

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2016 AND 2015

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Country Music Foundation, Inc. and Subsidiary (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY 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; this includes 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Country Music Foundation, Inc. and Subsidiary as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'KraftCPAs PLLC'.

Nashville, Tennessee
March 31, 2017

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 12,482,195	\$ 11,000,009
Trade accounts receivable and other, net of allowance of \$61,866 in 2016 and \$57,496 in 2015	590,730	575,491
Prepaid expenses and other	401,382	339,653
Inventories	1,441,216	1,240,705
Contributions and grants receivable	4,184,877	6,122,850
Restricted cash	82,431	355,954
Investments - endowment	3,048,679	2,897,051
Investment in Food on Fifth, LLC	368,686	406,593
Property, equipment and exhibits	75,027,601	77,556,470
Collection items - Note 2	-	-
General library	1,118,675	1,103,203
TOTAL ASSETS	<u>\$ 98,746,472</u>	<u>\$ 101,597,979</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 2,454,281	\$ 2,015,480
Deferred revenue and customer deposits	1,091,747	904,611
Note payable	1,211,906	4,513,276
Bonds payable	5,000,000	12,400,000
Capital lease obligation	16,642,893	16,569,003

TOTAL LIABILITIES 26,400,827 36,402,370

NET ASSETS

Unrestricted	65,303,629	55,984,945
Temporarily restricted	4,806,516	6,975,164
Permanently restricted	2,235,500	2,235,500

TOTAL NET ASSETS 72,345,645 65,195,609

TOTAL LIABILITIES AND NET ASSETS **\$ 98,746,472** **\$ 101,597,979**

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Admission fees	\$ 16,132,663	\$ 14,291,498
Museum store and other merchandise sales	7,218,066	6,610,454
Event revenue	5,038,372	5,059,960
Royalties	70,460	20,633
Contributions, grants and memberships	2,108,271	1,760,201
Special fundraising events	1,100,019	425,588
Restaurant and catering revenue	7,268,673	7,714,345
Investment income	70,360	58,123
Other revenues	433,620	335,391
In-kind donations	345,055	327,314
Loss on disposal of property, equipment and exhibits	<u>(48,166)</u>	<u>(4,670)</u>
Total unrestricted support and revenue	39,737,393	36,598,837
Net assets released from donor restrictions	<u>3,288,064</u>	<u>5,058,189</u>
TOTAL SUPPORT AND REVENUE	<u>43,025,457</u>	<u>41,657,026</u>
EXPENSES		
Program services	24,974,261	23,911,693
Administrative	2,311,335	2,232,765
Fundraising	1,346,060	1,301,147
Cost of museum store and other merchandise sales	3,014,220	2,698,721
Cost of restaurant/catering sales	2,060,897	2,215,433
Change in value of interest rate swap	<u>-</u>	<u>(127,227)</u>
TOTAL EXPENSES	<u>33,706,773</u>	<u>32,232,532</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>9,318,684</u>	<u>9,424,494</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	881,077	552,901
Investment gains (losses)	238,339	(39,312)
Net assets released from donor restrictions	<u>(3,288,064)</u>	<u>(5,058,189)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(2,168,648)</u>	<u>(4,544,600)</u>
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	<u>-</u>	<u>35,000</u>
INCREASE IN NET ASSETS	7,150,036	4,914,894
NET ASSETS - BEGINNING OF YEAR	<u>65,195,609</u>	<u>60,280,715</u>
NET ASSETS - END OF YEAR	<u>\$ 72,345,645</u>	<u>\$ 65,195,609</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,150,036	\$ 4,914,894
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,541,687	4,323,412
Contributions restricted for long-term purposes	881,077	587,901
Earnings on investment in Food on Fifth, LLC	(11,811)	(24,064)
Change in value of interest rate swap	-	(127,227)
Loss on disposal of property, equipment and exhibits	48,166	4,670
Unrealized and realized (gain) loss on investments, net	(238,629)	50,609
(Increase) decrease in:		
Trade accounts receivable and other	(15,239)	283,865
Contributions and grants receivable	(1,992,829)	(1,456,985)
Inventories	(200,511)	(319,553)
Prepaid expenses and other	(63,001)	71,476
Increase (decrease) in:		
Accounts payable and accrued expenses	438,801	35,091
Deferred revenue and customer deposits	187,136	122,213
TOTAL ADJUSTMENTS	<u>3,574,847</u>	<u>3,551,408</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>10,724,883</u>	<u>8,466,302</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, equipment and exhibits	301	2,400
Investment in Food on Fifth, LLC	-	(100,000)
Recapture of investment in Food on Fifth, LLC	49,718	17,471
Purchase of property, equipment and exhibits	(2,061,285)	(1,615,453)
Purchase of general library collection items	(15,472)	(16,092)
Change in restricted cash	273,523	(142,836)
Proceeds from sale of investments	88,273	195,518
Purchase of investments	-	(35,000)
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,664,942)</u>	<u>(1,693,992)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(10,701,370)	(12,075,890)
Accretion of capital lease obligation	73,890	72,474
Collection of contributions restricted for long-term purposes	3,049,725	5,132,501
NET CASH USED IN FINANCING ACTIVITIES	<u>(7,577,755)</u>	<u>(6,870,915)</u>
NET INCREASE (DECREASE) IN CASH	1,482,186	(98,605)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>11,000,009</u>	<u>11,098,614</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 12,482,195</u>	<u>\$ 11,000,009</u>
OTHER CASH FLOW DISCLOSURES		
Interest expense paid during the year	\$ 361,684	\$ 617,118
Income taxes (received) paid	<u>\$ (10,432)</u>	<u>\$ 111,112</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 1 - GENERAL

Founded in 1967, The Country Music Foundation, Inc. ("CMF"), which does business as the Country Music Hall of Fame and 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, the Museum safeguards a collection of 2.5 million artifacts and offers over 800 educational programs each year.

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 events. CMF and 222 are collectively referred to as the "Foundation".

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements present the financial position and change in net assets of Country Music Foundation, Inc. and Two Twenty-Two Grill & Catering on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Material intercompany accounts and transactions have been eliminated upon consolidation.

Resources are classified as unrestricted, temporarily restricted, or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Contributions and certain grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the consolidated statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

The 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.

Admission fees received prior to the fiscal year to which they apply are reported as deferred revenue. Such revenue is recognized and reported in the consolidated statement of activities in the year the admission takes place.

Restaurant and catering revenue and event revenue received prior to the fiscal year to which they occur are reported as deferred revenue. Such revenue is recognized and reported in the consolidated statement of activities in the year the event takes place.

Museum store and other merchandise sales are recognized and reported as revenue in the consolidated statement of activities in the year the transaction takes place.

The Foundation rents certain facilities and charges various other staff services to patrons.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 volunteer's 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.

Contributions 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 2016 and 2015). 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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 principally of recordings, books, films and periodicals that are held for educational and curatorial purposes. 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. 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 2016 is \$640,052 and \$138,514 in 2015.

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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

Money market accounts, equities and mutual funds - 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.

Convertible debentures - Valued based on the underlying securities quoted market prices as well as changes in interest rates and the credit rating of the issuer.

There have been no changes in the valuation methodologies used at December 31, 2016 and 2015.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the 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.

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 permanently 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").

Interpretation of applicable law - The Board of 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund (continued)

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 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 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 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.
- 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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund (continued)

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.

Investments

Investments consist of money market accounts, corporate and municipal bonds, convertible debentures, mutual funds and equities. Money market accounts are carried at cash value plus 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") which was invested on November 25, 2014 and March 12, 2015 at \$300,000 and \$100,000, respectively. As part of the membership agreement, the Foundation leases a portion of its premises to FOF in exchange for 10% of net sales. Two percent of net sales is the Foundation's recapture of its initial investment of \$400,000. Once the Foundation's initial investment is recaptured, rent will decrease to 8% of net sales. The lease commenced on March 19, 2015, and will continue for 10 years with the option for a 5-year renewal. 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.

Derivative Financial Instrument

The Foundation used a derivative to manage risk related to interest rate movements. Interest rate swap contracts designated and qualifying as a cash flow hedge are reported at fair value. The Foundation documented its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The interest rate swap matured on March 19, 2015 and was not renewed.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The Foundation uses advertising to promote its programs. Advertising costs are expensed as incurred. Advertising costs were approximately \$2,065,000 in 2016 and \$1,988,000 in 2015.

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.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between December 31, 2016 and March 31, 2017, 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 SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the consolidated results of activities or net assets as previously reported.

Recent Authoritative Accounting Guidance

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Foundation is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the Foundation on January 1, 2019. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. This standard will not have a material impact on the Foundation's consolidated statements of cash flows.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently evaluating the impact of the adoption of this guidance will have on its consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

NOTE 3 - RESTRICTED CASH

The Foundation held restricted cash of \$20,192 and \$199,144 related to its building expansion program at December 31, 2016 and 2015, respectively. The Foundation also held cash restricted by donors of \$62,239 and \$156,810 for certain projects at December 31, 2016 and 2015, respectively.

NOTE 4 - CONTRIBUTIONS AND GRANTS RECEIVABLE

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

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 2,121,701	\$ 2,917,949
Receivable in one to five years	2,331,355	2,898,339
Receivable in six to nine years	<u>-</u>	<u>600,000</u>
Total unconditional promises to give	4,453,056	6,416,288
Less allowance for uncollectible pledges	(93,778)	(100,000)
Less discounts to net present value	<u>(174,401)</u>	<u>(193,438)</u>
Contributions and grants receivable	<u>\$ 4,184,877</u>	<u>\$ 6,122,850</u>

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

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 5 - INVENTORIES

Inventories consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Museum stores	\$ 1,167,718	\$ 1,003,367
Grill and catering	59,532	64,174
Hatch Retail and Haley Gallery	<u>278,921</u>	<u>226,336</u>
	1,506,171	1,293,877
Less valuation allowance	<u>(64,955)</u>	<u>(53,172)</u>
	<u>\$ 1,441,216</u>	<u>\$ 1,240,705</u>

NOTE 6 - PROPERTY, EQUIPMENT AND EXHIBITS

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

	<u>2016</u>	<u>2015</u>
Land	\$ 3,926,300	\$ 3,926,300
Building and improvements	81,267,898	80,546,166
Furniture, fixtures and equipment	7,690,725	7,487,125
Exhibits	12,610,468	12,698,831
Vehicles	120,600	120,600
Construction in progress	<u>336,926</u>	<u>-</u>
	105,952,917	104,779,022
Less accumulated depreciation	<u>(30,925,316)</u>	<u>(27,222,552)</u>
	<u>\$ 75,027,601</u>	<u>\$ 77,556,470</u>

Construction in progress at December 31, 2016 includes three separate construction projects for the Foundation. The Foundation will incur additional estimated costs of approximately \$1,143,000 related to the projects with expected completion of the last project by the middle of April 2017.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 7 - 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, 2016, contributions receivable from one source totaled approximately \$2,004,000, or 50% of total contributions and grants receivable. At December 31, 2015, receivables from one source totaled approximately \$2,400,000, or 39% 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.

NOTE 8 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Money market accounts	\$ 68,003	\$ 57,188
Fixed income securities	564,510	563,607
Equities	2,382,107	2,241,409
Convertible debentures	<u>34,059</u>	<u>34,847</u>
Total	<u>\$ 3,048,679</u>	<u>\$ 2,897,051</u>

The investment assets comprise the Foundation endowment fund in the amount of \$3,048,679 at December 31, 2016 and \$2,897,051 at December 31, 2015.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 8 - INVESTMENTS (CONTINUED)

A summary of investment income follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 164,601	\$ 89,805
Investment management fees	(20,864)	(20,702)
Net realized and unrealized (losses) gains	<u>164,962</u>	<u>(50,292)</u>
Total investment income	<u>\$ 308,699</u>	<u>\$ 18,811</u>

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

	<u>2016</u>	<u>2015</u>
Unrestricted	\$ 70,360	\$ 58,123
Temporarily restricted	<u>238,339</u>	<u>(39,312)</u>
	<u>\$ 308,699</u>	<u>\$ 18,811</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 9 - FAIR VALUE MEASUREMENTS

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

	2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	\$ 68,003	\$ -	\$ -	\$ 68,003
Equities:				
Consumer staples	356,021	-	-	356,021
Healthcare	311,136	-	-	311,136
Consumer discretionary	325,498	-	-	325,498
Information technology	391,160	-	-	391,160
Industrial	300,531	-	-	300,531
Energy	171,259	-	-	171,259
Telecommunications	124,575	-	-	124,575
Utilities	62,096	-	-	62,096
Real estate investment trusts	110,070	-	-	110,070
Financials	229,761	-	-	229,761
Fixed income securities:				
Corporate bonds	-	512,035	-	512,035
Municipal bonds	-	52,475	-	52,475
Convertible debentures	-	34,059	-	34,059
Total Investments	<u>\$ 2,450,110</u>	<u>\$ 598,569</u>	<u>\$ -</u>	<u>\$ 3,048,679</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Assets:				
Investments:				
Money market accounts	\$ 57,188	\$ -	\$ -	\$ 57,188
Equities:				
Consumer staples	341,510	-	-	341,510
Healthcare	306,347	-	-	306,347
Consumer discretionary	313,730	-	-	313,730
Information technology	366,319	-	-	366,319
Industrial	280,186	-	-	280,186
Energy	115,830	-	-	115,830
Telecommunications	116,205	-	-	116,205
Utilities	57,112	-	-	57,112
Financials	344,170	-	-	344,170
Fixed income securities:				
Corporate bonds	-	509,919	-	509,919
Municipal bonds	-	53,688	-	53,688
Convertible debentures	-	34,847	-	34,847
 Total Financial Assets	 <u>\$ 2,298,597</u>	 <u>\$ 598,454</u>	 <u>\$ -</u>	 <u>\$ 2,897,051</u>

The Foundation estimates that the fair value of all financial instruments at December 31, 2016 and 2015 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 SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 10 - ENDOWMENT FUND

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

	<u>2016</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, January 1, 2016	\$ -	\$ 661,551	\$ 2,235,500	\$ 2,897,051
Interest and dividend income	-	94,216	-	94,216
Management fees	-	(20,864)	-	(20,864)
Amounts appropriated for operations	-	(86,711)	-	(86,711)
Realized and unrealized gains (losses) on investments	-	164,987	-	164,987
Endowment net assets, December 31, 2016	<u>\$ -</u>	<u>\$ 813,179</u>	<u>\$ 2,235,500</u>	<u>\$ 3,048,679</u>
	<u>2015</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2015	\$ -	\$ 779,108	\$ 2,200,500	\$ 2,979,608
Contributions to endowment fund	-	-	35,000	35,000
Interest and dividend income	-	89,974	-	89,974
Management fees	-	(20,702)	-	(20,702)
Amounts appropriated for operations	-	(78,245)	-	(78,245)
Realized and unrealized gains (losses) on investments	-	(108,584)	-	(108,584)
Endowment net assets, December 31, 2015	<u>\$ -</u>	<u>\$ 661,551</u>	<u>\$ 2,235,500</u>	<u>\$ 2,897,051</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 11 - 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, 2016 and 2015 was \$5,000,000 and \$12,400,000, respectively.

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 years ended December 31, 2016 and 2015.

In connection with the expansion project (see Note 13) the Foundation obtained a bridge loan dated March 14, 2013. The loan provided for advances of up to \$25,000,000 until September 1, 2014. Principal is payable at maturity. Interest is payable monthly on the loan draws at LIBOR plus 1.75%. The rate at December 31, 2016 was 2.56%. The loan is secured by a deed of trust on certain real estate. The loan matures March 1, 2018, and carries a balance of \$1,211,906 at December 31, 2016 and \$4,513,276 at December 31, 2015.

Interest expense related to long-term debt for the years ended December 31, 2016 and 2015 was \$361,684 and \$617,118, respectively.

As of December 31, 2016, principal maturities of all long-term debt are anticipated to be as follows:

Year Ending December 31:

2018	\$ 1,211,906
2019	-
2020	-
2021	-
Thereafter	<u>5,000,000</u>
	<u>\$ 6,211,906</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 12 - LINE OF CREDIT

The Foundation has a \$3,000,000 line of credit with a bank that matures on May 31, 2017. The line bears interest at a variable rate of LIBOR plus 1.25% (1.97% at December 31, 2016). The line of credit is secured by substantially all of the Foundations assets, excluding artifacts. There was no outstanding balance on the line as of December 31, 2016 and 2015.

NOTE 13 - 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 statement of financial position as of December 31, 2016 and 2015 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 will pay 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.

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 SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 13 - CAPITAL LEASE OBLIGATION (CONTINUED)

Future minimum lease payments under the capital lease obligation as of December 31, 2016 is as follows:

<u>For the year ending December 31,</u>	
2017	\$ 250,000
2018	250,000
2019	350,000
2020	350,000
2021	350,000
Thereafter	<u>27,700,000</u>
	29,250,000
Less: imputed interest at 1.938%	<u>(12,607,107)</u>
Net minimum lease payments	<u>\$ 16,642,893</u>

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

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 16,505,134	\$ 16,505,134
Less accumulated depreciation	<u>(1,237,886)</u>	<u>(825,257)</u>
	<u>\$ 15,267,248</u>	<u>\$ 15,679,877</u>

Depreciation expense for these assets was \$412,629 in 2016 and 2015.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 14 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Time restricted contributions receivable	\$ 3,710,418	\$ 6,122,850
Endowment income	811,907	661,551
Restricted for future operations or expansion	<u>284,191</u>	<u>190,763</u>
	<u>\$ 4,806,516</u>	<u>\$ 6,975,164</u>

NOTE 15 - PROFIT-SHARING RETIREMENT PLAN

The Foundation sponsors a 401(k) profit-sharing retirement plan. Substantially all exempt employees are eligible to participate in the plan 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 participant's salaries. Related expense amounted to \$119,014 and \$91,096 in 2016 and 2015, respectively.

NOTE 16 - 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, was fully funded in February 2015 and began providing annual income distributions in 2016. Distributions made to the Foundation from the fund amounted to \$137,000 for the year ended December 31, 2016. 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.