

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Officers and 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, 2018 and 2017, the related consolidated statements of activities, functional expenses (for the year ended December 31, 2018 only) 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, 2018 and 2017, 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.

KraftCPAs PLLC

Nashville, Tennessee
April 18, 2019

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 11,246,603	\$ 6,961,715
Trade accounts receivable and other, net of allowance of \$75,133 in 2018 and \$60,533 in 2017	1,331,769	790,974
Prepaid expenses and other	189,545	322,971
Inventories	1,959,513	1,561,975
Contributions and grants receivable, net of allowance of \$77,028 in 2018 and \$110,778 in 2017	2,740,759	3,229,528
Restricted cash	52,993	76,779
Investments	15,401,848	12,328,573
Investment in Food on Fifth, LLC	244,288	396,286
Property, equipment and exhibits	70,939,659	73,600,138
Collection items - Note 2	-	-
General library	<u>1,153,498</u>	<u>1,138,017</u>
TOTAL ASSETS	<u>\$ 105,260,475</u>	<u>\$ 100,406,956</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 2,552,136	\$ 1,901,940
Deferred revenue and customer deposits	1,345,891	1,281,506
Note payable	594,289	735,987
Bonds payable	1,000,000	1,600,000
Capital lease obligation	<u>16,789,613</u>	<u>16,737,430</u>

TOTAL LIABILITIES	<u>22,281,929</u>	<u>22,256,863</u>
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NET ASSETS

Net assets without donor restrictions	77,209,301	71,421,328
Net assets with donor restrictions	<u>5,769,245</u>	<u>6,728,765</u>

TOTAL NET ASSETS	<u>82,978,546</u>	<u>78,150,093</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 105,260,475</u>	<u>\$ 100,406,956</u>
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See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Admission fees	\$ 18,444,641	\$ 17,225,748
Museum store and other merchandise sales	6,896,852	7,751,955
Event revenue	5,456,536	4,475,048
Royalties	72,638	56,876
Contributions, grants and memberships	2,276,110	1,354,591
Special fundraising events	272,340	-
Restaurant and catering revenue	8,087,856	6,608,516
Investment income	162,432	93,653
Other revenues	1,259,548	938,541
In-kind donations	248,930	867,125
	<u>43,177,883</u>	<u>39,372,053</u>
Total support and revenue without donor restrictions		
Release of donor restrictions	1,677,923	2,419,522
	<u>44,855,806</u>	<u>41,791,575</u>
TOTAL SUPPORT AND REVENUE		
EXPENSES		
Program services	28,294,773	25,681,832
Cost of museum store and other merchandise sales	2,968,973	3,170,831
Cost of restaurant, catering and event sales	3,719,621	3,090,217
Management and general	2,708,122	2,500,319
Fundraising	1,376,344	1,230,677
	<u>39,067,833</u>	<u>35,673,876</u>
TOTAL EXPENSES		
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>5,787,973</u>	<u>6,117,699</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and grants	833,569	1,668,143
Investment gains (loss)	(115,166)	438,128
Release of donor restrictions	(1,677,923)	(2,419,522)
	<u>(959,520)</u>	<u>(313,251)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
INCREASE IN NET ASSETS	4,828,453	5,804,448
NET ASSETS - BEGINNING OF YEAR	<u>78,150,093</u>	<u>72,345,645</u>
NET ASSETS - END OF YEAR	<u>\$ 82,978,546</u>	<u>\$ 78,150,093</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	PROGRAM SERVICES	SUPPORTING SERVICES		TOTAL FUNCTIONAL EXPENSES
		MANAGEMENT AND GENERAL	FUNDRAISING	
Salaries, wages, and employee benefits	\$ 13,302,066	\$ 1,557,204	\$ 747,598	\$ 15,606,868
Cost of museum store and other merchandise sales	2,968,973	-	-	2,968,973
Cost of restaurant, catering and event sales	3,719,621	-	-	3,719,621
Housekeeping and security contracts	854,070	76,679	27,917	958,666
General, administrative, and credit card fees	2,685,720	190,491	71,816	2,948,027
Occupancy	2,163,937	194,280	70,734	2,428,951
Advertising	2,164,452	194,326	70,751	2,429,529
Interest, depreciation and amortization	4,579,446	411,145	149,691	5,140,282
Exhibit, museum services, and education expenses	1,102,347	-	-	1,102,347
Grants and fundraising expenses	297,857	-	210,448	508,305
Miscellaneous	1,144,878	83,997	27,389	1,256,264
TOTAL FUNCTIONAL EXPENSES	\$ 34,983,367	\$ 2,708,122	\$ 1,376,344	\$ 39,067,833

See accompanying notes to the financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,828,453	\$ 5,804,448
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,720,537	4,464,212
Contributions restricted for long-term purposes	(833,569)	(1,961,659)
Earnings on investment in Food on Fifth, LLC	151,998	(27,600)
Amortization of financing costs	33,302	78,744
Unrealized and realized gain (loss) on investments, net	118,441	(373,035)
(Increase) decrease in:		
Trade accounts receivable and other	(540,795)	(200,244)
Contributions and grants receivable	(354,440)	642,098
Inventories	(397,538)	(120,759)
Prepaid expenses and other	133,426	(114,346)
Increase (decrease) in:		
Accounts payable and accrued expenses	650,196	(552,341)
Deferred revenue and customer deposits	64,385	189,759
TOTAL ADJUSTMENTS	<u>3,745,943</u>	<u>2,024,829</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>8,574,396</u>	<u>7,829,277</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and exhibits	(2,060,058)	(3,036,749)
Purchase of general library collection items	(15,481)	(19,342)
Change in restricted cash	23,786	112,077
Proceeds from sale of investments	132,136	1,582,492
Purchase of investments	(3,323,852)	(999,531)
NET CASH USED IN INVESTING ACTIVITIES	<u>(5,243,469)</u>	<u>(2,361,053)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(775,000)	(4,511,906)
Proceeds from long-term debt	-	750,000
Accretion of capital lease obligation	52,183	94,537
Collection of contributions restricted for long-term purposes	1,676,778	2,274,910
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>953,961</u>	<u>(1,392,459)</u>
NET INCREASE IN CASH	4,284,888	4,075,765
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>6,961,715</u>	<u>2,885,950</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,246,603</u>	<u>\$ 6,961,715</u>
OTHER CASH FLOW DISCLOSURES		
Interest expense paid during the year	<u>\$ 59,260</u>	<u>\$ 148,877</u>
Income taxes paid	<u>\$ 326,088</u>	<u>\$ 170,463</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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 1.2 million annual visitors, the Museum safeguards a collection comprised of sound and video recordings, photographs, print materials, books, documents, manuscripts, and three-dimensional artifacts totaling over 2.5 million items. Through 12 annual exhibits, the Museum interprets its collection with support of the more than 1,200 annual educational programs.

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”.

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 (“US 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, where by the donor/grantor has stipulated the funds be maintained in perpetuity.

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 SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Contributions received are recorded as net assets without donor/grantor restrictions or net assets with donor/grantor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor/grantor are reported as an increase in net assets without donor/grantor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor/grantor restricted contributions are reported as an increase in net assets with donor/grantor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor/grantor restrictions are reclassified to net assets without donor/grantor restrictions and reported in the statements of activities as net assets released from restrictions.

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.

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 spaces within its facility and charges various other services to patrons.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

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 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.

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 2018 and 2017). 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 (CONTINUED)

DECEMBER 31, 2018 AND 2017

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 2018 is \$460,683 (\$6,125,108 in 2017).

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 (CONTINUED)

DECEMBER 31, 2018 AND 2017

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, 2018 and 2017.

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 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").

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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

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 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.
- 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 (CONTINUED)

DECEMBER 31, 2018 AND 2017

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, treasury bills, corporate and municipal bonds, convertible debentures, mutual funds 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") 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, 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.

Advertising

The Foundation uses advertising to promote its programs. Advertising costs are expensed as incurred. Advertising costs were approximately \$2,430,000 in 2018 and \$2,274,000 in 2017.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 and catering 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
Event expense	Time and effort
Miscellaneous	Time and effort

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Additionally, ASU 2016-14 requires all not-for-profit entities to present expenses by their natural and functional expense classification. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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.

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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

In February 2016, the FASB issued 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. A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the 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, 2020, 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. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation continues to assess the effect the guidance will have on its existing accounting policies and the consolidated financial statements and expects there will be an increase in assets and liabilities on the consolidated balance sheets at adoption due to the recognition of right-of-use assets and corresponding lease liabilities, which is expected to be material.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): *Restricted Cash* (a consensus of the FASB Emerging Issues Task Force), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Foundation beginning on January 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Foundation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements. The adoption of ASU 2016-18 is not expected to have a material impact on the consolidated financial statements.

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 activities or changes in net assets as previously reported.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between December 31, 2018 and April 18, 2019, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - AVAILABILITY AND LIQUIDITY

The following represents the Foundation's financial assets at December 31, 2018:

Financial assets at year end:

Cash and cash equivalents	\$ 11,246,603
Accounts receivable and other, net of allowance	1,331,769
Contributions and grants receivable, net of allowance	2,740,759
Investments	15,401,848
Endowment spending-rate distribution and appropriations	<u>161,181</u>
Total financial assets	30,882,160

Less amounts not available to be used within one year:

Restricted by donor with time or purpose restrictions	<u>(5,769,245)</u>
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Financial assets available to meet general expenditures

over the next twelve months	<u>\$ 25,112,915</u>
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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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 4 - RESTRICTED CASH

The Foundation also held cash restricted by donors of \$52,993 and \$76,779 for certain projects at December 31, 2018 and 2017, respectively.

NOTE 5 - CONTRIBUTIONS AND GRANTS RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 951,698	\$ 1,295,177
Receivable in one to five years	<u>1,925,795</u>	<u>2,126,256</u>
Total unconditional promises to give	2,877,493	3,421,433
Less allowance for uncollectible pledges	(77,028)	(110,778)
Less discounts to net present value	<u>(59,706)</u>	<u>(81,127)</u>
Contributions and grants receivable	<u>\$ 2,740,759</u>	<u>\$ 3,229,528</u>

NOTE 6 - INVENTORIES

Inventories consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Museum stores	\$ 1,529,671	\$ 1,177,639
Grill and catering	107,880	101,091
Hatch Retail and Haley Gallery	<u>405,962</u>	<u>352,171</u>
	2,043,513	1,630,901
Less valuation allowance	<u>(84,000)</u>	<u>(68,926)</u>
	<u>\$ 1,959,513</u>	<u>\$ 1,561,975</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 7 - PROPERTY, EQUIPMENT AND EXHIBITS

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

	<u>2018</u>	<u>2017</u>
Land	\$ 3,926,300	\$ 3,926,300
Building and improvements	83,287,919	82,829,690
Furniture, fixtures and equipment	10,199,304	9,057,737
Exhibits	13,062,592	13,055,339
Vehicles	<u>150,714</u>	<u>120,600</u>
	110,626,829	108,989,666
Less accumulated depreciation	<u>(39,687,170)</u>	<u>(35,389,528)</u>
	<u>\$ 70,939,659</u>	<u>\$ 73,600,138</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, 2018, contributions receivable from one source totaled approximately \$1,194,000, or 75% of total contributions and grants receivable. At December 31, 2017, receivables from one source totaled approximately \$1,794,000, 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 SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 9 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Endowment investments:		
Money market accounts	\$ 76,814	\$ 34,665
Fixed income securities	469,059	585,648
Equities	2,552,265	2,689,518
Convertible debentures	<u>-</u>	<u>34,891</u>
Total endowment investments	<u>3,098,138</u>	<u>3,344,722</u>
Other investments:		
Fixed income securities	<u>12,303,710</u>	<u>8,983,851</u>
Total	<u>\$ 15,401,848</u>	<u>\$ 12,328,573</u>

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

	<u>2018</u>	<u>2017</u>
Without donor restrictions	\$ 162,432	\$ 93,653
With donor restrictions	<u>(115,166)</u>	<u>438,128</u>
	<u>\$ 47,266</u>	<u>\$ 531,781</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

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:

	2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market accounts	\$ 76,814	\$ -	\$ -	\$ 76,814
Equities:				
Consumer staples	321,026	-	-	321,026
Healthcare	424,148	-	-	424,148
Consumer discretionary	302,294	-	-	302,294
Information technology	473,275	-	-	473,275
Industrial	317,734	-	-	317,734
Energy	132,270	-	-	132,270
Telecommunications	259,508	-	-	259,508
Real estate investment trusts	71,320	-	-	71,320
Financials	250,690	-	-	250,690
Fixed income securities:				
Treasury bill	-	12,303,710	-	12,303,710
Corporate bonds	-	469,059	-	469,059
Total Investments	<u>\$ 2,629,079</u>	<u>\$ 12,772,769</u>	<u>\$ -</u>	<u>\$ 15,401,848</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 10 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2017			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	34,665	-	-	34,665
Equities:				
Consumer staples	383,350	-	-	383,350
Healthcare	343,518	-	-	343,518
Consumer discretionary	447,350	-	-	447,350
Information technology	522,349	-	-	522,349
Industrial	392,418	-	-	392,418
Energy	164,652	-	-	164,652
Telecommunications	66,703	-	-	66,703
Utilities	33,644	-	-	33,644
Real estate investment trusts	90,000	-	-	90,000
Financials	245,534	-	-	245,534
Fixed income securities:				
Treasury bill	-	8,983,851	-	8,983,851
Corporate bonds	-	534,924	-	534,924
Municipal bonds	-	50,724	-	50,724
Convertible debentures	-	34,891	-	34,891
Total Investments	<u>\$ 2,724,183</u>	<u>\$ 9,604,390</u>	<u>\$ -</u>	<u>\$ 12,328,573</u>

The Foundation estimates that the fair value of all financial instruments at December 31, 2018 and 2017 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 (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 11 - ENDOWMENT FUND

A summary of the endowment activity is as follows for December 31, 2018:

	<u>Assets Without Donor Restrictions</u>	<u>Assets With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2018	\$ -	\$ 3,372,722	\$ 3,372,722
Interest and dividend income	-	98,294	98,294
Management fees	-	(22,973)	(22,973)
Amounts appropriated for operations	-	(131,756)	(131,756)
Realized and unrealized gains on investments	-	(194,142)	(194,142)
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 3,122,145</u>	<u>\$ 3,122,145</u>

Contributions to the endowment net assets includes \$24,000 in pledges receivable at December 31, 2018.

A summary of the endowment activity is as follows for December 31, 2017:

	<u>Assets Without Donor Restrictions</u>	<u>Assets With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2017	\$ -	\$ 3,048,679	\$ 3,048,679
Contributions	-	30,000	30,000
Interest and dividend income	-	86,971	86,971
Management fees	-	(21,878)	(21,878)
Amounts appropriated for operations	-	(144,085)	(144,085)
Realized and unrealized gains on investments	-	373,035	373,035
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 3,372,722</u>	<u>\$ 3,372,722</u>

Contributions to the endowment net assets includes \$28,000 in pledge receivable at December 31, 2017.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 12 - 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, 2018 and 2017 was \$1,000,000 and \$1,600,000, 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, 2018 and 2017.

In connection with the expansion project (see Note 14) 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 loan matured on June 5, 2018.

Loan costs incurred are presented in the balance sheet 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 \$33,302 and \$78,744 for the years ended December 31, 2018 and 2017, respectively.

The Foundation obtained an uncollateralized and interest free loan for \$750,000 dated December 19, 2017. Payments of \$75,000 are due on or before January 5 each calendar year beginning in 2018 until January 2028.

Interest expense related to long-term debt for the years ended December 31, 2018 and 2017 was \$59,260 and \$148,877, respectively.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 12 - LONG-TERM DEBT (CONTINUED)

As of December 31, 2018, annual principal maturities of all long-term debt agreements are as follows:

<u>Year Ending December 31:</u>	
2019	\$ 75,000
2020	75,000
2021	75,000
2022	75,000
2023	75,000
Thereafter	<u>1,300,000</u>
	<u>\$ 1,675,000</u>

NOTE 13 - LINE OF CREDIT

In October 2018, the Foundation entered a \$7,000,000 line of credit with a bank that matures October 5, 2021. The line bears interest at a variable rate of LIBOR plus 1.25%. 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, 2018.

NOTE 14 - 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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 14 - CAPITAL LEASE OBLIGATION (CONTINUED)

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, 2018 and 2017 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. During the year ended December 31, 2018, the Foundation received disbursements totaling \$206,647 from the Reserve Fund for qualifying expenditures (\$294,668 during the year ended December 31, 2017). 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.

Future minimum lease payments under the capital lease obligation as of December 31, 2018 is as follows:

<u>For the year ending December 31,</u>	
2019	\$ 350,000
2020	350,000
2021	350,000
2022	350,000
2023	350,000
Thereafter	<u>26,994,577</u>
	28,744,577
Less: imputed interest at 1.938%	<u>(11,954,964)</u>
Net minimum lease payments	<u>\$ 16,789,613</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 14 - CAPITAL LEASE OBLIGATION (CONTINUED)

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

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 16,505,134	\$ 16,505,134
Less accumulated depreciation	<u>(2,063,144)</u>	<u>(1,650,515)</u>
	<u>\$ 14,441,990</u>	<u>\$ 14,854,619</u>

Depreciation expense for these assets was \$412,629 in 2018 and 2017.

NOTE 15 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2018</u>	<u>2017</u>
Time restricted contributions receivable	\$ 1,451,177	\$ 2,341,881
Endowment corpus	2,265,500	2,265,500
Endowment income	856,645	1,107,222
Restricted for future operations or expansion	<u>1,195,923</u>	<u>1,014,162</u>
	<u>\$ 5,769,245</u>	<u>\$ 6,728,765</u>

NOTE 16 - 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 (effective January 1, 2018, substantially all employees are eligible to participate in the Plan). 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 \$158,490 and \$135,079 in 2018 and 2017, respectively.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 17 - 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 5% guarantee minimum annual income distributions in 2016. Distributions made to the Foundation from the fund amounted to \$136,100 and \$130,600 for the years ended December 31, 2018 and 2017, 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.