

NASHVILLE BALLET
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
MAY 31, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Nashville Ballet
Nashville, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Nashville Ballet (the "Ballet") which comprise the statements of financial position as of May 31, 2016 and 2015, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nashville Ballet as of May 31, 2016 and 2015, 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.

Kraft CPAs PLLC

Nashville, Tennessee
September 20, 2016

NASHVILLE BALLET

STATEMENTS OF FINANCIAL POSITION

MAY 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,069,755	\$ 836,571
Accounts receivable, net of allowance of \$5,500	57,783	79,191
Grants receivable	137,600	72,850
Contributions receivable - other, net	539,934	80,829
Prepaid expenses and other	122,421	150,969
Investments	906,108	582,636
Cash and cash equivalents - capital campaign	107,464	302,528
Capital campaign contributions receivable, net	1,426,559	1,378,363
Property and equipment, net	8,798,586	8,971,836
Cash surrender value of donated life insurance policy	-	151,629
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>58,103</u>	<u>64,555</u>
TOTAL ASSETS	<u>\$ 13,224,313</u>	<u>\$ 12,671,957</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 59,304	\$ 221,367
Payroll liabilities	104,949	121,144
Deferred revenue	965,553	711,664
Notes payable	<u>3,580,950</u>	<u>5,078,539</u>
TOTAL LIABILITIES	<u>4,710,756</u>	<u>6,132,714</u>
<u>NET ASSETS</u>		
Unrestricted:		
Board designated	1,595,162	2,217,928
Invested in property and equipment, less related debt	5,217,636	3,893,297
Undesignated (deficit)	<u>114,270</u>	<u>(200,887)</u>
Total unrestricted	6,927,068	5,910,338
Temporarily restricted	885,974	483,840
Permanently restricted	<u>700,515</u>	<u>145,065</u>
TOTAL NET ASSETS	<u>8,513,557</u>	<u>6,539,243</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,224,313</u>	<u>\$ 12,671,957</u>

See accompanying notes to financial statements.

NASHVILLE BALLET

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED MAY 31, 2016 AND 2015

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Season ticket sales	\$ 221,223	\$ -	\$ -	\$ 221,223
Single and group ticket sales	1,286,411	-	-	1,286,411
Rentals and touring	130,068	-	-	130,068
Community engagement	21,981	-	-	21,981
School tuition	1,358,815	-	-	1,358,815
Public Support:				
Grants	252,000	-	-	252,000
Capital campaign contributions	1,068,521	-	-	1,068,521
Individual contributions	446,049	5,565	555,450	1,007,064
Corporate and foundation contributions	531,199	655,010		1,186,209
Contributions from the Community Foundation of Middle Tennessee	201,200	-	-	201,200
Ballet Ball revenue	622,617	-	-	622,617
Friends support and benefits	32,218	-	-	32,218
Donated goods and services	223,964	-	-	223,964
Investment income	97,255	27,317	-	124,572
Gain on disposal of property and equipment	-	-	-	-
Miscellaneous	50,985	-	-	50,985
Net assets released from restrictions	285,758	(285,758)	-	-
TOTAL SUPPORT AND REVENUE	6,830,264	402,134	555,450	7,787,848
EXPENSES				
Program services	4,856,872	-	-	4,856,872
Supporting services:				
Management and general	252,676	-	-	252,676
Fundraising	703,986	-	-	703,986
TOTAL EXPENSES	5,813,534	-	-	5,813,534
CHANGE IN NET ASSETS	1,016,730	402,134	555,450	1,974,314
NET ASSETS - BEGINNING OF YEAR	5,910,338	483,840	145,065	6,539,243
NET ASSETS - END OF YEAR	\$ 6,927,068	\$ 885,974	\$ 700,515	\$ 8,513,557

See accompanying notes to financial statements.

2015

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 199,714	\$ -	\$ -	\$ 199,714
1,115,173	-	-	1,115,173
19,088	-	-	19,088
28,088	-	-	28,088
1,328,226	-	-	1,328,226
206,250	-	-	206,250
1,143,621	-	-	1,143,621
361,534	11,411	-	372,945
27,339	100,900	10,600	138,839
216,800	-	-	216,800
452,127	-	-	452,127
25,929	-	-	25,929
287,471	-	-	287,471
12,380	3,892	-	16,272
13,547	-	-	13,547
47,262	-	-	47,262
791,987	(791,987)	-	-
<u>6,276,536</u>	<u>(675,784)</u>	<u>10,600</u>	<u>5,611,352</u>
4,403,413	-	-	4,403,413
202,124	-	-	202,124
<u>683,422</u>	<u>-</u>	<u>-</u>	<u>683,422</u>
<u>5,288,959</u>	<u>-</u>	<u>-</u>	<u>5,288,959</u>
987,577	(675,784)	10,600	322,393
<u>4,922,761</u>	<u>1,159,624</u>	<u>134,465</u>	<u>6,216,850</u>
<u>\$ 5,910,338</u>	<u>\$ 483,840</u>	<u>\$ 145,065</u>	<u>\$ 6,539,243</u>

NASHVILLE BALLET

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED MAY 31, 2016 AND 2015

	2016				
	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 2,167,665	\$ 197,233	\$ 265,502	\$ 462,735	\$ 2,630,400
Artist fees, licenses and royalties	559,364	-	1,725	1,725	561,089
Theatre and production	410,272	-	511	511	410,783
Professional and contract services	62,238	10,942	13,331	24,273	86,511
Advertising	305,276	49	7,284	7,333	312,609
Communication	8,897	468	877	1,345	10,242
Occupancy and housing	309,720	6,623	15,464	22,087	331,807
Interest	129,685	8,543	18,239	26,782	156,467
Equipment and supplies	92,607	3,296	12,125	15,421	108,028
Events	7,551	-	292,330	292,330	299,881
Travel	109,054	239	2,521	2,760	111,814
Insurance	40,876	5,407	5,721	11,128	52,004
Staff development and community involvement	21,575	685	13,497	14,182	35,757
Depreciation and amortization	433,045	18,918	35,448	54,366	487,411
Miscellaneous	64	-	-	-	64
Bank and ticket fees	198,983	273	19,411	19,684	218,667
TOTAL EXPENSES	<u>\$ 4,856,872</u>	<u>\$ 252,676</u>	<u>\$ 703,986</u>	<u>\$ 956,662</u>	<u>\$ 5,813,534</u>

See accompanying notes to financial statements.

2015

Program Services	Supporting Services			Total
	Management and General	Fundraising	Total Supporting Services	
\$ 2,035,204	\$ 165,321	\$ 249,054	\$ 414,375	\$ 2,449,579
480,254	-	2,868	2,868	483,122
348,132	190	3,401	3,591	351,723
54,835	3,982	95,574	99,556	154,391
296,247	40	20,138	20,178	316,425
6,639	421	635	1,056	7,695
391,502	7,204	20,026	27,230	418,732
74,052	6,015	9,063	15,078	89,130
89,246	1,132	13,420	14,552	103,798
5,457	-	191,475	191,475	196,932
73,865	172	1,057	1,229	75,094
43,161	3,506	10,332	13,838	56,999
20,806	778	11,346	12,124	32,930
306,074	12,897	19,429	32,326	338,400
3,398	250	576	826	4,224
174,541	216	35,028	35,244	209,785
<u>\$ 4,403,413</u>	<u>\$ 202,124</u>	<u>\$ 683,422</u>	<u>\$ 885,546</u>	<u>\$ 5,288,959</u>

NASHVILLE BALLET

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MAY 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,974,314	\$ 322,393
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	476,955	327,944
Amortization	10,456	10,456
Realized and unrealized losses (gains) on investments	(9,033)	1,608
Gain on disposal of property and equipment	-	(13,547)
Gain on maturity of life insurance policy	(88,403)	-
Change in value of beneficial interest in agency endowment fund	1,893	2,698
Contributions for capital campaign	(1,068,521)	(1,143,621)
Contributions - permanently restricted	(555,450)	(10,600)
(Increase) decrease in:		
Grants receivable	(64,750)	23,050
Contributions receivable	(459,105)	449,172
Accounts receivable	21,408	(931)
Prepaid expenses and other	18,092	5,392
Cash surrender value of donated life insurance policy	(5,565)	(11,411)
Increase (decrease) in:		
Accounts payable	(162,063)	23,611
Payroll liabilities	(16,195)	43,380
Deferred revenue	253,889	(33,482)
TOTAL ADJUSTMENTS	<u>(1,646,392)</u>	<u>(326,281)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>327,922</u>	<u>(3,888)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(303,705)	(5,244,874)
Proceeds from sale of property and equipment	-	119,048
Proceeds from maturity of life insurance policy	245,597	
Proceeds from sale of investments	341,777	19,216
Purchases of investments	<u>(651,657)</u>	<u>(27,127)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(367,988)</u>	<u>(5,133,737)</u>
FINANCING ACTIVITIES		
Payment of loan costs	-	(52,280)
Collections for capital campaign	1,020,325	1,709,327
Proceeds from notes payable	-	3,429,091
Principal payments on notes payable	(1,497,589)	-
Proceeds from contributions restricted for permanent endowment	<u>555,450</u>	<u>10,600</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>78,186</u>	<u>5,096,738</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	38,120	(40,887)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,139,099</u>	<u>1,179,986</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,177,219</u>	<u>\$ 1,139,099</u>

(Continued on next page)

See accompanying notes to financial statements.

NASHVILLE BALLET

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED MAY 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OTHER CASH FLOW DISCLOSURES:		
Interest expense paid during the year	<u>\$ 155,746</u>	<u>\$ 78,339</u>
NONCASH TRANSACTIONS		
Payoff of existing loan with new note agreements	<u>\$ -</u>	<u>\$ 1,649,448</u>
Property and equipment in accounts payable	<u>\$ -</u>	<u>\$ 149,973</u>

See accompanying notes to financial statements.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

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 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 40,000 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, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

The Ballet receives grant revenue from various federal, state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grants received in advance of the expenditure are recorded as deferred revenue.

The Ballet reports gifts of equipment or materials (in-kind contributions) at their fair value in the period received as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long - lived assets are placed in service.

Ticket sale revenues received prior to the fiscal year to which they apply are reported as deferred revenue. Such revenue is recognized and reported in the statement of activities in the year the production is performed.

Ballet school tuition received prior to the fiscal year in which the classes are held is reported as deferred revenue. Such revenue is recognized and reported in the statement of activities in the year in which the classes are held.

Agency Endowment Fund

The Ballet's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee is recognized as an asset. Investment income and changes in the value of the fund are recognized in the statement of activities, and distributions received from the fund are recorded as increases (decreases) in the beneficial interest.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MAY 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

Donated services are recognized if they create or enhance non-financial assets, or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Ballet if not donated. Such services are recognized at fair value as support and expense in the period the services are performed, and related primarily to professional services for the years ended May 31, 2016 and 2015.

Other individuals volunteer their time and perform a variety of tasks that assist the Ballet with program services and fundraising events. No amounts have been reflected in the financial statements for these donated services since the volunteer's time does not meet the criteria for recognition under GAAP.

Cash and Cash Equivalents

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

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 (1.3% in 2016, 1.53% in 2015). 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.

Loan Costs

Debt issuance costs, which are included in prepaid expenses and other on the accompanying statement of financial position, are amortized over the life of the related debt. Amortization expense is expected to be \$10,456 each year through 2019.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MAY 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are recorded at cost. Donated assets are capitalized at fair market value in the period received. The Ballet capitalizes all property and equipment over \$2,500. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

Building	40 years
Building improvements	5 to 39 years
Furniture and equipment	5 to 7 years
Sets and props	7 to 12 years
Costumes	4 to 12 years
Vehicles	5 years

Fair Value Measurements

The Ballet classifies its investments based on a hierarchy consisting of: Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market but for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - The agency endowment fund held at the Community Foundation represents the Ballet's interest in pooled investments with other participants in the funds. The Community Foundation prepares a valuation of the fund based on the fair value of the underlying investments using quoted market prices and allocates income or loss to each participant based on market results. The Ballet reflects this asset within Level 2 of the valuation hierarchy.

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

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

There have been no changes in the valuation methodologies used at May 31, 2016 and 2015.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Ballet believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Endowment Funds

The Ballet has both donor-restricted endowment funds and funds designated by the Board to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Ballet's permanently restricted endowment funds are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act ("SUPMIFA").

Interpretation of applicable law - The Board of Directors has interpreted SUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Ballet classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the investment funds designated as an endowment that is not classified in permanently restricted net assets is classified as unrestricted as part of the Board-designated endowment fund, which is consistent with the standard of prudence prescribed by UPMIFA.

Spending policy - The Ballet has a policy 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 Investment Committee no more frequently than once per fiscal year (June to May). An annual determination is made by the Committee on the amount and timing of a withdrawal, if any, withdrawn over four quarters. The Investment Committee votes annually on the exact percentage to be withdrawn.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (Continued)

Investment return objective, risk parameters and strategies - The Ballet has adopted investment and spending policies to establish asset allocation targets, investment objectives and guidelines and the degree of investment risk the Board deems acceptable. The goal of the investment program is for the purpose of providing funds that grow in value and provide a source of income primarily for the support of operating costs. Investment objectives are as follows:

- Maintain the purchasing power of current assets and all future contributions by protecting and growing the investments with a total return strategy.
- Maintain a consistent spending rate. The desire, at a minimum, is to maintain the level of programs and services currently provided.
- Apply a smoothing rule to mitigate the effects of short-term volatility on spending.
- Maximize return within reasonable and prudent levels of risk.
- Maintain an appropriate asset allocation based on a total return policy that is compatible with the spending policy, while still having the potential to produce positive real returns.

The Ballet recognizes and acknowledges some risk must be assumed in order to achieve the long-term investment objectives, and there are uncertainties and complexities associated with contemporary investment markets. The Ballet's prospects for the future, current financial condition and level of funding suggest collectively some interim fluctuations in market value rates of return may be tolerated in order to achieve longer-term objectives.

The asset allocation target is 20% to 30% large cap growth equity, 3% to 10% mid cap equity, 0% to 10% small cap equity, 2% to 10% public alternatives, 10% to 18% international equity, 25% to 50% fixed income, 2% to 7% emerging markets and 2% to 12% cash.

Investments

Investments consist of money market accounts, certificates of deposit, corporate bonds, mutual funds and equities. Money market accounts and certificates of deposit are carried at cash value plus accrued interest. All other investments are carried at fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses are reflected in the statement of activities.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MAY 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The Ballet's advertising costs are primarily expensed as incurred. Significant expenses incurred in preparation for the subsequent performance season are recorded as prepaid expenses and recognized in the year in which the correlative revenue is recognized. Advertising expense for the year ended May 31, 2016 totaled approximately \$313,000 (\$316,000 in 2015).

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 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 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.

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.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Supporting Services (Continued)

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.

Recent Authoritative Accounting Guidance

In April 2015, the Financial Accounting Standards Board ("FASB") issued guidance requiring that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This Accounting Standards Update ("ASU") will be effective for the Ballet for fiscal years beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on the Ballet's financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers, 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 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 financial statements.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MAY 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

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. We are currently evaluating the impact of our pending adoption of the new standard on our financial statements.

Events Occurring After Reporting Date

The Ballet has evaluated events and transactions that occurred between May 31, 2016 and September 20, 2016, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at May 31:

	<u>2016</u>	<u>2015</u>
Capital campaign:		
Due in less than one year	\$ 711,213	\$ 608,103
One to five years	<u>775,943</u>	<u>874,368</u>
	1,487,156	1,482,471
Less: discount to present value	(33,647)	(63,618)
Less: allowance for uncollectible pledges	<u>(26,950)</u>	<u>(40,490)</u>
	<u>\$ 1,426,559</u>	<u>\$ 1,378,363</u>
Contributions receivable - other		
Due in less than one year	\$ 543,720	\$ 86,339
Less: allowance for uncollectible pledges	<u>(3,786)</u>	<u>(5,510)</u>
	<u>\$ 539,934</u>	<u>\$ 80,829</u>

During 2013, the Ballet initiated a capital campaign initiative to fund the acquisition of the neighboring building space for the renovation and expansion of the Ballet's facility. The renovation and expansion was substantially completed in the 2015 fiscal year.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2016 AND 2015

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 \$58,103 as of May 31, 2016 (\$64,555 as of May 31, 2015).

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 \$198,100 during fiscal year 2016 (\$213,300 during fiscal year 2015). Total assets held in these funds approximated \$3,795,000 at May 31, 2016 and \$4,130,000 at May 31, 2015.

NOTE 4 - INVESTMENTS

Investments consisted of the following at May 31:

	<u>2016</u>	<u>2015</u>
Money market accounts	\$ 31,074	\$ 29,611
Certificate of deposit	69,761	68,425
Treasury bonds	33,454	35,048
Corporate bonds	233,004	100,609
Mutual funds	508,615	307,062
Equities	<u>30,200</u>	<u>41,881</u>
Total	<u>\$ 906,108</u>	<u>\$ 582,636</u>

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

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 29,029	\$ 20,578
Gain on maturity of life insurance policy	88,403	-
Realized and unrealized (losses) gains on investments - net	9,033	(1,608)
Change in value of beneficial interest in agency endowment fund	<u>(1,893)</u>	<u>(2,698)</u>
Total investment income	<u>\$ 124,572</u>	<u>\$ 16,272</u>

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2016 AND 2015

NOTE 5 - FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Ballet's assets at fair value as of May 31:

	2016			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Corporate bonds	\$ 233,004	\$ -	\$ -	\$ 233,004
Treasury bonds	33,454	-	-	33,454
Mutual funds:				
Bank loan funds	12,014	-	-	12,014
Convertible	11,917			11,917
Emerging markets bond funds	70,024	-	-	70,024
Foreign large blend funds	55,464	-	-	55,464
Foreign large value	23,265	-	-	23,265
High yield bond funds	21,554	-	-	21,554
Inflation-protected bond funds	19,975	-	-	19,975
International equity funds	35,606	-	-	35,606
Large blend funds	36,117	-	-	36,117
Large growth funds	9,371	-	-	9,371
Large value funds	107,492	-	-	107,492
Mid-cap blend funds	15,872	-	-	15,872
Moderate allocation funds	35,559	-	-	35,559
Multi-alternative funds	18,903	-	-	18,903
Small value funds	15,822	-	-	15,822
Utilities	19,660	-	-	19,660
Equities:				
Utilities	8,552	-	-	8,552
Financial	21,648	-	-	21,648
Total investments at fair value	805,273	-	-	805,273
Beneficial interest in agency endowment fund	-	58,103	-	58,103
Total	\$ 805,273	\$ 58,103	\$ -	\$ 863,376

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2016 AND 2015

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2015			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Corporate bonds	\$ 100,609	\$ -	\$ -	\$ 100,609
Treasury bonds	35,048	-	-	35,048
Mutual funds:				
Bank loan funds	4,445	-	-	4,445
Emerging markets bond funds	31,749	-	-	31,749
Foreign large blend funds	63,970	-	-	63,970
Foreign large value	6,366	-	-	6,366
High yield bond funds	5,117	-	-	5,117
Inflation-protected bond funds	11,321	-	-	11,321
International equity funds	11,886	-	-	11,886
Large blend funds	18,061	-	-	18,061
Large growth funds	9,879	-	-	9,879
Large value funds	64,048	-	-	64,048
Market neutral	6,183	-	-	6,183
Mid-cap blend funds	23,370	-	-	23,370
Moderate allocation funds	10,939	-	-	10,939
Multi-alternative funds	18,186	-	-	18,186
Small value funds	9,304	-	-	9,304
Utilities	12,238	-	-	12,238
Equities:				
Services	13,967	-	-	13,967
Utilities	14,695	-	-	14,695
Chemical	3,935	-	-	3,935
Financial	9,284	-	-	9,284
Total investments at fair value	484,600	-	-	484,600
Beneficial interest in agency endowment fund	-	64,555	-	64,555
Total	\$ 484,600	\$ 64,555	\$ -	\$ 549,155

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2016 AND 2015

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at May 31:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 8,959,459	\$ 8,753,410
Land and improvements	28,108	23,958
Costumes	1,175,843	1,125,087
Sets and props	1,259,334	1,256,595
Furniture and equipment	413,826	373,749
Vehicles	<u>38,685</u>	<u>38,685</u>
	11,875,255	11,571,484
Less: accumulated depreciation	<u>(3,076,669)</u>	<u>(2,599,648)</u>
	<u>\$ 8,798,586</u>	<u>\$ 8,971,836</u>

NOTE 7 - NOTES PAYABLE

In July 2014, the Ballet entered into a \$4,207,500 non-revolving line of credit note and a \$2,292,500 revolving credit note with CapStar Bank to fund the renovations of its facility and refinance the existing debt.

The non-revolving line of credit requires interest payments at a variable rate (LIBOR + 2.75%) through July 1, 2016. In May 2016, the Ballet made an early principal payment of \$1,497,589. Beginning August 1, 2016, monthly principal and interest payments at a fixed rate of 3.46% are required through July 2021, at which time all outstanding principal is due. As of May 31, 2016, the outstanding balance under this note was \$2,700,000.

The revolving credit note maximum availability was reduced to \$1,200,000 as of June 30, 2016, and will be reduced to \$1,000,000 as of December 31, 2016 and \$0 as of June 30, 2017. As of May 31, 2016, the outstanding balance under this note was \$880,950. This note requires interest payments at a variable rate (LIBOR + 2.75%) and principal payments as required to reduce the outstanding balance to the maximum amounts previously mentioned. All outstanding principal and interest is due upon maturity, which is June 30, 2017.

Both CapStar 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.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2016 AND 2015

NOTE 7 - NOTES PAYABLE (CONTINUED)

Annual principal maturities under the notes as of May 31, 2016, follows:

For the year ending May 31,

2017	\$ 72,111
2018	979,911
2019	102,440
2020	106,042
2021	110,115
Thereafter	<u>2,210,331</u>
	<u>\$ 3,580,950</u>

In July 2014, The Ballet entered into a \$150,000 line of credit with SunTrust Bank. Interest is payable monthly at a variable rate (Prime + 0.50%), with the outstanding principal balance payable on demand. The line is secured by a certificate of deposit held at the bank. As of May 31, 2016 and 2015, there was no outstanding balance under these lines of credit.

NOTE 8 - NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Designated as endowment	\$ 104,005	\$ 104,005
Designated for the purchase of property and equipment	152,527	143,865
Designated for the Ballet Ball	85,000	85,000
Designated as cash reserve	80,000	100,000
Designated for capital campaign expenses and related debt service	1,034,023	1,682,301
Designated for Peter Pan	35,000	15,000
Designated for Jane Fabian Memorial Fund endowment	35,195	25,000
Memorial gifts designated as endowment	11,765	-
Unspent earnings on board designated endowment and investments	<u>57,647</u>	<u>62,757</u>
	<u>\$ 1,595,162</u>	<u>\$ 2,217,928</u>

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2016 AND 2015

NOTE 8 - NET ASSETS (CONTINUED)

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

	<u>2016</u>	<u>2015</u>
Nutcracker creation and renovation fund	\$ 191,951	\$ 205,623
Donations or pledges for subsequent periods	660,296	252,529
Unspent earnings on endowment fund	<u>33,727</u>	<u>25,688</u>
	<u>\$ 885,974</u>	<u>\$ 483,840</u>

NOTE 9 - ENDOWMENT

Permanently restricted net assets consist of endowment funds to support professional ballet performances, educational community engagement performances and School of Nashville Ballet student scholarships. Contributions to the endowment fund were subject to donor restrictions that the original principal of the gifts are to be held and invested by the Ballet indefinitely, and income from the funds are to be used to fund professional ballet activities, including educational community engagement performances, and to support the dance training of students.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2016 AND 2015

NOTE 9 - ENDOWMENT (CONTINUED)

A summary of changes in endowments by net asset composition and type of fund was as follows as of May 31:

	2016					
	Donor-Restricted Endowments				Board-Designated	Total
				Total	Endowments	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	
Endowment net assets, June 1, 2015	\$ -	\$ 25,688	\$ 141,415	\$ 167,103	\$ 125,000	\$ 292,103
Contributions	-	-	548,250	548,250	20,260	568,510
Interest and dividend income, net of fees	-	8,215	-	8,215	7,877	16,092
Realized and unrealized gains on investments	-	18,459	-	18,459	3,519	21,978
Net change in beneficial interest in agency endowment fund	-	(6,452)	-	(6,452)	-	(6,452)
Unspent earnings from prior years	-	-	-	-	22,237	22,237
Amounts appropriated for expenditure or other designation	-	(12,184)	-	(12,184)	(7,835)	(20,019)
Endowment net assets, May 31, 2016	<u>\$ -</u>	<u>\$ 33,726</u>	<u>\$ 689,665</u>	<u>\$ 723,391</u>	<u>\$ 171,058</u>	<u>\$ 894,449</u>

	2015					
	Donor-Restricted Endowments				Board-Designated	Total
				Total	Endowments	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	
Endowment net assets, June 1, 2014	\$ -	\$ 28,838	\$ 134,315	\$ 163,153	\$ 125,000	\$ 288,153
Contributions	-	-	7,100	7,100	-	7,100
Interest and dividend income, net of fees	-	3,263	-	3,263	4,883	8,146
Realized and unrealized gains on investments	-	199	-	199	278	477
Net change in beneficial interest in agency endowment fund	-	(2,698)	-	(2,698)	-	(2,698)
Amounts appropriated for expenditure or other designation	-	(3,914)	-	(3,914)	(5,161)	(9,075)
Endowment net assets, May 31, 2015	<u>\$ -</u>	<u>\$ 25,688</u>	<u>\$ 141,415</u>	<u>\$ 167,103</u>	<u>\$ 125,000</u>	<u>\$ 292,103</u>

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MAY 31, 2016 AND 2015

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 are reported in unrestricted net assets. There were no such deficiencies as of May 31, 2016 and 2015.

NOTE 10 - LEASE COMMITMENTS

The Ballet has an agreement to lease a general office and dance studio space. During the fiscal year, the Ballet renegotiated the terms of the lease extending the expiration date to December 31, 2017 with monthly lease payments ranging from \$3,896 to \$4,270.

Future minimum rental payments due under this operating lease, including the subsequent amendment, follows:

Year Ending May 31:

2017	\$ 49,739
2018	<u>29,768</u>
	<u>\$ 79,507</u>

Rent expense totaled approximately \$49,500 for the year ended May 31, 2016 (\$48,000 for the year ended May 31, 2015).

NOTE 11 - CONCENTRATIONS

Financial instruments that potentially subject the Ballet to concentrations of credit risk consist of cash and cash equivalents, investments and various contributions, grants and other receivables. Contributions receivable consist of individual and corporate contribution pledges. Grant and other receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. At May 31, 2016, receivables from two source totaled approximately \$1,045,000, or 48% of total receivables. At May 31, 2015, receivables from one source totaled approximately \$199,000 or 12% of total receivables.

Combined contributions from three sources amounted to approximately \$2,214,000, or 64% of total contribution revenues for the year ended May 31, 2016 (approximately \$410,300, or 22% of total contribution revenues from one source for the year ended May 31, 2015).

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2016 AND 2015

NOTE 11 - CONCENTRATIONS (CONTINUED)

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.

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. Ballet contributions to the plan totaled \$25,714, a 2% employer matching contribution, for the year ended May 31, 2016 (\$20,851 in 2015, a 2% employer matching contribution).

NOTE 13 - RELATED PARTY TRANSACTIONS

Three 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. One Board member provides chiropractic services to the Ballet at no charge. One Board member provides pro-bono orthopedic consultation as needed and provides fee-based services through the Ballet's workers' compensation carrier. Lastly, one board member provides discounted printing services to the Ballet.