

COUNTRY MUSIC FOUNDATION, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

COUNTRY MUSIC FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Country Music Foundation, Inc.

We have audited the accompanying statements of financial position of the Country Music Foundation, Inc. as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Country Music Foundation, Inc. as of December 31, 2008 and 2007, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dempsey Vantrease & Follis PLLC

Murfreesboro, Tennessee
March 18, 2009

COUNTRY MUSIC FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2008	2007
ASSETS		
Cash and cash equivalents	\$ 904,105	\$ 1,305,074
Accounts receivable (less allowance of \$11,923 for 2008 and \$27,979 for 2007)	322,053	386,826
Prepaid expenses	44,970	36,399
Inventories	819,217	746,894
Contributions and grants receivable	1,675,351	1,058,401
Investments	1,082,797	1,358,073
Property, equipment and exhibits	30,476,289	30,867,043
General library	962,076	938,736
Bond financing costs, net of amortization of \$234,059 in 2008 and \$209,846 in 2007	322,848	347,196
	<u>\$ 36,609,706</u>	<u>\$ 37,044,642</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,603,216	\$ 1,403,598
Accrual for McLean settlement	750,000	-
Note payable - line of credit	999,995	635,000
Deferred revenue	360,311	342,247
Notes payable	932,594	994,827
Bonds payable	23,535,000	23,535,000
Swap contract	950,940	388,336
	<u>29,132,056</u>	<u>27,299,008</u>
NET ASSETS		
Unrestricted	4,498,640	6,905,962
Temporarily Restricted	788,510	1,699,172
Permanently Restricted	2,190,500	1,140,500
	<u>7,477,650</u>	<u>9,745,634</u>
	<u>\$ 36,609,706</u>	<u>\$ 37,044,642</u>

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

	December 31,	
	2008	2007
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Admission fees	\$ 4,425,330	\$ 4,454,725
Museum store sales	2,469,043	2,492,681
Merchandise sales	874,350	829,052
Event revenue	1,288,702	1,219,061
Royalties	97,316	70,088
Contributions, grants and memberships	1,638,579	974,305
Special event	239,700	433,775
Restaurant/catering	167,046	178,359
Interest	17,989	57,532
Other	66,319	369,665
In-kind donations	108,502	50,929
Total Unrestricted Support and Revenue	11,392,876	11,130,172
Net assets released from donor restrictions	1,022,903	957,851
TOTAL SUPPORT AND REVENUE	12,415,779	12,088,023
 EXPENSES		
Program services	9,285,104	8,966,038
Administrative	1,988,608	1,998,046
Fundraising	634,434	749,265
Cost of museum store sales	1,201,855	1,229,152
Cost of merchandise sales	182,553	200,909
Cost of direct benefits to donors of special event	57,003	34,080
Change in value of interest rate swap	562,604	388,336
McLean settlement	750,000	-
Bad debt write off	-	558,470
Losses on investments	160,940	-
TOTAL EXPENSES	14,823,101	14,124,296
NET DECREASE IN UNRESTRICTED NET ASSETS	(2,407,322)	(2,036,273)
 TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	272,488	540,189
Net assets released from donor restrictions	(1,022,903)	(957,851)
Investment (losses)gains	(160,247)	160,247
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(910,662)	(257,415)
 PERMANENTLY RESTRICTED NET ASSETS		
Contributions	1,050,000	500
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	1,050,000	500
NET DECREASE IN NET ASSETS	(2,267,984)	(2,293,188)
 NET ASSETS, Beginning of year	9,745,634	12,038,822
 NET ASSETS, End of year	\$ 7,477,650	\$ 9,745,634

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

	December 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) Increase in net assets	\$ (2,267,984)	\$ (2,293,188)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,450,044	1,593,775
Contributions restricted for permanent purposes	(1,050,000)	(500)
Losses(gains) on restricted investments	328,674	(160,247)
Bad debt expense	-	558,620
(Increase) decrease in:		
Accounts receivable	64,773	(6,704)
Pledges receivable	383,048	705,430
Inventories	(72,323)	(191,915)
Prepaid expenses	(8,571)	118,308
Increase (decrease) in:		
Accounts payable and accrued expenses	949,618	(69,317)
Deferred revenue	18,064	149,807
Swap contract	562,604	388,336
Net Cash Provided by Operating Activities	357,947	792,405
 CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,058,280)	(469,024)
Purchase of investments	(53,398)	(163,864)
Net Cash Used in Investing Activities	(1,111,678)	(632,888)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on line of credit	364,995	635,000
Collection of pledges restricted for long-term endowment	50,000	50,500
Principal payments on long-term obligations	(62,233)	(865,179)
Net Cash Provided by (used in) Financing Activities	352,762	(179,679)
 NET DECREASE IN CASH	(400,969)	(20,162)
 CASH AND CASH EQUIVALENTS, Beginning of Year	1,305,074	1,325,236
 CASH AND CASH EQUIVALENTS, End of Year	\$ 904,105	\$ 1,305,074
 Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 885,546	\$ 1,027,302

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

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

Nature of Activities

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

The sources of revenues are primarily admission fees, museum store sales, event sales, the sale of Country Music Foundation produced products and contributions. Since the Foundation's operations depend largely upon tourist trade, they are subject to seasonal fluctuations and other conditions common to this type of industry.

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

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

Cash and Cash Equivalents

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

Reclassifications

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

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

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

Inventories

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

Investments

The Foundation follows SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the unrestricted class of net assets unless a donor or law temporarily or permanently restricts the use of the income.

Property and Equipment

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

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

The General Library's permanent collection is composed of records, tape recordings, books, photographs and magazines which have historical value and are presumed to appreciate with the passage of time. Accordingly, these assets are not depreciated.

Collection Items

In accordance with the provisions of SFAS No. 116, Accounting for Contributions Received and Contributions Made, the Foundation does not capitalize donated or purchased artifacts or recognize them as revenues or gains. That Statement provides that such donations need not be recognized if they are added to collections that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The estimated fair value of the donated artifacts is \$672,705 in 2008 and \$42,104 in 2007.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted and Unrestricted Contributions

Unconditional promises to give are recognized as revenue in the period the promise is received. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The Foundation had permanently restricted net assets of \$2,190,500 at December 31, 2008 and \$1,140,500 at December 31, 2007. The Foundation had temporarily restricted net assets of \$788,510 at December 31, 2008 and \$1,699,172 at December 31, 2007.

Financial Instruments

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

Expense Allocation

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

NOTE B - RESTRICTED CASH

Cash equivalents include restricted cash of \$0 in 2008 and \$2,895 in 2007. These accounts represent interest and principal reimbursement funds required by the bond issue.

NOTE C – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give at December 31, 2008, are as follows:

Receivable in less than one year	\$ 971,253
Receivable in one to five years	800,000
Total unconditional promises to give	<u>1,771,253</u>
Less discounts to net present value	(79,004)
Less allowance for doubtful accounts	<u>(16,898)</u>
Contributions receivable	<u>\$ 1,675,351</u>

The discount rate used on long-term promises to give varies between 3.15% and 6.5%.

**COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007**

NOTE D – INVENTORIES

Inventories consist of:

	<u>2008</u>	<u>2007</u>
Museum store	\$ 713,423	\$ 611,389
Foundation press and records	139,453	159,091
	<u>852,876</u>	<u>770,480</u>
Less valuation allowance	<u>(33,659)</u>	<u>(23,586)</u>
	<u>\$ 819,217</u>	<u>\$ 746,894</u>

NOTE E - PROPERTY, EQUIPMENT, AND EXHIBITS

Property, equipment and exhibits consist of:

	<u>2008</u>	<u>2007</u>
Land	\$ 932,700	\$ 932,700
Building and improvements	30,579,514	29,997,354
Furniture, fixtures, and equipment	1,806,154	1,658,240
Exhibits	9,196,711	8,820,989
Vehicles	29,197	29,197
Construction in process	-	70,856
	<u>42,544,276</u>	<u>41,509,336</u>
Less accumulated depreciation	<u>(12,067,987)</u>	<u>(10,642,293)</u>
	<u>\$ 30,476,289</u>	<u>\$ 30,867,043</u>

NOTE F - CONCENTRATION OF CREDIT RISK

Through its normal operations the Foundation will periodically have cash deposits at one financial institution that will exceed federally insured limits.

NOTE G – INVESTMENTS

At December 31, 2008 and 2007, investments consisted of the following:

	2008		2007	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Money market funds	\$ 315,921	\$ 315,921	\$ 174,099	\$ 174,099
Certificates of deposit	160,000	160,000	-	-
Common stocks	535,770	741,697	1,015,242	897,927
Miscellaneous	<u>71,106</u>	<u>79,067</u>	<u>168,732</u>	<u>168,732</u>
	<u>\$ 1,082,797</u>	<u>\$ 1,296,685</u>	<u>\$ 1,358,073</u>	<u>\$ 1,240,758</u>

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

NOTE G – INVESTMENTS(CONTINUED)

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

Interest and dividend income	\$	30,194
Investment management fees		(8,475)
Net realized and unrealized losses		<u>(342,906)</u>
		<u>\$ (321,187)</u>
Reported in the statement of activities as follows:		
Unrestricted losses	\$	(160,940)
Temporarily restricted losses		<u>(160,247)</u>
		<u>\$ (321,187)</u>

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations at December 31, 2008 and 2007, consist of the following:

	<u>2008</u>	<u>2007</u>
Industrial revenue bonds	\$ 23,535,000	\$ 23,535,000
Note payable to bank	-	14,119
Note payable to individuals	379,694	398,708
Bridge loan payable	<u>552,900</u>	<u>582,000</u>
	24,467,594	24,529,827
Less current maturities	<u>(1,073,905)</u>	<u>(1,113,330)</u>
	<u>\$ 23,393,689</u>	<u>\$ 23,416,497</u>

\$27,000,000 in Industrial Revenue Bonds are issued through the Industrial Development Board of the Metropolitan Government of Nashville, Tennessee. The bonds are dated May 4, 1999. Interest on the bonds is payable monthly at variable rates of interest. The interest rate at December 31, 2008 and 2007 was 1.27% and 3.44%, respectively. The bonds are to be redeemed annually commencing June 1, 2002 and ending June 1, 2022. The bonds were secured by an irrevocable letter of credit issued by Bank of America in the original amount of \$27,399,452. The letter of credit expired June 1, 2007 and was carried forward until November 15, 2007. The Foundation renewed the letter of credit with SunTrust Bank in November 2007 for \$23,535,000. The letter of credit expires October 15, 2010. The letter of credit was modified in December of 2008 to allow the Foundation to postpone its scheduled bond principal reduction of \$500,000 originally due in December 2008 to July 1, 2009. The letter of credit is secured by the related real estate and substantially all assets within the related real estate of the Foundation excluding artifacts. The letter of credit 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 or has obtained a waiver thereon for the year ended December 31, 2008.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

NOTE H – LONG-TERM OBLIGATIONS (CONTINUED)

A promissory note payable to an individual was issued on August 4, 2004 and is payable in equal monthly payments of \$4,836 including interest at a fixed rate of 10% and matures on August 14, 2019. It is secured by a Gibson L-5 Guitar. At December 31, 2008, the balance of the note totaled \$379,694.

The bridge loan note payable to SunTrust Bank matured August 2, 2008 and was refinanced on September 22, 2008. The loan matures September 22, 2009. The monthly payment is \$9,700 principal plus interest at LIBOR plus 2.5 % (4.40% at 12/31/08 and 7.72% at 12/31/07). The unpaid principal balance of the loan at December 31, 2008 was \$552,900.

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

2009	\$ 1,073,905
2010	523,204
2011	1,025,634
2012	1,028,318
2013	1,031,283
2014 and Thereafter	<u>19,785,250</u>
	<u>\$ 24,467,594</u>

NOTE I – LINE OF CREDIT

The Foundation has a \$1,500,000 line of credit, of which \$500,005 was unused as of December 31, 2008. Interest is payable on the credit line monthly at a variable rate (3.15% at 12/31/08 and 6.48% at 12/31/07). This line of credit matures on March 21, 2009. The credit line is unsecured.

NOTE J – FEDERAL INCOME TAXES

The Foundation is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Service Code. However, it does have unrelated income from the sale of certain museum store products and is required to file Form 990-T and pay the applicable tax, if any. Generally, expenses related to these activities are sufficient to reduce taxable income to where no taxes were due in 2007 and none are expected to be due for 2008.

NOTE K – DONATED SERVICES

The Foundation received services included as contributions and expenses in the financial statements valued at \$108,502 for 2008 and \$50,929 for 2007. In addition, numerous volunteers have donated significant time to the Foundation's mission. These amounts are not reflected in the financial statements since they do not meet the criteria for recognition under SFAS No. 116.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

NOTE L – PROFIT-SHARING RETIREMENT PLAN

The Foundation has a 401-K profit-sharing retirement plan. Substantially all employees are eligible after completing one year of employment and 1,000 hours worked with the Foundation. Employees may contribute a portion of their salary subject to IRS limitations. Throughout the year the Foundation matches 50% of employee contributions with a maximum match of 3%. Related expense amounted to \$62,463 and \$57,395 in 2008 and 2007, respectively.

NOTE M – MINIMUM ANNUAL LEASE COMMITMENTS

The Foundation leases miscellaneous office equipment under operating leases and leases a bus under admissions cost of sales. The final lease terms expire March, 2010. Related office equipment rentals amounted to \$42,588 and \$41,701 and related bus rental expenses amounted to \$18,679 and \$15,716 for the years ended December 31, 2008 and 2007.

The future minimum lease commitments as of December 31, 2008 are as follows:

2009	\$ 40,012
2010	<u>4,670</u>
	<u>\$ 44,682</u>

NOTE N – ADVERTISING

The Foundation uses advertising to promote its programs. The production costs of advertising are expensed as incurred. Advertising costs totaled \$959,377 in 2008 and \$771,561 in 2007.

NOTE O- DERIVATIVE

The Foundation has an interest rate swap agreement effective March 1, 2007 with a bank related to the bond issue to minimize the effects of changing interest rates. The agreement contains an interest rate swap and an interest rate collar. The swap requires the Foundation to pay interest on the notional amount 3.49% and receive interest at 67% of USD-LIBOR. The interest rate collar has a cap strike rate of 4% and a floor strike rate of 2.84%. The floating rate under the collar is 67% of USD-LIBOR. The notional amount of the swap and collar at December 31, 2008 was \$7,535,000 and at December 31, 2007 was \$7,851,667 and decreases on June 1 of each year based on estimated principal payments per the agreement. The agreement expires March 1, 2012. The swap and collar are settled on the first day of each month. The net settlement cost of the swap was \$200,165 in 2008 \$(965) for 2007. At December 31, 2008 the fair value of the swap and collar was a liability of \$950,940 and is reported in the statement of net assets as a liability.

**COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE P- CONTINGENCY

The Foundation was involved in litigation involving a bankruptcy trustee (“Trustee”) seeking to recover gifts and donations (or the value thereof) contributed by a donor who later was forced into bankruptcy. The Trustee has claimed that such gifts were fraudulently conveyed transfers. The Foundation’s management had no knowledge that the gifts by the donor involved any fraudulent activity, nor was management aware of any facts or circumstances that would have placed a reasonable person on notice of any such activity. The total claim against the Foundation was approximately \$1,540,000. Management and counsel negotiated a settlement of this suit for \$750,000 during 2008. The settlement was subject to court approval, which was granted in January 2009. Pursuant to the Court’s order, the settlement amount was paid in February of 2009 from a restricted gift to the Foundation and the action was dismissed. The liability is reflected in the statement of financial position and statement of activities for 2008.

NOTE Q – FAIR VALUE MEASUREMENTS

The fair values of assets measured on a recurring basis at December 31, 2008 are as follows:

	Quoted Prices in Active Markets for for Identical Assets (Level 1 inputs)	Significant Other Observable Inputs (Level 2)
Investments	\$ 1,082,797	
Interest rate swap agreement	\$ 1,082,797	\$ 950,940
	\$ 1,082,797	\$ 950,940

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