

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2014 AND 2013

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## INDEPENDENT AUDITOR'S REPORT

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

### REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Country Music Foundation, Inc. and Subsidiary (collectively, the "Foundation"), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Country Music Foundation, Inc. and Subsidiary as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PRIOR PERIOD FINANCIAL STATEMENTS

The consolidated financial statements of Country Music Foundation, Inc. and Subsidiary as of and for the year ended December 31, 2013, were audited by other auditors whose report dated March 18, 2014, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Kratt CPAs PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee  
March 24, 2015

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 11,098,614	\$ 5,296,665
Trade accounts receivable and other, net of allowance of \$90,866 in 2014 and \$60,652 in 2013	859,356	686,806
Prepaid expenses	60,878	91,745
Inventories	921,152	829,065
Contributions and grants receivable	10,386,267	12,978,883
Restricted cash	213,118	1,790,497
Investments - endowment	2,979,608	2,745,043
Investments - held for building expansion	128,570	661,670
Investment in Food on Fifth, LLC	300,000	-
Property, equipment and exhibits	80,271,499	61,817,384
Collection items - Note 2	-	-
General library	1,087,111	1,072,517
Bond and loan financing costs, net of amortization of \$479,311 in 2014 and \$400,567 in 2013	350,251	428,995
<b>TOTAL ASSETS</b>	<b><u>\$ 108,656,424</u></b>	<b><u>\$ 88,399,270</u></b>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 2,055,389	\$ 4,483,064
Deferred revenue and customer deposits	707,398	455,876
Note payable	9,454,166	14,906,000
Bonds payable	19,535,000	20,522,189
Capital lease obligation	16,496,529	-
Interest rate swap obligation	127,227	656,824
<b>TOTAL LIABILITIES</b>	<b><u>48,375,709</u></b>	<b><u>41,023,953</u></b>

NET ASSETS

Unrestricted	46,560,451	31,639,994
Temporarily restricted	11,519,764	13,534,823
Permanently restricted	2,200,500	2,200,500
<b>TOTAL NET ASSETS</b>	<b><u>60,280,715</u></b>	<b><u>47,375,317</u></b>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 108,656,424</u></b>	<b><u>\$ 88,399,270</u></b>
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See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Admission fees	\$ 12,436,700	\$ 9,477,536
Museum store and other merchandise sales	5,444,296	3,929,729
Event revenue	4,273,891	1,663,226
Royalties	54,215	50,418
Contributions, grants and memberships	6,770,224	1,130,741
Special fundraising events	864,524	878,123
Restaurant and catering revenue	7,198,192	3,568,381
Investment income	90,236	75,004
Other revenues	292,434	126,467
In-kind donations	212,426	365,917
Contribution of land for expansion project	3,097,400	-
Gain on disposal of property, equipment and exhibits	3,273	3,969,646
Total unrestricted support and revenue	<u>40,737,811</u>	<u>25,235,188</u>
Net assets released from donor restrictions	<u>2,767,292</u>	<u>18,370,155</u>
TOTAL SUPPORT AND REVENUE	<u>43,505,103</u>	<u>43,605,343</u>
EXPENSES		
Program services	21,286,660	14,084,460
Administrative	2,707,126	2,817,440
Fundraising	1,015,672	989,883
Cost of museum store and other merchandise sales	2,143,713	1,505,984
Cost of restaurant/catering sales	1,961,072	1,081,345
Change in value of interest rate swap	<u>(529,597)</u>	<u>(547,615)</u>
TOTAL EXPENSES	<u>28,584,646</u>	<u>19,931,497</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>14,920,457</u>	<u>23,673,846</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	517,668	4,035,332
Net assets released from donor restrictions	<u>(2,767,292)</u>	<u>(18,370,155)</u>
Investment gains	<u>234,565</u>	<u>326,963</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(2,015,059)</u>	<u>(14,007,860)</u>
INCREASE IN NET ASSETS	12,905,398	9,665,986
NET ASSETS - BEGINNING OF YEAR	<u>47,375,317</u>	<u>37,709,331</u>
NET ASSETS - END OF YEAR	<u>\$ 60,280,715</u>	<u>\$ 47,375,317</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 12,905,398	\$ 9,665,986
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,902,713	2,490,144
Amortization	78,744	69,655
Contributions restricted for long-term purposes	(356,322)	(3,583,117)
Contribution of land for expansion project	(3,097,400)	-
Change in value of interest rate swap	(529,597)	(547,615)
Gain on disposal of property, equipment and exhibits	(3,273)	(3,969,646)
Unrealized and realized gain on investments, net	(222,417)	(289,098)
(Increase) decrease in:		
Trade accounts receivable and other	(172,550)	(447,153)
Contributions and grants receivable	342,585	(282,246)
Inventories	(92,087)	(99,122)
Prepaid expenses	30,867	(7,578)
Increase (decrease) in:		
Accounts payable and accrued expenses	(2,502,675)	534,778
Deferred revenue and customer deposits	326,522	259,782
<b>TOTAL ADJUSTMENTS</b>	<u>(2,294,890)</u>	<u>(5,871,216)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>10,610,508</u>	<u>3,794,770</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property, equipment and exhibits	20,000	4,198,466
Investment in limited liability company	(300,000)	-
Purchase of property, equipment and exhibits	(2,771,021)	(31,453,849)
Purchase of general library collection items	(14,594)	-
Change in restricted cash	1,577,379	(1,421,671)
Proceeds from sale of investments	648,614	819,609
Purchase of investments	(127,662)	6,325,775
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(967,284)</u>	<u>(21,531,670)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from note payable	-	22,556,000
Payment of loan costs	-	(272,653)
Principal payments on long-term debt	(6,439,023)	(7,650,000)
Principal payment on capital lease obligation	(8,605)	-
Collection of pledges restricted for long-term endowment	-	200,000
Collection of contributions restricted for long-term purposes	2,606,353	6,700,693
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<u>(3,841,275)</u>	<u>21,534,040</u>
<b>NET INCREASE IN CASH</b>	5,801,949	3,797,140
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>5,296,665</u>	<u>1,499,525</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 11,098,614</u>	<u>\$ 5,296,665</u>
<b>OTHER CASH FLOW DISCLOSURES</b>		
Interest expense paid during the year	\$ 913,415	\$ 948,892
Income taxes paid	\$ 7,026	\$ 15,000
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Building and improvements acquired through capital lease obligation	\$ 16,505,134	\$ -
Capital expenditures in accounts payable	\$ -	\$ 1,195,690

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 1 - GENERAL

The Country Music Foundation, Inc. ("CMF") 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.

Effective July 1, 2009, the Foundation formed a single member LLC known as Hall of Fame Grill & Catering, LLC d/b/a Two Twenty Two Grill & Catering ("222") to take over the operations of the restaurant in the museum which is provided for as a convenience to museum patrons. 222 also provides catering services for events. CMF and 222 are collectively referred to as the "Foundation".

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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



COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

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

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

The Foundation receives grant revenue from various federal, state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

The Foundation reports gifts of equipment or materials (in-kind contributions) at their fair value in the period received as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long - lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

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

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

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

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

Donated services are recognized if they create or enhance non-financial assets, or requires 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. The Foundation received services included as contributions and expenses in the consolidated financial statements valued at \$212,426 for 2014 and \$365,917 for 2013. Other individuals volunteer their time and perform a variety of tasks that assist the Foundation with program services and fundraising events. No amounts have been reflected in the consolidated financial statements for these donated services since the volunteer's time does not meet the criteria for recognition under GAAP.

Cash and Cash Equivalents

The Foundation considers cash and cash equivalents to be all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The cash and cash equivalents held in the investment accounts are reported with investments.

Trade Accounts Receivable

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

Trade accounts receivable are reported at gross sales price less any applicable payments or adjustments. The Foundation does not charge interest on past due accounts. Management estimates for uncollectible accounts through a provision for bad debts. The provision is adjusted annually based upon an assessment of the current balances. Once management determines an account is not collectible, it is written off against the provision.

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (1.50% in 2014 and 2013). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Property, Equipment and Exhibits

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

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.

Collection Items

The Foundation's collections are made up principally of recordings, books, films and periodicals that are held for educational and curatorial purposes. These items are cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. In accordance with the provisions of GAAP, the Foundation does not capitalize donated artifacts or recognize them as revenues or gains. GAAP provides that such donations need not be recognized if they are added to collections that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The estimated fair value of the donated artifacts is \$76,406 in 2014 and \$66,395 in 2013.

Bond and Loan Financing Costs

Bond and loan financing costs are capitalized and amortized on the straight-line basis over the life of the related debt. Amortization expense is expected to be \$78,744 each year for the period from 2015-2017, \$33,301 in 2018, \$24,213 in 2019 and \$56,505 thereafter.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

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, equities and mutual funds* - Valued based on quoted market prices on the last business day of the reporting period.

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

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

*Interest rate swap obligation* - Valued based upon bank quotations at fair value.

There have been no changes in the valuation methodologies used at December 31, 2014 and 2013.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Endowment Fund

The Foundation has a donor-restricted endowment fund. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation's permanently restricted endowment funds are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act ("SUPMIFA").

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund (continued)

*Interpretation of applicable law* - The Board of Trustees has interpreted SUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

*Spending policy* - The Foundation has a policy which limits the spending to 5% of the average Fund market value for the preceding three years ending December 31 of the most recent calendar year. The spending amount resulting from this calculation is considered by the Board of Trustees on an as needed basis and distributions may be made throughout the year at such intervals as may be specified by the Board.

*Investment return objective, risk parameters and strategies* - The Foundation has adopted investment and spending policies to establish asset allocation targets, investment objectives and guidelines and the degree of investment risk the Board deems acceptable. The goal of the investment program is for the purpose of providing funds that grow in value and provide a source of income primarily for the support of operating costs. Investment objectives are as follows:

- Enhance the financial stability of the Foundation.
- Provide a reasonably predictable source of income to the Foundation.
- The primary investment objective of the Fund is to attain an average annual real total return, net of all fees and non-qualified distributions, of 5.0 percent annualized. A secondary objective of the Fund is to earn a relative total return equal to or greater than a composite of market indices weighted between equities and fixed income in proportion to the Fund's weightings.
- The Fund is diversified in marketable securities. As a general rule, no single security should represent more than 10% of the Fund's assets (not applicable to U.S. Government and Agency issues), except that, if a contribution is made to the Fund of a security that represents in excess of 10%, the investment manager will advise the Investment Committee of its outlook for the security and recommend an appropriate period over which it will be diversified to the 10% threshold.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund (continued)

- 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.

Investments

Investments consist of money market accounts, corporate and municipal bonds, convertible debentures, mutual funds and equities. Money market accounts are carried at cash value plus accrued interest. All other investments are carried at fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses are reflected in the consolidated statement of activities.

Investment in Food on Fifth, LLC

On November 25, 2014, the Foundation invested \$300,000 in Food on Fifth, LLC ("FOF") for a 40% membership interest. As part of the membership agreement, the Foundation will lease a portion of its premises to FOF in exchange for 10% of net sales. The lease will commence on the earlier of 120 days after November 25, 2014 or the date FOF opens for business, and will continue for 10 years with the option for a 5 year renewal. This investment is accounted for using the equity method of accounting. Accordingly, the investment is recorded at acquisition cost plus the Foundation's equity in the undistributed earnings or losses of FOF. On March 12, 2015, the Foundation invested an additional \$100,000.

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 SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instrument

The Foundation uses a derivative to manage risk related to interest rate movements. Interest rate swap contracts designated and qualifying as a cash flow hedge are reported at fair value. The Foundation documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge.

Advertising

The Foundation uses advertising to promote its programs. Advertising costs are expensed as incurred. Advertising costs were approximately \$1,778,000 in 2014 and \$1,129,000 in 2013.

Income Taxes

The Foundation qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Foundation's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying consolidated financial statements.

The Foundation files a U.S. federal Form 990 for organizations exempt from income tax and a U.S. federal Form 990-T for organizations exempt from income tax with unrelated business income. In addition, the Foundation files an income tax return in the State of Tennessee. Tax returns for year prior to fiscal year 2011 are no longer open to examination.

Allocation of Functional Expenses

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

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

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

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between December 31, 2014 and March 24, 2015, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

Reclassifications

Certain accounts have been made in the 2013 financial statements to conform to the 2014 presentation. These reclassifications had no effect on the change in net assets previously reported.

NOTE 3 - RESTRICTED CASH

The Foundation held restricted cash of \$59,631 and \$1,682,831 related to its building expansion program at December 31, 2014 and 2013, respectively. The Foundation also held cash restricted by donors of \$153,487 and \$107,666 for certain projects at December 31, 2014 and 2013, respectively.



COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 4 - CONTRIBUTIONS AND GRANTS RECEIVABLE

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

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 4,892,899	\$ 4,736,602
Receivable in one to five years	5,269,578	7,579,837
Receivable in six to nine years	<u>600,000</u>	<u>1,200,000</u>
Total unconditional promises to give	10,762,477	13,516,439
Less allowance for uncollectible pledges	(80,000)	-
Less discounts to net present value	<u>(296,210)</u>	<u>(537,556)</u>
Contributions and grants receivable	<u>\$ 10,386,267</u>	<u>\$ 12,978,883</u>

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

NOTE 5 - INVENTORIES

Inventories consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Museum store	\$ 740,453	\$ 724,275
Grill and catering	60,340	68,366
Hatch Retail and Haley Gallery	<u>153,167</u>	<u>65,140</u>
	953,960	857,781
Less valuation allowance	<u>(32,808)</u>	<u>(28,716)</u>
	<u>\$ 921,152</u>	<u>\$ 829,065</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 6 - PROPERTY, EQUIPMENT AND EXHIBITS

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

	<u>2014</u>	<u>2013</u>
Land	\$ 3,926,300	\$ 828,900
Building and improvements	80,264,946	63,247,422
Furniture, fixtures and equipment	6,639,721	5,478,920
Exhibits	12,259,137	11,635,603
Vehicles	<u>126,600</u>	<u>89,130</u>
	103,216,704	81,279,975
Less accumulated depreciation	<u>(22,945,205)</u>	<u>(19,462,591)</u>
	<u>\$ 80,271,499</u>	<u>\$ 61,817,384</u>

NOTE 7 - CONCENTRATIONS

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents, investments and various contribution and grant receivables. Contributions and grants receivable consist of individual, organization and corporate contribution pledges. At December 31, 2014, contributions receivable from two sources totaled approximately \$4,681,000, or 45% of total contributions and grants receivable. At December 31, 2013, receivables from three sources totaled approximately \$8,704,000 or 67% of total contributions and grants receivable.

Combined contributions from two sources amounted to approximately \$3,500,000, or 48% of total contribution revenues for the year ended December 31, 2014 (approximately \$2,200,000, or 43% of total contribution revenues from three sources for the year ended December 31, 2013).

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

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

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 8 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
Money market accounts	\$ 74,933	\$ 297,948
Fixed income securities	618,744	1,151,985
Equities	2,223,927	1,897,405
Mututal funds	122,480	-
Convertible debentures	<u>68,094</u>	<u>59,375</u>
Total	<u>\$ 3,108,178</u>	<u>\$ 3,406,713</u>

The investments include assets pledged on a letter of credit arrangement related to the building expansion of \$0 at December 31, 2014 and \$589,684 at December 31, 2013. In addition, the investments include \$128,570 at December 31, 2014 and \$71,986 at December 31, 2013 restricted for the building expansion. The remaining investment assets comprise the Foundation endowment fund in the amount of \$2,979,608 at December 31, 2014 and \$2,745,043 at December 31, 2013.

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

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 122,383	\$ 130,650
Investment management fees	(19,999)	(17,781)
Net realized and unrealized gains	<u>222,417</u>	<u>289,098</u>
Total investment income	<u>\$ 324,801</u>	<u>\$ 401,967</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 9 - FAIR VALUE MEASUREMENTS

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

	2014			Total
	Level 1	Level 2	Level 3	
Financial Assets:				
Investments:				
Money market accounts	\$ 74,933	\$ -	\$ -	\$ 74,933
Equities:				
Consumer staples	273,194	-	-	273,194
Healthcare	349,844	-	-	349,844
Consumer discretionary	251,787	-	-	251,787
Information technology	330,449	-	-	330,449
Industrial	253,774	-	-	253,774
Energy	186,692	-	-	186,692
Telecommunications	109,155	-	-	109,155
Utilities	66,832	-	-	66,832
Financials	402,200	-	-	402,200
Fixed income securities:				
Corporate bonds	-	563,966	-	563,966
Municipal bonds	-	54,778	-	54,778
Convertible debentures	-	68,094	-	68,094
Mutual funds	122,480	-	-	122,480
Total Financial Assets	<u>\$ 2,421,340</u>	<u>\$ 686,838</u>	<u>\$ -</u>	<u>\$ 3,108,178</u>
Financial Liabilities:				
Interest rate swap	<u>\$ -</u>	<u>\$ (127,227)</u>	<u>\$ -</u>	<u>\$ (127,227)</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2013			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Investments:				
Money market accounts	\$ 297,948	\$ -	\$ -	\$ 297,948
Equities:				
Consumer staples	261,847	-	-	261,847
Healthcare	252,846	-	-	252,846
Consumer discretionary	149,802	-	-	149,802
Information technology	267,417	-	-	267,417
Industrial	246,919	-	-	246,919
Energy	196,769	-	-	196,769
Telecommunications	118,547	-	-	118,547
Utilities	55,208	-	-	55,208
Financials	348,050	-	-	348,050
Fixed income securities:				
Corporate bonds	-	1,097,662	-	1,097,662
Municipal bonds	-	54,323	-	54,323
Convertible debentures	-	59,375	-	59,375
Total Financial Assets	<u>\$ 2,195,353</u>	<u>\$ 1,211,360</u>	<u>\$ -</u>	<u>\$ 3,406,713</u>
Financial Liabilities:				
Interest rate swap	<u>\$ -</u>	<u>\$ (656,824)</u>	<u>\$ -</u>	<u>\$ (656,824)</u>

The Foundation estimates that the fair value of all financial instruments at December 31, 2014 and 2013 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statement of financial position. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Foundation would realize in a current market exchange.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 10 - ENDOWMENT FUND

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

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
January 1, 2014	\$ -	\$ 544,543	\$2,200,500	\$ 2,745,043
Contributions to endowment fund	-	-	-	-
Interest and dividend income	-	122,383	-	122,383
Management fees	-	(19,999)	-	(19,999)
Amounts appropriated for operations	-	(68,260)	-	(68,260)
Realized and unrealized gains on investments	-	200,441	-	200,441
Endowment net assets, December 31, 2014	\$ -	\$ 779,108	\$2,200,500	\$ 2,979,608
	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
January 1, 2013	\$ -	\$ 216,673	\$2,000,500	\$ 2,217,173
Contributions to endowment fund	-	-	200,000	200,000
Interest and dividend income	-	116,623	-	116,623
Management fees	-	(17,781)	-	(17,781)
Amounts appropriated for operations	-	(65,874)	-	(65,874)
Realized and unrealized gains on investments	-	294,902	-	294,902
Endowment net assets, December 31, 2013	\$ -	\$ 544,543	\$2,200,500	\$ 2,745,043

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 11 - LONG-TERM DEBT

During 2010, the Foundation refinanced the 1999 Series Bonds by issuing \$23,035,000 in Industrial Revenue Bonds through the Industrial Development Board of the Metropolitan Government of Nashville, Tennessee. The bonds are dated March 1, 2010. Interest on the bonds is payable monthly at a variable rate of interest. The interest rate at December 31, 2014 was 1.78%. The bonds are to be redeemed in two payments each year on August 19 and December 19 with final maturity on June 1, 2022. The bonds are secured by a deed of trust on certain real estate and are subject to a credit and guaranty agreement between the Foundation and the bondholder. The agreement allows the bondholder to call the bonds on March 1, 2020 and on the fifth anniversary of each March 1 thereafter.

The agreement contains certain loan covenants, the most stringent of which require the Foundation to meet certain debt coverage requirements and liquidity requirements. The Foundation is in compliance for the years ended December 31, 2014 and 2013.

In connection with the expansion project (see Note 13) the Foundation obtained a bridge loan dated March 14, 2013. The loan provided for advances of up to \$25,000,000 until September 1, 2014. Interest is payable monthly on the loan draws at LIBOR plus 1.75%. The rate at December 31, 2014 was 1.9375%. The loan is secured by a deed of trust on certain real estate. The loan matures March 1, 2018.

Interest expense related to long-term debt for the years ended December 31, 2014 and 2013 was \$913,415 and \$948,892, respectively.

As of December 31, 2014, principal maturities of all long-term debt are anticipated to be as follows:

Year Ending December 31:

2015	\$ 1,500,000
2016	1,500,000
2017	1,500,000
2018	11,204,166
2019	2,000,000
Thereafter	<u>11,285,000</u>
	<u>\$ 28,989,166</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 12 - LINE OF CREDIT

The Foundation has a \$3,000,000 line of credit with a bank that matures on June 2, 2015. The line bears interest at a variable rate of LIBOR plus 1.25% (1.4375% at December 31, 2014). The line of credit is secured by substantially all of the Foundations assets, excluding artifacts. There was no outstanding balance on the line as of December 31, 2014 and 2013.

NOTE 13 - CAPITAL LEASE OBLIGATION

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

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

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

The Foundation will have the right and option to purchase the expansion project upon the expiration of the lease for a purchase price of \$750,000.



COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 13 - CAPITAL LEASE OBLIGATION (CONTINUED)

Future minimum lease payments under the capital lease obligation as of December 31, 2014 is as follows:

<u>For the year ending December 31,</u>	
2015	\$ 250,000
2016	250,000
2017	250,000
2018	250,000
2019	350,000
Thereafter	<u>28,400,000</u>
	29,750,000
Less: imputed interest at 1.938%	<u>(13,253,471)</u>
Net minimum lease payments	<u>\$ 16,496,529</u>

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

	<u>2014</u>	<u>2013</u>
Building and improvements	\$ 16,505,134	\$ -
Less accumulated depreciation	<u>(412,628)</u>	<u>-</u>
	<u>\$ 16,092,506</u>	<u>\$ -</u>

Depreciation expense for these assets was \$412,628 in 2014 (\$0 in 2013).

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 14 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Time restricted contributions receivable	\$ 10,386,267	\$ 12,380,821
Endowment income	779,108	544,543
Restricted for future operations/expansion	<u>354,389</u>	<u>609,459</u>
	<u>\$ 11,519,764</u>	<u>\$ 13,534,823</u>

NOTE 15 - PROFIT-SHARING RETIREMENT PLAN

The Foundation sponsor a 401(k) profit-sharing retirement plan. Substantially all exempt employees are eligible to participate in the plan after completing one year of employment and 1,000 hours worked with the Foundation. The Foundation makes contributions to the plan equal to 50% of employee contributions up to 3% of the participant's salaries. Related expense amounted to \$88,637 and \$87,225 in 2014 and 2013, respectively.