

**NASHVILLE BALLET  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
TEN MONTHS ENDED MAY 31, 2004  
AND  
YEAR ENDED JULY 31, 2003**

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# BLANKENSHIP CPA GROUP, PLLC

MEMBERSHIP FIRM OF ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Nashville Ballet:

We have audited the accompanying statements of financial position of the Nashville Ballet as of May 31, 2004 and July 31, 2003, and the related statements of activities, functional expenses and cash flows for the ten-month period ended May 31, 2004 and the year ended July 31, 2003. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, its financial position of the Nashville Ballet as of May 31, 2004 and July 31, 2003, and the changes in net assets and its cash flows for the ten-month period ended May 31, 2004 and the year ended July 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

*Blankenship CPA Group, PLLC*

July 15, 2004

*Jeff Betsler*

**NASHVILLE BALLET**  
**STATEMENTS OF FINANCIAL POSITION**  
**MAY 31, 2004 AND JULY 31, 2003**

	MAY 31, 2004	JULY 31, 2003
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 476,116	\$ 309,088
Beneficial Interest in Assets (note 6)	61,179	-
Accounts receivable	47,372	28,142
Pledges receivable, net (note 8)	341,719	362,882
Inventory	12,105	8,472
Prepaid expenses	13,768	36,457
	<u>952,259</u>	<u>745,041</u>
Total current assets		
	<u>288,828</u>	<u>305,318</u>
Pledges receivable, noncurrent, net (note 8)		
	<u>18,196</u>	<u>20,996</u>
Consortium production, net (note 7)	<u>1,822,330</u>	<u>1,871,099</u>
Property and equipment, net (notes 2 and 4)		
	<u>\$ 3,081,613</u>	<u>\$ 2,942,454</u>
Total assets		
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 74,473	\$ 120,541
Accrued expenses	30,076	682
Current portion of long-term debt (note 4)	629,000	119,702
Prepaid school tuition	182,651	9,795
	<u>916,200</u>	<u>250,720</u>
Total current liabilities		
Fundraising fees payable	40,708	36,577
Long-term debt (note 4)	-	979,000
Total noncurrent liabilities	<u>40,708</u>	<u>1,015,577</u>
Total liabilities	<u>956,908</u>	<u>1,266,297</u>
Net assets:		
Unrestricted	1,432,979	937,957
Temporarily restricted (note 3)	630,547	688,200
Permanently restricted (note 3)	61,179	50,000
	<u>2,124,705</u>	<u>1,676,157</u>
Total net assets		
Total liabilities and net assets	<u>\$ 3,081,613</u>	<u>\$ 2,942,454</u>

The accompanying notes are an integral part of these financial statements.

**NASHVILLE BALLET**  
**STATEMENT OF ACTIVITIES**  
**TEN MONTHS ENDED MAY 31, 2004**

	2004			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support (notes 1 and 6):				
Contributions <i>(includes in-kind)</i>	\$ 1,049,001	\$ -	\$ 5,000	\$ 1,054,001
Capital campaign contributions	-	402,236	-	402,236
Grants	206,500	-	-	206,500
Ticket sales	535,222	-	-	535,222
Tour fees and special programs	10,975	-	-	10,975
Educational outreach	-	-	-	-
School and workshops	257,538	-	-	257,538
Investment income	9,224	-	6,179	15,403
Miscellaneous	47,850	-	-	47,850
Net assets released from restrictions	459,889	(459,889)	-	-
<b>Total revenues and other support</b>	<b>2,576,199</b>	<b>(57,653)</b>	<b>11,179</b>	<b>2,529,725</b>
Expenses:				
Program services	1,684,205	-	-	1,684,205
Management and general	259,637	-	-	259,637
Fundraising	137,335	-	-	137,335
<b>Total expenses</b>	<b>2,081,177</b>	<b>-</b>	<b>-</b>	<b>2,081,177</b>
<b>Net increase (decrease) in net assets</b>	<b>495,022</b>	<b>(57,653)</b>	<b>11,179</b>	<b>448,548</b>
Net assets:				
Beginning of year	937,957	688,200	50,000	1,676,157
End of year	<u>\$ 1,432,979</u>	<u>\$ 630,547</u>	<u>\$ 61,179</u>	<u>\$ 2,124,705</u>

The accompanying notes are an integral part of these financial statements.

**NASHVILLE BALLET**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JULY 31, 2003**

	2003			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support (notes 1 and 6):				
Contributions	\$ 1,098,269	\$ 20,000	\$ 50,000	\$ 1,168,269
Capital campaign contribution	-	200,385	-	200,385
Grants	174,880	-	-	174,880
Ticket sales	434,089	-	-	434,089
Tour fees and special programs	32,906	-	-	32,906
Educational outreach	27,500	-	-	27,500
School and workshops	409,901	-	-	409,901
Interest	5,090	-	-	5,090
Miscellaneous	51,145	-	-	51,145
Net assets released from restrictions	492,010	(492,010)	-	-
Total revenues and other support	2,725,790	(271,625)	50,000	2,504,165
Expenses:				
Program services	1,684,322	-	-	1,684,322
Management and general	334,877	-	-	334,877
Fundraising	172,535	-	-	172,535
Total expenses	2,191,734	-	-	2,191,734
Net increase (decrease) in net assets	534,056	(271,625)	50,000	312,431
Net assets:				
Beginning of year	403,901	959,825	-	1,363,726
End of year	\$ 937,957	\$ 688,200	\$ 50,000	\$ 1,676,157

The accompanying notes are an integral part of these financial statements.

**NASHVILLE BALLET**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**TEN MONTHS ENDED MAY 31, 2004**

	2004			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 593,301	\$ 154,233	\$ 38,607	\$ 786,141
Payroll taxes	59,896	23,373	5,850	89,119
Employee benefits	54,135	6,752	1,690	62,577
<b>Total salaries and benefits</b>	<b>707,332</b>	<b>184,358</b>	<b>46,147</b>	<b>937,837</b>
Artists' fees and royalties	186,833	-	-	186,833
Mounting expenses	25,778	-	-	25,778
General production supplies	12,041	-	-	12,041
Shoe and tight expense	26,031	-	-	26,031
Theater rental and crew expense	126,498	-	-	126,498
Professional expenses	83,938	1,240	968	86,146
Capital Campaign fees	-	-	53,978	53,978
Ballet boutique expenses	14,662	-	-	14,662
Occupancy	45,588	12,157	3,039	60,784
Insurance	16,133	4,302	1,076	21,511
Communications	40,016	10,004	2,060	52,080
Equipment expense	3,409	12,784	852	17,045
Supplies, copying and printing	28,871	7,218	16,055	52,144
In-kind expenses	33,476	-	-	33,476
Layout, design and films	84,111	-	918	85,029
Advertising	72,345	-	-	72,345
Travel	35,272	-	370	35,642
Audition expense	6,279	-	-	6,279
Interest and service charges	27,306	7,282	1,820	36,408
Miscellaneous	5,630	1,407	5,331	12,368
Special events expense	13,349	-	-	13,349
Loss on disposal of fixed asset	15,689	-	-	15,689
Depreciation	70,818	18,885	4,721	94,424
Amortization	2,800	-	-	2,800
	<u>\$ 1,684,205</u>	<u>\$ 259,637</u>	<u>\$ 137,335</u>	<u>\$ 2,081,177</u>

The accompanying notes are an integral part of these financial statements.

**NASHVILLE BALLET**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JULY 31, 2003**

	2003			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 622,065	\$ 174,537	\$ 45,906	\$ 842,508
Payroll taxes	63,558	25,060	4,710	93,328
Employee benefits	51,473	15,097	790	67,360
Total salaries and benefits	737,096	214,694	51,406	1,003,196
Artists' fees and royalties	169,666	-	-	169,666
Mounting expenses	12,945	-	-	12,945
General production supplies	7,054	-	-	7,054
Shoe and tight expense	27,410	-	-	27,410
Theater rental and crew expense	104,125	-	-	104,125
Professional expenses	58,284	10,285	-	68,569
Capital Campaign fees	-	-	108,941	108,941
Ballet boutique expenses	15,764	-	-	15,764
Occupancy	52,566	13,142	-	65,708
Insurance	21,634	5,409	-	27,043
Communications	5,890	20,774	2,785	29,449
Equipment expense	-	12,532	-	12,532
Supplies, copying and printing	25,737	6,434	3,730	35,901
In-kind expenses	50,309	-	-	50,309
Layout, design and films	22,489	-	941	23,430
Advertising	105,967	-	-	105,967
Travel	111,849	-	707	112,556
Audition expense	4,273	-	-	4,273
Interest and service charges	55,244	13,811	-	69,055
Miscellaneous	7,381	1,845	4,025	13,251
Special events expense	4,755	-	-	4,755
Depreciation	80,524	35,951	-	116,475
Amortization	3,360	-	-	3,360
	<u>\$ 1,684,322</u>	<u>\$ 334,877</u>	<u>\$ 172,535</u>	<u>\$ 2,191,734</u>

The accompanying notes are an integral part of these financial statements.



**NASHVILLE BALLET**  
**STATEMENTS OF CASH FLOWS**  
**TEN MONTHS ENDED MAY 31, 2004 AND YEAR ENDED JULY 31, 2003**

	MAY 31, 2004	JULY 31, 2003
Cash flows from operating activities:		
Change in net assets	\$ 448,548	\$ 312,431
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	97,224	119,835
Loss on disposal of fixed assets	15,689	-
Increase in receivables	(19,230)	(1,828)
Decrease in pledges receivable	37,653	260,625
Increase in inventory	(3,633)	(3,962)
(Increase) decrease in prepaid expenses	22,689	(22,487)
Increase (decrease) in accounts payable	(46,068)	44,635
Increase (decrease) in accrued expenses	29,394	(8,232)
Increase (decrease) in prepaid school tuition	172,856	(7,931)
Increase in fundraising fees payable	<u>4,131</u>	<u>36,577</u>
Total adjustments	<u>310,705</u>	<u>417,232</u>
Net cash provided by operating activities	<u>759,253</u>	<u>729,663</u>
Cash flows from investing activities:		
Investment purchases	(61,179)	-
Purchase of property and equipment	<u>(61,344)</u>	<u>(17,138)</u>
Net cash used in investing activities	<u>(122,523)</u>	<u>(17,138)</u>
Cash flows from financing activities:		
Payments on long-term debt	<u>(469,702)</u>	<u>(459,003)</u>
Net cash used in financing activities	<u>(469,702)</u>	<u>(459,003)</u>
Net increase in cash and cash equivalents	167,028	253,522
Cash and cash equivalents:		
Beginning of year	<u>309,088</u>	<u>55,566</u>
End of year	<u>\$ 476,116</u>	<u>\$ 309,088</u>
Cash paid during the year for:		
Interest	<u>\$ 40,100</u>	<u>\$ 65,364</u>

The accompanying notes are an integral part of these financial statements.

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS**  
**TEN MONTHS ENDED MAY 31, 2004 AND YEAR ENDED JULY 31, 2003**

**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.

Fiscal Year Change

The Ballet changed its fiscal year from July 31 to May 31 with May 31, 2004 as the "short-year" period.

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 reflects 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 at year-end.

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**TEN MONTHS ENDED MAY 31, 2004 AND YEAR ENDED JULY 31, 2003**

**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 Statements of Activities.

Donated Services

Contributions of donated services 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 services include donated advertising services. The fair value of the donated services is reflected in revenues and other support and included in expenses under program services for the full amounts of \$33,476 and \$50,309 in 2004 and 2003, respectively.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with program services and fundraising events. No amounts have been reflected in the financial statements for these donated services since the volunteers' time does not meet the criteria for recognition under SFAS No. 116.

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.

At various times during the fiscal year, the Ballet's cash in bank balances exceeded the federally insured limits of \$100,000 per financial institution. It is the opinion of management that the solvency of the rendered financial institutions is not of particular concern at this time.

Inventory

Inventory consists of goods available for sale prior to and following performances and is valued at cost.

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**TEN MONTHS ENDED MAY 31, 2004 AND YEAR ENDED JULY 31, 2003**

**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 \$300. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Building	40 years
Building improvements	15 years
Furniture and equipment	5 years
Sets and props	7 years
Costumes	4 years
Vehicles	5 years

Amortization

The client list is amortized over its estimated life of 3 years and the consortium production is amortized over its contractual life of 10 years.

Advertising

The Ballet's advertising is non-direct and the costs are expensed as incurred. The Ballet incurred \$72,345 and \$105,967 of advertising expense in 2004 and 2003, respectively.

Use of Estimates

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

Reclassifications

Certain amounts from the prior year have been reclassified to conform with current year presentation.

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**TEN MONTHS ENDED MAY 31, 2004 AND YEAR ENDED JULY 31, 2003**

**NOTE 2 - PROPERTY AND EQUIPMENT**

Depreciation expense for the ten months ended May 31, 2004 and the year ended July 31, 2003, amounted to \$94,424 and \$116,475, respectively. The cost and accumulated depreciation of property and equipment consisted of the following amounts, calculated on the straight-line method of depreciation:

	2004	2003
Building	\$ 1,145,715	\$ 1,145,715
Building improvements	810,726	804,279
Costumes	286,604	270,035
Client List	-	14,200
Sets and props	341,042	341,042
Furniture and equipment	115,088	108,635
Vehicles	<u>22,333</u>	<u>22,333</u>
	2,721,508	2,706,239
Less accumulated depreciation	<u>899,178</u>	<u>835,140</u>
	<u>\$ 1,822,330</u>	<u>\$ 1,871,099</u>

**NOTE 3 - RESTRICTIONS ON NET ASSETS**

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

	2004	2003
For subsequent periods	\$ -	\$ 20,000
Time restricted building pledges, net	<u>630,547</u>	<u>668,200</u>
	<u>\$ 630,547</u>	<u>\$ 688,200</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.

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**TEN MONTHS ENDED MAY 31, 2004 AND YEAR ENDED JULY 31, 2003**

**NOTE 4 - NOTES PAYABLE**

The Ballet obtained a line of credit on September 17, 2003 from First Bank. The terms of the note include an interest rate of 4.25% per annum on the unpaid outstanding principal balance of each advance. The amount available on the line is \$50,000 and there was no amount outstanding at May 31, 2004. The note matures on September 17, 2004 and is unsecured.

	2004	2003
Note payable to bank. Interest is due monthly at 4%. All principal and unpaid interest are due November 2004. This note is secured by the deed to the property at 3630 Redmon Street.	\$ 629,000	\$ 1,079,000
Note payable to an individual in monthly installments of principal and interest of \$2,281. Interest is fixed at 9.5% annually. All principal and unpaid interest is due on December 7, 2003.	-	19,702
	629,000	1,098,702
Less current portion	629,000	119,702
Long-term debt	\$ -	\$ 979,000

**NOTE 5 - INCOME TAX STATUS**

The Ballet is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax has been made.

**NOTE 6 - 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 SFAS 136 because the Ballet transferred the funds to the Foundation specifying itself as the beneficiary. The Foundation has full variance power. There are no terms for distribution each year. Historically, 5% has been distributed to the Ballet annually. The accumulative amount recognized on the statement of financial position is \$61,179 at May 31, 2004, as a beneficial interest in assets held by the Community Foundation of Middle Tennessee.

The other two funds are not considered a beneficial interest in assets held by the Community Foundation of Middle Tennessee and they are likewise 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 these accumulative balances in the Ballet's statements of financial position.

**NASHVILLE BALLET**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**TEN MONTHS ENDED MAY 31, 2004 AND YEAR ENDED JULY 31, 2003**

**NOTE 7 - 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 ten months ended May 31, 2004 and the year ended July 31, 2003, amounted to \$2,800 and \$3,360, respectively.

	2004	2003
Consortium production	\$ 33,596	\$ 33,596
Less accumulated amortization	<u>15,400</u>	<u>12,600</u>
	<u>\$ 18,196</u>	<u>\$ 20,996</u>

**NOTE 8 - PLEDGES RECEIVABLE**

Pledges receivable at May 31, 2004 and July 31, 2003 consist of the following:

	2004	2003
Pledges receivable – Capital Campaign	\$ 661,135	\$ 723,315
Less allowance for pledges receivable	15,000	15,000
Less discounts to net present value	<u>15,588</u>	<u>40,115</u>
Net pledges receivable	<u>\$ 630,547</u>	<u>\$ 668,200</u>
Amounts due in:		
Less than one year	\$ 356,719	\$ 377,882
One to five years	<u>304,416</u>	<u>345,433</u>
	<u>\$ 661,135</u>	<u>\$ 723,315</u>

Pledges receivable due in more than one year are reflected at the net present value of estimated future cash flows using a discount rate of 5%.