

NASHVILLE BALLET
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
Years ended May 31, 2007 and 2006

NASHVILLE BALLET

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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, 2007 and 2006 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, 2007 and 2006, 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.

Fraser, Dean & Howard, PLLC

August 8, 2007

NASHVILLE BALLET
STATEMENTS OF FINANCIAL POSITION
May 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 499,581	\$ 271,420
Certificate of deposit	355,590	-
Beneficial interest in assets	74,115	66,673
Grants and other receivables	81,332	54,805
Pledges receivable, net	307,947	49,698
Inventory	13,368	9,411
Prepaid expenses and other	53,546	27,117
Total current assets	1,385,479	479,124
Pledges receivable, noncurrent, net	98,166	41,418
Consortium production, net	8,676	11,756
Property and equipment, net	1,767,809	1,835,157
Cash surrender value of life insurance (donor)	68,175	-
Total assets	<u>\$ 3,328,305</u>	<u>\$ 2,367,455</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 17,441	\$ 20,578
Fundraising fees payable	-	25,343
Accrued expenses	13,185	21,904
Current portion of long-term debt	-	4,000
Unearned school tuition	160,031	132,752
Total current liabilities	190,657	204,577
Long-term debt, net of current portion	-	209,000
Total liabilities	190,657	413,577
Net assets:		
Unrestricted	1,987,362	1,725,315
Temporarily restricted	1,076,171	161,890
Permanently restricted	74,115	66,673
Total net assets	3,137,648	1,953,878
Total liabilities and net assets	<u>\$ 3,328,305</u>	<u>\$ 2,367,455</u>

See notes to financial statements.

NASHVILLE BALLET
STATEMENT OF ACTIVITIES
Year ended May 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
New Nutcracker capital campaign contributions	\$ 70,909	\$ 1,001,514	\$ -	\$ 1,072,423
Individual contributions	589,336	72,171	-	661,507
Ticket sales	623,540	-	-	623,540
Tuition	553,376	-	-	553,376
Ballet Ball revenue	332,238	-	-	332,238
Corporate and foundation contributions	303,297	2,486	-	305,783
Contributions from Community Foundation of Middle TN	246,854	-	-	246,854
Grants	156,507	-	-	156,507
In-kind contributions	107,184	-	-	107,184
Miscellaneous	57,416	-	-	57,416
Touring and special projects	39,275	-	-	39,275
Friends support and benefits	33,410	-	-	33,410
Outreach	21,900	-	-	21,900
School and workshops	8,424	-	-	8,424
Investment income	-	-	7,442	7,442
Net assets released from restrictions	161,890	(161,890)	-	-
 Total support and revenue	 3,365,556	 914,281	 7,442	 4,227,279
Expenses:				
Program services	2,393,015	-	-	2,393,015
Management and general	295,005	-	-	295,005
Fundraising	355,489	-	-	355,489
 Total expenses	 3,043,509	 -	 -	 3,043,509
 Net increase (decrease) in net assets	 262,047	 914,281	 7,442	 1,183,770
 Net assets, beginning of year	 1,725,315	 161,890	 66,673	 1,953,878
 Net assets, end of year	 <u>\$ 1,987,362</u>	 <u>\$ 1,076,171</u>	 <u>\$ 74,115</u>	 <u>\$ 3,137,648</u>

See notes to financial statements.

NASHVILLE BALLET
STATEMENT OF ACTIVITIES
Year ended May 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Individual contributions	\$ 567,474	\$ -	\$ -	\$ 567,474
Ticket sales	520,905	-	-	520,905
Tuition	484,423	-	-	484,423
Ballet Ball revenue	261,106	-	-	261,106
Corporate and foundation contributions	255,280	-	-	255,280
Contributions from Community Foundation of Middle TN	231,987	-	-	231,987
Grants	163,925	-	-	163,925
New Nutcracker capital campaign contributions	-	96,415	-	96,415
Miscellaneous	72,768	-	-	72,768
In-kind contributions	44,614	-	-	44,614
Friends support and benefits	38,312	-	-	38,312
School and workshops	7,508	-	-	7,508
Outreach	7,002	-	-	7,002
Touring and special projects	4,550	-	-	4,550
Investment income	-	-	3,730	3,730
Scholarships	1,160	-	-	1,160
Net assets released from restrictions	254,388	(254,388)	-	-
 Total support and revenue	 2,915,402	 (157,973)	 3,730	 2,761,159
Expenses:				
Program services	2,324,796	-	-	2,324,796
Management and general	288,265	-	-	288,265
Fundraising	353,199	-	-	353,199
 Total expenses	 2,966,260	 -	 -	 2,966,260
 Net increase (decrease) in net assets	 (50,858)	 (157,973)	 3,730	 (205,101)
 Net assets, beginning of year	 1,776,173	 319,863	 62,943	 2,158,979
 Net assets, end of year	 <u>\$ 1,725,315</u>	 <u>\$ 161,890</u>	 <u>\$ 66,673</u>	 <u>\$ 1,953,878</u>

See notes to financial statements.

NASHVILLE BALLET
STATEMENT OF FUNCTIONAL EXPENSES
Year ended May 31, 2007

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 861,460	\$ 209,422	\$ 95,255	\$ 1,166,137
Payroll taxes	127,622	33,906	9,796	171,324
Employee benefits	62,898	8,990	4,968	76,856
Symphony fees	145,931	-	-	145,931
Choreography and artistic fees	91,140	-	-	91,140
Production expense	80,897	-	-	80,897
Theater rental and crew expense	208,609	-	-	208,609
Ballet Ball expense	-	-	131,299	131,299
Friends boutique and costs	46,866	-	-	46,866
Travel and vehicle expense	20,123	2,106	1,170	23,399
Marketing	325,821	-	-	325,821
Outreach	15,878	-	-	15,878
School expense	88,910	-	-	88,910
Development	-	-	25,105	25,105
Capital campaign fees	-	-	64,652	64,652
Legal and professional	8,389	878	488	9,755
Rent and utilities	120,589	12,620	7,011	140,220
Liability and property insurance	22,797	2,386	1,325	26,508
Equipment expense	8,112	3,911	2,462	14,485
Office supplies and postage	11,544	5,566	3,504	20,614
Interest and service charges	20,273	2,122	1,178	23,573
Miscellaneous	15,039	1,574	874	17,487
Depreciation	107,468	11,247	6,248	124,963
Amortization	2,649	277	154	3,080
Total expenses	<u>\$ 2,393,015</u>	<u>\$ 295,005</u>	<u>\$ 355,489</u>	<u>\$ 3,043,509</u>

See notes to financial statements.

NASHVILLE BALLET
STATEMENT OF FUNCTIONAL EXPENSES
Year ended May 31, 2006

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 818,059	\$ 196,975	\$ 97,569	\$ 1,112,603
Payroll taxes	124,655	34,191	9,937	168,783
Employee benefits	51,190	11,012	4,269	66,471
Symphony fees	130,188	-	-	130,188
Choreography and artistic fees	129,632	-	-	129,632
Production expense	78,337	-	-	78,337
Theater rental and crew expense	194,118	-	-	194,118
Ballet Ball expense	-	-	88,777	88,777
Friends boutique and costs	40,381	-	-	40,381
Travel and vehicle expense	25,898	2,742	1,828	30,468
Marketing	328,601	-	-	328,601
Outreach	30,943	-	-	30,943
School expense	65,932	-	-	65,932
Development	-	-	49,171	49,171
Capital campaign fees	-	-	71,738	71,738
Legal and professional	8,113	859	573	9,545
Rent and utilities	114,452	12,118	8,079	134,649
Liability and property insurance	20,767	2,199	1,466	24,432
Equipment expense	6,229	3,173	2,350	11,752
Office supplies and postage	20,666	10,528	7,798	38,992
Interest and service charges	21,353	2,261	1,507	25,121
Miscellaneous	13,973	1,480	986	16,439
Loss on disposal of property and equipment	5,474	580	386	6,440
Depreciation	93,217	9,870	6,580	109,667
Amortization	2,618	277	185	3,080
Total expenses	<u>\$ 2,324,796</u>	<u>\$ 288,265</u>	<u>\$ 353,199</u>	<u>\$ 2,966,260</u>

See notes to financial statements.

NASHVILLE BALLET
STATEMENTS OF CASH FLOWS
Years ended May 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,183,770	\$ (205,101)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	128,043	112,747
Loss on disposal of property and equipment	-	6,440
Discount on pledges receivable	-	3,885
Bad debt provision	-	(3,183)
Change in operating assets and liabilities:		
(Increase) decrease in grants and other receivables	(26,527)	19,337
(Increase) decrease in pledges receivable	(314,997)	226,120
(Increase) decrease in inventory	(3,957)	1,215
(Increase) decrease in prepaid expenses	(26,429)	21,373
(Increase) in cash surrender value of life insurance	(68,175)	-
(Decrease) increase in accounts payable	(3,137)	435
(Decrease) in accrued expenses	(8,719)	(144)
Increase in unearned school tuition	27,279	23,281
(Decrease) in fundraising fees payable	(25,343)	(34,693)
Net cash provided by operating activities	<u>861,808</u>	<u>171,712</u>
Cash flows from investing activities:		
Purchase of certificate of deposit	(355,590)	-
Investment purchases	(7,442)	(3,730)
Purchase of property and equipment	(57,615)	(204,191)
Net cash used in investing activities	<u>(420,647)</u>	<u>(207,921)</u>
Cash flows from financing activities:		
Payments on long-term debt	(213,000)	(120,000)
Net cash used by financing activities	<u>(213,000)</u>	<u>(120,000)</u>
Net increase (decrease) in cash and cash equivalents	228,161	(156,209)
Cash and cash equivalents, beginning of year	<u>271,420</u>	<u>427,629</u>
Cash and cash equivalents, end of year	<u>\$ 499,581</u>	<u>\$ 271,420</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 9,714</u>	<u>\$ 15,958</u>

See notes to financial statements.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS
Years ended May 31, 2007 and 2006

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 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.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Years ended May 31, 2007 and 2006

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, 2007 and 2006

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 is non-direct and the costs are expensed as incurred. Advertising expense for the years ended May 31, 2007 and 2006 totaled \$198,364 of which \$79,000 represents in-kind contributions and \$128,915 of which \$44,614 represents in-kind contributions, 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.

NOTE 2 – CERTIFICATE OF DEPOSIT

The Ballet maintains a certificate of deposit with a balance of \$355,590 at May 31, 2007. The certificate of deposit earns interest at a rate of 4.7% and matures in August 2007.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Years ended May 31, 2007 and 2006

NOTE 3 – 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 \$74,115 and \$66,673 at May 31, 2007 and 2006, 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 4 – PLEDGES RECEIVABLE

Pledges receivable at May 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Pledges receivable – Capital Campaigns	\$ 418,178	\$ 103,181
Less allowance for pledges receivable	(6,817)	(6,817)
Less discounts to net present value	<u>(5,248)</u>	<u>(5,248)</u>
Net pledges receivable	<u>\$ 406,113</u>	<u>\$ 91,116</u>
Net amounts due in:		
Less than one year	\$ 307,947	\$ 49,698
One to five years	<u>98,166</u>	<u>41,418</u>
	<u>\$ 406,113</u>	<u>\$ 91,116</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 4.9%.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Years ended May 31, 2007 and 2006

NOTE 5 – 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, 2007 and 2006 amounted to \$3,080.

	<u>2007</u>	<u>2006</u>
Consortium production	\$ 33,596	\$ 33,596
Less accumulated depreciation	<u>(24,920)</u>	<u>(21,840)</u>
	<u>\$ 8,676</u>	<u>\$ 11,756</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Depreciation expense for the years ended May 31, 2007 and 2006 amounted to \$124,963 and \$109,667, 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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Building	\$ 1,145,715	\$ 1,145,715
Building improvements	830,724	829,499
Costumes	381,297	353,353
Sets and props	446,484	443,045
Furniture and equipment	140,476	132,219
Vehicles	<u>39,083</u>	<u>22,333</u>
	2,983,779	2,926,164
Less accumulated depreciation	<u>(1,215,970)</u>	<u>(1,091,007)</u>
	<u>\$ 1,767,809</u>	<u>\$ 1,835,157</u>

NOTE 7 – LONG-TERM DEBT

The Organization's long-term debt was paid in full during fiscal 2007. The agreement required monthly interest payments computed at 5.5%. Principal payments of \$200,000 were required each January. The note was secured by the deed to the Ballet's property at 3630 Redmon Street. At May 31, 2006, amounts outstanding under the note totaled \$213,000 with \$4,000 representing the current portion.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Years ended May 31, 2007 and 2006

NOTE 7 – LONG-TERM DEBT (Continued)

Interest expense totaled \$9,714 and \$15,958 for the years ended May 31, 2007 and 2006, respectively.

NOTE 8 – RESTRICTIONS ON NET ASSETS

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

	<u>2007</u>	<u>2006</u>
Time restricted building pledges, net	\$ -	\$ 138,838
New Nutcracker and building renovation pledges, net	1,001,514	23,052
For subsequent periods	<u>74,657</u>	<u>-</u>
	<u>\$ 1,076,171</u>	<u>\$ 161,890</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 9 – 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, 2007, minimum rental payments due under all operating leases are as follows:

Year Ending	
<u>May 31</u>	
2008	\$ 41,951
2009	43,004
2010	44,082
2011	<u>3,681</u>
Total	<u>\$ 132,718</u>

Rent expense totaled \$41,211 and \$36,685 for the years ended May 31, 2007 and 2006, respectively.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (Continued)
Years ended May 31, 2007 and 2006

NOTE 10 – CONCENTRATIONS

The Ballet maintains deposit accounts with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. Excess uninsured balances of the Ballet amounted to \$589,648 and \$56,196 at May 31, 2007 and 2006, respectively. It is the opinion of management that the solvency of its depository financial institutions is adequate, limiting its concentration risks.

The Ballet received unrestricted contributions in the form of cash from a major donor in excess of 10% of support and revenue in 2007 and 2006.

Amounts receivable from a major donor at May 31, 2007 totaled \$150,000. In 2006, amounts receivable from a different major donor totaled \$70,000.

NOTE 11 – 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 12 – 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, 2007, the Ballet had received funds and pledges in the amount of \$1,172,723 for support of this campaign.