

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2021 and 2020

And Report of Independent Auditor

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
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Report of Independent Auditor

To the Board of Directors
The National Museum of African American Music
Nashville, Tennessee

We have audited the accompanying financial statements of The National Museum of African American Music (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the year ended June 30, 2020, and the related notes to the financial statements. We were engaged to audit the accompanying statements of activities, functional expenses, and cash flows for the year ended June 30, 2021.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on conducting our audits in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis of Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of activities, functional expenses, and cash flows for the year ended June 30, 2021.

We conducted our audits of the statements of financial position as of June 30, 2021 and 2020 and the statements of activities, functional expenses, and cash flows for the year ended June 30, 2020 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 referred to above are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the statements of financial position as of June 30, 2021 and 2020 and on the related statements of activities, functional expenses, and cash flows for the year ended June 30, 2020.

Basis for Disclaimer of Opinion on the Statement of Activities, Functional Expenses, and Cash Flows for the Year Ended June 30, 2021

Because of the inadequacies of the Organization's accounting records, we were unable to form an opinion regarding the classification of amounts recorded as support and revenue and expenses in the accompanying statements of activities, functional expenses and cash flows for the year ended June 30, 2021.

Disclaimer of Opinion on the Statement of Activities, Functional Expenses, and Cash Flows for the Year Ended June 30, 2021

Because of the matter discussed in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of activities, functional expenses, and cash flows for the year ended June 30, 2021.

Opinion on the Statements of Financial Position as of June 30, 2021 and 2020 and on the Statements of Activities, Functional Expenses, and Cash Flows for the Year Ended June 30, 2020

In our opinion, the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the year ended June 30, 2020 referred to in the first paragraph present fairly, in all material respects, the financial position of The National Museum of African American Music, as of June 30, 2021 and 2020, and the statements of activities, functional expenses, and cash flows for the year ended June 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Cheryl Bekant LLP

Nashville, Tennessee
July 29, 2022

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,049,088	\$ 1,760,276
Accounts receivable	344,597	361,681
Note receivable	-	157,500
Contributions receivable, net	5,219,390	1,860,446
Prepaid expenses and other assets	10,500	10,500
Total Current Assets	<u>6,623,575</u>	<u>4,150,403</u>
Noncurrent Assets:		
Contributions receivable, net	649,340	5,255,174
Beneficial interest in assets at		
Community Foundation of Middle Tennessee	408,109	347,549
Property and equipment, net	451,124	21,885
Intangible assets, net	171,599	187,028
Project development costs, net	34,827,529	25,032,353
Total Noncurrent Assets	<u>36,507,701</u>	<u>30,843,989</u>
Total Assets	<u><u>\$ 43,131,276</u></u>	<u><u>\$ 34,994,392</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 3,759,443	\$ 3,253,733
Capital lease obligation, net	67,855	-
Deferred revenue - memberships	156,109	-
Deferred grant revenue	231,870	231,870
Deferred support	-	1,075,000
Line of credit	450,760	-
Total Current Liabilities	<u>4,666,037</u>	<u>4,560,603</u>
Noncurrent Liabilities:		
Capital lease obligation	245,534	-
Deferred revenue - advance ticket purchases	978,550	1,001,886
Construction loan payable	13,612,500	6,203,053
Total Noncurrent Liabilities	<u>14,836,584</u>	<u>7,204,939</u>
Total Liabilities	<u>19,502,621</u>	<u>11,765,542</u>
Net Assets:		
Without Donor Restrictions:		
Undesignated	17,351,816	15,765,681
Board designated endowment	408,109	347,549
Total Without Donor Restrictions	<u>17,759,925</u>	<u>16,113,230</u>
With Donor Restrictions	<u>5,868,730</u>	<u>7,115,620</u>
Total Net Assets	<u>23,628,655</u>	<u>23,228,850</u>
Total Liabilities and Net Assets	<u><u>\$ 43,131,276</u></u>	<u><u>\$ 34,994,392</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Contributions	\$ 5,569,101	\$ 2,606,350	\$ 8,175,451
Admissions	883,793	-	883,793
Memberships	74,082	-	74,082
Sponsorships	28,500	-	28,500
Events	12,250	-	12,250
Other	119,687	-	119,687
Net assets released from restriction	3,853,240	(3,853,240)	-
Total Public Support and Revenue	10,540,653	(1,246,890)	9,293,763
Expenses:			
Program Services	3,776,301	-	3,776,301
Supporting Services:			
Management and general	3,993,240	-	3,993,240
Fundraising	1,124,417	-	1,124,417
Total Supporting Services	5,117,657	-	5,117,657
Total Expenses	8,893,958	-	8,893,958
Change in net assets	1,646,695	(1,246,890)	399,805
Net assets, beginning of year	16,113,230	7,115,620	23,228,850
Net assets, end of year	\$ 17,759,925	\$ 5,868,730	\$ 23,628,655

The accompanying notes to the financial statements are an integral part of these statements.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Contributions	\$ 3,014,572	\$ 6,533,977	\$ 9,548,549
Grant revenue	7,139,959	-	7,139,959
Other	105,222	-	105,222
Net assets released from restriction	2,149,312	(2,149,312)	-
Total Public Support and Revenue	12,409,065	4,384,665	16,793,730
Expenses:			
Program Services	1,806,239	-	1,806,239
Supporting Services:			
Management and general	1,958,919	-	1,958,919
Fundraising	928,410	-	928,410
Total Supporting Services	2,887,329	-	2,887,329
Total Expenses	4,693,568	-	4,693,568
Change in net assets	7,715,497	4,384,665	12,100,162
Net assets, beginning of year	8,397,733	2,730,955	11,128,688
Net assets, end of year	\$ 16,113,230	\$ 7,115,620	\$ 23,228,850

The accompanying notes to the financial statements are an integral part of these statements.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Professional fees	\$ 1,610,850	\$ 925,918	\$ 109,127	\$ 2,645,895
Salaries and related expenses	651,810	1,277,843	566,163	2,495,816
Depreciation and amortization	312,068	605,967	156,790	1,074,825
General and administrative	304,770	319,763	17,788	642,321
Interest expense	159,521	252,507	117,241	529,269
Occupancy	120,307	233,609	60,444	414,360
Telephone and technology	62,829	269,044	45,637	377,510
Travel, meals, and entertainment	243,256	37,637	5,254	286,147
Advertising	172,643	28,271	311	201,225
Bad debt expense	115,000	-	39,050	154,050
Insurance	23,247	42,681	6,612	72,540
Total Expenses	<u>\$ 3,776,301</u>	<u>\$ 3,993,240</u>	<u>\$ 1,124,417</u>	<u>\$ 8,893,958</u>

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Professional fees	\$ 788,947	\$ 1,049,379	\$ 155,878	\$ 1,994,204
Salaries and related expenses	768,974	479,181	534,076	1,782,231
General and administrative	68,263	72,885	68,579	209,727
Travel, meals, and entertainment	37,344	75,294	49,446	162,084
Advertising	3,499	137,807	5,420	146,726
Telephone and technology	8,769	81,796	44,649	135,214
Occupancy	34,357	35,058	35,757	105,172
Program	34,484	17,868	2,872	55,224
Interest expense	34,784	-	-	34,784
Bad debt expense	-	-	25,000	25,000
Depreciation and amortization	21,210	1,844	-	23,054
Gifts and acknowledgements	532	6,408	5,333	12,273
Insurance	5,076	1,399	1,400	7,875
Total Expenses	<u>\$ 1,806,239</u>	<u>\$ 1,958,919</u>	<u>\$ 928,410</u>	<u>\$ 4,693,568</u>

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 399,805	\$ 12,100,162
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization expense	1,074,825	23,054
Bad debts expense	154,050	25,000
Contributions receivable restricted for long-term assets	(5,065,500)	(9,205,035)
Change in beneficial interest in assets	(60,560)	(188)
Changes in operating assets and liabilities:		
Accounts receivable	17,084	(361,681)
Grants receivable	-	1,144,731
Prepaid expenses	-	(7,922)
Accounts payable and accrued expenses	505,710	(155,065)
Deferred support	(1,075,000)	1,075,000
Deferred revenue - membership	156,109	-
Deferred grant revenue	-	231,870
Deferred revenue - advance ticket sales	(23,336)	1,886
Net cash flows from operating activities	<u>(3,916,813)</u>	<u>4,871,812</u>
Cash flows from investing activities:		
Issuance of note receivable	-	(157,500)
Payments received under note receivable	42,500	-
Purchases of property and equipment	(529,093)	(6,200)
Purchases of intangible assets	-	(89,700)
Investments in project development	(10,754,718)	(16,360,995)
Net cash flows from investing activities	<u>(11,241,311)</u>	<u>(16,614,395)</u>
Cash flows from financing activities:		
Proceeds from construction loan payable	11,849,447	7,703,053
Payments on construction loan payable	(4,440,000)	(1,500,000)
Proceeds from line of credit, net	450,760	-
Proceeds from contributions receivable for long-term assets	6,273,340	4,795,370
Issuance of capital lease obligations	413,242	-
Payments on capital lease obligations	(99,853)	-
Net cash flows from financing activities	<u>14,446,936</u>	<u>10,998,423</u>
Change in cash and cash equivalents	(711,188)	(744,160)
Cash and cash equivalents, beginning of year	1,760,276	2,504,436
Cash and cash equivalents, end of year	<u>\$ 1,049,088</u>	<u>\$ 1,760,276</u>
Supplemental disclosure:		
Project development costs financed through accounts payable	<u>\$ 1,773,329</u>	<u>\$ 2,456,840</u>
Interest paid	<u>\$ 529,269</u>	<u>\$ 34,784</u>

The accompanying notes to the financial statements are an integral part of these statements.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Nature of operations and summary of significant accounting policies

Description of Business and Nature of Activities – The National Museum of African American Music (the “Organization” and the “Museum”) is a non-profit organization founded in 2001 and located in Nashville, Tennessee. The Organization’s purpose is for the Museum to be the premier global destination for music lovers of all generations and inspires, educates, and transforms your appreciation of American music. The Museum is located in the new Fifth + Broadway development under a lease arrangement, generally with no rent under an arrangement with the Metropolitan Government of Nashville and Davidson County, Tennessee (“Metro”), the Metro Industrial Development Board and the Project Developer. The Museum opened in the first quarter of 2021.

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions, and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions represent amounts that will be available in future periods.

Allocation of Functional Expenses – The costs of providing program and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based upon the estimates of management regarding the time employees spend on each function. During the years ended June 30, 2021 and 2020, management continued to concentrate its efforts on general and administrative and fundraising activities in anticipation of continued Museum development and construction.

The following program and supporting services are included in the accompanying financial statements:

Program Services – Includes all activities dedicated to the outreach and education of the Museum. Such services include hosting educational events targeted to all parties regardless of age, gender, or any other demographic. Program services are made available through funding provided by organizations such as Metro Arts Access, Tennessee Arts Commission, and other local and national affiliates.

All construction related expenditures, other than amounts capitalized, are charged to the program services category.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Nature of operations and summary of significant accounting policies (continued)

Supporting Services:

Management and General – Includes any and all expenditures that are vital to the overall sustainability of the Museum. Although these expenses are not particularly designated to one specific program of the Museum, they support each program on an equal operational basis.

Fundraising – Includes expenses directly related to the solicitation of gifts, donations, and pledges to financially support the Museum. These expenses include any expenses associated with the acquisition of new donors and also special events directly related to any and all attempts in the raising of funds.

Use of Estimates – The preparation of financial statements in conformity with U.S. 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 and allocation of functional expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Income Taxes – The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code ("IRC"), and the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the IRC. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

The Organization follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance related to unrecognized tax benefits. The guidance describes the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements.

Cash and Cash Equivalents – The Organization considers all cash funds, cash bank accounts, and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents. The cash accounts are held primarily by financial institutions and at times may exceed amounts that are federally insured.

Contributions and Support – Contributions are recognized when received as contributions without restriction if specified for the current period and there are no donor-imposed restrictions. Contributions specified for future periods or with donor-imposed restrictions are recognized in the period received as contributions with restrictions. Contributions that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions are satisfied in the year in which the contributions are recognized.

Revenues from non-exchange transactions, primarily contributions, may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Nature of operations and summary of significant accounting policies (continued)

Contributions Receivable – Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions receivable due in the next year are reflected as current contributions receivable and are recorded at their estimated net realizable value. Contributions receivable due in subsequent years are reflected as noncurrent contributions receivable and are recorded at the present value of their estimated net realizable value, by discounting the contributions receivable at an appropriate rate commensurate with the risk involved.

Contributions receivable are reviewed periodically as to their collectability. An allowance for uncollectible accounts is provided based on past experience with collections and estimated collectability of current receivables. Uncollectible accounts are charged against the allowance in the period they are deemed uncollectible.

Property and Equipment – The Organization capitalizes all expenditures for property and equipment in excess of \$1,000 with a life expectancy greater than one year. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful life of the assets (ranging from 3-10 years).

Intangible Assets – The Organization has developed the Rivers of Rhythm digital exhibit, which is a web based experience highlighting the genealogy of American music and key contributors to African American music. The Organization's intent for this exhibit is to showcase the "museum without walls". The costs related to this exhibit have been capitalized and are amortized over the expected life of availability of seven years. The exhibit was published on the web for public access in June 2016.

Project Development Costs – The costs incurred in planning and developing the Museum and its contents are recorded at cost or, if donated, at the estimated fair value as of the date of donation. Such costs are considered part of the depreciable asset at the time the Museum construction was completed. Effective with the opening of the museum, such costs began to be depreciated on a straight-line basis over the estimated useful life of the assets (ranging from 7-39 years).

Artifacts Collection – In conformity with accounting policies generally followed by art museums, the value of the Museum's collection has been excluded from the statements of financial position, and gifts of art objects are excluded from revenue in the statements of activities. Purchases of artifacts by the Museum are recorded as decreases in net assets in the statements of activities. The collection will be maintained for public exhibition, education, and research in furtherance of public service rather than for financial gain. Proceeds from the disposals of collections are generally recorded as increases in net assets in the statement of activities and used for the care of current collections or the acquisition of new collections.

Fair Value of Financial Instruments – The carrying amounts of financial instruments including cash and cash equivalents, accounts and other receivables, and accounts payable and accrued expenses approximate their fair values because of the relatively short maturity of these instruments.

Endowment Funds – The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") was enacted in Tennessee effective July 1, 2007. FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the Organization's net asset classification of donor-restricted endowment funds, a description of the Organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the Organization's endowment investment policies, and additional disclosures.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Nature of operations and summary of significant accounting policies (continued)

Contributed Services and Facilities – Contributed services are reflected in the financial statements at the estimated fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Advertising – Advertising costs are expensed when incurred. Advertising expense totaled \$201,225 and \$146,726 for the years ending June 30, 2021 and 2020, respectively.

Recently Adopted Accounting Pronouncements – In May 2014, FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Organization for the year ended June 30, 2021. The Organization adopted the provisions of ASU 2014-09 as of July 1, 2020 using a modified retrospective approach, which resulted in no cumulative effect adjustment to net assets as of July 1, 2020. There was no change in the timing and amount of revenue recognition as a result of the adoption of the ASU (see Note 2).

Forthcoming Accounting Pronouncements – In February 2016, FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the fiscal year ending June 30, 2023. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Subsequent Events – The Organization evaluated subsequent events through July 29, 2022, when these financial statements were available to be issued (see Notes 5, 10, and 11).

Note 2—Revenue recognition

On July 1, 2020, the Organization adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under ASC 606, revenue is recognized when the Organization transfers the promised goods or services to a customer in an amount that reflects consideration that is expected to be received for those goods and services. The Organization determined that there was no cumulative effect adjustment to net assets upon adoption of the new revenue standard as of July 1, 2020.

Performance Obligations and Revenue Recognition – A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The contract obligation for admissions is generally satisfied at the time these services are provided or when a good is transferred to the customer. The contract performance obligation for memberships and sponsorship agreements is performed over the membership or contract period.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2—Revenue recognition (continued)

Contract Balances – Timing differences among revenue recognition may result in contract assets or liabilities. Deferred revenue on the accompanying statements of financial position totaled \$1,134,659 and \$1,001,886 as of June 30, 2021 and 2020, respectively. Deferred revenue represents income from membership dues and advance ticket sales. Membership dues are deferred when received and amortized over the terms of the membership period.

Practical Expedients and Exemptions – There are several practical expedients and exemptions allowed under ASC 606 that impact timing and revenue recognition and disclosures. The one practical expedient the Organization applied in the adoption and application of ASC 606 allows the Organization to elect to treat similar contracts as part of a portfolio of contracts. The contracts have the same provision terms and management has the expectation that the result will not be materially different from the consideration of each individual contract.

The following table provides information about significant changes in the contract liabilities for the year ended June 30, 2021:

	Membership Dues and Other	Advance Ticket Sales	Total
Deferred revenue, beginning of year	\$ -	\$ 1,001,886	\$ 1,001,886
Revenue recognized that was included in deferred revenue at beginning of year	-	(26,731)	(26,731)
Increase in deferred revenue due to cash received during the year	156,109	3,395	159,504
Deferred revenue, end of year	<u>\$ 156,109</u>	<u>\$ 978,550</u>	<u>\$ 1,134,659</u>

The following table provides information about significant changes in the contract liabilities for the year ended June 30, 2020:

	Membership Dues and Other	Advance Ticket Sales	Total
Deferred revenue, beginning of year	\$ -	\$ 1,000,000	\$ 1,000,000
Revenue recognized that was included in deferred revenue at beginning of year	-	-	-
Increase in deferred revenue due to cash received during the year	-	1,886	1,886
Deferred revenue, end of year	<u>\$ -</u>	<u>\$ 1,001,886</u>	<u>\$ 1,001,886</u>

Note 3—Liquidity and availability of financial resources

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program service activities as well as the conduct of services undertaken to support those activities to be general expenditures.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 3—Liquidity and availability of financial resources (continued)

Financial assets available for general expenditure, that is, without donor restriction or other restrictions limiting their use within one year of the statements of financial position comprise the following at June 30:

	2021	2020
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,049,088	\$ 1,760,276
Accounts receivable	344,597	361,681
Note receivable	-	157,500
Contributions receivable, net	5,868,730	7,115,620
Beneficial interest in assets at Community Foundation of Middle Tennessee	408,109	347,549
Total financial assets	7,670,524	9,742,626
Less amounts not available to be used for general expenditures within one year:		
Assets subject to board designation	408,109	347,549
Assets subject to donor restrictions	5,868,730	7,115,620
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,393,685	\$ 2,279,457

The Organization is substantially supported by contributions. As part of the Organization's liquidity management, it structures financial assets to be available for general expenditures, and liabilities, and other obligations as they come due.

Note 4—Contributions receivable

Contributions receivable consists of the following as of June 30:

	2021	2020
Receivable in less than one year	\$ 5,219,390	\$ 1,860,446
Receivable in one to five years	718,931	5,324,765
Total contributions receivable	5,938,321	7,185,211
Less allowance for uncollectible contributions receivable	(60,845)	(60,845)
Less discount to net present value (0.83%)	(8,746)	(8,746)
Contributions receivable, net	\$ 5,868,730	\$ 7,115,620

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 4—Contributions receivable (continued)

Approximately 51% and 73% of contributions receivable at June 30, 2021 and 2020, respectively, consists of amounts due from two donors, respectively. Cash collected on unrestricted pledges totaled \$6,273,340 and \$2,375,370 during the years ended June 30, 2021 and 2020, respectively.

In addition to the unconditional contributions receivable summarized above, at June 30, 2020, the Organization had received certain conditional promises to give and/or entered into gift agreements whereby the Organization anticipated receiving \$1,345,500 over the coming five years. In conjunction with the individual gift agreements, in certain cases, the Organization was obligated to open the Museum and provide recognition to the donors. These amounts were recognized during the year ended June 30, 2021 when such conditions were met.

Note 5—Grant revenue

The Organization received funding for the design and development of the Museum under an arrangement with the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County, Tennessee ("Metro"), dated December 1, 2008, as amended in February 2017. This arrangement indicated that a maximum of \$10,000,000 in funding may be available for this project. To date, the Organization has recorded revenue of \$9,920,540 under this arrangement.

During the years ended June 30, 2021 and 2020, the Organization recognized revenue of \$-0- and \$1,607,955, respectively, under this arrangement. In order to receive amounts available under this arrangement, the Organization was required to obtain other funding or commitments for funding to complete the project. Based on the agreement discussed above, Metro funds were released to the Organization upon the satisfactory submission of requisition forms in sufficient detail of payments made or of payments due for capital costs for construction of the project.

Additionally, during the year ended June 30, 2017, the Organization was awarded a \$2,000,000 grant contract from the state of Tennessee Department of General Services primarily for construction and project management services. The grant contract expired October 31, 2017, but was extended through October 2021. During the years ended June 30, 2021 and 2020, the Organization recognized revenue of \$-0- and \$422,829, respectively, under this arrangement.

During the year ended June 30, 2019, the Organization received notification that an additional \$3,000,000 was available from the state of Tennessee Department of General Services. All amounts under this arrangement have been utilized at June 30, 2020.

There were no grants receivable from Metro or the state of Tennessee relating to reimbursable costs as of June 30, 2021 and 2020 as the facility construction was completed in January 2021.

Subsequent to June 30, 2021, the Organization was awarded a federal grant of approximately \$2,400,000 to assist in executing its programs during the period from July 1, 2021 through December 31, 2024. This grant will be administered by the state of Tennessee.

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 6—Property and equipment

Property and equipment consists of the following at June 30:

	2021	2020
Furniture and fixtures	\$ 567,571	\$ 38,479
Less accumulated depreciation	(116,447)	(16,594)
Net property and equipment	<u>\$ 451,124</u>	<u>\$ 21,885</u>

Included in property and equipment are certain leased furniture and fixtures. See further discussion of such leases in Note 14.

Depreciation expense totaled \$99,853 and \$7,624 for the years ended June 30, 2021 and 2020, respectively.

Note 7—Intangible assets

Intangible assets consists of the following at June 30:

	2021	2020
Digital exhibits	\$ 228,500	\$ 228,500
Website development	22,000	22,000
Less accumulated amortization	(78,901)	(63,472)
Net intangible assets	<u>\$ 171,599</u>	<u>\$ 187,028</u>

Amortization expense totaled \$15,429 and \$15,430 for the years ended June 30, 2021 and 2020, respectively.

Note 8—Project development costs

Project development costs consist of the following at June 30:

	2021	2020
Museum construction	\$ 23,968,878	\$ 25,032,353
Audio visual equipment	8,533,567	-
Exhibits	3,284,627	-
Less accumulated depreciation	(959,543)	-
Net project development costs	<u>\$ 34,827,529</u>	<u>\$ 25,032,353</u>

Depreciation expense totaled \$959,543 and \$-0- for the years ended June 30, 2021 and 2020, respectively.

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 9—Board-designated endowment fund

As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions. The UPMIFA was enacted in Tennessee effective July 1, 2007. The Board of Directors has interpreted the UPMIFA as requiring that the Organization classify as net assets restricted in perpetuity: a) the original value of donor-restricted gifts to the endowment, b) the original value of subsequent donor-restricted gifts to the endowment, and c) accumulations (interest, dividends, capital gain/loss) to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in donor-restricted net assets is classified as donor-restricted net assets until those amounts are approved for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization had no donor-restricted gifts to an endowment at June 30, 2021 and 2020. The Board of Directors, however, has designated certain assets to serve as an endowment.

Endowment net asset composition by type of fund as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	<u>\$ 408,109</u>	<u>\$ -</u>	<u>\$ 408,109</u>

Changes in endowment net assets for the fiscal year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 347,549	\$ -	\$ 347,549
Investment return:			
Net appreciation (realized and unrealized)	60,560	-	60,560
Additions	-	-	-
Endowment net assets, end of year	<u>\$ 408,109</u>	<u>\$ -</u>	<u>\$ 408,109</u>

Endowment net asset composition by type of fund as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	<u>\$ 347,549</u>	<u>\$ -</u>	<u>\$ 347,549</u>

Changes in endowment net assets for the fiscal year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 347,361	\$ -	\$ 347,361
Investment return:			
Net appreciation (realized and unrealized)	188	-	188
Additions	-	-	-
Endowment net assets, end of year	<u>\$ 347,549</u>	<u>\$ -</u>	<u>\$ 347,549</u>

The endowment assets are held at the Community Foundation of Middle Tennessee (the "Foundation") (see Note 15). The Organization does not have a formal investment and spending policy for its endowment assets.

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 10—Deferred grant revenue

During fiscal 2020, the Organization received a Paycheck Protection Program loan ("PPP Loan") in the amount of \$231,870. The PPP Loan is granted by the Small Business Administration ("SBA") under the Coronavirus Aid Relief, and Economic Security Act (the "CARES Act"). PPP Loans are considered conditional contributions under ASC 958-605, *Not-for Profit Entities – Revenue Recognition*. The loan must be repaid if the Organization does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. The Organization has deferred recognition of grant revenue for the years ended June 30, 2021 and 2020, because the conditions for forgiveness have not yet been substantially met. Subsequent to June 30, 2021, the Organization received SBA forgiveness of its PPP Loan.

Note 11—Construction loan payable

During April 2020, the Organization entered into a revolving credit agreement with a lender that allows for maximum borrowings of \$13,800,000. Each borrowing under this agreement is determined based on a borrowing base calculation that includes unpaid pledges receivable and guarantees of certain individuals and third party entities. Outstanding borrowings accrue interest at 4.25% and are secured by substantially all Organization assets. This agreement matures in April 2023 with a requirement to reduce outstanding balances to \$12,250,000 by December 31, 2021. At June 30, 2021 and 2020, amounts outstanding under this loan arrangement totaled \$13,612,500 and \$6,203,053, respectively. Subsequent to June 30, 2021, the Organization made principal payments totaling \$1,420,500 prior to the refinance described below.

At June 30, 2021, the Organization was in default under various financial and other terms of the loan agreement. The Organization has received a waiver from the lender for these instances of noncompliance.

Subsequent to June 30, 2021, the Organization entered into an amended and restated credit agreement with its lender. In connection therewith, the existing revolving credit agreement was converted into three term loans in the amounts of \$4,000,000, \$1,825,000, and \$6,367,000 which generally bear interest at a variable rate, as defined in the credit agreement. One of the term loans is dependent upon a borrowing base calculation which considers outstanding pledges from foundations, corporations, and individuals. The amended and restated credit agreement is secured by substantially all Organization assets and guarantees of certain individuals and third party entities. Additionally, the arrangement contains certain financial covenants as well as financial reporting requirements. Each term loan has a separate maturity date at which time amounts outstanding are required to be paid in full.

Future maturities are as follows:

Years Ending June 30,

2022	\$ -
2023	-
2024	4,000,000
2025	-
2026	8,192,000
	<u>\$ 12,192,000</u>

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 12—Line of credit

During November 2020, the Organization secured an operating line of credit agreement with a separate financial institution that allows for maximum borrowings of \$650,000. The agreement stipulates payment is due on demand. However, if no demand is made, the Organization will be required to pay the interest (variable rate based on the lender's prime rate plus 1.30%, with a minimum of 4.55%), due monthly, with all outstanding principal and interest due upon maturity in November 2021. At June 30, 2021, amounts outstanding under the line of credit agreement totaled \$450,760. Currently the Organization is in discussions with the lender to extend the maturity of the line of credit.

Note 13—Net assets with donor restrictions

The Organization has received specific contributions for capital costs and expenses associated with its mission. These contributions are classified as net assets with donor restrictions until the restricted time or purpose has been fulfilled.

Net assets with donor restrictions consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
Pledges and donations receivable for specific purposes or in future years	\$ 5,868,730	\$ 7,115,620

Note 14—Lease arrangements

Effective July 2018, the Organization leased office space that extended through June 2020. Total rent expense under this arrangement during the year ended June 30, 2020 was \$102,108. This lease agreement was extended on a month to month arrangement through September 30, 2020 when the agreement terminated, with employees working remotely until the office space in the Museum was completed.

In 2021, the Organization entered into certain noncancelable capital leases for office furniture and equipment that extend through September 2025. The assets and liabilities under these capital leases were recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are being depreciated over the shorter of the lease term or their estimated productive lives. For the year ended June 30, 2021, total capital lease payments made under these leases amounted to \$99,853, with related amortization expense of \$99,853 included in depreciation expense in the statement of functional expenses.

Future minimum lease payments required under these lease arrangements are as follows:

Years Ending June 30,

2022	\$ 67,855
2023	67,855
2024	67,855
2025	67,855
2026	<u>56,881</u>
Total future minimum lease payments	328,301
Less interest	<u>(14,912)</u>
	<u>\$ 313,389</u>

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 14—Lease arrangements (continued)

The Museum is located in the new Fifth + Broadway development under a lease arrangement, generally with no rent, under an arrangement with the Metropolitan Government of Nashville and Davidson County, Tennessee (“Metro”), the Metro Industrial Development Board, and the Project Developer. The lease agreement extends for 20 years with five renewal terms of 10 years each. The Organization will be required to pay common area maintenance costs, initially set at \$3.67 per square foot, totaling approximately \$207,000. Additionally, the Organization will be responsible for certain utilities costs based on actual usage plus certain additional square footage based rates.

Fair value of the lease has not been reflected in the accompanying financial statements because objective valuation information is not available due to the unique characteristics and location of the facilities. Accordingly, no contribution or rental expense has been recorded in the financial statements.

Note 15—Community Foundation of Middle Tennessee

The Community Foundation of Middle Tennessee (the “Foundation”) maintains two investment accounts on behalf of the Organization. The Organization has recorded a beneficial interest in assets held at the Foundation related to the Organization’s agency endowment fund, which was established by the Organization prior to fiscal 2018 (see Note 9).

In addition, the Foundation maintains a donor advised fund that was established by a donor for the benefit of the Organization in 2014 with an initial contribution to the Foundation of \$100,000. The Foundation has ultimate authority and control over the investments and the timing of receipt of the funds by the Organization is uncertain. Accordingly, the net assets of the Organization do not include these investments. The Organization does anticipate receiving periodic investment earnings on its pro-rata share of the Foundation’s assets beginning in 2024. The balance of the donor advised funds held for the benefit of the Organization was approximated \$127,000 at June 30, 2021 and 2020.

Note 16—Significant concentrations

The Organization received a significant portion of its contributions from one donor during the years ended June 30, 2021 and 2020. Amounts received from such donor totaled \$2,000,000 and \$2,000,000 during the years ended June 30, 2021 and 2020, respectively, which represented approximately 21% and 12%, respectively, of total public support and revenue recognized by the Organization.

During the year ended June 30, 2020, the Organization also received significant funding from Metro and the state of Tennessee (see Note 5).

Note 17—Related party transactions

Contributions from board members, whether made by the board members or their respective employers, totaled \$4,014,000 and \$1,552,500 for the years ended June 30, 2021 and 2020, respectively. Contributions receivable from board members or their respective employers totaled \$2,043,170 and \$404,626 for the years ended June 30, 2021 and 2020, respectively, and is included in contributions receivable in the accompanying statements of financial position. Additional amounts to be received from board members or their respective employers under conditional gift agreements totaled \$-0- and \$375,000 at June 30, 2021 and 2020, respectively.

The Organization may, at times, enter into transactions with board members or companies affiliated with board members in the ordinary course of business.

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 18—Agreements

During January 2020, the Organization entered into an agreement with a third party to provide a customized radio frequency identification (“RFID”) system consisting of software, equipment, and consumables (wrist bands) for event management, patron tracking, transaction processing, and data collection. The agreement has an initial term of five years, with subsequent automatic annual renewals. This agreement stipulates set up costs of \$129,789 plus future purchases of screen printed RFID wristbands totaling \$588,800.

During December 2020, the Organization entered into an agreement with a concessionaire for retail management of the gift shop operations at the Museum. This agreement began with the opening of the Museum in January 2021 and extends for three years. Under this agreement, the concessionaire will receive management fees under this agreement of the greater of \$80,000 or 6% of gross receipts per annum, payable in monthly installments. During the second and third contract years the management fee increases to the greater of \$120,000 or 6% of gross receipts. Certain incentive fees are also stipulated within the agreement if certain metrics are obtained. Under this agreement, the concessionaire is responsible for purchasing inventory and staffing of the gift shop. Costs under this arrangement for the year ended June 30, 2021 totaled \$116,910, which included management fees, start up costs and initial inventory purchases.

Note 19—Retirement plan

The Organization has a retirement plan covering substantially all of its employees. The plan is a tax-deferred 401(k) plan with its participants owning all amounts held in their individual accounts. Retirement expense for the years ended June 30, 2021 and 2020 totaled \$16,989 and \$49,082, respectively and is included in salaries and related expenses in the statements of functional expenses.

Note 20—Risks and uncertainties

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant volatility in the financial markets. The coronavirus outbreak and government responses are creating disruption to global supply chains and adversely impacting many industries. The outbreak could have a material, adverse impact on the economic and market conditions and trigger a period of global economic shutdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material, adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Organization, its performance, and its financial results.