TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2016 AND 2015

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NASHVILLE, TENNESSEE

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JUNE 30, 2016 AND 2015

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KraftCPAs PLLC

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Tennessee Performing Arts Center Management Corporation (the "Organization"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

REPORT ON SUPPLEMENTARY INFORMATION

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on page 21 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 as a whole.

Kraft CPAs PLLC

Nashville, Tennessee
November 9, 2016

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 7,709,522	$ 6,649,237
Receivables:		
Accounts	298,254	249,103
Contributions	236,880	208,257
Prepaid expenses, inventory and other assets	424,009	392,065
Investments	206,810	163,520
Property and equipment, less accumulated depreciation	4,930,043	4,520,636
TOTAL ASSETS	$ 13,805,518	$ 12,182,818
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 1,197,891	$ 867,686
Advance ticket sales	3,165,764	3,301,937
Deposits and other	198,821	260,164
Capital lease obligation	312,292	-
Notes payable	638,697	730,140
TOTAL LIABILITIES	5,513,465	5,159,927
NET ASSETS		
Unrestricted:		
Invested in property and equipment, net of related debt	4,068,805	3,916,147
Undesignated	3,811,892	2,718,437
Total unrestricted	7,880,697	6,634,584
Temporarily restricted	411,356	388,307
TOTAL NET ASSETS	8,292,053	7,022,891
TOTAL LIABILITIES AND NET ASSETS	$ 13,805,518	$ 12,182,818

See accompanying notes to financial statements.

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016		
	Unrestricted	Temporarily Restricted	Totals
OPERATING REVENUE			
Ticket sales	$ 10,195,324	$ -	$ 10,195,324
Rental income	743,667	-	743,667
Salary and wage reimbursements	806,291	-	806,291
Other reimbursements	363,491	-	363,491
Concession sales	1,276,943	-	1,276,943
Ticketing service charges and fees	3,235,646	-	3,235,646
Sponsorships - earned	135,646	-	135,646
Sales tax rebate	772,464	-	772,464
Other income	172,511	-	172,511
TOTAL OPERATING REVENUE	17,701,983	-	17,701,983
OPERATING COSTS AND EXPENSES			
Programming and production	9,642,379	-	9,642,379
Food and beverage	709,737	-	709,737
Operations	2,208,701	-	2,208,701
Marketing	1,409,816	-	1,409,816
Box office	1,022,998	-	1,022,998
Event services	730,473	-	730,473
TOTAL OPERATING COSTS AND EXPENSES	15,724,104	-	15,724,104
INCOME FROM OPERATIONS	1,977,879	-	1,977,879
PUBLIC SUPPORT AND OTHER REVENUES			
Contributions	1,864,954	346,355	2,211,309
Sponsorships - philanthropic	-	65,000	65,000
Grants	546,000	-	546,000
Income from Foundation	831,033	-	831,033
Loss on investments	(3,060)	-	(3,060)
Interest income	58	-	58
Net assets released from restrictions	388,306	(388,306)	-
TOTAL PUBLIC SUPPORT AND OTHER REVENUES	3,627,291	23,049	3,650,340
FUNCTIONAL EXPENSES			
Program services:			
Educational programs	979,445	-	979,445
Supporting services:			
Management and general	2,776,223	-	2,776,223
Fundraising	603,389	-	603,389
Total supporting services	3,379,612	-	3,379,612
TOTAL FUNCTIONAL EXPENSES	4,359,057	-	4,359,057
CHANGE IN NET ASSETS	1,246,113	23,049	1,269,162
NET ASSETS - BEGINNING OF YEAR	6,634,584	388,307	7,022,891
NET ASSETS - END OF YEAR	$ 7,880,697	$ 411,356	$ 8,292,053

See accompanying notes to financial statements.

	2015	
Unrestricted	Temporarily Restricted	Totals
$ 7,684,677	$ -	$ 7,684,677
604,520	-	604,520
666,793	-	666,793
298,683	-	298,683
960,186	-	960,186
2,302,523	-	2,302,523
183,732	-	183,732
598,068	-	598,068
146,008	-	146,008
13,445,190	-	13,445,190
7,224,337	-	7,224,337
617,570	-	617,570
2,278,139	-	2,278,139
1,264,278	-	1,264,278
885,145	-	885,145
717,404	-	717,404
12,986,873	-	12,986,873
458,317	-	458,317
1,648,130	323,307	1,971,437
-	65,000	65,000
921,295	-	921,295
808,595	-	808,595
(5,434)	-	(5,434)
43	-	43
320,588	(320,588)	-
3,693,217	67,719	3,760,936
888,425	-	888,425
2,506,649	-	2,506,649
636,677	-	636,677
3,143,326	-	3,143,326
4,031,751	-	4,031,751
119,783	67,719	187,502
6,514,801	320,588	6,835,389
$ 6,634,584	$ 388,307	$ 7,022,891

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING ACTIVITIES		
Change in net assets	$ 1,269,162	$ 187,502
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	504,406	485,016
Investments distributed under deferred compensation plan	-	163,290
Loss on disposal of equipment	3,910	3,716
Loss on investments	3,060	5,434
(Increase) decrease in:		
Accounts receivable	(49,151)	140,647
Contributions receivable	(28,623)	(56,910)
Prepaid expenses, inventory and other assets	(31,944)	(51,611)
Increase (decrease) in:		
Accounts payable and accrued expenses	330,205	(316,017)
Advance ticket sales	(136,173)	318,824
Deposits and other	(61,343)	167,428
TOTAL ADJUSTMENTS	534,347	859,817
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,803,509	1,047,319
INVESTING ACTIVITIES		
Purchases of equipment	(496,038)	(195,615)
Purchase of investments	(46,350)	(45,000)
NET CASH USED IN INVESTING ACTIVITIES	(542,388)	(240,615)
FINANCING ACTIVITIES		
Proceeds from long-term borrowing	-	128,806
Repayment of notes payable	(200,836)	(192,173)
NET CASH USED IN FINANCING ACTIVITIES	(200,836)	(63,367)
INCREASE IN CASH AND CASH EQUIVALENTS	1,060,285	743,337
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	6,649,237	5,905,900
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 7,709,522	$ 6,649,237
OTHER CASH FLOW DISCLOSURES:		
Interest paid during the year	$ 9,337	$ 9,727
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Equipment financed by capital lease	$ 312,292	$ -
Equipment financed by note payable	$ 109,393	$ -

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.

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, 2016 or 2015.

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 consist of demand deposits with banks except for cash and cash equivalents held in brokerage accounts, which are included in investments.

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. At June 30, 2016 and 2015, contributions receivable are deemed to be fully collectible by management, and no allowance for uncollectible contributions is considered necessary. All contributions receivable at June 30, 2016 and 2015 are due within one year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016 and 2015.

Prepaid Expenses, Inventory and Other Assets

Prepaid expenses, inventory, and other assets consist primarily of certain marketing and promotional costs and food and beverage supplies pertaining to the following theatre 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, 2016 and 2015 totaled approximately $1,824,000 and $1,509,000, 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 $1,000 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.

Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value

The Organization classified its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available) and Level 3 (valued based on significant unobservable inputs). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Investments — Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid securities and certain other products, such as mutual funds. If quoted market prices are not available then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and are classified within Level 2 of the valuation hierarchy.

There have been no changes in the valuation methodologies used at June 30, 2016 and 2015.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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 $1,120,231 in 2016 ($796,838 in 2015), 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 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services - Functional Allocation

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

Program Services

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

During the 2016 fiscal year, Humanities Outreach in Tennessee (HOT) presented 51 (56 during 2015) 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 2015-2016 academic year, 21,392 students and teachers from 212 school groups attended HOT Season for Young People performances (20,003 students and teachers from 206 school groups during the 2014-2015 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, practice, and reflect. A total of 3,764 students and teachers participated in ArtSmart in 2015-2016 (3,901 students and teachers in 2014-2015). 37 schools received ArtSmart education services at no charge in 2016 (36 schools in 2015).

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 1,262 children and teachers participated in Wolf Trap in 2015-2016 at no charge to them (1,171 children and teachers in 2014-2015).

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 3,521 individuals participated in this program during 2016 at no charge (3,753 individuals during 2015).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Services (Continued)

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; 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 vocal CDs and a choreography DVD, cross-curricular activities; and in-school support from teams of two TPAC teaching artists for 15 weeks. In 2015-2016, 1,413 students and 223 educators from 23 Metro Nashville Public Schools took part in the DMIS program (1,188 students and 189 educators from 20 MNPS schools took in 2014-15.)

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In May 2014, the FASB issued guidance on revenue from contracts with customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In July 2015, the FASB issued guidance that requires entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost or net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This ASU will be effective for fiscal years beginning after December 15, 2016. Early adoption of the ASU is permitted. The Organization adopted this guidance of the standard during 2016. It did not have a material impact on the Organization's financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact of our pending adoption of the new standard on our financial statements.

Reclassifications

Certain reclassifications have been made in the 2015 financial statements to conform to the 2016 presentation. These reclassifications had no effect on the change in net assets previously reported.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2016 and November 9, 2016, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - INVESTMENTS

Investments consisted of the following as of June 30:

	2016	2015
Cash and cash equivalents	$ 71,968	$ 44,618
Equity securities	120,074	105,054
Fixed income securities	14,768	13,848
	$ 206,810	$ 163,520

NOTE 4 - FAIR VALUE MEASUREMENTS

The following table sets forth the Organization's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30:

	2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities:				
Large growth	$ 11,787	$ -	$ -	$ 11,787
Mid blend	15,693	-	-	15,693
Large blend	92,594	-	-	92,594
Total equity securities	120,074	-	-	120,074
Fixed income securities:				
World bond	14,768	-	-	14,768
Total fixed income securities	14,768	-	-	14,768
	$ 134,842	$ -	$ -	$ 134,842

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2015			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities:				
Large growth	$ 13,211	$ -	$ -	$ 13,211
Mid blend	16,813	-	-	16,813
Large blend	75,030	-	-	75,030
Total equity securities	105,054	-	-	105,054
Fixed income securities:				
World bond	13,848	-	-	13,848
Total fixed income securities	13,848	-	-	13,848
	$ 118,902	$ -	$ -	$ 118,902

NOTE 5 - PROPERTY AND EQUIPMENT

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

	2016	2015
Lobby improvements	$ 4,925,138	$ 4,925,138
Other improvements	2,407,529	2,382,708
Computers	459,050	492,604
Furniture	487,935	345,864
Equipment	730,454	765,060
Assets not yet in service	491,424	16,222
	9,501,530	8,927,596
Less accumulated depreciation	(4,571,487)	(4,406,960)
	$ 4,930,043	$ 4,520,636

At June 30, 2016, assets not yet in service includes equipment for which a note payable and a capital lease were entered into prior to yearend. The equipment was received subsequent to year end and placed in service. The cost to complete assets not yet in service was approximately $15,000.

NOTE 6 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	2016	2015
Note payable to Bank of America for renovations to the theater 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% (1.06% at June 30, 2016).	$ 351,086	$ 491,522
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% (1.76% at June 30, 2016).	89,751	125,651
Note payable to Bank of America for phone system, requiring monthly principal and interest payments of $2,353. All unpaid principal and interest are due on October 5, 2019. Interest is charged at a per annum rate equal to 3.67%.	88,467	112,967
Note payable to First Foundation Bank for lighting equipment, requiring monthly principal and interest payments of $2,129. All unpaid principal and interest are due August 2021. Interest is charged at a per annum rate equal to 6%.	109,393	-
	$ 638,697	$ 730,140

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 November 1, 2017, 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, 2016 or 2015.

NOTE 6 - NOTES PAYABLE (CONTINUED)

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, 2016.

A schedule of annual principal maturities of notes payable as of June 30, 2016, follows:

For the year ending June 30,	
2017	$ 217,136
2018	223,171
2019	137,250
2020	32,415
2021	24,495
Thereafter	4,230
	$ 638,697

Total interest expense recognized by the Organization for the year ended June 30, 2016, was $9,337 ($9,727 in 2015). Interest expense is reported in the statement of activities under operating costs and expenses and management and general functional expenses.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Annual fund contributions receivable	$ 172,905	$ 118,607
Philanthropic sponsorship for future Broadway seasons	65,000	65,000
Contributions and contributions receivable restricted for future years programming and/or fundraising events	173,451	204,700
	$ 411,356	$ 388,307

NOTE 8 - LEASES

The Organization leases certain office equipment and a portion of its office space under non-cancelable operating leases. The terms of the office space lease allow for the Organization to cancel its lease with a 180 day notice any time after June 30, 2016. The Organization makes monthly lease payments of $5,250 for the use of the office space. Total rental expense incurred under all such agreements for the year ended June 30, 2016, amounted to approximately $102,000 ($101,000 in 2015).

NOTE 8 - LEASES (CONTINUED)

During 2016, the Organization entered into a capital lease for sound equipment, which requires monthly payments of $5,871 through August 2021. The leased asset had not been placed in service at June 30, 2016, and therefore is not being depreciated, however, the cost of the equipment is included in property and equipment in the amount of $312,292.

Future minimum lease commitments under all non-cancelable leases in effect as of June 30, 2016, are as follows:

For the year ending June 30,	Operating Leases	Capital Lease
2017	$ 25,752	$ 58,706
2018	25,752	70,447
2019	25,752	70,447
2020	2,874	70,447
2021	-	70,447
Thereafter	-	11,742
	$ 80,130	352,236
Less: imputed interest at 4.62%		(39,944)
Net minimum lease payments		$ 312,292

NOTE 9 - 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, 2016, receivables from one source totaled approximately $176,000, or 33% of total receivables. At June 30, 2015, receivables from two sources amounted to approximately $131,000, or 29% of total receivables.

There was in-kind contribution revenue from two sources totaling $688,300 for the year ended June 30, 2016. There was grant revenue from one source totaling approximately $623,000, and in-kind contribution revenue from one source totaling $448,500 for the year ended June 30, 2015.

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 Organization's cash balances generally exceed statutory limits. The Organization has not experienced any losses in such accounts and management considers this to be a normal business risk.

NOTE 10 - RELATED PARTY TRANSACTIONS

Insurance services for the Organization are provided by an entity where a Board member is employed. Also, legal services for the Organization are provided by one firm where a Board member is employed. Additionally, one Board member is employed with the Organization's primary bank, another Board member is employed by the entity that administers the Organization's 401(k) plan and the Organization occasionally pays artist fees to a firm where another Board member is employed.

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, 2016, the Foundation distributed $831,033 to the Organization ($808,595 distributed in 2015), which the Organization recognized as income in the year received.

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

	2016	2015
Total Assets	$ 16,316,610	$16,836,893
Total Liabilities	12,244	12,427
Net Assets - Unrestricted	$ 16,304,366	$16,824,466
Total Revenues (Expenses):		
Interest, dividends and capital gain distributions	$ 520,768	$ 477,109
Realized and unrealized losses	(122,202)	(258,272)
Other income	105	1,110
Investment management fees	(76,524)	(77,794)
Endowment distributions to the Organization	(831,033)	(808,595)
Management and general expenses	(11,213)	(11,295)
Change in Net Assets	$ (520,099)	$ (677,737)

NOTE 11 - 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 $13,200 during fiscal year 2016 ($13,900 during fiscal year 2015). Total assets held in these funds amounted to $276,594 at June 30, 2016, and $297,019 at June 30, 2015.

NOTE 12 - EMPLOYEE BENEFIT PLANS

Defined Contribution 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 expensed $108,636 in contributions to the Plan during the year ended June 30, 2016 ($0 during the year ended June 30, 2015).

Deferred Compensation Plan

The Corporation has a deferred compensation plan for a member of management and has established a "rabbi trust" for the purpose of accumulating funds applicable thereto. The plan allows for an eligible account, in which the participant is fully vested, and a noneligible account, in which the participant will be eligible to receive the funds upon attaining retirement age, except in the case of death, disability or involuntary termination without cause, in which the balance will be paid to the participant or the participant's estate. During the year ended June 30, 2015, a required distribution from the noneligible account was made in the amount of $163,290 (no such distribution was required during the year ended June 30, 2016). Contributions to the trust by the Corporation were $46,350 and $45,000 for the years ended June 30, 2016 and 2015, respectively. Trust assets are shown as investments in the accompanying statements of financial position, and totaled $206,810 at June 30, 2016 ($163,520, at June 30, 2015). The related liability, equal to the eligible account balance, is included in accounts payable and accrued expenses, and totaled $153,442 at June 30, 2016 ($136,520 at June 30, 2015).

SUPPLEMENTARY INFORMATION

TENNESSEE PERFORMING ARTS CENTER MANAGEMENT CORPORATION

SCHEDULE OF COSTS AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016, WITH COMPARATIVE TOTALS FOR 2015

	OPERATING EXPENSES					
	PROGRAMMING AND PRODUCTION	FOOD AND BEVERAGE	OPERATIONS	MARKETING	BOX OFFICE	EVENT SERVICES
Artist fees	$ 6,330,924	$ -	$ -	$ -	$ -	$ -
Contract labor	1,173,850	742	-	1,200	-	3,311
Marketing - programming	1,041,476	-	-	-	-	(775)
Salaries	198,431	161,328	343,610	428,369	231,070	150,623
Wages - full-time	30,160	-	660,368	-	203,766	-
Wages - part-time	234,565	89,667	29,453	-	27,155	308,092
Employee related expenses	54,234	37,416	172,655	72,275	85,179	48,149
Bad debt expense	-	-	-	-	2,712	865
Cash (over) and short	-	1,225	17	-	1,894	-
Concessions supplies	-	335,792	-	-	-	-
Credit card fees	-	27,462	-	-	345,278	1,165
Custodial	67,525	-	58,582	-	-	-
Depreciation	-	29,342	222,980	6,440	3,431	15,432
Dues and subscriptions	8,627	-	548	11,277	27,945	750
Equipment rentals	59,691	-	-	-	-	7,500
Fees-ticketing/bank/other	532	(25)	160	-	-	-
Insurance	26,552	-	-	-	-	-
Interest expense	-	-	3,841	-	-	-
Loss on disposal of equipment	-	-	3,910	-	-	-
Marketing - institution	42,595	-	-	727,328	2,402	5,538
Meals and entertainment	5,103	864	3,702	26,763	544	1,529
Miscellaneous expense	9,864	272	1,376	35,861	4,418	180
Office and computer supplies	-	-	-	-	-	-
Postage	-	-	-	1,733	13,525	-
Printing and reproduction	1,190	-	362	28,100	11,288	-
Production costs	259,019	-	-	-	-	95,901
Promoter profit sharing	46,955	-	-	-	-	14,910
Professional consulting	720	9,403	600	33,608	52,052	813
Rent	-	-	-	-	-	-
Repairs and maintenance	-	3,112	390,976	16,482	4,438	2,390
Security	28,367	-	-	-	-	61,154
State maintenance expenses	-	-	257,135	-	-	-
Tech and house supplies	-	8,607	49,147	-	-	-
Telephone	4,688	2,663	7,371	6,982	2,813	11,113
Transportation grants expense	-	-	-	-	-	-
Travel - air/hotel/auto	17,311	77	696	13,398	3,088	1,833
Uniforms and alterations	-	1,790	1,212	-	-	-
Total costs and expenses for the year ended June 30, 2016	$ 9,642,379	$ 709,737	$ 2,208,701	$ 1,409,816	$ 1,022,998	$ 730,473
Total costs and expenses for the year ended June 30, 2015	$ 7,224,337	$ 617,570	$ 2,278,139	$ 1,264,278	$ 885,145	$ 717,404

	PROGRAM SERVICES	SUPPORTING SERVICES			TOTALS	
TOTAL	EDUCATIONAL PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL	2016	2015
$ 6,330,924	$ 131,887	$ -	$ 7,800	$ 7,800	$ 6,470,611	$ 4,909,458
1,179,103	169,197	-	1,532	1,532	1,349,832	925,008
1,040,701	-	-	-	-	1,040,701	886,967
1,513,431	402,815	1,285,094	318,215	1,603,309	3,519,555	3,416,607
894,294	-	70,253	-	70,253	964,547	824,358
688,932	27,164	19,375	5,765	25,140	741,236	598,709
469,908	75,741	388,476	62,068	450,544	996,193	1,004,390
3,577	-	-	-	-	3,577	3,984
3,136	-	(3)	10	7	3,143	(16)
335,792	-	-	-	-	335,792	279,749
373,905	-	-	7,043	7,043	380,948	308,857
126,107	11,725	-	-	-	137,832	88,695
277,625	-	223,336	3,445	226,781	504,406	485,016
49,147	4,833	37,224	7,811	45,035	99,015	83,879
67,191	-	38,737	8,256	46,993	114,184	64,365
667	-	15,923	-	15,923	16,590	16,710
26,552	370	116,368	-	116,368	143,290	124,602
3,841	-	5,496	-	5,496	9,337	9,727
3,910	-	-	-	-	3,910	3,716
777,863	-	5,269	162	5,431	783,294	621,893
38,505	14,740	16,991	53,653	70,644	123,889	119,215
51,971	20,630	137,198	38,795	175,993	248,594	201,765
-	-	39,396	-	39,396	39,396	23,842
15,258	505	6,260	2,433	8,693	24,456	23,406
40,940	6,387	3,114	10,632	13,746	61,073	53,271
354,920	37,035	-	1,905	1,905	393,860	322,882
61,865	-	-	-	-	61,865	70,521
97,196	5,337	235,871	9,996	245,867	348,400	279,800
-	49,327	-	49,326	49,326	98,653	88,786
417,398	-	63,440	-	63,440	480,838	323,306
89,521	2,099	-	1,305	1,305	92,925	67,470
257,135	-	-	-	-	257,135	623,195
57,754	-	6,110	-	6,110	63,864	23,049
35,630	8,504	39,559	8,957	48,516	92,650	76,156
-	4,610	-	-	-	4,610	3,432
36,403	6,539	21,411	4,280	25,691	68,633	60,592
3,002	-	1,325	-	1,325	4,327	1,262
$ 15,724,104	$ 979,445	$ 2,776,223	$ 603,389	$ 3,379,612	$ 20,083,161	
$ 12,986,873	$ 888,425	$ 2,506,649	$ 636,677	$ 3,143,326		$ 17,018,624