

TENNESSEE PERFORMING ARTS FOUNDATION

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2010 AND 2009

TENNESSEE PERFORMING ARTS FOUNDATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Tennessee Performing Arts Foundation  
Nashville, Tennessee

We have audited the accompanying statements of financial position of the Tennessee Performing Arts Foundation (the "Foundation") as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 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, the financial position of the Tennessee Performing Arts Foundation as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*KraftCPAs PLLC*

Nashville, Tennessee  
October 25, 2010

TENNESSEE PERFORMING ARTS FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 6,393	\$ 16,478
Interest and dividends receivable	6,822	9,479
Investments - Note 2 and 4	<u>14,586,752</u>	<u>13,785,409</u>
TOTAL ASSETS	<u>\$ 14,599,967</u>	<u>\$ 13,811,366</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 22,669	\$ 22,340
NET ASSETS - Unrestricted	<u>14,577,298</u>	<u>13,789,026</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,599,967</u>	<u>\$ 13,811,366</u>

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
SUPPORT AND REVENUE (LOSS)		
Investment income (loss) - Note 2	\$ 1,800,518	\$ (3,431,811)
Less investment management fees	(96,536)	(92,746)
Other income	<u>4,204</u>	<u>446</u>
TOTAL SUPPORT AND REVENUE (LOSS)	<u>1,708,186</u>	<u>(3,524,111)</u>
FUNCTIONAL EXPENSES		
Program services - Grants to Corporation	894,230	943,385
Management and general	<u>25,684</u>	<u>24,403</u>
TOTAL FUNCTIONAL EXPENSES	<u>919,914</u>	<u>967,788</u>
CHANGE IN NET ASSETS	788,272	(4,491,899)
NET ASSETS - BEGINNING OF YEAR	<u>13,789,026</u>	<u>18,280,925</u>
NET ASSETS - END OF YEAR	<u>\$ 14,577,298</u>	<u>\$ 13,789,026</u>

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Change in net assets	<u>\$ 788,272</u>	<u>\$ (4,491,899)</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized (gains) losses on investments	(1,482,818)	3,913,027
Decrease in interest and dividends receivable	2,657	17,108
Increase (decrease) in accounts payable and accrued expenses	<u>329</u>	<u>(3,972)</u>
TOTAL ADJUSTMENTS	<u>(1,479,832)</u>	<u>3,926,163</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(691,560)</u>	<u>(565,736)</u>
INVESTING ACTIVITIES		
Purchases of investments	(8,303,148)	(9,548,096)
Proceeds from sale of investments	<u>8,984,623</u>	<u>10,103,615</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>681,475</u>	<u>555,519</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(10,085)	(10,217)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>16,478</u>	<u>26,695</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,393</u>	<u>\$ 16,478</u>

See accompanying notes to financial statements.

# TENNESSEE PERFORMING ARTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### General

The Tennessee Performing Arts Foundation (the "Foundation"), a not-for-profit organization, was formed in December 1972. The Foundation entered into an agreement (the "Agreement") with the State of Tennessee (the "State") and the Tennessee Performing Arts Center Management Corporation (the "Corporation") in March 1978 (amended in February 1999). The initial Agreement established the Corporation principally for the purpose of presenting quality arts entertainment and education to the residents of Tennessee through the operation of the Tennessee Performing Arts Center (the "Center" or "TPAC"). The Corporation has administrative control over the operations of the Center, which is located in the James K. Polk State Office Building, Nashville, Tennessee. The State is responsible for utilities, security services, major repairs, structural elements, fixtures, and the major elements of the sound, lighting, and stage rigging in each of the Center's theatres. The Foundation is responsible for management of a Board-designated endowment fund that was established solely to support the operations of the Corporation and is governed by a separate Board from the Corporation.

#### Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Foundation 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. The Foundation had no permanently restricted net assets as of June 30, 2010 or 2009.

TENNESSEE PERFORMING ARTS FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support

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 Foundation received no contributions for the years ended June 30, 2010 and 2009.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and a bank certificate of deposit that can be liquidated without significant penalty or restriction (including accrued interest). Such certificate of deposit amounted to \$2,500 as of June 30, 2010 and 2009.

Investments

Investments are stated 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.

Fair Value Measurements

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.



TENNESSEE PERFORMING ARTS FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 2      Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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 should 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:

*Stocks, mutual funds, and  
liquid asset accounts*

Valued based on quoted market prices on the last business day of the reporting period.

*Hedge funds*

Valued based on an evaluation of the investments owned by the funds, information contained in audited financial statements, and other relevant matters.

No changes in the valuation methodologies have been made since the prior year.

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 Foundation believes its valuation methods 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.

TENNESSEE PERFORMING ARTS FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Foundation 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.

On July 1, 2009, in accordance with GAAP, the Foundation adopted new guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. The adoption of this guidance did not have a material effect on the Foundation's financial position and results of operations.

As of June 30, 2010 and 2009, the Foundation did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the years then ended.

The Foundation files a U.S. Federal Form 990 for organizations exempt from income tax. The Foundation's returns for years prior to fiscal year end June 30, 2007 are closed.

Program and Supporting Services - Functional Allocation

The following program and supporting services are included in the accompanying financial statements:

Program Services

It is the Foundation's policy to distribute annually 5% of the trailing five-year average of the investment value to the Corporation.

Supporting Services

Management and general consists of professional fees related to administrative activities.

Use of Estimates in the Preparation of Financial Statements

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 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.

TENNESSEE PERFORMING ARTS FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162*. This statement modifies the GAAP hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (the "Codification") is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission. Nonauthoritative guidance and literature include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issues Papers and Technical Practice Aids, and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance.

Board Designated Accounting Policies

*Investment return objective, risk parameters and strategies* - The Foundation has adopted investment and spending policies, approved by the Board of Directors, 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 to achieve a rate of return that will allow the Foundation to respond to current needs while also maintaining long-term growth to respond to future needs. Allocation targets are set for those assets not expected to be withdrawn within twelve months to broadly diversify the funds held and reduce the impact of losses in individual investments. Investment allocations are spread between U.S. Fixed Income Portfolios, U.S. Equity Portfolios, International Equity, Emerging Markets Portfolios, Real Estate investments and Cash Equivalents.

*Spending policy* - The annual allowable distribution from the endowment funds is 5% of the trailing average of the year-end market valuation of the Foundation's endowment over the preceding five years.

Management considers the entire net assets balance at June 30, 2010 and 2009 to be a Board designated endowment and all activity reported in the Schedule of Activities relates to such endowment.

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between June 30, 2010 and October 25, 2010, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

TENNESSEE PERFORMING ARTS FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009

NOTE 2 - INVESTMENTS

Investments consisted of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Stocks	\$ 2,203,744	\$ 2,391,720
Mutual funds:		
Fixed income investment funds	3,269,986	2,451,925
Equity investment funds	7,486,136	7,157,253
Short-term investments	120,244	206,993
Hedge funds:		
Hirtle Callaghan Total Return Offshore Fund Ltd. (1)	1,102,495	1,042,671
Hirtle Callaghan Absolute Return Offshore Fund Ltd. (1)	404,147	534,847
	<u>\$ 14,586,752</u>	<u>\$ 13,785,409</u>

- (1) As of the end of any calendar quarter after December 31, 2008, the Foundation is allowed to redeem some or all of its shares invested in these hedge funds. Written notice of redemption must be received at least 60 days prior to the redemption date, unless waived by the investment manager. The investment manager may also permit redemptions at other times at its sole discretion. Redemptions must be in \$10,000 increments and, if less than all shares in the hedge funds are redeemed, the remaining unredeemed shares must have a value equal to the greater of \$50,000 or 20% of the initial subscription. At least 90% of the redemption proceeds are payable within 30 days of the redemption date, with the remainder payable within 30 days of completion of the relevant fund's annual audit.

The investment objectives of the Hirtle Callaghan Hedge Funds are as follows:

The Total Return Offshore Fund is invested in equities and the Absolute Return Offshore Fund is invested in fixed income strategies. Both funds seek to maximize risk-adjusted returns and achieve low correlation to the equity and fixed income markets, respectively.

TENNESSEE PERFORMING ARTS FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009

NOTE 2 - INVESTMENTS (CONTINUED)

Investment income (loss) consisted of the following for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Realized losses	\$ (748,991)	\$ (1,517,745)
Unrealized gains (losses)	2,231,809	(2,395,282)
Dividends, interest income, and capital gain distributions	<u>317,700</u>	<u>481,216</u>
	<u>\$ 1,800,518</u>	<u>\$ (3,431,811)</u>

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash accounts at a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of June 30, 2010, all depositor accounts of the Foundation were fully insured.

At June 30, 2010, investments with account balances totaling \$14,485,552 were held under custodial care in the Foundation's name by one brokerage and investment company. These investments are not insured by the FDIC or any other government agency and are subject to investment risk, including loss of principal.

TENNESSEE PERFORMING ARTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 4 - FAIR VALUE MEASUREMENTS

The following table set forth the Foundation's major categories of assets measured at fair value on a recurring basis, by level, within the fair value hierarchy, as of June 30:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>2010</u>				
Fixed income investment funds	\$ 3,269,986	\$ -	\$ -	\$ 3,269,986
Equity investment funds	7,486,136	-	-	7,486,136
Equities:				
Consumer discretionary	136,969	-	-	136,969
Consumer staples	230,754	-	-	230,754
Energy	268,584	-	-	268,584
Financials	436,181	-	-	436,181
Health care	314,691	-	-	314,691
Industrials	328,829	-	-	328,829
Information technology	357,802	-	-	357,802
Materials	15,730	-	-	15,730
Utilities	114,204	-	-	114,204
Short-term investments	120,244	-	-	120,244
Hirtle Callaghan hedge funds	-	-	1,506,642	1,506,642
Total	<u>\$ 13,080,110</u>	<u>\$ -</u>	<u>\$ 1,506,642</u>	<u>\$ 14,586,752</u>
<u>2009</u>				
Stocks	\$ 2,391,720	\$ -	\$ -	\$ 2,391,720
Mutual funds	9,609,178	-	-	9,609,178
Short-term investments	206,993	-	-	206,993
Hirtle Callaghan hedge funds	-	-	1,577,518	1,577,518
Total	<u>\$ 12,207,891</u>	<u>\$ -</u>	<u>\$ 1,577,518</u>	<u>\$ 13,785,409</u>

Approximately 99% of investments are in the United States/Canada region.

TENNESSEE PERFORMING ARTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Fair value, beginning of year	\$ 1,577,518	\$ 2,368,032
Unrealized losses relating to instruments still held at the reporting date	150,342	(201,803)
Realized losses	(46,218)	(118,711)
Purchases, sales, issuances and settlements, net	<u>(175,000)</u>	<u>(470,000)</u>
Fair value, end of year	<u>\$ 1,506,642</u>	<u>\$ 1,577,518</u>