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CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Nashville Ballet  
Nashville, Tennessee

We have audited the accompanying statements of financial position of the Nashville Ballet as of May 31, 2009 and 2008 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nashville Ballet as of May 31, 2009 and 2008, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Frasier, Dean & Howard, PLLC*

July 23, 2009

**NASHVILLE BALLET**  
**STATEMENTS OF FINANCIAL POSITION**  
**May 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 343,503	\$ 1,128,839
Beneficial interest in assets	50,189	71,030
Grants and other receivables	205,961	131,265
Pledges receivable, net	124,179	269,634
Inventory	16,372	16,372
Prepaid expenses and other	51,488	77,653
	<u>791,692</u>	<u>1,694,793</u>
Total current assets		
	791,692	1,694,793
Pledges receivable, noncurrent, net	128,694	52,885
Consortium production, net	2,517	5,597
Property and equipment, net	2,701,765	1,781,419
Cash surrender value of life insurance (donor)	87,910	83,167
	<u>3,712,578</u>	<u>3,617,861</u>
Total assets		
	<u>\$ 3,712,578</u>	<u>\$ 3,617,861</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 123,450	\$ 51,222
Accrued expenses	7,952	12,925
Unearned school tuition	212,752	125,811
	<u>344,154</u>	<u>189,958</u>
Total liabilities		
	<u>344,154</u>	<u>189,958</u>
Net assets:		
Unrestricted	2,891,128	2,121,971
Temporarily restricted	424,007	1,234,902
Permanently restricted	53,289	71,030
	<u>3,368,424</u>	<u>3,427,903</u>
Total net assets		
	<u>3,368,424</u>	<u>3,427,903</u>
Total liabilities and net assets		
	<u>\$ 3,712,578</u>	<u>\$ 3,617,861</u>

See notes to financial statements.

**NASHVILLE BALLET**  
**STATEMENT OF ACTIVITIES**  
**Year ended May 31, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Ticket sales	\$ 901,788	\$ -	\$ -	\$ 901,788
Individual contributions	752,769	4,743	-	757,512
Tuition	584,986	-	-	584,986
New Nutcracker capital campaign contributions	-	392,488	-	392,488
Ballet Ball revenue	281,012	-	-	281,012
Contributions from The Community Foundation of Middle TN	207,258	-	-	207,258
Grants	187,106	-	-	187,106
Corporate and foundation contributions	111,898	-	-	111,898
Nutcracker gala income	55,209	-	-	55,209
Miscellaneous	52,322	-	-	52,322
Friends support and benefits	34,977	-	-	34,977
In-kind contributions	22,414	-	-	22,414
Centennial Christmas	21,000	-	-	21,000
Outreach	14,628	-	-	14,628
School and workshops	11,875	-	-	11,875
Touring and special projects	5,700	-	-	5,700
Investment income (loss)	3,305	-	(17,741)	(14,436)
Net assets released from restrictions	<u>1,208,126</u>	<u>(1,208,126)</u>	<u>-</u>	<u>-</u>
 Total support and revenue	 <u>4,456,373</u>	 <u>(810,895)</u>	 <u>(17,741)</u>	 <u>3,627,737</u>
Expenses:				
Program services	2,976,965	-	-	2,976,965
Management and general	390,000	-	-	390,000
Fundraising	<u>320,251</u>	<u>-</u>	<u>-</u>	<u>320,251</u>
 Total expenses	 <u>3,687,216</u>	 <u>-</u>	 <u>-</u>	 <u>3,687,216</u>
Net increase (decrease) in net assets	769,157	(810,895)	(17,741)	(59,479)
Net assets, beginning of year	<u>2,121,971</u>	<u>1,234,902</u>	<u>71,030</u>	<u>3,427,903</u>
Net assets, end of year	<u><u>\$2,891,128</u></u>	<u><u>\$ 424,007</u></u>	<u><u>\$ 53,289</u></u>	<u><u>\$ 3,368,424</u></u>

See notes to financial statements.

**NASHVILLE BALLET**  
**STATEMENT OF ACTIVITIES**  
**Year ended May 31, 2008**

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

See notes to financial statements.

**NASHVILLE BALLET**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended May 31, 2009**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total</b>
Salaries	\$ 990,113	\$ 288,783	\$ 96,261	\$ 1,375,157
Marketing	424,975	-	-	424,975
Theater rental and crew expense	289,263	-	-	289,263
Payroll taxes	158,910	35,084	12,383	206,377
Symphony fees	195,004	-	-	195,004
Rent and utilities	109,228	11,431	6,350	127,009
Ballet Ball expense	-	-	135,682	135,682
Depreciation	157,527	16,485	9,159	183,171
Production expense	84,139	-	-	84,139
Choreography and artistic fees	103,432	-	-	103,432
School expense	81,834	-	-	81,834
Employee benefits	61,753	13,041	8,424	83,218
Friends boutique and costs	51,136	-	-	51,136
Development	-	-	37,478	37,478
Miscellaneous	53,949	5,646	3,136	62,731
Office supplies and postage	14,017	6,758	4,255	25,030
Liability and property insurance	30,600	3,202	1,779	35,581
Interest and service charges	18,647	1,952	1,084	21,683
Outreach	13,051	-	-	13,051
Travel and vehicle expense	8,776	366	-	9,142
Capital campaign fees	101,972	-	-	101,972
Legal and professional	13,553	1,418	788	15,759
Equipment expense	6,054	2,918	1,838	10,810
Loss on disposal	9,032	945	525	10,502
Amortization	-	1,971	1,109	3,080
<b>Total expenses</b>	<b>\$ 2,976,965</b>	<b>\$ 390,000</b>	<b>\$ 320,251</b>	<b>\$ 3,687,216</b>

See notes to financial statements.

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

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

See notes to financial statements.

**NASHVILLE BALLET**  
**STATEMENTS OF CASH FLOWS**  
**Years ended May 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (59,479)	\$ 290,255
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	186,250	126,178
Discount on pledges receivable	21,306	5,248
Bad debt provision	-	6,817
Loss on disposal of property and equipment	10,502	-
Change in operating assets and liabilities:		
Decrease in beneficial interest in assets	20,841	3,085
(Increase) in grants and other receivables	(74,696)	(49,933)
Decrease in pledges receivable	48,340	71,529
(Increase) in inventory	-	(3,004)
Decrease (increase) in prepaid expenses and other	26,165	(24,107)
(Increase) in cash surrender value of life insurance	(4,743)	(14,992)
Increase in accounts payable	72,228	33,781
(Decrease) in accrued expenses	(4,973)	(260)
Increase (decrease) in unearned school tuition	86,941	(34,220)
Net cash provided by operating activities	<u>328,682</u>	<u>410,377</u>
Cash flows from investing activities:		
Redemption of certificate of deposit	-	355,590
Purchase of property and equipment	(1,143,584)	(136,709)
Disposal of property and equipment	29,566	-
Net cash (used in) provided by investing activities	<u>(1,114,018)</u>	<u>218,881</u>
Net (decrease) increase in cash and cash equivalents	(785,336)	629,258
Cash and cash equivalents, beginning of year	<u>1,128,839</u>	<u>499,581</u>
Cash and cash equivalents, end of year	<u>\$ 343,503</u>	<u>\$ 1,128,839</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ -</u>	<u>\$ 9,714</u>

See notes to financial statements.

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended May 31, 2009 and 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

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

**Basis of Accounting**

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

**Basis of Presentation**

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

**Contributions**

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

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



**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Years ended May 31, 2009 and 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Contributions (Continued)**

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

**In-Kind Contributions**

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

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Ballet with program services and fundraising events. No amounts have been reflected in the financial statements for these donated services since the volunteer's time does not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

**Cash and Cash Equivalents**

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

**Allowance for Doubtful Grants and Other Receivables**

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

**Inventory**

Inventory consists of goods available for sale prior to and following performances and is valued at cost with cost determined on a first-in, first-out basis.

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Years ended May 31, 2009 and 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment**

Property and equipment are recorded at cost. Donated assets are capitalized at fair market value in the period received. The Ballet capitalizes all property and equipment over \$500. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

Building	40 years
Building improvements	5 to 39 years
Furniture and equipment	5 to 7 years
Sets and props	7 years
Costumes	4 years
Vehicles	5 years

**Revenue Recognition**

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

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

**Amortization**

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

**Advertising**

The Ballet's advertising costs are expensed as incurred. Advertising expense for the years ended May 31, 2009 and 2008 totaled \$100,027 and \$153,129, respectively, of which \$41,600 represents in-kind contributions during fiscal year 2008.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the financial statements and disclosures. Accordingly, actual results could differ from those estimates.

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Years ended May 31, 2009 and 2008**

**NOTE 2 – BENEFICIAL INTEREST IN ASSETS**

The Ballet has entered into agreements with the Community Foundation of Middle Tennessee (the “Foundation”) on three different funds. One of the funds is considered a beneficial interest in the assets of the Foundation under Statement of Financial Accounting Standards (“SFAS”) 136 because the Ballet transferred the funds to the Foundation specifying itself as the beneficiary. There are no terms for distribution each year. Historically, 5% has been distributed to the Ballet annually. The accumulative amount recognized in the statement of financial position is \$50,189 and \$71,030 at May 31, 2009 and 2008, respectively, as a beneficial interest in assets held by the Community Foundation of Middle Tennessee.

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

**NOTE 3 – PLEDGES RECEIVABLE**

Pledges receivable at May 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Pledges receivable – Capital Campaigns	\$ 280,996	\$ 334,584
Less allowance for pledges receivable	(6,817)	(6,817)
Less discounts to net present value	<u>(21,306)</u>	<u>(5,248)</u>
Net pledges receivable	<u>\$ 252,873</u>	<u>\$ 322,519</u>
Net amounts due in:		
Less than one year	\$ 124,179	\$ 269,634
One to five years	<u>128,694</u>	<u>52,885</u>
	<u>\$ 252,873</u>	<u>\$ 322,519</u>

Pledges receivable due in more than one year are reflected at the net present value of estimated future cash flows using a range of discount rates of 1.42% to 2.22%.

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Years ended May 31, 2009 and 2008**

**NOTE 4 – BALLET CONSORTIUM**

The Ballet has a consortium agreement with The Fort Worth Dallas Ballet and the Oregon Ballet Theater to co-produce and equally fund an original ballet, *Alice in Wonderland*. To reflect its one-third interest in and rights to the production of the consortium, the Ballet has capitalized its costs accordingly. These costs will be amortized over the life of the production (straight-line method), which shall be a ten-year period in accordance with the consortium agreement. Related amortization expense for the years ended May 31, 2009 and 2008 amounted to \$3,080.

	<u>2009</u>	<u>2008</u>
Consortium production	\$ 33,596	\$ 33,596
Less: accumulated amortization	<u>(31,079)</u>	<u>(27,999)</u>
	<u>\$ 2,517</u>	<u>\$ 5,597</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

Depreciation expense for the years ended May 31, 2009 and 2008 amounted to \$183,171 and \$123,097, respectively. The cost and accumulated depreciation of property and equipment consists of the following amounts, calculated on the straight-line method of depreciation at May 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Building	\$ 1,145,715	\$ 1,145,715
Building improvements	857,654	852,074
Costumes	962,710	466,644
Sets and props	820,175	474,405
Furniture and equipment	143,182	141,476
Vehicles	<u>39,083</u>	<u>39,083</u>
	3,968,519	3,119,397
Less: accumulated depreciation	<u>(1,266,754)</u>	<u>(1,337,978)</u>
	<u>\$ 2,701,765</u>	<u>\$ 1,781,419</u>

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Years ended May 31, 2009 and 2008**

**NOTE 6 – RESTRICTIONS ON NET ASSETS**

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

	<u>2009</u>	<u>2008</u>
New Nutcracker and building renovation pledges, net	\$ 334,291	\$ 1,149,065
For subsequent periods	<u>89,716</u>	<u>85,837</u>
	<u>\$ 424,007</u>	<u>\$ 1,234,902</u>

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

**NOTE 7 – LEASE COMMITMENTS**

The Ballet entered into an agreement on May 1, 2005 to lease a general office and dance studio in Brentwood, Tennessee. The lease began on July 1, 2005 and is a five-year lease expiring on June 30, 2010. The lease includes monthly payments of \$3,335 for the first year. On the anniversary date of the lease, the monthly base rent will increase in accordance with the lease agreement.

At May 31, 2009, minimum rental payments due under all operating leases are as follows:

Year Ending <u>May 31</u>	
2010	\$ 44,082
2011	<u>3,681</u>
Total	<u>\$ 47,763</u>

Rent expense totaled \$43,004 and \$42,191 for the years ended May 31, 2009 and 2008, respectively.

**NOTE 8 – CONCENTRATIONS**

The Ballet maintains deposit accounts with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Ballet had no uninsured balances at May 31, 2009.

The Ballet received unrestricted contributions in the form of cash from a major donor in excess of 10% of support and revenue in 2009 and 2008.

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Years ended May 31, 2009 and 2008**

**NOTE 9 – INCOME TAX STATUS**

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

**NOTE 10 – CAPITAL CAMPAIGN**

The Ballet began a new capital campaign in fiscal 2006. The new campaign is raising funds to complete the building renovation at the main campus location and to support a new Nutcracker production. The Ballet's goal for this campaign is to raise approximately \$2,000,000. As of May 31, 2009, the Ballet had received funds and pledges in the amount of \$1,837,030 for support of this campaign.

**NOTE 11 – EMPLOYEE RETIREMENT PLAN**

During fiscal 2008, the Ballet began sponsoring a 401(k) qualified retirement plan. Employees are eligible to participate in the plan after 600 hours of service completed within the first six months of employment or after the first year of service completed, whichever is sooner. The Company makes discretionary contributions to the plan equal to a uniform percentage of employee's salary deferrals. The Company did not make any contributions to the plan for the years ended May 31, 2009 or 2008.