

Tennessee State Museum Foundation

Financial Statements
June 30, 2017

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Independent Auditor's Report

To the Board of Directors
Tennessee State Museum Foundation
Nashville, TN

Report on the Financial Statements

We have audited the accompanying financial statements of Tennessee State Museum Foundation (the Foundation) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, and cash flows for the year then ended and the related notes to the financial statements.

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 our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



McKerley & Noonan, P.C.
January 19, 2018

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Tennessee State Museum Foundation
Statement of Financial Position
June 30, 2017

Assets

Assets

Cash and Cash Equivalents	\$ 1,926,271
Certificates of Deposit	507,565
Inventory	74,844
Investments at Market (Note 2)	25,087
Accounts Receivable	1,000
Pledges Receivable, net (Note 3)	9,826,738
Furniture & Equipment, Net	12,359
Prepaid Expenses	1,265

Total Assets	\$ 12,375,129
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Liabilities and Net Assets

Liabilities

Accounts Payable	\$ 17,251
Accrued Expenses	19,430

Total Liabilities	36,681
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Net Assets

Unrestricted Net Assets	308,125
Temporarily Restricted Net Assets (Note 5)	12,012,519
Permanently Restricted Net Assets (Note 6)	17,804
Total Net Assets	12,338,448

Total Liabilities and Net Assets	\$ 12,375,129
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Tennessee State Museum Foundation
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Other Revenues				
Building Fund Contributions (Note 9)	\$ -	\$ 15,221,148	\$ -	\$ 15,221,148
Contributions	23,478	166,390	-	189,868
Special Events (Note 7)	286,343	-	-	286,343
Membership Fees	44,846	-	-	44,846
Retail Store Sales	124,923	-	-	124,923
Investment Income	2,784	1,777	1,777	6,338
Net Assets Released from Restrictions	4,015,786	(4,015,786)	-	-
Total Public Support and Other Revenues	4,498,160	11,373,529	1,777	15,873,466
Functional Expenses				
<i>Program Services:</i>				
Programs and Exhibits	285,170	-	-	285,170
Building Fund Contributions to State of TN (Note 9)	3,500,000	-	-	3,500,000
Direct Costs and Expenses - Retail Store	145,842	-	-	145,842
Total Program Services	3,931,012	-	-	3,931,012
<i>Supporting services:</i>				
Management and General	181,132	-	-	181,132
Fundraising (Note 9)	407,751	-	-	407,751
Total Supporting Services	588,883	-	-	588,883
Total Expenses	4,519,895	-	-	4,519,895
Change in Net Assets	(21,735)	11,373,529	1,777	11,353,571
Net Assets at Beginning of Year	329,860	638,990	16,027	984,877
Net Assets at End of Year	<u>\$ 308,125</u>	<u>\$ 12,012,519</u>	<u>\$ 17,804</u>	<u>\$ 12,338,448</u>

Tennessee State Museum Foundation
Statement of Cash Flows
For the Year Ended June 30, 2017

Operating Activities

Change in Net Assets \$ 11,353,571

**Adjustments to Reconcile Change in Net Assets
to Net Cash Provided by Operating Activities**

Depreciation	3,973
Decrease in Accounts Receivable	21,294
Increase in Pledges Receivable	(9,826,738)
Decrease in Inventory	20,262
Decrease in Prepaid Expenses	1,855
Decrease in Other Current Assets	2,300
Increase in Accounts Payable	3,745
Decrease in Accrued Expenses	(3,191)
Total Adjustments	(9,776,500)

Net Cash Provided by Operating Activities 1,577,071

Investing Activities

Purchase of Equipment	(14,488)
Purchase of Investments	(9,678)

Net Cash Used by Investing Activities (24,166)

Net Increase in Cash and Cash Equivalents 1,552,905

Cash and Cash Equivalents Beginning of Year 373,366

Cash and Cash Equivalents End of Year \$ 1,926,271

Supplemental Cash Flow Information:

Interest Paid	\$ -
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Tennessee State Museum Foundation

Notes to Financial Statements

June 30, 2017

NOTE 1 - DESCRIPTION AND PURPOSE OF THE FOUNDATION

Tennessee State Museum Foundation (the “Foundation”) is a Tennessee not-for-profit corporation organized exclusively for charitable, educational and scientific purposes. The Foundation’s purpose is to enhance the operations and visibility of the Tennessee State Museum (the “Museum”), a State Government entity. The Foundation receives funding from certain local grants and private contributions, and revenues from membership fees, special fundraiser events and operation of the Tennessee State Museum retail store.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Foundation have been prepared on the accrual basis of accounting which means that revenues are recognized when earned and expenses are recorded when incurred. The significant accounting policies of the Foundation are described below to enhance the usefulness of the financial statements to the reader.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking account balances and money market funds with original maturities when purchased of three months or less.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows, see Note 4. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. 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.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investments

The Foundation has investments in mutual funds through a brokerage firm. These investments are recorded at fair market value. The Foundation's investments are measured on a recurring basis at fair value at the reporting date using quoted prices in active markets for identical assets (Level 1). At June 30, 2017, the Foundation's investments were valued at \$25,087 and consisted of equity mutual funds.

The Foundation has certificates of deposits with a bank. These certificates of deposit are recorded at fair market value. At June 30, 2017, the Foundation's certificates of deposit amounted to \$507,565.

Inventory

Inventory consists of merchandise sold at the Museum's retail store and is reported at the lower of cost (first-in, first-out method) or market.

Furniture, equipment and depreciation

Furniture and equipment are recorded at acquisition cost. Improvements and betterments are capitalized, while repairs and maintenance expenditures are expensed in the statement of activities. Depreciation is recorded using the straight-line method over the expected useful lives (ranging from 3 to 7 years) of each asset. Depreciation expense for the year amounted to \$3,973.

Property, equipment and accumulated depreciation consisted of the following at June 30, 2017:

Furniture and equipment	\$ 29,071
Accumulated depreciation	<u>(\$ 16,712)</u>
Furniture and equipment, Net	<u>\$ 12,359</u>

Financial Statement Presentation

For financial statement presentation, the Foundation reports its financial information according to three classes of net assets (unrestricted net assets, temporarily restricted net assets and permanently restricted net assets) based on the existence or absence of donor-imposed restrictions.

Unrestricted Net Assets

Unrestricted net assets are donations that are not subject to donor-imposed stipulations. Monies received without restriction or released from restriction are generally used to finance the normal day-to-day operations of the Foundation.

Temporarily Restricted Net Assets

Temporarily restricted net assets are donations that are subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At June 30, 2017, there were \$12,216,611 of temporarily restricted net assets. Of the \$12,216,611, \$11,615,236 relates to the building fund (see note 9).

Permanently Restricted Net Assets

Permanently restricted net assets are donations subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes. As of June 30, 2017, there were \$17,804 of permanently restricted net assets.

Endowment (permanently restricted) Fund

The Foundation's endowment consists of a single fund established for purposes related to the generations of Tennesseans involved with or impacted by the Civil War. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Foundation has interpreted the Tennessee Prudent Management of Institutional Funds Act (TPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by TPMIFA. In accordance with TPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund, (2) The purposes of the organization and the donor-restricted endowment fund, (3) General economic conditions, (4) The possible effect of inflation and deflation,

(5) The expected total return from income and the appreciation of investments, (6) Other resources of the organization, and (7) The investment policies of the foundation.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2017.

Return Objectives and Risk Parameters - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide a reasonable rate of return.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Foundation has a policy of maintaining the corpus of the original donation. Donor stipulations require that one-half of earnings on the original corpus will be added to the permanently restricted corpus, and one-half of the earnings be made available to spend on Civil War related artifacts.

Endowment fund activity for the year is summarized in Note 6.

Program and Supporting Services – Functional Allocation

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

Program services - include activities carried out to fulfill the Foundation's mission, resulting in services provided for specific exhibits and auxiliary services to support the Museum.

Supporting services

Management and general - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or event or with fundraising, but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, record keeping, budgeting, financing, and other administrative activities.

Fundraising and special events - includes cost of activities directed toward appeals for financial support, including special event costs including food, space rental, entertainment, communication, wait staff, etc. Also includes professional fees paid to fundraising groups who have been engaged to assist in raising funds for the building fund (see Note 9). Other activities include the cost of solicitations and creation and distribution of fundraising materials.

In-Kind Contributions

Donated facilities and materials are recorded as gifts in the period received at fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized if they create or enhance non-financial assets or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Foundation if not donated. Such services are recognized at fair value as support and expense in the period the services are performed.

A number of unpaid volunteers including staff of the Tennessee State Museum have made significant contributions of their time to assist the Foundation in implementing various programs and exhibits. The value of contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

In-Kind Contributions amounted to \$2,630 for the year ended June 30, 2017.

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.

Income Taxes

The Foundation is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Foundation follows the guidance in ASC 740 on accounting for uncertainty in income taxes. For all tax positions taken by the Foundation, management believes it is clear that the likelihood is greater than 50 percent that the full amount of the tax positions taken will be ultimately realized. The Foundation incurred no interest or penalties during the year ended June 30, 2017.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2017 represent amounts pledged in relation to the new building fund fundraiser. It is the Organization's policy to charge off uncollectible pledges receivable when management determines the pledge will not be collected. All pledges receivable are considered collectible as of June 30, 2017.

A discount on pledges receivable expected to be received over several years is computed using risk-free interest rates applicable to the years in which the pledges are received. Future amortization of the discount will be included in donations revenue. The interest rate used in computing the discount of estimated future cash flows was 1.1%.

Pledges receivable as of June 30, 2017 are calculated as follows:

Pledges receivable	\$10,030,905
Discount on pledges receivable	(\$204,167)
Pledges receivable, net	<u>\$ 9,826,738</u>

There was no amortization of the discount on pledges receivable during the year ended June 30, 2017.

NOTE 4 – AGREEMENT WITH STATE OF TENNESSEE

The Foundation has an agreement with the State of Tennessee for the use of certain space in the James K. Polk Cultural Center for the Foundation's business office. The Foundation pays no rent or other charges for the use of this space. In addition, the Foundation operates a retail store in the Museum. The revenue generated, the related costs of sales, and the ending inventory of the retail store are reflected in the financial statements of the Foundation.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of restrictions for the following specific exhibits or programs at June 30, 2017:

Temporarily Restricted	
Building Fund	\$ 11,411,144
Carousel Revenue	265,655
Hyman Ceramics	50,000
Civil War Fund	65,799
New Museum	27,736
TN Executive Residence Funds	25,587
Bridgestone Painting	30,011
Photo Fund	18,161
Jim Neal Memorial	13,475
Conservation Fund	9,013
Public Programs	7,752
Flag Conservation	40,531
Traveling Exhibits	29,180
Interest Portion of Shelia Green	6,949
Other	11,526
Total Temporarily Restricted	<u><u>\$ 12,012,519</u></u>

NOTE 6 – PERMANENTLY RESTRICTED NET ASSETS

The Foundation has one permanently restricted endowment fund, which is discussed in Note 2. Permanently restricted net assets consist of \$17,804 of the net assets held in the Foundation.

Changes in Permanently Restricted Net Assets

For the Year ended June 30, 2017

	<u>Balance at</u> <u>06/30/2016</u>	<u>Contributions</u>	<u>Investment</u> <u>Income</u>	<u>Expenditures</u>	<u>Balance at</u> <u>06/30/2015</u>
Sheila Green	\$16,027	-	\$1,777	-	\$17,804
Memorial Fund					
Total	<u>\$16,027</u>	<u>-</u>	<u>\$1,777</u>	<u>-</u>	<u>\$17,804</u>

NOTE 7 – SPECIAL EVENTS

The Foundation held several special fundraising events during the year ended June 30, 2017. The related revenues and costs were as follows for the year ended June 30, 2017:

	Revenues	Expenses
Special events	\$286,343	\$141,892

NOTE 8 – CONCENTRATION OF RISK

Cash and investments are maintained with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor as of June 30, 2017.

NOTE 9 – BUILDING FUND

During 2015 the Tennessee legislature approved the building of a new Tennessee State Museum building. The total cost of the building is expected to be \$160 million. The State has allocated \$120 million towards the new building, and the Foundation has been tasked to raise the remaining \$40 million through private fundraising. During the year ended June 30, 2017 the Foundation's building fund had the following activity:

Contributions	\$15,221,148
Expenditures	3,921,808
Net Revenues	<u>\$ 11,299,340</u>

Of the \$3,921,808 in expenditures during the year ended June 30, 2017 \$3,500,000 was transferred to the state, \$240,000 was paid to fundraising consultants, \$156,000 was paid for project management, and the balance represents other fundraising expenses.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through the financial statement issuance date of January 19, 2018.