

**NASHVILLE SYMPHONY ASSOCIATION**

**FINANCIAL STATEMENTS**

July 31, 2007 and 2006

NASHVILLE SYMPHONY ASSOCIATION  
Nashville, Tennessee

FINANCIAL STATEMENTS  
July 31, 2007 and 2006

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**Crowe Chizek and Company LLC**  
Member Horwath International

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Nashville Symphony Association  
Nashville, Tennessee

We have audited the accompanying statements of financial position of the Nashville Symphony Association (a nonprofit organization), as of July 31, 2007 and 2006, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nashville Symphony Association as of July 31, 2007 and 2006, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Crowe Chizek and Company LLC*

Crowe Chizek and Company LLC

Brentwood, Tennessee  
November 29, 2007

NASHVILLE SYMPHONY ASSOCIATION  
STATEMENTS OF FINANCIAL POSITION  
July 31, 2007 and 2006

<b>ASSETS</b>	<u>2007</u>	<u>2006</u>
Current assets		
Cash and cash equivalents	\$ 2,925,154	\$ 2,791,102
Accounts receivable	297,430	307,135
Prepaid expenses	1,940,765	2,362,350
Contributions and grants receivable, net	<u>9,714,040</u>	<u>9,476,080</u>
Total current assets	<u>14,877,389</u>	<u>14,936,667</u>
Noncurrent assets		
Restricted cash	-	3,628,758
Contributions receivable, net	15,375,681	19,857,806
Investments	75,061,245	65,467,100
Property and equipment, net	132,867,300	123,507,159
Fair value of derivative instrument	1,683,929	1,117,520
Deferred bond issuance costs, net	<u>1,280,385</u>	<u>2,116,456</u>
Total noncurrent assets	<u>226,268,540</u>	<u>215,694,799</u>
Total assets	<u>\$ 241,145,929</u>	<u>\$ 230,631,466</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,565,919	\$ 2,710,356
Deferred revenues	<u>4,403,816</u>	<u>4,174,514</u>
Total current liabilities	<u>7,969,735</u>	<u>6,884,870</u>
Long-term liabilities		
Bonds payable	102,000,000	102,000,000
Notes payable	<u>15,000,000</u>	<u>10,000,000</u>
Total long-term liabilities	<u>117,000,000</u>	<u>112,000,000</u>
Total liabilities	<u>124,969,735</u>	<u>118,884,870</u>
Net assets		
Unrestricted	85,538,170	58,684,130
Temporarily restricted	19,774,847	42,248,975
Permanently restricted	<u>10,863,177</u>	<u>10,813,491</u>
Total net assets	<u>116,176,194</u>	<u>111,746,596</u>
Total liabilities and net assets	<u>\$ 241,145,929</u>	<u>\$ 230,631,466</u>

See accompanying notes to financial statements.

NASHVILLE SYMPHONY ASSOCIATION  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
Year ended July 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
Operating revenues					
Program revenues					
Ticket sales	\$ 6,638,783	\$ -	\$ -	\$ 6,638,783	\$ 2,506,729
Orchestra fee engagements	373,536	-	-	373,536	359,845
Concert hall rental	593,730	-	-	593,730	-
Ancillary rental	85,325	-	-	85,325	-
Concessions (Net)	(97,942)	-	-	(97,942)	-
Expense reimbursements	151,530	-	-	151,530	-
Interest income	420,999	-	-	420,999	-
Other income	231,709	-	-	231,709	179,654
Total program revenues	<u>8,397,670</u>	<u>-</u>	<u>-</u>	<u>8,397,670</u>	<u>3,046,228</u>
Distribution from CFMT	<u>1,865,280</u>	<u>-</u>	<u>-</u>	<u>1,865,280</u>	<u>1,786,840</u>
Total transfers	<u>1,865,280</u>	<u>-</u>	<u>-</u>	<u>1,865,280</u>	<u>1,786,840</u>
Total operating revenues	10,262,950	-	-	10,262,950	4,833,068
Operating expenses					
Orchestra Operations					
Operations and artistic administration	11,476,818	-	-	11,476,818	8,002,061
Education	400,170	-	-	400,170	240,369
Marketing	2,893,000	-	-	2,893,000	1,956,202
Administration and support	2,430,197	-	-	2,430,197	1,378,826
Fundraising	1,765,531	-	-	1,765,531	2,249,376
In-kind expenses	217,286	-	-	217,286	283,007
Total orchestra expenses	<u>19,183,002</u>	<u>-</u>	<u>-</u>	<u>19,183,002</u>	<u>14,109,841</u>
SSC Operations					
Concert hall project expenses	628,107	-	-	628,107	1,662,081
Management	1,278,316	-	-	1,278,316	-
Building operations	1,893,981	-	-	1,893,981	-
Debt service	4,085,406	-	-	4,085,406	-
In-kind expenses	52,000	-	-	52,000	-
Total SSC expenses	<u>7,937,810</u>	<u>-</u>	<u>-</u>	<u>7,937,810</u>	<u>1,662,081</u>
Total operating expenses before non-cash					
Expense (revenue) items	27,120,812	-	-	27,120,812	15,771,922
Deficiency from operations					
Before non-cash expense items	(16,857,862)	-	-	(16,857,862)	(10,938,854)
Non-Cash Expense (Revenue) Items					
Change in Fair Value of Derivative Instrume	(566,408)	-	-	(566,408)	(2,246,846)
Amortization of Bond Issuance Costs	51,284	-	-	51,284	51,284
Subordinated Debt Service	1,539,464	-	-	1,539,464	1,010,548
Depreciation	6,948,142	-	-	6,948,142	215,285
Total non-cash expense items	<u>7,972,482</u>	<u>-</u>	<u>-</u>	<u>7,972,482</u>	<u>(969,729)</u>
Deficiency from operations	<u>(24,830,344)</u>	<u>-</u>	<u>-</u>	<u>(24,830,344)</u>	<u>(9,969,125)</u>

(Continued)

NASHVILLE SYMPHONY ASSOCIATION  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
Year ended July 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
Support					
Contributions	17,739,688	2,245,996	49,686	20,035,370	13,025,428
Grants	505,677	-	-	505,677	514,966
Fund-raising events	459,034	-	-	459,034	1,158,917
In-kind contributions	<u>269,286</u>	<u>-</u>	<u>-</u>	<u>269,286</u>	<u>593,260</u>
Total support	18,973,685	2,245,996	49,686	21,269,367	15,292,571
Net assets released from restrictions	<u>24,720,124</u>	<u>(24,720,124)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (deficiency) from operations and fund-raising	18,863,465	(22,474,128)	49,686	(3,560,977)	5,323,446
Endowment and ATFG activity					
Net ATFG activity	7,224,182	-	-	7,224,182	2,413,422
Net endowment activity	1,242,712	-	-	1,242,712	543,645
Total endowment expenses	<u>(476,319)</u>	<u>-</u>	<u>-</u>	<u>(476,319)</u>	<u>(495,807)</u>
Net endowment and ATFG activity	<u>7,990,575</u>	<u>-</u>	<u>-</u>	<u>7,990,575</u>	<u>2,461,260</u>
Increase (decrease) in net assets	26,854,040	(22,474,128)	49,686	4,429,598	7,784,706
Net assets at beginning of year	<u>58,684,130</u>	<u>42,248,975</u>	<u>10,813,491</u>	<u>111,746,596</u>	<u>103,961,890</u>
Net assets at end of year	<u>\$ 85,538,170</u>	<u>\$ 19,774,847</u>	<u>\$ 10,863,177</u>	<u>\$ 116,176,194</u>	<u>\$ 111,746,596</u>

See accompanying notes to financial statements.

NASHVILLE SYMPHONY ASSOCIATION  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
Year ended July 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2006 Total</u>
Operating revenues				
Program revenues				
Ticket sales	\$ 2,506,729	\$ -	\$ -	\$ 2,506,729
Orchestra fee engagements	359,845	-	-	359,845
Other income	<u>179,654</u>	<u>-</u>	<u>-</u>	<u>179,654</u>
Total program revenues	3,046,228	-	-	3,046,228
Transfers from endowments	<u>1,786,840</u>	<u>-</u>	<u>-</u>	<u>1,786,840</u>
Total operating revenues	4,833,068	-	-	4,833,068
Operating expenses				
Orchestra Operations				
Operations and artistic administration	8,002,061	-	-	8,002,061
Education	240,369	-	-	240,369
Marketing	1,956,202	-	-	1,956,202
Administration and support	1,378,826	-	-	1,378,826
Fundraising	2,249,376	-	-	2,249,376
In-kind expenses	<u>283,007</u>	<u>-</u>	<u>-</u>	<u>283,007</u>
Total orchestra expenses	<u>14,109,841</u>	<u>-</u>	<u>-</u>	<u>14,109,841</u>
SSC Operations				
Concert hall project expenses	<u>1,662,081</u>	<u>-</u>	<u>-</u>	<u>1,662,081</u>
Total operating expenses	15,771,922	-	-	15,771,922
Deficiency from operations				
Before non-cash expense items	(10,938,854)	-	-	(10,938,854)
Non-Cash Expense Items				
Change in Fair Value of				
Derivative Instruments	(2,246,846)	-	-	(2,246,846)
Amortization of Bond Issuance Costs	51,284	-	-	51,284
Subordinated Debt Service	1,010,548	-	-	1,010,548
Depreciation	<u>215,285</u>	<u>-</u>	<u>-</u>	<u>215,285</u>
Total non-cash expense items	<u>(969,729)</u>	<u>-</u>	<u>-</u>	<u>(969,729)</u>
Deficiency from operations	<u>(9,969,125)</u>	<u>-</u>	<u>-</u>	<u>(9,969,125)</u>
Support				
Contributions	3,792,156	9,211,873	21,399	13,025,428
Grants	514,966	-	-	514,966
Fund-raising events	696,167	462,750	-	1,158,917
In-kind contributions	<u>593,260</u>	<u>-</u>	<u>-</u>	<u>593,260</u>
Total support	5,596,549	9,674,623	21,399	15,292,571
Net assets released from restrictions	<u>9,439,001</u>	<u>(9,395,421)</u>	<u>(43,580)</u>	<u>-</u>
Income (deficiency) from operations And fund-raising	5,066,425	279,202	(22,181)	5,323,446

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NASHVILLE SYMPHONY ASSOCIATION  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
Year ended July 31, 2006

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>
Endowment and ATFG activity				
Net ATFG activity	2,413,422	-	-	2,413,422
Net endowment activity	543,645	-	-	543,645
Total endowment expenses	<u>(495,807)</u>	<u>-</u>	<u>-</u>	<u>(495,807)</u>
Net endowment and ATFG activity	<u>2,461,260</u>	<u>-</u>	<u>-</u>	<u>2,461,260</u>
Increase (decrease) in net assets	7,527,685	279,202	(22,181)	7,784,706
Net assets at beginning of year	<u>51,156,445</u>	<u>41,969,773</u>	<u>10,835,672</u>	<u>103,961,890</u>
Net assets at end of year	<u>\$ 58,684,130</u>	<u>\$ 42,248,975</u>	<u>\$ 10,813,491</u>	<u>\$ 111,746,596</u>

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See accompanying notes to financial statements.

NASHVILLE SYMPHONY ASSOCIATION  
STATEMENTS OF CASH FLOWS  
Years Ended July 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 4,429,598	\$ 7,784,706
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	6,999,426	266,569
Non-expendable endowment gifts	(49,686)	22,181
Gain on sale of investments	(2,823,521)	(1,515,480)
Unrealized loss (gain) on investments, net	(2,213,493)	750,017
Bad debt expense	458,877	694,701
Change in fair market value of derivative instruments	(566,408)	(2,246,846)
Net change in assets and liabilities:		
Decrease in accounts, contributions and grants receivable	3,794,999	3,472,446
(Increase) decrease in prepaid expenses	421,585	(809,231)
Increase (decrease) in accounts payable and accrued liabilities	855,556	(1,815,806)
Increase in deferred revenues	<u>229,306</u>	<u>2,838,922</u>
Net cash from operating activities	11,536,239	9,442,179
<b>Cash flows from investing activities</b>		
Capital expenditures	(15,523,500)	(47,109,707)
Purchases of investments	(4,557,131)	(6,194,202)
Proceeds on sales of investments		
Net cash used in investing activities	<u>(20,080,631)</u>	<u>(53,303,909)</u>
<b>Cash flows from financing activities</b>		
Net borrowings on long-term debt	5,000,000	(5,000,000)
Proceeds from contributions permanently restricted by donors	<u>49,686</u>	<u>21,399</u>
Net cash (used in) from financing activities	<u>5,049,686</u>	<u>(5,021,399)</u>
Net change in cash	(3,494,706)	(48,840,331)
Cash and cash equivalents at beginning of year	<u>6,419,860</u>	<u>55,260,191</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 2,925,154</u>	<u>\$ 6,419,860</u>
Represented by:		
Cash and cash equivalents	\$ 2,925,154	\$ 2,791,102
Restricted cash	<u>-</u>	<u>3,628,758</u>
	<u>\$ 2,925,157</u>	<u>\$ 6,419,860</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for interest	<u>\$ 3,402,860</u>	<u>\$ 3,116,814</u>

See accompanying notes to financial statements.

NASHVILLE SYMPHONY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
July 31, 2007 and 2006

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**NOTE 1 - NATURE OF ORGANIZATION**

The Nashville Symphony Association (the "Association") is dedicated to enhancing the quality of life in Nashville and the surrounding region by providing opportunities for all citizens to enjoy the highest quality live performances of symphonic music in its various forms. Funding for operations comes from ticket sales, concert sponsorships, concert hall rental and contributions. Contributions are received from corporations, individuals, guilds, foundations, and other donating bodies.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Cash and Cash Equivalents: The Association considers all highly liquid investments with a maturity of three months or less to be cash equivalents for the Statement of Cash Flows.

Investments: The Association uses Bank of America, SunTrust, First Tennessee and Regions as their trustees and investment advisors. Each advisor independently manages the funds it holds in trust and reports directly to the Association.

Investments in marketable securities are valued at fair market as determined by the investment advisors, and are based on quoted prices in an active market. Unrealized gains and losses in market value are recognized as changes in net assets in the period such gains and losses occur.

Investment income is recorded on the accrual basis and considered unrestricted unless specifically restricted by the donor. Realized gains and losses on investment transactions are recorded as the difference between proceeds received and cost, net of any commissions or related management expenses.

Property and Equipment: Property and equipment are stated at cost. Donated property is recorded at fair value. Depreciation is computed on a straight-line basis over the estimated useful lives of assets, ranging from three to fifty years.

The Association owns a viola and cello to be used in its performances. The Association has the ability and intent to maintain the value of the instruments. In accordance with Statement of Financial Accounting Standard No. 93, "Recognition of Depreciation by Non-Profit Organization," the instruments are recorded at cost and are not depreciated.

Bond Issue Costs: Bond issue costs of \$1,471,828, net of accumulated amortization of \$191,443, are being amortized over the life of the bonds, which is 30 years. Amortization expense for each year ended July 31, 2007 and 2006 amounted to \$51,284. See Note 12 for bonds payable disclosure. Included in the 2006 balance is approximately \$780,000 of prepaid letter of credit fees in conjunction with the bond issue.

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NASHVILLE SYMPHONY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
July 31, 2007 and 2006

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Future annual bond amortization expense under current terms and amounts will be as follows:

<u>July 31,</u>	
2008	\$ 51,284
2009	51,284
2010	51,284
2011	51,284
2012	51,284
Thereafter	<u>1,023,965</u>
Total	<u>\$ 1,280,385</u>

Advertising: At July 31, 2007 and 2006, prepaid expenses included \$426,575 and \$665,740, respectively, of capitalized direct response advertising costs. The costs are related to the annual season ticket drive, which incorporates brochure and telemarketing solicitation of potential season ticket holders. The capitalized direct response advertising costs are amortized over the following year's symphony season. Outside of the annual season ticket drive, all other advertising costs are expensed as incurred. Total promotional, marketing, telemarketing and advertising expense was \$2,893,000 and \$1,956,202 in 2007 and in 2006, respectively.

Unrestricted Net Assets: Unrestricted net assets consist of funds that are used to fund current operations or that are available for use in current operations including investment income from board designated endowments.

Temporarily Restricted Net Assets: Temporarily restricted net assets include certain grants and other contributions with donor imposed restrictions. These restrictions may be purpose-restricted or time-restricted. Unconditional promises to give are recognized when such promises are received. Contributions to support future symphony seasons received prior to year-end are recognized as temporarily restricted income. If a restriction has been met in the same year that it was imposed, then the revenues are reflected in unrestricted net assets. During 2007 and 2006, the Association released \$24,720,124 and \$8,841,421, respectively, of temporarily restricted assets to fund current operations of the Nashville Symphony Orchestra after meeting stipulated time restrictions.

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Unrestricted Endowment Fund	\$ 18,338,396	\$ 26,784,860
Annual Campaign & Fundraising Events	1,436,451	1,680,392
Construction Fund	<u>-</u>	<u>13,783,723</u>
	<u>\$ 19,774,847</u>	<u>\$ 42,248,975</u>

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(Continued)

NASHVILLE SYMPHONY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
July 31, 2007 and 2006

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Permanently Restricted Net Assets: Contributions received in which donors have stipulated that the principal be maintained in perpetuity are classified as permanently restricted net assets. Investment income generated from permanently restricted net assets is unrestricted and is to be used to fund current operations of the Association or to be reinvested.

Use of Estimates: 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 these estimates.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions. The Association's carrying amount for its accounts receivable, accounts payable, short-term debt and long-term debt approximates fair value. The fair value of interest rate swaps is based on market prices or dealer quotes. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Revenue Recognition: Concert sponsorships, contributions, and grants are recognized as support upon receipt of the pledge from donor or grant approval for the donating entity. Season ticket sales and other support attributable to or designated from the current concert season are recorded as revenue and recognized over the course of the season. Season ticket sales for the next concert season are recorded as deferred revenue in the current year.

Operations: The nature of the Association's operations involves support from donors and activities directly related to the production of concerts and fundraising expenses. The Association's Endowment and ATRG activity are not considered to be part of operations and are reported separately.

Donated Services: Donated services from volunteers for fund-raising are not recorded in the accounts of the Association as a clear, measurable basis, for the monetary value of such services does not exist and the Association does not exercise control over these activities.

Contributions and Grants Receivable: Donations to be received within the next 12 months or with restrictions that have been met at year-end are classified as current assets. Contributions designated by the donor to be received more than 12 months after year-end are discounted and have been classified as non-current assets. The Association does not require collateral or other security to support the receivables or accrue interest on any of its receivables. The allowance for doubtful accounts is determined by management based on the historical collection of pledges, specific donor circumstances, and general economic conditions. Periodically, management reviews contributions and accounts receivable and records an allowance for specific donors based on current circumstances. Receivables are charged off against the allowance when all attempts to collect the receivable have failed. Management has recorded an allowance for uncollectible pledges of \$560,000 and \$600,000 at July 31, 2007 and 2006, respectively.

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(Continued)

NASHVILLE SYMPHONY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
July 31, 2007 and 2006

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In-Kind Contributions and Expenses: The Association receives donated services such as advertising, professional services and guest artist services that are recognized as in-kind contributions. The Association also incurs expenses related to the use of such services, which are reflected in operating expenses. In-kind contributions were \$269,286 and \$593,260 in 2007 and 2006, respectively.

Concentrations of Credit Risk: Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash on deposit, accounts, contributions and grants receivable, and investments. The Association's cash deposits are primarily in financial institutions in Tennessee and may at times exceed federally insured amounts. Concentrations of credit risk with respect to accounts, contributions and grants receivable are limited to individuals, corporations, ticket subscribers, patrons and associations and are not collateralized. Investments consist primarily of publicly-traded securities in an open market. Management does not believe the Association has any significant credit risk related to its financial instruments.

Federal Income Taxes: The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Reclassification: Certain prior year amounts have been reclassified to conform to the current year presentation.

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable at July 31, 2007 and 2006 consist of both unconditional and conditional promises to give based on commitments made by individual donors, including board members. Unconditional promises to give that will be met in the future include donations to the endowment and to the annual campaign. Conditional promises to give include contributions to fund specific programs that will occur in the future. Collection of contributions receivable is anticipated over the following maturity schedules:

Year Ending <u>July 31,</u>	<u>"A Time for Greatness"</u>	<u>Other</u>	<u>2007 Total</u>	<u>2006 Total</u>
2008	\$ 9,192,470	\$ 891,571	\$ 10,084,041	\$ 9,860,081
2009	3,723,155	245,000	3,968,155	6,586,254
2010	3,172,758	245,000	3,417,758	3,731,680
2011	3,876,310	245,000	4,121,310	3,303,525
2012	1,714,840	150,000	1,864,840	3,962,085
Thereafter	<u>6,551,200</u>	<u>-</u>	<u>6,551,200</u>	<u>8,141,098</u>
Total	28,230,733	1,776,571	30,007,304	35,584,723

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NASHVILLE SYMPHONY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
July 31, 2007 and 2006

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**NOTE 3 - CONTRIBUTIONS RECEIVABLE (Continued)**

Year Ending July 31,	<u>"A Time for Greatness"</u>	<u>Other</u>	<u>2007 Total</u>	<u>2006 Total</u>
Less discount	<u>4,230,981</u>	<u>126,601</u>	<u>4,357,582</u>	<u>5,650,837</u>
Net present value of receivables	23,999,752	1,649,970	25,649,722	29,933,886
Less allowance for Doubtful receivables	<u>500,000</u>	<u>60,000</u>	<u>560,000</u>	<u>600,000</u>
Accounts receivable, net	23,499,752	1,589,970	25,089,722	29,333,886
Current maturities	<u>8,882,470</u>	<u>831,571</u>	<u>9,714,041</u>	<u>9,476,080</u>
	<u>\$ 14,617,282</u>	<u>\$ 758,399</u>	<u>\$ 15,375,681</u>	<u>\$ 19,857,806</u>

The Association is continuing an intensive fund raising campaign, "A Time For Greatness," to insure the orchestra's future and to endow its expanded operations in the new Schermerhorn Symphony Center. Support for the years ended July 31, 2007 and 2006 totaled \$35,304,687 and \$42,789,010 including receipts of \$7,073,954 and \$8,457,390 and pledges receivable of \$28,230,733 and \$34,331,620 at July 31, 2007 and 2006, respectively.

In 2007 and 2006, long-term contribution receivables have been discounted using the Association's anticipated risk free rate of return of 4.8% and 5.0%, respectively.

**NOTE 4 - CONCERT HALL**

The Association recently constructed a new world class concert hall known as Schermerhorn Symphony Center. In conjunction with the project, the Association issued bonds totaling \$102 million to finance the construction of the new concert hall. The bonds were issued in January 2004.

Construction expenses related to the new concert hall total \$15,067,131 and \$45,565,721 for the years ended July 31, 2007 and 2006, and are reflected in property and equipment. In addition to the capitalized costs previously disclosed, the Association capitalized bond interest net of interest earned on tax-exempt funds and amortization amounting to \$7,293,036 and \$7,830,839 in 2007 and 2006, respectively. Construction of the concert hall began in 2004 and was completed in September 2006.

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(Continued)

NASHVILLE SYMPHONY ASSOCIATION  
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**NOTE 4 - CONCERT HALL (Continued)**

During the year ended July 31, 2007, the Association made a transfer from its unrestricted endowment fund to its unrestricted operating fund in the amount of \$8,342,384, or approximately 12% of the ending market value of the unrestricted endowment fund. Also, during the year ended July 31, 2007, the Association made an additional transfer from its unrestricted endowment fund to the Schermerhorn Symphony Center project in the amount of \$3,481,224. These transfers were made in accordance with the Association's long-range financial plans and its bank covenants. As these transfers occurred within the unrestricted activity of the Association, they have no effect on the Statement of Activities and Changes in Net Assets for the year ended July 31, 2007. These transfers are reported in the Supplemental Combining Statement of Activities and Changes in Net Assets.

**NOTE 5 - INVESTMENTS**

Investments consist of the following:

	2007			2006		
	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain (Loss)</u>	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain (Loss)</u>
Investments in bank						
Managed trust funds:						
Money markets	\$ 3,373,481	\$ 3,373,481	\$ -	\$ 2,927,554	\$ 2,927,554	\$ -
Equities	29,266,228	33,279,756	4,013,528	36,747,637	39,641,593	2,893,956
Corporate bonds	2,882,490	2,822,624	(59,866)	2,809,665	2,736,278	(73,387)
U.S. Government securities	34,504,814	35,549,779	1,044,965	20,034,796	19,989,954	(44,842)
Other Securities	<u>40,384</u>	<u>35,605</u>	<u>(4,779)</u>	<u>167,093</u>	<u>171,721</u>	<u>4,628</u>
	<u>\$ 70,067,397</u>	<u>\$ 75,061,245</u>	<u>\$ 4,993,848</u>	<u>\$ 62,686,745</u>	<u>\$ 65,467,100</u>	<u>\$ 2,780,355</u>
Change in unrealized gains on investments			<u>\$ 2,213,493</u>			<u>\$ (750,017)</u>

Investment income, net of related fees and expenses, consists of the following:

	<u>2007</u>	<u>2006</u>
Interest	\$ 982,503	\$ 757,459
Dividends	2,447,378	991,478
Realized gains, net	2,823,521	1,515,480
Unrealized gains (losses), net	2,213,493	(750,017)
Trustee, management and professional fees	<u>(476,320)</u>	<u>(53,140)</u>
	<u>\$ 7,990,575</u>	<u>\$ 2,461,260</u>

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NASHVILLE SYMPHONY ASSOCIATION  
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**NOTE 6 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Construction in progress	\$ 671,744	\$ 115,734,707
Land	4,651,338	4,651,338
Building	117,961,384	-
Musical instruments	11,069,428	2,160,451
Furniture and equipment	4,573,033	633,350
Art, décor & sculptures	<u>1,133,595</u>	<u>572,391</u>
	140,060,522	123,752,237
Less accumulated depreciation	<u>(7,193,222)</u>	<u>(245,078)</u>
	<u>\$ 132,867,300</u>	<u>\$ 123,507,159</u>

Depreciation expense was \$6,948,142 and \$215,285 for the years ending July 31, 2007 and 2006, respectively.

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

The Association has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, management believes any required reimbursements would not be material to the financial statements of the Association.

The Association is subject to a collective bargaining agreement whereby certain requirements and restrictions are placed upon the Association in return for qualified union musicians. The agreement establishes various requirements including compensation, pension funding and other terms of employment, and places certain other restrictions upon the Association.

The Association is party to various legal proceedings incidental to its operations. In management's opinion, all such matters are covered by insurance, or if not so covered, are without merit or are of such kind, or involve such amounts, which would not have a significant effect on the financial position or results of operations of the Association if disposed of unfavorably.

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**NOTE 8 - COMMUNITY FOUNDATION OF MIDDLE TENNESSEE**

The Community Foundation of Middle Tennessee (the "Foundation"), an unrelated entity, had investments with a market value of approximately \$38,598,759 and \$36,170,940 at July 31, 2007 and 2006, respectively, in which the Association has been designated the primary income beneficiary. Management believes these funds will be advised for the Association. Investment income is recorded as a contribution when received from the Foundation and totaled \$1,865,280 and \$1,786,840 for the years ended July 31, 2007 and 2006, respectively. As the Association has no claim to the investments, the principal has not been reflected in the financial statements.

**NOTE 9 - BENEFIT PLANS**

The Association has a defined contribution pension plan, which covers all full-time non-orchestra employees of the Association with one year of credited service. The plan is designed to conform to Internal Revenue Code Section 403(b) and to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA). The Association's contributions to the plan are based upon a percentage of the participant's salary and are entirely discretionary. The Association's contributions to the plan were \$176,275 and \$91,454 in 2007 and 2006, respectively.

The Association also has a voluntary tax-sheltered annuity plan, which covers all full-time employees of the Association. The plan is designed to conform to Internal Revenue Code Section 403(b) and to the requirements of ERISA. It is a contributory plan whereby contributions are made entirely by plan participants.

In addition, the Association participates in a multi-employer defined benefit plan administered by a national trust, known as the American Federation of Musicians and Employers Pension Fund, which covers all union musician employees of the Association. This plan is also designed to conform with the requirements of ERISA. Contributions to the plan are based upon a percentage of the participant's salary, as determined by the terms of the Collective Bargaining Agreement between the Association and American Federation of Musicians Local 257. It is a non-contributory plan. The Association contributed \$313,722 and \$286,977 to the plan in 2007 and 2006, respectively.

**NOTE 10 - NOTES PAYABLE AND LINE OF CREDIT**

The Association entered into a subordinated loan agreement with the Community Foundation of Middle Tennessee on June 15, 2005. The note bears interest at 7.5% and matures December 1, 2031. The balance due on the note at July 31, 2007 and 2006 was \$15,000,000 and \$10,000,000, respectively. The Association incurred debt service totaling \$1,539,464 and \$1,010,548 for the years ended July 31, 2007 and 2006, respectively.

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**NOTE 10 - NOTES PAYABLE AND LINE OF CREDIT (continued)**

The Association maintains an unsecured \$1,200,000 line of credit with a third-party bank, bearing interest at LIBOR, which was 6.82% as of July 31, 2007. The Association had no balance at July 31, 2007 and 2006, and it matures on January 31, 2008. There were no covenants or commitment fees related to this line of credit.

The Association has a note payable to Regions Bank, Trustee, related to financing obtained through the issuance of \$102,000,000 in variable rate revenue bonds by the Industrial Development Board of The Metropolitan Government of Nashville and Davidson County, Tennessee for the acquisition, construction and equipping of a symphony hall facility located in Nashville, Tennessee. Currently, the bonds bear interest at a variable rate (3.5% at July 31, 2007 and 2006) not to exceed 12% and are due December 1, 2031. The note is secured by an irrevocable, direct-pay Letter of Credit issued by Bank of America, N.A. with an initial stated expiration date of January 8, 2009. Should the credit institution decide not to extend the termination date, the bonds will become due and payable on January 8, 2009.

Under the Regions Bank financing agreement, the Association has agreed to maintain certain levels of net assets and financial ratios related to debt and cash flows. At July 31, 2007 and 2006, the Association was in compliance with all covenants contained in the loan agreement.

At July 31, 2006, the Association had restricted cash in the amount of \$3,628,758 which represents the unused funds available for construction of the symphony hall. Due to the completion of the hall, there was no restricted cash at July 31, 2007.

**NOTE 11 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

During 2005, the Association adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". Under FASB 133, all derivatives are recognized on the balance sheet at their fair value. The Association engages in derivatives classified as cash-flow hedges as identified by management.

The Association formally documents all relations between derivative instruments and the hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions. The Association formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. In evaluating the fair value of financial instruments, including derivatives, the Association generally uses third-party market quotes.

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**NOTE 11 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)**

The Association's cash-flow hedges contain credit risk to the extent that its bank counterparties may be unable to meet the terms of the agreements. The Association minimizes such risk by limiting its counterparties to major financial institutions. Management does not expect any material losses as a result of defaults by other parties.

The Association has entered into certain interest rate swaps to receive market rate interest and pay fixed rate interest to various major financial institutions that lock in the Association's interest rate paid on certain variable rate bonds payable.

The following table presents a summary of the notional amounts and fair values of the Association's derivative contract at July 31, 2007.

	<u>Maturity Date</u>	<u>Notional Amounts</u>	<u>Fair Value</u>	<u>Rate</u>
Cash flow hedges:				
Interest rate swaps	12/01/2031	\$ 12,750,000	\$ 212,210	3.50%
Interest rate swaps	12/01/2031	\$ 38,250,000	\$ 635,495	3.50%
Interest rate swaps	12/01/2031	\$ 25,500,000	\$ 417,360	3.50%
Interest rate swaps	12/01/2031	<u>25,500,000</u>	<u>418,864</u>	3.50%
Total		<u>\$ 102,000,000</u>	<u>\$ 1,683,929</u>	

The following table presents a summary of the notional amounts and fair values of the Association's derivative contract at July 31, 2006.

	<u>Maturity Date</u>	<u>Notional Amounts</u>	<u>Fair Value</u>	<u>Rate</u>
Cash flow hedges:				
Interest rate swaps	12/01/2031	\$ 12,750,000	\$ 278,875	3.06%
Interest rate swaps	12/01/2031	<u>38,250,000</u>	<u>838,645</u>	3.06%
Total		<u>\$ 51,000,000</u>	<u>\$ 1,117,520</u>	

The variable interest on the bonds is hedged by forward starting interest rate swaps. Net interest payments will be effectively fixed at the rates indicated, during the period. The Association intends to hold these forward starting interest rate swaps until maturity. Changes in the fair value of these derivatives are reported as a change in net assets.

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(Continued)

NASHVILLE SYMPHONY ASSOCIATION  
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**NOTE 12 - FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and activities have been summarized on a functional basis as follows:

Orchestra	\$ 14,987,274	\$ 10,506,041
SSC Operation	<u>15,719,409</u>	<u>477,067</u>
Total program	30,706,683	10,983,108
Administrative (G&A)	2,621,080	1,569,709
Fund raising	<u>1,765,531</u>	<u>2,249,376</u>
Total expenses	<u>\$ 35,093,294</u>	<u>\$ 14,802,193</u>