

**THE NATIONAL MUSEUM OF AFRICAN
AMERICAN MUSIC**

FINANCIAL STATEMENTS

June 30, 2016

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
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 statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, 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 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, 2016, 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.

Frasier, Dean Howard, PLLC

December 22, 2016, except for
Notes 4 and 15 for which the date is
February 21, 2017

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS

Current assets:	
Cash and cash equivalents	\$ 161,092
Grants receivable	149,227
Contributions receivable	<u>203,862</u>
Total current assets	<u>514,181</u>
Non-current assets:	
Contributions receivable, net	381,231
Investments	43,021
Property and equipment, net	3,746
Digital exhibits, net	84,976
Artifacts	60,741
Project development costs	<u>451,672</u>
Total non-current assets	<u>1,025,387</u>
Total assets	<u><u>\$ 1,539,568</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 243,970
Accrued liabilities	<u>13,342</u>
Total current liabilities	<u>257,312</u>
Net assets:	
Unrestricted	664,469
Temporarily restricted	<u>617,787</u>
Total net assets	<u>1,282,256</u>
Total liabilities and net assets	<u><u>\$ 1,539,568</u></u>

See accompanying notes.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 489,399	\$ 161,350	\$ 650,749
Grant revenue	887,442	-	887,442
In-kind contributions	48,339	-	48,339
Special events	32,451	-	32,451
Other	11,661	-	11,661
Net assets released from restriction	191,223	(191,223)	-
	<u>1,660,515</u>	<u>(29,873)</u>	<u>1,630,642</u>
 Expenses:			
Program services:			
Construction development	596,002	-	596,002
Other programs	113,081	-	113,081
	<u>709,083</u>	<u>-</u>	<u>709,083</u>
 Supporting services:			
Management and general	278,746	-	278,746
Fundraising	608,536	-	608,536
	<u>887,282</u>	<u>-</u>	<u>887,282</u>
 Total expenses	<u>1,596,365</u>	<u>-</u>	<u>1,596,365</u>
 Change in net assets	64,150	(29,873)	34,277
 Net assets - beginning of year	<u>600,319</u>	<u>647,660</u>	<u>1,247,979</u>
 Net assets - end of year	<u><u>\$ 664,469</u></u>	<u><u>\$ 617,787</u></u>	<u><u>\$ 1,282,256</u></u>

See accompanying notes.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	<u>Program Services</u>		<u>Supporting Services</u>		
	<u>Construction</u>	<u>Other</u>	<u>Management</u>	<u>Fund-</u>	
	<u>Development</u>	<u>Programs</u>	<u>and General</u>	<u>raising</u>	<u>Total</u>
Professional fees	\$ 442,165	\$ 20,618	\$ 62,712	\$ 326,605	\$ 852,100
Salaries and related expenses	122,907	73,525	119,395	100,331	416,158
Fundraising	-	-	-	93,417	93,417
Travel, meals					
and entertainment	29,546	3,431	11,388	30,673	75,038
General and administrative	617	320	33,371	22,552	56,860
Bad debt expense	-	-	-	31,600	31,600
Rent	-	-	28,442	-	28,442
Telephone and technology	-	-	17,187	-	17,187
Program	-	14,163	-	2,450	16,613
Employee benefits	767	-	2,630	-	3,397
Insurance	-	-	2,710	-	2,710
Depreciation and amortization	-	1,024	450	-	1,474
Advertising	-	-	-	908	908
Gifts and acknowledgments	-	-	461	-	461
Total expenses	<u>\$ 596,002</u>	<u>\$ 113,081</u>	<u>\$ 278,746</u>	<u>\$ 608,536</u>	<u>\$ 1,596,365</u>

See accompanying notes.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Change in net assets	\$ 34,277
Depreciation and amortization expense	1,474
Unrealized gain on investments	(2,214)
Contribution of investments	(40,159)
Changes in operating assets and liabilities:	
Grants receivable	54,441
Other receivables	23,660
Contributions receivable	38,907
Accounts payable	165,837
Accrued liabilities	13,342
	<hr/>
Net cash provided by operating activities	289,565
	<hr/>
Cash flows from investing activities:	
Purchases of property and equipment	(4,196)
Purchases of digital exhibits	(86,000)
Purchases of artifacts	(40,741)
Purchase of investments	(648)
Investments in project development	(233,048)
	<hr/>
Net cash used in investing activities	(364,633)
	<hr/>
Net decrease in cash and cash equivalents	(75,068)
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Cash and cash equivalents - beginning of year	236,160
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Cash and cash equivalents - end of year	\$ 161,092
	<hr/>
Noncash investing activities:	
Contribution of investments	\$ 40,159
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See accompanying notes.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – 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 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.

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. 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:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization 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. Contributions which are restricted for specific programs are reflected as unrestricted revenue if these funds are received and spent during the same fiscal year.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned for unrestricted purposes. The Organization had no permanently restricted net assets at June 30, 2016.

Income Taxes

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

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Organization follows Financial Accounting Standards Board Accounting Standards Codification (“FASB 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 fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended June 30, 2013 through June 30, 2016.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, 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. Cash balances are federally insured at June 30, 2016.

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 FINANCIAL STATEMENTS (Continued)
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable (Continued)

The Organization uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Investments

Investments held by the Organization at June 30, 2016 consist of mutual funds. Mutual funds are carried as fair value. See further discussion of fair value measurements in Note 2.

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 market value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful life of the assets.

Digital Exhibits

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. The exhibit was published on the web for public access in June 2016.

Artifacts

Artifacts consisting of museum collections purchased are recorded at cost to the Organization and are generally not depreciated as such items will be preserved and held in furtherance of public service.

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. In-kind contributions of marketing, public relations, rent, and other services valued at \$48,339 have been reflected within the statement of activities for the year ended June 30, 2016.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of 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. During the year ended June 30, 2016, management continued to concentrate its efforts on general and administrative and fundraising activities in anticipation of museum design and development.

Subsequent Events

The Organization evaluated subsequent events through December 22, 2016, when these financial statements were available to be issued. Except as described in Note 15, Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 2 – FAIR VALUE MEASUREMENTS

The Organization has adopted the Fair Value Measurement topic of the FASB ASC, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

- | | |
|---------|---|
| Level 1 | inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. |
| Level 2 | inputs to the valuation methodology include: 1) quoted prices for similar assets or liabilities in active markets, 2) quoted prices for identical or similar assets or liabilities in inactive markets, 3) inputs other than quoted prices that are observable for the asset or liability, and 4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. |
| Level 3 | inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2016

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in methodologies used at June 30, 2016. A description of the valuation methodologies used for assets measured at fair value is as follows:

Mutual funds: Valued at the net asset value of shares held by the Organization at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2016:

	Fair Value (Level 1)
Mutual funds	<u>\$ 43,021</u>
	<u>\$ 43,021</u>

Investment income (loss), net, consists of the following for the year ended June 30, 2016:

Interest and dividend income	\$ 648
Unrealized gain on investments	<u>2,214</u>
	<u>\$ 2,862</u>

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following as of June 30, 2016:

Receivable in less than one year	\$ 203,862
Receivable in one to five years	<u>436,859</u>
Total contributions receivable	640,721
Less allowance for uncollectible contributions receivable	(27,875)
Less discount to net present value (3.25%)	<u>(27,753)</u>
Contributions receivable, net	<u>\$ 585,093</u>

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2016

NOTE 3 – CONTRIBUTIONS RECEIVABLE (Continued)

Approximately 33% of contributions receivable at June 30, 2016 consists of amounts due from three donors. Cash collected on unrestricted pledges totaled \$134,453 during the year ended June 30, 2016.

NOTE 4 – GRANTS 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.

During the year ended June 30, 2016, the Organization recognized revenue of \$887,442 under this arrangement. Grants receivable from Metro of \$149,227 are recorded as of June 30, 2016 and relate to reimbursable costs. In order to receive additional funding 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 is \$45,000,000.

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.

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

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2016:

Furniture and fixtures	\$ 4,196
Less: accumulated depreciation	<u>(450)</u>
Net property and equipment	<u><u>\$ 3,746</u></u>

Depreciation expense totaled \$450 for the year ended June 30, 2016.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2016

NOTE 6 – DIGITAL EXHIBITS

Digital exhibits consists of the following at June 30, 2016:

Rivers of Rhythm	\$ 86,000
Less: accumulated amortization	<u>(1,024)</u>
Net digital exhibits	<u>\$ 84,976</u>

Amortization expense totaled \$1,024 for the year ended June 30, 2016.

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 market 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 – TEMPORARILY RESTRICTED NET ASSETS

The Organization has received specific contributions for expenses associated with its mission. These contributions are classified as temporarily restricted net assets until the restricted purpose has been fulfilled.

Temporarily restricted net assets are available as follows at June 30, 2016:

Pledges and donations receivable	\$ 585,093
Functional needs	<u>32,694</u>
	<u>\$ 617,787</u>

NOTE 9 – LEASE ARRANGEMENTS

During 2016, the Organization leased office space under an agreement that expired in December 2015, but was extended on a month to month basis through May 2016. Effective June 2016, the Organization entered into a new office space lease through June 2018. Total rent expense under these arrangements during the year ended June 30, 2016 was \$28,442, with \$12,314 of such amount considered contributed rent. Future annual minimum rental payments required for each of the two years under the lease will be approximately \$44,000.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2016

NOTE 10 – COMMUNITY FOUNDATION OF MIDDLE TENNESSEE

The Community Foundation of Middle Tennessee (the “Foundation”) maintains investments on behalf of the Organization. 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. The balance of the endowment funds held for the benefit of the Organization approximated \$125,000 at June 30, 2016. Approximately \$100,000 of such funds is subject to certain stipulations relating to the Organization’s mission and timing of distributions.

NOTE 11 – 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 \$45,000,000. Presently, the Organization has incurred development costs funded by both private and public sectors. The Organization has not commenced construction of the actual museum building pending additional funding, among other items. 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.

NOTE 12 – SIGNIFICANT CONCENTRATIONS

The Organization received a significant portion of its contributions from two donors during the year ended June 30, 2016. Amounts received from such donors totaled \$350,500, which represented approximately 21% of total public support and revenue recognized by the Organization.

The Organization also receives significant funding from Metro. See Note 4.

NOTE 13 – RELATED PARTY TRANSACTIONS

Contributions from board members, whether made by the board members or their respective employers, totaled \$383,295 for the year ended June 30, 2016. Contributions receivable from board members totaled \$18,775 and is included in contributions receivable at June 30, 2016. Contributions from employees and contractors totaled \$6,128 for the year ended June 30, 2016. Contributions receivable due from employees and contractors totaled \$18,000 at June 30, 2016.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2016

NOTE 14 – PROFESSIONAL SERVICES CONTRACTS

The Organization has entered into various professional service contract relating to the development of its planned museum. Such contracts are generally cancellable by either party upon adequate notice as described in the contracts.

NOTE 15 – SUBSEQUENT EVENT

Subsequent to June 30, 2016, 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 expires October 31, 2017.

The Organization also entered into certain amendments relating to its agreement with Metro (Note 4).