

COUNTRY MUSIC FOUNDATION, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2007 AND 2006

COUNTRY MUSIC FOUNDATION, INC.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
Statements of Financial Position	4-5
Statements of Activities	6
Statements of Cash Flows	7
Notes to Financial Statements	8-15

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Country Music Foundation, Inc.

We have audited the accompanying statements of financial position of the Country Music Foundation, Inc. as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Country Music Foundation, Inc. as of December 31, 2007 and 2006, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dempsey Vantrease - Follis PLLC

Murfreesboro, Tennessee
March 19, 2008

COUNTRY MUSIC FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,454,371	\$ 1,325,236
Accounts receivable (less allowance of \$27,979 for 2007 and \$34,292 for 2006)	511,563	504,859
Inventories	746,894	554,979
Contributions receivable - current portion	509,852	1,090,767
Prepaid expenses	36,399	154,707
TOTAL CURRENT ASSETS	3,259,079	3,630,548
CONTRIBUTIONS RECEIVABLE - LONG-TERM PORTION	423,812	1,156,947
INVESTMENTS	1,208,776	1,033,960
PROPERTY, EQUIPMENT AND EXHIBITS, net	30,867,043	31,986,548
GENERAL LIBRARY	938,736	918,147
BOND FINANCING COSTS, net of amortization of \$209,846 in 2007 and \$185,633 in 2006	347,196	373,029
TOTAL ASSETS	\$ 37,044,642	\$ 39,099,179

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2007	2006
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Note payable - line of credit	\$ 635,000	\$ -
Current portion, long-term obligations	1,113,330	1,422,908
Accounts payable and accrued expenses	1,403,598	1,472,910
Deferred revenue	179,247	192,441
TOTAL CURRENT LIABILITIES	3,331,175	3,088,259
LONG-TERM OBLIGATIONS, less current portion		
Bonds payable	23,035,000	23,535,000
Swap contract	388,336	-
Notes payable	381,497	437,098
	23,804,833	23,972,098
OTHER NON CURRENT- Deferred revenue	163,000	-
NET ASSETS		
Unrestricted	6,905,962	8,942,235
Temporarily Restricted	1,699,172	1,956,587
Permanently Restricted	1,140,500	1,140,000
TOTAL NET ASSETS	9,745,634	12,038,822
TOTAL LIABILITIES AND NET ASSETS	\$ 37,044,642	\$ 39,099,179

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

	December 31,	
	2007	2006
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Admission fees	\$ 4,454,725	\$ 3,963,193
Museum store sales	2,529,529	2,417,855
Merchandise sales	792,204	733,517
Event revenue	1,219,061	1,418,035
Royalties	70,088	72,927
Contributions, grants and memberships	974,305	2,376,905
Special event	433,775	-
Restaurant/catering	178,359	156,720
Interest	57,532	10,927
Other	369,665	113,493
In-kind donations	50,929	57,054
Total Unrestricted Support and Revenue	11,130,172	11,320,626
Net assets released from donor restrictions	957,851	954,077
TOTAL SUPPORT AND REVENUE	12,088,023	12,274,703
EXPENSES		
Program services	8,966,038	8,655,787
Administrative	1,998,046	2,052,464
Fundraising	749,265	842,767
Cost of museum store sales	1,229,152	1,243,417
Cost of merchandise sales	185,335	240,620
Cost of royalty products/license fees	15,574	23,189
Cost of direct benefits to donors of special event	34,080	-
Change in value of interest rate swap	388,336	-
Bad debt write off	558,470	-
TOTAL EXPENSES	14,124,296	13,058,244
NET DECREASE IN UNRESTRICTED NET ASSETS	(2,036,273)	(783,541)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	540,189	1,067,743
Net assets released from donor restrictions	(957,851)	(954,077)
Investment gains	160,247	-
(DECREASE)INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(257,415)	113,666
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	500	1,140,000
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	500	1,140,000
NET (DECREASE) INCREASE IN NET ASSETS	(2,293,188)	470,125
NET ASSETS, Beginning of year	12,038,822	11,568,697
NET ASSETS, End of year	\$ 9,745,634	\$ 12,038,822

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

	December 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) Increase in net assets	\$ (2,293,188)	\$ 470,125
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,593,775	1,831,321
Contributions received, restricted for permanent purposes	(500)	(1,140,000)
Gains on restricted investments	(160,247)	(25,892)
Bad debt expense	558,620	-
(Increase) decrease in:		
Accounts receivable	(6,704)	(107,957)
Pledges receivable	705,430	1,264,222
Inventories	(191,915)	(13,641)
Prepaid expenses	118,308	(47,759)
Increase (decrease) in:		
Accounts payable and accrued expenses	(69,317)	(47,497)
Deferred revenue	149,807	94,913
Swap contract	388,336	-
Net Cash Provided by Operating Activities	792,405	2,277,835
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(469,024)	(477,115)
Sale of investments	421,456	331,254
Purchase of investments	(436,023)	(333,285)
Net Used in Investing Activities	(483,591)	(479,146)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings(repaysments)on line of credit	635,000	(799,961)
Collection of pledges restricted for long-term endowment	50,500	90,000
Principal payments on long-term obligations	(865,179)	(1,099,766)
Net Cash Used in Financing Activities	(179,679)	(1,809,727)
NET INCREASE(DECREASE) IN CASH	129,135	(11,038)
CASH AND CASH EQUIVALENTS, Beginning of Year	1,325,236	1,336,274
CASH AND CASH EQUIVALENTS, End of Year	\$ 1,454,371	\$ 1,325,236
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 1,027,302	\$ 927,274
Received gift of securities valued at	\$ -	\$ 1,000,000

See accompanying notes to financial statements.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

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

Nature of Activities

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

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

Basis of Accounting

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

Basis of Presentation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Reclassifications

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

**COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

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

Inventories

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

Investments

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

Property and Equipment

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

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

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

Collection Items

In accordance with the provisions of SFAS No. 116, Accounting for Contributions Received and Contributions Made, the Foundation does not capitalize donated or purchased artifacts or recognize them as revenues or gains. That Statement provides that such donations need not be recognized if they are added to collections that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The estimated fair value of the donated artifacts is \$42,104 in 2007 and \$116,297 in 2006.

**COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted and Unrestricted Contributions

Unconditional promises to give are recognized as revenue in the period the promise is received. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The Foundation had permanently restricted net assets of \$1,140,500 at December 31, 2007 and \$1,140,000 at December 31, 2006. The Foundation had temporarily restricted net assets of \$1,699,172 at December 31, 2007 and \$1,956,587 at December 31, 2006.

Financial Instruments

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

Expense Allocation

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

NOTE B - RESTRICTED CASH

Cash equivalents include restricted cash of \$2,895 in 2007 and \$142,894 in 2006. These accounts represent interest and principal reimbursement funds required by the bond issue.

NOTE C - CONTRIBUTIONS RECEIVABLE

Unconditional promises to give at December 31, 2007, are as follows:

Receivable in less than one year	\$	509,852
Receivable in one to five years		500,000
Total unconditional promises to give		1,009,852
Less discounts to net present value		(51,188)
Less allowance for doubtful accounts		(25,000)
Contributions receivable	\$	933,664

The discount rate used on long-term promises to give varies between 6% and 8.5%.

**COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006**

NOTE D – INVENTORIES

Inventories consist of:

	<u>2007</u>	<u>2006</u>
Museum store	\$ 611,389	\$ 436,609
Foundation press and records	159,091	139,067
	<u>770,480</u>	<u>575,676</u>
Less valuation allowance	<u>(23,586)</u>	<u>(20,697)</u>
	<u>\$ 746,894</u>	<u>\$ 554,979</u>

NOTE E - PROPERTY, EQUIPMENT, AND EXHIBITS

Property, equipment and exhibits consist of:

	<u>2007</u>	<u>2006</u>
Land	\$ 932,700	\$ 932,700
Building and improvements	29,997,354	29,974,899
Furniture, fixtures, and equipment	1,658,240	1,461,111
Exhibits	8,820,988	8,662,993
Vehicles	29,197	29,197
Construction in process	70,856	-
	<u>41,509,335</u>	<u>41,060,900</u>
Less accumulated depreciation	<u>(10,642,292)</u>	<u>(9,074,352)</u>
	<u>\$ 30,867,043</u>	<u>\$ 31,986,548</u>

NOTE F - CONCENTRATION OF CREDIT RISK

At December 31, 2007, cash and short-term investments included funds deposited in FDIC - insured bank accounts totaling \$1,026,891, which exceeded the federally insured limit by \$826,891.

NOTE G – INVESTMENTS

At December 31, 2007 and 2006, investments consisted of the following:

	2007		2006	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Money market funds	\$ 24,802	\$ 24,802	\$ 94,084	\$ 94,084
Common stocks	1,015,242	897,927	932,841	935,252
Miscellaneous	168,732	168,732	7,035	7,035
	<u>\$ 1,208,776</u>	<u>\$ 1,091,461</u>	<u>\$ 1,033,960</u>	<u>\$ 1,036,371</u>

**COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006**

NOTE G – INVESTMENTS(CONTINUED)

At December 31, 2007 the Foundation's investment in common stocks are concentrated in 16,800 shares of Corrections Corporation of America, Inc. valued at \$495,768.

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations at December 31, 2007 and 2006, consist of the following:

	<u>2007</u>	<u>2006</u>
Industrial revenue bonds	\$ 23,535,000	\$ 24,010,000
Notes payable to bank	-	253,610
Note payable to bank	14,119	133,092
Note payable to individuals	398,708	415,919
Bridge loan payable	582,000	582,385
	<u>24,529,827</u>	<u>25,395,006</u>
Less current maturities	<u>(1,113,330)</u>	<u>(1,422,908)</u>
	<u>\$ 23,416,497</u>	<u>\$ 23,972,098</u>

\$27,000,000 in Industrial Revenue Bonds are issued through the Industrial Development Board of the Metropolitan Government of Nashville, Tennessee. The bonds are dated May 4, 1999. Interest on the bonds is payable monthly at variable rates of interest. The interest rate at December 31, 2007 and 2006 was 3.44% and 3.93%, respectively. The bonds are to be redeemed annually commencing June 1, 2002 and ending June 1, 2022. The bonds were secured by an irrevocable letter of credit issued by Bank of America in the original amount of \$27,399,452. The letter of credit expired June 1, 2007 and was carried forward until November 15, 2007. The Foundation renewed the letter of credit with SunTrust Bank in November 2007 for \$23,535,000. The letter of credit expires October 15, 2009. The letter of credit is secured by the related real estate and substantially all assets within the related real estate of the Foundation excluding artifacts. The letter of credit agreement contains certain loan covenants, the most stringent of which require the Foundation to meet certain debt coverage requirements and liquidity requirements. The Foundation is in compliance with the covenants for 2007.

The Foundation had a note payable to Suntrust Bank payable in equal monthly payments of \$432 at 5.2% interest that matured on August 25, 2007. The note was secured by a vehicle. The Foundation had another note payable to Suntrust Bank for \$250,000 and that matured on August 15, 2007 plus interest at a variable rate.

The Foundation borrowed \$500,000 from Suntrust Bank on February 14, 2003. The note is payable in sixty monthly installments of principal and interest of \$9,567 beginning in March of 2003. The interest rate is fixed at 5.5%. The balance of the loan was \$14,119 at December 31, 2007. The note is secured by the Hatch Showprint building.

**COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006**

NOTE H – LONG-TERM OBLIGATIONS (CONTINUED)

A promissory note payable to an individual was issued on August 4, 2004 and is payable in equal monthly payments of \$4,836 including interest at a fixed rate of 10% and matures on August 14, 2019. It is secured by a Gibson L-5 Guitar. At December 31, 2007, the balance of the note totaled \$398,708.

The bridge loan note payable to Bank of America matured August 31, 2007 and was refinanced through SunTrust Bank on August 2, 2007. The loan matures August 2, 2008. Interest is payable monthly at LIBOR plus 2.5%(7.72% at December 31, 2007).

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

<u>Year Ending December 31,</u>	
2008	\$ 1,115,133
2009	521,005
2010	523,204
2011	1,025,634
2012	1,028,318
2013 and Thereafter	<u>20,316,533</u>
	<u><u>\$ 24,529,827</u></u>

NOTE I – LINE OF CREDIT

The Foundation has a \$800,000 line of credit, of which \$165,000 was unused as of December 31, 2007. Interest is payable on the credit line monthly at a variable rate (6.48% at 12/31/07 and 6.58% at 12/31/06). This line of credit was extended by one year and will mature on August 31, 2008. The credit line is unsecured.

NOTE J – FEDERAL INCOME TAXES

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Service Code. However, it does have unrelated income from the sale of certain museum store products and is required to file Form 990-T and pay the applicable tax, if any. No taxes were due during 2007 and 2006.

NOTE K – DONATED SERVICES

The Foundation received services included as contributions and expenses in the financial statements valued at \$50,785 for the year ended December 31, 2007. In addition, numerous volunteers have donated significant time to the Foundation's mission. These amounts are not reflected in the financial statements since they do not meet the criteria for recognition under SFAS No. 116.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

NOTE L – PROFIT-SHARING RETIREMENT PLAN

The Foundation has a 401-K profit-sharing retirement plan. Substantially all employees are eligible after completing one year of employment and 1,000 hours worked with the Foundation. Employees may contribute a portion of their salary subject to IRS limitations. Throughout the year the Foundation matches 50% of employee contributions with a maximum match of 3%. Related expense amounted to \$57,395 and \$50,009 in 2007 and 2006, respectively.

NOTE M – MINIMUM ANNUAL LEASE COMMITMENTS

The Foundation leases miscellaneous office equipment under operating leases and leases a bus under admissions cost of sales. The final lease terms expire March, 2010. Related office equipment rentals amounted to \$41,701 and \$40,240 and related bus rental expenses amounted to \$18,829 and \$0 for the years ended December 31, 2007 and 2006.

The future minimum lease commitments as of December 31, 2007 are as follows:

2008	\$ 43,310
2009	40,012
2010	<u>4,670</u>
	<u>\$ 87,992</u>

NOTE N – ADVERTISING

The Foundation uses advertising to promote its programs. The production costs of advertising are expensed as incurred. Advertising costs totaled \$771,561 in 2007 and \$880,530 in 2006.

NOTE O- DERIVATIVE

The Foundation has an interest rate swap agreement effective March 1, 2007 with a bank related to the bond issue to minimize the effects of changing interest rates. The agreement contains an interest rate swap and an interest rate collar. The swap requires the Foundation to pay interest on the notional amount 3.49% and receive interest at 67% of USD-LIBOR. The interest rate collar has a cap strike rate of 4% and a floor strike rate of 2.84%. The floating rate under the collar is 67% of USD-LIBOR. The notional amount of the swap and collar at December 31, 2007 was \$7,851,667 and decreases on July 1 of each year based on estimated principal payments per the agreement. The agreement expires March 1, 2012. The swap and collar are settled on the first day of each month. The net settlement cost of the swap was \$(965) for 2007. At December 31, 2007 the fair value of the swap and collar was a liability of \$388,336 and is reported in the statement of net assets as a liability.

COUNTRY MUSIC FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE P- CONTINGENCY

The Foundation is involved in litigation involving a bankruptcy trustee("Trustee") seeking to recover gifts and donations(or the value thereof) contributed by a donor who later was forced into bankruptcy. The Trustee has claimed that such gifts were fraudulently conveyed transfers. The Foundation's management had no knowledge that the gifts by the donor involved any fraudulent activity, nor was management aware of any facts or circumstances that would have placed a reasonable person on notice of any such activity. The total claim against the Foundation is approximately \$1,500,000. Management and counsel intend to vigorously contest the demands of the Trustee. This proceeding is in the early stages and it is not possible to estimate the likelihood of the outcome or any potential loss at this time.