

TENNESSEE PERFORMING ARTS FOUNDATION  
NASHVILLE, TENNESSEE  
FINANCIAL STATEMENTS  
AND  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
JUNE 30, 2008 AND 2007

TENNESSEE PERFORMING ARTS FOUNDATION  
NASHVILLE, TENNESSEE  
FINANCIAL STATEMENTS  
AND  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
JUNE 30, 2008 AND 2007

CONTENTS

	<u>PAGE</u>
<u>REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS</u> .....	1
 <u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position.....	2
Statements of Activities .....	3
Statements of Cash Flows .....	4
Notes to Financial Statements.....	5 - 9

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Tennessee Performing Arts Foundation  
Nashville, Tennessee

We have audited the accompanying statements of financial position of the Tennessee Performing Arts Foundation (the "Foundation") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Performing Arts Foundation as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*KraftCPAs PLLC*

Nashville, Tennessee  
November 18, 2008

TENNESSEE PERFORMING ARTS FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 24,195	\$ 135,039
Interest and dividends receivable	26,587	9,833
Investments - Note 2	<u>18,256,455</u>	<u>20,532,400</u>
TOTAL ASSETS	<u>\$ 18,307,237</u>	<u>\$ 20,677,272</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 26,312	\$ 26,099
NET ASSETS - Unrestricted	<u>18,280,925</u>	<u>20,651,173</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,307,237</u>	<u>\$ 20,677,272</u>

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
SUPPORT AND REVENUE		
Investment income (loss) - Note 2	\$ (1,263,357)	\$ 2,899,316
Less investment management fees	(132,330)	(135,135)
Other income	<u>4,037</u>	<u>17,469</u>
TOTAL SUPPORT AND REVENUE (LOSS)	<u>(1,391,650)</u>	<u>2,781,650</u>
FUNCTIONAL EXPENSES		
Program services - Grants to Corporation	945,787	926,743
Management and general	<u>32,811</u>	<u>9,694</u>
TOTAL FUNCTIONAL EXPENSES	<u>978,598</u>	<u>936,437</u>
CHANGE IN NET ASSETS	(2,370,248)	1,845,213
NET ASSETS - BEGINNING OF YEAR	<u>20,651,173</u>	<u>18,805,960</u>
NET ASSETS - END OF YEAR	<u>\$ 18,280,925</u>	<u>\$ 20,651,173</u>

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS FOUNDATION

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	<u>\$ (2,370,248)</u>	<u>\$ 1,845,213</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized losses (gains) on investments	2,212,166	(2,200,550)
(Increase) decrease in interest and dividends receivable	(16,754)	50,540
Increase (decrease) in accounts payable and accrued expenses	<u>213</u>	<u>(4,674)</u>
TOTAL ADJUSTMENTS	<u>2,195,625</u>	<u>(2,154,684)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(174,623)</u>	<u>(309,471)</u>
INVESTING ACTIVITIES		
Purchases of investments	(2,467,209)	(52,073,088)
Proceeds from sale of investments	<u>2,530,988</u>	<u>52,411,711</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>63,779</u>	<u>338,623</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(110,844)	29,152
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>135,039</u>	<u>105,887</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 24,195</u>	<u>\$ 135,039</u>

See accompanying notes to financial statements.

# TENNESSEE PERFORMING ARTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### General

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

#### Basis of Presentation

The financial statements of the Foundation 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 Foundation 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 that the principal be invested and the income or specific portions thereof be used for operations.

The Foundation had no temporarily or permanently restricted net assets as of June 30, 2008 and 2007.

#### 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.

TENNESSEE PERFORMING ARTS FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (Continued)

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted. The Foundation received no contributions for the years ended June 30, 2008 and 2007.

Cash and Cash Equivalents

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

Investments

Investments consist of a certificate of deposit, stocks, bonds, mutual funds, and liquid asset accounts, and are carried at their quoted fair market value on the last business day of the reporting period. Fair value of hedge funds is estimated based on an evaluation of the investments owned by the funds, information contained in audited financial statements, and other relevant matters. Changes in unrealized gains and losses are recognized currently in the Statement of Activities.

Income Taxes

The Foundation qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

Program and Supporting Services - Functional Allocation

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

Program Services

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

Supporting Services

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



TENNESSEE PERFORMING ARTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 2 - INVESTMENTS

Investments consisted of the following as of June 30:

	<u>2008</u>		<u>2007</u>
Stocks	\$ 3,497,608		\$ 4,231,566
Mutual funds:			
Fixed income investment funds	3,369,529		3,321,488
Equity investment funds	8,699,214		9,839,184
Short-term investments	319,572		572,775
Hedge funds:			
Hirtle Callaghan Total Return Offshore Fund Ltd.	1,472,135	(1)	1,573,683 (1)
Hirtle Callaghan Absolute Return Offshore Fund Ltd.	895,897	(1)	991,204 (1)
Certificate of deposit	<u>2,500</u>		<u>2,500</u>
	<u>\$ 18,256,455</u>		<u>\$ 20,532,400</u>

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

TENNESSEE PERFORMING ARTS FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2008 AND 2007

NOTE 2 - INVESTMENTS (CONTINUED)

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

	<u>2008</u>	<u>2007</u>
Realized gains	\$ 102,648	\$ 4,162,633
Unrealized losses	(2,314,814)	(1,962,083)
Dividends, interest income, and capital gain distributions	<u>948,809</u>	<u>698,766</u>
	<u>\$ (1,263,357)</u>	<u>\$ 2,899,316</u>

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents and investments.

The Foundation periodically maintains cash balances in bank deposit accounts in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits. The balance per bank at June 30, 2008 did not exceed the FDIC amount.

At June 30, 2008, investments with account balances totaling \$18,194,315 were held under custodial care in the Foundation's name by one brokerage and investment company. These investments are not insured by the FDIC or any other government agency and are subject to investment risk, including loss of principal.

NOTE 4 - NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48 (FIN 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.

TENNESSEE PERFORMING ARTS FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 4 - NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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 Foundation 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 Foundation for fiscal years beginning after November 15, 2007.

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