

THE MUSICIANS HALL OF FAME AND MUSEUM

AUDIT OF FINANCIAL STATEMENTS

DECEMBER 31, 2019

THE MUSICIANS HALL OF FAME AND MUSEUM
TABLE OF CONTENTS
DECEMBER 31, 2019

| | |
|--|-------------|
| Independent Auditor's Report..... | 3-4 |
| Statement of Financial Position..... | 5 |
| Statement of Activities..... | 6 |
| Statement of Functional Expenses..... | 7 |
| Statement of Cash Flows..... | 8 |
| Notes to Financial Statements..... | 9-16 |

R. SCOTT DIXON

CERTIFIED PUBLIC ACCOUNTANT

424 Church Street, Suite 2000 Telephone:
Nashville, Tennessee 37219 Church Street (615) 256-2260
P.O. Box 330941 Harding Road (615) 385-5081
Nashville, Tennessee 37203

Independent Auditor's Report

To the Board of Directors
The Musicians Hall of Fame and Museum
401 Gay Street
Nashville, Tennessee 37219

We have audited the accompanying financial statements of The Musicians Hall of Fame and Museum (a nonprofit organization) which comprise the statement of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 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.

(Continued)

Independent Auditor's Report, continued

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 Musicians Hall of Fame and Museum as of December 31, 2019 and 2018, 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.

Nashville, Tennessee
November 20, 2020

THE MUSICIANS HALL OF FAME AND MUSEUM
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

| | <i>December 31,</i> | |
|---|----------------------------|----------------------------|
| | <u>2019</u> | <u>2018</u> |
| ASSETS | | |
| Cash and equivalents, unrestricted | \$ 78,768 | \$ 61,657 |
| Accounts receivable, trade | 6,845 | 2,616 |
| Inventory | 32,524 | 36,077 |
| Property, equipment and artifacts not part of a collection, net (Note 6) | <u>1,451,282</u> | <u>1,427,113</u> |
| TOTAL ASSETS | <u><u>\$ 1,569,419</u></u> | <u><u>\$ 1,527,463</u></u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 37,722 | \$ 40,274 |
| Payroll taxes payable | 240 | 133 |
| Sales tax payable | 6,328 | 4,875 |
| Accrued expenses -- | | |
| Interest, related parties (Note 7) | 2,911 | 1,221 |
| Payroll | 8,059 | 5,159 |
| Franchise tax | 130 | 130 |
| Contract liabilities, customer event deposits (Note 2) | 37,270 | 50,539 |
| Income tax payable | 6,205 | 2,705 |
| Long-term debt, related parties (Note 7) | <u>1,609,676</u> | <u>2,121,848</u> |
| TOTAL LIABILITIES | 1,708,541 | 2,226,884 |
| NET ASSETS (DEFICIT), without donor restrictions | <u>(139,122)</u> | <u>(699,421)</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 1,569,419</u></u> | <u><u>\$ 1,527,463</u></u> |

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

THE MUSICIANS HALL OF FAME AND MUSEUM
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | <i>Year Ended December 31, 2019</i> | | | <i>Year Ended December 31, 2018</i> | | |
|--|---|------------------------------------|---------------------|---|------------------------------------|---------------------|
| | <i>Without Donor Restrictions</i> | <i>With Donor Restrictions</i> | <i>Total</i> | <i>Without Donor Restrictions</i> | <i>With Donor Restrictions</i> | <i>Total</i> |
| INCREASES IN NET ASSETS | | | | | | |
| Contributions | \$ 274,014 | \$ 38,625 | \$ 312,639 | \$ 261,709 | \$ 45,000 | \$ 306,709 |
| Admission fees | 956,139 | - | 956,139 | 1,156,012 | - | 1,156,012 |
| Private events revenue, net of discounts | 361,006 | - | 361,006 | 327,992 | - | 327,992 |
| Special event revenue, awards show | 225,168 | - | 225,168 | - | - | - |
| Gift shop sales | 111,521 | - | 111,521 | 100,845 | - | 100,845 |
| Other revenue | 123 | - | 123 | - | - | - |
| Total support and revenue | 1,927,971 | 38,625 | 1,966,596 | 1,846,558 | 45,000 | 1,891,558 |
| Net assets released from restrictions | 38,625 | (38,625) | - | 45,000 | (45,000) | - |
| TOTAL INCREASES IN NET ASSETS | 1,966,596 | - | 1,966,596 | 1,891,558 | - | 1,891,558 |
| DECREASES IN NET ASSETS | | | | | | |
| Program services | 837,822 | - | 837,822 | 874,126 | - | 874,126 |
| Management and general | 568,475 | - | 568,475 | 493,642 | - | 493,642 |
| Fundraising | - | - | - | 1,548 | - | 1,548 |
| TOTAL DECREASES IN NET ASSETS | 1,406,297 | - | 1,406,297 | 1,369,316 | - | 1,369,316 |
| CHANGE IN NET ASSETS | 560,299 | - | 560,299 | 522,242 | - | 522,242 |
| NET ASSETS (DEFICIT), beginning of the year | (699,421) | - | (699,421) | (1,221,663) | - | (1,221,663) |
| NET ASSETS (DEFICIT), end of the year | \$ (139,122) | \$ - | \$ (139,122) | \$ (699,421) | \$ - | \$ (699,421) |

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

THE MUSICIANS HALL OF FAME AND MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | Year Ended December 31, 2019 | | | | Year Ended December 31, 2018 | | | |
|--|------------------------------|---------------------------|-------------|--------------|------------------------------|---------------------------|-------------|--------------|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Awards show expenses | \$ 218,806 | \$ - | \$ - | \$ 218,806 | \$ - | \$ - | \$ - | \$ - |
| Cost of sales, gift shop | 54,137 | - | - | 54,137 | 46,555 | - | - | 46,555 |
| Advertising and promotion | - | 79,404 | - | 79,404 | 2,435 | 15,853 | - | 18,288 |
| Salaries and wages | 346,414 | 132,531 | - | 478,945 | 449,481 | 107,633 | - | 557,114 |
| Employee appreciation benefits | - | 9,240 | - | 9,240 | - | 7,911 | - | 7,911 |
| Insurance, employees | 30,077 | 11,604 | - | 41,681 | 36,865 | 8,828 | - | 45,693 |
| Payroll taxes | 27,870 | 10,277 | - | 38,147 | 33,059 | 7,916 | - | 40,975 |
| Taxes and licenses, other | - | 7,990 | - | 7,990 | - | 10,716 | - | 10,716 |
| Bank and merchant fees | - | 27,936 | - | 27,936 | 133 | 32,568 | - | 32,701 |
| Catering expenses | - | 231 | - | 231 | 14,932 | 133 | - | 15,065 |
| Contract labor | - | 26,340 | - | 26,340 | 26,092 | 21,041 | - | 47,133 |
| Contributions | - | 11,621 | - | 11,621 | - | 4,089 | - | 4,089 |
| Depreciation expense | 1,500 | 85,725 | - | 87,225 | 1,500 | 63,743 | - | 65,243 |
| Dues and subscriptions | - | 9,717 | - | 9,717 | - | 9,139 | - | 9,139 |
| Grammy Gallery expenses (Note 9) | 23,049 | - | - | 23,049 | 20,188 | - | - | 20,188 |
| Insurance, business | - | 25,384 | - | 25,384 | - | 22,267 | - | 22,267 |
| Interest expense | - | 54,523 | - | 54,523 | - | 64,509 | - | 64,509 |
| Travel, meals and entertainment | - | 2,351 | - | 2,351 | - | 3,805 | - | 3,805 |
| Professional fees, legal and accounting | 420 | 100 | - | 520 | 2,863 | 21,160 | 1,548 | 25,571 |
| Rent, facilities (Note 8) | 52,393 | 17,464 | - | 69,857 | 52,535 | 17,511 | - | 70,046 |
| Rent, equipment and storage | 1,320 | 528 | - | 1,848 | 6,432 | 179 | - | 6,611 |
| Repairs and maintenance | 23,015 | 7,672 | - | 30,687 | 40,934 | 13,644 | - | 54,578 |
| Security | 11,852 | 434 | - | 12,286 | 74,608 | 384 | - | 74,992 |
| Building supplies | 23,871 | 7,957 | - | 31,828 | 61,739 | 20,580 | - | 82,319 |
| Office supplies | 998 | 24,154 | - | 25,152 | 1,661 | 25,030 | - | 26,691 |
| Telephone, internet and website expenses | - | 9,159 | - | 9,159 | - | 9,874 | - | 9,874 |
| Backstage television show expenses | 20,310 | - | - | 20,310 | - | - | - | - |
| Income tax expense | - | 3,500 | - | 3,500 | - | 2,705 | - | 2,705 |
| Other operating expenses | 1,790 | 2,633 | - | 4,423 | 2,114 | 2,424 | - | 4,538 |
| | \$ 837,822 | \$ 568,475 | \$ - | \$ 1,406,297 | \$ 874,126 | \$ 493,642 | \$ 1,548 | \$ 1,369,316 |

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

THE MUSICIANS HALL OF FAME AND MUSEUM
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | <i>Year ended December 31,</i> | |
|---|--------------------------------|-------------------------|
| | <u>2019</u> | <u>2018</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 560,299 | \$ 522,242 |
| Adjustments to reconcile change in net assets | | |
| Depreciation | 87,225 | 65,243 |
| Donated museum exhibit included in contributions | (10,000) | (2,500) |
| (Increase) decrease in operating assets | | |
| Accounts receivable | (4,229) | 2,316 |
| Overpaid payroll tax receivable | - | 223 |
| Inventory | 3,553 | (18,428) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | (2,552) | 13,377 |
| Payroll taxes payable | 107 | (29) |
| Sales tax payable | 1,453 | 1,278 |
| Accrued expenses | 4,590 | (10,421) |
| Contract liabilities, customer event deposits | (13,269) | 2,809 |
| Income tax payable | - | 2,301 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>627,177</u> | <u>578,411</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for property, equipment and exhibits -- | | |
| Furniture and equipment | (10,491) | (41,041) |
| Exhibit fixtures and leasehold build-out costs | (21,603) | (124,115) |
| Museum exhibits | (69,300) | (177,237) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>(101,394)</u> | <u>(342,393)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on long-term debt | - | 55,113 |
| Principal payments of long-term debt | (512,172) | (244,416) |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | <u>(512,172)</u> | <u>(189,303)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 13,611 | 46,715 |
| CASH AND CASH EQUIVALENTS, beginning of the year | <u>61,657</u> | <u>14,942</u> |
| CASH AND CASH EQUIVALENTS, end of the year | <u><u>\$ 75,268</u></u> | <u><u>\$ 61,657</u></u> |
| SUPPLEMENTAL DISCLOSURES | | |
| Interest paid on long-term debt | \$ 52,833 | \$ 75,997 |
| Income tax paid | - | 288 |
| Noncash investing activities | | |
| Acquisition of property and equipment on account -- | | |
| Cost of property and equipment | - | 3,498 |
| Payable on account | - | (3,498) |

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

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Who We Are and What We Do – The Musicians Hall of Fame and Museum was founded in July, 2003, and operates as a nonprofit organization under the laws of the State of Tennessee. We are a premier Nashville attraction and the only museum in the world that honors the talented musicians who played on the greatest recordings of all time. We are constantly adding new exhibits from all genres of music that capture the true essence of the history of music. We hosted over 74,000 visitors in 2019 and have experienced an average growth rate in attendance of over 35% since 2014. The Musicians Hall of Fame and Museum was selected to host a major international touring exhibit for five months during 2018, comprising one of the largest and most iconic collections of musical instruments, stage clothing, and other music memorabilia in the world.

The Grammy Museum Gallery at the Musicians Hall of Fame and Museum is an interactive facility for our visitors. It allows guests to explore the history of the Grammy Awards and gives all ages the opportunity to be onstage and interact with every aspect of the recording process. (See additionally, Note 9.)

The Musicians Hall of Fame and Museum is a true Nashville experience, steeped in music history both past and present. There is something of interest for everyone. We educate and inspire. We cultivate creativity. *"Come See What You've Heard."*

Basis of Accounting and Presentation – The financial statements of the Musicians Hall of Fame and Museum have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Financial statement presentation follows the recommendations and requirements of the *Not-for-Profit Entities* Topic of the FASB Accounting Standards Codification. Pursuant to the Topic, the Musicians Hall of Fame and Museum is required to report information regarding its financial position and activities according to two classes of net assets: with restrictions and without restrictions.

Recognition of Donor Contributions and Support – Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Support that is free from donor-imposed restrictions is recognized as revenues and an increase in net assets without donor restrictions in the period it is earned. Donor-restricted support is recognized as an increase in net assets with donor restrictions. When a restriction expires, either with the passage of time or fulfillment of the specific purpose of the restricted donation, net assets with donor restrictions are reclassified to net assets without donor restrictions.

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2019 AND 2018

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Musicians Hall of Fame and Museum considers money market funds and all highly liquid investments purchased and available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable, trade – Trade accounts receivable are recorded when invoices are issued and are presented in the balance sheet net of any allowance for doubtful accounts. Management estimates accounts receivable that will not be collected based on the financial condition of its customers, prior experience, and existing economic conditions. Accounts receivable are written off when they are determined to be uncollectible. No allowance for doubtful accounts has been recorded at December 31, 2019 or 2018, because conditions for accrual of a loss contingency pursuant to the *Recognition* subtopic of ASC 450, *Contingencies*, have not been met. The Musicians Hall of Fame and Museum does not currently charge interest on any past due accounts.

Inventories – Inventories, principally consisting of gift shop merchandise available for sale, are stated at cost.

Property, Equipment and Artifacts Not Part of a Collection – The organization capitalizes acquisitions of property and equipment of at least \$1,000. Lesser amounts are expensed. Property, equipment and artifacts not part of a collection are reported at cost or, if donated, at the approximate fair value at the time of donation, and include improvements that significantly add to utility or extend useful lives, and the cost of major preservation and restoration of exhibits and artifacts not part of a collection. Costs of maintenance and repairs are charged to expense as incurred.

Donations of property and equipment are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2019 AND 2018

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Equipment and Artifacts Not Part of a Collection (continued)

Office and other equipment, and furniture and fixtures are depreciated using accelerated methods over estimated useful lives of 5 to 7 years. Buildout costs and leasehold improvements are depreciated using the straight-line method over 31.5 or 39 years.

No depreciation is recognized for the cost or other acquisition value of exhibits and artifacts not part of a collection, in accordance with the *Not-for-Profit Entities* Topic of the FASB Accounting Standards Codification. However, in accordance with the Topic, depreciation is recognized on major preservation or restoration of artifacts and exhibits, incurred from time-to-time, using the straight-line method over 10 years (See additionally, Note 6.)

Income Taxes – The Musicians Hall of Fame and Museum is a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and files Form 990, Return of Organization Exempt from Income Tax. Additionally, the Musicians Hall of Fame and Museum files Form 990-T, Exempt Organization Business Income Tax Return, and Franchise and Excise Tax Returns with the State of Tennessee based on unrelated business income. Unrelated business income is generated mostly from advertising sales, operations of a gift shop and equipment rentals in connection with private events. The Musicians Hall of Fame and Museum incurred income taxes from continuing operations of \$3,500 and \$2,705, respectively, for the years ended December 31, 2019 and 2018.

The Musicians Hall of Fame and Museum's Forms 990 and 990-T, for the years ending December 31, 2016, 2017 and 2018 are subject to examination by the IRS, generally for three years after they were filed.

Any penalties and interest incurred on underpayment of income tax are classified as income tax in the financial statements.

Advertising Expenses -- Costs incurred for advertising and marketing are expensed when incurred. Advertising and marketing expenses are allocated to the Musicians Hall of Fame and Museum's program services if primarily benefited or, if primarily benefiting the Hall of Fame and Museum in nature, to management and general expenses.

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2019 AND 2018

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising Expenses (continued) -- The Musicians Hall of Fame and Museum entered into advertising barter transactions with media advertising suppliers during the years ended December 31, 2019 and 2018, whereby the Musicians Hall of Fame and Museum received print and radio advertising in exchange for private event services. The amounts recognized in the financial statements as advertising expense and private events revenue are \$12,800 and \$12,500, respectively, for the years ended December 31, 2019 and 2018.

Shipping and Handling Costs – Shipping and handling costs are included in cost of sales and are not separately stated or included elsewhere in the financial statements.

Reclassifications -- Certain reclassifications have been made to the December 31, 2018 financial statements to conform to the current year's presentation. Net assets and change in net assets are unaffected due to these reclassifications.

NOTE 2 – REVENUE RECOGNITION AND CONTRACTS WITH CUSTOMERS

The Musicians Hall of Fame and Museum recognizes revenue when goods and services are transferred to and controlled by its customers, and for which the Museum expects to be entitled to consideration, i.e., at the point in time when its performance obligations are satisfied. This usually occurs upon completion of the services, or as goods are sold and transferred to customers. Payment of consideration is usually due upon customers' receipt of invoices. The Musicians Hall of Fame and Museum does not ordinarily enter into contracts with customers that include components of significant financing or provide for variable consideration.

Contracts with customers considered to be satisfied at a point in time include admission fees, private and special events revenue, and gift shop sales. Total revenue from these contracts were \$1,653,834 and \$1,584,849, respectively, for the years ended December 31, 2019 and 2018. The Musicians Hall of Fame and Museum does not ordinarily enter into contracts with customers that generate revenue from goods or services transferred to customers over time.

Customer deposits received for private events are recognized and presented in the statement of financial position as contract liabilities until the Musicians Hall of Fame and Museum has satisfied its performance obligations. The deposits are then recognized as revenue.

NOTE 3 – DONATED SERVICES, MATERIALS AND FACILITIES

The Musicians Hall of Fame and Museum receives donated services from unpaid volunteers assisting in the administration of its program services. No amounts for donated services have been recognized in the financial statements because the criteria for recognition of such volunteer effort under the *Not-for-Profit Entities* Topic of the FASB Accounting Standards Codification have not been satisfied.

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2019 AND 2018

NOTE 4 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Musicians Hall of Fame and Museum's program services and the costs of administration have been presented in the statement of functional expenses, and certain categories of expenses are attributable to both program services and costs of administration. Accordingly, certain costs require allocation among the program and supporting services benefited on a reasonable basis that is consistently applied. Allocated expenses and the method of allocation is summarized as follows:

| <u>Expense Category</u> | <u>Method of Allocation</u> |
|----------------------------|---|
| Salaries and wages | Salary of the Executive Director, one-half salary of director of business affairs allocated to management/general; all other salaries allocated to program services |
| Employee insurance | Allocated proportionately based on the allocation of salaries and wages to management/general and program services |
| Payroll taxes | |
| Advertising and promotion | Specifically identifiable program expenses, including those of special 2018 touring exhibit, allocated to program services; all other expenses allocated to management/general |
| Bank and merchant fees | |
| Catering expenses | |
| Contract labor | |
| Office supplies | |
| Professional fees | |
| Other operating expenses | |
| Depreciation expense | Amounts recognized on artifact preservation and restoration allocated to program services; all other amounts to management/general |
| Facilities rent | Amount based on approximate proportionate square footage of space devoted to exhibits allocated to program services; all other amounts allocated to management/general |
| Repairs and maintenance | |
| Building supplies | |
| Equipment and storage rent | General upkeep expenses allocated to management/general; all other amounts allocated to program services |
| Security | Amounts for building monitoring allocated to management/general; amounts allocable to events and specifically identifiable expenses of special 2018 touring exhibit allocated to program services |

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2019 AND 2018

NOTE 5 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Musicians Hall of Fame and Museum's financial assets as of December 31, 2019 and 2018, respectively, without donor or other contractual restrictions and are available for general expenditures within one year of the date of the statement of financial position:

| | <u>2019</u> | <u>2018</u> |
|---|------------------|------------------|
| Cash and equivalents, unrestricted | \$ 78,768 | \$ 61,657 |
| Accounts receivable | <u>6,845</u> | <u>2,616</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 85,613</u> | <u>\$ 64,273</u> |

As part of its liquidity management, the Musicians Hall of Fame and Museum has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 6 – PROPERTY, EQUIPMENT AND ARTIFACTS NOT PART OF A COLLECTION

Property, equipment and artifacts not part of a collection consist of the following as of December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Office and other equipment | \$ 66,192 | \$ 45,701 |
| Furniture and fixtures | 168,780 | 168,780 |
| Grammy Gallery buildout | 386,389 | 386,389 |
| Leasehold improvements | 212,423 | 190,820 |
| Artifacts and exhibits not part of a collection | <u>908,967</u> | <u>839,667</u> |
| | 1,742,751 | 1,631,357 |
| Less: accumulated depreciation | <u>(291,469)</u> | <u>(204,244)</u> |
| Property and equipment, net | <u>\$ 1,451,282</u> | <u>\$ 1,427,113</u> |

Additionally, the Musicians Hall of Fame and Museum has significant amounts of historical artifacts on display that it does not lease or own. Such artifacts are substantially owned by the Museum's chief executive officer and president. These amounts are not presented in the financial statements. (See, additionally, Note 7.)

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2019 AND 2018

NOTE 7 – LONG-TERM DEBT, RELATED PARTY TRANSACTIONS

Long-term debt, in the original principal amount of \$2,711,691 is payable to the Musicians Hall of Fame and Museum's chief executive officer and president. The note, dated October 27, 2016, bears interest at the annual rate of 3% and is payable monthly through November 10, 2021. Terms of the note call for monthly payments of interest only in the amount of \$6,779. Prepayments of principal of the debt are allowed without penalty and the Musicians Hall of Fame and Museum paid \$512,172 and \$244,416 in principal amounts on the debt during 2019 and 2018, respectively, together with interest of \$52,833 and \$75,997, respectively, during the years. The debt is collateralized by all assets of the Musicians Hall of Fame and Museum, including inventories and accounts receivable.

Prior to execution of the debt agreement, amounts payable to the chief executive officer and president were classified as unsecured advances, non-interest bearing, to be used for operating working capital and other cash requirements of the Musicians Hall of Fame and Museum.

NOTE 8 – OPERATING LEASE

The Musicians Hall of Fame and Museum leases the first floor of the Municipal Auditorium in Nashville, Tennessee, from Metropolitan Government of Nashville and Davidson County. The leased space contains its museum exhibit hall as well as office space. The lease is dated June 1, 2015, and is effective for 5 years through June, 2020. The lease can then be renewed for 3 additional terms of 5 years each, unless there is intent not to renew given by either party. The lease agreement stipulates monthly payments computed at the rate of \$1 for every ticket sold for museum admission, and for every attendee at private events held in the leased premises. For private events, lease consideration is capped at \$350, if that amount is less than the amount computed at the rate of \$1 per attendee. The Musicians Hall of Fame and Museum's rental expense under the lease was \$69,857 and \$70,046, respectively, for the years ended December 31, 2019 and 2018.

NOTE 9 – OTHER COMMITMENT, GRAMMY GALLERY

The Musicians Hall of Fame and Museum has an agreement for consulting services with Grammy Museum Services, LLC, Los Angeles, dated February 19, 2015, and is in connection with the operation of an interactive music museum gallery called the Grammy Gallery at Musicians Hall of Fame, located in the museum's exhibit hall. The agreement calls for a payment by the Musicians Hall of Fame and Museum to Grammy Museum Services in the amount of \$20,000 each year through March, 2021. In exchange for the consideration paid, Grammy Museum Services agrees to conduct semi-annual education workshops, training, site visits, the creation and maintenance of curricula around the museum exhibits, and updates to the content of the museum.

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2019 AND 2018

NOTE 10 – CASH AND CONCENTRATIONS OF CREDIT RISK

The cash accounts are held by financial institutions that at times may exceed amounts that are federally insured. It is the opinion of management that the solvency of the referenced financial institutions is not of concern currently.

NOTE 11 – SUBSEQUENT EVENTS

The Musicians Hall of Fame and Museum has evaluated subsequent events through November 20, 2020, the date which the financial statements were available to be issued.

END OF NOTES