TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2009

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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, 2009 and 2008, the related statement of activities for the year ended June 30, 2009, and the statements of cash flows for the years ended June 30, 2009 and 2008. 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, 2008 financial statements and, in our report dated November 18, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and, as to the 2009 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 2008 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 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, 2009 and 2008, the changes in its net assets for the year ended June 30, 2009, and its cash flows for the years ended June 30, 2009 and 2008, 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 November 6, 2009, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 the 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, 2009.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kraft CPAs PLLC

Nashville, Tennessee
November 6, 2009

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 7,030,489	$ 3,694,743
Receivables:		
Accounts	318,166	281,793
Contributions, net of allowance - Note 2	91,387	149,777
Prepaid expenses, inventory and other assets	378,553	312,040
Property and equipment, less accumulated depreciation - Note 4	5,349,052	4,678,023
TOTAL ASSETS	$ 13,167,647	$ 9,116,376
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 830,568	$ 654,271
Advance ticket sales	5,555,945	1,713,768
Deposits and other deferred revenue	157,592	225,824
Interest rate swap liability - Note 6	1,809	1,640
Capital lease obligations - Note 10	784,502	146,934
Notes payable - Note 6	1,675,180	1,851,515
TOTAL LIABILITIES	9,005,596	4,593,952
COMMITMENTS AND CONTINGENCIES - Note 10		
NET ASSETS		
Unrestricted:		
Invested in property and equipment, net of related debt	3,230,424	3,056,528
Undesignated	790,590	1,157,382
Total unrestricted	4,021,014	4,213,910
Temporarily restricted - Note 3	141,037	308,514
TOTAL NET ASSETS	4,162,051	4,522,424
TOTAL LIABILITIES AND NET ASSETS	$ 13,167,647	$ 9,116,376

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009 (WITH COMPARATIVE TOTALS FOR 2008)

	Unrestricted	Temporarily Restricted	Totals 2009	Totals 2008
OPERATING REVENUE				
Ticket sales	$ 6,706,932	$ -	$ 6,706,932	$ 6,216,676
Rental income	478,761	-	478,761	515,737
Salary and wage reimbursements	583,530	-	583,530	566,038
Other reimbursements	131,845	-	131,845	129,508
Concession sales	468,395	-	468,395	402,766
Ticketing service charges and fees	1,165,302	-	1,165,302	1,264,866
Consulting income	50,000	-	50,000	50,000
Sponsorships - earned	153,750	-	153,750	217,572
Other income	121,725	-	121,725	107,488
TOTAL OPERATING REVENUE	9,860,240	-	9,860,240	9,470,651
OPERATING COSTS AND EXPENSES				
Programming and production	5,948,300	-	5,948,300	5,189,189
Concessions	347,027	-	347,027	336,475
Operations	1,962,594	-	1,962,594	1,740,187
Marketing	822,214	-	822,214	743,409
Box office	528,905	-	528,905	490,330
Event services	676,797	-	676,797	606,785
TOTAL OPERATING COSTS AND EXPENSES	10,285,837	-	10,285,837	9,106,375
INCOME (LOSS) FROM OPERATIONS	(425,597)	-	(425,597)	364,276
PUBLIC SUPPORT AND OTHER REVENUES				
Contributions	1,205,296	98,814	1,304,110	1,283,817
Sponsorships - philanthropic	-	42,500	42,500	100,000
Grants	719,394	-	719,394	520,177
Income from Foundation - Note 9	943,385	-	943,385	945,787
Loss on disposal of equipment	-	-	-	(1,540)
Interest income	7,498	-	7,498	104,614
Net assets released from restrictions	308,791	(308,791)	-	-
TOTAL PUBLIC SUPPORT AND OTHER REVENUES	3,184,364	(167,477)	3,016,887	2,952,855
FUNCTIONAL EXPENSES				
Program services:				
Educational programs	850,339	-	850,339	898,489
Supporting services:				
Management and general	1,506,997	-	1,506,997	1,222,600
Fundraising	594,327	-	594,327	532,174
Total Supporting services	2,101,324	-	2,101,324	1,754,774
TOTAL FUNCTIONAL EXPENSES	2,951,663	-	2,951,663	2,653,263
CHANGE IN NET ASSETS	(192,896)	(167,477)	(360,373)	663,868
NET ASSETS - BEGINNING OF YEAR	4,213,910	308,514	4,522,424	3,858,556
NET ASSETS - END OF YEAR	$ 4,021,014	$ 141,037	$ 4,162,051	$ 4,522,424

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING ACTIVITIES		
Change in net assets	$ (360,373)	$ 663,868
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	347,549	301,110
Noncash contribution of vehicle	-	(40,059)
Loss on disposal of equipment	-	1,540
Loss on derivative financial instrument	169	1,605
(Increase) decrease in:		
Accounts receivable	(36,373)	(34,971)
Contributions receivable	58,390	(64,460)
Prepaid expenses, inventory and other assets	(66,513)	(76,291)
Increase (decrease) in:		
Accounts payable and accrued expenses	146,061	86,224
Advance ticket sales	3,842,177	(656,882)
Deposits and other deferred revenue	(68,232)	(1,714)
TOTAL ADJUSTMENTS	4,223,228	(483,898)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,862,855	179,970
INVESTING ACTIVITIES		
Purchases of equipment	(794,177)	(185,949)
NET CASH USED IN INVESTING ACTIVITIES	(794,177)	(185,949)
FINANCING ACTIVITIES		
Repayment of notes payable	(176,335)	(176,335)
Proceeds from draws under capital lease arrangement	535,209	-
Repayment of capital lease obligations	(91,806)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	267,068	(176,335)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,335,746	(182,314)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,694,743	3,877,057
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 7,030,489	$ 3,694,743
OTHER CASH FLOW DISCLOSURES:		
Interest paid during the year	$ 62,986	$ 103,825
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Assets acquired under capital lease	$ 194,165	$ 146,934
Accounts payable for ticketing software and equipment installation in progress	$ 30,236	$ -

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

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

Basis of Presentation

The 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.

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, 2009 or 2008.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

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

The Organization reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents

Cash and cash equivalents 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2009 and 2008 totaled approximately $1,091,000 and $895,000, respectively.

Property and Equipment and Depreciation

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

Donated Materials, Facilities, and Services

Significant materials, facilities, and services are donated to the Organization by various individuals and organizations. Donated materials and facilities, which amounted to $384,121 in 2009 ($323,403 in 2008), are recorded as revenue and expenses at their estimated fair value at the date of donation. The Organization has an agreement with the State, under which the State provides theatres and support spaces to the Organization, and the Organization provides enhanced cultural, theatrical and educational opportunities to Tennessee residents. The space provided by the State includes performance halls, all backstage areas, dressing rooms, rehearsal and shop spaces, box office and administrative areas. In addition, the State is responsible for the supply and purchase of utilities, security services, and major repairs related to the space. The State also provides janitorial services for the common or public areas, with the Organization responsible for all janitorial services within the theatres and support spaces not designated as common or public areas.

Advance Ticket Sales

Ticket sale revenues (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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Derivatives

The Organization utilizes a derivative financial instrument to manage its interest rate exposure by reducing the impact of fluctuating interest rates on its debt service requirements. Derivatives are recognized as either assets or liabilities in the statement of financial position at estimated 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

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

Program Services

TPAC maintains high standards for programming and education activities that benefit the entire community. In addition to offering a diverse season of culturally engaging performances by local and national artists, TPAC provides four distinct programs that provide extended educational services to students and TPAC audiences:

During the 2009 fiscal year, Humanities Outreach in Tennessee (HOT) presented 42 professional performances (51 performances during 2008) of theater, dance and music for student audiences at TPAC in addition to one in-school tour and one off-site show. 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 2008 - 2009 academic year, 28,622 students and teachers from 220 schools attended HOT Season for Young People performances (33,423 students and teachers from 194 schools during the 2007 - 2008 academic year).

ArtSmart is a classroom-based instruction program that accompanies the HOT Season for Young People. Through ArtSmart, students arrive at the theatre with an expanded capacity to engage with the performance they are about to see. Specialized training enables educators and Teaching Artists to guide arts-based instruction that challenges young people to imagine, to practice, and to reflect. A total of 5,949 students and teachers participated in ArtSmart in 2008 - 2009 (5,274 students and teachers in 2007 - 2008). All 27 schools from Davidson County received ArtSmart education services at no charge in 2009 (26 schools in 2008).

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 1,026 children and teachers participated in Wolf Trap in 2008 - 2009 at no charge (1,014 children and teachers in 2007 - 2008).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Services (Continued)

InsideOut is for adults who want to grow in their knowledge and enjoyment of the performing arts. The program offers a series of lunch seminars, performance excerpts, discussions, workshops and sneak previews behind the scenes. A total of 2,959 individuals participated in this program during the year at no charge (2,863 individuals during 2008).

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.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2009 and November 6, 2009, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent 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.* 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 positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption. In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected this deferral and, accordingly, will be required to adopt FIN 48 in its June 30, 2010 annual financial statements. Prior to adopting FIN 48, the Organization will continue to evaluate uncertain tax positions and related income tax contingencies under Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies*. SFAS No. 5 requires annual accrual for losses that are considered probable and can be reasonably estimated, or disclosure for losses that are considered reasonably possible and/or cannot be reasonably estimated.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Organization adopted SFAS No. 157 for the fiscal year beginning July 1, 2008, except for such nonfinancial assets and liabilities, for which delayed application is permitted until fiscal years beginning after November 15, 2008.

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

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	2009	2008
Unrestricted	$ 350	$ 4,000
Temporarily restricted	91,037	146,054
	91,387	150,054
Less discount to net present value	-	(277)
Total	$ 91,387	$ 149,777

All contributions receivable were due within one year as of June 30, 2009.

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

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

	2009	2008
Education programs	$ -	$ 24,770
Annual fund	91,037	116,055
Philanthropic sponsorship for future Broadway seasons	42,500	100,000
Contributions restricted for future years programming and/or fundraising events	7,500	67,689
	$ 141,037	$ 308,514

NOTE 4 - PROPERTY AND EQUIPMENT

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

	2009	2008
Lobby improvements	$ 4,857,272	$ 4,857,272
Other improvements	971,127	958,888
Ticketing software and equipment installation in progress	796,550	-
Computers	379,014	333,083
Furniture	299,764	285,615
Equipment	575,308	474,406
	7,879,035	6,909,264
Less accumulated depreciation	(2,529,983)	(2,231,241)
	$ 5,349,052	$ 4,678,023

Total depreciation expense for 2009 amounted to $347,549 (2008 - $301,110). Property and equipment include fully depreciated items with original costs totaling approximately $1,080,000 as of June 30, 2009 ($998,000 as of June 30, 2008).

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, and various contributions, grants and accounts receivable. Contributions receivable consist of individual and corporate contribution pledges. Grant and account receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. At June 30, 2009, receivables from one source totaled approximately $170,000, or 42% of total receivables. At June 30, 2008, receivables from two sources amounted to approximately $222,000, or 51% of total receivables.

Combined grants from one source amounted to $398,447, or 20% of total contribution and grant revenues for the year ended June 30, 2009 ($198,802, or 11% of total contribution and grant revenues for the year ended June 30, 2008).

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. The Emergency Economic Stabilization Act of 2008 temporarily increased FDIC coverage from $100,000 to $250,000 per depositor through December 31, 2009. On May 20, 2009 the Helping Families Save Their Homes Act extended the temporary increase in FDIC coverage through December 31, 2013. On October 14, 2008, the FDIC announced the "Temporary Liquidity Guarantee Program." Under the program, all non-interest bearing funds held by qualifying financial institutions for the period October 14, 2008 through December 31, 2009 are fully insured. As of June 30, 2009, all depositor accounts of the Organization were fully insured.

NOTE 6 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

		2009	2008
Note payable to Bank of America for renovations to the theatre lobby area, requiring monthly principal payments of $11,703 plus accrued interest. All unpaid principal and interest are due December 1, 2018. Interest is charged at a variable rate based on the 30-day LIBOR fixed rate plus .6% (0.92% at June 30, 2009; 3.06% at June 30, 2008).	(1)	$ 1,334,126	$ 1,474,561
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% (1.62% at June 30, 2009; 3.76% at June 30, 2008).		341,054	376,954
		$ 1,675,180	$ 1,851,515

(1) In connection with this note, the Organization entered into an interest rate swap agreement to lessen interest rate exposure. The agreement creates a minimum LIBOR rate of 2.9% and a maximum of 7.9%. Therefore, the effective rate will float, to the extent LIBOR resets itself, between 3.5% and 8.5%. The interest rate swap is applicable to an original notional amount of $2,500,000 at February 1, 2003, which reduces by a monthly amount of $30,120 through February 1, 2010. A liability of $1,809, equal to the fair value of the swap agreement, has been recognized in the statement of financial position at June 30, 2009 ($1,640 at June 30, 2008), and the related loss on hedging activity, which amounted to $169 for the year ended June 30, 2009 ($1,605 for the year ended June 30, 2008), is recognized in the cost of operations. The interest rate swap is reported at fair value utilizing Level 2 inputs, as defined by SFAS No. 157. The Organization obtains bank quotations to value its interest rate swap.

The Organization also has a $500,000 operating line of credit with the bank. The line is evidenced by a promissory note and bears interest, payable monthly, on the amount borrowed at a variable interest rate based on the 30-day LIBOR fixed rate plus 2.5%. The line of credit matures April 1, 2010, 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, 2009 or 2008.

The loan agreement with Bank of America requires maintenance of a specified debt service coverage ratio. The Organization was not in compliance with this requirement as of June 30, 2009, as to which the bank granted a waiver. Subsequent to year end, the agreement was amended to reduce the covenant requirement to a less stringent standard, with which the Organization was in compliance.

NOTE 6 - NOTES PAYABLE (CONTINUED)

A schedule of annual principal maturities of notes payable as of June 30, 2009, follows:

For the year ending June 30,	
2010	$ 176,335
2011	176,335
2012	176,335
2013	176,335
2014	176,335
Thereafter	793,505
	$ 1,675,180

Total interest expense recognized by the Organization for the year ended June 30, 2009, was $62,986 ($103,825 in 2008). Interest expense is reported in the statement of activities under operating costs and expenses.

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Organization sponsors the Tennessee Performing Arts Center Defined Contribution Retirement Plan (the "Plan") under Section 403(b) of the Internal Revenue Code. All full-time employees of the Organization are eligible to participate upon reaching age 19 and completing 90 days of qualified service, as defined in the Plan. Eligible employees may elect to defer a portion of their compensation through the Plan, not to exceed the allowable amount under Section 403(b). The Organization's contributions to the Plan are at the discretion of the Board of Directors with no minimum contributions guaranteed. The Board approved a 1% match plus a 5% discretionary contribution in 2009 and 2008, and the Organization made contributions to the Plan of approximately $183,000 and $152,000 for the years ended June 30, 2009 and 2008, respectively.

NOTE 8 - DONOR-DESIGNATED ENDOWMENT FUNDS IN TRUST

During 1996, Dr. and Mrs. Thomas Frist established two donor-designated endowment funds with the Community Foundation of Middle Tennessee for the benefit of the Organization and the Institute, respectively. Another donor-designated endowment fund was established with the Community Foundation of Middle Tennessee by 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 $5,900 during fiscal year 2009 ($5,700 during fiscal year 2008). Total assets held in these funds amounted to $82,624 at June 30, 2009, and $129,885 at June 30, 2008.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Organization contracts with a company, that employs one of the Organization's Board members, for parking and related services, for which the Organization's employees and patrons pay directly. Telephone service for the Organization is provided by a company that employs another Board member. During the year ended June 30, 2009, approximately $61,000 was paid to this company (approximately $201,000 for the year ended June 30, 2008, which included the Organization's telephone system, as well as telephone service). Additionally, one Board member is employed with the Organization's primary bank, and a Board member is employed by a company to which the Organization pays music license fees.

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, 2009, the Foundation distributed $943,385 to the Organization ($945,787 distributed in 2008), which the Organization recognized as income in the year received.

NOTE 9 - RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2009	2008
Total Assets	$ 13,811,366	$18,307,237
Total Liabilities	22,340	26,312
Net Assets - Unrestricted	$ 13,789,026	$18,280,925
Total Revenues (Expenses):		
Interest, dividends, and capital gain distributions	$ 481,216	$ 948,809
Realized and unrealized losses	(3,913,027)	(2,212,166)
Other income	446	4,037
Investment management fees	(92,746)	(132,330)
Grants to the Organization	(943,385)	(945,787)
Management and general expenses	(24,403)	(32,811)
Change in Net Assets	$ (4,491,899)	$ (2,370,248)

NOTE 10 - LEASES

The Organization leases certain office equipment and a portion of its office space under non-cancelable operating leases. Total rental expense incurred under all such agreements for the year ended June 30, 2009, amounted to approximately $90,000 ($94,700 in 2008). Subsequent to June 30, 2009, the Organization entered into a new lease agreement to replace an expiring office equipment lease. Future commitments under the new lease are reflected in the schedule below.

On April 1, 2009, the Organization purchased certain new ticketing software and equipment and financed the acquisition through a lender under an arrangement structured as a capital lease. The lease allows the Organization to draw up to $1,250,000 for the project and requires monthly payments of $24,684 beginning May 4, 2009, until the outstanding balance is repaid. At June 30, 2009, the balance of draws, net of repayments, amounted to $666,035. The project is still ongoing and has not been placed in service. The Organization anticipates drawing the full balance available under the arrangement.

NOTE 10 - LEASES (CONTINUED)

During 2008, the Organization entered into a capital lease for a phone system. Monthly payments of $2,548 are required through June 2013. The aggregate cost of assets recorded under both capital leases is included in property and equipment and totaled $943,484 at June 30, 2009 ($146,934 at June 30, 2008). 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, 2009, are as follows:

For the year ending June 30,	Operating Leases	Capital Leases
2010	$ 24,331	$ 326,795
2011	16,140	326,795
2012	16,140	277,426
2013	16,140	30,580
2014	16,140	-
Thereafter	2,690	-
	$ 91,581	961,596
Less: imputed interest at 1.58% and 7.56%		177,094
Net minimum lease payments		$ 784,502

The above future minimum lease commitment schedule for capital leases includes only the future payments required for draws taken by the Organization through June 30, 2009, under the financing arrangement entered into for the new ticketing software and equipment.

ADDITIONAL INFORMATION

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

SCHEDULE OF COSTS AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2009, WITH COMPARATIVE TOTALS FOR 2008

		OPERATING EXPENSES			
	PROGRAMMING AND PRODUCTION	CONCESSIONS	OPERATIONS	MARKETING	BOX OFFICE
Artist fees	$ 4,060,742	$ -	$ -	$ -	$ -
Contract labor	534,594	-	-	100	-
Marketing - programming	890,185	-	-	41	-
Salaries	42,914	50,628	328,640	390,750	183,186
Wages - full time	-	45,429	524,528	24,349	148,117
Wages - part time	76,136	50,695	47,544	9,925	52,111
Employee related expenses	16,606	29,022	223,393	100,084	89,922
Bad debt expense	-	-	-	-	-
Cash (over) and short	-	386	-	-	(808)
Concessions supplies	-	155,636	-	-	-
Credit card fees	177,222	7,749	-	-	-
Custodial	42,490	-	31,957	-	-
Depreciation	-	5,798	198,573	20,843	1,115
Dues and subscriptions	1,784	-	5,962	7,140	6,052
Equipment rentals	4,558	-	419	-	-
Fees-ticketing/bank/other	-	-	-	6,253	5,590
Freight and shipping	-	-	16	-	-
Insurance	753	-	-	-	-
Interest expense	-	-	62,986	-	-
Loss on derivative financial instrument	-	-	169	-	-
Marketing - institution	-	-	-	177,465	411
Meals and entertainment	6,780	125	2,370	7,023	898
Miscellaneous expense	-	130	766	3,305	28,739
Office and computer supplies	-	-	-	-	155
Postage	13	11	-	11,013	-
Presenter share	2,352	-	-	-	-
Printing and reproduction	251	-	296	33,607	248
Production costs	71,626	-	-	-	-
Professional consulting	-	-	2,932	7,618	4,275
Repairs and maintenance	-	1,128	112,332	163	-
Security	14,047	-	-	-	-
State maintenance expenses	-	-	398,447	-	-
Tech and house supplies	-	124	11,277	-	-
Telephone	1,244	166	4,067	3,422	3,627
Transportation grants expense	-	-	-	-	-
Travel - air/hotel/auto	4,003	-	5,565	19,113	5,267
TRT	-	-	-	-	-
Uniforms and alterations	-	-	355	-	-
Total costs and expenses for the year ended June 30, 2009	$ 5,948,300	$ 347,027	$ 1,962,594	$ 822,214	$ 528,905
Total costs and expenses for the year ended June 30, 2008	$ 5,189,189	$ 336,475	$ 1,740,187	$ 743,409	$ 490,330

		PROGRAM SERVICES	SUPPORTING SERVICES				
EVENT SERVICES	TOTAL	EDUCATIONAL PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL	TOTALS 2009	2008
$ -	$ 4,060,742	$ 205,320	$ -	$ 26,825	$ 26,825	$ 4,292,887	$ 3,498,805
120	534,814	109,151	-	-	-	643,965	770,168
-	890,226	14,833	-	-	-	905,059	777,344
203,776	1,199,894	277,487	748,169	201,721	949,890	2,427,271	2,184,218
23,289	765,712	-	32,260	16,751	49,011	814,723	799,720
243,326	479,737	31,962	2,330	9,011	11,341	523,040	524,718
78,862	537,889	66,566	205,690	51,038	256,728	861,183	747,375
14,592	14,592	-	-	8,894	8,894	23,486	1,654
-	(422)	-	-	-	-	(422)	489
-	155,636	-	-	-	-	155,636	148,716
27,923	212,894	136	-	5,796	5,796	218,826	208,206
-	74,447	13,480	-	-	-	87,927	92,010
7,905	234,234	6,694	97,666	8,955	106,621	347,549	301,110
1,176	22,114	900	26,129	3,030	29,159	52,173	39,665
-	4,977	-	39,593	20,600	60,193	65,170	63,270
-	11,843	-	3,734	-	3,734	15,577	16,851
-	16	-	-	-	-	16	16
-	753	-	87,892	-	87,892	88,645	82,862
-	62,986	-	-	-	-	62,986	103,825
-	169	-	-	-	-	169	1,605
7,703	185,579	-	-	824	824	186,403	117,862
1,673	18,869	5,717	5,409	84,300	89,709	114,295	101,582
108	33,048	37,192	15,138	91,089	106,227	176,467	182,050
-	155	8	13,224	-	13,224	13,387	33,303
-	11,037	3,518	12,511	2,584	15,095	29,650	30,716
-	2,352	-	-	-	-	2,352	14,997
-	34,402	11,249	1,777	15,005	16,782	62,433	69,000
3,825	75,451	17,795	-	8,532	8,532	101,778	180,595
-	14,825	5,899	123,315	-	123,315	144,039	131,336
4,062	117,685	-	9,192	7,827	17,019	134,704	61,342
53,409	67,456	5,136	-	2,195	2,195	74,787	68,424
-	398,447	-	-	-	-	398,447	161,035
40	11,441	314	1,726	314	2,040	13,795	24,961
2,712	15,238	4,550	58,695	4,504	63,199	82,987	80,174
-	-	6,372	-	-	-	6,372	6,225
2,296	36,244	26,060	22,547	24,532	47,079	109,383	130,175
-	-	-	-	-	-	-	1,491
-	355	-	-	-	-	355	1,743
$ 676,797	$ 10,285,837	$ 850,339	$ 1,506,997	$ 594,327	$ 2,101,324	$ 13,237,500	
$ 606,785	$ 9,106,375	$ 898,489	$ 1,222,600	$ 532,174	$ 1,754,774		$ 11,759,638

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

GRANT DESCRIPTION	GRANTOR'S NUMBER	ACCRUED (DEFERRED) REVENUE 6/30/08	7/1/08 - 6/30/09 RECEIPTS	7/1/08 - 6/30/09 EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/09
Tennessee Department of Finance and Administration					
State Maintenance Grant	BC7625	$ 48,341	$ 48,341	$ -	$ -
State Maintenance Grant	BC7885	94,571	228,348	134,942	1,165
State Maintenance Grant	BC8153	-	251,643	260,029	8,386
State Maintenance Grant	BC8200	-	-	3,476	3,476
Total Tennessee Department of Finance and Administration		142,912	528,332	398,447	13,027
Tennessee Arts Commission					
Tennessee Arts Commission	Z09215766	-	-	9,000	9,000
Tennessee Arts Commission	GR0926501	-	100,000	100,000	-
Tennessee Arts Commission	Z09215947	-	34,000	34,000	-
Tennessee Arts Commission	Z09215025	-	2,890	2,890	-
Total Tennessee Arts Commission		-	136,890	145,890	9,000
TOTAL EXPENDITURES OF STATE AWARDS		$ 142,912	$ 665,222	$ 544,337	$ 22,027

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 basic 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, 2009, and have issued our report thereon dated November 6, 2009. 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

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 above.

KraftCPAs PLLC - Certified Public Accountants and Consultants
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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 other matters that we reported to management of the Organization in a separate letter dated November 6, 2009.

This report is intended solely for the information and use of management, the Board of Directors, and 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 those specified parties.

KraftCPAs PLLC

Nashville, Tennessee
November 6, 2009