

# **NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**

## **FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

***As of and for the Year Ended June 30, 2022***

***And Report of Independent Auditor***

**NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
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# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF

*JUNE 30, 2022*

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### **Board of Directors**

Stacey Garrett Koju	Chair
Bret Babcock	Board Member
LaDonna Boyd	Board Member
Tom Curtis	Board Member
Robert Fisher	Board Member
Vince Gill	Board Member
Jeff Harleston	Board Member
Monique Idlett-Mosley	Board Member
Pat Kerr Tigrett	Board Member
Connie Kinnard	Board Member
Kevin Lavender	Board Member
Jerry Maynard	Board Member
Sherri Neal	Board Member
Dene Oliver	Board Member
Jon Platt	Board Member
Dasha Smith	Board Member
Marie Sueing	Board Member
Brett Sweet	Board Member
Phil Thornton	Board Member
Dyana Williams	Board Member

### **Executive Staff**

Henry Hicks III	President and Chief Executive Officer
Dion Brown	Chief Operating Officer
James Munch	VP of Finance
Bill Jeffries	VP of Development
Laura Purswell	VP of Talent

## Report of Independent Auditor

To the Board of Directors  
National Museum of African American Music  
Nashville, Tennessee

### Opinion

We have audited the accompanying statement of financial position of the National Museum of African American Music (a nonprofit organization) ("NMAAM"), as of June 30, 2022, and we were engaged to audit the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the statement of financial position referred to above presents fairly, the financial position of NMAAM as of June 30, 2022 in accordance with accounting principles generally accepted in the United States of America.

### Disclaimer of Opinion on Statements of Activities, Functional Expenses, and Cash Flows

We do not express an opinion on the statements of activities, functional expenses, and cash flows of NMAAM for the year ended June 30, 2022. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of activities, functional expenses, and cash flows for the year ended June 30, 2022.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of NMAAM and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the statement of financial position.

### Basis for Disclaimer of Opinion on Statements of Activities, Functional Expenses, and Cash Flows

Because of the inadequacies of NMAAM's accounting records, we were unable to form an opinion regarding the classification of amounts recorded as support and revenue and expenses in the accompanying statements of activities, functional expenses and cash flows for the year ended June 30, 2022.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NMAAM's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NMAAM's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NMAAM's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Information**

The Roster of Board of Directors and Executive Staff on page 1, which is the responsibility of management, is of a nonaccounting nature and has not been subjected to the audit procedures applied in the audit of the financial statements. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2023, on our consideration of NMAAM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NMAAM's internal control over financial reporting and compliance.

*Cherry Bekaert LLP*

Nashville, Tennessee  
January 23, 2023

**NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**STATEMENT OF FINANCIAL POSITION**

*JUNE 30, 2022*

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 1,545,325
Accounts receivable	237,805
Contributions receivable, net	1,838,697
Inventory and other assets	176,495
Total Current Assets	<u>3,798,322</u>

Noncurrent Assets:

Contributions receivable, net	1,204,292
Beneficial interest in assets at Community Foundation of Middle Tennessee	344,113
Property and equipment, net	386,210
Intangible assets, net	152,142
Project development costs, net	32,632,887
Total Noncurrent Assets	<u>34,719,644</u>
<b>Total Assets</b>	<u><u>\$ 38,517,966</u></u>

**LIABILITIES AND NET ASSETS**

Current Liabilities:

Accounts payable and accrued expenses	\$ 928,649
Capital lease obligation, net	67,855
Deferred revenue - memberships	60,034
Line of credit	227,526
Total Current Liabilities	<u>1,284,064</u>

Noncurrent Liabilities:

Capital lease obligation	175,095
Deferred revenue - advance ticket purchases	819,200
Construction loan payable	12,192,000
Total Noncurrent Liabilities	<u>13,186,295</u>
Total Liabilities	<u>14,470,359</u>

Net Assets:

Without Donor Restrictions:	
Undesignated	20,660,505
Board-designated endowment	344,113
Total Without Donor Restrictions	21,004,618
With Donor Restrictions	3,042,989
Total Net Assets	<u>24,047,607</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 38,517,966</u></u>

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

**NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**STATEMENT OF ACTIVITIES**

*YEAR ENDED JUNE 30, 2022*

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Public Support and Revenue:			
Contributions	\$ 3,053,995	\$ 1,696,125	\$ 4,750,120
Admissions, net	2,306,202	-	2,306,202
Grants	1,594,501	-	1,594,501
Gift shop revenue	896,136	-	896,136
Other	583,920	-	583,920
Memberships	235,163	-	235,163
Events	419,406	-	419,406
Advertising revenue	309,401	-	309,401
Sponsorships	15,000	-	15,000
Net assets released from restriction	4,521,866	(4,521,866)	-
Total Public Support and Revenue	13,935,590	(2,825,741)	11,109,849
Expenses:			
Program Services	2,932,203	-	2,932,203
Supporting Services:			
Management and general	6,270,765	-	6,270,765
Fundraising	1,487,929	-	1,487,929
Total Supporting Services	7,758,694	-	7,758,694
Total Expenses	10,690,897	-	10,690,897
Change in net assets	3,244,693	(2,825,741)	418,952
Net assets, beginning of year	17,759,925	5,868,730	23,628,655
Net assets, end of year	\$ 21,004,618	\$ 3,042,989	\$ 24,047,607

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



**NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**STATEMENT OF FUNCTIONAL EXPENSES**

*YEAR ENDED JUNE 30, 2022*

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>Management and General</b>	<b>Fundraising</b>	
Salaries and related expenses	\$ 771,943	\$ 1,909,533	\$ 374,154	\$ 3,055,630
Depreciation and amortization	340,405	1,315,614	677,531	2,333,550
Professional fees	549,873	978,325	132,037	1,660,235
Occupancy	240,493	783,101	63,992	1,087,586
General and administrative	126,780	552,462	33,827	713,069
Interest expense	151,308	449,334	103,882	704,524
Advertising	447,494	32,839	1,187	481,520
Cost of merchandise sales	228,804	-	-	228,804
Telephone and technology	43,770	131,342	14,927	190,039
Travel, meals, and entertainment	28,824	74,875	8,055	111,754
Bad debt expense	-	-	77,501	77,501
Insurance	2,509	35,216	836	38,561
Gifts and acknowledgements	-	8,124	-	8,124
Total Expenses	<u>\$ 2,932,203</u>	<u>\$ 6,270,765</u>	<u>\$ 1,487,929</u>	<u>\$ 10,690,897</u>

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

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022

### Cash flows from operating activities:

Change in net assets	\$ 418,952
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization expense	2,333,550
Loss on disposal of assets	23,500
Bad debts expense	77,501
Contributions receivable restricted for long-term assets	(2,268,600)
Change in beneficial interest in assets	63,996
Changes in operating assets and liabilities:	
Accounts receivable	106,792
Prepaid expenses and other assets	(165,995)
Accounts payable and accrued expenses	(2,830,794)
Deferred revenue - membership	(96,075)
Deferred grant revenue	(231,870)
Deferred revenue - advance ticket sales	(159,350)
Net cash flows from operating activities	<u>(2,728,393)</u>

### Cash flows from investing activities:

Purchases of property and equipment	(39,173)
Investments in project development	<u>(38,864)</u>
Net cash flows from investing activities	<u>(78,037)</u>

### Cash flows from financing activities:

Payments on construction loan payable	(1,420,500)
Payments on line of credit, net	(223,234)
Proceeds from contributions receivable for long-term assets	5,016,840
Payments on capital lease obligations	<u>(70,439)</u>
Net cash flows from financing activities	<u>3,302,667</u>

Change in cash and cash equivalents	496,237
Cash and cash equivalents, beginning of year	<u>1,049,088</u>
Cash and cash equivalents, end of year	<u>\$ 1,545,325</u>

### Supplemental disclosure:

Interest paid	<u>\$ 704,524</u>
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The accompanying notes to the financial statements are an integral part of these statements.

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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### **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 (“NMAAM” or the “Museum”) is a non-profit organization founded in 2001 and located in Nashville, Tennessee. NMAAM’s purpose is for the Museum to be the premier global destination for music lovers of all generations and inspires, educates, and transforms your appreciation of American music. The Museum is located in the new Fifth + Broadway development under a lease arrangement, generally with no rent under an arrangement with the Metropolitan Government of Nashville and Davidson County, Tennessee (“Metro”), the Metro Industrial Development Board and the Project Developer. The Museum opened in the first quarter of 2021.

*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 NMAAM. These net assets may be used at the discretion of NMAAM’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 NMAAM or by the passage of time. 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.

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

*Program Services* – Includes all activities dedicated to the operations, 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.

*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.

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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

*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* – NMAAM is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (“IRC”), and NMAAM 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.

NMAAM 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. NMAAM has no tax penalties or interest reported in the accompanying financial statements.

*Cash and Cash Equivalents* – NMAAM 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.

Revenues from non-exchange transactions, primarily contributions, may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied.

*Contributions Receivable* – Contributions are recognized when the donor makes a promise to give to NMAAM 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.

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.

*Property and Equipment* – NMAAM 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 (ranging from 3 to 10 years).

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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

*Intangible Assets* – NMAAM 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. NMAAM'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.

*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. Such costs are considered part of the depreciable asset at the time the Museum construction was completed. Effective with the opening of the Museum, such costs began to be depreciated on a straight-line basis over the estimated useful life of the assets (ranging from 7 to 39 years).

*Artifacts Collection* – In conformity with accounting policies generally followed by art museums, the value of the Museum's collection has been excluded from the statement of financial position, and gifts of art objects are excluded from revenue in the statement of activities. Purchases of artifacts by the Museum are recorded as decreases in net assets in the statement of activities. The collection will be maintained for public exhibition, education, and research in furtherance of public service rather than for financial gain. Proceeds from the disposals of collections are generally recorded as increases in net assets in the statement of activities and used for the care of current collections or the acquisition of new collections.

*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. 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 NMAAM's net asset classification of donor-restricted endowment funds, a description of NMAAM's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of NMAAM'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. Advertising expense totaled \$481,520 for the year ended June 30, 2022.

*Recently Adopted Accounting Pronouncements* – In September 2020, FASB issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. In addition, for each category of contributed nonfinancial assets recognized, certain additional disclosures are required. This standard is effective for the year ending June 30, 2022 and had an immaterial effect on NMAAM's financial statements upon adoption. Generally, NMAAM has not received or recognized the contribution of such donations. When received, such items have been recorded at market value and maintained for use with the public. There have been no donor restrictions placed on such contributions.

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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

*Forthcoming Accounting Pronouncements* – In February 2016, 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 statement of financial position 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 statement of activities. This standard will be effective for the fiscal year ending June 30, 2023. NMAAM is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

*Subsequent Events* – NMAAM evaluated subsequent events through January 23, 2023, when these financial statements were available to be issued. Debt refinancing effective July 2022 is described in Note 10. See also Note 17 for change to gift shop concessionaire agreement subsequent to June 20, 2022.

Additionally, NMAAM received notice of an award dated November 17, 2022 for \$2,500,000 in private grant funding to support certain exhibits and a community engagement initiative to be conducted over five years.

### **Note 2—Revenue recognition**

NMAAM follows FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires entities to recognize revenue in a way that depicts 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. Under ASC 606, revenue is recognized when NMAAM transfers the promised goods or services to a customer in an amount that reflects consideration that is expected to be received for those goods and services.

*Performance Obligations and Revenue Recognition* – A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The contract obligation for admissions is generally satisfied at the time these services are provided or when a good is transferred to the customer. The contract performance obligation for memberships and sponsorship agreements is performed over the membership or contract period.

*Contract Balances* – Timing differences among revenue recognition may result in contract assets or liabilities. Deferred revenue on the accompanying statement of financial position totaled \$879,234 as of June 30, 2022. Deferred revenue represents income from membership dues and advance ticket sales. Membership dues are deferred when received and amortized over the terms of the membership period. Advance ticket sales are recognized when tickets are used. Accounts receivable of \$199,673 at June 30, 2022 represent amounts due from customers related to ticket sales, events, and sign advertising revenue earned prior to year-end.

*Practical Expedients and Exemptions* – There are several practical expedients and exemptions allowed under ASC 606 that impact timing and revenue recognition and disclosures. The one practical expedient NMAAM applied in the adoption and application of ASC 606 allows NMAAM to elect to treat similar contracts as part of a portfolio of contracts. The contracts have the same provision terms and management has the expectation that the result will not be materially different from the consideration of each individual contract.

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

### Note 2—Revenue recognition (continued)

The following table provides information about significant changes in the contract liabilities for the year ended June 30, 2022:

	<b>Membership Dues and Other</b>	<b>Advance Ticket Sales</b>	<b>Total</b>
Deferred revenue, beginning of year	\$ 156,109	\$ 978,550	\$ 1,134,659
Revenue recognized that was included in deferred revenue at beginning of year	(147,108)	(159,350)	(306,458)
Increase in deferred revenue due to cash received during the year	51,033	-	51,033
Deferred revenue, end of year	<u>\$ 60,034</u>	<u>\$ 819,200</u>	<u>\$ 879,234</u>

### Note 3—Liquidity and availability of financial resources

NMAAM 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, NMAAM 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 statement of financial position comprise the following at June 30, 2022:

Financial assets at year-end:	
Cash and cash equivalents	\$ 1,545,325
Accounts receivable	237,805
Contributions receivable, net	3,042,989
Beneficial interest in assets at Community Foundation of Middle Tennessee	<u>344,113</u>
Total financial assets	5,170,232
Less amounts not available to be used for general expenditures within one year:	
Assets subject to board designation	344,113
Assets subject to donor restrictions	<u>3,042,989</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,783,130</u>

NMAAM is substantially supported by contributions. As part of NMAAM's liquidity management, it structures financial assets to be available for general expenditures, and liabilities, and other obligations as they come due.

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

### Note 4—Contributions receivable

Contributions receivable consists of the following as of June 30, 2022:

Receivable in less than one year	\$ 1,838,697
Receivable in one to five years	<u>1,351,383</u>
Total contributions receivable	3,190,080
Less allowance for uncollectible contributions receivable	(60,845)
Less discount to net present value (0.83%)	<u>(86,246)</u>
Contributions receivable, net	<u>\$ 3,042,989</u>

Approximately 58% of contributions receivable at June 30, 2022 consists of amounts due from three donors. Cash collected on contributions receivable totaled \$5,016,840 during the year ended June 30, 2022.

### Note 5—Grant revenue

During fiscal 2020, NMAAM received a Paycheck Protection Program (“PPP”) loan in the amount of \$231,870. The PPP loan is granted by the Small Business Administration (“SBA”) under the Coronavirus Aid Relief, and Economic Security Act (“CARES Act”). PPP loans are considered conditional contributions under ASC 958-605, *Not-for Profit Entities – Revenue Recognition*. The loan must be repaid if NMAAM does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. During the year ended June 30, 2022, NMAAM recognized \$231,870 as grant revenue because the conditions for forgiveness were met and the SBA granted forgiveness of this loan.

During fiscal 2022, NMAAM was awarded a federal grant of \$2,378,996 to assist in executing its programs during the period from July 1, 2021 through December 31, 2024. This cost reimbursement grant will be administered by the state of Tennessee. During the year ended June 30, 2022, NMAAM recognized \$1,340,460 under this arrangement, which is included along with private grants in the grant revenue reflected on the statement of activities.

### Note 6—Property and equipment

Property and equipment consists of the following at June 30, 2022:

Furniture and fixtures	\$ 595,101
Less accumulated depreciation	<u>(208,891)</u>
Net property and equipment	<u>\$ 386,210</u>

Included in property and equipment are certain leased furniture and fixtures. See further discussion of such leases in Note 13.

Depreciation expense totaled \$104,087 for the year ended June 30, 2022.



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

*JUNE 30, 2022*

**Note 7—Intangible assets**

Intangible assets consist of the following at June 30, 2022:

Digital exhibits	\$ 197,641
Website development	22,000
Less accumulated amortization	(67,499)
Net intangible assets	<u>\$ 152,142</u>

Amortization expense totaled \$19,457 for the year ended June 30, 2022.

**Note 8—Project development costs**

Project development costs consist of the following at June 30, 2022:

Museum construction	\$ 23,945,378
Audio visual equipment	8,571,132
Exhibits	3,285,926
Less accumulated depreciation	(3,169,549)
Net project development costs	<u>\$ 32,632,887</u>

Depreciation expense totaled \$2,210,006 for the year ended June 30, 2022.

**Note 9—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 NMAAM 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 NMAAM in a manner consistent with the standard of prudence prescribed by UPMIFA. NMAAM had no donor-restricted gifts to an endowment at June 30, 2022. The Board of Directors, however, has designated certain assets to serve as an endowment.

Endowment net asset composition by type of fund as of June 30, 2022:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board-designated endowment funds	<u>\$ 344,113</u>	<u>\$ -</u>	<u>\$ 344,113</u>

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

*JUNE 30, 2022*

**Note 9—Board-designated endowment fund (continued)**

Changes in endowment net assets for the fiscal year ended June 30, 2022:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 408,109	\$ -	\$ 408,109
Investment return:			
Net depreciation (realized and unrealized)	(63,996)	-	(63,996)
Endowment net assets, end of year	<u>\$ 344,113</u>	<u>\$ -</u>	<u>\$ 344,113</u>

The endowment assets are held at the Community Foundation of Middle Tennessee (the “Foundation”) (see Note 14). NMAAM does not have a formal investment and spending policy for its endowment assets.

**Note 10—Construction loan payable**

During April 2020, NMAAM entered into a revolving credit agreement with a lender that allows for maximum borrowings of \$13,800,000. Each borrowing under this agreement is determined based on a borrowing base calculation that includes unpaid pledges receivable and guarantees of certain individuals and third party entities. Outstanding borrowings accrue interest at 4.25% and are secured by substantially all Organization assets.

Effective July 20, 2022, NMAAM entered into an amended and restated credit agreement with its lender. In connection therewith, the existing revolving credit agreement was converted into three term loans in the amounts of \$4,000,000, \$1,825,000, and \$6,367,000 which generally bear interest at a variable rate, as defined in the credit agreement. One of the term loans is dependent upon a borrowing base calculation which considers outstanding pledges from foundations, corporations, and individuals. The amended and restated credit agreement is secured by substantially all NMAAM's assets and guarantees of certain individuals and third party entities. Additionally, the arrangement contains certain financial covenants as well as financial reporting requirements. Each term loan has a separate maturity date at which time amounts outstanding are required to be paid in full. At June 30 and July 20, 2022, amounts outstanding totaled \$12,192,000.

Future maturities are as follows:

**Years Ending June 30,**

2023	\$ -
2024	4,000,000
2025	-
2026	8,192,000
2027	-
	<u>\$ 12,192,000</u>

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

### Note 11—Line of credit

During November 2020, NMAAM secured an operating line of credit agreement with a separate financial institution that allows for maximum borrowings of \$650,000. The agreement stipulates payment is due on demand. However, if no demand is made, NMAAM will be required to pay the interest (variable rate based on the lender's prime rate plus 1.30%, with a minimum of 4.55%), due monthly, with all outstanding principal and interest due upon maturity in November 2021. During fiscal 2022, the arrangement was modified to allow for maximum borrowings of \$1,000,000 and to extend the terms to January 2023 with the interest rate and payment requirements remaining unchanged. At June 30, 2022, amounts outstanding under the line of credit agreement totaled \$227,526.

### Note 12—Net assets with donor restrictions

NMAAM has received specific contributions for capital costs and 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:

Pledges and donations receivable for specific purposes or in future years	\$ 3,042,989
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### Note 13—Lease arrangements

In 2021, NMAAM entered into certain noncancellable capital leases for office furniture and equipment that extend through September 2025. The assets and liabilities under these capital leases were recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are being depreciated over the shorter of the lease term or their estimated productive lives. For the year ended June 30, 2022, total capital lease payments made under these leases amounted to \$70,439, with related amortization expense of \$70,439 included in depreciation expense in the statement of functional expenses.

Future minimum lease payments required under these lease arrangements are as follows:

#### Years Ending June 30,

2023	\$ 67,855
2024	67,855
2025	67,855
2026	48,849
2027	-
Total future minimum lease payments	252,414
Less interest	(9,464)
	<u>\$ 242,950</u>

The Museum is located in the Fifth + Broadway development under a lease arrangement, generally with no rent, under an arrangement with the Metropolitan Government of Nashville and Davidson County, Tennessee ("Metro"), the Metro Industrial Development Board, and the Project Developer. The lease agreement extends for 20 years with five renewal terms of 10 years each. NMAAM is required to pay common area maintenance costs, initially set at \$3.67 per square foot, totaling approximately \$207,000. Additionally, NMAAM is responsible for certain utilities costs based on actual usage plus certain additional square footage-based rates.

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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### **Note 13—Lease arrangements (continued)**

Fair value of the lease has not been reflected in the accompanying financial statements because objective valuation information is not available due to the unique characteristics and location of the facilities. Accordingly, no contribution or rental expense has been recorded in the financial statements.

### **Note 14—Community Foundation of Middle Tennessee**

The Community Foundation of Middle Tennessee (the “Foundation”) maintains two investment accounts on behalf of NMAAM. NMAAM has recorded a beneficial interest in assets held at the Foundation related to NMAAM’s agency endowment fund (see Note 9).

In addition, the Foundation maintains a donor-advised fund that was established by a donor for the benefit of NMAAM 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 NMAAM is uncertain. Accordingly, the net assets of NMAAM do not include these investments. NMAAM does anticipate receiving periodic investment earnings on its pro-rata share of the Foundation’s assets beginning in 2024.

### **Note 15—Significant concentrations**

NMAAM received a significant portion of its contributions from two donors during the year ended June 30, 2022. Amounts recognized from such donors totaled \$3,000,000 during the year ended June 30, 2022, which represented approximately 63% of total contributions recognized by NMAAM.

During the year ended June 30, 2022, NMAAM also received significant funding under a federal grant (see Note 5). Of the total award of \$2,378,996, NMAAM recognized \$1,340,460 during the year ended June 30, 2022. The award indicates additional funding will be available to cover allowable costs in the amounts of \$686,900 and \$351,636 for fiscal 2023 and 2024, respectively.

### **Note 16—Related party transactions**

Contributions from board members, whether made by the board members or their respective employers, totaled \$1,003,740 for the year ended June 30, 2022. Contributions receivable from board members or their respective employers totaled \$994,605 for the year ended June 30, 2022, and is included in contributions receivable in the accompanying statement of financial position.

NMAAM may, at times, enter into transactions with board members or companies affiliated with board members in the ordinary course of business.

### **Note 17—Agreements**

During January 2020, NMAAM entered into an agreement with a third party to provide a customized radio frequency identification (“RFID”) system consisting of software, equipment, and wrist bands for event management, patron tracking, transaction processing, and data collection. The agreement has an initial term of five years, with subsequent automatic annual renewals. This agreement stipulates set-up costs of \$129,789 plus future purchases of screen printed RFID wristbands totaling \$588,800. These costs are offset by the sale of the wristbands to patrons.

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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### **Note 17—Agreements (continued)**

During December 2020, NMAAM entered into an agreement with a concessionaire for retail management of the gift shop operations at the Museum. This agreement began with the opening of the Museum in January 2021 and extends for three years. Under this agreement, the concessionaire will receive management fees under this agreement of the greater of \$80,000 or 6% of gross receipts per annum, payable in monthly installments. During the second and third contract years, the management fee increases to the greater of \$120,000 or 6% of gross receipts. Certain incentive fees are also stipulated within the agreement if certain metrics are obtained. Under this agreement, the concessionaire is responsible for purchasing inventory and staffing of the gift shop. Costs under this arrangement for the year ended June 30, 2022 totaled approximately \$451,000, which included management fees and operational costs. Subsequent to June 30, 2022, NMAAM gave notice to the concessionaire of intent to terminate the agreement effective December 31, 2022. NMAAM plans to manage the gift shop operations with internal personnel.

### **Note 18—Retirement plan**

NMAAM has a retirement plan covering substantially all 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 year ended June 30, 2022 totaled \$72,963 and is included in salaries and related expenses in the statement of functional expenses.

## **SUPPLEMENTARY INFORMATION**

**NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JUNE 30, 2022

<b>Federal Grantor Pass-Through Grantor</b>	<b>Program Name</b>	<b>Federal Assistance Listing Number</b>	<b>Expenditures</b>
<b>FEDERAL AWARDS</b>			
<u>U.S. Department of Treasury</u> <u><i>passed through State of Tennessee</i></u>			
Tennessee Arts Commission	COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	\$ 1,340,460
	Total Federal Awards		<u>\$ 1,340,460</u>

**NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*YEAR ENDED JUNE 30, 2022*

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**Note 1—Basis of accounting**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the award activity of the National Museum of African American Music ("NMAAM") under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of NMAAM, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of NMAAM.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are listed as to reimbursement.

**Note 2—Indirect cost allocation**

NMAAM did not elect to use the 10% de minimis cost rate allowed under the Uniform Guidance.

**Note 3—Subrecipients**

NMAAM did not have expenditures to subrecipients during the fiscal year.

**Note 4—Noncash awards**

NMAAM did not receive noncash federal awards during the year ended June 30, 2022.

**Note 5—Contingencies**

These programs are subject to financial and compliance audits by grantor agencies. The amount, if any, of expenditures that may be disallowed by the grantor agencies cannot be determined at this time, although NMAAM expects such amounts, if any, to be immaterial.



**Report of Independent Auditor on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

To the Board of Directors  
National Museum of African American Music  
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of financial position of the National Museum of African American Music ("NMAAM"), a nonprofit organization, as of June 30, 2022, and we were engaged to audit the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 23, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered NMAAM's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMAAM's internal control. Accordingly, we do not express an opinion on the effectiveness of NMAAM's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of NMAAM's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned as item 2022-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a significant deficiency.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether NMAAM's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Organization's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on NMAAM's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. NMAAM's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NMAAM's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NMAAM's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The script is cursive and fluid, with the letters "Cherry" and "Bekaert" connected, and "LLP" written in a slightly more formal but still cursive style.

Nashville, Tennessee  
January 23, 2023

## **Report of Independent Auditor on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance**

To the Board of Directors  
National Museum of African American Music  
Nashville, Tennessee

### **Report on Compliance for Each Major Federal Program**

#### ***Opinion on Each Major Federal Program***

We have audited the National Museum of African American Music's ("NMAAM") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of NMAAM's major federal programs for the year ended June 30, 2022. NMAAM's major federal programs are identified in the *Summary of Auditor's Results* section of the accompanying schedule of findings and questioned costs.

In our opinion, NMAAM complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

#### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of NMAAM and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of NMAAM's compliance with the compliance requirements referred to above.

#### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to NMAAM's federal programs.

#### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on NMAAM's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about NMAAM's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding NMAAM's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of NMAAM's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of NMAAM's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on NMAAM's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. NMAAM's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Cherry Bekaert LLP*

Nashville, Tennessee  
January 23, 2023

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

### Section I—Summary of Auditor's Results

#### Financial Statement Section

Type of auditor's report issued on whether financial statements were prepared in accordance with U.S. GAAP:

Disclaimer

Internal control over financial reporting:

Material weakness(es) identified?

X Yes

       No

Significant deficiency(ies) identified

X Yes

       None Reported

Noncompliance material to financial statements noted

       Yes

X No

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified?

       Yes

X No

Significant deficiency(ies) identified

X Yes

       None Reported

Type of auditor's report on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

X Yes

       No

#### Identification of Major Program

##### Name of Federal Program or Cluster

##### Assistance Listing Number(s)

Coronavirus State and Local Fiscal Recovery Funds

21.027

Dollar threshold used to distinguish between Type A and Type B programs

\$ 750,000

Auditee qualified as low-risk auditee?

       Yes

X No

# NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2022

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### Section II—Findings Related to the Financial Statement Audit

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

#### Finding 2022-001 – Material Weakness in Internal Controls over Financial Reporting

**Criteria:** The National Museum of African American Music (“NMAAM”) is responsible for establishing controls and procedures to ensure internal controls are adequate and being properly implemented.

**Condition:** Controls related to bank reconciliations, cash receipts, cash disbursements, and financial reporting had been established to ensure transactions were recorded appropriately as they occurred and with appropriate segregation of duties. Such was not followed during fiscal 2022, resulting in several proposed adjustments being necessary to conform with U.S. generally accepted accounting principles (“U.S. GAAP”) regarding support and revenue, receivables, and expenses.

**Cause:** NMAAM experienced a change in its accounting system and complete turnover in its accounting staff.

**Effect:** The lack of compliance with internal controls resulted in several transactions not being properly recorded in accordance with U.S. GAAP.

**Recommendation:** NMAAM management should re-evaluate its internal controls regarding all transaction types including bank reconciliations, cash receipts, and cash disbursements and ensure such be followed in all circumstances.

**Management’s Response:** We agree with the finding and have implemented procedures to ensure established controls are being followed.

#### Finding 2022-002 – Significant Deficiency over Internal Controls over Cash Disbursements

**Criteria:** The National Museum of African American Music (“NMAAM”) is responsible for establishing controls and procedures to ensure internal controls are adequate and being properly implemented.

**Condition:** Established controls related to cash disbursements include a requirement that vendor invoices be reviewed and approved by department heads prior to payment by the accounting department. Such was not followed for the entire year, with certain vendor payments being made without review and approval by department heads.

**Cause:** NMAAM experienced a change in its accounting system and complete turnover in its accounting staff.

**Effect:** The lack of segregation of duties between vendor payment approval and check processing and issuance allows for the possibility of intentional or unintentional unauthorized disbursements.

**Recommendation:** NMAAM management should require the established controls be followed in all circumstances.

**Management’s Response:** We agree with the finding and have implemented procedures to ensure established controls are being followed.

**NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

YEAR ENDED JUNE 30, 2022

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**Section III—Findings and Questioned Costs – Major Federal Award Programs Audit**

This section identifies the significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs, as well as any material abuse findings, related to the audit of major programs, as required to be reported by 2 CFR 200.516(a).

**Finding 2022-002 – Significant Deficiency over Internal Controls over Cash Disbursements for Coronavirus State and Local Fiscal Recovery Funds Assistance Listing #21.027**

**Criteria:** National Museum of African American Music (“NMAAM”) is responsible for establishing controls and procedures to ensure internal controls are adequate and being properly implemented.

**Condition:** Established controls related to cash disbursements include a requirement that vendor invoices be reviewed and approved by department heads prior to payment by the accounting department. Such was not followed for the entire year, with certain vendor payments being made without review and approval by department heads.

**Cause:** NMAAM experienced a change in its accounting system and complete turnover in its accounting staff.

**Effect:** The lack of segregation of duties between vendor payment approval and check processing and issuance allows for the possibility of intentional or unintentional unauthorized disbursements.

**Recommendation:** NMAAM management should require the established controls be followed in all circumstances.

**Management’s Response:** We agree with the finding and have implemented procedures to ensure established controls are being followed.



**NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

*YEAR ENDED JUNE 30, 2022*

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**Findings Related to the Financial Statement Audit**

None.

**Findings and Questioned Costs – Major Federal Award Programs Audit**

None.



## External Audit Corrective Action Plan

January 20, 2023

U.S. Department of Treasury

National Museum of African American Music ("NMAAM") respectfully submits the following corrective action plan for the report dated January 23, 2023.

Name and address of independent public accounting firm:

Cherry Bekaert LLP

222 Second Avenue South, Suite 1240

Nashville, Tennessee 37201

Audit period: July 1, 2021 – June 30, 2022

This findings from the June 30, 2022 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### Section II—Findings Related to the Financial Statement Audit

#### Finding 2022-001 – Material Weakness in Internal Controls over Financial Reporting

**Recommendation:** NMAAM should re-evaluate its internal controls regarding all transaction types including bank reconciliations, cash receipts, and cash disbursements, and ensure such be followed in all circumstances.

**Corrective Action:** The referenced material weaknesses were due to a number of issues including, but not limited to: system migration from one accounting software to another with very limited training, employee turnover, and the employment of individuals who were not experienced in proper accounting methods and the requirements for such.

There was a lack of understanding of the impact of entries made within the financial systems used by the museum. All employees will be trained on the correct usage of any system that has a direct impact on financial data. All entries made will be checked and approved by the Controller and/or the Vice President of Finance.

NMAAM will make it a policy that all bank reconciliations will be completed by the Controller and reviewed and approved by the Vice President of Finance. In the absence of the Vice President of Finance, bank reconciliations will be completed by the Staff Accountant and reviewed and approved by the Controller.

NMAAM will employ and maintain a dedicated accounts payable/accounts receivable employee that has a broad background in various methodologies of these functions.

There will be desktop procedures created and used to assure internal compliance.

**Person Responsible for Corrective Action:** Vice President of Finance

**Anticipated Completion Date for Corrective Action:** The inexperienced employee issue has been resolved and NMAAM now has a seasoned Vice President of Finance, a Controller with a CPA, and a database manager familiar with the constituent system. The remaining aspects of the Corrective Action will be immediately implemented in response to the auditor's recommendation.

### **Finding 2022-002 – Significant Deficiency over Internal Controls over Cash Disbursements**

**Recommendation:** NMAAM management should require that the established controls be followed in all circumstances.

**Corrective Action:** In order to maintain accounting standards and to effectively support future financial reporting, NMAAM will continue to work towards fully understanding the intricacies of the accounting systems in place, define control procedures for key areas of the accounting process, and assure that proper controls are in place. Furthermore, NMAAM will do random internal audits to assure compliance against said controls are adhered to.

**Person Responsible for Corrective Action:** Vice President of Finance

**Anticipated Completion Date for Corrective Action:** The Corrective Action will be immediately implemented in response to the auditor's recommendation.

### **Section III—Findings and Questioned Costs – Major Federal Award Programs Audit**

#### **Finding 2022-002 – Significant Deficiency over Internal Controls over Cash Disbursements for Coronavirus State and Local Fiscal Recovery Funds Assistance Listing #21.027**

**Recommendation:** NMAAM management should require that the established controls be followed in all circumstances.

**Corrective Action:** In order to maintain accounting standards and to effectively support future financial reporting, NMAAM will continue to work towards fully understanding the intricacies of the accounting systems in place, define control procedures for key areas of the accounting process, and assure that proper controls are in place. Furthermore, NMAAM will do random internal audits to assure compliance against said controls are adhered to.

**Person Responsible for Corrective Action:** Vice President of Finance

**Anticipated Completion Date for Corrective Action:** The Corrective Action will be immediately implemented in response to the auditor's recommendation.

If there are questions regarding this corrective action plan, please call James Munch, Vice President of Finance, at 615.301.8724.

Sincerely,



James Munch, Vice President of Finance  
National Museum of African American  
Music