

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2015 AND 2014

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## INDEPENDENT AUDITOR'S REPORT

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

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Country Music Foundation, Inc. and Subsidiary (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

### OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Country Music Foundation, Inc. and Subsidiary as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*KraftCPAs PLLC*

Nashville, Tennessee  
March 28, 2016

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 11,000,009	\$ 11,098,614
Trade accounts receivable and other, net of allowance of \$57,496 in 2015 and \$90,866 in 2014	575,491	859,356
Prepaid expenses and other	68,146	60,878
Inventories	1,240,705	921,152
Contributions and grants receivable	6,122,850	10,386,267
Restricted cash	355,954	213,118
Investments - endowment	2,897,051	2,979,608
Investments - held for building expansion	-	128,570
Investment in Food on Fifth, LLC	406,593	300,000
Property, equipment and exhibits	77,556,470	80,271,499
Collection items - Note 2	-	-
General library	1,103,203	1,087,111
Bond and loan financing costs, net of amortization of \$558,054 in 2015 and \$479,311 in 2014	<u>271,507</u>	<u>350,251</u>
TOTAL ASSETS	<u>\$ 101,597,979</u>	<u>\$ 108,656,424</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 2,015,480	\$ 1,980,389
Deferred revenue and customer deposits	904,611	782,398
Note payable	4,513,276	9,454,166
Bonds payable	12,400,000	19,535,000
Capital lease obligation	16,569,003	16,496,529
Interest rate swap obligation	-	<u>127,227</u>
TOTAL LIABILITIES	<u>36,402,370</u>	<u>48,375,709</u>

NET ASSETS

Unrestricted	55,984,945	46,560,451
Temporarily restricted	6,975,164	11,519,764
Permanently restricted	<u>2,235,500</u>	<u>2,200,500</u>
TOTAL NET ASSETS	<u>65,195,609</u>	<u>60,280,715</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 101,597,979</u>	<u>\$ 108,656,424</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Admission fees	\$ 14,291,498	\$ 12,512,129
Museum store and other merchandise sales	6,610,454	5,371,407
Event revenue	5,059,960	4,272,277
Royalties	20,633	53,265
Contributions, grants and memberships	1,760,201	6,770,844
Special fundraising events	425,588	864,524
Restaurant and catering revenue	7,714,345	7,198,192
Investment income	58,123	90,236
Other revenues	335,391	291,814
In-kind donations	327,314	212,426
Contribution of land for expansion project	-	3,097,400
(Loss) gain on disposal of property, equipment and exhibits	(4,670)	3,273
Total unrestricted support and revenue	36,598,837	40,737,787
Net assets released from donor restrictions	5,058,189	2,767,292
TOTAL SUPPORT AND REVENUE	41,657,026	43,505,079
EXPENSES		
Program services	24,161,559	21,286,636
Administrative	2,222,119	2,707,126
Fundraising	1,297,272	1,015,672
Cost of museum store and other merchandise sales	2,698,721	2,143,713
Cost of restaurant/catering sales	1,980,088	1,961,072
Change in value of interest rate swap	(127,227)	(529,597)
TOTAL EXPENSES	32,232,532	28,584,622
INCREASE IN UNRESTRICTED NET ASSETS	9,424,494	14,920,457
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	552,901	517,668
Investment (losses) gains	(39,312)	234,565
Net assets released from donor restrictions	(5,058,189)	(2,767,292)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(4,544,600)	(2,015,059)
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	35,000	-
INCREASE IN NET ASSETS	4,914,894	12,905,398
NET ASSETS - BEGINNING OF YEAR	60,280,715	47,375,317
NET ASSETS - END OF YEAR	\$ 65,195,609	\$ 60,280,715

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,914,894	\$ 12,905,398
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,323,412	3,902,713
Amortization	78,744	78,744
Contributions restricted for long-term purposes	587,901	(356,322)
Contribution of land for expansion project	-	(3,097,400)
Earnings on investment in Food on Fifth, LLC	(24,064)	-
Change in value of interest rate swap	(127,227)	(529,597)
Loss (gain) on disposal of property, equipment and exhibits	4,670	(3,273)
Unrealized and realized loss (gain) on investments, net	50,609	(222,417)
(Increase) decrease in:		
Trade accounts receivable and other	283,865	(172,550)
Contributions and grants receivable	(1,456,985)	342,585
Inventories	(319,553)	(92,087)
Prepaid expenses and other	(7,268)	30,867
Increase (decrease) in:		
Accounts payable and accrued expenses	35,091	(2,502,675)
Deferred revenue and customer deposits	122,213	326,522
<b>TOTAL ADJUSTMENTS</b>	<u>3,551,408</u>	<u>(2,294,890)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>8,466,302</u>	<u>10,610,508</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property, equipment and exhibits	2,400	20,000
Investment in Food on Fifth, LLC	(100,000)	(300,000)
Recapture of investment in Food on Fifth, LLC	17,471	-
Purchase of property, equipment and exhibits	(1,615,453)	(2,771,021)
Purchase of general library collection items	(16,092)	(14,594)
Change in restricted cash	(142,836)	1,577,379
Proceeds from sale of investments	195,518	648,614
Purchase of investments	(35,000)	(127,662)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(1,693,992)</u>	<u>(967,284)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(12,075,890)	(6,439,023)
Principal payment on capital lease obligation	-	(8,605)
Accretion of capital lease obligation	72,474	-
Collection of contributions restricted for long-term purposes	5,132,501	2,606,353
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(6,870,915)</u>	<u>(3,841,275)</u>
<b>NET (DECREASE) INCREASE IN CASH</b>	(98,605)	5,801,949
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>11,098,614</u>	<u>5,296,665</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 11,000,009</u>	<u>\$ 11,098,614</u>
<b>OTHER CASH FLOW DISCLOSURES</b>		
Interest expense paid during the year	<u>\$ 617,118</u>	<u>\$ 913,415</u>
Income taxes paid	<u>\$ 111,112</u>	<u>\$ 38,891</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Building and improvements acquired through capital lease obligation	<u>\$ -</u>	<u>\$ 16,505,134</u>

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 1 - GENERAL

Founded in 1967, The Country Music Foundation, Inc. ("CMF"), which does business as the Country Music Hall of Fame and 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 one million annual visitors, the Museum safeguards a collection of 2.5 million artifacts and offers over 800 educational programs each year.

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 operate the restaurant in the museum which is provided 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

DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Contributions and certain grants 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 occur are reported as deferred revenue. Such revenue is recognized and reported in the consolidated statement of activities in the year the event takes place.

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

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



COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

Donated services are recognized if they create or enhance non-financial assets, or require specialized skills that were performed by a donor who possesses such skills, and would have been purchased by the Foundation if not donated. Donated services are recognized at fair value as support and expense in the period the services are performed. Such services are recognized at fair value as contributions and expense in the period the services are performed. Other individuals volunteer their time and perform a variety of tasks that assist the Foundation with program services and fundraising events. No amounts have been reflected in the consolidated financial statements for these donated services since the 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

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

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (1.50% - 2.50% in 2015 and 2014). 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

DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Property, Equipment and Exhibits

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

Collection Items

The Foundation's collections are made up principally of recordings, books, films and periodicals that are held for educational and curatorial purposes. These items are cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. In accordance with the provisions of GAAP, the Foundation does not capitalize donated artifacts or recognize them as revenues or gains. GAAP provides that such donations need not be recognized if they are added to collections that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The estimated fair value of the artifacts donated in 2015 is \$138,514 and \$76,406 in 2014.

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.

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 2016-2017, \$33,302 in 2018, \$24,213 in 2019-2020 and \$32,291 thereafter.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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, 2015 and 2014.

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

DECEMBER 31, 2015 AND 2014

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.
- 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.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund (continued)

- 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

The Foundation owns a 40% membership interest in Food on Fifth, LLC ("FOF") which was invested on November 25, 2014 and March 12, 2015 at \$300,000 and \$100,000, respectively. As part of the membership agreement, the Foundation leases a portion of its premises to FOF in exchange for 10% of net sales. 2% of net sales is the Foundation's recapture of its initial investment of \$400,000. Once the Foundation's initial investment is recaptured, rent will decrease to 8% of net sales. The lease commenced on March 19, 2015, 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.

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

DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instrument

The Foundation used 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 documented its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The interest rate swap matured on March 19, 2015 and was not renewed.

Advertising

The Foundation uses advertising to promote its programs. Advertising costs are expensed as incurred. Advertising costs were approximately \$1,988,000 in 2015 and \$1,778,000 in 2014.

Income Taxes

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

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

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

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

DECEMBER 31, 2015 AND 2014

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, 2015 and March 28, 2016, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the change in net assets previously reported.

Recent Authoritative Accounting Guidance

In July 2015, the FASB issued guidance that requires entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost or net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This Accounting Standards Update ("ASU") will be effective for fiscal years beginning after December 15, 2016. Early adoption of the ASU is permitted. The Foundation has elected to early adopt this ASU. The adoption of the ASU did not have a material effect on the financial statements.

NOTE 3 - RESTRICTED CASH

The Foundation held restricted cash of \$199,144 and \$59,631 related to its building expansion program at December 31, 2015 and 2014, respectively. The Foundation also held cash restricted by donors of \$156,810 and \$153,487 for certain projects at December 31, 2015 and 2014, respectively.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 4 - CONTRIBUTIONS AND GRANTS RECEIVABLE

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

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 2,917,949	\$ 4,892,899
Receivable in one to five years	2,898,339	5,269,578
Receivable in six to nine years	<u>600,000</u>	<u>600,000</u>
Total unconditional promises to give	6,416,288	10,762,477
Less allowance for uncollectible pledges	(100,000)	(80,000)
Less discounts to net present value	<u>(193,438)</u>	<u>(296,210)</u>
Contributions and grants receivable	<u>\$ 6,122,850</u>	<u>\$ 10,386,267</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>2015</u>	<u>2014</u>
Museum stores	\$ 1,003,367	\$ 740,453
Grill and catering	64,174	60,340
Hatch Retail and Haley Gallery	<u>226,336</u>	<u>153,167</u>
	1,293,877	953,960
Less valuation allowance	<u>(53,172)</u>	<u>(32,808)</u>
	<u>\$ 1,240,705</u>	<u>\$ 921,152</u>



COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 6 - PROPERTY, EQUIPMENT AND EXHIBITS

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

	<u>2015</u>	<u>2014</u>
Land	\$ 3,926,300	\$ 3,926,300
Building and improvements	80,546,166	80,264,946
Furniture, fixtures and equipment	7,487,125	6,639,721
Exhibits	12,698,831	12,259,137
Vehicles	<u>120,600</u>	<u>126,600</u>
	104,779,022	103,216,704
Less accumulated depreciation	<u>(27,222,552)</u>	<u>(22,945,205)</u>
	<u>\$ 77,556,470</u>	<u>\$ 80,271,499</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, 2015, contributions receivable from one source totaled approximately \$2,400,000, or 39% of total contributions and grants receivable. At December 31, 2014, receivables from two sources totaled approximately \$4,681,000 or 45% of total contributions and grants receivable.

Combined contributions from one source amounted to approximately \$2,000,000, or 96% of total contribution revenues for the year ended December 31, 2015 (approximately \$3,500,000, or 48% of total contribution revenues from two sources for the year ended December 31, 2014).

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

DECEMBER 31, 2015 AND 2014

NOTE 8 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Money market accounts	\$ 57,188	\$ 74,933
Fixed income securities	563,607	618,744
Equities	2,241,409	2,223,927
Mutual funds	-	122,480
Convertible debentures	<u>34,847</u>	<u>68,094</u>
Total	<u>\$ 2,897,051</u>	<u>\$ 3,108,178</u>

The investment assets comprise the Foundation endowment fund in the amount of \$2,897,051 at December 31, 2015 and \$2,979,608 at December 31, 2014. The remaining investments include \$128,570 at December 31, 2014 restricted for the building expansion.

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

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 89,805	\$ 122,383
Investment management fees	(20,702)	(19,999)
Net realized and unrealized (losses) gains	<u>(50,292)</u>	<u>222,417</u>
Total investment income	<u>\$ 18,811</u>	<u>\$ 324,801</u>

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

	<u>2015</u>	<u>2014</u>
Unrestricted	\$ 58,123	\$ 90,236
Temporarily restricted	<u>(39,312)</u>	<u>234,565</u>
	<u>\$ 18,811</u>	<u>\$ 324,801</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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:

	2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market accounts	\$ 57,188	\$ -	\$ -	\$ 57,188
Equities:				
Consumer staples	341,510	-	-	341,510
Healthcare	306,347	-	-	306,347
Consumer discretionary	313,730	-	-	313,730
Information technology	366,319	-	-	366,319
Industrial	280,186	-	-	280,186
Energy	115,830	-	-	115,830
Telecommunications	116,205	-	-	116,205
Utilities	57,112	-	-	57,112
Financials	344,170	-	-	344,170
Fixed income securities:				
Corporate bonds	-	509,919	-	509,919
Municipal bonds	-	53,688	-	53,688
Convertible debentures	-	34,847	-	34,847
Total Investments	<u>\$ 2,298,597</u>	<u>\$ 598,454</u>	<u>\$ -</u>	<u>\$ 2,897,051</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2014			
	Level 1	Level 2	Level 3	Total
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	\$ 2,421,340	\$ 686,838	\$ -	\$ 3,108,178
Financial Liabilities:				
Interest rate swap	\$ -	\$ (127,227)	\$ -	\$ (127,227)

The Foundation estimates that the fair value of all financial instruments at December 31, 2015 and 2014 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

DECEMBER 31, 2015 AND 2014

NOTE 10 - ENDOWMENT FUND

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

	<u>2015</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, January 1, 2015	\$ -	\$ 779,108	\$ 2,200,500	\$ 2,979,608
Contributions to endowment fund	-	-	35,000	35,000
Interest and dividend income	-	89,974	-	89,974
Management fees	-	(20,702)	-	(20,702)
Amounts appropriated for operations	-	(78,245)	-	(78,245)
Realized and unrealized gains (losses) on investments	-	(108,584)	-	(108,584)
Endowment net assets, December 31, 2015	<u>\$ -</u>	<u>\$ 661,551</u>	<u>\$ 2,235,500</u>	<u>\$ 2,897,051</u>
	<u>2014</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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 (losses) on investments	-	200,441	-	200,441
Endowment net assets, December 31, 2014	<u>\$ -</u>	<u>\$ 779,108</u>	<u>\$ 2,200,500</u>	<u>\$ 2,979,608</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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 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 December 1, 2020. Principal outstanding on the bonds at December 31, 2015 was \$12,400,000.

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, 2015 and 2014.

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. Principal is payable at maturity. Interest is payable monthly on the loan draws at LIBOR plus 1.75%. The rate at December 31, 2015 was 2.11%. The loan is secured by a deed of trust on certain real estate. The loan matures March 1, 2018, and carries a balance of \$4,513,276 at December 31, 2015.

Interest expense related to long-term debt for the years ended December 31, 2015 and 2014 was \$617,118 and \$913,415, respectively.

As of December 31, 2015, principal maturities of all long-term debt are anticipated to be as follows:

Year Ending December 31:

2018	\$ 4,513,276
2019	-
2020	565,000
Thereafter	<u>11,835,000</u>
	<u>\$ 16,913,276</u>

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 12 - LINE OF CREDIT

The Foundation has a \$3,000,000 line of credit with a bank that matures on May 31, 2016. The line bears interest at a variable rate of LIBOR plus 1.25% (1.61% at December 31, 2015). 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, 2015 and 2014.

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, 2015 and 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

DECEMBER 31, 2015 AND 2014

NOTE 13 - CAPITAL LEASE OBLIGATION (CONTINUED)

Future minimum lease payments under the capital lease obligation as of December 31, 2015 is as follows:

<u>For the year ending December 31,</u>	
2016	\$ 250,000
2017	250,000
2018	250,000
2019	350,000
2020	350,000
Thereafter	<u>28,050,000</u>
	29,500,000
Less: imputed interest at 1.938%	<u>(12,930,997)</u>
Net minimum lease payments	<u>\$ 16,569,003</u>

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

	<u>2015</u>	<u>2014</u>
Building and improvements	\$ 16,505,134	\$ 16,505,134
Less accumulated depreciation	<u>(825,257)</u>	<u>(412,628)</u>
	<u>\$ 15,679,877</u>	<u>\$ 16,092,506</u>

Depreciation expense for these assets was \$412,629 in 2015 and 2014.



COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 14 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Time restricted contributions receivable	\$ 6,122,850	\$ 10,386,267
Endowment income	661,551	779,108
Restricted for future operations or expansion	<u>190,763</u>	<u>354,389</u>
	<u>\$ 6,975,164</u>	<u>\$ 11,519,764</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 \$91,096 and \$92,544 in 2015 and 2014, respectively.

NOTE 16 - ARCHIVAL PERMANENT ENDOWMENT FUND

In December 2010, a donor established a \$2,500,000 fund with the Community Foundation of Middle Tennessee for the benefit of the Foundation. The fund, called the Archival Permanent Endowment Fund, was fully funded in February 2015 and will provide annual income distributions beginning in 2016. The Community Foundation of Middle Tennessee has the ultimate authority and control over these funds and, therefore, these investments are not included in the financial statements of the Foundation. Income distributed from this fund will be recognized by the Foundation when it is received.