

TENNESSEE PERFORMING ARTS CENTER
MANAGEMENT CORPORATION

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2008

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

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AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2008

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Tennessee Performing Arts Center Management Corporation
Nashville, Tennessee

We have audited the accompanying statements of financial position of the Tennessee Performing Arts Center Management Corporation (the "Organization") as of June 30, 2008 and 2007, the related statement of activities for the year ended June 30, 2008, and the statements of cash flows for the years ended June 30, 2008 and 2007. 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. The prior year summarized comparative information in the statement of activities has been derived from the Organization's June 30, 2007 financial statements and, in our report dated December 13, 2007, we expressed an unqualified opinion on those statements.

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 Center Management Corporation as of June 30, 2008 and 2007, the changes in its net assets for the year ended June 30, 2007, and its cash flows for the years ended June 30, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KraftCPAs PLLC

Nashville, Tennessee
November 18, 2008

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 3,694,743	\$ 3,877,057
Receivables:		
Accounts	281,793	246,822
Contributions, net of allowance - Note 2	149,777	85,317
Prepaid expenses, inventory and investments	312,040	235,749
Property and equipment, less accumulated depreciation - Note 4	<u>4,678,023</u>	<u>4,607,731</u>
 TOTAL ASSETS	 <u>\$ 9,116,376</u>	 <u>\$ 9,052,676</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 654,271	\$ 568,047
Advance ticket sales	1,713,768	2,370,650
Deposits and other deferred revenue	225,824	227,538
Interest rate swap liability - Note 6	1,640	35
Capital lease obligation - Note 10	146,934	-
Notes payable - Note 6	<u>1,851,515</u>	<u>2,027,850</u>
 TOTAL LIABILITIES	 <u>4,593,952</u>	 <u>5,194,120</u>
 COMMITMENTS AND CONTINGENCIES - Note 10		
<u>NET ASSETS</u>		
Unrestricted:		
Invested in property and equipment, net of related debt	3,056,528	2,992,736
Undesignated	<u>1,157,382</u>	<u>666,892</u>
Total unrestricted	4,213,910	3,659,628
Temporarily restricted - Note 3	<u>308,514</u>	<u>198,928</u>
 TOTAL NET ASSETS	 <u>4,522,424</u>	 <u>3,858,556</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 9,116,376</u>	 <u>\$ 9,052,676</u>

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR 2007)

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
OPERATING REVENUE				
Ticket sales	\$ 6,216,676	\$ -	\$ 6,216,676	\$ 9,621,024
Rental income	515,737	-	515,737	470,670
Salary and wage reimbursements	566,038	-	566,038	559,255
Other reimbursements	129,508	-	129,508	106,279
Concession sales	402,766	-	402,766	477,101
Ticketing service charges and fees	1,264,866	-	1,264,866	1,358,826
Consulting income	50,000	-	50,000	50,000
Sponsorships - earned	217,572	-	217,572	33,800
Other income	107,488	-	107,488	110,014
TOTAL OPERATING REVENUE	9,470,651	-	9,470,651	12,786,969
OPERATING COSTS AND EXPENSES				
Programming and production	5,189,189	-	5,189,189	8,349,140
Concessions	336,475	-	336,475	331,919
Operations	1,740,187	-	1,740,187	1,728,452
Marketing	743,409	-	743,409	577,210
Box office	490,330	-	490,330	552,023
Event services	606,785	-	606,785	518,374
TOTAL OPERATING COSTS AND EXPENSES	9,106,375	-	9,106,375	12,057,118
INCOME FROM OPERATIONS	364,276	-	364,276	729,851
PUBLIC SUPPORT AND OTHER REVENUES				
Contributions	1,103,644	180,173	1,283,817	1,066,358
Sponsorships - philanthropic	-	100,000	100,000	200,000
Grants	520,177	-	520,177	458,661
Income from Foundation - Note 9	945,787	-	945,787	926,743
Loss on disposal of equipment	(1,540)	-	(1,540)	(20,192)
Investment income	104,614	-	104,614	156,075
Net assets released from restrictions	170,587	(170,587)	-	-
TOTAL PUBLIC SUPPORT AND OTHER REVENUES	2,843,269	109,586	2,952,855	2,787,645
FUNCTIONAL EXPENSES				
Program services:				
Educational programs	898,489	-	898,489	853,470
Supporting services:				
Management and general	1,222,600	-	1,222,600	1,135,444
Fundraising	532,174	-	532,174	556,496
Total Supporting services	1,754,774	-	1,754,774	1,691,940
TOTAL FUNCTIONAL EXPENSES	2,653,263	-	2,653,263	2,545,410
CHANGE IN NET ASSETS	554,282	109,586	663,868	972,086
NET ASSETS - BEGINNING OF YEAR	3,659,628	198,928	3,858,556	2,886,470
NET ASSETS - END OF YEAR	\$ 4,213,910	\$ 308,514	\$ 4,522,424	\$ 3,858,556

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 663,868	\$ 972,086
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	301,110	340,406
Noncash contribution of vehicle	(40,059)	-
Loss on disposal of equipment	1,540	20,192
Loss on derivative financial instrument	1,605	119
(Increase) decrease in:		
Accounts receivable	(34,971)	70,071
Contributions receivable	(64,460)	173,994
Prepaid expenses, inventory and investments	(76,291)	51,214
Increase (decrease) in:		
Accounts payable and accrued expenses	86,224	(112,797)
Advance ticket sales	(656,882)	(2,280,290)
Deposits and other deferred revenue	(1,714)	186,154
TOTAL ADJUSTMENTS	(483,898)	(1,550,937)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	179,970	(578,851)
INVESTING ACTIVITIES		
Purchases of equipment and renovation payments	(185,949)	(62,530)
Proceeds from sale of property and equipment	-	2,683
NET CASH USED IN INVESTING ACTIVITIES	(185,949)	(59,847)
FINANCING ACTIVITIES		
Repayment of notes payable	(176,335)	(176,334)
NET CASH USED IN FINANCING ACTIVITIES	(176,335)	(176,334)
DECREASE IN CASH AND CASH EQUIVALENTS	(182,314)	(815,032)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,877,057	4,692,089
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,694,743	\$ 3,877,057
OTHER CASH FLOW DISCLOSURES:		
Interest paid during the year	\$ 103,825	\$ 130,413
NONCASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired under capital lease	\$ 146,934	\$ -

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Tennessee Performing Arts Center Management Corporation (the "Organization"), a not-for-profit organization, was formed in November 1977. In March 1978, the Organization entered into an agreement (the "Agreement") with the State of Tennessee (the "State") and the Tennessee Performing Arts Foundation (the "Foundation") (amended in February 1999). The initial Agreement established the Organization principally for the purpose of presenting quality arts entertainment and education to Tennessee residents through the operation of the Tennessee Performing Arts Center (the "Center" or "TPAC"). The Organization has administrative control over the operations and functions of the Center that 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.

Effective January 1, 2000, the operations of Nashville Institute for the Arts (the "Institute") were merged with the Organization. The Institute continues to exist as a separate legal entity but does not have any net assets or operations.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Based on the existence or absence of donor-imposed restrictions, the Organization classifies resources into three categories: unrestricted, temporarily restricted, and permanently restricted net assets.

- *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 in perpetuity that the principal be invested and the income or specific portions thereof be used for operations. The Organization had no permanently restricted net assets as of June 30, 2008 or 2007.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

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 Organization also receives grant revenue from various state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

The Organization reports any gifts of equipment or materials 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.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with banks, money market funds and time deposits with original maturities when purchased of three months or less.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give 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. 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.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Expenses, Inventory and Investments

Prepaid expenses, inventory, and investments consist of certain marketing and promotional costs and concessions supplies pertaining to the following theater season that are paid for in advance and recognized in the following fiscal year, as well as other miscellaneous investments. Marketing and promotional costs for the years ended June 30, 2008 and 2007 totaled approximately \$888,000 and \$1,008,000, respectively.

Property and Equipment and Depreciation

Property and equipment are recorded at cost at the date of purchase or estimated fair value at the date of gift to the Organization. The Organization's policy is to capitalize purchases with a cost of \$500 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets ranging from three to seven years for computers, furniture and equipment, thirty years for lobby improvements, and ten years for other improvements.

Donated Materials, Facilities, and Services

Significant materials, facilities, and services are donated to the Organization by various individuals and organizations. Donated materials and facilities, which amounted to \$323,403 in 2008 (\$147,195 in 2007), are recorded as revenue and expenses at their estimated fair value at the date of donation. The Organization has an agreement with the State, under which the State provides theatres and support spaces to the Organization, and the Organization provides enhanced cultural, theatrical and educational opportunities to Tennessee residents. The space provided by the State includes performance halls, all backstage areas, dressing rooms, rehearsal and shop spaces, box office and administrative areas. In addition, the State is responsible for the supply and purchase of utilities, security services, and major repairs related to the space. The State also provides janitorial services for the common or public areas, with the Organization responsible for all janitorial services within the theatres and support spaces not designated as common or public areas.

Advance Ticket Sales

Ticket sale revenues received prior to the fiscal year to which they apply are reported as advance ticket sales (deferred revenue). Such revenue is recognized and reported in the statement of activities in the year the production is performed or the rental event occurs.

Income Taxes

The Organization 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.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Derivatives

The Organization utilizes a derivative financial instrument to manage its interest rate exposure by reducing the impact of fluctuating interest rates on its debt service requirements. Derivatives are recognized as either assets or liabilities in the statement of financial position at fair value. Changes in the fair value of derivatives are recognized currently in the statement of activities as a gain or loss and reported in operating costs and expenses.

Program and Supporting Services - Functional Allocation

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

Program Services

TPAC 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 local and national artists, TPAC provides four distinct programs that provide extended educational services to students and TPAC audiences:

During the 2008 fiscal year, Humanities Outreach in Tennessee (HOT) presented 51 (74 during 2007) professional performances of theater, dance and music for student audiences at TPAC in addition to one in-school tour. Subsidized tickets, travel grants and classroom materials were provided to ensure that each student could have access to diverse cultural and educational programs. HOT also provided in-school student workshops, audience discussions, and workshops for teachers which addressed the educational content of each performance. During the 2007 - 2008 academic year, 33,423 students and teachers from 194 schools attended HOT Season for Young People performances (35,769 students and teachers from 370 schools during the 2006 - 2007 academic year).

ArtSmart is a classroom-based instruction program that accompanies the HOT Season for Young People. Through ArtSmart, students arrive at the theatre with an expanded capacity to engage with the performance they are about to see. Specialized training enables educators and Teaching Artists to guide arts-based instruction that challenges young people to imagine, to practice, and to reflect. A total of 5,274 students and teachers participated in ArtSmart in 2007 - 2008 (6,876 students and teachers in 2006 - 2007). All 26 schools from Davidson County received ArtSmart education services at no charge in 2008 (29 schools in 2007).

TPAC's Wolf Trap Early Learning through the Arts program brings arts-based classroom residencies to preschools and Head Start Centers. Teaching Artists and teachers use arts instruction to target early childhood developmental goals and help children learn. A total of 1,014 children and teachers participated in Wolf Trap in 2007 - 2008 at no charge (1,019 children and teachers in 2006 - 2007).

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Services (Continued)

InsideOut is for adults who want to grow in their knowledge and enjoyment of the performing arts. The program offers a series of lunch seminars, performance excerpts, discussions, workshops and sneak previews behind the scenes. A total of 2,863 individuals participated in this program during the year at no charge (1,886 individuals during 2007).

Supporting Services

Management and general - relates to the overall direction of the Organization. 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 Organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and 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 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.

Reclassifications

Certain reclassifications have been made to the summarized prior year totals presented in the statement of activities in order to be comparative with the current year presentation. In particular, \$64,368 that had been netted against wages - part time under operations expense was reclassified to other reimbursement revenue. Another reclassification was made to move prior year credit card fees, totaling \$167,968, from box office to programming and production under operating costs and expenses. These reclassifications had no effect on the change in net assets for the year.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Unrestricted	<u>\$ 4,000</u>	<u>\$ 2,649</u>
Temporarily restricted:		
Less than one year	146,054	54,327
One to three years	<u>-</u>	<u>30,000</u>
	146,054	84,327
Less discount to net present value	(277)	(1,659)
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
Total temporarily restricted	<u>145,777</u>	<u>82,668</u>
Total	<u>\$ 149,777</u>	<u>\$ 85,317</u>

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Education programs	\$ 24,770	\$ 48,618
Annual fund	116,055	24,327
Philanthropic sponsorship for future Broadway seasons	100,000	100,000
Contributions restricted for future years programming and/or fundraising events	<u>67,689</u>	<u>25,983</u>
	<u>\$ 308,514</u>	<u>\$ 198,928</u>

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Lobby improvements	\$ 4,857,272	\$ 4,868,777
Other improvements	958,888	963,998
Computers	333,083	283,198
Furniture	285,615	302,671
Equipment	<u>474,406</u>	<u>428,015</u>
	6,909,264	6,846,659
Less accumulated depreciation	<u>(2,231,241)</u>	<u>(2,238,928)</u>
	<u>\$ 4,678,023</u>	<u>\$ 4,607,731</u>

Total depreciation expense for 2008 amounted to \$301,110 (2007 - \$340,406). Property and equipment include fully depreciated items with original costs totaling approximately \$998,000 as of June 30, 2008 (\$1,047,000 as of June 30, 2007).

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, and various contributions, grants, and accounts receivable. Contributions receivable consist of individual and corporate contribution pledges. Grant and account receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. At June 30, 2008, receivables from two sources totaled approximately \$173,000, or 40% of total receivables. At June 30, 2007, receivables from one source amounted to approximately \$194,000, or 58% of total receivables.

Combined grants from two sources amounted to \$198,802, or 11% of total contribution and grant revenues, and \$187,758, or 12% of total contribution and grant revenues for the years ended June 30, 2008 and 2007, respectively.

The Organization maintains cash balances in bank deposit accounts at various financial institutions. Bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$100,000 for each bank. Cash deposits at June 30, 2008 exceeded the FDIC limit by approximately \$600,000. In addition, the Organization has a Sweep Account, which had a balance of approximately \$3 million as of June 30, 2008, which is not FDIC insured.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 6 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Note payable to Bank of America for renovations to the theatre lobby area, requiring monthly principal payments of \$11,703 plus accrued interest. All unpaid principal and interest are due December 1, 2018. Interest is charged at a variable rate based on the 30-day LIBOR fixed rate plus .6% (3.06% at June 30, 2008; 5.92% at June 30, 2007).	(1) \$ 1,474,561	\$ 1,614,995
Note payable to Bank of America requiring monthly principal payments of \$2,992 plus accrued interest. All unpaid principal and interest are due on December 1, 2018. Interest is charged at a variable rate based on the 30-day LIBOR fixed rate plus 1.3% (3.76% at June 30, 2008; 6.62% at June 30, 2007).	\$ 376,954	412,855
	<u>\$ 1,851,515</u>	<u>\$ 2,027,850</u>

- (1) In connection with this note, the Organization entered into an interest rate swap agreement to lessen interest rate exposure. The agreement creates a minimum LIBOR rate of 2.9% and a maximum of 7.9%. Therefore, the effective rate will float, to the extent LIBOR resets itself, between 3.5% and 8.5%. The interest rate swap is applicable to an original notional amount of \$2,500,000 at February 1, 2003, which reduces by a monthly amount of \$30,120 through February 1, 2010. A liability of \$1,640, equal to the fair value of the swap agreement, has been recognized in the statement of financial position at June 30, 2008 (\$35 at June 30, 2007), and the related loss on hedging activity, which amounted to \$1,605 for the year ended June 30, 2008 (\$119 for the year ended June 30, 2007), is recognized in the cost of operations.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 6 - NOTES PAYABLE (CONTINUED)

The Organization also has a \$500,000 operating line of credit with the bank. The line is evidenced by a promissory note and bears interest, payable monthly, on the amount borrowed at a variable interest rate based on the 30-day LIBOR fixed rate plus 2%. The line of credit matures February 1, 2009, at which time all unpaid principal and accrued interest will be due. There was no outstanding balance on the line of credit as of June 30, 2008 or 2007.

A schedule of annual principal maturities of notes payable as of June 30, 2008, follows:

For the year ending June 30,

2009	\$ 176,335
2010	176,335
2011	176,335
2012	176,335
2013	176,335
Thereafter	<u>969,840</u>
	<u>\$ 1,851,515</u>

Total interest expense recognized by the Organization for the year ended June 30, 2008, was \$103,825 (\$130,413 in 2007). Interest expense is reported under operations.

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Organization sponsors the Tennessee Performing Arts Center Defined Contribution Retirement Plan (the "Plan") under Section 403(b) of the Internal Revenue Code. All full-time employees of the Organization are eligible to participate upon reaching age 19 and completing 90 days of qualified service, as defined in the Plan. Eligible employees may elect to defer a portion of their compensation through the Plan, not to exceed the allowable amount under Section 403(b). The Organization's contributions to the Plan are at the discretion of the Board of Directors with no minimum contributions guaranteed. The Board approved a 1% match plus a 5% discretionary contribution in 2008 and 2007, and the Organization made contributions to the Plan of approximately \$152,000 and \$154,000 for the years ended June 30, 2008 and 2007, respectively.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 8 - DONOR-DESIGNATED ENDOWMENT FUNDS IN TRUST

During 1996, Dr. and Mrs. Thomas Frist established two donor-designated endowment funds with the Community Foundation of Middle Tennessee for the benefit of the Organization and the Institute, respectively. Another donor-designated endowment fund was established with the Community Foundation of Middle Tennessee by Martha Ingram for the benefit of the Children's Educational Program at Tennessee Performing Arts Center. The Community Foundation of Middle Tennessee has the ultimate authority and control over these Funds and, therefore, these investments are not included in the financial statements of the Organization. Income distributed to the respective beneficiaries of these funds is recognized by the Organization in the year received. During fiscal years 2008 and 2007, no income was distributed to the Organization from these funds. Total assets held in these funds amounted to \$129,885 at June 30, 2008, and \$147,008 at June 30, 2007.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Organization paid approximately \$25,000 in rent expense in fiscal 2007 (none in fiscal 2008) for office space leased from a Board member's company. This individual resigned from the Organization's Board in October 2006. Donated materials, facilities and services disclosed in Note 1 include an in-kind contribution by the same Board member of approximately \$2,900 for storage space in 2007 (none in 2008). Subsequent to this Board member's resignation, the Organization continued to pay this company for office space and receive in-kind contributions, which are not included in the amounts shown above.

The Foundation is responsible for the management of its Board-designated endowment fund that was established to support the operations of the Organization. The Foundation is governed by a separate Board and distributes annually 5% of the trailing five-year average investment value of the fund to the Organization. For the year ended June 30, 2008, the Foundation distributed \$945,787 to the Organization (\$926,743 in 2007), which the Organization recognized as income in the year received.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 9 - RELATED PARTY TRANSACTIONS (CONTINUED)

A condensed summary of financial information of the Foundation as of and for the years ended June 30, follows:

	<u>2008</u>	<u>2007</u>
Total Assets	\$ 18,307,237	\$20,677,272
Total Liabilities	<u>26,312</u>	<u>26,099</u>
Net Assets - Unrestricted	<u>\$ 18,280,925</u>	<u>\$20,651,173</u>
Total Revenues (Expenses):		
Interest, dividends, and capital gain distributions	\$ 948,809	\$ 698,766
Realized and unrealized gains (losses)	(2,212,166)	2,200,550
Other income	4,037	17,469
Investment management fees	(132,330)	(127,952)
Grants to Organization	(945,787)	(926,743)
Management and general expenses	<u>(32,811)</u>	<u>(16,877)</u>
Change in net assets	<u>\$ (2,370,248)</u>	<u>\$ 1,845,213</u>

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 10 - LEASES

The Organization leases certain office equipment and a portion of its office space under non-cancelable operating leases. Total rental expense incurred under all such agreements for the year ended June 30, 2008, amounted to approximately \$94,700 (\$110,000 in 2007).

During 2008, the Organization entered into a capital lease for certain equipment. The cost of the equipment under capital lease is included in the statement of financial position and amounts to \$146,934 at June 30, 2008. There had been no amortization expense recognized for this asset as of June 30, 2008.

Future minimum lease commitments under all non-cancelable leases in effect as of June 30, 2008, are as follows:

<u>For the year ending June 30,</u>	<u>Operating Leases</u>	<u>Capital Leases</u>
2009	\$ 65,284	\$ 30,581
2010	10,881	30,581
2011	-	30,581
2012	-	30,581
2013	-	30,581
	<u>\$ 76,165</u>	152,905
Less: imputed interest at 1.58%		<u>5,971</u>
Net minimum lease payments		<u>\$ 146,934</u>

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 11 - NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, which is effective for fiscal years beginning after December 15, 2007. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file in a particular jurisdiction. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (FAS-157), *Fair Value Measurements*. FAS-157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS-157 are effective for the Organization for fiscal years beginning after November 15, 2007.

In February, 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (FAS-159), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. The fair value option established by FAS-159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in operations at each subsequent reporting date. FAS-159 is effective for the Organization for fiscal years beginning after November 15, 2007.

The Organization is currently evaluating the impact, if any, of the adoption of these pronouncements on the financial statements.

ADDITIONAL INFORMATION

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

SCHEDULE OF COSTS AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2008, WITH COMPARATIVE TOTALS FOR 2007

	OPERATING EXPENSES				
	PROGRAMMING AND PRODUCTION	CONCESSIONS	OPERATIONS	MARKETING	BOX OFFICE
Artist fees	\$ 3,223,183	\$ -	\$ -	\$ -	\$ -
Contract labor	664,955	-	-	1,088	-
Marketing - programming	754,781	-	-	109	-
Salaries	27,719	61,502	315,147	371,349	198,530
Wages - full time	1,520	39,965	532,752	45,881	124,336
Wages - part time	83,541	46,164	81,919	837	36,301
Employee related expenses	13,575	24,731	216,162	94,573	77,207
Bad debt expense	-	-	-	-	-
Cash (over) and short	-	(9)	-	-	511
Concessions supplies	-	147,882	-	-	-
Credit card fees	164,113	5,975	-	-	-
Custodial	36,090	-	43,930	-	-
Depreciation	-	3,788	208,057	13,786	1,171
Dues and subscriptions	1,349	756	1,735	6,961	1,518
Equipment rentals	4,100	-	812	-	-
Fees-ticketing/bank/other	-	420	-	-	5,265
Freight and shipping	-	-	16	-	-
Insurance	1,180	-	-	126	-
Interest expense	-	-	103,825	-	-
Loss on derivative financial instrument	-	-	1,605	-	-
Marketing - institution	100	50	14	111,002	538
Meals and entertainment	7,736	611	1,032	5,447	581
Miscellaneous expense	431	131	877	1,001	28,894
Office and computer supplies	-	-	68	-	-
Postage	98	-	-	9,266	8
Presenter share	14,997	-	-	-	-
Printing and reproduction	48	560	845	44,603	4,756
Production costs	132,504	-	-	-	-
Professional consulting	-	-	2,947	11,718	4,000
Repairs and maintenance	-	618	36,217	426	-
Security	14,947	-	-	-	-
State maintenance expenses	-	-	161,035	-	-
Tech and house supplies	-	2,076	22,533	-	-
Telephone	622	788	4,634	2,392	3,604
Transportation grants expense	-	-	-	-	-
Travel - air/hotel/auto	41,600	-	2,749	22,844	3,110
TRT	-	-	-	-	-
Uniforms and alterations	-	467	1,276	-	-
Total costs and expenses for the year ended June 30, 2008	<u>\$ 5,189,189</u>	<u>\$ 336,475</u>	<u>\$ 1,740,187</u>	<u>\$ 743,409</u>	<u>\$ 490,330</u>
Total costs and expenses for the year ended June 30, 2007	<u>\$ 8,349,140</u>	<u>\$ 331,919</u>	<u>\$ 1,728,452</u>	<u>\$ 577,210</u>	<u>\$ 552,023</u>

EVENT SERVICES	TOTAL	PROGRAM SERVICES	SUPPORTING SERVICES				TOTALS	
		EDUCATIONAL PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL		2008	2007
\$ -	\$ 3,223,183	\$ 248,236	\$ -	\$ 27,386	\$ 27,386	\$ 3,498,805	6,051,352	
135	666,178	103,990	-	-	-	770,168	1,044,141	
-	754,890	22,454	-	-	-	777,344	966,224	
158,957	1,133,204	267,950	593,716	189,348	783,064	2,184,218	2,040,018	
16,072	760,526	-	22,846	16,348	39,194	799,720	723,091	
245,580	494,342	24,130	1,495	4,751	6,246	524,718	577,324	
67,519	493,767	64,640	143,768	45,200	188,968	747,375	704,857	
-	-	154	-	1,500	1,500	1,654	26,950	
-	502	-	(13)	-	(13)	489	1,515	
-	147,882	-	200	634	834	148,716	154,097	
27,737	197,825	4,299	-	6,082	6,082	208,206	181,560	
-	80,020	11,990	-	-	-	92,010	120,328	
6,609	233,411	4,937	52,672	10,090	62,762	301,110	340,406	
6,054	18,373	2,980	12,556	5,756	18,312	39,665	34,391	
-	4,912	3,520	36,677	18,161	54,838	63,270	59,409	
-	5,685	-	10,866	300	11,166	16,851	21,892	
-	16	-	-	-	-	16	5	
-	1,306	-	81,486	70	81,556	82,862	77,928	
-	103,825	-	-	-	-	103,825	130,413	
-	1,605	-	-	-	-	1,605	119	
4,471	116,175	975	550	162	712	117,862	41,754	
2,577	17,984	11,305	5,834	66,459	72,293	101,582	82,032	
13	31,347	37,648	27,146	85,909	113,055	182,050	197,378	
294	362	88	32,778	75	32,853	33,303	27,429	
23	9,395	3,631	13,072	4,618	17,690	30,716	25,460	
-	14,997	-	-	-	-	14,997	217,396	
1,427	52,239	4,037	2,275	10,449	12,724	69,000	54,370	
3,662	136,166	33,196	-	11,233	11,233	180,595	142,834	
7,772	26,437	2,700	101,666	533	102,199	131,336	149,122	
2,877	40,138	-	13,553	7,651	21,204	61,342	50,310	
46,464	61,411	4,871	-	2,142	2,142	68,424	58,544	
-	161,035	-	-	-	-	161,035	120,003	
-	24,609	-	352	-	352	24,961	43,549	
2,895	14,935	5,492	54,421	5,326	59,747	80,174	47,882	
-	-	6,225	-	-	-	6,225	7,887	
5,647	75,950	29,041	13,193	11,991	25,184	130,175	77,174	
-	-	-	1,491	-	1,491	1,491	947	
-	1,743	-	-	-	-	1,743	2,437	
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<u>\$ 606,785</u>	<u>\$ 9,106,375</u>	<u>\$ 898,489</u>	<u>\$ 1,222,600</u>	<u>\$ 532,174</u>	<u>\$ 1,754,774</u>	<u>\$ 11,759,638</u>		
<hr/>								
<u>\$ 518,374</u>	<u>\$ 12,057,118</u>	<u>\$ 853,470</u>	<u>\$ 1,135,444</u>	<u>\$ 556,496</u>	<u>\$ 1,691,940</u>		<u>\$ 14,602,528</u>	