

**THE NATIONAL MUSEUM OF AFRICAN
AMERICAN MUSIC**

FINANCIAL STATEMENTS

June 30, 2015

*Preliminary Draft
for discussion purposes only*

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, 2015, 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, 2015, 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.

Correction of Error

As described in Note 10 to the financial statements, the Organization restated contributions receivable and temporarily restricted net assets to record certain promises to give that were made prior to 2015. Our opinion is not modified with respect to that matter.

December 30, 2015

Preliminary Draft
for discussion purposes only

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS

Current assets:	
Cash and cash equivalents	\$ 236,160
Grants receivable	203,668
Other receivables	23,660
Contributions receivable	<u>177,291</u>
Total current assets	<u>640,779</u>
Non-current assets:	
Contributions receivable, net	446,709
Artifacts	20,000
Project development costs	<u>218,624</u>
Total non-current assets	<u>685,333</u>
Total assets	<u><u>\$ 1,326,112</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	<u>\$ 78,133</u>
Total current liabilities	<u>78,133</u>
Net assets:	
Unrestricted	600,319
Temporarily restricted	<u>647,660</u>
Total net assets	<u>1,247,979</u>
Total liabilities and net assets	<u><u>\$ 1,326,112</u></u>

See accompanying notes.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 755,851	\$ 587,160	\$ 1,343,011
Grant revenue	484,824	-	484,824
In-kind contributions	58,290	-	58,290
Other	161	-	161
Net assets released from restriction	<u>114,064</u>	<u>(114,064)</u>	<u>-</u>
Total public support and revenue	<u>1,413,190</u>	<u>473,096</u>	<u>1,886,286</u>
Expenses:			
Program services:			
Construction development	381,233	-	381,233
Other programs	<u>146,043</u>	<u>-</u>	<u>146,043</u>
Total program services	<u>527,276</u>	<u>-</u>	<u>527,276</u>
Supporting services:			
Management and general	233,393	-	233,393
Fundraising	<u>401,066</u>	<u>-</u>	<u>401,066</u>
Total supporting services	<u>634,459</u>	<u>-</u>	<u>634,459</u>
Total expenses	<u>1,161,735</u>	<u>-</u>	<u>1,161,735</u>
Change in net assets before impairment loss	251,455	473,096	724,551
Impairment loss on project development costs	<u>(1,498,493)</u>	<u>-</u>	<u>(1,498,493)</u>
Change in net assets	(1,247,038)	473,096	(773,942)
Net assets - beginning of year, as restated (Note 10)	<u>1,847,357</u>	<u>174,564</u>	<u>2,021,921</u>
Net assets - end of year	<u><u>\$ 600,319</u></u>	<u><u>\$ 647,660</u></u>	<u><u>\$ 1,247,979</u></u>

See accompanying notes.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015

	Program Services		Supporting Services		
	Construction Development	Other Programs	Management and General	Fund-raising	Total
Professional fees	\$ 267,696	\$ 59,197	\$ 78,705	\$ 136,506	\$ 542,104
Salaries and related expenses	89,547	75,715	86,106	100,394	351,762
Fundraising	-	-	-	67,486	67,486
Bad debt expense	-	-	-	65,425	65,425
Travel, meals and entertainmen	23,651	711	4,212	20,685	49,259
General and administrative	-	520	25,024	5,570	31,114
Rent	-	-	26,866	-	26,866
Program	-	9,900	-	-	9,900
Gifts and acknowledgments	-	-	2,087	5,000	7,087
Telephone and technology	-	-	6,495	-	6,495
Insurance	-	-	2,594	-	2,594
Employee benefits	339	-	1,304	-	1,643
Total expenses	<u>\$ 381,233</u>	<u>\$146,043</u>	<u>\$ 233,393</u>	<u>\$ 401,066</u>	<u>\$ 1,161,735</u>

See accompanying notes.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Change in net assets	\$ (773,942)
Impairment loss on project development costs	1,498,493
Changes in operating assets and liabilities:	
Grants receivable	(146,908)
Other receivables	(5,021)
Contributions receivable	(468,075)
Prepaid rent	1,119
Accounts payable	29,833
	<hr/>
Net cash provided by operating activities	135,499
	<hr/>
Cash flows from investing activities:	
Investments in project development	(159,838)
	<hr/>
Net cash used in investing activities	(159,838)
	<hr/>
Net decrease in cash and cash equivalents	(24,339)
	<hr/>
Cash and cash equivalents - beginning of year	260,499
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Cash and cash equivalents - end of year	\$ 236,160
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See accompanying notes.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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.

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, 2015.

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, 2015

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, 2012 through June 30, 2015.

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, 2015.

Contributions Receivable

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

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable (Continued)

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

Contributed Services and Facilities

Contributed services are reflected in the financial statements at the estimated fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind contributions of marketing, public relations, rent, and other services valued at \$58,290 have been reflected within the statement of activities for the year ended June 30, 2015.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based upon the estimates of management. During the year ended June 30, 2015, 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 30, 2015, when these financial statements were available to be issued. Except as discussed in Note 11, 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, 2015:

Receivable in less than one year	\$ 177,291
Receivable in one to five years	<u>548,633</u>
Total contributions receivable	725,924
Less allowance for uncollectible contributions receivable	(65,425)
Less discount to net present value (3.25%)	<u>(36,499)</u>
Contributions receivable, net	<u>\$ 624,000</u>

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 2 – CONTRIBUTIONS RECEIVABLE (Continued)

Approximately 24% of contributions receivable at June 30, 2015 consists of amounts due from two donors. Cash collected on unrestricted pledges totaled \$72,300 during the year ended June 30, 2015.

NOTE 3 – GRANTS REVENUE

The Organization receives funding for the design and development of the museum under an arrangement with the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County, Tennessee ("Metro"), dated December 1, 2008. This arrangement indicates that a maximum of \$10,000,000 in funding may be available for this project. During the year ended June 30, 2015, the Organization recognized revenue of \$386,824 under this arrangement. Grants receivable from Metro of \$105,668 are recorded as of June 30, 2015 and relate to reimbursable costs. In order to receive additional funding under this arrangement, the Organization is required to obtain other funding or commitments for funding to complete the project. Management is continuing to obtain such additional funding. 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 arrangement.

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 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.

During 2015, the Organization also recognized funding under an economic development initiative arrangement with the U.S. Department of Housing and Urban Development in the amount of \$98,000.

Collectively, grants receivable under these arrangements totaled \$203,668 at June 30, 2015. The Organization's management has reviewed these receivables individually for collectability and determined that an allowance for uncollectible amounts is not necessary.

NOTE 4 – PROJECT DEVELOPMENT COSTS

The costs incurred in planning and developing the museum and its contents are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. It is anticipated that at least a portion of 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. (See Note 11.)

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 5 – LEASE ARRANGEMENTS

In 2004, the Organization began leasing land at the corner of Jefferson Street and Eighth Avenue North in Nashville from the State of Tennessee for the purposes of constructing, maintaining, and operating a museum facility thereon. No monetary rent is paid under this arrangement. The initial term of the lease extended through October 2009 and included an option to purchase the land for a minimal amount. This lease arrangement has been extended currently 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. (See Note 11.)

The Organization leases office space under an agreement that expires in December 2015. Total rent expense under this arrangement was \$26,866, with \$13,433 of such amount considered contributed rent for the year ended June 30, 2015.

NOTE 6 – 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 \$126,500 at June 30, 2015. Approximately \$100,000 of such funds is subject to certain stipulations relating to the Organization’s mission and timing of distributions.

NOTE 7 – 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 approximately \$37,000,000. 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 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.

THE NATIONAL MUSEUM OF AFRICAN AMERICAN MUSIC
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 8 – SIGNIFICANT CONCENTRATIONS

The Organization received a significant portion of its contributions from one donor during the year ended June 30, 2015. Amounts received from such donor totaled \$550,000, which represented approximately 29% of total public support and revenue recognized by the Organization.

NOTE 9 – RELATED PARTY TRANSACTIONS

Contributions from board members, whether made by the board members or their respective employers, totaled \$570,125 for the year ended June 30, 2015. Of this amount, \$21,875 is included in contributions receivable at June 30, 2015. Contributions from employees and contractors totaled \$25,663 for the year ended June 30, 2015. Contributions receivable due from employees and contractors totaled \$63,300 at June 30, 2015.

NOTE 10 – CORRECTION OF ERROR

During 2015, the Organization determined that certain contributions receivable totaling \$155,925 should have been recorded in the financial statements prior to fiscal 2015. Accordingly, net assets as of the beginning of the fiscal year have been restated to reflect such contributions receivable. Additionally, the Organization determined that receivables at June 30, 2014 should have been reflected as temporarily restricted net assets. 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, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance, June 30, 2014, as previously stated	\$ 1,865,996	\$ -	\$ 1,865,996
Reclassification of net assets	(18,639)	18,639	-
Contributions receivable	<u>-</u>	<u>155,925</u>	<u>155,925</u>
Balance, June 30, 2014, as restated	<u>\$ 1,847,357</u>	<u>\$ 174,564</u>	<u>\$ 2,021,921</u>

NOTE 11 – IMPAIRMENT LOSS

During fiscal 2015, the Organization determined certain project development costs exclusively associated with development at the Jefferson Street location are not likely to be of future benefit. Therefore, costs totaling approximately \$1,498,000 are expensed as an impairment loss by the Organization during the year ended June 30, 2015. Effective October 14, 2015 and in accordance with the lease agreement, the Organization notified the State of Tennessee of its plan to terminate the lease held on the Jefferson Street property as discussed in Note 5. The Organization plans to focus its efforts on the development of a site located near Fifth Avenue and Broadway in downtown Nashville.