

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2019 and 2018

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, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 National Museum of African American Music, as of June 30, 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.

Changes in Financial Statement Presentation

As discussed in Note 1 of the financial statements, the National Museum of African American Music adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As described in Note 17 to the financial statements, National Museum of African American Music restated net assets at June 30, 2018 and changes in net assets for the year then ended to properly account for contributions receivable, contributions, bad debt expense and for a beneficial interest in assets. Our opinion is not modified with respect to these matters.



Nashville, Tennessee
November 13, 2019

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	(As Restated) 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,504,436	\$ 490,250
Grants receivable	1,144,731	548,223
Contributions receivable, net	1,683,518	1,465,263
Prepaid expenses and other assets	2,578	7,089
Total Current Assets	<u>5,335,263</u>	<u>2,510,825</u>
Noncurrent Assets:		
Contributions receivable, net	1,047,437	1,587,110
Beneficial interest in assets at		
Community Foundation of Middle Tennessee	347,361	26,395
Property and equipment, net	23,309	9,830
Intangible assets, net	112,758	77,952
Project development costs	6,214,518	1,777,655
Total Noncurrent Assets	<u>7,745,383</u>	<u>3,478,942</u>
Total Assets	<u><u>\$ 13,080,646</u></u>	<u><u>\$ 5,989,767</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 951,958	\$ 308,280
Total Current Liabilities	<u>951,958</u>	<u>308,280</u>
Noncurrent Liabilities:		
Deferred revenue	1,000,000	-
Total Noncurrent Liabilities	<u>1,000,000</u>	<u>-</u>
Total Liabilities	<u>1,951,958</u>	<u>308,280</u>
Net Assets:		
Without donor restrictions:		
Undesignated	8,050,372	2,602,719
Board designated endowment	347,361	26,395
Total without donor restrictions	<u>8,397,733</u>	<u>2,629,114</u>
With donor restrictions	2,730,955	3,052,373
Total Net Assets	<u>11,128,688</u>	<u>5,681,487</u>
Total Liabilities and Net Assets	<u><u>\$ 13,080,646</u></u>	<u><u>\$ 5,989,767</u></u>

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Contributions	\$ 1,754,452	\$ 1,624,225	\$ 3,378,677
Grant revenue	4,992,376	-	4,992,376
Other	22,134	-	22,134
Net assets released from restriction	1,945,643	(1,945,643)	-
Total Public Support and Revenue	8,714,605	(321,418)	8,393,187
Expenses:			
Program Services	1,160,589	-	1,160,589
Supporting Services:			
Management and general	938,444	-	938,444
Fundraising	846,953	-	846,953
Total Supporting Services	1,785,397	-	1,785,397
Total Expenses	2,945,986	-	2,945,986
Change in net assets	5,768,619	(321,418)	5,447,201
Net assets, beginning of year	2,629,114	3,052,373	5,681,487
Net assets, end of year	\$ 8,397,733	\$ 2,730,955	\$ 11,128,688

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, 2018 (AS RESTATED)

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Contributions	\$ 2,320,682	\$ 2,840,620	\$ 5,161,302
Grant revenue	1,079,736	-	1,079,736
Other	150,862	-	150,862
Net assets released from restriction	880,368	(880,368)	-
Total Public Support and Revenue	4,431,648	1,960,252	6,391,900
Expenses:			
Program Services	1,270,943	-	1,270,943
Supporting Services:			
Management and general	337,765	-	337,765
Fundraising	1,551,198	-	1,551,198
Total Supporting Services	1,888,963	-	1,888,963
Total Expenses	3,159,906	-	3,159,906
Change in net assets	1,271,742	1,960,252	3,231,994
Net assets, beginning of year	1,357,372	1,092,121	2,449,493
Net assets, end of year	\$ 2,629,114	\$ 3,052,373	\$ 5,681,487

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, 2019

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries and related expenses	\$ 345,581	\$ 519,998	\$ 359,197	\$ 1,224,776
Professional fees	554,101	236,491	141,080	931,672
Travel, meals, and entertainment	120,461	40,499	53,479	214,439
General and administrative	60,562	76,556	83,778	220,896
Bad debt expense	-	-	105,990	105,990
Rent	23,839	24,112	22,759	70,710
Telephone and technology	11,168	12,019	33,440	56,627
Program	18,539	5,812	31,706	56,057
Depreciation and amortization	21,329	1,855	-	23,184
Advertising	1,159	17,951	1,930	21,040
Gifts and acknowledgements	178	387	10,646	11,211
Insurance	3,648	948	948	5,544
Fundraising supplies and meals	-	1,800	2,000	3,800
Interest expense	24	16	-	40
Total Expenses	<u>\$ 1,160,589</u>	<u>\$ 938,444</u>	<u>\$ 846,953</u>	<u>\$ 2,945,986</u>

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018 (AS RESTATED)

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Professional fees	\$ 686,778	\$ 38,724	\$ 301,036	\$ 1,026,538
Bad debt expense	-	-	773,086	773,086
Salaries and related expenses	341,630	199,731	235,901	777,262
Travel, meals, and entertainment	53,438	31,349	121,884	206,671
General and administrative	59,077	45,858	43,606	148,541
Program	45,843	3,168	30,923	79,934
Rent	38,314	9,386	14,044	61,744
Telephone and technology	27,257	4,440	10,223	41,920
Depreciation and amortization	16,211	1,386	-	17,597
Fundraising supplies and meals	-	-	16,369	16,369
Advertising	111	3,247	3,078	6,436
Insurance	2,247	476	1,048	3,771
Interest expense	37	-	-	37
Total Expenses	<u>\$ 1,270,943</u>	<u>\$ 337,765</u>	<u>\$ 1,551,198</u>	<u>\$ 3,159,906</u>

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	(As Restated) 2018
Cash flows from operating activities:		
Change in net assets	\$ 5,447,201	\$ 3,231,994
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization expense	23,184	17,597
Bad debts expense	105,990	773,086
Contributions receivable restricted for long term assets	(2,255,885)	(3,081,480)
Change in beneficial interest in assets	(320,966)	(26,395)
Changes in operating assets and liabilities:		
Accounts receivable	-	28,211
Grants receivable	(596,508)	(177,534)
Prepaid expenses	4,511	9,237
Accounts payable	643,678	7,330
Accrued liabilities	-	(4,400)
Deferred revenue	1,000,000	-
Net cash provided by operating activities	<u>4,051,205</u>	<u>777,646</u>
Cash flows from investing activities:		
Purchases of property and equipment	(18,669)	-
Purchases of intangible assets	(52,800)	-
Investments in project development	(4,436,863)	(691,978)
Net cash used in investing activities	<u>(4,508,332)</u>	<u>(691,978)</u>
Cash flows from financing activities:		
Proceeds from contributions receivable for long-term assets	2,471,313	348,142
Net cash provided by financing activities	<u>2,471,313</u>	<u>348,142</u>
Change in cash and cash equivalents	2,014,186	433,810
Cash and cash equivalents, beginning of year	490,250	56,440
Cash and cash equivalents, end of year	<u>\$ 2,504,436</u>	<u>\$ 490,250</u>
Supplemental disclosure:		
Donor deposits directly into the beneficial interest asset	<u>\$ 300,000</u>	<u>\$ -</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, 2019 AND 2018

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”) is a non-profit organization founded in 2001 and located in Nashville, Tennessee. The Organization’s intent is to develop a museum (the “Museum”) that will stand as an international and iconic cultural museum dedicated to the vast contributions African Americans have made in music and its rich influence on art and culture. The museum will be an educational facility, national tourist destination, and economic development engine for Nashville and the state of Tennessee. The museum is currently planned to be located in the new Fifth + Broadway development. Ultimately, the museum will tell the phenomenal story of African American music, both nationally and internationally, including important music history that occurred in Nashville, Tennessee. The Museum is currently expected to open in 2020 (however, see Note 16).

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. Contributions which are restricted for specific programs are reflected as revenues without donor restrictions if these funds are received and spent in the same fiscal year. 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, 2019 and 2018, management continued to concentrate its efforts on general and administrative and fundraising activities in anticipation of continued Museum design and development.

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, 2019 AND 2018

Note 1—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.

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.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

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.

Grant Revenue – Grant revenue from governmental agencies is recognized to the extent qualifying reimbursable expenses are incurred.

Revenue Recognition – Advance ticket sales are recorded as deferred revenue until the period redeemed.

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.

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. During the planning, development, and construction phase of the museum, 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.

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.

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. The 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.

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.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

Change in Accounting Principle – In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented.

Forthcoming Accounting Pronouncements – In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for the year ending June 30, 2021. The Organization is currently evaluating the impact this guidance may have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The standard will be effective for the fiscal year ending June 30, 2020. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In May 2014, the FASB issued 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 ending June 30, 2020. The Organization is currently evaluating the effect of the implementation of this new standard.

In February 2016, the 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 balance sheet 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 income statement. This standard will be effective for the fiscal year ending June 30, 2020. 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 November 13, 2019, when these financial statements were available to be issued. In July 2019, the Organization entered into a gift agreement with a corporation whereby the Organization will receive \$500,000 in five equal installments over five years in exchange for a 10-year naming opportunity after the Museum opens. In August 2019, the Organization received an unconditional promise to give of \$125,000, payable in five annual installments of \$25,000. Additionally, in September 2019, the Organization entered into a gift agreement with a corporation under which the Organization will receive \$100,000, payable in five annual installments of \$20,000 in exchange for a five-year naming rights opportunity.

In July 2019, the Organization amended its contract with the construction manager, to reflect the contract sum to be \$21,663,127 with \$1,000,000 being considered a contingency fund to defray certain contractually allowable costs.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

Except as discussed above, management is not aware of any additional significant events that occurred subsequent to the statement of financial position date but prior to the issuance of this report that would have a material impact on the financial statements.

Note 2—Liquidity and availability

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. 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:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 2,504,436	\$ 490,250
Grants receivable	1,144,731	548,223
Contributions receivable, net	2,730,955	3,052,373
Beneficial interest in assets at		
Community Foundation of Middle Tennessee	347,361	26,395
Total financial assets	6,727,483	4,117,241
Less amounts not available to be used for general expenditures within one year:		
Assets subject to board designation	347,361	26,395
Assets subject to donor restrictions	2,730,955	3,052,373
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,649,167</u>	<u>\$ 1,038,473</u>

The Organization is substantially supported by contributions and grants. 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 3—Contributions receivable

Contributions receivable consist of the following as of June 30:

	2019	2018
Receivable in less than one year	\$ 1,683,518	\$ 1,465,263
Receivable in one to five years	1,176,913	1,723,306
Total contributions receivable	2,860,431	3,188,569
Less allowance for uncollectible contributions receivable	(60,845)	(64,003)
Less discount to net present value (0.83%)	(68,631)	(72,193)
Contributions receivable, net	<u>\$ 2,730,955</u>	<u>\$ 3,052,373</u>

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 3—Contributions receivable (continued)

Approximately 59% and 66% of contributions receivable at June 30, 2019 and 2018, respectively, consists of amounts due from three donors. Cash collected on unrestricted pledges totaled \$2,471,313 and \$348,142 during the years ended June 30, 2019 and 2018, respectively.

In addition to the unconditional contributions receivable summarized above, the Organization has received certain conditional promises to give and/or entered into gift agreements whereby the Organization anticipates receiving \$1,715,500 over the coming 5 years. In conjunction with the individual gift agreements, in certain cases the Organization is obligated to provide naming rights to the donors. These amounts will be recognized when the conditions are met or in accordance with the terms of the naming rights obligations in coming years.

Note 4—Grant revenue

The Organization receives 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 indicates that a maximum of \$10,000,000 in funding may be available for this project. To date, the Organization has recorded revenue of \$7,342,923 under this arrangement.

During the years ended June 30, 2019 and 2018, the Organization recognized revenue of \$3,835,284 and \$605,209, respectively, under this arrangement. Grants receivable from Metro of \$1,144,731 and \$283,924 are recorded as of June 30, 2019 and 2018, respectively, and relate to reimbursable costs. In order to receive remaining amounts available under this arrangement, the Organization is required to obtain other funding or commitments for funding to complete the project. Management is continuing to obtain such additional funding. Total estimated costs of the project are \$60,000,000. This arrangement also indicates that the Organization may be required to return funds if the construction of the project is not commenced by October 2020. The project has incurred development costs but has not begun facility construction. Based on the agreement discussed above, Metro funds will be 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, 2019 and 2018, the Organization recognized revenue of \$1,027,460 and \$402,745 under this arrangement. Grants receivable from the State of \$0- and \$264,299 are recorded as of June 30, 2019 and 2018, respectively, and relate to reimbursable costs.

During the year ended June 30, 2019, the Organization received notification that an additional \$3,000,000 will be available from the State of Tennessee Department of General Services. No amounts under this arrangement have been utilized at June 30, 2019.

The Organization's management has reviewed these receivables for collectability and determined that an allowance for uncollectible amounts is not necessary.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 5—Property and equipment

Property and equipment consists of the following at June 30:

	2019	2018
Furniture and fixtures	\$ 32,279	\$ 13,610
Less accumulated depreciation	(8,970)	(3,780)
Net property and equipment	\$ 23,309	\$ 9,830

Depreciation expense totaled \$5,190 and \$2,168 for the years ended June 30, 2019 and 2018, respectively.

Note 6—Intangible assets

Intangible assets consists of the following at June 30:

	2019	2018
Digital exhibits	\$ 138,800	\$ 86,000
Website development	22,000	22,000
Less accumulated amortization	(48,042)	(30,048)
Net intangible assets	\$ 112,758	\$ 77,952

Amortization expense totaled \$17,994 and \$15,429 for the years ended June 30, 2019 and 2018, respectively.

Note 7—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. It is anticipated that such costs will be considered part of the depreciable asset once the Museum is constructed. Presently, such costs are not depreciated but are subjected to impairment testing on an annual basis.

Note 8—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, 2019 and 2018. The board, however, has designated certain assets to serve as an endowment.

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

JUNE 30, 2019 AND 2018

Note 8—Board designated endowment fund (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 347,361	\$ -	\$ 347,361

Changes in Endowment Net Assets for the fiscal year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 26,395	\$ -	\$ 26,395
Investment return:			
Net appreciation (realized and unrealized)	20,966	-	20,966
Additions	300,000	-	300,000
Endowment net assets, end of year	\$ 347,361	\$ -	\$ 347,361

Endowment Net Asset Composition by Type of Fund as of June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 26,395	\$ -	\$ 26,395

Changes in Endowment Net Assets for the fiscal year ended June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Investment return:			
Net appreciation (realized and unrealized)	-	-	-
Additions	26,395	-	26,395
Endowment net assets, end of year	\$ 26,395	\$ -	\$ 26,395

The endowment assets are held at the Community Foundation of Middle Tennessee (the "Foundation"). (See Note 11.) The Organization does not have a formal investment and spending policy for its endowment assets.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 9—Net assets with donor restrictions

The Organization has received specific contributions for 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:

	2019	2018
Pledges and donations receivable in future years	\$ 2,730,955	\$ 3,052,373

Note 10—Lease arrangement

Effective June 2016, the Organization leased office space under an agreement through June 2018. The Organization entered into a new lease for two years beginning July 2018 that extends through June 2020. Total rent expense under these arrangements during the years ended June 30, 2019 and 2018, was \$70,710 and \$61,744, respectively. Future annual minimum rental payments required under the current lease for fiscal 2020 will be approximately \$100,000.

Note 11—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 Notes 8 and 17.)

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 approximated \$127,000 and \$125,000, at June 30, 2019 and 2018, respectively.

Note 12—Significant concentrations

The Organization received a significant portion of its contributions from three donors during the years ended June 30, 2019 and 2018. Amounts received from such donors totaled \$1,750,000 and \$3,855,000, during the years ended June 30, 2019 and 2018, respectively, which represented approximately 21% and 60%, respectively, of total public support and revenue recognized by the Organization.

The Organization also receives significant funding from Metro and the State of Tennessee (see Note 4).

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 13—Related party transactions

Contributions from board members, whether made by the board members or their respective employers, totaled \$83,666 and \$3,535,000 for the years ended June 30, 2019 and 2018, respectively. Contributions receivable from board members or their respective employers totaled \$1,055,361 and \$2,591,620 for the years ended June 30, 2019 and 2018, respectively, and is included in contributions receivable in the accompanying statements of financial position.

Note 14—Contracts

During August 2018, the Organization entered into an agreement with a third party for media design services. That contract was amended in April 2019 to include media software development and production installation with total costs expected to approximate \$3,020,000.

In January 2019, the Organization's construction management company signed a letter of intent indicating a desire for the Organization to enter into an agreement with a model design company for services related to the fabrication and installment of certain exhibits, with a budgeted cost of approximately \$8,500,000.

The Organization has entered into various other professional service contracts relating to the development of its planned museum. Such contracts, as well as the media design and model design contracts previously described, are generally cancellable by either party upon adequate notice as described in the contracts.

Note 15—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, 2019 and 2018 totaled \$35,642 and \$678, respectively.

Note 16—Uncertainties

As discussed in Notes 1, 4, and 7, the Organization exists to develop a museum dedicated to the vast contributions African Americans have made in music and to the related rich history of art and culture. The Museum is currently estimated to cost approximately \$60,000,000. Presently, the Organization has incurred development costs funded by both private and public sectors. The Organization has incurred development costs but has not commenced construction of the actual museum building pending additional funding. The fulfillment of the Organization's mission is dependent on obtaining additional funding, meeting related donor requirements, including timing of construction, and constructing a museum facility. Management is continuing to pursue firm commitments from both potential donors who have previously expressed interest to give and from new donors. Presently, the ultimate outcome of these matters is uncertain. If the Organization is unable to obtain commitments and construct the Museum, the Organization may be required to return certain grant revenue, as explained in Note 4.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 17—Restatement

During the year ended June 30, 2019, the Organization determined that it had incorrectly accounted for contributions receivable at June 30, 2018 since certain cash receipts should have reduced the contributions receivable at that date. Further, the Organization determined that a beneficial interest in asset at the Foundation had not been recorded. As a result, the financial statements as of and for the year ended June 30, 2018 have been restated as follows:

Line Item	As Originally Reported	As Restated	Change
Contributions receivable	\$ 4,068,373	\$ 3,052,373	\$ (1,016,000)
Beneficial interest in assets at Community Foundation of Middle Tennessee	-	26,395	26,395
Contributions	6,203,907	5,161,302	(1,042,605)
Bad debt expense	826,086	773,086	(53,000)
Change in net assets	4,221,599	3,231,994	(989,605)
Net assets with donor restrictions, June 30, 2018	4,068,373	3,052,373	(1,016,000)
Net assets without donor restrictions, June 30, 2018	2,602,719	2,629,114	26,395