

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Officers and Trustees
Country Music Foundation, Inc. and Subsidiary
Nashville, Tennessee

REPORT ON THE AUDITS OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the accompanying consolidated financial statements of Country Music Foundation, Inc. and Subsidiaries (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Country Music Foundation, Inc. as of December 31, 2021 and 2020, 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.

BASIS FOR OPINION

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibility under those standards is further described in the Auditor's Responsibilities for the Audit of Consolidated Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF MANAGEMENT FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards*, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, internal omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated [Date], on our consideration of Country Music Foundation, Inc. internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Knapf CPAs PLLC

Nashville, Tennessee
May 18, 2022

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 46,761,287	\$ 10,002,038
Trade accounts receivable and other, net of allowance of \$58,550 in 2021 and \$73,950 in 2020	724,817	492,215
Prepaid expenses and other	353,605	360,046
Inventories	1,245,615	1,672,550
Contributions and grants receivable, net of allowance of \$19,500 in 2021 and \$90,278 in 2020	1,818,632	2,077,867
Restricted cash	45,418	7,041
Investments	4,840,581	23,194,592
Investment in Food on Fifth, LLC	62,809	327,737
Property, equipment and exhibits	60,577,083	64,200,861
Collection items - Note 2	-	-
General library	1,183,039	1,172,216
TOTAL ASSETS	<u>\$ 117,612,886</u>	<u>\$ 103,507,163</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 3,005,565	\$ 2,894,763
Deferred revenue and customer deposits	2,033,220	1,532,810
Note payable, net of unamortized loan costs of \$0 in 2021 and \$32,285 in 2020	450,000	492,715
Bonds payable	50,000	500,000
Capital lease obligation	16,722,900	16,745,558
TOTAL LIABILITIES	<u>22,261,685</u>	<u>22,165,846</u>

NET ASSETS

Net assets without donor restrictions	89,494,862	75,413,622
Net assets with donor restrictions	5,856,339	5,927,695
TOTAL NET ASSETS	<u>95,351,201</u>	<u>81,341,317</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 117,612,886</u>	<u>\$ 103,507,163</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Admission fees	\$ 16,216,825	\$ 4,527,294
Museum store and other merchandise sales	6,375,553	2,206,979
Event revenue	3,358,076	1,355,725
Contributions, grants and memberships	10,997,255	3,014,903
Restaurant and catering revenue	4,190,578	1,904,363
Paycheck Protection Program grant revenue	2,000,000	3,271,900
Investment income	2,889	299,602
Other revenues	631,135	452,119
In-kind donations	146,655	378,298
Gain on disposal of property, equipment and exhibits	3,542	-
Total support and revenue without donor restrictions	<u>43,922,508</u>	<u>17,411,183</u>
Release of donor restrictions	<u>1,260,254</u>	<u>1,818,926</u>
TOTAL SUPPORT AND REVENUE	<u>45,182,762</u>	<u>19,230,109</u>
EXPENSES		
Program services	22,153,307	21,641,153
Cost of museum store and other merchandise sales	2,840,402	1,165,845
Cost of restaurant, catering and event sales	2,256,787	950,541
Management and general	2,371,448	2,479,271
Fundraising	<u>1,479,578</u>	<u>1,582,635</u>
TOTAL EXPENSES	<u>31,101,522</u>	<u>27,819,445</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>14,081,240</u>	<u>(8,589,336)</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and grants	191,324	1,435,366
Investment gains	997,574	420,033
Release of donor restrictions	<u>(1,260,254)</u>	<u>(1,818,926)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(71,356)</u>	<u>36,473</u>
INCREASE (DECREASE) IN NET ASSETS	14,009,884	(8,552,863)
NET ASSETS - BEGINNING OF YEAR	<u>81,341,317</u>	<u>89,894,180</u>
NET ASSETS - END OF YEAR	<u>\$ 95,351,201</u>	<u>\$ 81,341,317</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
DECEMBER 31, 2021 AND 2020

	2021				2020			
	PROGRAM SERVICES	SUPPORTING SERVICES		TOTAL FUNCTIONAL EXPENSES	PROGRAM SERVICES	SUPPORTING SERVICES		TOTAL FUNCTIONAL EXPENSES
		MANAGEMENT AND GENERAL	FUNDRAISING			MANAGEMENT AND GENERAL	FUNDRAISING	
Salaries, wages, and employee benefits	\$ 10,740,220	\$ 1,461,746	\$ 882,645	\$ 13,084,611	\$ 10,831,507	\$ 1,595,430	\$ 963,367	\$ 13,390,304
Cost of museum store and other merchandise sales	2,840,402	-	-	2,840,402	1,165,845	-	-	1,165,845
Cost of restaurant, catering and event sales	2,256,787	-	-	2,256,787	950,541	-	-	950,541
Housekeeping and security contracts	769,495	69,086	25,153	863,734	568,115	51,006	18,570	637,691
General, administrative, and credit card fees	2,255,392	149,844	55,142	2,460,378	1,762,442	133,991	49,449	1,945,882
Occupancy	2,137,731	191,927	69,877	2,399,535	1,682,050	151,015	54,982	1,888,047
Advertising	916,354	82,271	29,953	1,028,578	1,039,794	93,353	33,988	1,167,135
Interest, depreciation and amortization	4,489,657	403,084	146,756	5,039,497	4,712,174	423,062	154,029	5,289,265
Exhibit, museum services, and education expenses	552,912	-	-	552,912	307,049	-	-	307,049
Grants and fundraising expenses	141,292	-	265,141	406,433	388,122	-	296,813	684,935
Miscellaneous	150,254	13,490	4,911	168,655	349,900	31,414	11,437	392,751
TOTAL FUNCTIONAL EXPENSES	\$ 27,250,496	\$ 2,371,448	\$ 1,479,578	\$ 31,101,522	\$ 23,757,539	\$ 2,479,271	\$ 1,582,635	\$ 27,819,445

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 14,009,884	\$ (8,552,863)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	4,661,831	4,883,636
Contributions restricted for long-term purposes	(191,324)	(1,435,366)
Earnings on investment in Food on Fifth, LLC	264,928	(50,997)
Amortization of loan costs	32,285	24,213
Gain on disposal of property, equipment and exhibits	(3,542)	-
Unrealized and realized gain on investments, net	(992,550)	(427,845)
(Increase) decrease in:		
Trade accounts receivable and other	(232,602)	(71,081)
Contributions and grants receivable	(809,695)	(258,464)
Inventories	426,935	78,356
Prepaid expenses and other	6,441	(40,908)
Increase (decrease) in:		
Accounts payable and accrued expenses	110,802	613,713
Deferred revenue and customer deposits	<u>500,410</u>	<u>(123,567)</u>
TOTAL ADJUSTMENTS	<u>3,773,919</u>	<u>3,191,690</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>17,783,803</u>	<u>(5,361,173)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and exhibits	(1,034,511)	(835,433)
Purchase of general library collection items	(10,823)	(1,924)
Proceeds from sale of investments	19,346,561	198,958
Purchase of investments	<u>-</u>	<u>(4,883,546)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>18,301,227</u>	<u>(5,521,945)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(525,000)	(75,000)
Payments on capital lease obligation	(22,658)	(22,223)
Collection of contributions restricted for long-term purposes	<u>1,260,254</u>	<u>1,818,926</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>712,596</u>	<u>1,721,703</u>
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	36,797,626	(9,161,415)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - BEGINNING OF YEAR	<u>10,009,079</u>	<u>19,170,494</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	<u>\$ 46,806,705</u>	<u>\$ 10,009,079</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 1 - GENERAL

Founded in 1967, The Country Music Foundation, Inc. (“CMF”), which does business as the Country Music Hall of Fame and Museum (the “Museum”), is a not-for-profit educational institution that preserves and interprets the evolving history and traditions of country music. Functioning as a national history museum and as an international arts organization with over one million annual visitors in a typical year, the Museum safeguards a diverse artifact and archival collection comprised of moving images on film; video and digital formats; photographs; sound recordings; oral history interviews; stage costumes; musical instruments; posters; printed materials; objects illustrating the lives and careers of musicians, industry figures and the culture of country music. Through 14 exhibits curated and presented, the Museum interprets its collection with support of the more than 650 on-site and virtual educational programs in 2021.

CMF formed a single-member LLC, known as Hall of Fame Grill & Catering, LLC d/b/a Two Twenty-Two Grill & Catering (“222”) to operate the restaurant in the Museum which is provided as a convenience to museum patrons. 222 also provides catering services for museum events. CMF and 222 are collectively referred to as the “Foundation.”

In August 2021, CMF also formed a single-member LLC, Hall of Fame Songs, LLC. As of December 31, 2021, there have not been operations for the Hall of Fame Songs, LLC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation’s management and the Board of Officers and Trustees.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor/grantor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor/grantor restrictions are perpetual in nature, whereby the donor/grantor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor/grantor restrictions. When a restriction expires, net assets are reclassified from net assets with donor/grantor restrictions to net assets without donor/grantor restrictions in the statements of activities.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenues are recognized when control of products or services is transferred to customers, in an amount that reflects the consideration the Foundation expects to be entitled to in exchange for those products and services. The Foundation does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a contract are expensed as incurred when the amortization period is less than a year.

For performance obligations related to admission fees, museum store and other merchandise sales, event revenue, and restaurant and catering revenue, control transfer to the customer at a point in time. Revenues received prior to the date control transfers is recorded as deferred revenue. If the merchandise is shipped to a customer, the Foundation transfers control when the item is shipped and records revenue for the sale upon shipment to the customer. Total revenue recorded based on performance obligations satisfied at a point in time was \$29,926,570 and \$9,950,491 for the years ended December 31, 2021 and 2020.

The nature of the Foundation's business does not give rise to variable consideration or contract assets or liabilities.

Contributions and Support

Contributions, including unconditional promises to give, are recognized as revenue in the period received.

A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of asset transferred or a right of release of a promisor's obligation to transfer assets exist. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

Unconditional contributions of cash and other assets, including contributions receivable (unconditional promises to give), are recorded as revenue based upon any donor-imposed restrictions on the date the donor's commitment or gift. Contributions receivable are recorded at the estimated present value, net of an allowance for uncollectible amounts.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (continued)

The Foundation receives grant revenue from various federal, 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 Foundation reports gifts of equipment or materials (in-kind contributions) at their fair value in the period received 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.

Donated Services

Donated services are recognized if they create or enhance non-financial assets or require specialized skills that were performed by a donor who possesses such skills and would have been purchased by the Foundation if not donated. Donated services are recognized at fair value as support and expense in the period the services are performed. Such services are recognized at fair value as contributions and expense in the period the services are performed. Other individuals volunteer their time and perform a variety of tasks that assist the Foundation with program services and fundraising events. No amounts have been reflected in the consolidated financial statements for these donated services since the volunteers' time does not meet the criteria for recognition under GAAP.

Cash and Cash Equivalents

The Foundation considers cash and cash equivalents to be all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The cash and cash equivalents held in the investment accounts are reported with investments.

Trade Accounts Receivable

Trade accounts receivable are reported at gross sales price less any applicable payments or adjustments. The Foundation may charge interest on past due accounts. 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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Grants Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions receivable 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 (1.50% - 2.50% in 2021 and 2020). 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.

Inventories

Inventories are stated at the lower of cost or net realizable value using an average cost method.

Property, Equipment and Exhibits

The Foundation capitalizes all expenditures for property and equipment over \$5,000. 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. 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 remaining assets are depreciated using the straight-line method over a five- to ten-year estimated life.

Collection Items

The Foundation's collections are made up of reference and archival materials and three-dimensional objects. The archival and reference materials include commercial audio and video recordings, films, photographs, posters, documents, books, and periodicals that are held for educational and curatorial purposes. In addition, the museum records and preserves its own programming, including podcasts, interviews, and performances. The object collection comprises instruments, stage wear, and personal objects related to the music and careers of country music performers, songwriters, and industry professionals. These items are cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. In accordance with the provisions of GAAP, the Foundation does not capitalize donated artifacts or recognize them as revenues or gains.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collection Items (continued)

GAAP 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 artifacts donated in 2021 is \$138,690 (\$41,592 in 2020).

General Library

The General Library's permanent collection is composed of purchased 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.

Fair Value Measurements

The Foundation classifies 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).

An 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 on a recurring basis.

Money market accounts and equities: Valued based on quoted market prices on the last business day of the reporting period.

Fixed income securities: Securities for which quotations are readily available in active markets valued at the most recent quote in the principal market in which such securities are normally traded. These investments also include securities valued on the basis of information provided by pricing services that employ valuation models reflecting such factors as benchmark yields, reported trades, broker/dealer quotes, bid/offer data and other relevant elements.

There have been no changes in the valuation methodologies used at December 31, 2021 and 2020.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

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 Foundation believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Investments

Investments consist of money market accounts, treasury bills, corporate and municipal bonds, and equities. Money market accounts are carried at cash value plus accrued interest. Certificates of deposit are reported at cost, plus any accrued interest. All other investments are carried at fair value.

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. Net realized and unrealized gains and losses are reflected in the consolidated statement of activities.

Investment in Food on Fifth, LLC

The Foundation owns a 40% membership interest in Food on Fifth, LLC (“FOF”). As part of the membership agreement, the Foundation leases a portion of its premises to FOF in exchange for 10% of net sales, which will decrease to 8% of net sales once the Foundation has received an amount equal to the initial investment amount of \$400,000 from 2% of net sales. This investment is accounted for using the equity method of accounting. Accordingly, the investment is recorded at acquisition cost plus the Foundation’s equity in the undistributed earnings or losses of FOF.

LGW, LLC (“LGW”), the controlling member of FOF with a 60% membership interest, entered into an Intellectual Property Agreement with FOF. If LGW licenses a third party to use the intellectual property of FOF in connection with the operation of a restaurant, LGW will pay FOF a fee of 10% of net franchise revenue. Should LGW use the intellectual property in connection with the operation of a restaurant, LGW will pay FOF 2% of net sales.

Endowment Fund

The Foundation has a donor-restricted Endowment Fund. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation’s donor-imposed restricted endowment funds are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”) and the State of Tennessee’s State Uniform Prudent Management of Institutional Funds Act (“SUPMIFA”).

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund (continued)

Interpretation of applicable law: The Board of Officers and Trustees has interpreted SUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Spending policy: The Foundation has a policy which limits the spending to 5% of the average Fund market value for the preceding three years ending December 31 of the most recent calendar year. The spending amount resulting from this calculation is considered by the Board of Officers and Trustees on an as needed basis and distributions may be made throughout the year at such intervals as may be specified by the Board.

Investment return objective, risk parameters and strategies: The Foundation has adopted investment and spending policies to establish asset allocation targets, investment objectives and guidelines and the degree of investment risk the Board deems acceptable. The goal of the investment program is providing funds that grow in value and provide a source of income primarily for the support of operating and program costs. Investment objectives are as follows:

- Enhance the financial stability of the Foundation.
- Provide a reasonably predictable source of income to the Foundation.
- The primary investment objective of the Endowment Fund 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 Fund 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.
- The Fund is 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.
- 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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund (continued)

- 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 recognizes and acknowledges some risk must be assumed in order to achieve the long-term investment objectives, and there are uncertainties and complexities associated with contemporary investment markets. The Foundation's prospects for the future, current financial condition, and level of funding suggest collectively some interim fluctuations in market value rates of return may be tolerated in order to achieve longer-term objectives.

Advertising

The Foundation uses advertising to promote its programs. Advertising costs are expensed as incurred. Advertising costs were approximately \$1,029,000 in 2021 and \$1,167,000 in 2020.

Income Taxes

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

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Foundation'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 provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying consolidated financial statements.

The Foundation files a U.S. Federal Form 990 for organizations exempt from income tax and a U.S. Federal Form 990-T for organizations exempt from income tax with unrelated business income. Income tax expense relates to operations that result in unrelated business income. In addition, the Foundation files an income tax return in the State of Tennessee.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

<u>Expense</u>	<u>Method of Allocation</u>
Salaries, wages, and employee benefits	Time and effort
Cost of museum store and other merchandise sales	Direct costs
Cost of restaurant, catering and event sales	Direct costs
Housekeeping and security contracts	Time and effort
General, administrative, and credit card fees	Time and effort
Occupancy	Square footage
Advertising	Time and effort
Interest and depreciation	Square footage
Exhibit, museum services, and education expense	Time and effort
Grants and fundraising expenses	Time and effort
Miscellaneous	Time and effort

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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide the interim disclosures required by Accounting Standards Codification 250-10-50-3 in the fiscal year in which a company adopts the new leases standard.

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the consolidated financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Foundation expects to adopt the guidance retrospectively at the beginning of the period of adoption, January 1, 2022, through a cumulative-effect adjustment, and will not apply the new standard to comparative periods presented.

The new standard provides a number of practical expedients. Upon adoption, the Foundation expects to elect all the practical expedients available.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This guidance is effective for annual reporting periods beginning after June 15, 2021. The adoption of ASU 2020-07 is not expected to have a significant impact on the Foundation’s consolidated financial statements.

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between December 31, 2021 and May 18, 2022, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 3 - AVAILABILITY AND LIQUIDITY

The following represents the Foundation's financial assets at December 31:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 46,761,287	\$ 10,002,038
Trade accounts receivable and other, net of allowance	724,817	492,215
Contributions and grants receivable, net of allowance	1,818,632	2,077,867
Investments	4,840,581	23,194,592
Endowment spending-rate distribution and appropriations	<u>167,241</u>	<u>166,751</u>
Total financial assets	54,312,558	35,933,463
Less amounts not available to be used within one year:		
Restricted by donor with time or purpose restrictions	<u>(5,856,339)</u>	<u>(5,927,695)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 48,456,219</u>	<u>\$ 30,005,768</u>

Included in amounts restricted by donor with time or purpose restrictions is the Foundation's endowment fund. Income from the donor-restricted endowment fund is subject to an annual spending rate of 5 percent as described in Note 1. Donor-restricted endowment funds are not available for general expenditure.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Foundation's goal is generally to maintain available financial assets to meet approximately 180 days of operating expenses at any time. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts, certificates of deposit or treasury securities. The Foundation also has a \$7,000,000 line of credit with a bank available to meet cash flow needs, if necessary.

NOTE 4 - RESTRICTED CASH

The Foundation also held cash restricted by donors of \$45,418 and \$7,041 for certain projects at December 31, 2021 and 2020, respectively.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 5 - CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Receivable in less than one year	\$ 1,524,942	\$ 1,729,958
Receivable in one to five years	<u>325,000</u>	<u>460,445</u>
Total unconditional promises to give	1,849,942	2,190,403
Less allowance for uncollectible pledges	(19,500)	(90,278)
Less discounts to net present value	<u>(11,810)</u>	<u>(22,258)</u>
Contributions and grants receivable	<u>\$ 1,818,632</u>	<u>\$ 2,077,867</u>

NOTE 6 - INVENTORIES

Inventories consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Museum stores	\$ 856,177	\$ 1,245,974
Grill and catering	144,347	102,532
Hatch Retail and Haley Gallery	<u>304,687</u>	<u>394,005</u>
	1,305,211	1,742,511
Less valuation allowance	<u>(59,596)</u>	<u>(69,961)</u>
	<u>\$ 1,245,615</u>	<u>\$ 1,672,550</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 7 - PROPERTY, EQUIPMENT AND EXHIBITS

Property, equipment and exhibits consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Land	\$ 3,926,300	\$ 3,926,300
Building and improvements	84,202,048	83,870,109
Furniture, fixtures and equipment	12,876,287	12,280,199
Exhibits	13,280,714	13,203,159
Vehicles	63,064	63,064
	<u>114,348,413</u>	<u>113,342,831</u>
Less accumulated depreciation	<u>(53,771,330)</u>	<u>(49,141,970)</u>
	<u>\$ 60,577,083</u>	<u>\$ 64,200,861</u>

NOTE 8 - CONCENTRATIONS

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents, investments and various contribution and grant receivables. Contributions and grants receivable consist of individual, organization and corporate contribution pledges. At December 31, 2021, contributions receivable from four donors totaled approximately \$745,000, or 92% of total contributions and grants receivable. At December 31, 2020, receivables from one donor totaled approximately \$1,193,000, or 70% of total contributions and grants receivable

The Foundation maintains cash accounts at reputable financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Foundation's cash balances may, at times, exceed statutory limits. The Foundation has not experienced any losses in such accounts and management considers this to be a normal business risk.

Investments are subject to market risk, the risk inherent in a fluctuating market. The custodians of the Foundation's securities are covered by the Securities Investor Protection Corporation ("SIPC") which provides protection to investors in certain circumstances, such as fraud or failure of the institution. Coverage is limited to \$500,000 per broker/dealer custodian, including up to \$250,000 in cash. The SIPC does not insure against market risk.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 9 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Endowment investments:		
Money market accounts	\$ 176,594	\$ 243,813
Fixed income securities	180,238	332,659
Equities	<u>4,483,749</u>	<u>3,427,776</u>
Total endowment investments	<u>4,840,581</u>	<u>4,004,248</u>
Other investments:		
Equities	-	195,940
Fixed income securities	<u>-</u>	<u>18,994,404</u>
Total other investments	<u>-</u>	<u>19,190,344</u>
Total	<u>\$ 4,840,581</u>	<u>\$ 23,194,592</u>

Investment income is categorized as follows in the consolidated statements of activities for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Without donor restrictions	\$ 2,889	\$ 299,602
With donor restrictions	<u>997,574</u>	<u>420,033</u>
	<u>\$ 1,000,463</u>	<u>\$ 719,635</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 10 - FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31:

	2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market accounts	\$ 176,594	\$ -	\$ -	\$ 176,594
Equities:				
Consumer staples	396,606	-	-	396,606
Healthcare	671,483	-	-	671,483
Consumer discretionary	530,207	-	-	530,207
Information technology	1,151,921	-	-	1,151,921
Industrial	482,632	-	-	482,632
Energy	216,935	-	-	216,935
Telecommunications	481,749	-	-	481,749
Financials	552,216	-	-	552,216
Fixed income securities:				
Exchange traded funds	45,632	-	-	45,632
Corporate bonds	-	134,606	-	134,606
Total Investments	<u>\$ 4,705,975</u>	<u>\$ 134,606</u>	<u>\$ -</u>	<u>\$ 4,840,581</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 10 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2020			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	\$ 243,813	\$ -	\$ -	\$ 243,813
Equities:				
Consumer staples	373,703	-	-	373,703
Healthcare	535,223	-	-	535,223
Consumer discretionary	423,563	-	-	423,563
Information technology	1,093,363	-	-	1,093,363
Industrial	363,800	-	-	363,800
Energy	120,885	-	-	120,885
Telecommunications	389,428	-	-	389,428
Utilities	-	-	-	-
Real estate investment trusts	19,650	-	-	19,650
Financials	304,101	-	-	304,101
Fixed income securities:				
Exchange traded funds	47,276	-	-	47,276
Treasury bill	-	18,994,404	-	18,994,404
Corporate bonds	-	259,445	-	259,445
Municipal bonds	-	25,938	-	25,938
Total Investments	\$ 3,914,805	\$ 19,279,787	\$ -	\$ 23,194,592

The Foundation estimates that the fair value of all financial instruments at December 31, 2021 and 2020 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statement of financial position. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Foundation would realize in a current market exchange.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 11 - ENDOWMENT FUND

A summary of the endowment activity is as follows for December 31, 2021:

	<u>Assets Without Donor Restrictions</u>	<u>Assets With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2021	\$ -	\$ 4,015,693	\$ 4,015,693
Contributions	-	-	-
Interest and dividend income	-	69,691	69,691
Management fees	-	(28,100)	(28,100)
Amounts appropriated for operations	-	(167,241)	(167,241)
Realized and unrealized gains on investments	-	955,983	955,983
Endowment net assets, December 31, 2021	<u>\$ -</u>	<u>\$ 4,846,026</u>	<u>\$ 4,846,026</u>

Contributions to the endowment net assets includes \$5,445 in pledges receivable at December 31, 2021.

A summary of the endowment activity is as follows for December 31, 2020:

	<u>Assets Without Donor Restrictions</u>	<u>Assets With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2020	\$ -	\$ 3,734,879	\$ 3,734,879
Contributions	-	20,000	20,000
Interest and dividend income	-	73,245	73,245
Management fees	-	(23,302)	(23,302)
Amounts appropriated for operations	-	(166,901)	(166,901)
Realized and unrealized gains on investments	-	377,772	377,772
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 4,015,693</u>	<u>\$ 4,015,693</u>

Contributions to the endowment net assets includes \$11,445 in pledge receivable at December 31, 2020.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 12 - PAYCHECK PROTECTION PROGRAM

The Foundation was granted a \$3,271,900 loan under the Paycheck Protection Program (“PPP”) administered by a Small Business Administration (“SBA”) approved partner. PPP loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes. The loan is uncollateralized and is fully guaranteed by the Federal government. The Foundation initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional controls; this is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Foundation has recognized \$3,271,900 as grant revenue for the year ended December 31, 2020. On August 2, 2021, the Small Business Administration approved the forgiveness of the first draw PPP loan.

The Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the “Economic Aid Act”) was signed into law on December 27, 2020. The Economic Aid Act provides a second draw PPP loan to borrowers who have used the full amount of the first PPP loan. In March 2021, the Foundation was granted a second draw loan from a financial institution in the amount of \$2,000,000. The Foundation initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional controls; this is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Foundation has recognized \$2,000,000 as grant revenue for the year ended December 31, 2021. On April 11, 2022, the Small Business Administration approved the forgiveness of the second draw PPP loan.

NOTE 13 - LONG-TERM DEBT

During 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 Foundation refinanced those bonds again on April 30, 2015. The balance refinanced was \$19,535,000 with interest on the bonds payable monthly at a fixed rate of 3.33%. The bonds are to be redeemed in two payments each year on July 1 and December 1 with final maturity on May 1, 2025. The bonds are secured by a deed of trust on certain real estate and are subject to a credit and guaranty agreement between the Foundation and the bondholder. The Foundation has made prepayments on the bonds and the next required payment is due May 1, 2025. Principal outstanding on the bonds at December 31, 2021 and 2020 was \$50,000 and \$500,000.

Loan costs incurred are presented in the statement of financial position as a direct reduction of the carrying amount of the debt liability. Loan costs are amortized on a straight-line basis over the term of the loans. Amortization expense amounted to \$32,285 and \$24,213 for the years ended December 31, 2021 and 2020, respectively.

The agreement contains certain loan covenants, the most stringent of which require the Foundation to meet certain debt service coverage requirements and liquidity requirements. The Foundation was in compliance with these covenants for the year ending December 31, 2021.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 13 - LONG-TERM DEBT (CONTINUED)

The Foundation obtained an uncollateralized and interest free loan for \$750,000 in 2017. Payments of \$75,000 are due on or before January 5 each calendar year beginning in 2018 until January 2028. Principal outstanding on the loan at December 31, 2021 and 2020 was \$450,000 and \$525,000, respectively.

Interest expense related to long-term debt for the years ended December 31, 2021 and 2020 was \$17,388 and \$18,119, respectively.

As of December 31, 2021, annual principal maturities of all long-term debt agreements are as follows:

Year Ending December 31:

2022	\$ 75,000
2023	75,000
2024	75,000
2025	75,000
2026	75,000
Thereafter	<u>125,000</u>
	<u>\$ 500,000</u>

NOTE 14 - LINE OF CREDIT

The Foundation has a \$7,000,000 line of credit with a bank that matures October 5, 2024. The line bears interest at a variable rate of Daily Simple SOFR. The line of credit is secured by substantially all the Foundation's assets, excluding artifacts. There was no outstanding balance on the line as of December 31, 2021 or 2020. Interest expense related to line of credit for the years ended December 31, 2021 and 2020 was \$507 and \$35,010, respectively.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 15 - CAPITAL LEASE OBLIGATION

On December 30, 2010, the Foundation entered into a Development, Lease and Operating agreement with the Convention Center Authority of the Metropolitan Government of Nashville and Davidson County (the "Authority"). As part of this agreement, the Authority entered into a Development Agreement with Omni Nashville, LLC (the "Omni") to build a connector (the "expansion project") between the Foundation and the Omni with funding from a tax increment financing arrangement provided by the Metropolitan Development and Housing Agency. The Foundation paid for the build out of the expansion project and the Authority paid for construction of the building shell. Upon completion of construction, the expansion project property was transferred to the Authority.

During 2014, the land upon which the expansion project rests was deeded to the Foundation by the Industrial Development Board through the Master Condominium Declaration and is leased to the Authority under a ground lease agreement. The consideration under the ground lease agreement does not require cash payments, however it does require the parties to abide by the Development, Lease and Operating agreement. The carrying amount of the land on the Foundation's consolidated statements of financial position as of December 31, 2021 and 2020 is \$3,097,400.

On June 20, 2014, the Foundation entered into a capital lease for the expansion project under a sixty-year lease with the Authority. The Foundation pays annual rent of \$250,000 from 2014-2018, \$350,000 from 2019-2023, \$500,000 from 2024-2063, \$650,000 from 2064-2068 and \$750,000 from 2069-2073. The Foundation is responsible for all interior and exterior operating costs, maintenance and repairs. As part of the agreement, the Authority and the Foundation will place a portion of the rent into an escrow account held by the Authority (the "Reserve Fund") in the amount of \$200,000 per year until the Reserve Fund reaches \$1,000,000. The Reserve Fund may be accessed during the term of the lease once the Reserve Fund reaches \$250,000 for the maintenance and repair of the building expansion. The funds shall be disbursed upon remittance of a budget by the Foundation for necessary expenditures and approval by the Authority. Beginning in 2035, the Reserve Fund shall be increased to \$1,500,000 with annual deposits increasing to \$250,000 per year. During the year ended December 31, 2021, the Foundation received disbursements totaling \$342,651 from the Reserve Fund for qualifying expenditures (the Foundation did not request a disbursement in 2020). This amount is included in other revenues in the consolidated statements of activities.

The Foundation will have the right and option to purchase the expansion project upon the expiration of the lease for a purchase price of \$750,000.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 15 - CAPITAL LEASE OBLIGATION (CONTINUED)

Future minimum lease payments under the capital lease obligation as of December 31, 2021 is as follows:

For the year ending December 31,

2022	\$ 350,000
2023	350,000
2024	500,000
2025	500,000
2026	500,000
Thereafter	<u>25,500,000</u>
	27,700,000
Less: imputed interest at 1.938%	<u>(10,977,100)</u>
Net minimum lease payments	<u>\$ 16,722,900</u>

Assets under the capital lease have been capitalized and have the following book value as of December 31:

	<u>2021</u>	<u>2020</u>
Building and improvements	\$ 16,505,134	\$ 16,505,134
Less accumulated depreciation	<u>(3,301,031)</u>	<u>(2,888,402)</u>
	<u>\$ 13,204,103</u>	<u>\$ 13,616,732</u>

Depreciation expense for these assets was \$412,629 in 2021 and 2020.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 16 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Time restricted contributions receivable	\$ 398,690	\$ 1,292,887
Endowment corpus	2,285,500	2,285,500
Endowment income	2,560,526	1,730,193
Restricted for future operations or expansion	<u>611,623</u>	<u>619,115</u>
	<u>\$ 5,856,339</u>	<u>\$ 5,927,695</u>

NOTE 17 - PROFIT-SHARING RETIREMENT PLAN

The Foundation sponsors a 401(k) profit-sharing retirement plan. Substantially all employees are eligible to participate in the plan and are eligible for company match after completing one year of employment and 1,000 hours worked with the Foundation. The Foundation makes contributions to the plan equal to 50% of employee contributions up to 3% of the eligible participant's salaries. Related expense amounted to \$165,309 and \$187,813 in 2021 and 2020, respectively.

NOTE 18 - ARCHIVAL PERMANENT ENDOWMENT FUND

In December 2010, a donor established a \$2,500,000 fund with the Community Foundation of Middle Tennessee for the benefit of the Foundation. The fund, called the Archival Permanent Endowment Fund, provides a 5% guarantee minimum annual income distribution annually. Distributions made to the Foundation from the fund amounted to \$133,700 and \$134,400 for the years ended December 31, 2021 and 2020, respectively. 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 Foundation. Income distributed from this fund is recognized by the Foundation when it is received.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 19 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	<u>2021</u>	<u>2020</u>
CASH AND RESTRICTED CASH		
Cash and cash equivalents	\$ 46,761,287	\$ 10,002,038
Restricted cash	<u>45,418</u>	<u>7,041</u>
TOTAL CASH AND RESTRICTED CASH	<u>\$ 46,806,705</u>	<u>\$ 10,009,079</u>
OTHER CASH FLOW DISCLOSURES		
CASH PAID FOR		
Interest	<u>\$ 345,381</u>	<u>\$ 380,906</u>
State and federal income taxes	<u>\$ 22,648</u>	<u>\$ 3,600</u>
NON-CASH TRANSACTIONS		
Stock received for pledge receivable	<u>\$ -</u>	<u>\$ 195,033</u>

NOTE 20 - COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel and forced closures for certain type of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets in the United States. Effective March 13, 2020, the Foundation discontinued operation at the museum, including closing the restaurants and cancellations of events that were scheduled at the museum. The Foundation reopened its museum, retail and event venues on September 9, 2020.

In July 2021, the Foundation received a Shuttered Venue Operators Grant (“SVOG”) of \$8,000,000. This award, established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Ventures Act and amended by the American Rescue Plan Act, is to assist eligible entities who, in general, illustrated a loss of gross revenues in certain quarters during 2020 as compared to the same quarter(s) in 2019. The Foundation initially recorded the grant as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional controls; this is, once measurable performance or other barrier and right of return of the SVOG no longer existed. The Foundation has recognized \$8,000,00 as grant revenue for the year ended December 31, 2021.