

COUNTRY MUSIC FOUNDATION, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

COUNTRY MUSIC FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Country Music Foundation, Inc.

We have audited the accompanying financial statements of Country Music Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, 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 from 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 the 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 entity'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 entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Country Music Foundation, Inc. as of December 31, 2012 and 2011, 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.

Dempsey Vantrease & Follis PLLC

Murfreesboro, Tennessee
March 25, 2013

COUNTRY MUSIC FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 1,499,525	\$ 564,992
Trade accounts receivable (less allowance of \$44,662 for 2012 and \$62,361 for 2011)	239,653	483,404
Prepaid expenses	84,167	59,862
Inventories	729,943	652,713
Contributions and grants receivable	16,014,213	11,567,145
Restricted cash	368,826	253,943
Investments- endowment	2,217,173	1,825,069
Investments- held for building expansion	8,045,826	6,503,388
Property, equipment and exhibits	31,944,088	28,478,519
Collection items(Note A)	-	-
General library	1,015,239	993,427
Bond financing costs, net of amortization of \$330,911 in 2012 and \$306,698 in 2011	225,996	250,209
TOTAL ASSETS	\$ 62,384,649	\$ 51,632,671
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,752,596	\$ 1,349,886
Deferred revenue	196,094	162,734
Bonds payable	20,522,189	20,522,189
Swap contract	1,204,439	1,605,344
TOTAL LIABILITIES	24,675,318	23,640,153
NET ASSETS		
Unrestricted	7,966,148	7,517,692
Temporarily restricted	27,542,683	18,274,326
Permanently restricted	2,200,500	2,200,500
TOTAL NET ASSETS	37,709,331	27,992,518
TOTAL LIABILITIES AND NET ASSETS	\$ 62,384,649	\$ 51,632,671

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

	December 31,	
	2012	2011
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Admission fees	\$ 6,957,574	\$ 6,061,767
Museum store sales	2,700,745	2,375,948
Merchandise sales	927,260	859,847
Event revenue	1,139,237	1,242,616
Royalties	71,095	110,053
Contributions, grants and memberships	1,134,896	1,400,685
Special fundraising events	515,494	377,219
Restaurant/catering	2,600,044	2,486,582
Investment income(losses)	47,988	(6,217)
Other revenues	75,281	151,952
In-kind donations	248,055	173,739
Insurance proceeds	-	134,430
Endowment income transfer	55,965	56,218
Total Unrestricted Support and Revenue	16,473,634	15,424,839
Net assets released from donor restrictions	274,799	226,507
TOTAL SUPPORT AND REVENUE	16,748,433	15,651,346
 EXPENSES		
Program services	11,263,232	10,082,687
Administrative	2,283,508	2,249,660
Fundraising	729,201	792,008
Cost of museum store sales	1,238,587	1,061,624
Cost of merchandise sales	286,578	248,637
Cost of restaurant/catering sales	899,776	795,591
Cost of direct benefits to donors of special event	-	35,257
Change in value of interest rate swap	(400,905)	50,723
TOTAL EXPENSES	16,299,977	15,316,187
NET INCREASE IN		
UNRESTRICTED NET ASSETS	448,456	335,159
 TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	9,351,056	15,026,004
Net assets released from donor restrictions	(274,799)	(226,507)
Investment (losses)gains	192,100	(6,402)
INCREASE IN TEMPORARILY		
RESTRICTED NET ASSETS	9,268,357	14,793,095
NET INCREASE IN NET ASSETS	9,716,813	15,128,254
 NET ASSETS, Beginning of year	27,992,518	12,864,264
 NET ASSETS, End of year	\$ 37,709,331	\$ 27,992,518

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

	December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 9,716,813	\$ 15,128,254
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,532,689	1,481,328
Contributions restricted for long term purposes	(9,267,795)	(14,850,532)
Gain on disposal of fixed assets	(3,000)	(12,293)
(Gains)losses on investments	(240,088)	12,619
(Increase) decrease in:		
Trade accounts and other receivables	243,751	199,634
Pledges receivable	105,756	(222,501)
Inventories	(77,230)	(111,100)
Prepaid expenses	(24,305)	(37,377)
Increase (decrease) in:		
Accounts payable and accrued expenses	(92,442)	(214,857)
Deferred revenue	33,360	(52,900)
Swap contract	(400,905)	50,723
Net Cash Provided by Operating Activities	1,526,604	1,370,998
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of fixed assets	3,000	30,732
Capital expenditures	(3,500,743)	(1,297,882)
Increase in restricted cash	(114,883)	(253,943)
Purchase of investments	(1,694,416)	(6,509,605)
Net Cash Used in Investing Activities	(5,307,042)	(8,030,698)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments on line of credit	-	(540,000)
Collection of pledges restricted for long-term endowment	200,000	-
Contributions received restricted for long-term purposes	4,514,971	7,329,088
Net Cash Provided by Financing Activities	4,714,971	6,789,088
NET INCREASE IN CASH	934,533	129,388
CASH AND CASH EQUIVALENTS, Beginning of Year	564,992	435,604
CASH AND CASH EQUIVALENTS, End of Year	\$ 1,499,525	\$ 564,992
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 979,834	\$ 1,001,268
Income taxes paid	\$ 6,915	-
Non cash investing activities:		
Capital expenditures in accounts payable	\$ 1,495,152	-

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Country Music Foundation, Inc. is a not-for-profit corporation, formed to identify and to preserve the evolving history and traditions of country music and to educate its audiences. Functioning as a local history museum and as an international arts organization, the Foundation serves visiting and non-visiting audiences including fans, students, scholars, members of the music industry, and the general public – in the Nashville area, the nation, and the world.

The sources of revenues are primarily admission fees, store sales, event sales, contributions and the sale of Country Music Foundation produced products. Since the Foundation's operations depend largely upon tourist trade, they are subject to seasonal fluctuations and other conditions common to this type of industry. Effective July 1, 2009, the Foundation formed a single member LLC known as Two Twenty Two Grill & Catering ("222") to take over the operations of the restaurant in the museum which is provided for as a convenience to museum patrons. "222" also provides catering services for events. All operations of "222" are included in these financial statements.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with general accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (FASB ASC) 958-205, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are stated at what management expects to collect. Management estimates for uncollectible accounts through a provision for bad debts. The provision is adjusted annually based upon an assessment of the current balances. Once management determines an account is not collectible, it is written off against the provision.

Inventories

Inventories are stated at the lower of cost or market using an average cost method.

Investments

The Foundation follows *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the unrestricted class of net assets unless a donor or law temporarily or permanently restricts the use of the income.

Property and Equipment

The Foundation capitalizes all expenditures for property and equipment in excess of \$1,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Substantially all of the building and improvement assets are depreciated using the straight-line method over an estimated life of forty years. The remaining assets, except General Library, are depreciated using the straight-line method over a five to ten year estimated life.

Costs of exhibits for display are capitalized and depreciated on a straight-line basis over estimated service lives ranging from two to twenty years.

The General Library's permanent collection is composed of recordings, films, video tapes, dvds, books, etc. which have historical value and are presumed to appreciate with the passage of time. Accordingly, these assets are not depreciated.

Collection Items

In accordance with the provisions of ASC 958-605, *Accounting for Contributions Received and Contributions Made*, the Foundation does not capitalize donated or purchased artifacts or recognize them as revenues or gains. That Statement provides that such donations need not be recognized if they are added to collections that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The estimated fair value of the donated artifacts is in \$1,141,753 in 2012 and \$258,580 in 2011.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted and Unrestricted Contributions

Unconditional promises to give are recognized as revenue in the period the promise is received. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The Foundation had permanently restricted net assets of \$2,200,500 at December 31, 2012 and \$2,200,500 at December 31, 2011. The Foundation had temporarily restricted net assets of \$27,542,683 at December 31, 2012 and \$18,274,326 at December 31, 2011.

Financial Instruments

The carrying value of the Foundation's financial instruments (cash, accounts receivable, investments, accounts payable and accrued expenses) approximate fair value due to their current availability or relatively short maturities. Long-term debt carrying amounts also approximate fair value due to the variable rate nature of the loans.

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Endowments

The Foundation accounts for its endowment fund under FASB ASC 958-205, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds" (FASB ASC 958-205), which provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organization's endowment funds whether or not the organization is subject to UPMIFA.

NOTE B - RESTRICTED CASH

CMF held restricted cash of \$264,590 and \$123,248 related to its building expansion program at December 31, 2012 and 2011, respectively. CMF also held cash restricted by donors of \$104,236 and \$130,695 for certain projects at December 31, 2012 and 2011, respectively.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE C – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give at December 31, 2012 and 2011, are as follows:

	2012	2011
Receivable in less than one year	\$ 4,726,411	\$ 3,611,530
Receivable in one to five years	10,441,112	8,344,720
Receivable in six to nine years	1,600,000	-
Total unconditional promises to give	16,767,523	11,956,250
Less discounts to net present value	(753,310)	(363,334)
Less allowance for doubtful accounts	-	(25,770)
Contributions receivable	\$ 16,014,213	\$ 11,567,145

The discount rate used on long-term promises to give ranges from 1.5% to 2.5%.

NOTE D – INVENTORIES

Inventories consist of:

	2012	2011
Museum store	\$ 482,573	\$ 491,273
Foundation press and records	286,155	202,016
	768,728	693,289
Less valuation allowance	(38,785)	(40,576)
	\$ 729,943	\$ 652,713

NOTE E - PROPERTY, EQUIPMENT, AND EXHIBITS

Property, equipment and exhibits consist of:

	2012	2011
Land	\$ 932,700	\$ 932,700
Building and improvements	30,606,463	30,604,977
Furniture, fixtures, and equipment	3,306,249	2,627,939
Exhibits	9,313,069	8,917,011
Vehicles	89,130	85,377
Construction in process	4,720,827	895,882
	48,968,438	44,063,886
Less accumulated depreciation	(17,024,350)	(15,585,367)
	\$ 31,944,088	\$ 28,478,519

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE F - CONCENTRATION OF CREDIT RISK

Through its normal operations the Foundation will periodically have cash deposits at one financial institution that will exceed federally insured limits. At December 31, 2012 deposits exceeded FDIC insurance coverage by \$1,507,539. At December 31, 2011 this amount was \$717,343.

NOTE G – INVESTMENTS

At December 31, 2012 and 2011, investments consisted of the following:

	<u>2012</u>		<u>2011</u>	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 6,078,573	\$ 6,078,573	\$ 2,935,308	\$ 2,935,308
Fixed income securities	2,790,718	2,755,022	4,314,967	4,318,347
Common stocks	1,393,708	1,133,503	1,071,979	990,099
Miscellaneous	-	-	6,203	-
	<u>\$ 10,262,999</u>	<u>\$ 9,967,098</u>	<u>\$ 8,328,457</u>	<u>\$ 8,243,754</u>

The investments include assets pledged on a letter of credit arrangement related to the building expansion of \$4,541,060 at December 31, 2012 and \$4,499,760 at December 31, 2011. In addition, the money market account includes \$3,504,766 at December 31, 2012 and \$2,003,628 at December 31, 2011 restricted for the building expansion. The remaining investment assets are the Foundation endowment fund in the amount of \$2,217,173 at December 31, 2012 and \$1,825,069 at December 31, 2011.

Investment return on the Foundation's investments is summarized as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 134,656	\$ 116,779
Investment management fees	(15,337)	(20,289)
Net realized and unrealized gains(losses)	<u>176,734</u>	<u>(52,891)</u>
	<u>\$ 296,053</u>	<u>\$ 43,599</u>
Reported in the statement of activities as follows:		
Endowment income transfer	\$ 55,965	\$ 56,218
Unrestricted gains(losses)	47,988	(6,217)
Temporarily restricted gains(losses)	<u>192,100</u>	<u>(6,402)</u>
	<u>\$ 296,053</u>	<u>\$ 43,599</u>

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE H – ENDOWMENT FUND AND RELATED NET ASSETS

The Foundation's endowment fund consists of various funds established for the ongoing operations of the Foundation. Its endowment includes donor-restricted funds. As disclosed in note A, net assets associated with endowment funds are classified and reported in the Foundation's financial statements based on the existence or absence of specific donor-imposed restrictions. The Foundation classifies the following as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment plus (b) the original value of any subsequent gifts to the permanent endowment. Gains, losses, and other changes in value of the endowment funds are accounted for as temporarily restricted, unless specifically directed by the donor, until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The investment objectives of the Endowment are to:

- 1) Enhance the financial stability of the Foundation.
- 2) Provide a reasonably predictable source of income to the Foundation.
- 3) The primary investment objective of the Endowment is to attain an average annual real total return, net of all fees and non-qualified distributions, of 5.0 percent annualized. A secondary objective of the Endowment is to earn a relative total return equal to or greater than a composite of market indices weighted between equities and fixed income in proportion to the Fund's weightings.
- 4) The Fund will be diversified in marketable securities. As a general rule, no single security should represent more than 10% of the Fund's assets (not applicable to U.S. Government and Agency issues), except that, if a contribution is made to the Fund of a security that represents in excess of 10%, the investment manager will advise the Investment Committee of its outlook for the security and recommend an appropriate period over which it will be diversified to the 10% threshold.
- 5) The Fund may invest in domestic and international equities, preferred and convertible issues, investment grade fixed income securities and ETFs (Exchange Traded Funds), and, in order to limit risk, may sell call options against securities owned.
- 6) The Fund has no defined targets regarding asset allocation between equities and fixed income securities, but the Investment Committee may establish an appropriate asset allocation range within which the investment manager will be expected to conform. The investment manager presents its strategy for achieving the Fund's objectives to the Investment Committee at least annually and communicates any substantive shifts in strategy to the Committee chairman in a timely manner.

The Foundation has spending policies which limit spending to 5% of the average Fund market value for the preceding three years ending December 31 of the most recent calendar year. Such distributions may be made throughout the year at such intervals as may be specified by the Board.

**COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

NOTE H – ENDOWMENT AND RELATED ASSETS(CONTINUED)

A summary of the endowment activity for December 31, 2012 and 2011 is as follows:

	2012	2011
Endowment net assets, beginning of year	\$1,825,069	\$1,831,471
Contributions	200,000	-
Amounts appropriated for operations	(55,965)	(56,218)
Net realized and unrealized investment gains	181,586	686
Investment Income, net of management fees	66,483	49,130
Endowment net assets, end of year	\$ 2,217,173	\$ 1,825,069

As of December 31, 2012, \$1,985,785 of the endowment is part of permanently restricted net assets and \$231,388 is part of temporarily restricted net assets.

NOTE I - LONG-TERM DEBT

Long-term obligations at December 31, 2012 and 2011, consist of the following:

	2012	2011
Industrial revenue bonds	\$ 20,522,189	\$ 20,522,189

During the year ending December 31, 2010, the Foundation refinanced the 1999 Series Bonds by issuing \$23,035,000 in Industrial Revenue Bonds through the Industrial Development Board of the Metropolitan Government of Nashville, Tennessee. The bonds are dated March 1, 2010. Interest on the bonds is payable monthly at a fixed rate of interest. The interest rate at December 31, 2012 and 2011 was 1.81% and 1.85%, respectively. The bonds are to be redeemed in two payments each year on August 19 and December 19 with final maturity on June 1, 2022. The bonds are secured by a negative pledge on the Foundation's assets, excluding artifacts, in favor of the bondholder and are subject to a credit and guaranty agreement between the Foundation and the bondholder. The agreement allows the bondholder to call the bonds on March 1, 2015 and on the fifth anniversary of each March 1 thereafter.

The agreement contains certain loan covenants, the most stringent of which require the Foundation to meet certain debt coverage requirements and liquidity requirements. The Foundation is in compliance for the year ended December 31, 2012 and 2011.

**COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

NOTE I- LONG TERM DEBT(CONTINUED)

Principal maturities of all long-term debt are anticipated to be as follows:

<u>Year Ending December 31,</u>	
2013	-
2014	\$ 1,200,000
2015	1,500,000
2016	1,500,000
2017	1,500,000
2018 and Thereafter	<u>14,822,189</u>
	<u><u>\$ 20,522,189</u></u>

NOTE J – LINE OF CREDIT

During 2011 the Foundation increased its line of credit from \$1,500,000 to \$3,000,000. At December 31, 2012 and 2011, the balance on the line was \$-0-. Interest is payable on the credit line monthly at a variable rate of LIBOR plus 1.25%. This line of credit matures on August 25, 2013. The line of credit is secured by substantially all of the Foundations assets, excluding artifacts.

NOTE K- RESTRICTED NET ASSETS

Amounts released from restrictions were comprised of the following:

	<u>2012</u>	<u>2011</u>
Timing restrictions on gifts removed	\$ 60,000	\$ -
Funds expended for restricted purpose	<u>214,799</u>	<u>226,507</u>
	<u><u>\$ 274,799</u></u>	<u><u>\$ 226,507</u></u>

Temporarily restricted net assets consist of the following:

	<u>2012</u>	<u>2011</u>
Gifts restricted by timing	\$ 40,000	\$ 100,000
Endowment income	231,388	39,284
Restricted for future operations/expansion	<u>27,271,295</u>	<u>18,135,042</u>
	<u><u>\$ 27,542,683</u></u>	<u><u>\$ 18,274,326</u></u>

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE L – FEDERAL INCOME TAXES

The Foundation is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Service Code. However, it does have unrelated income from the sale of certain museum store products and event venue rentals and is required to file Form 990-T and pay the applicable tax, if any. Generally, expenses related to these activities are sufficient to reduce taxable income to where the taxes, if any, are not significant to the Foundation's operations. During 2012 the Foundation paid \$6,915 in income taxes on its unrelated business income.

The Foundation accounts for uncertainties in income tax law under Financial Accounting Standards Board (FASB) Accounting Standards Codification 740-10. ASC 740-10 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. ASC 740-10 requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained by the taxing authority as of the reporting date. If the tax position is not considered "more-likely-than-not" to be sustained, then no benefits of the position are to be recognized. The Foundation has no unrecognized tax benefits for any of the periods presented. To the extent applicable in the future, interest and penalties related to income tax liabilities will be included in pre-tax income as interest expense and tax penalties. At December 31, 2012, the Foundation's tax returns related to fiscal years ended December 31, 2009 through December 31, 2012 remain open to examination by the tax authorities.

NOTE M – DONATED SERVICES

The Foundation received services included as contributions and expenses in the financial statements valued at \$248,055 for 2012 and \$173,739 for 2011. In addition, numerous volunteers have donated significant time to the Foundation's mission. These amounts are not reflected in the financial statements since they do not meet the criteria for recognition under FASB ASC 958-310.

NOTE N – PROFIT-SHARING RETIREMENT PLAN

The Foundation has a 401-K profit-sharing retirement plan. Substantially all employees are eligible after completing one year of employment and 1,000 hours worked with the Foundation. Employees may contribute a portion of their salary subject to IRS limitations. Throughout the year the Foundation matches 50% of employee contributions with a maximum match of 3%. Related expense amounted to \$88,302 and \$72,474 in 2012 and 2011, respectively.

NOTE O – MINIMUM ANNUAL LEASE COMMITMENTS

The Foundation leases miscellaneous office equipment under operating leases and leased a bus under admissions cost of sales. The final lease terms expire July, 2014. Related office equipment rentals amounted to \$65,709 and \$46,597 and related bus rental expenses amounted to \$0 and \$5,151 for the years ended December 31, 2012 and 2011.

NOTE P – ADVERTISING

The Foundation uses advertising to promote its programs. The production costs of advertising are expensed as incurred. Advertising costs totaled \$1,259,964 in 2012 and \$1,118,197 in 2011.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE Q – DERIVATIVE

The Foundation has an interest rate swap agreement effective March 1, 2007 and later amended on March 19, 2010 with a bank related to the bond issue to minimize the effects of changing interest rates. The swap requires the Foundation to pay interest on the notional amount of 4.57% and receive interest at 67% of USD-LIBOR. The notional amount of the swap at December 31, 2012 was \$20,635,000 and at December 31, 2011 was \$21,635,000 and decreases on August 19 and December 19 of each year based on estimated principal payments per the agreement. The agreement expires March 19, 2015. The net settlement cost of the swap was \$596,517 in 2012 and \$671,048 in 2011. At December 31, 2012 and 2011 the fair value of the swap was a liability of \$1,204,439 and \$1,605,344, respectively, and is reported in the statement of financial position as a liability.

NOTE R – FAIR VALUE MEASUREMENTS

The fair values of assets measured on a recurring basis at December 31, 2012 and 2011 are as follows:

	Quoted Prices in Active Markets for for Identical Assets (Level 1 inputs)	Significant Other Observable Inputs (Level 2)
2012		
Investments	\$ 10,262,999	-
Interest rate swap agreement	-	1,204,439
	<u>\$ 10,262,999</u>	<u>\$ 1,204,439</u>
2011		
Investments	\$ 8,328,457	-
Interest rate swap agreement	-	1,605,344
	<u>\$ 8,328,457</u>	<u>\$ 1,605,344</u>

Fair values for investments are based upon quoted market prices. The fair value of the interest rate swap contract is valued by using a cash flow model based upon anticipated interest rates and discounting the estimated future cash flow to its current present value.

NOTE S – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 25, 2013, which is the date the financial statements were available to be issued.

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NOTE T – EXPANSION COMMITMENT

The Foundation has signed an agreement with the Convention Center Authority of the Metropolitan Government of Nashville and Davidson County (“the Authority”) to expand its facility by adding approximately 200,000 square feet to its existing facility which would tie into a new hotel development adjacent to the Museum. The Authority has agreed to fund up to \$38 million for the shell of the building. Under the current agreement, the Foundation could be liable for up to \$750,000 of the shell. The build out of the expansion is expected to cost \$37 million and is the responsibility of the Foundation. The Foundation is in the process of a capital campaign to fund the build out of the new space and to retire its debt. As of December 31, 2012, the Foundation has received payment or recorded pledge commitments for approximately \$28 million.

The Authority will own the shell of the building which is expected to be completed in 2014, at which time the land underlying the shell will be deeded to the Foundation. At that time, the Foundation will lease the land to the Authority and will start leasing the facility from the Authority under a sixty year lease.

To facilitate the Authority’s construction of the shell and assure payment of the Authority’s obligations, the Foundation has provided letters of credit in the amount of \$4.3 million in favor of the developer of the project. There were no draws of these letters of credit as of December 31, 2012.

Subsequent to year end, the Foundation entered into a loan agreement to fund construction costs while pledges are being collected. The total available amount under the loan is \$25 million and principle payments are due based on the receipt of payments of pledges. Interest on the outstanding balance of the loan is payable monthly at a variable rate. The loan is secured by a second deed of trust on the Foundation’s assets, excluding artifacts. The loan matures April 1, 2018.