

**THE NATIONAL MUSEUM OF AFRICAN
AMERICAN MUSIC
(FORMERLY THE AFRICAN AMERICAN
HISTORY FOUNDATION OF NASHVILLE, INC.)**

FINANCIAL STATEMENTS

June 30, 2013

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
(FORMERLY THE AFRICAN AMERICAN HISTORY FOUNDATION
OF NASHVILLE, INC.)**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
The National Museum of African American Music
(formerly The African American History Foundation of Nashville, Inc.)
Nashville, Tennessee

We have audited the accompanying financial statements of The National Museum of African American Music (formerly The African American History Foundation of Nashville, Inc.) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, 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 (formerly The African American History Foundation of Nashville, Inc.), as of June 30, 2013, 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.

Fraser, Dean + Howard, PLLC

December 18, 2013

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
(FORMERLY THE AFRICAN AMERICAN HISTORY
FOUNDATION OF NASHVILLE, INC.)
STATEMENT OF FINANCIAL POSITION
June 30, 2013**

ASSETS

| | |
|---------------------------|----------------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 361,753 |
| Certificate of deposit | 267,307 |
| Grant receivable | <u>34,518</u> |
| Total current assets | 663,578 |
| Project development costs | <u>1,557,279</u> |
| Total assets | <u><u>\$ 2,220,857</u></u> |

LIABILITIES AND NET ASSETS

| | |
|----------------------------------|----------------------------|
| Liabilities: | |
| Accounts payable | <u>\$ 25,024</u> |
| Total liabilities | <u>25,024</u> |
| Net assets: | |
| Unrestricted | 1,695,833 |
| Temporarily restricted | <u>500,000</u> |
| Total net assets | <u>2,195,833</u> |
| Total liabilities and net assets | <u><u>\$ 2,220,857</u></u> |

See accompanying notes.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
(FORMERLY THE AFRICAN AMERICAN HISTORY
FOUNDATION OF NASHVILLE, INC.)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|----------------------------|-----------------------------------|----------------------------|
| Public support and revenue: | | | |
| Contributions | \$ 557,173 | \$ - | \$ 557,173 |
| Grant revenue | 109,889 | - | 109,889 |
| In-kind contributions | 21,750 | - | 21,750 |
| Other | 4,967 | - | 4,967 |
| Net assets released from restrictions | - | - | - |
| | <u>693,779</u> | <u>-</u> | <u>693,779</u> |
| Expenses: | | | |
| Program services: | | | |
| Construction development | 22,964 | - | 22,964 |
| Other programs | 51,002 | - | 51,002 |
| | <u>73,966</u> | <u>-</u> | <u>73,966</u> |
| Supporting services: | | | |
| Management and general | 89,290 | - | 89,290 |
| Fundraising | 168,139 | - | 168,139 |
| | <u>257,429</u> | <u>-</u> | <u>257,429</u> |
| | <u>331,395</u> | <u>-</u> | <u>331,395</u> |
| Change in net assets | 362,384 | - | 362,384 |
| Net assets - beginning of year | <u>1,333,449</u> | <u>500,000</u> | <u>1,833,449</u> |
| Net assets - end of year | <u><u>\$ 1,695,833</u></u> | <u><u>\$ 500,000</u></u> | <u><u>\$ 2,195,833</u></u> |

See accompanying notes.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
(FORMERLY THE AFRICAN AMERICAN HISTORY
FOUNDATION OF NASHVILLE, INC.)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2013**

| | <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> |
| Expenses: | | | | | |
| Salaries and related expenses | \$ 22,876 | \$ 51,002 | \$ 45,668 | \$ 76,554 | \$ 196,100 |
| Professional fees | - | - | 12,000 | 85,131 | 97,131 |
| General and administrative | - | - | 13,102 | - | 13,102 |
| Rent | - | - | 10,000 | - | 10,000 |
| Travel, meals and entertainment | 88 | - | 1,414 | 6,317 | 7,819 |
| Insurance | - | - | 2,339 | - | 2,339 |
| Telephone and technology | - | - | 2,216 | 37 | 2,253 |
| Employee benefits | - | - | 1,801 | - | 1,801 |
| Gifts and acknowledgments | - | - | 750 | 100 | 850 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total expenses | <u>\$ 22,964</u> | <u>\$ 51,002</u> | <u>\$ 89,290</u> | <u>\$ 168,139</u> | <u>\$ 331,395</u> |

See accompanying notes.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
(FORMERLY THE AFRICAN AMERICAN HISTORY
FOUNDATION OF NASHVILLE, INC.)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013**

| | |
|--|--------------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ 362,384 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Certificate of deposit interest reinvested | (4,754) |
| Changes in operating assets and liabilities: | |
| Grants receivable | (34,518) |
| Accounts payable | <u>10,421</u> |
| Net cash provided by operating activities | <u>333,533</u> |
| Cash flows from investing activities: | |
| Investments in project development | <u>(71,990)</u> |
| Net cash used in investing activities | <u>(71,990)</u> |
| Net increase in cash and cash equivalents | 261,543 |
| Cash and cash equivalents - beginning of year | <u>100,210</u> |
| Cash and cash equivalents - end of year | <u><u>\$ 361,753</u></u> |

See accompanying notes.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
(FORMERLY THE AFRICAN AMERICAN HISTORY
FOUNDATION OF NASHVILLE, INC.)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Nature of Activities

The National Museum of African American Music (formerly The African American History Foundation of Nashville, Inc.) (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. 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, 2013.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
(FORMERLY THE AFRICAN AMERICAN HISTORY
FOUNDATION OF NASHVILLE, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2010 through June 30, 2013.

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 3 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 exceed federally insured limits at June 30, 2013 by approximately \$85,800.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
(FORMERLY THE AFRICAN AMERICAN HISTORY
FOUNDATION OF NASHVILLE, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certificate of Deposit

The Organization maintains a certificate of deposit at a financial institution. Interest earnings are reinvested annually when the certificate renews at maturity, generally in January of each year.

Contributed Services

Contributed services are reflected in the financial statements at the 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 and professional relations services valued at \$21,750 have been reflected within the statement of activities for the year ended June 30, 2013.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based upon the estimates of management. During the year ended June 30, 2013, 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 18, 2013, when these financial statements were available to be issued. Other than described in Note 8, 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 – GRANT REVENUE

The Organization receives reimbursement under a grant agreement with the Tennessee Department of Finance and Administration for certain costs incurred in master planning, project management, architectural design and development of the museum. Amounts received under this grant agreement during the year ended June 30, 2013 totaled \$27,809. The grant agreement, which began September 1, 2007, allows for a total of \$500,000 to be reimbursed to the Organization. As of June 30, 2013, all amounts available under this arrangement have been utilized.

The Organization also receives funding for the design and development of the museum under an arrangement with the Industrial Development Board of the Metropolitan Government of Nashville

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
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NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2013**

NOTE 2 – GRANT REVENUE (Continued)

and Davidson County, Tennessee (“Metro”), dated December 1, 2008. This arrangement indicates that a maximum of \$10,000,000 in funding may be available for this project. During the year ended June 30, 2013, the Organization recognized revenue of \$82,080 under this arrangement. Grants receivable of \$34,518 is recorded as of June 30, 2013 related 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. Sufficient commitments to complete the project have not yet been obtained. This arrangement also indicates that the Organization may be required to return funds if the construction of the project is not commenced by October 2009. The project has incurred development costs but has not begun actual facility construction. Presently, it is uncertain to what extent future Metro funds will be released to the Organization and the timing of such funding, or if the Organization will be required to return any amounts to Metro. As of the issue date of this report, the Organization has entered into discussions with Metro to secure the release of the balance of grant funds as continuing development costs are incurred.

NOTE 3 – CONCENTRATIONS

The Organization receives a significant amount of its public support and revenue from government grants. The Organization also received contributions during fiscal 2013 from a donor representing 79% of total public support and revenue. This donor is a member of the Organization’s Board of Directors. A significant reduction in the level of this support, if this were to occur, could have an adverse impact on the Organization’s programs and services.

NOTE 4 – 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 and will begin being depreciated at that time. However, there is a possibility that all or a portion of these capitalized assets may be expensed in the future if the museum construction plans are significantly altered or deemed not of future benefit.

NOTE 5 – LEASE ARRANGEMENTS

In 2004, the Organization began leasing land at the corner of Jefferson Street and Eighth Avenue North in Nashville from the State of Tennessee for the purposes of constructing, maintaining and operating a museum facility thereon. No monetary rent is paid under this arrangement. The initial term of the lease extended through October 2009 and included an option to purchase the land for a minimal amount. This lease arrangement has been extended at various times and now extends

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
(FORMERLY THE AFRICAN AMERICAN HISTORY
FOUNDATION OF NASHVILLE, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2013**

NOTE 5 – LEASE ARRANGEMENTS (Continued)

through October 2014. It is anticipated that the State will convey this land to the Organization by quitclaim deed unless the Organization does not break ground to commence construction of the museum on or before October 31, 2014, at which time the lease will be terminated, unless renewed prior to October 31, 2014, and the land will revert to the State.

The Organization leases office space under an agreement that expires in December 2013. Total rent payments under this arrangement were \$10,000 for the year ended June 30, 2013.

NOTE 6 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2013:

| | |
|---|------------|
| Funds restricted for construction of the museum | \$ 500,000 |
|---|------------|

NOTE 7 – 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 fund held for the benefit of the Organization approximated \$23,300 at June 30, 2013.

NOTE 8 – SUBSEQUENT EVENT

Subsequent to June 30, 2013, the Organization received notification that the purpose restriction placed on a donation totaling \$500,000 received in previous years had been released.

NOTE 9 – UNCERTAINTIES

As discussed in Notes 1, 2, 3 and 4, 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 between \$20,000,000 and \$25,000,000. 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. 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.