TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2012 AND 2011

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

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JUNE 30, 2012 AND 2011

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KraftCPAs PLLC

INDEPENDENT AUDITORS' REPORT

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, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and, as to the 2012 financial statements, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. (The 2011 financial statements of the Organization were not required to be, and were not, audited in accordance with *Government Auditing Standards*.) 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit, for the year ended June 30, 2012.

KraftCPAs PLLC - Certified Public Accountants and Consultants
555 Great Circle Road • Nashville, TN 37228 • Phone 615-242-7351 • Fax 615-782-4271 • www.kraftcpas.com

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying additional information on page 19 and 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Kraft CPAs PLLC

Nashville, Tennessee
October 19, 2012

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 4,566,207	$ 5,548,896
Receivables:		
Accounts	153,846	202,839
Contributions	122,318	110,458
Prepaid expenses, inventory and other assets	516,302	385,357
Property and equipment, less accumulated depreciation	5,113,250	5,408,123
TOTAL ASSETS	$ 10,471,923	$ 11,655,673
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 1,012,585	$ 843,892
Advance ticket sales	2,251,448	3,904,857
Deposits and other	253,620	154,845
Capital lease obligations	539,130	820,666
Notes payable	1,146,177	1,322,511
TOTAL LIABILITIES	5,202,960	7,046,771
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted:		
Invested in property and equipment, net of related debt	3,661,296	3,534,199
Undesignated	1,365,141	709,769
Total unrestricted	5,026,437	4,243,968
Temporarily restricted	242,526	364,934
TOTAL NET ASSETS	5,268,963	4,608,902
TOTAL LIABILITIES AND NET ASSETS	$ 10,471,923	$ 11,655,673

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012		
	Unrestricted	Temporarily Restricted	Totals
OPERATING REVENUE			
Ticket sales	$ 8,012,512	$ -	$ 8,012,512
Rental income	591,472	-	591,472
Salary and wage reimbursements	684,364	-	684,364
Other reimbursements	255,840	-	255,840
Concession sales	701,283	-	701,283
Ticketing service charges and fees	2,081,913	-	2,081,913
Sponsorships - earned	126,664	-	126,664
Sales tax rebate	531,977	-	531,977
Other income	74,892	-	74,892
TOTAL OPERATING REVENUE	13,060,917	-	13,060,917
OPERATING COSTS AND EXPENSES			
Programming and production	6,861,441	-	6,861,441
Concessions	449,250	-	449,250
Operations	2,041,561	-	2,041,561
Marketing	886,804	-	886,804
Box office	721,778	-	721,778
Event services	685,632	-	685,632
TOTAL OPERATING COSTS AND EXPENSES	11,646,466	-	11,646,466
INCOME FROM OPERATIONS	1,414,451	-	1,414,451
PUBLIC SUPPORT AND OTHER REVENUES			
Contributions	1,295,720	202,526	1,498,246
Sponsorships - philanthropic	-	40,000	40,000
Grants	695,364	-	695,364
Income from Foundation	626,931	-	626,931
Interest income	127	-	127
Net assets released from restrictions	364,934	(364,934)	-
TOTAL PUBLIC SUPPORT AND OTHER REVENUES	2,983,076	(122,408)	2,860,668
FUNCTIONAL EXPENSES			
Program services:			
Educational programs	917,829	-	917,829
Supporting services:			
Management and general	2,194,369	-	2,194,369
Fundraising	502,860	-	502,860
Total supporting services	2,697,229	-	2,697,229
TOTAL FUNCTIONAL EXPENSES	3,615,058	-	3,615,058
CHANGE IN NET ASSETS	782,469	(122,408)	660,061
NET ASSETS - BEGINNING OF YEAR	4,243,968	364,934	4,608,902
NET ASSETS - END OF YEAR	$ 5,026,437	$ 242,526	$ 5,268,963

See accompanying notes to financial statements.

	2011	
	Temporarily	
Unrestricted	Restricted	Totals
$ 5,762,516	$ -	$ 5,762,516
570,642	-	570,642
684,423	-	684,423
488,253	-	488,253
571,796	-	571,796
1,490,593	-	1,490,593
152,225	-	152,225
362,649	-	362,649
58,843	-	58,843
10,141,940	-	10,141,940
6,068,082	-	6,068,082
391,521	-	391,521
1,608,428	-	1,608,428
754,886	-	754,886
649,529	-	649,529
655,973	-	655,973
10,128,419	-	10,128,419
13,521	-	13,521
878,371	117,934	996,305
-	40,000	40,000
353,914	-	353,914
855,900	207,000	1,062,900
351	-	351
307,078	(307,078)	-
2,395,614	57,856	2,453,470
827,129	-	827,129
1,960,214	-	1,960,214
426,661	-	426,661
2,386,875	-	2,386,875
3,214,004	-	3,214,004
(804,869)	57,856	(747,013)
5,048,837	307,078	5,355,915
$ 4,243,968	$ 364,934	$ 4,608,902

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES		
Change in net assets	$ 660,061	$ (747,013)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	480,283	495,766
Loss on disposal of equipment	-	433
(Increase) decrease in:		
Accounts receivable	48,993	57,406
Contributions receivable	(11,860)	59,186
Prepaid expenses, inventory and other assets	(130,945)	183,440
Increase (decrease) in:		
Accounts payable and accrued expenses	168,693	(9,461)
Advance ticket sales	(1,653,409)	1,756,588
Deposits and other	98,775	(51,836)
TOTAL ADJUSTMENTS	(999,470)	2,491,522
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(339,409)	1,744,509
INVESTING ACTIVITIES		
Purchases of equipment	(185,410)	(255,441)
NET CASH USED IN INVESTING ACTIVITIES	(185,410)	(255,441)
FINANCING ACTIVITIES		
Repayment of notes payable	(176,334)	(176,334)
Repayment of capital lease obligations	(281,536)	(264,367)
NET CASH USED IN FINANCING ACTIVITIES	(457,870)	(440,701)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(982,689)	1,048,367
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	5,548,896	4,500,529
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,566,207	$ 5,548,896
OTHER CASH FLOW DISCLOSURES:		
Interest paid during the year	$ 60,143	$ 79,483

See accompanying notes to financial statements.

NOTE 1 - GENERAL

The Tennessee Performing Arts Center Management Corporation (the "Organization"), a not-for-profit organization, was formed in November 1977. In March 1978, the Organization entered into an agreement (the "Agreement") with the State of Tennessee (the "State") and the Tennessee Performing Arts Foundation (the "Foundation") (amended in February 1999). The initial Agreement established the Organization principally for the purpose of presenting quality arts entertainment and education to Tennessee residents through the operation of the Tennessee Performing Arts Center (the "Center" or "TPAC"). The Organization has administrative control over the operations and functions of the Center that is located in the James K. Polk State Office Building, Nashville, Tennessee. The State is responsible for utilities, security services, major repairs, structural elements, fixtures, and the major elements of the sound, lighting, and stage rigging in each of the Center's theaters.

Effective January 1, 2009, the operations of Nashville Institute for the Arts (the "Institute") were merged with the Organization. The Institute continues to exist as a separate legal entity but does not have any net assets or operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Organization on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Resources are classified as unrestricted, temporarily restricted, or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.

- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.

- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Organization had no permanently restricted net assets as of June 30, 2012 or 2011.

NOTE 2 - 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 consists of demand deposits with banks.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give (Continued)

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. Contributions receivable are deemed to be fully collectible by management and no allowance for uncollectible contributions is considered necessary at June 30, 2012 and 2011. All contributions receivable at June 30, 2012 and 2011 are due within one year.

Account Receivable

The Organization rents the use of the performance theaters and various other staff services to other organizations utilizing the theaters.

Accounts receivable are reported at gross sales price less any applicable payments or adjustments. The Organization does not charge interest on past due accounts. Accounts receivable are deemed to be fully collectible by management and no allowance for bad debts is considered necessary at June 30, 2012 and 2011.

Prepaid Expenses, Inventory and Other Assets

Prepaid expenses, inventory, and other assets consist primarily 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, 2012 and 2011 totaled approximately $911,000 and $893,000, respectively.

Property and Equipment and Depreciation

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

Donated Materials, Facilities, and Services

Significant materials, facilities, and services are donated to the Organization by various individuals and organizations. Donated materials and facilities, which amounted to $349,476 in 2012 ($308,506 in 2011), are recorded as revenue and expenses at their estimated fair value at the date of donation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Materials, Facilities, and Services (Continued)

The Organization has an agreement with the State, under which the State provides theaters 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 theaters and support spaces not designated as common or public areas. No amounts are recorded related to this agreement.

Advance Ticket Sales

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

Sales Taxes Collected

Sales taxes collected and remitted to governmental authorities are excluded from sales and costs and presented on a net basis in the financial statements.

Sales Tax Rebate

In accordance with applicable State Statute, the Organization receives a rebate from the State of a portion of sales tax paid, to be used exclusively for facilities maintenance and improvements. Such rebates are recognized and reported in the statement of activities in the period applicable.

Income Taxes

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

The Organization files a U.S. federal Form 990 for organizations exempt from income tax, and U.S. federal Form 990-T for organizations exempt from income tax with unrelated business income. In addition, the Organization files an income tax return in the State of Tennessee. Tax returns for years prior to fiscal year 2009 are no longer open to examination.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provision income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Program and Supporting Services

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 five distinct programs that provide extended educational services to students and TPAC audiences:

During the 2012 fiscal year, Humanities Outreach in Tennessee (HOT) presented 33 (59 during 2011) professional performances of theater, dance and music for student audiences at TPAC. 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 2011-2012 academic year, 26,484 students and teachers from 205 schools attended HOT Season for Young People performances (30,132 students and teachers from 205 schools during the 2010-2011 academic year).

ArtSmart is a classroom-based instruction program that accompanies the HOT Season for Young People. Through ArtSmart, students arrive at the theatre with an expanded capacity to engage with the performance they are about to see. Specialized training enables educators and Teaching Artists to guide arts-based instruction that challenges young people to imagine, to practice, and to reflect. A total of 6,009 students and teachers participated in ArtSmart in 2011-2012 (6,086 students and teachers in 2010-2011). Twenty-nine schools from Metro Nashville Public Schools received ArtSmart education services at no charge in 2012 (31 schools in 2011).

NOTE 2 - 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. A total of 1,150 children and teachers participated in Wolf Trap in 2011-2012 at no charge (1,099 children and teachers in 2010-2011).

InsideOut is for adults who want to grow in their knowledge and enjoyment of the performing arts. The program offers a series of lunch seminars, performance excerpts, discussions, workshops and sneak previews behind the scenes. A total of 4,222 individuals participated in this program during the year at no charge (3,889 individuals during 2011).

Disney Musicals in Schools ("DMIS") develops a culture of musical theatre performance in Metro Nashville elementary schools. The program introduces the collaborative art of musical theatre, strengthens arts programming and develops partnerships among students, faculty, staff and the greater Nashville community. Participating schools receive (at no cost) a performance license to any Disney KIDS musical, ShowKit materials (including directors guides, student scripts, accompaniment and guide vocal CDs and a choreography DVD), and cross-curricular activities, along with in-school support from a team of two TPAC teaching artists for 15 weeks. In 2011-2012, 305 students and 34 educators from five Metro Nashville Public Schools took part in the first DMIS pilot project outside of NYC, to lay the foundation for expansion in school systems nationwide.

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 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2012 and October 19, 2012, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - PROPERTY AND EQUIPMENT

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

	2012	2011
Lobby improvements	$ 4,925,138	$ 4,925,138
Other improvements	2,146,096	2,082,204
Computers	460,196	390,877
Furniture	332,706	325,865
Equipment	727,505	708,990
Construction in progress	43,942	95,980
	8,635,583	8,529,054
Less accumulated depreciation	(3,522,333)	(3,120,931)
	$ 5,113,250	$ 5,408,123

NOTE 4 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	2012	2011
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 0.6% (0.83% at June 30, 2012; 0.79% at June 30, 2011).	$ 912,824	$ 1,053,258
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% (1.53% at June 30, 2012; 1.49% at June 30, 2011).	233,353	269,253
	$ 1,146,177	$ 1,322,511

NOTE 4 - NOTES PAYABLE (CONTINUED)

The Organization also has a $500,000 operating line of credit with the bank, which bears interest, payable monthly, on the amount borrowed at a variable interest rate based on the BBA LIBOR Daily Floating Rate plus 2.0%. The line of credit matures January 31, 2013, 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, 2012 or 2011.

The loan agreement with Bank of America requires maintenance of a specified debt coverage ratio. The Organization was in compliance with this requirement as of June 30, 2012.

A schedule of annual principal maturities of notes payable as of June 30, 2012, follows:

For the year ending June 30,	
2013	$ 176,335
2014	176,335
2015	176,335
2016	176,335
2017	176,335
Thereafter	264,502
	$ 1,146,177

Total interest expense recognized by the Organization for the year ended June 30, 2012, was $60,143 ($79,483 in 2011). Interest expense is reported in the statement of activities under operating costs and expenses.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

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

	2012	2011
Annual fund contributions receivable	$ 59,026	$ 106,334
Philanthropic sponsorship for future Broadway seasons	40,000	40,000
Contributions and contributions receivable restricted for future years programming and/or fundraising events	143,500	218,600
	$ 242,526	$ 364,934

NOTE 6 - LEASES

The Organization leases certain office equipment and a portion of its office space under non-cancelable operating leases. Total rental expense incurred under all such agreements for the year ended June 30, 2012, amounted to approximately $84,000 ($31,000 in 2011).

During 2009, the Organization acquired ticketing software and equipment under a capital lease, which requires monthly payments of $24,684 through April 2014. This capital lease liability at June 30, 2012 amounted to $508,809 ($760,498 in 2011).

During 2008, the Organization entered into a capital lease for a phone system requiring monthly payments of $2,548 through June 2013. The aggregate cost of assets recorded under both capital leases is included in property and equipment as other improvements and totaled $1,400,474 at June 30, 2012 and June 30, 2011. Accumulated depreciation totaled $368,386 and $213,430 as of June 30, 2012 and 2011, respectively. Depreciation on assets placed in service is included in depreciation expense.

Future minimum lease commitments under all non-cancelable leases in effect as of June 30, 2012, are as follows:

For the year ending June 30,	Operating Leases	Capital Leases
2013	$ 83,400	$ 326,795
2014	83,400	246,846
2015	69,950	-
2016	64,065	-
	$ 300,815	573,641
Less: imputed interest at 1.58% and 6.89%		34,511
Net minimum lease payments		$ 539,130

NOTE 7 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, accounts receivable and contributions and grants. Contributions receivable consist of individual and corporate contribution pledges. Account receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. At June 30, 2012, receivables from three sources totaled approximately $128,000, or 46% of total receivables. At June 30, 2011, receivables from one source amounted to approximately $99,000, or 32% of total receivables.

Grants from one source amounted to approximately $378,000, or 17% of total contribution and grant revenues for the year ended June 30, 2012. Grants from two sources amounted to approximately $281,000, or 21% of total contribution and grant revenues for the year ended June 30, 2011.

The Organization maintains cash accounts at a reputable financial institution whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of June 30, 2012, all depositor accounts of the Organization were fully insured.

NOTE 8 - RELATED PARTY TRANSACTIONS

Legal services for the Organization are provided from time to time by firms where Board members are employed. During the year ended June 30, 2012, approximately $4,100 was paid to these firms and $32,000 in donated services were received from these firms (approximately $14,000 was paid and $30,000 in donated services were received for the year ended June 30, 2011). During the year ended June 30, 2011, approximately $105,000 was paid for telephone service to a company that employed a Board member. This Board member retired from the company and did not sit on the Organization's Board during the year ended June 30, 2012. Additionally, one Board member is employed with the Organization's primary bank, and another Board member is employed by the entity that administers the Organization's 401(k) plan.

The Foundation is responsible for the management of its Board-designated endowment fund that was established to support the operations of the Organization. The Foundation is governed by a separate Board and annually distributes 5% of the trailing five-year average investment value of the fund to the Organization. For the year ended June 30, 2012, the Foundation distributed $626,931 to the Organization ($1,062,900 distributed in 2011), which the Organization recognized as income in the year received.

NOTE 8 - RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2012	2011
Total Assets	$ 15,697,318	$16,627,780
Total Liabilities	19,230	24,658
Net Assets - Unrestricted	$ 15,678,088	$16,603,122
Total Revenues (Expenses):		
Interest, dividends, and capital gain distributions	$ 605,849	$ 377,387
Realized and unrealized (losses) gains	(793,970)	2,837,162
Other income	1,358	3,587
Investment management fees	(86,879)	(102,608)
Endowment distributions to the Organization	(626,931)	(1,062,900)
Management and general expenses	(24,461)	(26,804)
Change in Net Assets	$ (925,034)	$ 2,025,824

Endowment distributions paid to the Organization during the year ended June 30, 2011 includes $207,000, which is the first quarter distribution for fiscal year 2011-12 operations. This amount was reported as temporarily restricted net assets at June 30, 2011, and was released from restriction during the year ended June 30, 2012.

NOTE 9 - DONOR-DESIGNATED ENDOWMENT FUNDS IN TRUST

During 1996, Dr. and Mrs. Thomas Frist established two donor-designated endowment funds with the Community Foundation of Middle Tennessee for the benefit of the Organization and the Institute, respectively. Another donor-designated endowment fund was established with the Community Foundation of Middle Tennessee by Mrs. 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 Organization from these funds, which is recognized by the Organization in the year received, amounted to $3,700 during fiscal year 2012 ($3,300 during fiscal year 2011). Total assets held in these funds amounted to $104,198 at June 30, 2012, and $104,547 at June 30, 2011.

NOTE 10 - EMPLOYEE BENEFIT PLAN

The Organization sponsors the Tennessee Performing Arts Center 401(k) Plan (the "Plan") under Section 401(k) of the Internal Revenue Code. All employees of the Organization are eligible to participate upon reaching age 21 and completing one year (1,000 hours) 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 401(k). The Organization's contributions to the Plan are at the discretion of the Board of Directors with no minimum contributions guaranteed. The Organization made contributions to the Plan of approximately $94,000 for the year ended June 30, 2012 (there were no contributions made for the year ended June 30, 2011).

ADDITIONAL INFORMATION

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

SCHEDULE OF COSTS AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012, WITH COMPARATIVE TOTALS FOR 2011

	OPERATING EXPENSES				
	PROGRAMMING AND PRODUCTION	CONCESSIONS	OPERATIONS	MARKETING	BOX OFFICE
Artist fees	$ 4,805,842	$ -	$ -	$ -	$ -
Contract labor	736,183	-	-	900	-
Marketing - programming	765,649	-	-	16	-
Salaries	68,261	44,169	313,165	422,418	267,954
Wages - full time	22,847	74,153	536,317	-	159,315
Wages - part time	80,928	63,848	51,057	12,202	33,158
Employee related expenses	24,987	29,067	175,467	68,525	92,554
HRA expense	-	-	-	-	-
Bad debt expense	-	-	-	-	-
Cash (over) and short	-	157	-	(130)	4,606
Concessions supplies	-	195,148	-	-	-
Credit card fees	232,952	21,712	-	-	37,514
Custodial	38,450	-	46,643	-	-
Depreciation	-	12,974	231,577	10,857	461
Dues and subscriptions	3,838	-	399	17,391	27,695
Equipment rentals	6,462	-	568	-	-
Fees-ticketing/bank/other	-	-	-	6,004	-
Freight and shipping	-	152	-	-	-
Insurance	455	-	-	-	-
Interest expense	-	-	60,143	-	-
Loss on disposal of equipment	-	-	-	-	-
Gain on other assets	-	-	(2,269)	-	-
Marketing - institution	-	-	12	134,626	1,944
Meals and entertainment	1,362	948	3,588	25,476	1,291
Miscellaneous expense	-	1,161	588	32,236	33,110
Office and computer supplies	-	-	-	14	73
Postage	-	-	-	10,700	14,528
Presenter share	8,395	-	-	-	-
Printing and reproduction	380	415	360	38,698	5,788
Production costs	36,812	-	-	-	-
Promoter profit sharing	-	-	-	-	-
Professional consulting	936	-	3,126	21,589	30,892
Repairs and maintenance	-	2,483	200,298	46,280	6,545
Security	13,781	-	-	-	-
State maintenance expenses	-	-	377,964	-	-
Tech and house supplies	20	361	30,309	-	-
Telephone	1,244	1,269	3,149	3,045	2,565
Transportation grants expense	-	-	-	-	-
Travel - air/hotel/auto	11,657	-	2,997	35,957	1,785
Uniforms and alterations	-	1,233	6,103	-	-
Total costs and expenses for the year ended June 30, 2012	$ 6,861,441	$ 449,250	$ 2,041,561	$ 886,804	$ 721,778
Total costs and expenses for the year ended June 30, 2011	$ 6,068,082	$ 391,521	$ 1,608,428	$ 754,886	$ 649,529

		PROGRAM SERVICES	SUPPORTING SERVICES			TOTALS	
EVENT SERVICES	TOTAL	EDUCATIONAL PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL	2012	2011
$ -	$ 4,805,842	$ 146,848	$ -	$ 4,504	$ 4,504	$ 4,957,194	$ 3,991,892
70	737,153	153,688	-	2,022	2,022	892,863	1,116,611
-	765,665	-	-	-	-	765,665	738,138
194,879	1,310,846	347,030	1,041,191	244,641	1,285,832	2,943,708	2,615,325
22,732	815,364	-	33,317	4,910	38,227	853,591	842,592
255,466	496,659	26,569	3,278	7,283	10,561	533,789	560,379
64,214	454,814	73,871	209,317	35,037	244,354	773,039	619,970
-	-	-	62,596	-	62,596	62,596	58,748
-	-	-	-	2,599	2,599	2,599	1,200
-	4,633	-	-	-	-	4,633	3,637
345	195,493	-	-	-	-	195,493	172,484
-	292,178	247	-	6,728	6,728	299,153	236,651
-	85,093	12,316	-	-	-	97,409	87,261
10,161	266,030	1,757	211,864	632	212,496	480,283	495,766
3,740	53,063	1,722	20,366	3,942	24,308	79,093	68,671
-	7,030	-	33,165	18,862	52,027	59,057	49,053
-	6,004	81	15,307	-	15,307	21,392	11,571
-	152	-	-	-		152	-
-	455	-	92,778	-	92,778	93,233	80,812
-	60,143	-	-	-	-	60,143	79,483
-	-	-	-	-	-	-	433
-	(2,269)	-	-	-	-	(2,269)	(5,136)
7,282	143,864	-	-	324	324	144,188	154,383
1,938	34,603	26,945	5,714	50,567	56,281	117,829	107,818
123	67,218	52,940	38,964	88,044	127,008	247,166	174,822
-	87	67	35,726	-	35,726	35,880	18,417
-	25,228	3,291	10,535	2,462	12,997	41,516	45,012
-	8,395	-	-	-	-	8,395	(4,673)
530	46,171	9,565	8,409	6,749	15,158	70,894	44,049
17,752	54,564	25,822	-	8,962	8,962	89,348	52,738
34,567	34,567	-	-	-	-	34,567	28,641
4,861	61,404	5,842	210,297	400	210,697	277,943	226,971
3,410	259,016	-	41,993	-	41,993	301,009	225,456
53,944	67,725	4,340	-	1,354	1,354	73,419	91,219
-	377,964	-	-	-	-	377,964	57,864
72	30,762	-	7,267	-	7,267	38,029	18,523
7,440	18,712	4,555	89,183	4,700	93,883	117,150	116,326
-	-	3,948	-	-	-	3,948	5,495
2,106	54,502	16,385	21,936	8,138	30,074	100,961	151,491
-	7,336	-	1,166	-	1,166	8,502	2,330
$ 685,632	$ 11,646,466	$ 917,829	$ 2,194,369	$ 502,860	$ 2,697,229	$ 15,261,524	
$ 655,973	$ 10,128,419	$ 827,129	$ 1,960,214	$ 426,661	$ 2,386,875		$ 13,342,423

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 20112

GRANT DESCRIPTION	GRANTOR'S NUMBER	ACCRUED (DEFERRED) REVENUE 6/30/11	7/1/11 - 6/30/12 RECEIPTS	EXPENDITURES	ADJUSTMENT	ACCRUED (DEFERRED) REVENUE 6/30/12
Tennessee Department of Finance and Administration						
State Maintenance Grant	SBC-529/075-01-2008	$ (251)	$ -	$ -	$ -	$ (251)
State Maintenance Grant	SBC-529/075-01-2009	25,100	189,489	168,384	(3,995)	-
State Maintenance Grant	SBC-529/075-01-2010	4,751	176,177	209,580	-	38,154
Total Tennessee Department of Finance and Administration		29,600	365,666	377,964	(3,995)	37,903
Tennessee Arts Commission						
Arts Program Categorical Grants	31625-20038	-	100,000	100,000	-	-
Arts Program Categorical Grants	31625-18495	-	28,400	28,400	-	-
Arts Program Categorical Grants	31625-18380	-	9,000	9,000	-	-
Total Tennessee Arts Commission		-	137,400	137,400	-	-
TOTAL EXPENDITURES OF STATE AWARDS		$ 29,600	$ 503,066	$ 515,364	$ (3,995)	$ 37,903

BASIS OF PRESENTATION

The Schedule of Expenditures of State Awards includes the grant activity of the Tennessee Performing Arts Center Management Corporation and is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting as the financial statements.

OTHER REPORT

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Tennessee Performing Arts Center Management Corporation (the "Organization") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

KraftCPAs PLLC - Certified Public Accountants and Consultants
555 Great Circle Road • Nashville, TN 37228 • Phone 615-242-7351 • Fax 615-782-4271 • www.kraftcpas.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Organization in a separate letter dated October 19, 2012.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the Comptroller of the Treasury, State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Kraft CPAs PLLC

Nashville, Tennessee
October 19, 2012