

TENNESSEE PERFORMING ARTS CENTER
MANAGEMENT CORPORATION

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION

AND

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2007

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2007

CONTENTS

	<u>PAGE</u>
<u>REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS</u>	1
 <u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position.....	2
Statement of Activities.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5 - 16
 <u>ADDITIONAL INFORMATION</u>	
Schedule of Costs and Expenses	17



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, 2007 and 2006, the related statement of activities for the year ended June 30, 2007, and the statements of cash flows for the years ended June 30, 2007 and 2006. 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, 2006 financial statements and, in our report dated September 15, 2006, 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, 2007 and 2006, the changes in its net assets for the year ended June 30, 2007, and its cash flows for the years ended June 30, 2007 and 2006, 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 17 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
December 13, 2007

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 3,877,057	\$ 4,692,089
Receivables:		
Accounts	246,822	316,893
Contributions, net of allowance - Note 2	85,317	259,311
Prepaid expenses, inventory and other	235,749	286,963
Interest rate swap asset - Note 6	-	84
Property and equipment, less accumulated depreciation - Note 4	<u>4,607,731</u>	<u>4,908,482</u>
 TOTAL ASSETS	 <u>\$ 9,052,676</u>	 <u>\$ 10,463,822</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 568,047	\$ 680,844
Advance ticket sales	2,370,650	4,650,940
Deposits and other deferred revenue	227,538	41,384
Interest rate swap liability - Note 6	35	-
Notes payable - Note 6	<u>2,027,850</u>	<u>2,204,184</u>
 TOTAL LIABILITIES	 <u>5,194,120</u>	 <u>7,577,352</u>
 COMMITMENTS AND CONTINGENCIES - Note 10		
 <u>NET ASSETS</u>		
Unrestricted:		
Invested in property and equipment, net of related debt	2,992,736	3,153,053
Undesignated (deficit)	<u>666,892</u>	<u>(532,493)</u>
Total unrestricted	3,659,628	2,620,560
Temporarily restricted - Note 3	<u>198,928</u>	<u>265,910</u>
 TOTAL NET ASSETS	 <u>3,858,556</u>	 <u>2,886,470</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 9,052,676</u>	 <u>\$ 10,463,822</u>

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR 2006)

	Unrestricted	Temporarily Restricted	Totals	
			2007	2006
OPERATING REVENUE				
Ticket sales	\$ 9,621,024	\$ -	\$ 9,621,024	\$ 4,077,453
Rental income	470,670	-	470,670	593,986
Salary and wage reimbursements	559,255	-	559,255	600,803
Other reimbursements	41,911	-	41,911	42,967
Concession sales	477,101	-	477,101	272,632
Ticketing service charges and fees	1,358,826	-	1,358,826	1,007,388
Consulting income	50,000	-	50,000	93,636
Sponsorships - earned	33,800	-	33,800	101,384
Other income	110,014	-	110,014	67,776
TOTAL OPERATING REVENUE	12,722,601	-	12,722,601	6,858,025
OPERATING COSTS AND EXPENSES				
Programming and production	8,181,172	-	8,181,172	3,380,330
Concessions	331,919	-	331,919	221,238
Operations	1,664,084	-	1,664,084	1,577,462
Marketing	577,210	-	577,210	532,161
Box office	719,991	-	719,991	684,463
Event services	518,374	-	518,374	532,687
TOTAL OPERATING COSTS AND EXPENSES	11,992,750	-	11,992,750	6,928,341
INCOME (LOSS) FROM OPERATIONS	729,851	-	729,851	(70,316)
PUBLIC SUPPORT AND OTHER REVENUES				
Contributions	1,023,291	43,067	1,066,358	1,255,745
Sponsorships - philanthropic	100,000	100,000	200,000	100,000
Grants	458,661	-	458,661	487,661
Income from Foundation - Note 9	926,743	-	926,743	968,287
Loss on disposal of equipment	(20,192)	-	(20,192)	(457)
Investment income	156,075	-	156,075	9,790
Net assets released from restrictions	210,049	(210,049)	-	-
TOTAL PUBLIC SUPPORT AND OTHER REVENUES	2,854,627	(66,982)	2,787,645	2,821,026
FUNCTIONAL EXPENSES				
Program services:				
Educational programs	853,470	-	853,470	790,178
Supporting services:				
Management and general	1,135,444	-	1,135,444	976,924
Fundraising	556,496	-	556,496	555,211
Total Supporting services	1,691,940	-	1,691,940	1,532,135
TOTAL FUNCTIONAL EXPENSES	2,545,410	-	2,545,410	2,322,313
CHANGE IN NET ASSETS	1,039,068	(66,982)	972,086	428,397
NET ASSETS - BEGINNING OF YEAR	2,620,560	265,910	2,886,470	2,558,822
SPIN-OUT OF NET ASSETS APPLICABLE TO TENNESSEE REPERTORY THEATRE, INC. - Note 11	-	-	-	(100,749)
NET ASSETS - END OF YEAR	\$ 3,659,628	\$ 198,928	\$ 3,858,556	\$ 2,886,470

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 972,086	\$ 428,397
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	340,406	367,346
Loss on disposal of equipment	20,192	457
Loss (gain) on derivative financial instrument	119	(2,651)
(Increase) decrease in:		
Accounts receivable	70,071	(144,837)
Contributions receivable	173,994	(30,694)
Prepaid expenses, inventory and other	51,214	(125,155)
Increase (decrease) in:		
Accounts payable and accrued expenses	(112,797)	(10,893)
Advance ticket sales	(2,280,290)	3,154,828
Deposits and other deferred revenue	186,154	8,166
TOTAL ADJUSTMENTS	<u>(1,550,937)</u>	<u>3,216,567</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(578,851)</u>	<u>3,644,964</u>
INVESTING ACTIVITIES		
Purchases of equipment and renovation payments	(62,530)	(47,542)
Proceeds from sale of other assets	-	10,554
Proceeds from sale of property and equipment	2,683	-
Cash related to spin-out of Tennessee Repertory Theatre, Inc. - Note 11	<u>-</u>	<u>(14,043)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(59,847)</u>	<u>(51,031)</u>
FINANCING ACTIVITIES		
Repayment of notes payable	<u>(176,334)</u>	<u>(283,768)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(176,334)</u>	<u>(283,768)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(815,032)	3,310,165
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,692,089</u>	<u>1,381,924</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,877,057</u>	<u>\$ 4,692,089</u>
OTHER CASH FLOW DISCLOSURES:		
Interest expense paid during the year	<u>\$ 130,413</u>	<u>\$ 115,498</u>
Property and equipment included in assets spun out to Tennessee Repertory Theatre, Inc. - Note 11	<u>\$ -</u>	<u>\$ 3,201</u>

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Tennessee Performing Arts Center Management Corporation (the "Corporation" or "Organization"), a not-for-profit organization, was formed in November 1977. The Corporation entered into an agreement (the "Agreement") with the State of Tennessee (the "State") and the Tennessee Performing Arts Foundation (the "Foundation") 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 Tennessee residents through the operation of the Tennessee Performing Arts Center (the "Center" or "TPAC"). The Corporation 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 Corporation. The Institute continues to exist as a separate legal entity but does not have any net assets or operations. Effective July 1, 2002, the Corporation assumed control of the board of the Tennessee Repertory Theatre, Inc. (the "Rep") pursuant to an agreement for consolidation ratified by the Rep's board of directors on December 20, 2001. All of the Rep's administrative functions were absorbed into the Corporation. The Rep continued to operate under its own name and maintained its status as a not-for-profit corporation for fundraising purposes until July 1, 2005, at which time the Rep was spun out of the Corporation (see Note 11). The Rep is the theater in residence at the Tennessee Performing Arts Center and is a professional Actor's Equity Troupe in Middle Tennessee.

Basis of Presentation

Financial statement presentation follows the accounting and reporting standards established by the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the assets, liabilities and net assets of the Organization are reported as follows:

- Unrestricted - includes unrestricted resources and represents expendable funds available for support of the Organization's operations.
- Temporarily restricted - includes gifts from contributions restricted for specific programs or time periods.
- Permanently restricted - includes gifts which contain provisions requiring in perpetuity that the principal be invested and the income or specific portions thereof be used for the Organization's operations. There are no permanently restricted net assets at June 30, 2007 and 2006.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

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, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Expenses, Inventory and Other

Prepaid expenses, inventory, and other 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 assets. Marketing and promotional costs for the years ended June 30, 2007 and 2006 totaled approximately \$1,008,000, and \$526,000, 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. Depreciation is calculated by the straight-line method to allocate the cost of depreciable assets, as so determined, to operations over estimated useful lives of 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 services, materials and facilities are donated to the Organization by various individuals and organizations. Donated materials and facilities, which amounted to \$147,195 in 2007 (\$196,403 in 2006), are recorded at their estimated fair value at the date of donation, and have been included in revenue and expenses. The Organization has an agreement with the State of Tennessee, 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 sales 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.

Income Taxes

The Corporation 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, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Derivatives

The Corporation 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 2007 fiscal year, Humanities Outreach in Tennessee (HOT) presented 74 (79 during 2006) 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 2006 - 2007 academic year, 35,769 students and teachers from 370 schools attended HOT Season for Young People performances (32,329 students and teachers from 346 schools during the 2005 - 2006 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 challenge young people to imagine, to practice and to reflect. 6,897 students and teachers participated in ArtSmart in 2006 - 2007 (5,983 students and teachers in 2005 - 2006). All 29 schools from Davidson County received ArtSmart education services at no charge (26 schools in 2006).

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Services (Continued)

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. 1,019 children and teachers participated in Wolf Trap in 2006 - 2007 at no charge (923 children and teachers in 2005 - 2006).

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. 1,886 individuals participated in this program during the year at no charge (2,357 individuals during 2006).

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, philanthropic sponsorships and support raised at special events in 2006 were reclassified from operating revenue to public support and other revenue.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2007</u>	<u>2006</u>
Unrestricted	<u>\$ 2,649</u>	<u>\$ 17,800</u>
Temporarily restricted:		
Less than one year	54,327	185,649
One to three years	<u>30,000</u>	<u>60,000</u>
	84,327	245,649
Less discount to net present value	(1,659)	(4,138)
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
Total temporarily restricted	<u>82,668</u>	<u>241,511</u>
Total	<u>\$ 85,317</u>	<u>\$ 259,311</u>

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2007</u>	<u>2006</u>
Education programs	\$ 48,618	\$ 71,551
Fundraising events	9,723	14,310
Annual fund	24,327	155,649
Philanthropic sponsorship for 2007-2008 Broadway season	100,000	-
Contributions received for future years programming	<u>16,260</u>	<u>24,400</u>
	<u>\$ 198,928</u>	<u>\$ 265,910</u>

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2007</u>	<u>2006</u>
Lobby improvements	\$ 4,868,777	\$ 4,868,777
Other improvements	963,998	978,915
Computers	283,198	471,032
Furniture	302,671	306,274
Equipment	<u>428,015</u>	<u>480,007</u>
	6,846,659	7,105,005
Less accumulated depreciation	<u>(2,238,928)</u>	<u>(2,196,523)</u>
	<u>\$ 4,607,731</u>	<u>\$ 4,908,482</u>

Total depreciation expense for 2007 amounted to \$340,406 (2006 - \$367,346). Property and equipment include fully depreciated items with original costs totaling approximately \$1,047,000 as of June 30, 2007 (\$804,000 as of June 30, 2006).

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, 2007, receivables from two sources totaled approximately \$194,000, or 58% of total receivables. At June 30, 2006, receivables from one source amounted to approximately \$152,000, or 26% of total receivables.

For the year ended June 30, 2007, combined grants from one source amounted to \$187,758, or 13% of total contribution and grant revenues. For the year ended June 30, 2006, combined grants from one source amounted to \$199,038, or 12% of total contribution and grant revenues.

The Organization maintains cash balances in bank deposit accounts at various financial institutions which, at times, exceed Federal Deposit Insurance Corporation (FDIC) insurance limits. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 6 - DEBT

Debt obligations consisted of the following as of June 30:

	<u>2007</u>	<u>2006</u>
<u>Notes payable</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% (5.92% at June 30, 2007; 5.70% at June 30, 2006).	(1) \$ 1,614,995	\$ 1,755,429
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% (6.62% at June 30, 2007; 6.40% at June 30, 2006).	(2) <u>412,855</u>	<u>448,755</u>
	<u>\$ 2,027,850</u>	<u>\$ 2,204,184</u>

- (1) On November 15, 2005, this note was refinanced, reducing the required monthly principal payment from \$30,120 to \$11,703, and extending the maturity date from December 2010 to 2018.

In connection with this note, the Corporation 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. An asset or liability equal to the fair value of the swap agreement has been recognized in the statement of financial position (\$35 liability at June 30, 2007; \$84 asset at June 30, 2006), and the related gain or loss on hedging activity, which amounted to a \$119 loss for the year ended June 30, 2007 (\$2,651 gain for the year ended June 30, 2006), is recognized in the cost of operations.

- (2) On November 15, 2005, this note was refinanced, reducing the required monthly principal payment from \$7,576 to \$2,992, and extending the maturity date from December 2010 to 2018.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 6 - DEBT (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, 2008, 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, 2007 or 2006.

A schedule of annual principal maturities of notes payable as of June 30, 2007, follows:

For the year ending June 30,

2008	\$ 176,335
2009	176,335
2010	176,335
2011	176,335
2012	176,335
Thereafter	<u>1,146,175</u>
	<u>\$ 2,027,850</u>

Total interest expense recognized by the Organization for the year ended June 30, 2007, was \$130,413 (\$115,498 in 2006). Interest expense is reported under operations.

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Corporation 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 Corporation 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 Corporation'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 2007 and 2006, and the Corporation made contributions to the Plan of approximately \$154,000 and \$109,000 for the years ended June 30, 2007 and 2006, respectively.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

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 Tennessee Performing Arts Center and the Nashville Institute for the Arts, 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. Total assets held in these funds amounted to \$147,008 at June 30, 2007, and \$117,392 at June 30, 2006.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Organization paid approximately \$25,000 in rent expense in fiscal 2007 (\$77,000 in fiscal 2006) for office space leased from a Board member's company. The expense reported in 2007 is significantly less than in 2006 because 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 (\$8,600 in 2006). In addition, one Board member was employed by the Organization's principal lender through June 2006.

The Tennessee Performing Arts Foundation (the "Foundation") is responsible for the management of its Board-designated endowment fund that was established to support the operations of the Corporation. The Foundation is governed by a separate Board and distributes annually approximately 5% of the investment value of the fund to the Corporation. For the year ended June 30, 2007, the Foundation distributed \$926,743 to the Corporation (\$968,287 in 2006), which the Corporation recognized as income in the year received.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

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>2007</u>	<u>2006</u>
Total Assets	\$ 20,677,272	\$18,836,733
Total Liabilities	<u>26,099</u>	<u>30,773</u>
Net Assets - Unrestricted, Board-designated for endowment	<u>\$ 20,651,173</u>	<u>\$18,805,960</u>
Total Revenues (Expenses):		
Interest, dividends, and capital gain distributions	\$ 698,766	\$ 683,357
Realized and unrealized gains	2,200,550	788,290
Other income	17,469	30,768
Investment management fees	(127,952)	(113,236)
Grants to Corporation	(926,743)	(968,287)
Management and general expenses	<u>(16,877)</u>	<u>(8,449)</u>
Change in net assets	<u>\$ 1,845,213</u>	<u>\$ 412,443</u>

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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, 2007, amounted to approximately \$110,000 (\$102,000 in 2006).

Aggregate future minimum lease commitments under all non-cancelable operating leases in effect as of June 30, 2007, are as follows:

<u>For the year ending June 30,</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
2008	\$ 46,929	\$ 22,320	\$ 69,249
2009	42,964	22,320	65,284
2010	<u>7,161</u>	<u>3,720</u>	<u>10,881</u>
	<u>\$ 97,054</u>	<u>\$ 48,360</u>	<u>\$ 145,414</u>

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 11 - SPIN-OUT OF THE TENNESSEE REPERTORY THEATRE

Effective July 1, 2005, the Corporation and the Rep entered into a Separation Agreement, under which all assets and liabilities applicable to the Rep were spun out to Tennessee Repertory Theatre, Inc., which assumed all Rep operations from that date forward. A summary of assets and liabilities included in the spin-out follows:

ASSETS	
Cash	\$ 14,043
Accounts receivable	196,033
Contributions receivable	24,410
Prepaid expenses	45,716
Property and equipment, net	<u>3,201</u>
TOTAL ASSETS TRANSFERRED	<u>283,403</u>
LIABILITIES	
Accounts payable and accrued expenses	35,149
Advance ticket sales	<u>147,505</u>
TOTAL LIABILITIES ASSUMED	<u>182,654</u>
NET ASSETS SPUN OUT TO REP AS SEPARATE ENTITY	<u>\$ 100,749</u>

NOTE 12 - NEW 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 retained earnings in the period of adoption. The Organization is currently evaluating the impact, if any, of the adoption of FIN 48 on the financial statements.

ADDITIONAL INFORMATION

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

SCHEDULE OF COSTS AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007, WITH COMPARATIVE TOTALS FOR 2006

	OPERATING COSTS AND EXPENSES				
	PROGRAMMING AND PRODUCTION	CONCESSIONS	OPERATIONS	MARKETING	BOX OFFICE
Artist fees	\$ 5,837,477	\$ -	\$ -	\$ -	\$ -
Contract labor	939,173	-	-	926	-
Marketing - programming	933,673	-	-	376	-
Salaries	28,937	36,656	311,033	321,025	210,411
Wages - full time	-	41,761	495,638	55,499	112,768
Wages - part time	83,190	55,717	25,307	-	78,058
Employee related expenses	13,694	27,206	207,826	90,690	87,967
Bad debt expense	-	-	-	-	-
Cash (over) and short	-	(40)	-	60	912
Concessions supplies	61	154,016	-	-	-
Credit card fees	-	3,728	-	-	167,968
Custodial	43,350	-	63,748	-	-
Depreciation	-	2,603	228,809	13,225	1,238
Dues and subscriptions	400	947	5,616	3,160	1,553
Equipment rentals	2,967	-	585	-	-
Fees-ticketing/bank/other	7,379	110	-	-	5,350
Freight and shipping	-	-	-	-	-
Insurance	-	-	-	-	-
Interest expense	-	-	130,413	-	-
Loss (gain) on derivative financial instrument	-	-	119	-	-
Marketing - institution	-	-	2,147	33,868	700
Meals and entertainment	60	485	1,059	3,276	490
Miscellaneous expense	-	1,835	272	429	28,452
Office and computer supplies	-	-	46	-	955
Postage	-	-	-	7,082	-
Presenter share	217,396	-	-	-	-
Printing and reproduction	-	659	390	23,676	14,506
Production costs	56,169	-	-	-	-
Professional consulting	-	-	1,666	10,497	2,750
Repairs and maintenance	-	625	29,941	19	214
Security	15,900	-	-	-	-
State maintenance expenses	-	-	120,003	-	-
Tech and house supplies	-	3,236	34,559	-	120
Telephone	-	-	1,965	1,155	1,554
Transportation grants expense	-	-	-	-	-
Travel - air/hotel/auto	1,346	300	2,580	12,247	4,025
TRT	-	-	-	-	-
Uniforms and alterations	-	2,075	362	-	-
Total costs and expenses for the year ended June 30, 2007	<u>\$ 8,181,172</u>	<u>\$ 331,919</u>	<u>\$ 1,664,084</u>	<u>\$ 577,210</u>	<u>\$ 719,991</u>
Total costs and expenses for the year ended June 30, 2006	<u>\$ 3,380,330</u>	<u>\$ 221,238</u>	<u>\$ 1,577,462</u>	<u>\$ 532,161</u>	<u>\$ 684,463</u>

EVENT SERVICES	TOTAL	PROGRAM SERVICES	SUPPORTING SERVICES				TOTALS	
		EDUCATIONAL PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL		2007	2006
\$ -	\$ 5,837,477	\$ 199,925	\$ -	\$ 13,950	\$ 13,950	\$ 6,051,352	2,474,785	
-	940,099	104,042	-	-	-	1,044,141	423,656	
-	934,049	32,175	-	-	-	966,224	479,303	
160,442	1,068,504	255,547	534,432	181,535	715,967	2,040,018	1,930,739	
-	705,666	-	-	17,425	17,425	723,091	622,205	
234,296	476,568	28,277	345	7,766	8,111	512,956	496,981	
58,131	485,514	59,549	119,585	40,209	159,794	704,857	588,431	
-	-	-	-	26,950	26,950	26,950	18,279	
-	932	-	-	583	583	1,515	(265)	
-	154,077	-	20	-	20	154,097	89,742	
-	171,696	-	-	9,864	9,864	181,560	183,385	
-	107,098	13,230	-	-	-	120,328	65,054	
4,995	250,870	4,937	70,547	14,052	84,599	340,406	367,346	
3,221	14,897	1,210	13,906	4,378	18,284	34,391	32,334	
-	3,552	917	35,572	19,368	54,940	59,409	74,258	
100	12,939	1,115	7,573	265	7,838	21,892	19,528	
-	-	-	5	-	5	5	1,280	
-	-	-	77,893	35	77,928	77,928	88,450	
-	130,413	-	-	-	-	130,413	115,498	
-	119	-	-	-	-	119	(2,651)	
2,843	39,558	-	1,107	1,089	2,196	41,754	46,347	
1,063	6,433	5,185	8,622	61,792	70,414	82,032	96,186	
78	31,066	42,587	20,079	103,646	123,725	197,378	169,229	
63	1,064	45	25,805	515	26,320	27,429	18,808	
-	7,082	2,522	12,770	3,086	15,856	25,460	18,673	
-	217,396	-	-	-	-	217,396	158,225	
159	39,390	1,829	5,080	8,071	13,151	54,370	52,378	
8,599	64,768	60,232	-	17,834	17,834	142,834	85,812	
114	15,027	5,910	128,185	-	128,185	149,122	126,622	
3,658	34,457	-	9,119	6,734	15,853	50,310	59,404	
37,058	52,958	3,842	-	1,744	1,744	58,544	44,549	
-	120,003	-	-	-	-	120,003	133,123	
-	37,915	-	5,634	-	5,634	43,549	17,661	
-	4,674	5,023	34,398	3,787	38,185	47,882	48,817	
-	-	7,887	-	-	-	7,887	7,930	
3,554	24,052	17,484	23,820	11,818	35,638	77,174	97,517	
-	-	-	947	-	947	947	454	
-	2,437	-	-	-	-	2,437	581	
<u>\$ 518,374</u>	<u>\$ 11,992,750</u>	<u>\$ 853,470</u>	<u>\$ 1,135,444</u>	<u>\$ 556,496</u>	<u>\$ 1,691,940</u>	<u>\$ 14,538,160</u>		
<u>\$ 532,687</u>	<u>\$ 6,928,341</u>	<u>\$ 790,178</u>	<u>\$ 976,924</u>	<u>\$ 555,211</u>	<u>\$ 1,532,135</u>		<u>\$ 9,250,654</u>	