 - NOTES PAYABLE (CONTINUED)

In July 2014, The Ballet entered into a \$150,000 line of credit with a bank. Interest is payable monthly at a variable rate (Prime + 0.50%), with the outstanding principal balance payable on demand. As of May 31, 2019 and 2018, there was no outstanding balance under this line of credit.

NOTE 10 - NET ASSETS

Board designated net assets consisted of the following at May 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Designated as endowment	\$ 104,005	\$ 104,005
Designated for Jane Fabian Memorial Fund endowment	31,273	35,644
Memorial gifts designated as endowment	11,840	11,840
Designated for the purchase of property and equipment	165,123	136,191
Designated for the Ballet Ball	55,000	55,000
Designated as cash reserve	99,000	94,000
Designated for capital campaign expenses and related debt service	-	335,735
Designated for Peter Pan	83,069	83,569
Unspent earnings on board designated endowment and other investments	<u>49,497</u>	<u>60,825</u>
	<u>\$ 598,807</u>	<u>\$ 916,809</u>

Net assets with donor restrictions as of May 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
<i>Temporary in nature - subject to expenditure for specified purpose or passage of time:</i>		
Nutcracker creation and renovation fund	\$ 145,831	\$ 156,150
Donations or pledges for subsequent periods	<u>832,812</u>	<u>777,132</u>
	<u>978,643</u>	<u>933,282</u>

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 10 - NET ASSETS (CONTINUED)

	<u>2019</u>	<u>2018</u>
<i>Temporary in nature - endowments - subject to appropriation:</i>		
Unspent earnings on endowment fund	\$ 36,236	\$ 83,017
Unspent earnings on agency endowment fund	<u>11,250</u>	<u>14,257</u>
	<u>47,486</u>	<u>97,274</u>
<i>Total net assets with donor restrictions - temporary in nature</i>	<u>1,026,129</u>	<u>1,030,556</u>
<i>Perpetual in nature - endowments:</i>		
Agency endowment fund	50,100	50,100
Dancer salaries fund	25,000	25,000
Scholarship fund	67,972	67,889
Artistic fund	286,537	-
General fund	667,700	664,308
Contributions receivable, net	<u>1,570</u>	<u>5,866</u>
<i>Total net assets with donor restrictions - perpetual in nature</i>	<u>1,098,879</u>	<u>813,163</u>
<i>Total net assets with donor restrictions</i>	<u><u>\$ 2,125,008</u></u>	<u><u>\$ 1,843,719</u></u>

NOTE 11 - ENDOWMENT

The Ballet's endowment consists of donor-restricted funds to support professional ballet performances, educational community engagement performances and School of Nashville Ballet student scholarships. Contributions to these endowment funds 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, including educational community engagement performances, and to support the dance training of students. The endowment also includes certain net assets without donor restrictions that have been designated for the endowment by the Board of Directors.

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 11 - ENDOWMENT (CONTINUED)

As of May 31, 2019 and 2018, the Ballet had the following endowment net asset composition by type of fund:

<u>May 31, 2019</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 174,609	\$ -	\$ 174,609
Donor-restricted endowment funds:			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	-	1,097,309	1,097,309
Accumulated investment gains	-	47,486	47,486
	<u>\$ 174,609</u>	<u>\$ 1,144,795</u>	<u>\$ 1,319,404</u>

<u>May 31, 2018</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 191,053	\$ -	\$ 191,053
Donor-restricted endowment funds:			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	-	807,297	807,297
Accumulated investment gains	-	97,274	97,274
Endowment net assets, May 31, 2018	<u>\$ 191,053</u>	<u>\$ 904,571</u>	<u>\$ 1,095,624</u>

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 11 - ENDOWMENT (CONTINUED)

A summary of changes in endowments by net asset composition and type of fund was as follows:

<u>Year ended May 31, 2019</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 1, 2018	\$ 191,053	\$ 904,571	\$ 1,095,624
Contributions	-	290,012	290,012
Interest and dividend income, net of fees	766	24,868	25,634
Realized and unrealized losses on investments	(7,818)	(33,314)	(41,132)
Amounts appropriated for expenditure or other designation	<u>(9,392)</u>	<u>(41,342)</u>	<u>(50,734)</u>
Endowment net assets, May 31, 2019	<u>\$ 174,609</u>	<u>\$ 1,144,795</u>	<u>\$ 1,319,404</u>

<u>Year ended May 31, 2018</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 1, 2017	\$ 188,834	\$ 873,334	\$ 1,062,168
Contributions	-	21,158	21,158
Interest and dividend income, net of fees	5,699	24,608	30,307
Realized and unrealized gains on investments	4,941	22,408	27,349
Amounts appropriated for expenditure or other designation	<u>(8,421)</u>	<u>(36,937)</u>	<u>(45,358)</u>
Endowment net assets, May 31, 2018	<u>\$ 191,053</u>	<u>\$ 904,571</u>	<u>\$ 1,095,624</u>

From time to time, the fair value of assets associated with certain endowment funds may fall below the level that the donor or UPMIFA requires the Ballet to retain as a fund of perpetual duration (underwater endowments). The Ballet has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudence measures required by law. At May 31, 2019, funds with original gift values of \$138,664, fair values of \$135,330, and deficiencies of \$3,334 were reported in net assets with donor restrictions. Subsequent to May 31, 2019, these amounts were fully recovered due to favorable market conditions. There were no such deficiencies as of May 31, 2018.

NASHVILLE BALLET

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 12 - LEASE COMMITMENTS

The Ballet has an agreement to lease a general office and dance studio space. The expiration date of the lease was June 30, 2019, and was not renewed. Future minimum rental payments due under this operating lease were \$4,835 for the year ending May 31, 2020.

Rent expense totaled approximately \$57,500 for the year ended May 31, 2019 (\$53,200 for the year ended May 31, 2018).

NOTE 13 - 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, 2019, a receivable from one source totaled approximately \$120,000, or 16% of total receivables. At May 31, 2018, a receivable from one source totaled approximately \$197,000 or 26% of total receivables.

Combined contributions from two sources amounted to approximately \$787,000 or 35% of total contribution revenues for the year ended May 31, 2019 (approximately \$654,000, or 39% of total contribution revenues from two sources for the year ended May 31, 2018).

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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2019 AND 2018

NOTE 14 - 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. Ballet contributions to the plan totaled \$14,100, a 1.12% employer matching contribution, for the year ended May 31, 2019 (\$14,500 in 2018, a 1.07% employer matching contribution).

NOTE 15 - RELATED PARTY TRANSACTIONS

Two of the Ballet's Board members are employed with financial institutions where the Ballet has accounts. Two board members provide pro-bono legal assistance to the Ballet at no charge. A relative of one board member is employed at the Ballet as a contract employee. One board member is employed with a benefit broker where the Ballet has accounts. One Board member provides event planning services to the Ballet. Lastly, one Board member performed as a musician in the Ballet's Emergence series.

CONSOLIDATING INFORMATION

NASHVILLE BALLET

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

MAY 31, 2019

	<u>Nashville Ballet</u>	<u>Nashville Ballet Foundation</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,714,215	\$ 30	\$ 1,714,245
Accounts receivable, net of allowance	190,285	-	190,285
Grants receivable	199,024	-	199,024
Contributions receivable - other, net	291,186	2,500	293,686
Prepaid expenses and other	483,699	-	483,699
Investments	-	1,258,054	1,258,054
Capital campaign contributions receivable, net	50,216	-	50,216
Property and equipment, net	7,452,663	-	7,452,663
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	61,350	-	61,350
TOTAL ASSETS	<u>\$ 10,442,638</u>	<u>\$ 1,260,584</u>	<u>\$ 11,703,222</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>LIABILITIES</u>			
Accounts payable	\$ 81,429	\$ -	\$ 81,429
Payroll liabilities	116,182	-	116,182
Deferred revenue	1,169,429	-	1,169,429
Notes payable	2,421,449	-	2,421,449
TOTAL LIABILITIES	<u>3,788,489</u>	<u>-</u>	<u>3,788,489</u>
<u>NET ASSETS</u>			
Without donor restrictions:			
Board designated	422,894	175,913	598,807
Invested in property and equipment, less related debt	5,031,214	-	5,031,214
Undesignated (deficit)	159,704	-	159,704
Total without donor restrictions	5,613,812	175,913	5,789,725
With donor restrictions	1,040,337	1,084,671	2,125,008
TOTAL NET ASSETS	<u>6,654,149</u>	<u>1,260,584</u>	<u>7,914,733</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,442,638</u>	<u>\$ 1,260,584</u>	<u>\$ 11,703,222</u>

NASHVILLE BALLET

CONSOLIDATING STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MAY 31, 2019

	Nashville Ballet			Nashville Ballet Foundation			Total		
	Without Donor	With Donor		Without Donor	With Donor		Without Donor	With Donor	
	Restrictions	Restrictions	Total	Restrictions	Restrictions	Total	Restrictions	Restrictions	Totals
SUPPORT AND REVENUE									
Season ticket sales	\$ 300,019	\$ -	\$ 300,019	\$ -	\$ -	\$ -	\$ 300,019	\$ -	\$ 300,019
Single and group ticket sales	1,457,356	-	1,457,356	-	-	-	1,457,356	-	1,457,356
Rentals and touring	120,275	-	120,275	-	-	-	120,275	-	120,275
Community engagement	18,139	-	18,139	-	-	-	18,139	-	18,139
School tuition	1,821,223	-	1,821,223	-	-	-	1,821,223	-	1,821,223
Public Support:									
Grants	248,744	75,480	324,224	-	-	-	248,744	75,480	324,224
Capital campaign contributions	8,225	-	8,225	-	-	-	8,225	-	8,225
Individual contributions	596,905	406,655	1,003,560	-	118,600	118,600	596,905	525,255	1,122,160
Corporate and foundation contributions	418,758	517,000	935,758	-	-	-	418,758	517,000	935,758
Contributions from the Community Foundation of Middle Tennessee	201,000	-	201,000	-	-	-	201,000	-	201,000
Ballet Ball revenue	568,201	-	568,201	-	-	-	568,201	-	568,201
Friends support and benefits	15,056	-	15,056	-	-	-	15,056	-	15,056
Donated goods and services	246,286	-	246,286	-	-	-	246,286	-	246,286
Investment income (loss), net	10,512	(7,030)	3,482	(8,135)	728	(7,407)	2,377	(6,302)	(3,925)
Miscellaneous	48,888	-	48,888	-	-	-	48,888	-	48,888
Net assets released from restrictions	786,669	(786,669)	-	43,475	(43,475)	-	830,144	(830,144)	-
TOTAL SUPPORT AND REVENUE	6,866,256	205,436	7,071,692	35,340	75,853	111,193	6,901,596	281,289	7,182,885
EXPENSES									
Program services	5,895,204	-	5,895,204	-	-	-	5,895,204	-	5,895,204
Supporting services:									
Management and general	450,879	-	450,879	-	-	-	450,879	-	450,879
Fundraising	820,661	-	820,661	-	-	-	820,661	-	820,661
TOTAL EXPENSES	7,166,744	-	7,166,744	-	-	-	7,166,744	-	7,166,744
CHANGE IN NET ASSET PRIOR TO TRANSFERS BETWEEN NASHVILLE BALLET AND NASHVILLE BALLET FOUNDATION	(300,488)	205,436	(95,052)	35,340	75,853	111,193	(265,148)	281,289	16,141
TRANSFER OF INVESTMENTS TO NASHVILLE BALLET FOUNDATION FROM NASHVILLE BALLET	(191,307)	(1,008,818)	(1,200,125)	191,307	1,008,818	1,200,125	-	-	-
DISTRIBUTION TO NASHVILLE BALLET FROM NASHVILLE BALLET FOUNDATION	50,734	-	50,734	(50,734)	-	(50,734)	-	-	-
CHANGE IN NET ASSETS	(441,061)	(803,382)	(1,244,443)	175,913	1,084,671	1,260,584	(265,148)	281,289	16,141
NET ASSETS - BEGINNING OF YEAR	6,054,873	1,843,719	7,898,592	-	-	-	6,054,873	1,843,719	7,898,592
NET ASSETS - END OF YEAR	<u>\$ 5,613,812</u>	<u>\$ 1,040,337</u>	<u>\$ 6,654,149</u>	<u>\$ 175,913</u>	<u>\$ 1,084,671</u>	<u>\$ 1,260,584</u>	<u>\$ 5,789,725</u>	<u>\$ 2,125,008</u>	<u>\$ 7,914,733</u>