

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2022 AND 2021

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2022 AND 2021

TABLE OF CONTENTS

	<u>PAGE</u>
<u>INTRODUCTORY SECTION</u>	
Listing of Board of Officers and Trustees.....	i
<u>INDEPENDENT AUDITOR'S REPORT</u>	1 - 3
<u>CONSOLIDATED FINANCIAL STATEMENTS</u>	
Consolidated Statements of Financial Position.....	4
Consolidated Statements of Activities	5
Consolidated Statements of Functional Expenses.....	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements.....	8 - 32

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

LISTING OF BOARD OF OFFICERS AND TRUSTEES

DECEMBER 31, 2022

Trustees

Mark Bloom
David Conrad
J. William Denny
Rod Essig
Al Giombetti, Executive Vice President
Ken Levitan
Mary Ann McCready, Board Chair
David Ross, Secretary
Ernie Williams, Treasurer
Jody Williams

Officers

Earl Bentz
Mike Dungan
Vince Gill, President
Lon Helton
Keel Hunt
Randy Goodman
Gary Overton
Jim Seabury
Bill Simmons
Clarence Spalding
Chris Stewart
Troy Tomlinson
Jay Turner
Marcus Whitney
Tim Wipperman

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDITS OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the accompanying consolidated financial statements of Country Music Foundation, Inc. and Subsidiaries (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Country Music Foundation, Inc. and its subsidiaries as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

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

EMPHASIS OF MATTER

As discussed in Note 3 to the consolidated financial statements, the Foundation has elected to change its method of accounting for leases during the year ended December 31, 2022. Our opinion is not modified with respect to this matter.

RESPONSIBILITIES OF MANAGEMENT FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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

OTHER MATTER

Management is responsible for the other information included in the consolidated financial statements. The other information comprises the Listing of Board of Officers and Trustees on page i but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statement does not cover the other information and we do not express an opinion or any form of assurance thereon.

In connection with our audit on the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstatement. If, based on the work performed, we conclude that an uncorrected misstatement of the other information exists, we are required to describe it in our report.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2023, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Kraft+CPAs PLLC

Nashville, Tennessee
April 14, 2023

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 22,341,792	\$ 46,761,287
Trade accounts receivable and other, net of allowance of \$62,051 in 2022 and \$58,550 in 2021	812,947	724,817
Prepaid expenses and other	581,959	353,605
Inventories, net	1,571,033	1,245,615
Contributions and grants receivable, net of allowance of \$40,358 in 2022 and \$19,500 in 2021	2,064,798	1,818,632
Restricted cash	2,425	45,418
Investments	43,244,396	4,840,581
Investment in Food on Fifth, LLC	284,784	62,809
Property, equipment and exhibits	45,420,601	60,577,083
Right-of-use assets	17,171,743	-
Collection items - Note 2	-	-
General library	1,188,851	1,183,039
TOTAL ASSETS	<u>\$ 134,685,329</u>	<u>\$ 117,612,886</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 3,237,747	\$ 3,005,565
Deferred revenue and customer deposits	1,806,228	2,033,220
Note payable	375,000	450,000
Bonds payable	50,000	50,000
Operating lease liabilities	631,803	-
Finance lease liability	16,841,153	16,722,900
TOTAL LIABILITIES	<u>22,941,931</u>	<u>22,261,685</u>

NET ASSETS

Net assets without donor restrictions:		
Undesignated	66,826,985	89,494,862
Board designated	39,438,686	-
Total net assets without donor restrictions	106,265,671	89,494,862
Net assets with donor restrictions	5,477,727	5,856,339
TOTAL NET ASSETS	<u>111,743,398</u>	<u>95,351,201</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 134,685,329</u>	<u>\$ 117,612,886</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Admission fees	\$ 22,383,446	\$ 16,216,825
Museum store and other merchandise sales	9,261,284	6,375,553
Event revenue	7,601,724	3,358,076
Contributions, grants and memberships	2,310,076	10,997,255
Restaurant and catering revenue	10,788,328	4,190,578
Paycheck Protection Program grant revenue	-	2,000,000
Investment income	114,076	2,889
Other revenues	1,066,648	631,135
Contributions of nonfinancial assets	181,530	146,655
Gain (loss) on disposal of property, equipment and exhibits	<u>(67,407)</u>	<u>3,542</u>
Total support and revenue without donor restrictions	53,639,705	43,922,508
Release of donor restrictions	<u>3,578,831</u>	<u>1,260,254</u>
TOTAL SUPPORT AND REVENUE	<u>57,218,536</u>	<u>45,182,762</u>
EXPENSES		
Program services	29,117,623	22,153,307
Cost of museum store and other merchandise sales	4,200,401	2,840,402
Cost of restaurant, catering and event sales	5,680,476	2,256,787
Management and general	2,782,307	2,371,448
Fundraising	<u>2,185,713</u>	<u>1,479,578</u>
TOTAL EXPENSES	<u>43,966,520</u>	<u>31,101,522</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>13,252,016</u>	<u>14,081,240</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and grants	4,051,728	191,324
Investment (loss) income	(851,509)	997,574
Release of donor restrictions	<u>(3,578,831)</u>	<u>(1,260,254)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(378,612)</u>	<u>(71,356)</u>
INCREASE IN NET ASSETS	12,873,404	14,009,884
NET ASSETS - BEGINNING OF YEAR	95,351,201	81,341,317
Impact of adopting ASC Topic 842	<u>3,518,793</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 111,743,398</u>	<u>\$ 95,351,201</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
DECEMBER 31, 2022 AND 2021

	2022				2021			
	<u>SUPPORTING SERVICES</u>			TOTAL FUNCTIONAL EXPENSES	<u>SUPPORTING SERVICES</u>			TOTAL FUNCTIONAL EXPENSES
PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	PROGRAM SERVICES		MANAGEMENT AND GENERAL	FUNDRAISING		
Salaries, wages, and employee benefits	\$ 14,635,316	\$ 1,677,432	\$ 1,696,220	\$ 18,008,968	\$ 10,740,220	\$ 1,461,746	\$ 882,645	\$ 13,084,611
Cost of museum store and other merchandise sales	4,200,401	-	-	4,200,401	2,840,402	-	-	2,840,402
Cost of restaurant, catering and event sales	5,680,476	-	-	5,680,476	2,256,787	-	-	2,256,787
Housekeeping and security contracts	1,069,168	95,991	34,949	1,200,108	769,495	69,086	25,153	863,734
General, administrative, and credit card fees	3,288,470	214,782	84,155	3,587,407	2,255,392	149,844	55,142	2,460,378
Occupancy	2,821,251	253,294	92,220	3,166,765	2,137,731	191,927	69,877	2,399,535
Advertising	1,304,589	117,127	42,644	1,464,360	916,354	82,271	29,953	1,028,578
Interest, depreciation and amortization	4,506,347	404,583	147,301	5,058,231	4,489,657	403,084	146,756	5,039,497
Exhibit, museum services, and education expenses	1,272,310	-	-	1,272,310	552,912	-	-	552,912
Grants and fundraising expenses	7,450	-	81,271	88,721	141,292	-	265,141	406,433
Miscellaneous	212,722	19,098	6,953	238,773	150,254	13,490	4,911	168,655
TOTAL FUNCTIONAL EXPENSES	\$ 38,998,500	\$ 2,782,307	\$ 2,185,713	\$ 43,966,520	\$ 27,250,496	\$ 2,371,448	\$ 1,479,578	\$ 31,101,522

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,873,404	\$ 14,009,884
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,405,186	4,661,831
Contributions restricted for long-term purposes	(4,051,728)	(191,324)
Earnings on investment in Food on Fifth, LLC	(221,975)	264,928
Amortization of right-of-use asset	324,313	-
Amortization of loan costs	-	32,285
Gain on disposal of property, equipment and exhibits	67,407	(3,542)
Unrealized and realized gain on investments, net	431,615	(992,550)
(Increase) decrease in:		
Trade accounts receivable and other	(88,130)	(232,602)
Contributions and grants receivable	226,731	(809,695)
Inventories	(325,418)	426,935
Prepaid expenses and other	(228,354)	6,441
Operating lease right-of-use assets	80,426	-
Increase (decrease) in:		
Accounts payable and accrued expenses	232,182	110,802
Deferred revenue and customer deposits	(226,992)	500,410
Operating lease liabilities	(80,426)	-
TOTAL ADJUSTMENTS	<u>544,837</u>	<u>3,773,919</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>13,418,241</u>	<u>17,783,803</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and exhibits	(2,520,218)	(1,034,511)
Purchase of general library collection items	(5,812)	(10,823)
Proceeds from sale of investments	183,352	19,346,561
Purchase of investments	(39,018,782)	-
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(41,361,460)</u>	<u>18,301,227</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(75,000)	(525,000)
Payments on finance/capital lease obligation	(23,100)	(22,658)
Collection of contributions restricted for long-term purposes	3,578,831	1,260,254
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>3,480,731</u>	<u>712,596</u>
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(24,462,488)	36,797,626
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - BEGINNING OF YEAR	<u>46,806,705</u>	<u>10,009,079</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	<u>\$ 22,344,217</u>	<u>\$ 46,806,705</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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 1.5 million annual visitors in a typical year, the Museum safeguards a diverse artifact and archival collection comprised of moving images on film; video and digital formats; photographs; sound recordings; oral history interviews; stage costumes; musical instruments; posters; printed materials; objects illustrating the lives and careers of musicians, industry figures and the culture of country music. Through 18 exhibits curated and presented, the Museum interprets its collection with support of the more than 1,150 on-site and virtual educational programs in 2022.

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

In August 2021, CMF also formed a single-member LLC, Hall of Fame Songs, LLC. As of December 31, 2022, there have not been operations for the Hall of Fame Songs, LLC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

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

For performance obligations related to admission fees, museum store and other merchandise sales, event revenue, and restaurant and catering revenue, control transfer to the customer at a point in time. Revenues received prior to the date control transfers is recorded as deferred revenue. If the merchandise is shipped to a customer, the Foundation transfers control when the item is shipped and records revenue for the sale upon shipment to the customer. Total revenue recorded based on performance obligations satisfied at a point in time was \$50,034,782 and \$29,926,570 for the years ended December 31, 2022 and 2021.

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

Contributions and Support

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

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

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

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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (continued)

In September 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU was effective for the Foundation beginning on January 1, 2022 and did not result in a significant change to the consolidated financial statements.

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

Donated Services

Donated services are recognized in accordance with ASU 2020-07 if they create or enhance nonfinancial 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.

Inventories

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

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Grants Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (2.5% in 2022 and 2021). 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.

Property, Equipment and Exhibits

The Foundation capitalizes all expenditures for property and equipment over \$5,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Substantially all of the building and improvement assets are depreciated using the straight-line method over an estimated life of forty years. Costs of exhibits for display are capitalized and depreciated on a straight-line basis over estimated service lives ranging from two to twenty years. The remaining assets are depreciated using the straight-line method over a five- to ten-year estimated life.

Collection Items

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

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 2022 is \$130,398 (\$138,690 in 2021).

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Leases

The Foundation made an accounting policy election available under Topic 842 not to recognize right-of-use ("ROU") assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Foundation used the discount rate implicit in the lease agreement, if readily determinable. For leases in which the rate implicit in the lease agreement is not readily determinable, the Foundation made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Investments

Investments consist of money market accounts, treasury notes, corporate and municipal bonds, exchange traded 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 statements of activities.

Investment in Food on Fifth, LLC

The Foundation owns a 40% membership interest in Food on Fifth, LLC ("FOF"). As part of the membership agreement amended November 30, 2022, the Foundation leases a portion of its premises to FOF in exchange for 9% of net sales, which tenant has been paying since January 1, 2019. The term of the lease will expire on November 25, 2029 unless mutually agreed to by a written agreement. 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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Foundation classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

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

There have been no changes in the valuation methodologies used at December 31, 2022 and 2021.

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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund

The Country Music Foundation Endowment Fund (“Fund”) consists of funds established by the Board of Officers and Trustees (“Board”) and by donors to be held in perpetuity. 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 endowment funds (both donor restricted endowment funds and board-designated 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: Board has interpreted SUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Spending policy: The Foundation has a policy which limits the spending to 5% of the average Fund market value for the preceding three years ending December 31 of the most recent calendar year. The spending amount resulting from this calculation is considered by the Board 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 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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund (continued)

- 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.

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.

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

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

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

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

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

Advertising

The Foundation uses advertising to promote its programs. Advertising costs are expensed as incurred. Advertising costs were approximately \$1,464,000 in 2022 and \$1,029,000 in 2021.

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, 2022 and April 14, 2023, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a ROU asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statements of income. The Foundation adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Foundation has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Foundation's historical accounting treatment under ASC Topic 840, *Leases*.

The Foundation elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Foundation does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases.

The Foundation has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Foundation determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Foundation obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Foundation also considers whether its service arrangements include the right to control the use of an asset.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Foundation's operating leases of \$712,229, at January 1, 2022. Adoption of Topic 842 resulted in the Foundation recalculating the capital lease under Topic 840 to a finance lease under Topic 842 as of January 1, 2022. The ROU asset and liability related to the Foundation's finance lease was \$16,864,253 as of January 1, 2022. The adoption of Topic 842 on the Foundation's finance lease resulted in an increase of \$3,518,793 opening net assets without donor and the right-of-use asset as of January 1, 2022. The leased asset was included in property, equipment and exhibits as of December 31, 2021.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 4 - AVAILABILITY AND LIQUIDITY

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

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 22,341,792	\$ 46,761,287
Trade accounts receivable and other, net of allowance	812,947	724,817
Contributions and grants receivable, net of allowance	2,064,798	1,818,632
Investments	43,244,396	4,840,581
Endowment spending-rate distribution and appropriations	<u>183,352</u>	<u>167,241</u>
Total financial assets	68,647,285	54,312,558
Less amounts not available to be used within one year:		
Board designated endowment fund	(39,438,686)	-
Restricted by donor with time or purpose restrictions	<u>(5,477,727)</u>	<u>(5,856,339)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 23,730,872</u>	<u>\$ 48,456,219</u>

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

The Foundation has set aside unrestricted financial operational reserves to ensure the future of programming and operations. These unrestricted financial operational reserves are outside the Board designated endowment fund and included in the liquidity calculation since they could be made available if necessary.

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 SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 5 - RESTRICTED CASH

The Foundation also held cash restricted by donors of \$2,425 and \$45,418 for certain projects at December 31, 2022 and 2021, respectively.

NOTE 6 - CONTRIBUTIONS AND GRANTS RECEIVABLE

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

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 1,937,936	\$ 1,524,942
Receivable in one to five years	<u>175,000</u>	<u>325,000</u>
Total unconditional promises to give	2,112,936	1,849,942
Less allowance for uncollectible pledges	(40,358)	(19,500)
Less discounts to net present value	<u>(7,780)</u>	<u>(11,810)</u>
Contributions and grants receivable	<u>\$ 2,064,798</u>	<u>\$ 1,818,632</u>

NOTE 7 - INVENTORIES

Inventories consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Museum stores	\$ 1,083,250	\$ 856,177
Grill and catering	168,845	144,347
Hatch Retail and Haley Gallery	<u>380,941</u>	<u>304,687</u>
	1,633,036	1,305,211
Less valuation allowance	<u>(62,003)</u>	<u>(59,596)</u>
	<u>\$ 1,571,033</u>	<u>\$ 1,245,615</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 8 - PROPERTY, EQUIPMENT AND EXHIBITS

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

	<u>2022</u>	<u>2021</u>
Land	\$ 3,926,300	\$ 3,926,300
Building and improvements	68,184,843	84,202,048
Furniture, fixtures and equipment	13,564,100	12,876,287
Exhibits	13,899,368	13,280,714
Vehicles	<u>63,064</u>	<u>63,064</u>
	99,637,675	114,348,413
Less accumulated depreciation	<u>(54,217,074)</u>	<u>(53,771,330)</u>
	<u>\$ 45,420,601</u>	<u>\$ 60,577,083</u>

NOTE 9 - 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, 2022, contributions receivable from six donors totaled approximately \$570,000 or 99% of total contributions receivable. At December 31, 2021, receivables from four donors totaled approximately \$745,000, or 92% of total contributions receivable.

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

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

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 10 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Endowment investments:		
Money market accounts	\$ 3,095,263	\$ 176,594
Fixed income securities	30,857,064	180,238
Equities	<u>9,292,069</u>	<u>4,483,749</u>
Total endowment investments	<u>\$ 43,244,396</u>	<u>\$ 4,840,581</u>

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

	<u>2022</u>	<u>2021</u>
Without donor restrictions	\$ 114,076	\$ 2,889
With donor restrictions	<u>(851,509)</u>	<u>997,574</u>
	<u>\$ (737,433)</u>	<u>\$ 1,000,463</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 11 - 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:

	2022			Total
	Level 1	Level 2	Level 3	
Investments:				
Money market accounts	\$ 3,095,263	\$ -	\$ -	\$ 3,095,263
Equities:				
Consumer staples	2,100,142	-	-	2,100,142
Healthcare	2,002,542	-	-	2,002,542
Consumer discretionary	757,988	-	-	757,988
Information technology	988,204	-	-	988,204
Industrial	1,394,843	-	-	1,394,843
Energy	206,289	-	-	206,289
Telecommunications	594,080	-	-	594,080
Financials	1,247,981	-	-	1,247,981
Fixed income securities:				
Exchange traded funds	933,020	-	-	933,020
Municipal securities	-	19,263	-	19,263
US Treasury notes	-	29,325,424	-	29,325,424
Corporate bonds	-	579,357	-	579,357
Total Investments	<u>\$ 13,320,352</u>	<u>\$ 29,924,044</u>	<u>\$ -</u>	<u>\$ 43,244,396</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

The Foundation estimates that the fair value of all financial instruments at December 31, 2022 and 2021 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statement of financial position. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Foundation would realize in a current market exchange.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 12 - ENDOWMENT FUND

A summary of the endowment activity is as follows for December 31, 2022:

	Board Designated Assets Without <u>Donor Restrictions</u>	Assets With <u>Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2022	\$ -	\$ 4,846,026	\$ 4,846,026
Contributions	39,018,782	-	39,018,782
Interest and dividend income	247,954	71,942	319,896
Management fees	(5,121)	(25,906)	(31,027)
Amounts appropriated for operations	-	(183,352)	(183,352)
Realized and unrealized loss on investments	<u>177,071</u>	<u>(897,545)</u>	<u>(720,474)</u>
Endowment net assets, December 31, 2022	<u>\$ 39,438,686</u>	<u>\$ 3,811,165</u>	<u>\$ 43,249,851</u>

Endowment net assets includes \$5,445 in pledges receivable at December 31, 2022. During 2022, the Board of Trustees approved contributing retained ordinary income over the next three years as board designated to the endowment fund.

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

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

Endowment net assets includes \$5,445 in pledge receivable at December 31, 2021.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 13 - PAYCHECK PROTECTION PROGRAM

The Foundation was granted a \$3,271,900 loan under the Paycheck Protection Program (“PPP”) administered by a Small Business Administration (“SBA”) approved partner. PPP loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes. The Foundation recognized \$3,271,900 as grant revenue for the year ended December 31, 2020. On August 2, 2021, the Small Business Administration approved the forgiveness of the first draw PPP loan.

The Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the “Economic Aid Act”) was signed into law on December 27, 2020. The Economic Aid Act provided a second draw PPP loan to borrowers who have used the full amount of the first PPP loan. In March 2021, the Foundation was granted a second draw loan from a financial institution in the amount of \$2,000,000. The Foundation has recognized \$2,000,000 as grant revenue for the year ended December 31, 2021. On April 11, 2022, the Small Business Administration approved the forgiveness of the second draw PPP loan.

NOTE 14 - LONG-TERM DEBT

During 2010, the Foundation refinanced its 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, 2022 and 2021 was \$50,000.

Loan costs incurred are presented in the consolidated statement of financial position as a direct reduction of the carrying amount of the debt liability. Loan costs are amortized on a straight-line basis over the term of the loan. Amortization expense amounted to \$32,285 for the year ended December 31, 2021. There were no loan costs at December 31, 2022 as the loan costs were fully amortized.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 14 - LONG-TERM DEBT (CONTINUED)

The Foundation obtained an uncollateralized and interest-free loan for \$750,000 in 2017. Payments of \$75,000 are due on or before January 5 each calendar year beginning in 2018 until January 2028. Principal outstanding on the loan at December 31, 2022 and 2021 was \$375,000 and \$450,000, respectively.

Interest expense related to long-term debt for the years ended December 31, 2022 and 2021 was \$1,182 and \$17,388, respectively.

As of December 31, 2022, annual principal maturities of all long-term debt agreements are as follows:

Year Ending December 31:

2023	\$	75,000
2024		75,000
2025		75,000
2026		75,000
2027		75,000
Thereafter		<u>50,000</u>
	\$	<u>425,000</u>

NOTE 15 - LINE OF CREDIT

The Foundation has a \$7,000,000 line of credit with a bank that matures October 5, 2024. The line bears interest at a variable rate of Daily Simple SOFR. The line of credit is secured by substantially all the Foundation's assets, excluding artifacts. There was no outstanding balance on the line as of December 31, 2022 or 2021. Interest expense related to line of credit for the years ended December 31, 2022 and 2021 was \$0 and \$507, respectively.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 16 - LEASES

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

During 2014, the land upon which the expansion project rests was deeded to the Foundation by the Industrial Development Board through the Master Condominium Declaration and is leased to the Authority under a ground lease agreement. The consideration under the ground lease agreement does not require cash payments, however it does require the parties to abide by the Development, Lease and Operating agreement. The carrying amount of the land on the Foundation's consolidated statements of financial position as of December 31, 2022 and 2021 is \$3,097,400.

On June 20, 2014, the Foundation entered into a finance lease for the expansion project under a sixty-year lease with the Authority. The Foundation pays annual rent of \$250,000 from 2014-2018, \$350,000 from 2019-2023, \$500,000 from 2024-2063, \$650,000 from 2064-2068 and \$750,000 from 2069-2073. The Foundation is responsible for all interior and exterior operating costs, maintenance and repairs. As part of the agreement, the Authority and the Foundation will place a portion of the rent into an escrow account held by the Authority (the "Reserve Fund") in the amount of \$200,000 per year until the Reserve Fund reaches \$1,000,000. The Reserve Fund may be accessed during the term of the lease once the Reserve Fund reaches \$250,000 for the maintenance and repair of the building expansion. The funds shall be disbursed upon remittance of a budget by the Foundation for necessary expenditures and approval by the Authority. Beginning in 2035, the Reserve Fund shall be increased to \$1,500,000 with annual deposits increasing to \$250,000 per year. During the year ended December 31, 2022, the Foundation received disbursements totaling \$288,537 from the Reserve Fund for qualifying expenditures (\$342,651 in 2021). 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.

Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term.

The Foundation also leases certain equipment under operating lease agreements that have initial terms ranging from 1 to 6 years.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 16 - LEASES (CONTINUED)

The components of lease expense are as follows for the year ended December 31 2022:

Operating lease cost	\$	154,769
Finance lease cost - amortization of right-of-use assets		324,313
Finance lease cost - interest on lease liabilities		<u>326,900</u>
Total lease cost	\$	<u>805,982</u>

Additional information related to leases is as follows as of December 31 2022:

Operating leases:

Operating lease right-of-use assets	\$	<u>631,803</u>
Operating lease liabilities, current	\$	151,847
Operating lease liabilities, non-current		<u>479,956</u>
Total operating lease liabilities	\$	<u>631,803</u>

Finance leases:

Buildings	\$	16,864,253
Accumulated depreciation		<u>(324,313)</u>
Finance lease right-of-use assets, net	\$	<u>16,539,940</u>

Current maturities of finance lease liabilities	\$	23,437
Finance lease liabilities, non-current		<u>16,817,716</u>
Total finance lease liabilities	\$	<u>16,841,153</u>

Weighted-average remaining lease term:

Operating leases	4.48 years
Finance leases	50.75 years

Weighted-average discount rate:

Operating leases	1.55%
Finance leases	1.94%

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 16 - LEASES (CONTINUED)

Future undiscounted cash flows and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of December 31, 2022:

	<u>Operating Leases</u>	<u>Finance Leases</u>
Years ending December 31:		
2023	\$ 160,232	\$ 350,000
2024	148,508	500,000
2025	128,741	500,000
2026	109,304	500,000
2027	100,194	500,000
Thereafter	<u>-</u>	<u>25,000,000</u>
Total lease payments	646,979	27,350,000
Less imputed interest	<u>(15,176)</u>	<u>(10,508,847)</u>
Total present value of lease liabilities	<u>\$ 631,803</u>	<u>\$ 16,841,153</u>

Future minimum lease commitments, as determined under Topic 840, for capital leases as follows as of December 31, 2021:

Years ending December 31:	
2022	\$ 350,000
2023	350,000
2024	500,000
2025	500,000
2026	500,000
Thereafter	<u>25,500,000</u>
Total minimum lease payments	\$ 27,700,000
Less amount representing interest	<u>(10,977,100)</u>
Total obligations under capital leases	<u>\$ 16,722,900</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 17 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Time restricted contributions receivable	\$ 280,288	\$ 398,690
Endowment corpus	2,285,500	2,285,500
Accumulated endowment income	1,525,665	2,560,526
Restricted for future operations	<u>1,386,274</u>	<u>611,623</u>
	<u>\$ 5,477,727</u>	<u>\$ 5,856,339</u>

NOTE 18 - PROFIT-SHARING RETIREMENT PLAN

The Foundation sponsors a 401(k) profit-sharing retirement plan. Substantially all employees are eligible to participate in the plan and are eligible for company match after completing one year of employment and 1,000 hours worked with the Foundation. The Foundation makes contributions to the plan equal to 50% of employee contributions up to 3% of the eligible participant's salaries. Related expense amounted to \$121,444 and \$165,309 in 2022 and 2021, respectively.

NOTE 19 - ARCHIVAL PERMANENT ENDOWMENT FUND

In December 2010, a donor established a \$2,500,000 fund with the Community Foundation of Middle Tennessee for the benefit of the Foundation. The fund, called the Archival Permanent Endowment Fund, provides a 5% guarantee minimum annual income distribution annually. Distributions made to the Foundation from the fund amounted to \$150,734 and \$133,700 for the years ended December 31, 2022 and 2021, 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 consolidated financial statements of the Foundation. Income distributed from this fund is recognized by the Foundation when it is received.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 20 - CONTRIBUTED NONFINANCIAL ASSETS

The Foundation records support and expenses for contributed services that require specialized skills and would be purchased if not provided by the donor. For the years ended December 31, contributed nonfinancial assets recognized within the statement of activities included:

	Revenue Recognized		Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
	2022	2021			
Food, beverage and rentals	\$ 79,598	\$ 12,958	Cost of restaurant, catering and event sales	No associated donor restrictions	Fair value is estimated on the basis of wholesale values that would be received for selling similar products in the U.S.
Travel	55,856	13,318	General program services	No associated donor restrictions	Fair value is estimated on the basis of hotel rates and airfares that would be received for similar travel in the U.S.
Fundraising	9,000	76,949	Fundraising	No associated donor restrictions	Fair value is estimated on the basis of the value that would be received for similar products or services in the U.S.
Legal	21,709	27,304	Various administrative legal matters	No associated donor restrictions	Fair value is estimated on the basis of legal services that would be received for similar legal services from attorneys in the U.S.
Other	15,367	16,126	Various program services	No associated donor restrictions	Fair value is estimated on the basis of wholesale values that would be received for selling similar products in the U.S.
	<u>\$ 181,530</u>	<u>\$ 146,655</u>			

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 21 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	<u>2022</u>	<u>2021</u>
CASH AND RESTRICTED CASH		
Cash and cash equivalents	\$ 22,341,792	\$ 46,761,287
Restricted cash	<u>2,425</u>	<u>45,418</u>
TOTAL CASH AND RESTRICTED CASH	<u><u>\$ 22,344,217</u></u>	<u><u>\$ 46,806,705</u></u>
OTHER CASH FLOW DISCLOSURES		
CASH PAID FOR		
Interest	<u>\$ 328,732</u>	<u>\$ 345,381</u>
Operating cash outflows - payment on operating leases	<u>\$ 160,107</u>	<u>\$ -</u>
Financing cash outflows - payment on finance lease	<u>\$ 23,100</u>	<u>\$ -</u>
State and federal income taxes	<u>\$ 59,874</u>	<u>\$ 22,648</u>
NON-CASH TRANSACTIONS		
ROU asset obtained in exchange for finance lease liability	<u>\$ 16,864,253</u>	<u>\$ -</u>
ROU asset obtained in exchange for operating lease liabilities	<u>\$ 712,229</u>	<u>\$ -</u>