

**THE NATIONAL MUSEUM OF AFRICAN  
AMERICAN MUSIC**

**FINANCIAL STATEMENTS**

**June 30, 2017**

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**

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## **Report of Independent Auditor**

The Board of Directors of  
The National Museum of African American Music  
Nashville, Tennessee

We have audited the accompanying financial statements of The National Museum of African American Music (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The National Museum of African American Music, as of June 30, 2017, 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.

**Restatement**

As described in Note 14 to the financial statements, The National Museum of African American Music restated grants receivable and unrestricted net assets at June 30, 2016 to properly record certain grants receivable at that date. Our opinion is not modified with respect to that matter.



Nashville, Tennessee  
January 31, 2018

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2017**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 56,440
Accounts receivable	28,211
Grants receivable	370,689
Contributions receivable	355,256
Prepaid expenses	<u>16,326</u>

Total current assets	<u>826,922</u>
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Non-current assets:

Contributions receivable, net	736,865
Property and equipment, net	11,998
Intangible assets, net	93,381
Project development costs	<u>1,085,677</u>

Total non-current assets	<u>1,927,921</u>
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Total assets	<u><u>\$ 2,754,843</u></u>
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**LIABILITIES AND NET ASSETS**

Current liabilities:

Accounts payable	\$ 300,950
Accrued liabilities	<u>4,400</u>

Total current liabilities	<u>305,350</u>
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Net assets:

Unrestricted	1,357,372
Temporarily restricted	<u>1,092,121</u>

Total net assets	<u>2,449,493</u>
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Total liabilities and net assets	<u><u>\$ 2,754,843</u></u>
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See accompanying notes.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 965,213	\$ 816,100	\$ 1,781,313
Grant revenue	1,204,345	-	1,204,345
Special events	117,777	-	117,777
In-kind contributions	12,160	-	12,160
Other	1,480	-	1,480
Net assets released from restriction	341,766	(341,766)	-
	<u>2,642,741</u>	<u>474,334</u>	<u>3,117,075</u>
Expenses:			
Program services:	<u>751,966</u>	<u>-</u>	<u>751,966</u>
Supporting services:			
Management and general	393,753	-	393,753
Fundraising	828,291	-	828,291
	<u>1,222,044</u>	<u>-</u>	<u>1,222,044</u>
Total supporting services	<u>1,222,044</u>	<u>-</u>	<u>1,222,044</u>
Total expenses	<u>1,974,010</u>	<u>-</u>	<u>1,974,010</u>
Change in net assets before collection items not capitalized	668,731	474,334	1,143,065
Purchases and write down of artifacts collection	<u>(67,176)</u>	<u>-</u>	<u>(67,176)</u>
Change in net assets	601,555	474,334	1,075,889
Net assets - beginning of year, as restated (Note 14)	<u>755,817</u>	<u>617,787</u>	<u>1,373,604</u>
Net assets - end of year	<u><u>\$ 1,357,372</u></u>	<u><u>\$ 1,092,121</u></u>	<u><u>\$ 2,449,493</u></u>

See accompanying notes.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2017**

		<b>Supporting Services</b>		
	<b>Program Services</b>	<b>Management and General</b>	<b>Fund- raising</b>	<b>Total</b>
Professional fees	\$ 396,587	\$ 115,350	\$ 342,257	\$ 854,194
Salaries and related expenses	195,748	140,608	174,878	511,234
Travel, meals and entertainment	101,944	25,222	44,056	171,222
Bad debt expense	-	-	139,566	139,566
General and administrative	11,380	51,308	35,906	98,594
Program	25,657	13,420	56,066	95,143
Rent	6,247	33,509	6,110	45,866
Fundraising	-	-	25,598	25,598
Depreciation and amortization	13,595	1,162	-	14,757
Telephone and technology	786	11,113	838	12,737
Advertising	22	893	3,016	3,931
Insurance	-	1,168	-	1,168
 Total expenses	 <u>\$ 751,966</u>	 <u>\$ 393,753</u>	 <u>\$ 828,291</u>	 <u>\$ 1,974,010</u>

See accompanying notes.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2017**

Cash flows from operating activities:	
Change in net assets	\$ 1,075,889
Purchases and write down of artifacts collection	60,741
Depreciation and amortization expense	14,757
Unrealized gain on investments	(1,414)
Changes in operating assets and liabilities:	
Accounts receivable	(28,211)
Grants receivable	(130,114)
Contributions receivable	(507,028)
Prepaid expenses	(16,326)
Accounts payable	56,980
Accrued liabilities	(8,942)
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Net cash provided by operating activities	516,332
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Cash flows from investing activities:	
Proceeds from sale of investments	44,435
Purchases of property and equipment	(9,414)
Purchases of intangible assets	(22,000)
Investments in project development	(634,005)
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Net cash used in investing activities	(620,984)
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Net decrease in cash and cash equivalents	(104,652)
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Cash and cash equivalents - beginning of year	161,092
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Cash and cash equivalents - end of year	<u><u>\$ 56,440</u></u>

See accompanying notes.



**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business and Nature of Activities**

The National Museum of African American Music (the “Organization”) is a non-profit organization founded in 2001 and located in Nashville, Tennessee. The Organization’s intent is to develop a museum (the “Museum”) that will stand as an international and iconic cultural museum dedicated to the vast contributions African Americans have made in music and its rich influence on art and culture. The museum will be an educational facility, national tourist destination, and economic development engine for Nashville and the state of Tennessee. The museum is currently planned to be located in the new Fifth + Broadway development. Ultimately, the museum will tell the phenomenal story of African American music, both nationally and internationally, including important music history that occurred in Nashville, Tennessee. The Museum is currently expected to open in 2019 (however, see Note 10).

**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 (“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:

*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, 2017.

**Program and Supporting Services – Functional Allocation**

The costs of providing program and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based upon the estimates of management. During the year ended June 30, 2017, management continued to concentrate its efforts on general and administrative and fundraising activities in anticipation of museum design and development.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Program and Supporting Services – Functional Allocation (Continued)**

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

**Program Services** – include all activities dedicated to the outreach and education of the museum. Such services include hosting educational events targeted to all parties regardless of age, gender, or any other demographic. Program services include 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. These expenses are comprised of exhibit design, architectural, and construction related expenses.

**Supporting Services:**

**Management and General** – includes any and all expenditures that are vital to the overall sustainability of the museum. Although these expenses are not particularly designated to one specific program of the museum, they support each program on an equal operational basis.

**Fundraising** – includes expenses directly related to the solicitation of gifts, donations, and pledges to financially support the museum. These expenses include any expenses associated with the acquisition of new donors and also special events directly related to any and all attempts in the raising of funds.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses and allocation of functional expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Income Taxes**

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

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes (Continued)**

The Organization follows Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) guidance related to unrecognized tax benefits. The guidance describes the accounting for uncertainty in income taxes recognized in an Organization’s financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements.

**Cash and Cash Equivalents**

The Organization considers all cash funds, cash bank accounts, and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents. The cash accounts are held primarily by financial institutions and at times may exceed amounts that are federally insured. Cash balances are federally insured at June 30, 2017.

**Contributions Receivable**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions receivable due in the next year are reflected as current contributions receivable and are recorded at their estimated net realizable value. Contributions receivable due in subsequent years are reflected as noncurrent contributions receivable and are recorded at the present value of their estimated net realizable value, by discounting the contributions receivable at an appropriate rate commensurate with the risk involved.

Contributions receivable are reviewed periodically as to their collectability. An allowance for uncollectible accounts is provided based on past experience with collections and estimated collectability of current receivables. Uncollectible accounts are charged against the allowance in the period they are deemed uncollectible.

**Grant Revenue**

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

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment**

The Organization capitalizes all expenditures for property and equipment in excess of \$1,000 with a life expectancy greater than one year. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful life of the assets.

**Intangible Assets**

The Organization has developed the Rivers of Rhythm digital exhibit, which is a web based experience highlighting the genealogy of American music and key contributors to African American music. During the planning, development, and construction phase of the museum, the Organization's intent for this exhibit is to showcase the "museum without walls". The costs related to this exhibit have been capitalized and are amortized over the expected life of availability of seven years. The exhibit was published on the web for public access in June 2016.

**Artifacts Collection**

In conformity with accounting policies generally followed by art museums, the value of the Museum's collection has been excluded from the 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.

**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.

**Contributed Services and Facilities**

Contributed services are reflected in the financial statements at the estimated fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind contributions of marketing, public relations, and other services valued at \$12,160 have been reflected within the statement of activities for the year ended June 30, 2017.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Subsequent Events**

The Organization evaluated subsequent events through January 31, 2018, when these financial statements were available to be issued. Except as discussed in Note 3, 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 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of the following as of June 30, 2017:

Receivable in less than one year	\$ 355,256
Receivable in one to five years	<u>790,505</u>
Total contributions receivable	1,145,761
Less allowance for uncollectible contributions receivable	(17,441)
Less discount to net present value (0.83%)	<u>(36,199)</u>
Contributions receivable, net	<u>\$ 1,092,121</u>

Approximately 79% of contributions receivable at June 30, 2017 consists of amounts due from three donors. Cash collected on unrestricted pledges totaled \$359,680 during the year ended June 30, 2017.

**NOTE 3 – GRANT REVENUE**

The Organization receives funding for the design and development of the Museum under an arrangement with the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County, Tennessee (“Metro”), dated December 1, 2008, as amended in February 2017. This arrangement indicates that a maximum of \$10,000,000 in funding may be available for this project. To date, the Organization has recorded revenue of \$2,902,430 under this arrangement.

During the year ended June 30, 2017, the Organization recognized revenue of \$866,557 under this arrangement. Grants receivable from Metro of \$163,623 are recorded as of June 30, 2017 and relate to reimbursable costs. In order to receive remaining amounts available under this arrangement, the Organization is required to obtain other funding or commitments for funding to complete the project. Management is continuing to obtain such additional funding. Total estimated costs of the project is \$48,000,000. This arrangement also indicates that the Organization may be required to return funds if the construction of the project is not commenced by October 2020. The project has incurred development costs but has not begun facility construction. Based on the agreement discussed above, Metro funds will be released to the Organization upon the satisfactory submission of requisition forms in sufficient detail of payments made or of payments due for capital costs for construction of the project.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017**

**NOTE 3 – GRANT REVENUE (Continued)**

Additionally, during the year ended June 30, 2017, the Organization was awarded a \$2,000,000 grant contract from the State of Tennessee Department of General Services primarily for construction and project management services. The grant contract expired October 31, 2017, but subsequent to year end, was extended through October 2021. During the year ended June 30, 2017, the Organization recognized revenue of \$337,788 under this arrangement. Grants receivable from the State of \$207,066 are recorded as of June 30, 2017 and relate to reimbursable costs.

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

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30, 2017:

Furniture and fixtures	\$ 13,610
Less: accumulated depreciation	<u>(1,612)</u>
Net property and equipment	<u>\$ 11,998</u>

Depreciation expense totaled \$1,162 for the year ended June 30, 2017.

**NOTE 5 – INTANGIBLE ASSETS**

Intangible assets consists of the following at June 30, 2017:

Rivers of Rhythm digital exhibit	\$ 86,000
Website development	22,000
Less: accumulated amortization	<u>(14,619)</u>
Net intangible assets	<u>\$ 93,381</u>

Amortization expense totaled \$13,595 for the year ended June 30, 2017.

**NOTE 6 – PROJECT DEVELOPMENT COSTS**

The costs incurred in planning and developing the Museum and its contents are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. It is anticipated that such costs will be considered part of the depreciable asset once the Museum is constructed. Presently, such costs are not depreciated but are subjected to impairment testing on an annual basis.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017**

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

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

Temporarily restricted net assets are available as follows at June 30, 2017:

Pledges and donations receivable in future years	\$ <u>1,092,121</u>
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**NOTE 8 – LEASE ARRANGEMENT**

Effective June 2016, the Organization leased office space under an agreement through June 2018. Total rent expense under this arrangement during the year ended June 30, 2017 was \$45,866. Future annual minimum rental payments required for next year under the lease will be approximately \$45,000.

**NOTE 9 – COMMUNITY FOUNDATION OF MIDDLE TENNESSEE**

The Community Foundation of Middle Tennessee (the “Foundation”) maintains investments on behalf of the Organization. The Foundation has ultimate authority and control over the investments and the timing of receipt of the funds by the Organization is uncertain. Accordingly, the net assets of the Organization do not include these investments. The Organization does anticipate receiving periodic investment earnings on its pro-rata share of the Foundation’s assets. The balance of the endowment funds held for the benefit of the Organization approximated \$125,000 at June 30, 2017. Approximately \$100,000 of such funds is subject to certain stipulations relating to the Organization’s mission and timing of distributions.

**NOTE 10 – UNCERTAINTIES**

As discussed in Notes 1, 3, and 6, the Organization exists to develop a museum dedicated to the vast contributions African Americans have made in music and to the related rich history of art and culture. The Museum is currently estimated to cost approximately \$48,000,000. 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. If the Organization is unable to obtain commitments and construct the Museum, the Organization may be required to return certain grant revenue, as explained in Note 3.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017**

**NOTE 11 – SIGNIFICANT CONCENTRATIONS**

The Organization received a significant portion of its contributions from three donors during the year ended June 30, 2017. Amounts received from such donors totaled \$1,550,000, which represented approximately 50% of total public support and revenue recognized by the Organization.

The Organization also receives significant funding from Metro and the State of Tennessee. See Note 3.

**NOTE 12 – RELATED PARTY TRANSACTIONS**

Contributions from board members, whether made by the board members or their respective employers, totaled \$1,616,900 for the year ended June 30, 2017. Contributions receivable from board members totaled \$811,541 and is included in contributions receivable at June 30, 2017.

**NOTE 13 – PROFESSIONAL SERVICES CONTRACTS**

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

**NOTE 14 – RESTATEMENT**

During 2017, the Organization determined that certain grants receivable totaling \$91,348 should have been recorded in the financial statements at June 30, 2016. Accordingly, net assets as of the beginning of the fiscal year have been restated to reflect such receivables. The correction had no effect on the results of the current year's activities; however, the correction resulted in the following restatement of net assets in the statement of financial position for June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance, June 30, 2016, as previously stated	\$ 664,469	\$ 617,787	\$ 1,282,256
Grants receivable	<u>91,348</u>	<u>-</u>	<u>91,348</u>
Balance, June 30, 2016, as restated	<u>\$ 755,817</u>	<u>\$ 617,787</u>	<u>\$ 1,373,604</u>