

**NATIONAL MUSIC MUSEUM:
AMERICA'S SHRINE TO MUSIC**

**FINANCIAL STATEMENTS
AND
AUDITOR'S REPORT**

JUNE 30, 2021 and 2020

QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

NATIONAL MUSIC MUSEUM: AMERICA'S SHRINE TO MUSIC
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 JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of National Music Museum: America's Shrine to Music, (a nonprofit organization) which comprise the statements of financial position as of June 30, 2021, and the related statements of activities, statement of 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 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 audits. We conducted our audits 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 of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 organization'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 organization'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 Music Museum: America's Shrine to Music, as of June 30, 2021, 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.

Report on Summarized Comparative Information

We have previously audited National Music Museum's 2020 financial statements, and our report dated October 27, 2020, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the National Music Museum: America's Shrine to Music, taken as a whole. The accompanying Schedules 1 and 2 of the supplementary information listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Quam, Berglin & Post P.C.

Quam, Berglin & Post, P.C.
Elk Point, SD

November 11, 2021

NATIONAL MUSIC MUSEUM: AMERICA'S SHRINE TO MUSIC
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS:		
<u>Current Assets</u>		
Operating Cash & Cash Equivalents	\$ 357,431	\$ 348,266
Cash with Fiscal Agent	3,137,704	2,200,000
Contributions Receivable, Current	300,497	201,356
Accounts Receivable	46,033	14,000
Inventories	166,173	180,612
Prepaid Expense	<u>35,482</u>	<u>37,123</u>
Total Current Assets	<u>4,043,320</u>	<u>2,981,357</u>
<u>Capital Assets</u>		
Construction Work in Progress	617,331	100,000
Property & Equipment, net	<u>263,044</u>	<u>82,688</u>
Total Capital Assets	<u>880,375</u>	<u>182,688</u>
<u>Other Assets</u>		
Right to Use Leased Assets	4,066,918	4,211,306
Contributions Receivable-Split Interest Agreements	228,025	199,535
Reserve Investments	<u>6,922,432</u>	<u>5,818,455</u>
Total Other Assets	<u>11,217,375</u>	<u>10,229,296</u>
TOTAL ASSETS	<u>\$ 16,141,070</u>	<u>\$ 13,393,341</u>
LIABILITIES AND NET ASSETS:		
<u>Current Liabilities</u>		
Accounts Payable	\$ 2,696	\$ 6,648
Interest Payable	57,629	14,647
Accrued Leave Payable	70,844	85,203
Current Portion of Long Term Debt	<u>903,728</u>	<u>476,752</u>
Total Current Liabilities	<u>1,034,897</u>	<u>583,250</u>
<u>Noncurrent Liabilities</u>		
Long Term Debt	7,555,497	6,570,778
Less: Current Portion	<u>(903,728)</u>	<u>(476,752)</u>
Total Noncurrent Liabilities	<u>6,651,769</u>	<u>6,094,026</u>
TOTAL LIABILITIES	<u>7,686,666</u>	<u>6,677,276</u>
NET ASSETS		
Net Assets Without Donor Restrictions	7,847,382	6,238,402
Net Assets With Donor Restrictions	<u>607,022</u>	<u>477,663</u>
TOTAL NET ASSETS	<u>8,454,404</u>	<u>6,716,065</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,141,070</u>	<u>\$ 13,393,341</u>

The attached notes 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, 2021		June 30, 2020	
	Without Donor Restrictions	With Donor Restrictions	TOTAL	TOTAL
Support:				
Memberships	\$ 46,721	\$	\$ 46,721	\$ 46,878
General Cash Contributions	253,918	51,400	305,318	477,668
Contributions-noncash		88,280	88,280	88,553
Non-Governmental Grants	29,229	205,033	234,262	108,646
Governmental Grants	839,474		839,474	44,088
USD Support		474,782	474,782	422,283
Revenue:				
Investment Income (Net)	1,286,628	46,978	1,333,606	70,011
Public Programming & Events				47,043
Gross Profit on Merchandise Sales	(15,302)	(596)	(15,898)	8,093
Other Revenue	<u>2,226</u>		<u>2,226</u>	<u>77</u>
Total Support and Revenue	<u>2,442,894</u>	<u>865,877</u>	<u>3,308,771</u>	<u>1,313,340</u>
Net Assets Added to/(Released from) Restrictions	<u>738,515</u>	<u>(738,515)</u>		
Total Support and Revenue after Restriction Adjustments	<u>3,181,409</u>	<u>127,362</u>	<u>3,308,771</u>	<u>1,313,340</u>
Expenses:				
Program Services	1,233,673		1,233,673	1,122,863
Supporting Services:				
Management and General	642,945		642,945	719,093
Fund Raising	<u>23,668</u>		<u>23,668</u>	<u>61,005</u>
Total Expenses	<u>1,900,286</u>		<u>1,900,286</u>	<u>1,902,961</u>
Excess Revenue Over/(Under) Expense	<u>1,281,123</u>	<u>127,362</u>	<u>1,408,485</u>	<u>(589,621)</u>
Excess(deficiency) of support and revenue over expenses	1,281,123	127,362	1,408,485	(589,621)
Net Assets, Beginning of year	<u>6,238,402</u>	<u>477,663</u>	<u>6,716,065</u>	<u>7,305,686</u>
Prior Period Adjustment	<u>327,857</u>	<u>1,997</u>	<u>329,854</u>	
Adjusted Net Assets, Beginning of Year	<u>6,566,259</u>	<u>479,660</u>	<u>7,045,919</u>	<u>7,305,686</u>
Net Assets, End of Year	<u>\$ 7,847,382</u>	<u>\$ 607,022</u>	<u>\$ 8,454,404</u>	<u>\$ 6,716,065</u>

The attached notes 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, 2021			June 30, 2020	
	PROGRAM SERVICES	SUPPORTING SERVICES ADMINISTRATIVE	FUND RAISING	TOTAL	TOTAL
Operating:					
Personnel	\$ 646,631	\$ 209,718	\$ 17,477	\$ 873,826	\$ 921,445
Archival Supplies/ Equipment	7	3		10	30
Accounting and Audit Services		36,229		36,229	41,938
Legal Services		1,217		1,217	6,832
Other Professional Services					30,000
Acquisitions	101,580			101,580	75,799
Bank Charges/ Credit Card Fees		1,747		1,747	1,949
Billboards	9,611		4,119	13,730	13,000
Board Activities		346		346	1,818
Carnegie Relocation		42,654		42,654	218,414
Computer Software & Support		24,500		24,500	25,605
Conservation	3,704			3,704	3,970
Depreciation & Amortization	106,847	58,979		165,826	134,888
Dues & Membership Fees		5,206		5,206	4,926
Exhibitions	1,401			1,401	469
Fees		95		95	135
Furniture & Equipment		18,716		18,716	2,232
Fund Development Events			1,989	1,989	64,615
Feasibility Study		99,603		99,603	21,000
Insurance	19,600	6,935		26,535	25,012
Interest Expense	199,174	69,980		269,154	135,456
Library Materials	193			193	503
Maintenance & Rental	66,138	28,345		94,483	63,880
Media			63	63	210
Membership Services	9,348			9,348	7,046
Miscellaneous		3,189		3,189	2,062
Newsletter	11,163			11,163	9,158
Office Supplies	2,495	1,069		3,564	4,255
Photography	691			691	
Postage	2,470	1,058		3,528	2,124
Preservation Center	13,329	4,683		18,012	14,998
Printing & Copying	5,011	2,147		7,158	5,837
Professional Development		95		95	529
Public Programming	8,299			8,299	11,384
Subscriptions		2,184		2,184	1,098
Staff Recruitment and Retention		5,409		5,409	5,141
Taxes					17,575
Storage Room		2,778		2,778	3,524
Telephone		4,925		4,925	5,329
Travel			20	20	2,031
Utilities/Security	25,981	11,135		37,116	16,744
TOTAL EXPENSES	\$ 1,233,673	\$ 642,945	\$ 23,668	\$ 1,900,286	\$ 1,902,961

The attached notes 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, <u>2021</u>	June 30, <u>2020</u>
OPERATING ACTIVITIES		
Changes in net assets	\$ 1,408,485	\$ (589,621)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	165,826	134,888
Prior Period Adjustment	329,854	
Change in receivables	(159,664)	(172,264)
Change in prepaid expense	1,641	(11,879)
Change in inventories	14,439	123
Change in interest payable	42,982	14,647
Change in liabilities	<u>(18,311)</u>	<u>(2,570)</u>
Net cash used by operating activities	<u>1,785,252</u>	<u>(626,676)</u>
INVESTING ACTIVITIES:		
Purchase of property and equipment	(719,899)	(4,370,888)
Loss on Disposal of capital assets	774	
Change in reserve investments	<u>(1,103,977)</u>	<u>795,895</u>
Net cash from investing activities	<u>(1,823,102)</u>	<u>(3,574,993)</u>
FINANCING ACTIVITIES		
Proceeds of Long Term Debt	1,202,245	6,570,778
Payments on Long Term Debt	(217,526)	
Cash held with Fiscal Agent	<u>(937,704)</u>	<u>(2,200,000)</u>
Net cash from financing activities	<u>47,015</u>	<u>4,370,778</u>
Net increase (decrease) in cash and cash equivalents	9,165	169,109
Cash and Cash Equivalents, beginning of year	<u>348,266</u>	<u>179,157</u>
Cash and Cash Equivalents, end of year	<u>\$ 357,431</u>	<u>\$ 348,266</u>
Interest Expense	\$ 226,172	\$ 120,809
Noncash Investing Activity-		
Value of Donated Instruments, Books and Music	\$ 88,280	\$ 88,553
Value of Donated Capital Assets	184,052	

The attached notes are an integral part of these financial statements

NATIONAL MUSIC MUSEUM: AMERICA'S SHRINE TO MUSIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – Summary of 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:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles.

Financial Statement Presentation

The Organization has adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor 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 recorded as received. 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 organization 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 organization 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.

Comparative Data:

The financial statements include certain June 30, 2020 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, 2020 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2020 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 average cost or market. As of June 30, 2021 and 2020, the amount of inventory carried is \$166,173 and \$180,612, 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 5-10 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 Organization has adopted Accounting Standards Updates (ASU) No. 2014-09 *Revenue from Contracts with Customers (Topic 606)* and (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standards improve the usefulness and understandability of the Organization's financial reporting. Analysis of various provisions of these standards resulted in no significant changes in the way the organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

NOTE 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.

NOTE 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, 2021.

During fiscal year 2021, 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	<u>\$ 738,515</u>
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NOTE 4 – Reserve Investments-University of South Dakota Foundation

To achieve its investment objectives, the Museum invests some 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, 2021, 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 for the years ending June 30, 2021 and 2020 was 4%, which was available for each account on July 1, 2021.

Funds held by the University of South Dakota Foundation as of June 30, 2021 are summarized as follows:

<u>Contributed Value</u>	<u>Market Value</u>
<u>\$ 4,534,685</u>	<u>\$ 6,922,432</u>

NOTE 5 – Changes in Investments

The following summarizes the reserve investment changes in the Statement of Financial Position for the years ended June 30, 2020 and 2021.

	USD Foundation	
	<u>06/30/21</u>	<u>06/30/20</u>
Beginning Balance	\$ 5,818,455	\$ 6,614,350
Prior Period Adjustment	305,079	
<u>Additions:</u>		
Investment Income	96,929	140,403
Realized Gain (Loss)	145,723	33,987
Unrealized Gain (Loss)	1,054,633	(23,845)
<u>Distributions:</u>		
Transfers/Reclassification	(413,891)	(860,511)
Investment Expenses	<u>(84,496)</u>	<u>(85,929)</u>
Ending balance	<u>\$ 6,922,432</u>	<u>\$ 5,818,455</u>

NOTE 6 – 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. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expenses as incurred.

The following is a summary of property and equipment as of June 30, 2021 and June 30, 2020.

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Construction Work in Progress	\$ 617,331	\$ 100,000
Property & Equipment	451,536	310,424
Less Accumulated Depreciation	<u>(188,492)</u>	<u>(227,736)</u>
Total	<u>\$ 880,375</u>	<u>\$ 182,688</u>

NOTE 7 – 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, 2021, \$35,854 of the deposits held in Bank of the West were not insured by the FDIC.

The Museum is currently 2.11% of the USDF pooled portfolio's market value currently held with the University of South Dakota Foundation in Vermillion, South Dakota.

NOTE 8- Contributions Receivable – 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, 2021, \$210,699 and \$17,325 and as of June 30, 2020, \$184,911 and \$14,624 was held in these two trusts.

NOTE 9- 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 \$474,782 and \$422,283 at June 30, 2021 and 2020, respectively, and is included in grants and other support with donor restrictions and expenses in the statement of activities.

NOTE 10 – Subsequent Events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through November 11, 2021, the date the financial statements were available to be issued.

NOTE 11 – Available Resources and Liquidity

The organization 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 organization's financial assets as of June 30, 2021 and 2020, 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.

	<u>2021</u>	<u>2020</u>
Total Financial Assets	\$ 15,260,695	\$ 13,210,652
Cash held with fiscal agent	(3,137,704)	(2,200,000)
Right to use Lease Assets	(4,066,918)	(4,211,306)
Contributions Receivable with liquidity greater than one year	(228,025)	(199,535)
Board Designated funds	(4,182,708)	(3,516,976)
Donor Restrictions perpetual	(145,042)	(136,695)
Donor Restrictions conditional	<u>(233,956)</u>	<u>(141,433)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,266,342</u>	<u>\$ 2,804,707</u>

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

NOTE 12 – Notes Payable

National Music Museum signed a \$4,200,000 promissory note with CorTrust Bank of Sioux Falls, SD on June 18, 2020. The terms of this note are 3.75% with a maturity date of June 18, 2023. As of June 30, 2020, \$3,335,000 of this note have been drawn down by the organization. This drawdown is currently held as cash with fiscal agent, less expenditures of \$197,296, for which pledge commitments made to the University of South Dakota Foundation will be used to repay debt.

Current maturity of this note is \$840,000 as of June 30, 2021.

NOTE 13 – Leases

National Music Museum entered into a 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% for the 1st ten years with an annual rent of \$216,000. Two additional terms of ten years each is available as an option to extend.

Calculation of the lease payable included the rate of 3.75% and the two extended terms for a total of 30 years. Total lease amount is \$4,220,497 and \$4,272,438 as of June 30, 2021 and June 30, 2020, respectively.

As of July 1, 2020, the beginning asset amount of this agreement was \$4,211,306. Amortization during the current period included \$144,388 with an ending asset amount of \$4,066,918, as of June 30, 2021.

The annual requirements for the organization to amortize lease debt outstanding is as follows:

	<u>Principal</u>
2022	\$ 63,728
2023	61,166
2024	63,499
2025	65,921
2026	68,435
Thereafter	<u>3,897,748</u>
Totals	<u>\$ 4,220,497</u>

NOTE 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.

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, 2021.

	<u>Fair Value Measurements</u>			Total
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	
	(Level 1)			
Invested assets				
Cash Composite	\$ 560,717	\$	\$	\$ 560,717
Total Invested Cash	<u>560,717</u>			<u>560,717</u>
Short Term Fixed Income		1,869,057		1,869,057
Long Term Fixed Income		851,459		851,459
Equity-Like		325,354		325,354
Emerging Markets Equity		484,570		484,570
International Equity		1,280,650		1,280,650
Small-Cap Equity		560,717		560,717
Mid-Cap Equity		89,992		89,992
Large-Cap Equity		899,916		899,916
Total Foundation investments		<u>6,361,715</u>		<u>\$ 6,361,715</u>
Total invested assets	<u>\$ 560,717</u>	<u>\$ 6,361,715</u>	<u>\$</u>	<u>\$ 6,922,432</u>

NOTE 15 – Prior Period Adjustments

USD Investments beginning balance of \$5,818,455, as of July 1, 2020 was adjusted by the amount of \$305,079. This amount included investment income, unrealized and realized gains and losses along with investment manager fees. Net effect of this adjustment increased net assets without donor restrictions by \$303,082 and increased net assets with donor restrictions by \$1,997.

Capital assets as of July 1, 2020, held \$100,000 in Construction Work in Progress from fiscal year 2018, which was reversed and, therefore, decreased net assets without donor restrictions by \$100,000.

Capital assets, as of July 1, 2020, was increased by expenses from fiscal year 2020 which should have been capitalized. Therefore, Construction Work in Progress was increased by \$124,775, which also increased the beginning net assets without donor restrictions by the same amount.

**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 2021	June 30, 2020
Board Designated Current Funds:			
Board of Trustees	Acquisitions	\$ 4,686	\$ 4,686
Board Designated Endowed Funds:			
Clifford Graese	Program	269,745	226,763
Rawlins/Larson Estate	Personnel	2,489,994	2,093,235
Rawlins	Insurance	532,772	447,879
Rawlins Estate	Program	754,164	633,995
Edith Siegrist	Operations	131,347	110,418
Total Board Designated		<u>4,182,708</u>	<u>3,516,976</u>
Undesignated:		<u>3,664,674</u>	<u>2,721,426</u>
Total Net Assets Without Donor Restrictions		<u>\$ 7,847,382</u>	<u>\$ 6,238,402</u>

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

Donor	Purpose	June 30, 2021	June 30, 2020
Current Funds: (Subject to Expenditure for Specified Purposes):			
Cremona Exhibit	Exhibitions	\$ 20,210	\$ 20,210
Acquisitions Fund	Acquisitions	423	61
Exhibitions Fund	Exhibitions	50,000	25,000
John & Margaret Fowler	Acquisitions	18,787	18,787
Martin Guitar Charitable Foundation	Program	22,597	12,597
Al Hegyi Fund	Personnel	43,859	41,478
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
Facilities & Equipment Fund	Facilities	10,000	
Clois E. Smith Fund	Acquisitions	44,780	
Total for Specified Purposes		<u>233,956</u>	<u>141,433</u>
Split Interest Agreement - Remainder Trust (Time Restriction)			
Edith Siegrist Estate	Operations	<u>210,699</u>	<u>184,911</u>
Endowments and Perpetual Trust, Subject to Spending Policy and Appropriation:			
Andre Larson Endowment	Operations	98,609	98,609
Mary Adams Estate	Events	46,433	38,086
SD Community Foundation	Operations	17,325	14,624
Total Endowments and Split Interest Agreements		<u>162,367</u>	<u>151,319</u>
Total Net Assets With Donor Restrictions		<u>\$ 607,022</u>	<u>\$ 477,663</u>