TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NASHVILLE, TENNESSEE

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

JUNE 30, 2006

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NASHVILLE, TENNESSEE

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

JUNE 30, 2006

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KraftCPAs
PLLC

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, 2006 and 2005, the related statement of activities for the year ended June 30, 2006, and the statements of cash flows for the years ended June 30, 2006 and 2005. 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, 2005 financial statements and, in our report dated October 5, 2005, 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, 2006 and 2005, the changes in its net assets for the year ended June 30, 2006, and its cash flows for the years ended June 30, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the Tennessee Performing Arts Foundation (the "Foundation") is no longer consolidated with the Organization. Accordingly, a prior period adjustment has been made, and the June 30, 2005 financial statements have been restated, to reflect the change in reporting entity.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying additional information on page 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

KraftCPAs PLLC

Nashville, Tennessee
September 15, 2006

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TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2006 AND 2005

	2006	2005 (Restated - Note 12)
ASSETS		
Cash and cash equivalents	$ 4,692,089	$ 1,381,924
Receivables:		
Accounts	316,893	368,089
Contributions, net of allowance - Note 2	259,311	253,027
Prepaid expenses and inventory	286,963	207,524
Interest rate swap asset - Note 6	84	-
Investments	-	10,554
Property and equipment, less accumulated depreciation - Note 4	4,908,482	5,231,944
TOTAL ASSETS	$ 10,463,822	$ 7,453,062
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 680,844	$ 726,886
Advance ticket sales	4,650,940	1,643,617
Deposits	41,384	33,218
Interest rate swap liability - Note 6	-	2,567
Notes payable - Note 6	2,204,184	2,487,952
TOTAL LIABILITIES	7,577,352	4,894,240
COMMITMENTS - Note 10		
NET ASSETS		
Unrestricted		
Invested in property and equipment, net of related debt	3,153,053	3,243,992
Undesignated (deficit)	(532,493)	(940,876)
Total unrestricted	2,620,560	2,303,116
Temporarily restricted - Note 3	265,910	255,706
TOTAL NET ASSETS	2,886,470	2,558,822
TOTAL LIABILITIES AND NET ASSETS	$ 10,463,822	$ 7,453,062

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006 (WITH COMPARATIVE TOTALS FOR 2005)

	Unrestricted	Temporarily Restricted	Totals 2006	Totals 2005 (Restated - Note - 12)
OPERATING REVENUE				
Ticket sales	$ 4,077,453	$ -	$ 4,077,453	$ 5,848,944
Rental income	593,986	-	593,986	442,921
Salary and wage reimbursements	600,803	-	600,803	505,775
Other reimbursements	42,967	-	42,967	18,042
Concession sales	272,632	-	272,632	269,189
Ticketing service charges and fees	1,007,388	-	1,007,388	962,658
Consulting income	93,636	-	93,636	120,213
Sponsorships	201,384	-	201,384	355,671
Other income	113,034	-	113,034	147,873
TOTAL OPERATING REVENUE	7,003,283	-	7,003,283	8,671,286
OPERATING COSTS AND EXPENSES				
Programming and production	3,380,330	-	3,380,330	5,168,454
Concessions	221,238	-	221,238	218,088
Operations	1,577,462	-	1,577,462	1,306,894
Marketing	532,161	-	532,161	520,011
Box office	684,463	-	684,463	647,027
Event services	532,687	-	532,687	495,214
TOTAL OPERATING COSTS AND EXPENSES	6,928,341	-	6,928,341	8,355,688
INCOME FROM OPERATIONS	74,942	-	74,942	315,598
PUBLIC SUPPORT AND OTHER REVENUES				
Contributions	942,322	268,165	1,210,487	1,879,914
Grants	487,661	-	487,661	420,211
Income from Foundation - Note 9	968,287	-	968,287	955,050
Loss on disposal of equipment	(457)	-	(457)	(3,594)
Investment income	9,790	-	9,790	95,891
Net assets released from restrictions	235,401	(235,401)	-	-
TOTAL PUBLIC SUPPORT AND OTHER REVENUES	2,643,004	32,764	2,675,768	3,347,472
FUNCTIONAL EXPENSES				
Program services:				
Educational programs	790,178	-	790,178	653,541
Supporting services:				
Management and general	976,924	-	976,924	2,391,131
Fundraising	555,211	-	555,211	660,057
Total Supporting services	1,532,135	-	1,532,135	3,051,188
TOTAL FUNCTIONAL EXPENSES	2,322,313	-	2,322,313	3,704,729
CHANGE IN NET ASSETS	395,633	32,764	428,397	(41,659)
NET ASSETS - BEGINNING OF YEAR, as restated - Note 12	2,303,116	255,706	2,558,822	2,600,481
SPIN-OUT OF NET ASSETS APPLICABLE TO TENNESSEE REPERTORY THEATRE, INC. - Note 11	(78,189)	(22,560)	(100,749)	-
NET ASSETS - END OF YEAR	$ 2,620,560	$ 265,910	$ 2,886,470	$ 2,558,822

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005 (Restated - Note 12)
OPERATING ACTIVITIES		
Change in net assets	$ 428,397	$ (41,659)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	367,346	389,811
Gain on sale of other assets	-	(93,924)
Loss on disposal of equipment	644	3,594
Investments distributed as additional compensation under deferred compensation plan - Note 7	-	239,422
Gain on derivative financial instrument	(2,651)	(17,356)
(Increase) decrease in:		
Accounts receivable	(144,837)	(103,244)
Contributions receivable	(30,694)	114,710
Prepaid expenses and inventory	(125,155)	(86,511)
Increase (decrease) in:		
Accounts payable and accrued expenses	(10,893)	(168,281)
Advance ticket sales	3,154,828	(302,389)
Deposits	8,166	17,555
TOTAL ADJUSTMENTS	3,216,754	(6,613)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,645,151	(48,272)
INVESTING ACTIVITIES		
Purchases of equipment and renovation payments	(47,729)	(40,490)
Purchase of other assets	-	(100,000)
Proceeds from return of funds held by Foundation	-	916,078
Proceeds from sale of other assets	10,554	67,163
Cash related to spin-out of Tennessee Repertory Theatre, Inc. - Note 11	(14,043)	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(51,218)	842,751
FINANCING ACTIVITIES		
Repayment of note payable	(283,768)	(361,446)
NET CASH USED IN FINANCING ACTIVITIES	(283,768)	(361,446)
INCREASE IN CASH AND CASH EQUIVALENTS	3,310,165	433,033
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,381,924	948,891
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,692,089	$ 1,381,924
OTHER CASH FLOW DISCLOSURES:		
Interest expense paid during the year	$ 115,498	$ 88,795
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Investments distributed in settlement of deferred compensation liability - Note 7	$ -	$ 239,422
Property and equipment included in assets spun out to Tennessee Repertory Theatre, Inc. - Note 11	$ 3,201	$ -

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Tennessee Performing Arts Center Management Corporation (the "Corporation"), 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 the residents of Tennessee through the operation of the Tennessee Performing Arts Center (the "Center" or "TPAC"). The Corporation administers 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. The Corporation has administrative control over the operations and functions of the area designated as the Center. (See Note 12 for information on retroactive change in reporting entity relating to the Foundation.)

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

The financial statements have been prepared on the accrual basis of accounting and, in 2005, were consolidated to include the accounts and operations of the Corporation and the Rep (see Note 11) (collectively, the "Organization"). All significant transactions and balances between the Corporation and the Rep have been eliminated in consolidation in 2005.

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 (See Note 3).
- 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, 2006 and 2005.

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 Equivalents

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.

The 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of a certificate of deposit at June 30, 2005, which is reported at cost (none at June 30, 2006).

Prepaid Expenses and Inventory

Prepaid expenses and inventory 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.

Property and Equipment and Depreciation

Improvements, equipment and furniture are recorded at cost, when purchased, or at estimated fair value, when gifted 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, equipment and furniture, 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 $187,803 in 2006 ($236,970 in 2005), 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 and the Rep qualify as not-for-profit organizations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

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 the highest 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 2006 fiscal year, Humanities Outreach in Tennessee (HOT) presented 79 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 2005-2006 academic year, 32,329 students and teachers from 346 schools attended HOT Season for Young People performances.

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. 5,983 students and teachers participated in ArtSmart in 2005-2006. All 26 schools from Davidson County received ArtSmart education services at no charge.

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. 923 children and teachers participated in Wolf Trap in 2005-2006 at no charge.

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. 2,357 individuals participated in this program during the year at no charge.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 prior year amounts to be comparative with the current year presentation. A reclassification was made to move custodial reimbursements received in 2005 from a revenue account to an offset of applicable operating costs and expenses. This reclassification decreased other reimbursements and operating costs by $126,667. Another reclassification was made to move certain concessions sales previously included in other operating income to concession sales, which increased concession sales and decreased other income by $30,644. These reclassifications had no net effect on the change in net assets for the year.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	2006	2005
Unrestricted	$ 17,800	$ 37,305
Temporarily restricted:		
Less than one year	185,649	198,461
One to three years	60,000	25,000
	245,649	223,461
Less discount to net present value	(4,138)	(255)
Total temporarily restricted	241,511	223,206
Less allowance for uncollectible pledges	-	(7,484)
Total	$ 259,311	$ 253,027

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

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

	2006	2005
Contributions receivable:		
Education programs	$ 71,551	$ 24,745
Fundraising events	14,310	-
Annual fund pledges receivable	155,649	198,461
Contributions received for future years programming	24,400	32,500
	$ 265,910	$ 255,706

NOTE 4 - PROPERTY AND EQUIPMENT

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

	2006	2005
Lobby improvements	$ 4,868,777	$ 4,868,777
Other improvements	978,915	976,613
Computers	471,032	515,365
Furniture and fixtures	306,274	331,043
Equipment	480,007	546,820
	7,105,005	7,238,618
Less accumulated depreciation	(2,196,523)	(2,006,674)
	$ 4,908,482	$ 5,231,944

Total depreciation expense for 2006 amounted to $367,346 (2005 - $389,811). Property and equipment include fully depreciated items amounting to approximately $804,000 as of June 30, 2006 ($795,000 as of June 30, 2005).

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, various grants and accounts receivable. Contributions receivable consist of individual and corporate contribution pledges which are widely dispersed to mitigate credit risk. Grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources.

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.

For the year ended June 30, 2006, combined grants from one source amounted to $199,038, or 13% of total contribution and grant revenues. For the year ended June 30, 2005, there were no concentrations (10% or more) of contributions or grant revenues from one particular source.

NOTE 6 - DEBT

Debt obligations consisted of the following as of June 30:

		2006	2005
Notes payable			
Note payable to Bank of America for renovations to the theatre lobby area. Monthly principal payments of $11,703 plus accrued interest are required. 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% (5.70% at June 30, 2006; 3.86% at June 30, 2005).	(1)	$ 1,755,429	$ 1,987,952
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% (6.40% at June 30, 2006; 3.87% at June 30, 2005).	(2)	448,755	500,000
		$ 2,204,184	$ 2,487,952

(1) On November 15, 2005, this note was refinanced. The required monthly principal payment was reduced from $30,120 plus accrued interest to $11,703 plus accrued interest, and the maturity date was extended from December 2010 to 2018.

In connection with the note payable, 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 ($84 asset at June 30, 2006; $2,567 liability at June 30, 2005), and the related gain or loss on hedging activity, which amounted to a $2,651 gain for the year ended June 30, 2006 ($17,356 gain for the year ended June 30, 2005), is recognized in the cost of operations.

(2) On November 15, 2005, this note was refinanced. The required monthly principal payment was reduced from $7,576 plus accrued interest to $2,992 plus accrued interest, and the maturity date was extended from December 2010 to 2018.

NOTE 6 - DEBT (CONTINUED)

On November 15, 2005, the Corporation entered into a $250,000 operating line of credit with the bank. On February 14, 2006, as amended June 22, 2006, the line of credit was increased to $500,000. 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 December 1, 2006, at which time all unpaid principal and accrued interest will be due. As of June 30, 2006, there was no outstanding balance on the line of credit.

A schedule of annual principal maturities of notes payable as of June 30, 2006, follows:

For the year ending June 30,	
2007	$ 176,335
2008	176,335
2009	176,335
2010	176,335
2011	176,335
Thereafter	1,322,509
	$ 2,204,184

Total interest expense recognized by the Organization for the year ended June 30, 2006, was $115,498 ($88,795 in 2005). Interest costs are reported under operations.

NOTE 7 - EMPLOYEE BENEFIT PLANS

Defined Contribution 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 and the Rep 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 5% match plus a 1% discretionary contribution in 2006 and 2005, and the Corporation made contributions to the Plan of approximately $109,000 and $157,000 for the years ended June 30, 2006 and 2005, respectively.

NOTE 7 - EMPLOYEE BENEFIT PLANS (CONTINUED)

Deferred Compensation Plan

The Corporation had a deferred compensation agreement with its former President/CEO and established a "rabbi trust" for the purpose of accumulating funds applicable thereto. Contributions to the trust by the Corporation were $100,000 in 2005 ($-0- in 2006). The President/CEO had the option to purchase any part or all of the trust assets for 50% of their fair market value at any time during the period February 1, 2005 through January 31, 2011. During 2005, the President/CEO resigned and, as part of the separation agreement, the purchase option was revised to allow the President/CEO to purchase the trust assets for $1. In May 2005, the President/CEO exercised his option to acquire all of the assets in the trust pursuant to the separation agreement. The resulting compensation recognized in 2005 amounted to $239,422, which is included in management and general expense. Unrealized investment gains on trust assets amounted to a $26,762 unrealized gain in 2005.

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 $117,392 at June 30, 2006 and $110,332 at June 30, 2005 (exclusive of donor-designated endowment fund for the benefit of the Rep).

NOTE 9 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2006, the Organization paid approximately $77,000 in rent expense for office space leased from a board member's company ($73,000 in 2005). The Organization purchased approximately $24,000 in inventory from a board member's company in 2005. (This individual was not a Board member in 2006.) In addition, one board member was employed by the Organization's principal lender through June 2006.

Donated materials, facilities and services disclosed in Note 1 include in-kind contributions by Board members, as follows: approximately $8,600 for storage space donated by a board member in 2006 and 2005, and $13,000 for food and beverages donated by a board member in 2005. (This individual was not a Board member in 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, 2006, the Foundation distributed $968,287 to the Corporation ($955,050 in 2005), which the Corporation recognized as income in the year received. (See Note 12.)

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

	2006	2005
Total Assets	$ 18,836,733	$18,420,818
Total Liabilities	30,773	27,301
Net Assets - Unrestricted, Board-designated for endowment	$ 18,805,960	$18,393,517
Total income, principally from investments (including unrealized gains on investments of: $19,435 in 2006; $344,914 in 2005)	$ 1,389,179	$ 1,422,693
Grants to Corporation	968,287	955,050
Management and general expenses	8,449	9,317
Change in net assets	$ 412,443	$ 458,326

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Organization leases a portion of its office space under non-cancelable operating leases with monthly rental expense of approximately $5,600 ($5,500 in 2004).

As of June 30, 2006, aggregate future minimum lease commitments for office space and certain office equipment are as follows:

For the year ending June 30,	Office Space	Equipment	Total
2007	$ 66,758	$ 22,320	$ 89,078
2008	11,126	22,320	33,446
2009	-	22,320	22,320
2010	-	3,720	3,720
	$ 77,884	$ 70,680	$ 148,564

Total rental expense incurred under all such agreements for the year ended June 30, 2006, amounted to approximately $102,000 ($168,000 in 2005).

The Organization is currently in discussions with the State of Tennessee regarding the taxability of facility fees. Management estimates that the liability at June 30, 2006, if any, would not exceed $99,500, including interest. No amount has been recognized in the financial statements for this contingent liability.

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		3,201
TOTAL ASSETS TRANSFERRED		283,403
LIABILITIES		
Accounts payable and accrued expenses		35,149
Advance ticket sales		147,505
TOTAL LIABILITIES ASSUMED		182,654
NET ASSETS SPUN OUT TO REP AS SEPARATE ENTITY	$	100,749

A condensed presentation of the Rep's operating revenues, costs and expenses for the year ended June 30, 2005, follows:

Operating revenue	$	776,554
Operating costs and expenses		(865,959)
Loss from operations		(89,405)
Public support and other revenues		816,461
Supporting services:		
Management and general		(892,887)
Fundraising		(39,000)
Change in net assets	$	(204,831)

NOTE 12 - CHANGE IN REPORTING ENTITY

The Tennessee Performing Arts Center Foundation is responsible for the Board-designated endowment fund that was established to support the operations of the Organization. In prior years, excess cash of the Organization was transferred to, invested and held by the Foundation for the benefit of the Organization. In accordance with generally accepted accounting principles, the Organization was permitted, but not required, to consolidate the Foundation's financial statements because of the Organization's economic interest in the Foundation. The Foundation is governed by a separate Board from the Organization. During 2006, TPAC management elected not to consolidate the Foundation with the reporting entity. Accordingly, a prior period adjustment has been made, and the 2005 financial statements have been restated to exclude the assets, liabilities and operations of the Foundation as of July 1, 2004. A schedule summarizing the effects of the restatement follows:

	Unrestricted	Temporarily Restricted	Total
Net assets, July 1, 2004, as originally reported	$ 20,198,961	$ 336,711	$ 20,535,672
Net assets applicable to Foundation, previously consolidated with reporting entity	(17,935,191)	-	(17,935,191)
Net assets, as restated	$ 2,263,770	$ 336,711	$ 2,600,481

The statements of activities and cash flows, as originally reported for the year ended June 30, 2005, have been restated to exclude revenues and expenses related to the Foundation in the net amount of $458,326. (See Note 9.)

ADDITIONAL INFORMATION

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

SCHEDULE OF COSTS AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006, WITH COMPARATIVE TOTALS FOR 2005

			OPERATING EXPENSES		
	PROGRAMMING AND PRODUCTION	CONCESSIONS	OPERATIONS	MARKETING	BOX OFFICE
Artist fees	$ 2,244,889	$ -	$ -	$ -	$ -
Contract labor	319,384	-	-	300	-
Marketing - programming	467,157	-	-	365	-
Salaries	-	38,813	351,125	296,302	182,880
Wages - full time	-	16,511	417,459	32,831	120,257
Wages - part time	52,205	49,087	27,193	8,975	65,370
Employee related expenses	4,385	19,183	188,347	70,715	71,591
Bad debt expense	-	-	-	-	-
Cash (over) and short	-	355	-	-	(628)
Concessions supplies	561	89,194	-	-	-
Credit card fees	-	-	-	-	176,502
Custodial	24,810	-	30,953	-	-
Depreciation	-	1,226	251,445	13,109	1,676
Dues and subscriptions	55	30	639	2,978	839
Equipment rentals	4,750	1,283	-	-	90
Fees-ticketing/bank/other	-	-	69	-	4,926
Freight and shipping	101	-	375	167	83
Insurance	-	-	-	-	-
Interest expense	-	-	115,498	-	-
Gain on derivative financial instrument	-	-	(2,651)	-	-
Marketing - institution	-	-	-	32,838	-
Meals and entertainment	3,423	943	422	1,627	249
Miscellaneous expense	8,884	28	254	169	28,680
Office and computer supplies	-	336	2,604	1,872	2,691
Postage	325	64	190	8,491	466
Presenter share	158,225	-	-	-	-
Printing and reproduction	2,233	490	279	27,806	12,006
Production costs	35,589	-	-	111	-
Professional consulting	21,000	-	1,515	14,628	82
Repairs and maintenance	-	163	32,095	13	6,663
Security	6,417	-	-	-	-
State maintenance expenses	-	-	133,123	-	-
Tech and house supplies	-	2,020	15,639	-	-
Telephone	8	900	8,476	8,351	7,129
Transportation grants expense	-	-	-	-	-
Travel - air/hotel/auto	25,929	79	2,365	10,513	2,911
TRT	-	-	-	-	-
Uniforms and alterations	-	533	48	-	-
Total costs and expenses for the year ended June 30, 2006	$ 3,380,330	$ 221,238	$ 1,577,462	$ 532,161	$ 684,463
Total costs and expenses for the year ended June 30, 2005	$ 4,509,140	$ 217,871	$ 1,306,894	$ 520,011	$ 644,374

		PROGRAM SERVICES	SUPPORTING SERVICES				
			MANAGEMENT			TOTALS	
EVENT SERVICES	TOTAL	EDUCATIONAL PROGRAMS	AND GENERAL	FUNDRAISING	TOTAL	2006	2005
$ 100	$ 2,244,989	$ 216,950	$ -	$ 12,846	$ 12,846	$ 2,474,785	3,250,906
-	319,684	91,986	-	11,986	11,986	423,656	623,480
5,664	473,186	6,100	-	17	17	479,303	676,205
131,380	1,000,500	253,723	513,012	163,504	676,516	1,930,739	1,959,502
15,696	602,754	124	(405)	19,732	19,327	622,205	593,491
261,374	464,204	20,515	65	12,197	12,262	496,981	512,535
53,027	407,248	46,984	93,582	40,617	134,199	588,431	1,038,263
-	-	-	-	18,279	18,279	18,279	17,886
-	(273)	-	8	-	8	(265)	751
(13)	89,742	-	-	-	-	89,742	92,329
(480)	176,022	-	-	7,363	7,363	183,385	171,929
-	55,763	9,291	-	-	-	65,054	70,335
6,358	273,814	4,937	72,733	15,862	88,595	367,346	387,140
539	5,080	163	20,633	6,458	27,091	32,334	21,878
-	6,123	850	38,180	29,105	67,285	74,258	32,198
220	5,215	892	13,421	-	13,421	19,528	31,849
233	959	22	234	65	299	1,280	2,416
-	-	-	88,414	36	88,450	88,450	76,131
-	115,498	-	-	-	-	115,498	88,795
-	(2,651)	-	-	-	-	(2,651)	(17,356)
3,692	36,530	401	-	9,416	9,416	46,347	59,261
694	7,358	7,796	5,917	75,115	81,032	96,186	112,571
44	38,059	45,893	11,813	73,464	85,277	169,229	140,634
932	8,435	2,887	5,219	2,267	7,486	18,808	30,770
868	10,404	1,890	1,424	4,955	6,379	18,673	24,031
-	158,225	-	-	-	-	158,225	208,518
1,481	44,295	2,598	940	4,545	5,485	52,378	52,878
7,343	43,043	35,993	43	6,733	6,776	85,812	103,218
32	37,257	6,530	81,708	1,127	82,835	126,622	134,135
2,722	41,656	-	10,432	7,316	17,748	59,404	51,589
35,827	42,244	1,444	-	861	861	44,549	39,953
-	133,123	-	-	-	-	133,123	-
2	17,661	-	-	-	-	17,661	16,952
2,250	27,114	6,805	9,485	5,413	14,898	48,817	44,077
-	-	7,930	-	-	-	7,930	5,751
2,702	44,499	17,474	9,612	25,932	35,544	97,517	92,376
-	-	-	454	-	454	454	-
-	581	-	-	-	-	581	742
$ 532,687	$ 6,928,341	$ 790,178	$ 976,924	$ 555,211	$ 1,532,135	$ 9,250,654	$ 10,748,119
$ 495,212	$ 7,693,502	$ 765,203	$ 1,563,744	$ 725,670	$ 2,289,414		$ 10,748,119