

NASHVILLE BALLET
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
MAY 31, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Knapp CPAs PLLC

Nashville, Tennessee
September 25, 2018

NASHVILLE BALLET

STATEMENTS OF FINANCIAL POSITION

MAY 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,709,169	\$ 1,307,246
Accounts receivable, net of allowance of \$10,500 and \$5,500 respectively	143,307	79,714
Grants receivable	90,600	92,404
Contributions receivable - other, net	196,760	169,731
Prepaid expenses and other	456,329	287,227
Investments	1,031,267	1,070,139
Capital campaign contributions receivable, net	335,735	785,435
Property and equipment, net	7,801,392	8,360,687
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>64,357</u>	<u>63,146</u>
TOTAL ASSETS	<u>\$ 11,828,916</u>	<u>\$ 12,215,729</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 101,220	\$ 78,214
Payroll liabilities	183,668	194,281
Deferred revenue	1,122,795	1,010,417
Notes payable	<u>2,522,641</u>	<u>2,614,003</u>
TOTAL LIABILITIES	<u>3,930,324</u>	<u>3,896,915</u>
<u>NET ASSETS</u>		
Unrestricted:		
Board designated	916,809	1,380,445
Invested in property and equipment, less related debt	5,278,751	5,746,684
Undesignated (deficit)	<u>(140,687)</u>	<u>(624,065)</u>
Total unrestricted	6,054,873	6,503,064
Temporarily restricted	1,030,556	1,012,378
Permanently restricted	<u>813,163</u>	<u>803,372</u>
TOTAL NET ASSETS	<u>7,898,592</u>	<u>8,318,814</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,828,916</u>	<u>\$ 12,215,729</u>

See accompanying notes to financial statements.

NASHVILLE BALLET

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED MAY 31, 2018 AND 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Season ticket sales	\$ 259,832	\$ -	\$ -	\$ 259,832
Single and group ticket sales	1,355,227	-	-	1,355,227
Rentals and touring	91,492	-	-	91,492
Community engagement	17,250	-	-	17,250
School tuition	1,766,308	-	-	1,766,308
Public Support:				
Grants	233,500	-	-	233,500
Capital campaign contributions	10,227	-	-	10,227
Individual contributions	486,874	232,041	9,791	728,706
Corporate and foundation contributions	180,911	548,250	-	729,161
Contributions from the Community Foundation of Middle Tennessee	200,700	-	-	200,700
Ballet Ball revenue	637,886	-	-	637,886
Friends support and benefits	16,517	-	-	16,517
Donated goods and services	528,029	-	-	528,029
Investment income	11,811	47,016	-	58,827
Loss on disposal of property and equipment	(188,051)	-	-	(188,051)
Miscellaneous	65,541	-	-	65,541
Net assets released from restrictions	809,129	(809,129)	-	-
TOTAL SUPPORT AND REVENUE	<u>6,483,183</u>	<u>18,178</u>	<u>9,791</u>	<u>6,511,152</u>
EXPENSES				
Program services	5,749,836	-	-	5,749,836
Supporting services:				
Management and general	410,842	-	-	410,842
Fundraising	770,696	-	-	770,696
TOTAL EXPENSES	<u>6,931,374</u>	<u>-</u>	<u>-</u>	<u>6,931,374</u>
CHANGE IN NET ASSETS	(448,191)	18,178	9,791	(420,222)
NET ASSETS - BEGINNING OF YEAR	<u>6,503,064</u>	<u>1,012,378</u>	<u>803,372</u>	<u>8,318,814</u>
NET ASSETS - END OF YEAR	<u>\$ 6,054,873</u>	<u>\$ 1,030,556</u>	<u>\$ 813,163</u>	<u>\$ 7,898,592</u>

See accompanying notes to financial statements.

2017

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 224,571	\$ -	\$ -	\$ 224,571
1,417,291	-	-	1,417,291
212,669	-	-	212,669
13,493	-	-	13,493
1,668,788	-	-	1,668,788
227,020	-	-	227,020
12,474	-	-	12,474
409,547	178,072	102,857	690,476
122,004	533,680	-	655,684
195,000	-	-	195,000
422,427	-	-	422,427
23,374	-	-	23,374
491,625	-	-	491,625
18,424	81,629	-	100,053
-	-	-	-
69,730	-	-	69,730
<u>666,977</u>	<u>(666,977)</u>	<u>-</u>	<u>-</u>
<u>6,195,414</u>	<u>126,404</u>	<u>102,857</u>	<u>6,424,675</u>
5,635,091	-	-	5,635,091
354,146	-	-	354,146
<u>630,181</u>	<u>-</u>	<u>-</u>	<u>630,181</u>
<u>6,619,418</u>	<u>-</u>	<u>-</u>	<u>6,619,418</u>
(424,004)	126,404	102,857	(194,743)
<u>6,927,068</u>	<u>885,974</u>	<u>700,515</u>	<u>8,513,557</u>
<u>\$ 6,503,064</u>	<u>\$ 1,012,378</u>	<u>\$ 803,372</u>	<u>\$ 8,318,814</u>

NASHVILLE BALLET

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED MAY 31, 2018 AND 2017

	2018				
	Supporting Services				Total
	Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 2,582,871	\$ 193,586	\$ 399,519	\$ 593,105	\$ 3,175,976
Artist fees, licenses and royalties	654,128	1,209	208	1,417	655,545
Theatre and production	436,411	7,032	-	7,032	443,443
Professional and contract services	43,734	67,020	1,421	68,441	112,175
Advertising	601,170	1,402	6,960	8,362	609,532
Communication	8,052	861	1,789	2,650	10,702
Occupancy and housing	387,516	30,098	26,927	57,025	444,541
Interest	67,113	7,180	14,908	22,088	89,201
Equipment and supplies	168,426	27,430	5,234	32,664	201,090
Events	-	3,249	249,440	252,689	252,689
Travel	139,702	7,392	1,903	9,295	148,997
Insurance	38,372	4,106	8,524	12,630	51,002
Staff development and community involvement	37,385	13,605	4,642	18,247	55,632
Depreciation	397,170	15,187	36,449	51,636	448,806
Miscellaneous	8,678	933	1,255	2,188	10,866
Bank and ticket fees	179,108	30,552	11,517	42,069	221,177
TOTAL EXPENSES	\$ 5,749,836	\$ 410,842	\$ 770,696	\$ 1,181,538	\$ 6,931,374

See accompanying notes to financial statements.

2017

		Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Program Services					
\$ 2,446,902	\$ 216,989	\$ 303,466	\$ 520,455	\$ 2,967,357	
610,733	-	1,135	1,135	611,868	
490,567	668	7,096	7,764	498,331	
97,432	20,460	11,796	32,256	129,688	
595,927	570	9,492	10,062	605,989	
8,815	802	1,197	1,999	10,814	
357,161	23,242	13,906	37,148	394,309	
101,333	9,213	13,757	22,970	124,303	
85,339	18,890	6,790	25,680	111,019	
2,319	-	170,860	170,860	173,179	
129,091	4,052	1,128	5,180	134,271	
39,316	6,306	5,337	11,643	50,959	
8,099	10,767	8,582	19,349	27,448	
384,759	34,982	52,232	87,214	471,973	
8,630	5,079	1,213	6,292	14,922	
268,668	2,126	22,194	24,320	292,988	
<u>\$ 5,635,091</u>	<u>\$ 354,146</u>	<u>\$ 630,181</u>	<u>\$ 984,327</u>	<u>\$ 6,619,418</u>	

NASHVILLE BALLET
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (420,222)	\$ (194,743)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	448,806	471,973
Realized and unrealized gain on investments	(26,370)	(66,137)
Loss on disposal of property and equipment	188,051	-
Change in value of beneficial interest in agency endowment fund	(1,211)	(3,150)
Contributions for capital campaign	(10,227)	(12,474)
Contributions - permanently restricted	(9,791)	(102,857)
(Increase) decrease in:		
Grants receivable	1,804	45,196
Contributions receivable	(38,396)	376,586
Accounts receivable	(63,593)	(21,931)
Prepaid expenses and other	(169,102)	(164,806)
Increase (decrease) in:		
Accounts payable	23,006	18,910
Payroll liabilities	(10,613)	89,332
Deferred revenue	112,378	44,864
TOTAL ADJUSTMENTS	<u>444,742</u>	<u>675,506</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>24,520</u>	<u>480,763</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(77,562)	(34,074)
Proceeds from sale of investments	727,507	153,744
Purchases of investments	<u>(662,265)</u>	<u>(253,531)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(12,320)</u>	<u>(133,861)</u>
FINANCING ACTIVITIES		
Collections for capital campaign	459,927	653,598
Principal payments on notes payable	(91,362)	(966,947)
Proceeds from contributions restricted for permanent endowment	<u>21,158</u>	<u>96,474</u>
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>389,723</u>	<u>(216,875)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	401,923	130,027
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,307,246</u>	<u>1,177,219</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,709,169</u>	<u>\$ 1,307,246</u>
OTHER CASH FLOW DISCLOSURES:		
Interest expense paid during the year	<u>\$ 89,492</u>	<u>\$ 128,008</u>

See accompanying notes to financial statements.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017

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 25,000 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, 2018 AND 2017

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, 2018 AND 2017

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, 2018 and 2017.

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 (2.68% in 2018, 1.75% in 2017). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible.

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MAY 31, 2018 AND 2017

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, 2018 AND 2017

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, 2018 and 2017.

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, 2018 AND 2017

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

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

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MAY 31, 2018 AND 2017

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, 2018, including an in-kind donation in the amount of \$290,000, totaled approximately \$610,000 (\$606,000 in 2017).

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, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U. S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Ballet has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2018 AND 2017

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. The Ballet is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions,” and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Ballet is currently evaluating the impact the adoption of this guidance will have on its financial statements.

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

Events Occurring After Reporting Date

The Ballet has evaluated events and transactions that occurred between May 31, 2018 and September 25, 2018, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

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

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MAY 31, 2018 AND 2017

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at May 31:

	<u>2018</u>	<u>2017</u>
Capital campaign:		
Due in less than one year	\$ 332,081	\$ 485,949
One to five years	<u>26,294</u>	<u>336,046</u>
	358,375	821,995
Less: discount to present value	(10,946)	(21,173)
Less: allowance for uncollectible pledges	<u>(11,694)</u>	<u>(15,387)</u>
	<u>\$ 335,735</u>	<u>\$ 785,435</u>
Contributions receivable - other		
Due in less than one year	\$ 211,161	\$ 180,439
Less: allowance for uncollectible pledges	<u>(14,401)</u>	<u>(10,708)</u>
	<u>\$ 196,760</u>	<u>\$ 169,731</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.

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 \$64,357 as of May 31, 2018 (\$63,146 as of May 31, 2017).

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 \$203,500 during fiscal year 2018 (\$192,000 during fiscal year 2017). Total assets held in these funds approximated \$3,998,000 at May 31, 2018 and \$3,958,000 at May 31, 2017.

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2018 AND 2017

NOTE 4 - INVESTMENTS

Investments consisted of the following at May 31:

	<u>2018</u>	<u>2017</u>
Money market accounts	\$ 16,130	\$ 121,211
Certificate of deposit	-	71,120
Treasury bonds	42,380	47,826
Corporate bonds	178,369	218,797
Mutual funds	733,706	589,437
Equities	<u>60,682</u>	<u>21,748</u>
Total	<u>\$ 1,031,267</u>	<u>\$ 1,070,139</u>

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

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 31,246	\$ 30,766
Realized and unrealized gains on investments - net	26,370	66,137
Change in value of beneficial interest in agency endowment fund	<u>1,211</u>	<u>3,150</u>
Total investment income	<u>\$ 58,827</u>	<u>\$ 100,053</u>

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2018 AND 2017

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:

	2018			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Corporate bonds	\$ -	\$ 178,369	\$ -	\$ 178,369
Treasury bonds	-	42,380	-	42,380
Mutual funds:				
Allocation - 50% to 70% equity	30,115	-	-	30,115
Bank loan funds	12,225	-	-	12,225
Commodities funds	19,311	-	-	19,311
Emerging markets bond funds	77,783	-	-	77,783
Energy limited partnership	14,170	-	-	14,170
Equity energy	9,503	-	-	9,503
Foreign large blend funds	160,662	-	-	160,662
Foreign large value	19,564	-	-	19,564
High yield bond funds	10,975	-	-	10,975
Inflation-protected bond funds	28,120	-	-	28,120
International equity funds	45,021	-	-	45,021
Large growth funds	122,951	-	-	122,951
Large value funds	78,180	-	-	78,180
Market neutral	20,146	-	-	20,146
Mid-cap blend funds	15,671	-	-	15,671
Mid-cap growth funds	15,619	-	-	15,619
Multi-alternative funds	34,192	-	-	34,192
REIT	5,917	-	-	5,917
Small value funds	13,581	-	-	13,581
Equities:				
Basic materials	11,199	-	-	11,199
REIT	17,388	-	-	17,388
Services	12,807	-	-	12,807
Utilities	19,288	-	-	19,288
Total investments at fair value	794,388	220,749	-	1,015,137
Beneficial interest in agency endowment fund	-	64,357	-	64,357
Total	\$ 794,388	\$ 285,106	\$ -	\$ 1,079,494

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2018 AND 2017

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2017			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Corporate bonds	\$ -	\$ 218,797	\$ -	\$ 218,797
Treasury bonds	-	47,826	-	47,826
Mutual funds:				
Bank loan funds	12,310	-	-	12,310
Convertible	12,443	-	-	12,443
Emerging markets bond funds	90,360	-	-	90,360
Foreign large blend funds	94,002	-	-	94,002
High yield bond funds	23,330	-	-	23,330
Inflation-protected bond funds	37,098	-	-	37,098
International equity funds	49,741	-	-	49,741
Large growth funds	10,497	-	-	10,497
Large value funds	52,562	-	-	52,562
Mid-cap blend funds	63,137	-	-	63,137
Moderate allocation funds	38,513	-	-	38,513
Multi-alternative funds	27,986	-	-	27,986
REIT	77,458	-	-	77,458
Equities:				
Utilities	12,148	-	-	12,148
Financial	9,600	-	-	9,600
Total investments at fair value	611,185	266,623	-	877,808
Beneficial interest in agency endowment fund	-	63,146	-	63,146
Total	\$ 611,185	\$ 329,769	\$ -	\$ 940,954

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2018 AND 2017

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at May 31:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 8,226,979	\$ 8,959,459
Land and improvements	28,108	28,108
Costumes	1,179,343	1,175,843
Sets and props	1,243,153	1,281,559
Furniture and equipment	451,037	425,675
Vehicles	<u>38,685</u>	<u>38,685</u>
	11,167,305	11,909,329
Less: accumulated depreciation	<u>(3,365,913)</u>	<u>(3,548,642)</u>
	<u>\$ 7,801,392</u>	<u>\$ 8,360,687</u>

NOTE 7 - NOTES PAYABLE

The Ballet has a non-revolving line of credit note and a revolving credit note with a bank. The non-revolving line of credit requires monthly principal and interest payments at a fixed rate of 3.46% through July 2021, at which time all outstanding principal is due. As of May 31, 2018, the outstanding balance under this note was \$2,522,641 (\$2,614,003 as of May 31, 2017).

The Ballet also has a \$250,000 revolving credit note that requires interest payments at a variable rate (LIBOR + 2.75%). All outstanding principal and interest is due November 30, 2018. As of May 31, 2018 and 2017, there was no outstanding balance under the revolving credit note.

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

Annual principal maturities under the notes are as follows:

<u>For the year ending May 31,</u>	
2019	\$ 102,440
2020	106,042
2021	109,769
2022	<u>2,204,390</u>
	<u>\$ 2,522,641</u>

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2018 AND 2017

NOTE 7 - NOTES PAYABLE (CONTINUED)

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. As of May 31, 2018 and 2017, there was no outstanding balance under this line of credit.

NOTE 8 - NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Designated as endowment	\$ 104,005	\$ 104,005
Designated for Jane Fabian Memorial Fund endowment	35,644	35,195
Memorial gifts designated as endowment	11,840	11,840
Designated for the purchase of property and equipment	136,191	180,583
Designated for the Ballet Ball	55,000	55,000
Designated as cash reserve	94,000	60,000
Designated for capital campaign expenses and related debt service	335,735	785,435
Designated for Peter Pan	83,569	79,690
Unspent earnings on board designated endowment and other investments	<u>60,825</u>	<u>68,697</u>
	<u>\$ 916,809</u>	<u>\$ 1,380,445</u>

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

	<u>2018</u>	<u>2017</u>
Nutcracker creation and renovation fund	\$ 156,150	\$ 191,952
Donations or pledges for subsequent periods	777,132	733,231
Unspent earnings on endowment fund	<u>97,274</u>	<u>87,195</u>
	<u>\$ 1,030,556</u>	<u>\$ 1,012,378</u>

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2018 AND 2017

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 funds were subject to donor restrictions that the original principal of the gifts are to be held and invested by the Ballet indefinitely, and income from the funds are to be used to fund professional ballet activities, including educational community engagement performances, and to support the dance training of students.

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

	2018					
	Donor-Restricted Endowments				Board-Designated Endowments	
	Unrestricted	Temporarily Restricted		Total	Unrestricted	Total Endowments
		Restricted	Restricted			
Endowment net assets, June 1, 2017	\$ -	\$ 87,195	\$ 786,139	\$ 873,334	\$ 188,834	\$ 1,062,168
Contributions	-	-	21,158	21,158	-	21,158
Interest and dividend income, net of fees	-	24,608	-	24,608	5,699	30,307
Realized and unrealized gains on investments	-	21,197	-	21,197	4,941	26,138
Net change in beneficial interest in agency endowment fund	-	1,211	-	1,211	-	1,211
Unspent earnings from prior years	-	-	-	-	-	-
Amounts appropriated for expenditure or other designation	-	(36,937)	-	(36,937)	(8,421)	(45,358)
Endowment net assets, May 31, 2018	<u>\$ -</u>	<u>\$ 97,274</u>	<u>\$ 807,297</u>	<u>\$ 904,571</u>	<u>\$ 191,053</u>	<u>\$ 1,095,624</u>

	2017					
	Donor-Restricted Endowments				Board-Designated Endowments	
	Unrestricted	Temporarily Restricted		Total	Unrestricted	Total Endowments
		Restricted	Restricted			
Endowment net assets, June 1, 2016	\$ -	\$ 33,726	\$ 689,665	\$ 723,391	\$ 171,058	\$ 894,449
Contributions	-	-	96,474	96,474	5,702	102,176
Interest and dividend income, net of fees	-	14,339	-	14,339	4,692	19,031
Realized and unrealized gains on investments	-	50,036	-	50,036	11,977	62,013
Net change in beneficial interest in agency endowment fund	-	5,043	-	5,043	-	5,043
Amounts appropriated for expenditure or other designation	-	(15,949)	-	(15,949)	(4,595)	(20,544)
Endowment net assets, May 31, 2017	<u>\$ -</u>	<u>\$ 87,195</u>	<u>\$ 786,139</u>	<u>\$ 873,334</u>	<u>\$ 188,834</u>	<u>\$ 1,062,168</u>

NASHVILLE BALLET
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MAY 31, 2018 AND 2017

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, 2018 and 2017.

NOTE 10 - LEASE COMMITMENTS

The Ballet has an agreement to lease a general office and dance studio space. The expiration date of the lease is June 30, 2019 with monthly lease payments ranging from \$4,146 to \$4,835.

Future minimum rental payments due under this operating lease follows:

Year Ending May 31:

2019	\$ 57,039
2020	<u>4,835</u>
	<u>\$ 61,874</u>

Rent expense totaled approximately \$53,200 for the year ended May 31, 2018 (\$49,800 for the year ended May 31, 2017).

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, 2018, a receivable from one source totaled approximately \$197,000, or 26% of total receivables. At May 31, 2017, a receivables from one source totaled approximately \$402,000 or 36% of total receivables.

Combined contributions from two sources amounted to approximately \$654,000 or 39% of total contribution revenues for the year ended May 31, 2018 (approximately \$648,000, or 42% of total contribution revenues from two sources for the year ended May 31, 2017).

NASHVILLE BALLET

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAY 31, 2018 AND 2017

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 \$14,500, a 1.07% employer matching contribution, for the year ended May 31, 2018 (\$27,492 in 2017, a 2.52% 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. Relatives of two board members are employed at the Ballet as part-time or contract employees. One board member is employed with a benefit broker where the Ballet has accounts. One Board member provides vaccination services to the Ballet dancers at no charge. One Board member provides discounted printing services to the Ballet. Lastly, one Board member performed as a musician in the Ballet’s Emergence series.