

**THE NATIONAL MUSEUM OF AFRICAN  
AMERICAN MUSIC**

**FINANCIAL STATEMENTS**

**June 30, 2014**

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of The National Museum of African American Music (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Frasier, Dean & Howard, PLLC*

December 8, 2014

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2014**

**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 260,499
Grant receivable	56,760
Other receivables	18,639
Prepaid rent	<u>1,119</u>
Total current assets	<u>337,017</u>
Non-current assets:	
Artifacts	20,000
Project development costs	<u>1,557,279</u>
Total non-current assets	<u>1,577,279</u>
Total assets	<u><u>\$ 1,914,296</u></u>

**LIABILITIES AND NET ASSETS**

Current liabilities:	
Accounts payable	<u>\$ 48,300</u>
Total current liabilities	<u>48,300</u>
Net assets:	
Unrestricted	<u>1,865,996</u>
Total net assets	<u>1,865,996</u>
Total liabilities and net assets	<u><u>\$ 1,914,296</u></u>

See accompanying notes.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 289,151	\$ -	\$ 289,151
Grant revenue	56,760	-	56,760
In-kind contributions	54,856	-	54,856
Other	1,271	-	1,271
Net assets released from restrictions	500,000	(500,000)	-
	<u>902,038</u>	<u>(500,000)</u>	<u>402,038</u>
 Expenses:			
Program services:			
Construction development	44,944	-	44,944
Other programs	54,438	-	54,438
	<u>99,382</u>	<u>-</u>	<u>99,382</u>
 Supporting services:			
Management and general	196,007	-	196,007
Fundraising	436,486	-	436,486
	<u>632,493</u>	<u>-</u>	<u>632,493</u>
 Total expenses	<u>731,875</u>	<u>-</u>	<u>731,875</u>
 Change in net assets	170,163	(500,000)	(329,837)
 Net assets - beginning of year	<u>1,695,833</u>	<u>500,000</u>	<u>2,195,833</u>
 Net assets - end of year	<u><u>\$ 1,865,996</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,865,996</u></u>

See accompanying notes.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2014**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Construction Development</u>	<u>Other Programs</u>	<u>Management and General</u>	<u>Fund- raising</u>	
Expenses:					
Salaries and related expenses	\$ 26,866	\$ 48,468	\$ 82,136	\$ 206,426	\$ 363,896
Professional fees	17,850	3,100	53,433	145,072	219,455
Advertising	-	-	-	29,211	29,211
General and administrative	-	609	20,407	5,823	26,839
Travel, meals and entertainment	228	69	1,535	24,568	26,400
Rent	-	-	24,758	-	24,758
Fundraising	-	-	-	23,918	23,918
Telephone and technology	-	-	6,424	-	6,424
Executive	-	-	4,079	1,259	5,338
Insurance	-	-	2,342	-	2,342
Program	-	2,192	-	-	2,192
Employee benefits	-	-	676	-	676
Gifts and acknowledgments	-	-	217	209	426
	<u>-</u>	<u>-</u>	<u>217</u>	<u>209</u>	<u>426</u>
Total expenses	<u>\$ 44,944</u>	<u>\$ 54,438</u>	<u>\$ 196,007</u>	<u>\$ 436,486</u>	<u>\$ 731,875</u>

See accompanying notes.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2014**

Cash flows from operating activities:	
Change in net assets	\$ (329,837)
Changes in operating assets and liabilities:	
Grant receivable	(22,242)
Other receivables	(18,639)
Prepaid rent	(1,119)
Accounts payable	<u>23,276</u>
Net cash used in operating activities	<u>(348,561)</u>
Cash flows from investing activities:	
Purchase of artifacts	(20,000)
Maturity of certificate of deposit	<u>267,307</u>
Net cash provided by investing activities	<u>247,307</u>
Net decrease in cash and cash equivalents	(101,254)
Cash and cash equivalents - beginning of year	<u>361,753</u>
Cash and cash equivalents - end of year	<u><u>\$ 260,499</u></u>

See accompanying notes.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**Description of Business and Nature of Activities**

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

**Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions which are restricted for specific programs are reflected as unrestricted revenue if these funds are received and spent during the same fiscal year. The Organization had no temporarily restricted net assets at June 30, 2014.

*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, 2014.

**Income Taxes**

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

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2014**

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

**Income Taxes (Continued)**

The Organization follows Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) guidance related to unrecognized tax benefits. The guidance describes the accounting for uncertainty in income taxes recognized in an organization’s financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended June 30, 2011 through June 30, 2014.

**Use of Estimates**

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

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents. The cash accounts are held primarily by financial institutions and at times may exceed amounts that are federally insured. Cash balances are federally insured at June 30, 2014.

**Contributed Services**

Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind contributions of marketing, professional relations, rent, and other services valued at \$54,856 have been reflected within the statement of activities for the year ended June 30, 2014.

**Advertising**

The costs of advertising are charged to expense the first time the advertising takes place.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2014**

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

**Functional Allocation of Expenses**

The costs of providing program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based upon the estimates of management. During the year ended June 30, 2014, management continued to concentrate its efforts on general and administrative and fundraising activities in anticipation of museum design and development.

**Subsequent Events**

The Organization evaluated subsequent events through December 8, 2014, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

**NOTE 2 – GRANT REVENUE**

The Organization receives 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. This arrangement indicates that a maximum of \$10,000,000 in funding may be available for this project. During the year ended June 30, 2014, the Organization recognized revenue of \$56,760 under this arrangement. Grants receivable of \$56,760 is recorded as of June 30, 2014 related to reimbursable costs. In order to receive additional funding under this arrangement, the Organization is required to obtain other funding or commitments for funding to complete the project. Management is continuing to obtain such additional funding. Sufficient commitments to complete the project have not yet been obtained. However, management is also in negotiations with Metro regarding the timing of the physical development of the museum. Successful conclusion of those discussions would modify the terms of this agreement.

This arrangement also indicates that the Organization may be required to return funds if the construction of the project is not commenced by October 2009. The project has incurred development costs but has not begun actual facility construction. Presently, it is uncertain to what extent future Metro funds will be released to the Organization and the timing of such funding, or if the Organization will be required to return any amounts to Metro. As of the issue date of this report, the Organization has entered into discussions with Metro to secure the release of the balance of grant funds as continuing development costs are incurred.

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2014**

**NOTE 3 – PROJECT DEVELOPMENT COSTS**

The costs incurred in planning and developing the museum and its contents are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. It is anticipated that such costs will be considered part of the depreciable asset once the museum is constructed and will begin being depreciated at that time. However, there is a possibility that all or a portion of these capitalized assets may be expensed in the future if the museum construction plans are significantly altered or deemed not of future benefit.

**NOTE 4 – LEASE ARRANGEMENTS**

In 2004, the Organization began leasing land at the corner of Jefferson Street and Eighth Avenue North in Nashville from the State of Tennessee for the purposes of constructing, maintaining and operating a museum facility thereon. No monetary rent is paid under this arrangement. The initial term of the lease extended through October 2009 and included an option to purchase the land for a minimal amount. This lease arrangement has been extended at various times and now extends through October 2015. It is anticipated that the State will convey this land to the Organization by quitclaim deed unless the Organization does not break ground to commence construction of the museum on or before October 31, 2015, at which time the lease will be terminated, unless renewed prior to October 31, 2015, and the land will revert to the State.

The Organization leases office space under an agreement that expires in December 2014. Total rent payments under this arrangement were \$7,967, with \$16,791 of contributed rent for the year ended June 30, 2014.

**NOTE 5 – 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 \$127,500 at June 30, 2014. Approximately \$100,000 of such funds are subject to certain stipulations relating to the Organization’s mission and timing of distributions.

**NOTE 6 – UNCERTAINTIES**

As discussed in Notes 1, 2, 3 and 4, the Organization exists to develop a museum dedicated to the vast contributions African Americans have made in music and to the related rich history of art and culture. The museum is currently estimated to cost between \$20,000,000 and \$25,000,000. Presently, the Organization has incurred development costs funded by both private and public

**THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2014**

**NOTE 6 – UNCERTAINTIES (Continued)**

sectors. The Organization has not commenced construction of the actual museum building pending additional funding and finalized agreement on the future site. The fulfillment of the Organization's mission is dependent on obtaining additional funding, meeting related donor requirements, including timing of construction, and constructing a museum facility. Management is continuing to pursue firm commitments from both potential donors who have previously expressed interest to give, and from new donors. Presently, the ultimate outcome of these matters is uncertain.

**NOTE 7 – SUBSEQUENT EVENT**

As of June 30, 2014, the Organization was undergoing Internal Revenue Service audits for fiscal years 2011 and 2012. These audits were concluded satisfactorily subsequent to year end with no impact on the Organization.