

**National Music Museum:
America's Shrine to Music**

**Independent Auditor's Report
and Financial Statements**

**For the Years Ended
June 30, 2023 and 2022**

National Music Museum: America's Shrine to Music

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June 30, 2023

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National Music Museum: America's Shrine to Music
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Independent Auditor's Report

Board of Trustees
National Music Museum: America's Shrine to Music
Vermillion, South Dakota

Opinion

We have audited the accompanying financial statements of National Music Museum: America's Shrine to Music (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and 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 financial statements referred to above present fairly, in all material respects, the financial position of National Music Museum: America's Shrine to Music as of June 30, 2023, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 National Music Museum: America's Shrine to Music and to meet our other ethical requirements, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 National Music Museum: America's Shrine to Music's ability to continue as a going concern within one year after the date that 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 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, 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 National Music Museum: America's Shrine to Music'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 National Music Museum: America's Shrine to Music'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.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules to financial statements are presented for purposes of additional analysis and are 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 State of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited National Music Museum: America's Shrine to Music's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 12, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "CLO Ref LLC".

Vermillion, South Dakota
November 28, 2023

National Music Museum: America's Shrine to Music

Statement of Financial Position – June 30, 2023

With Comparative Totals as of June 30, 2022

	2023	2022
Assets		
Current Assets		
Operating cash & cash equivalents	\$ 742,579	\$ 659,525
Cash with fiscal agent	2,880,000	3,029,800
Contributions receivable, current	95,733	15,000
Accounts receivable	46,890	429,533
Inventory	203,090	207,834
Prepaid expense	32,022	28,331
Total Current Assets	4,000,314	4,370,023
Capital Assets		
Construction work in progress	4,010,240	1,133,302
Property & equipment, net	4,357,691	4,314,412
Total Capital Assets	8,367,931	5,447,714
Other Assets		
Contributions receivable, net	231,355	--
Beneficial Interest - split interest agreements	203,205	197,107
Reserve investments	4,588,658	5,634,665
Total Other Assets	5,023,218	5,831,772
Total Assets	\$ 17,391,463	\$ 15,649,509
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 17,156	\$ 6,054
Interest payable	25,614	30,983
Accrued leave payable	14,107	67,227
Current portion of long term debt	908,684	2,756,160
Total Current Liabilities	965,561	2,860,424
Noncurrent Liabilities		
Long term debt	7,139,519	6,851,763
Less: current portion	(908,684)	(2,756,160)
Total Noncurrent Liabilities	6,230,835	4,095,603
Total Liabilities	7,196,396	6,956,027
Net Assets		
Net assets without donor restrictions	9,329,955	8,193,217
Net assets with donor restrictions	865,112	500,265
Total Net Assets	10,195,067	8,693,482
Total Liabilities and Net Assets	\$ 17,391,463	\$ 15,649,509

The accompanying Notes to Financial Statements are an integral part of these financial statements.

National Music Museum: America's Shrine to Music
Statement of Activities for the Year Ended June 30, 2023
With Comparative Totals for the Year Ended June 30, 2022

	<u>2023</u>			<u>2022</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
Support:				
Memberships	\$ 47,788	\$ --	\$ 47,788	\$ 59,177
General cash contributions	618,028	526,788	1,144,816	2,101,361
Contributions-noncash	2,128	228,763	230,891	642,580
Non-governmental grants	5,000	263,753	268,753	306,326
Governmental grants	1,693,790	--	1,693,790	383,606
USD support	--	742,034	742,034	635,733
Revenue:				
Investment income (net)	310,156	7,180	317,336	(673,777)
Beneficial interest Investment income (net)	2,856	12,237	15,093	(26,101)
Gross profit on merchandise sales	12,573	--	12,573	5,200
Other revenue	1,858	--	1,858	10,000
Net Assets Released from Restrictions:				
Satisfaction and expiration of restrictions	1,415,908	(1,415,908)	--	--
Total Support and Revenue	<u>4,110,085</u>	<u>364,847</u>	<u>4,474,932</u>	<u>3,444,105</u>
Expenses:				
Program Services	1,769,771	--	1,769,771	2,141,646
Supporting Services:				
Management and general	1,008,320	--	1,008,320	884,193
Fund raising	195,256	--	195,256	70,408
Total Expenses	<u>2,973,347</u>	<u>--</u>	<u>2,973,347</u>	<u>3,096,247</u>
Excess Revenue Over/(Under) Expense	<u>1,136,738</u>	<u>364,847</u>	<u>1,501,585</u>	<u>347,858</u>
Net Assets, Beginning of year	<u>8,193,217</u>	<u>500,265</u>	<u>8,693,482</u>	<u>8,345,624</u>
Net Assets, End of Year	<u>\$ 9,329,955</u>	<u>\$ 865,112</u>	<u>\$ 10,195,067</u>	<u>\$ 8,693,482</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

National Music Museum: America's Shrine to Music
Statement of Functional Expenses for the Year Ended June 30, 2023
With Comparative Totals for the Year Ended June 30, 2022

	2023				2022
	Program Services	Supporting Services Administrative	Fund Raising	Total	Total
Operating:					
Personnel	\$ 714,921	\$ 231,866	\$ 19,322	\$ 966,109	\$ 833,082
Accounting and audit services	--	51,408	--	51,408	40,958
Legal services	--	8,751	--	8,751	72
Acquisitions	268,628	--	--	268,628	802,928
Bank charges/credit card fees	--	1,616	--	1,616	1,235
Billboards	630	--	270	900	4,800
Board activities	--	3,357	--	3,357	5,863
Carnegie construction & relocation	--	330,477	--	330,477	65,391
Computer software & support	--	29,222	--	29,222	28,136
Conservation	26,651	--	--	26,651	35,339
Depreciation & amortization	106,847	96,368	--	203,215	181,995
Dues & membership fees	--	5,155	--	5,155	615
Educational materials	5,548	--	--	5,548	5,463
Exhibitions	9,367	--	--	9,367	10,798
Events	--	--	--	--	14,719
Feasibility study	--	--	--	--	227,531
Fees	--	10	--	10	10
Fundraising professional services	--	--	159,628	159,628	43,010
Furniture & equipment	5,653	7,038	--	12,691	30,935
Gift shop supplies	--	1,603	--	1,603	2,150
Graduate Program	16,414	--	--	16,414	
Hospitality	988	--	--	988	110
Insurance	21,008	14,682	--	35,690	28,939
Interest expense	268,342	94,282	--	362,624	282,002
Library materials	213	--	--	213	225
Maintenance & rental	158,956	68,124	--	227,080	227,309
Media	7,937	--	2,029	9,966	6,211
Meetings	--	--	148	148	712
Membership services	8,030	--	--	8,030	7,158
Newsletter	9,002	--	--	9,002	10,719
Office supplies	3,464	1,484	--	4,948	2,694
Photography	9,609	--	--	9,609	--
Postage	1,739	745	--	2,484	4,316
Preservation center	25,641	9,009	--	34,650	19,443
Printing & copying	1,510	647	6,479	8,636	6,409
Professional development	--	3,643	--	3,643	175
Public programming	21,865	--	--	21,865	32,489
Subscriptions	--	2,557	--	2,557	6,686
Staff recruitment and retention	--	5,029	--	5,029	7,058
Storage room	--	3,258	--	3,258	2,938
Telephone	--	5,071	--	5,071	4,959
Travel	--	--	7,380	7,380	1,446
Utilities/security	76,808	32,918	--	109,726	109,219
Total Expenses	\$ 1,769,771	\$ 1,008,320	\$ 195,256	\$ 2,973,347	\$ 3,096,247

The accompanying Notes to Financial Statements are an integral part of these financial statements.

National Music Museum: America's Shrine to Music
Statement of Cash Flows for the Year Ended June 30, 2023
With Comparative Totals for the Year Ended June 30, 2022

	2023	2022
Operating Activities		
Changes in net assets	\$ 1,501,585	\$ 347,858
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	203,215	181,995
(Increase) decrease in operating assets:		
Receivables	64,457	(67,085)
Prepaid expense	(3,691)	7,151
Inventory	4,744	(41,661)
Increase (decrease) in operating liabilities:		
Interest payable	(5,369)	(26,646)
Accounts payable	11,102	(105,422)
Accrued leave	(53,120)	(3,617)
Net cash provided by operating activities	1,722,923	292,573
Investing Activities		
Purchase of property and equipment	(3,123,432)	(682,416)
Change in reserve investments	1,046,007	1,287,767
Net cash provided (used) by investing activities	(2,077,425)	605,351
Financing Activities		
Proceeds from long term debt	348,731	195,000
Principal payments on long term debt	(60,975)	(898,734)
Cash held with fiscal agent	149,800	107,904
Net cash provided (used) by financing activities	437,556	(595,830)
Net Increase in Cash and Cash Equivalents	83,054	302,094
Cash and Cash Equivalents, Beginning of Year	659,525	357,431
Cash and Cash Equivalents, End of Year	\$ 742,579	\$ 659,525
Interest Expense	\$ 367,993	\$ 308,648
Noncash Activity-		
Value of Donated Instruments, Books and Music	\$ 223,637	\$ 642,580
Value of Donated Capital Assets	\$ --	\$ 30,677

The accompanying Notes to Financial Statements are an integral part of these financial statements.

National Music Museum: America's Shrine to Music

Notes to Financial Statements

June 30, 2023

1. Nature of Activities and Significant Accounting Policies:

Nature of Organization: The National Music Museum: America's Shrine to Music (the Museum) serves the people of South Dakota and the Nation as an international center for collecting and conserving musical instruments of all cultures and bringing people together to study, enjoy, and understand our diverse musical heritage. It partners with and is located on the campus of The University of South Dakota.

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

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Museum or may impose stipulations that will be met either by actions of the Museum and/or passage of time. When a restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Investments: Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are recorded at fair values in the statement of financial position. Net investment income is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Public Support and Revenue: Contributions, memberships, and grants are generally available for use unless specifically restricted by the donor. Unconditional promises to give are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

All gains and losses from the sale, collection, or other disposition of investments are accounted for in the fund that owned the assets. Ordinary income from investments is accounted for in the fund that owned the assets.

Contributions of donated services that either create or enhance nonfinancial assets or that require specialized skills are provided by individuals possessing those skills. These services typically would need to be paid by the Museum if not provided by donation. They are recorded at fair value in the period received. Donated services include travel to retrieve donations and other miscellaneous tasks.

Cash and Cash Equivalents: The Museum considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Cash and highly liquid financial instruments restricted for other long-term purposes are excluded from this definition.

Use of Estimates: The Museum prepares its financial statements on the accrual basis of accounting in conformity with generally accepted accounting principles. These principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual amounts could differ from those estimates.

National Music Museum: America's Shrine to Music

Notes to Financial Statements

June 30, 2023

1. Nature of Activities and Significant Accounting Policies: (Continued)

Comparative Data: The financial statements include certain June 30, 2022 summarized comparative information. With respect to the statement of financial position, the statement of activities and the statement of cash flows, such prior information is not presented by net asset class and, in the statement of functional expenses, the June 30, 2022 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2022 from which the summarized information was derived.

Museum Collections: The Museum collections, which were acquired through purchases and contributions since the organization's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired, or net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Merchandise Inventories: Merchandise inventories are carried at the lower of cost (first-in, first out) or market. As of June 30, 2023 and 2022, the amount of inventory carried is \$203,090 and \$207,834, respectively.

Property and Equipment: The Museum occupies state-owned buildings without charge from the state of South Dakota. Generally, expenses that are attached to the building are not capitalized. Property and equipment are depreciated over their useful lives, ranging from 10-30 years, using the straight-line method.

Income Taxes: The Museum is a nonprofit organization as described in section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Revenue Recognition: The Museum's memberships, public programming & events, and merchandise sales revenues are from contracts with members and customers. For each contract, the Museum determines the transaction price based on the consideration they expect to receive. The Museum allocates the transaction price to each performance obligation. The Museum recognizes revenue for each performance obligation at the point in time (generally monthly) when fees and merchandise are no longer refundable. The Museum's memberships are generally collected within 30 days of billing.

Grants and contributions are recognized when cash, securities, or other assets, unconditional promises to give, or notification of a beneficial interest is received. Any conditional grants or promises to give are not recognized until the conditions on which they depend have been met.

Functional Expenses: Expenses are allocated between program services, supporting services, and fund raising by direct identification of expenses if possible and estimated by management when direct identification is not possible. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, furniture and equipment, maintenance and rental, and office expenses, which are allocated on a square-footage basis, as well as personnel, which are allocated on the basis of estimates of time and effort.

National Music Museum: America's Shrine to Music

Notes to Financial Statements

June 30, 2023

1. Nature of Activities and Significant Accounting Policies: (Continued)

Leases: The Museum recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the financial statements. The Museum recognizes lease liabilities with an initial, individual value of \$45,000 or more.

At the commencement of a lease, the Museum initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of the lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the commencement date, plus certain initial direct costs. Subsequently, the lease is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Museum determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Museum uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Museum generally uses its incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option prices that the Museum is reasonably certain to exercise.

The Museum monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as right of use assets with property and equipment and lease liabilities are reported with long-term debt on the statement of financial position.

Subsequent Events Disclosure: Management has evaluated subsequent events through November 28, 2023, the date the financial statements were available to be issued.

2. Net Assets without Donor Restrictions:

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for operating reserve and board-designated endowments. Net assets without donor restrictions are disclosed in the Supplementary Schedules in Schedule 1.

National Music Museum: America's Shrine to Music

Notes to Financial Statements

June 30, 2023

3. Net Assets with Donor Restrictions:

Net assets subject to donor or certain grantor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. See Schedule 2 in the Supplementary Schedules for a listing as of June 30, 2023.

During fiscal year 2023, these net assets were analyzed according to donor restriction requirements, making reclassifications from net assets with donor restrictions for accurate reporting by donor restriction. Reclassifications were made to release net assets with donor restrictions to net assets without donor restrictions as follows:

Release of purpose restrictions by incurring expenses to satisfy requirements \$ 1,415,908

4. Reserve Investments – University of South Dakota Foundation:

To achieve its investment objectives, the Museum invests endowments and operational resources in a pooled account with the University of South Dakota Foundation. The pooled account is managed by the Foundation using a total return strategy in which investment results are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). A diversified asset allocation is used that places a greater emphasis on equity-based investments to achieve long-term return objectives within prudent constraints. Investments include fixed income mutual funds, private equity co-mingled funds, equity securities, government bonds and real estate limited partnerships. Investment income, including interest, dividends, realized gains and losses, and unrealized gains and losses are allocated to the participants in the pooled account based upon their pro rata share of the investments. The Museum reserves the right to withdraw all or a portion of the funds in the pooled account, in addition to the normal annual distribution, as adjusted for unexpended earnings and market appreciation (depreciation), upon giving a 90 days written notice to the Foundation.

On June 30, 2023, the Foundation reported a current year net investment income on its pooled account. Net earnings and any additions to each Museum account invested in the pool were allocated to each account of the Museum's investment fund. The Foundation has a policy of calculating an annual distribution from the pooled account based on the average fair value over the period of 36 months. The distribution rate was unchanged from 2022 at 3.9%, making the distribution rate for the years ending June 30, 2023 and 2022 3.9%, which was available for each account on July 1, 2023.

Funds held by the University of South Dakota Foundation as of June 30, 2023 are summarized as follows:

Contributed Value	Market Value
<u>\$ 3,433,295</u>	<u>\$ 4,588,658</u>

National Music Museum: America's Shrine to Music

Notes to Financial Statements

June 30, 2023

5. Changes in Investments:

The following summarizes the reserve investment changes in the Statement of Financial Position for the years ended June 30, 2023 and 2022:

	June 30,	
	2023	2022
Beginning Balance	\$ 5,634,665	\$ 6,922,432
Additions		
Investment income	153,296	72,420
Realized gain (loss)	8,721	116,950
Unrealized gain (loss)	225,546	(785,387)
Endowment gifts	--	98,609
Distributions		
Transfers/reclassification	(1,362,646)	(712,337)
Investment expenses	(70,924)	(78,022)
Ending Balance	\$ 4,588,658	\$ 5,634,665

6. Contributions Receivable:

Contributions receivables as of June 30, 2023 and 2022:

	June 30,	
	2023	2022
Contributions without donor restrictions	\$ 20,000	\$ --
Contributions purpose restricted	15,000	15,000
Contributions restricted by time	366,500	--
Less: unamortized discount	(74,412)	--
Net contributions receivable	\$ 327,088	\$ 15,000
Amounts due in:		
Less than one year	\$ 96,700	\$ 15,000
Two to five years	264,800	--
Greater than five years	40,000	--
Unamortized discount	(74,412)	--
Net contributions receivable	\$ 327,088	\$ 15,000

Contributions receivable are recognized at net realizable value equal to the contract amount adjusted for a default risk using a default rate of 1%. In addition, contributions receivables due in more than one year are recognized at fair value equal to their net realizable value discounted using present value techniques and a discount rate of 10.82%, when the donor makes an unconditional promise to give to the Organization.

National Music Museum: America's Shrine to Music

Notes to Financial Statements

June 30, 2023

7. Property and Equipment:

The Museum's property and equipment are recorded at cost, or if donated, at fair value on the date of donation and consist of office and exhibition furniture and equipment. Right of use assets are valued as explained in Note 1. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred.

The following is a summary of property and equipment as of June 30, 2023 and 2022:

	June 30,	
	2023	2022
Construction work in progress	\$ 4,010,240	\$ 1,133,302
Property & equipment	799,262	572,224
Building (leased asset)	4,331,629	4,331,629
Less accumulated depreciation	(773,200)	(589,441)
Total	<u>\$ 8,367,931</u>	<u>\$ 5,447,714</u>

8. Concentration of Credit Risk:

The Museum maintains cash balances at Bank of the West and First Bank and Trust in South Dakota, which are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2023, \$455,443 of the deposits held in Bank of the West that were not insured by the FDIC.

The Museum is currently 1.49% of the USDF pooled portfolio's market value currently held with the University of South Dakota Foundation in Vermillion, South Dakota.

9. Beneficial Interest – Split Interest Agreements:

The Museum has been named as an irrevocable beneficiary of two charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, the Museum has neither possession nor control over the assets of the trusts. At the date, the Museum receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the statement of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statement of financial position, with changes in fair value recognized in the statement of activities.

Upon receipt of trust distributions, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions.

As of June 30, 2023, \$174,901 and \$14,727 and as June 30, 2022, \$172,631 and \$13,755 was held in these two trusts.

National Music Museum: America's Shrine to Music

Notes to Financial Statements

June 30, 2023

10. University Support:

The Museum occupies state-owned buildings without charge from the state of South Dakota. The Museum also receives support from the state of South Dakota for personnel, operations and maintenance. It is estimated that the approximate value for these costs is \$742,034 and \$635,733 at June 30, 2023 and 2022, respectively, and is included in USD support with donor restrictions and expenses in the statement of activities.

11. Available Resources and Liquidity:

The Museum strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds, and other short-term investments.

The following table reflects the Museum's financial assets as of June 30, 2023 and 2022, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

	June 30,	
	<u>2023</u>	<u>2022</u>
Total Financial Assets	\$ 8,788,420	\$ 9,965,630
Cash held with fiscal agent	(2,880,000)	(3,029,800)
Beneficial Interest - split interest agreements	(203,205)	(197,107)
Board designated funds	(3,438,773)	(3,346,581)
Long-term pledge receivables	(231,355)	--
Donor restrictions perpetual	(131,180)	(128,913)
Donor restrictions conditional	(250,462)	(184,966)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,653,445</u>	<u>\$ 3,078,263</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Museum operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

National Music Museum: America's Shrine to Music

Notes to Financial Statements

June 30, 2023

12. Notes Payable:

National Music Museum signed a \$4,200,000 promissory note with CorTrust Bank of Sioux Falls, SD on June 29, 2023. The terms of this note are 8.5% variable interest rate based on US Prime rate with a maturity date of June 30, 2026. As of June 30, 2023, \$3,878,731 of this note has been drawn down by the Museum with principal payments of \$840,000. Pledge commitments made to the University of South Dakota Foundation and reported as cash held with fiscal agent will be used to repay the debt. The drawdown, less transfers for debt payments of \$359,859, less purchase of equipment and construction expenditures of \$638,872 brings the cash with fiscal agent balance to \$2,880,000.

Current maturity of this note is \$840,000 as of June 30, 2023.

13. Leases:

National Music Museum entered into a financing lease agreement with Vermillion Area Chamber of Commerce as of September 1, 2019 for a Preservation Hall for special storage of priceless inventory. The initial terms of this lease are 10% escalation following the 1st ten year term with an annual rent of \$216,000. Two additional terms of ten years each are available as options to extend. The lease contains a purchase option that can be exercised at any time with a price defined as the total project cost less lease payment credit amounts. The lease payment credit amount is defined as the amount by which the total of all base rent payments paid exceeds 5% of the total project construction costs at the date of closing. The Museum is reasonably certain that it will exercise its option to renew the lease and exercise the option to purchase the property and has therefore considered this in the calculation.

The following summarizes the line items in the statements of financial position which include amounts for leases as of June 30:

	2023	2022
Assets:		
Financing leases		
Property & equipment	\$ 4,331,629	\$ 4,331,629
Accumulated depreciation/amortization	<u>(553,485)</u>	<u>(409,098)</u>
	\$ 3,778,144	\$ 3,922,531
Liabilities		
Financing leases		
Current portion of long-term debt	\$ 68,684	\$ 66,160
Long-term debt	<u>4,032,104</u>	<u>4,095,603</u>
Total lease liabilities	\$ 4,100,788	\$ 4,161,763

National Music Museum: America's Shrine to Music

Notes to Financial Statements

June 30, 2023

13. Leases: (Continued)

The following summarized the line items in the statement of activities which include the components of lease expense for the years ended June 30:

	2023	2022
Financing Leases:		
Depreciation/amortization	\$ 144,387	\$ 144,387
Interest expense	154,634	156,899
	<u>\$ 299,021</u>	<u>\$ 301,286</u>

The following summarizes the line items in the statements of cash flows which include the components of leases for the year ended June 30:

	2023	2022
Cash Flow Information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows from finance leases	\$ 60,975	\$ 59,101

The following summarizes additional information related to the Organization's leases as of June 30:

	2023	2022
Lease Term and Discount Rate:		
Weighted Average Remaining Lease Terms (years)		
Finance leases	26.2	27.2
Weighted Average Discount Rate		
Finance leases	3.75%	3.75%

Calculation of the lease payable included the rate of 3.75% and the two extended terms for a total of 30 years.

National Music Museum: America's Shrine to Music

Notes to Financial Statements

June 30, 2023

13. Leases: (Continued)

The annual maturities of lease liabilities as of June 30, 2023:

	2024	\$ 234,000
	2025	216,000
	2026	216,000
	2027	216,000
	2028	216,000
	Thereafter	<u>5,759,354</u>
	Total lease payments	6,857,354
	Less: interest	<u>(2,756,566)</u>
	Present value of lease liabilities	<u><u>\$4,100,788</u></u>

14. Fair Value Measurements:

FASB ASC 820 Fair Value Measurements and Disclosures defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy based on the inputs used to measure fair value, maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available, and enhances disclosure requirements for fair value measurements. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 Inputs – Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 Inputs – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. Level 2 inputs include assets or liabilities for which quoted prices are available but traded less frequently and assets or liabilities that are fair valued using similar assets or liabilities, the parameters of which can be directly observed.

Level 3 Inputs – Assets or liabilities have little to no pricing observability as of the report date. These items are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

National Music Museum: America's Shrine to Music

Notes to Financial Statements

June 30, 2023

14. Fair Value Measurements: (Continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels.

The following table sets forth by level, within fair value hierarchy, invested assets in USD Foundation, as of June 30, 2023.

	Fair Value Measurements			Total
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Other Unobservable Inputs Level 3	
Invested Assets				
Cash composite	\$ 780,991	\$ --	\$ --	\$ 780,991
Total Invested Cash	780,991	--	--	780,991
Short term fixed income	--	624,057	--	624,057
Long term fixed income	--	882,858	--	882,858
Equity-like	--	199,148	--	199,148
Emerging markets equity	--	275,319	--	275,319
International equity	--	881,022	--	881,022
Small-cap equity	--	426,745	--	426,745
Mid-cap equity	--	50,475	--	50,475
Large-cap equity	--	468,043	--	468,043
Total Foundation Investments	--	3,807,667	--	3,807,667
Total Invested Assets	\$ 780,991	\$ 3,807,667	\$ --	\$ 4,588,658

15. Reclassifications:

Certain items in the financial statements for 2022 have been reclassified to conform with the current year presentation. Such reclassifications had no effect on the change in net assets.

Supplemental Information

National Music Museum: America's Shrine to Music
Schedules to Financial Statements

Schedule 1 - Net Assets Without Donor Restrictions are Summarized as Follows:

Donor	Purpose	June, 30	
		2023	2022
Board Designated Current Funds:			
Board of Trustees	Acquisitions	\$ 1,155	\$ 1,155
Board Designated Endowed Funds:			
Clifford Graese	Program	221,943	215,990
Rawlins/Larson Estate	Personnel	2,048,732	1,993,788
Rawlins	Insurance	438,357	426,601
Rawlins Estate	Program	620,516	603,875
Edith Siegrist	Operations	108,070	105,172
Total Board Designated		<u>3,438,773</u>	<u>3,346,581</u>
Undesignated:		5,891,182	4,846,636
Total Net Assets Without Donor Restrictions		<u>\$ 9,329,955</u>	<u>\$ 8,193,217</u>

Schedule 2 - Net Assets with Donor Restrictions are Restricted for the Following Purposes or Periods:

Donor	Purpose	June, 30	
		2023	2022
Current Funds: (Subject to Expenditure for Specified Purposes)			
Cremona Exhibit	Exhibitions	\$ 6,059	\$ 6,059
Acquisitions Fund	Acquisitions	27,859	--
Exhibitions Fund	Exhibitions	48,447	50,000
Clayton & Odessa Lang Ofstad Foundation Fund	Exhibitions	25,672	--
Martin Guitar Charitable Foundation	Program	22,597	12,597
Al Hegyi Fund	Personnel	49,367	46,233
IN Historical Society-CLIO Grant	Research	2,764	2,764
Thomas Mace Conservation	Research	3,983	3,983
Janet Wanzek Memorials	Memorials	12,470	12,470
Marifran Wohlenberg Fund	Exhibitions	4,083	4,083
Programming and Events Fund	Program	500	500
Maud and Mary Adams Memorial Fund	Events	1,882	1,498
Clois E. Smith Fund	Acquisitions	44,779	44,779
Total for Specified Purposes		<u>250,462</u>	<u>184,966</u>
Time restricted			
Split Interest Agreement - Edith Siegrist Estate	Operations	174,901	172,631
Contributions receivables	Operations	293,842	--
Total Time Restricted Net Assets		<u>468,743</u>	<u>172,631</u>
Endowments and Perpetual Trust, Subject to Spending Policy and Appropriation:			
Andre Larson Endowment	Operations	90,211	88,652
Mary Adams Estate	Events	40,969	40,261
SD Community Foundation	Operations	14,727	13,755
Total Endowments and Split Interest Agreements		<u>145,907</u>	<u>142,668</u>
Total Net Assets With Donor Restrictions		<u>\$ 865,112</u>	<u>\$ 500,265</u>