

COUNTRY MUSIC FOUNDATION, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

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, 2013 and 2012, 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, 2013 and 2012, 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 18, 2014

COUNTRY MUSIC FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 5,296,665	\$ 1,499,525
Trade accounts receivable (less allowance of \$60,652 for 2013 and \$44,662 for 2012)	686,806	239,653
Prepaid expenses	91,745	84,167
Inventories	829,065	729,943
Contributions and grants receivable	12,978,883	16,014,213
Restricted cash	1,790,497	368,826
Investments- endowment	2,745,043	2,217,173
Investments- held for building expansion	661,670	8,045,826
Property, equipment and exhibits	61,817,384	31,944,088
Collection items(Note A)	-	-
General library	1,072,517	1,015,239
Bond and loan financing costs, net of amortization of \$400,567 in 2013 and \$330,911 in 2012	428,995	225,996
TOTAL ASSETS	\$ 88,399,270	\$ 62,384,649
LIABILITIES		
Accounts payable and accrued expenses	\$ 4,483,064	\$ 2,752,596
Deferred revenue and customer deposits	455,876	196,094
Notes payable	14,906,000	-
Bonds payable	20,522,189	20,522,189
Swap contract	656,824	1,204,439
TOTAL LIABILITIES	41,023,953	24,675,318
NET ASSETS		
Unrestricted	31,639,994	7,966,148
Temporarily restricted	13,534,823	27,542,683
Permanently restricted	2,200,500	2,200,500
TOTAL NET ASSETS	47,375,317	37,709,331
TOTAL LIABILITIES AND NET ASSETS	\$ 88,399,270	\$ 62,384,649

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

	December 31,	
	2013	2012
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Admission fees	\$ 9,477,536	\$ 6,957,574
Museum store and other merchandise sales	3,929,729	3,628,005
Event revenue	1,663,226	1,139,237
Royalties	50,418	71,095
Contributions, grants and memberships	1,130,741	1,134,896
Special fundraising events	878,123	515,494
Restaurant/catering	3,568,381	2,600,044
Investment income	9,130	47,988
Other revenues	126,467	75,281
In-kind donations	365,917	248,055
Endowment income transfer	65,874	55,965
Gain on sale of building	3,969,646	-
Total Unrestricted Support and Revenue	25,235,188	16,473,634
Net assets released from donor restrictions	18,370,155	274,799
TOTAL SUPPORT AND REVENUE	43,605,343	16,748,433
EXPENSES		
Program services	14,084,460	11,263,232
Administrative	2,817,440	2,283,508
Fundraising	962,905	729,201
Cost of museum store and other merchandise sales	1,505,984	1,525,165
Cost of restaurant/catering sales	1,081,345	899,776
Cost of direct benefits to donors of special event	26,978	-
Change in value of interest rate swap	(547,615)	(400,905)
TOTAL EXPENSES	19,931,497	16,299,977
NET INCREASE IN UNRESTRICTED NET ASSETS	23,673,846	448,456
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	4,035,332	9,351,056
Net assets released from donor restrictions	(18,370,155)	(274,799)
Investment gains	326,963	192,100
(DECREASE)INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(14,007,860)	9,268,357
NET INCREASE IN NET ASSETS	9,665,986	9,716,813
NET ASSETS, Beginning of year	37,709,331	27,992,518
NET ASSETS, End of year	\$ 47,375,317	\$ 37,709,331

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

	December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 9,665,986	\$ 9,716,813
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,559,799	1,532,689
Contributions restricted for long term purposes	(3,583,117)	(9,267,795)
Gain on disposal of fixed assets	(3,969,646)	(3,000)
Gains on investments	(336,093)	(240,088)
(Increase) decrease in:		
Trade accounts and other receivables	(447,153)	243,751
Pledges receivable	(282,246)	105,756
Inventories	(99,122)	(77,230)
Prepaid expenses	(7,578)	(24,305)
Increase (decrease) in:		
Accounts payable and accrued expenses	534,778	(92,442)
Deferred revenue	259,782	33,360
Swap contract	(547,615)	(400,905)
Net Cash Provided by Operating Activities	3,747,775	1,526,604
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of building and other fixed assets	4,198,466	3,000
Capital expenditures	(31,453,849)	(3,500,743)
Increase in restricted cash	(1,421,671)	(114,883)
Sale(purchase) of investments	7,192,379	(1,694,416)
Net Cash Used in Investing Activities	(21,484,675)	(5,307,042)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bridge loan	14,906,000	-
Payment of loan costs	(272,653)	-
Collection of pledges restricted for long-term endowment	200,000	200,000
Contributions received restricted for long-term purposes	6,700,693	4,514,971
Net Cash Provided by Financing Activities	21,534,040	4,714,971
NET INCREASE IN CASH	3,797,140	934,533
CASH AND CASH EQUIVALENTS, Beginning of Year	1,499,525	564,992
CASH AND CASH EQUIVALENTS, End of Year	\$ 5,296,665	\$ 1,499,525
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 948,892	\$ 979,834
Income taxes paid	\$ 15,000	\$ 6,915
Non cash investing activities:		
Capital expenditures in accounts payable	\$ 1,195,690	\$ 1,495,152

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

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, 2013 and 2012

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 \$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. 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 \$66,395 in 2013 and \$1,141,753 in 2012.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

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, 2013 and \$2,200,500 at December 31, 2012. The Foundation had temporarily restricted net assets of \$13,534,823 at December 31, 2013 and \$27,542,683 at December 31, 2012.

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 \$1,682,831 and \$264,590 related to its building expansion program at December 31, 2013 and 2012, respectively. CMF also held cash restricted by donors of \$107,666 and \$104,236 for certain projects at December 31, 2013 and 2012, respectively.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE C – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give at December 31, 2013 and 2012, are as follows:

	2013	2012
Receivable in less than one year	\$ 4,736,603	\$ 4,726,411
Receivable in one to five years	7,579,836	10,441,112
Receivable in six to nine years	1,200,000	1,600,000
Total unconditional promises to give	<u>13,516,439</u>	<u>16,767,523</u>
Less discounts to net present value	<u>(537,556)</u>	<u>(753,310)</u>
Contributions receivable	<u>\$ 12,978,883</u>	<u>\$ 16,014,213</u>

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

NOTE D – INVENTORIES

Inventories consist of:

	2013	2012
Museum store	\$ 721,275	\$ 482,573
Foundation press and records	136,506	286,155
	<u>857,781</u>	<u>768,728</u>
Less valuation allowance	<u>(28,716)</u>	<u>(38,785)</u>
	<u>\$ 829,065</u>	<u>\$ 729,943</u>

NOTE E - PROPERTY, EQUIPMENT, AND EXHIBITS

Property, equipment and exhibits consist of:

	2013	2012
Land	\$ 828,900	\$ 932,700
Building and improvements	63,247,422	30,606,463
Furniture, fixtures, and equipment	5,478,920	3,306,249
Exhibits	11,635,603	9,313,069
Vehicles	89,130	89,130
Construction in process	-	4,720,827
	<u>81,279,975</u>	<u>48,968,438</u>
Less accumulated depreciation	<u>(19,462,591)</u>	<u>(17,024,350)</u>
	<u>\$ 61,817,384</u>	<u>\$ 31,944,088</u>

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

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, 2013 deposits exceeded FDIC insurance coverage by \$6,808,499. At December 31, 2012 this amount was \$1,507,539.

NOTE G – INVESTMENTS

At December 31, 2013 and 2012, investments consisted of the following:

	<u>2013</u>		<u>2012</u>	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 298,854	\$ 298,854	\$ 6,078,573	\$ 6,078,573
Fixed income securities	1,151,985	1,134,805	2,790,718	2,755,022
Common stocks	1,896,499	1,344,313	1,393,708	1,133,503
Miscellaneous	59,375	44,280		-
	<u>\$ 3,406,713</u>	<u>\$ 2,822,252</u>	<u>\$ 10,262,999</u>	<u>\$ 9,967,098</u>

The investments include assets pledged on a letter of credit arrangement related to the building expansion of \$589,684 at December 31, 2013 and \$4,541,060 at December 31, 2012. In addition, the money market account includes \$71,986 at December 31, 2013 and \$3,504,766 at December 31, 2012 restricted for the building expansion. The remaining investment assets are the Foundation endowment fund in the amount of \$2,745,043 at December 31, 2013 and \$2,217,173 at December 31, 2012.

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

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 130,650	\$ 134,656
Investment management fees	(17,781)	(15,337)
Net realized and unrealized gains	289,098	176,734
	<u>\$ 401,967</u>	<u>\$ 296,053</u>
Reported in the statement of activities as follows:		
Endowment income transfer	\$ 65,874	\$ 55,965
Unrestricted gains	9,130	47,988
Temporarily restricted gains	326,963	192,100
	<u>\$ 401,967</u>	<u>\$ 296,053</u>

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

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, 2013 and 2012

NOTE H – ENDOWMENT AND RELATED ASSETS(CONTINUED)

A summary of the endowment activity for December 31, 2013 and 2012 is as follows:

	2013	2012
Endowment net assets, beginning of year	\$ 2,217,173	\$1,825,069
Contributions	200,000	200,000
Amounts appropriated for operations	(65,874)	(55,965)
Net realized and unrealized investment gains	294,902	181,586
Investment Income, net of management fees	98,842	66,483
Endowment net assets, end of year	\$ 2,745,043	\$ 2,217,173

As of December 31, 2013, \$2,200,500 of the endowment is part of permanently restricted net assets and \$544,543 is part of temporarily restricted net assets.

NOTE I - LONG-TERM DEBT

Long-term obligations at December 31, 2013 and 2012, consist of the following:

	2013	2012
Industrial revenue bonds	\$ 20,522,189	\$ 20,522,189
Note payable to bank	\$ 14,906,000	\$ -

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 variable rate of interest. The interest rate at December 31, 2013 and 2012 was 1.79% and 1.81%, 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, 2013 and 2012.

In connection with the expansion of the museum facilities the Foundation obtained a bridge loan dated March 14, 2013. The loan provides for advances of up to \$25,000,000 until September 1, 2014. Interest is payable monthly on the loan draws at LIBOR plus 1.75%. The rate at December 31, 2013 was 1.9375%. At December 31, 2013, \$2,444,000 was available to draw on this loan. The loan is secured by a deed of trust on certain real estate. The loan matures March 1, 2018.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

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>	
2014	\$ 987,189
2015	1,500,000
2016	1,500,000
2017	1,500,000
2018	16,656,000
2019 and Thereafter	<u>13,285,000</u>
	<u>\$ 35,428,189</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, 2013 and 2012, 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 March 5, 2015. 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>2013</u>	<u>2012</u>
Timing restrictions on gifts removed	\$ 40,000	\$ 60,000
Funds expended for restricted purpose	<u>18,330,155</u>	<u>214,799</u>
	<u>\$ 18,370,155</u>	<u>\$ 274,799</u>

Temporarily restricted net assets consist of the following:

	<u>2013</u>
Gifts restricted by timing	\$ 12,380,821
Endowment income	544,543
Restricted for future operations/expansion	<u>609,459</u>
	<u>\$ 13,534,823</u>

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

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.

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, 2013, the Foundation's tax returns related to fiscal years ended December 31, 2010 through December 31, 2013 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 \$365,917 for 2013 and \$248,055 for 2012. 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 \$87,225 and \$88,302 in 2013 and 2012, 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 \$70,484 and \$65,709.

NOTE P – ADVERTISING

The Foundation uses advertising to promote its programs. The production costs of advertising are expensed as incurred. Advertising costs totaled \$1,128,737 in 2013 and \$1,259,964 in 2012.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

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, 2013 was \$19,485,000 and at December 31, 2012 was \$20,635,000 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 \$375,314 in 2013 and \$596,517 in 2012. At December 31, 2013 and 2012 the fair value of the swap was a liability of \$656,824 and \$1,204,439, 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, 2013 and 2012 are as follows:

	2013		2012	
	<u>(Level 1 inputs)</u>	<u>(Level 2 inputs)</u>	<u>(Level 1 inputs)</u>	<u>(Level 2 inputs)</u>
Equities				
Consumer staples	\$ 261,847		\$ 205,406	
Healthcare	252,846		142,520	
Consumer discretionary	149,802		240,136	
Technology	267,417		199,423	
Industrials	246,919		121,131	
Energy and utilities	251,977		181,393	
Financials	347,142		167,482	
Other	177,922		137,123	
Fixed Income				
Corporate notes	597,662		683,786	
Municipal bonds	554,325		2,106,932	
Money market	298,854		6,077,667	
Interest rate swap	-	656,824	-	1,204,439
	<u>\$ 3,406,713</u>	<u>\$ 656,824</u>	<u>\$ 10,262,999</u>	<u>\$ 1,204,439</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. Level 1 inputs are based upon quoted market prices in active markets. Level 2 inputs are derived primarily from observable market data.

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NOTE S – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 18, 2014, which is the date the financial statements were available to be issued.

NOTE T – EXPANSION COMPLETION AND RELATED LEASE

During 2013, the Foundation completed construction of its building expansion project. The project was done in cooperation with the Convention Center Authority of the Metropolitan Government of Nashville and Davidson County ("the Authority") whereby the Foundation paid for the build out of the museum addition and the Authority paid for construction of the shell.

Per the development, lease and operating agreement with the Authority, the Foundation will start leasing the facility under a sixty year lease in 2014. Per the agreement, rent shall commence no later than July 1, 2014. The Foundation will pay annual rent of \$250,000 through year five with annual rent payments incrementally increasing up to \$750,000 through year sixty. To ensure timely maintenance and repair of the building expansion, the Authority and the Foundation will place a portion of the rent into an escrow account (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 land upon which the expanded facility rests is to be owned by the Foundation and leased to the Authority.

Per FASB ASC 840, the Foundation will classify this lease as a capital lease. The Foundation will have the right and option to purchase the building expansion upon the expiration of the initial term with a purchase price of \$750,000.