

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

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

**For the Years Ended  
June 30, 2022 and 2021**

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

Board of Trustees

June 30, 2022

---

Scott Ray Lawrence	Sioux Falls, SD	Chair of the Board
Gerald Gaul	Atlanta, GA	Vice Chair
Claire Givens	Minneapolis, MN	Secretary
Nathan (Nate) Welch	Vermillion, SD	Treasurer
Juliet Everist	Sioux City, IA	Chair, Development
Albert P Hegyi	Dakota Dunes, SD	Member-at-large
Boyd Hopkins	Sioux Falls, SD	Member-at-large
Cindy Lillibridge	Bonestell, SD	Past Chair
Jo Wohlenberg	Yankton, SD	Chair, Finance
Bruce Babbitt	Delaware, OH	
Ford W Bell	Excelsior, MN	
Scott Collins	Rochester, MN	
Steve Dillon	Woodbridge, NJ	
Vincent DiMartino	Danville, KY	
George Foreman	Watkinsville, GA	
Eric Grossman	New York, NY	
Betsy Groves	Rapid City, SD	
Joan C Holter	Vermillion, SD	
Michael M Jerstad	Sioux Falls, SD	
Cynthia Mahood Levin	Palo Alto, CA	
Thomas Mace	Niwot, CO	
Joe Schmaderer	New York, NY	
James Smith	Wayzata, MN	
Susanne L Skyrn	Vermillion, SD	
Joseph A Vinatieri	Whittier, CA	
John Vonk	Los Angeles, CA	
Thomas Wilder	Montreal, QC, Canada	
Sheila Gestring	Vermillion, SD	Ex-Officio
Jay Wilson	Vermillion, SD	Ex-Officio
Kelsey Colier-Wise	Vermillion, SD	Ex-Officio
Bruce Kelley	Vermillion, SD	Ex-Officio
Dwight Vaught	Vermillion, SD	Director

**National Music Museum: America's Shrine to Music**  
Table of Contents

---

	Page
<b>Independent Auditor's Report</b> -----	1-3
<b>Financial Statements</b>	
Statement of Financial Position-----	4
Statement of Activities-----	5
Statement of Functional Expenses-----	6
Statement of Cash Flows-----	7
Notes to Financial Statements-----	8-17
<b>Supplemental Information</b> -----	18
Schedules to Financial Statements-----	19



## 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, 2022, 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, 2022, 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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 11, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Handwritten signature in cursive script that reads "CLO Ref LLC".

Elk Point, South Dakota  
January 12, 2023

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

Statement of Financial Position – June 30, 2022

With Comparative Totals as of June 30, 2021

	2022	2021 (Restated)
<b>Assets</b>		
<b>Current Assets</b>		
Operating cash & cash equivalents	\$ 659,525	\$ 357,431
Cash with fiscal agent	3,029,800	3,137,704
Contributions receivable, current	25,721	300,497
Accounts receivable	429,533	46,033
Inventory	207,834	166,173
Prepaid expense	28,331	35,482
Total Current Assets	4,380,744	4,043,320
<b>Capital Assets</b>		
Construction work in progress	1,133,302	617,331
Right of use lease asset (net of \$409,098 in 2022 and \$264,711 in 2021)	3,922,531	4,066,918
Property & equipment, net	391,881	263,044
Total Capital Assets	5,447,714	4,947,293
<b>Other Assets</b>		
Contributions receivable-split interest agreements	186,386	228,025
Reserve investments	5,634,665	6,922,432
Total Other Assets	5,821,051	7,150,457
Total Assets	\$ 15,649,509	\$ 16,141,070
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 6,054	\$ 111,476
Interest payable	30,983	57,629
Accrued leave payable	67,227	70,844
Current portion of long term debt	2,756,160	903,728
Total Current Liabilities	2,860,424	1,143,677
<b>Noncurrent Liabilities</b>		
Long term debt	6,851,763	7,555,497
Less: current portion	(2,756,160)	(903,728)
Total Noncurrent Liabilities	4,095,603	6,651,769
Total Liabilities	6,956,027	7,795,446
<b>Net Assets</b>		
Net assets without donor restrictions	8,193,217	7,738,602
Net assets with donor restrictions	500,265	607,022
Total Net Assets	8,693,482	8,345,624
Total Liabilities and Net Assets	\$ 15,649,509	\$ 16,141,070

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, 2022  
With Comparative Totals for the Year Ended June 30, 2021

	<u>2022</u>			<u>2021</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>(Restated) Total</u>
<b>Support:</b>				
Memberships	\$ 59,177	\$ --	\$ 59,177	\$ 46,721
General cash contributions	1,949,599	151,762	2,101,361	305,318
Contributions-noncash	--	642,580	642,580	88,280
Non-governmental grants	5,000	301,326	306,326	234,262
Governmental grants	383,606	--	383,606	730,694
USD support	--	635,733	635,733	474,782
<b>Revenue:</b>				
Investment income (net)	(656,323)	(43,555)	(699,878)	1,333,606
Gross profit on merchandise sales	5,779	(579)	5,200	(15,898)
Other revenue	10,000	--	10,000	2,226
<b>Net Assets Released from Restrictions:</b>				
Satisfaction of restrictions	1,794,024	(1,794,024)	--	--
<b>Total Support and Revenue</b>	<u>3,550,862</u>	<u>(106,757)</u>	<u>3,444,105</u>	<u>3,199,991</u>
<b>Expenses:</b>				
Program Services	2,141,646	--	2,141,646	1,233,673
Supporting Services:				
Management and general	884,193	--	884,193	642,945
Fund raising	70,408	--	70,408	23,668
<b>Total Expenses</b>	<u>3,096,247</u>	<u>--</u>	<u>3,096,247</u>	<u>1,900,286</u>
<b>Excess Revenue Over/(Under) Expense</b>	<u>454,615</u>	<u>(106,757)</u>	<u>347,858</u>	<u>1,299,705</u>
<b>Net Assets, Beginning of year</b>	<u>7,738,602</u>	<u>607,022</u>	<u>8,345,624</u>	<u>7,045,919</u>
<b>Net Assets, End of Year</b>	<u>\$ 8,193,217</u>	<u>\$ 500,265</u>	<u>\$ 8,693,482</u>	<u>\$ 8,345,624</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, 2022  
With Comparative Totals for the Year Ended June 30, 2021

	<b>2022</b>				<b>2021</b>
	<b>Program Services</b>	<b>Supporting Services Administrative</b>	<b>Fund Raising</b>	<b>Total</b>	<b>Total</b>
<b>Operating:</b>					
Personnel	\$ 616,480	\$ 199,940	\$ 16,662	\$ 833,082	\$ 873,826
Archival supplies/equipment	--	--	--	--	10
Accounting and audit services	--	40,958	--	40,958	36,229
Legal services	--	72	--	72	1,217
Acquisitions	802,928	--	--	802,928	101,580
Bank charges/credit card fees	--	1,235	--	1,235	1,747
Billboards	3,360	--	1,440	4,800	13,730
Board activities	--	5,863	--	5,863	346
Carnegie construction & relocation	--	65,391	--	65,391	42,654
Computer software & support	--	28,136	--	28,136	24,500
Conservation	35,339	--	--	35,339	3,704
Depreciation & amortization	106,847	75,148	--	181,995	165,826
Dues & membership fees	--	615	--	615	5,206
Educational materials	5,463	--	--	5,463	--
Exhibitions	10,798	--	--	10,798	1,401
Events	14,002	--	717	14,719	1,989
Feasibility study	--	227,531	--	227,531	99,603
Fees	--	10	--	10	95
Fundraising professional services	--	--	43,010	43,010	--
Furniture & equipment	7,566	23,369	--	30,935	18,716
Gift shop supplies	--	2,150	--	2,150	--
Hospitality	110	--	--	110	--
Insurance	20,278	8,661	--	28,939	26,535
Interest expense	208,681	73,321	--	282,002	269,154
Library materials	225	--	--	225	193
Maintenance & rental	159,116	68,193	--	227,309	94,483
Media	--	--	6,211	6,211	63
Meetings	--	--	712	712	--
Membership services	7,158	--	--	7,158	9,348
Miscellaneous	--	--	--	--	3,189
Newsletter	10,719	--	--	10,719	11,163
Office supplies	1,886	808	--	2,694	3,564
Photography	--	--	--	--	691
Postage	3,021	1,295	--	4,316	3,528
Preservation center	14,388	5,055	--	19,443	18,012
Printing & copying	4,339	1,860	210	6,409	7,158
Professional development	--	175	--	175	95
Public programming	32,489	--	--	32,489	8,299
Subscriptions	--	6,686	--	6,686	2,184
Staff recruitment and retention	--	7,058	--	7,058	5,409
Storage room	--	2,938	--	2,938	2,778
Telephone	--	4,959	--	4,959	4,925
Travel	--	--	1,446	1,446	20
Utilities/security	76,453	32,766	--	109,219	37,116
<b>Total Expenses</b>	<b>\$ 2,141,646</b>	<b>\$ 884,193</b>	<b>\$ 70,408</b>	<b>\$ 3,096,247</b>	<b>\$ 1,900,286</b>

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, 2022  
With Comparative Totals for the Year Ended June 30, 2021

	<b>2022</b>	<b>2021</b>
		<b>(Restated)</b>
<b>Operating Activities</b>		
Changes in net assets	\$ 347,858	\$ 1,299,705
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	181,995	165,826
(Increase) decrease in operating assets:		
Receivables	(67,085)	(159,664)
Prepaid expense	7,151	1,641
Inventory	(41,661)	14,439
Increase (decrease) in operating liabilities:		
Interest payable	(26,646)	42,982
Accounts payable	(105,422)	104,828
Accrued leave	(3,617)	(14,359)
Net cash provided by operating activities	292,573	1,455,398
<b>Investing Activities</b>		
Purchase of property and equipment	(682,416)	(695,124)
Proceeds from disposal of capital assets	--	774
Change in reserve investments	1,287,767	(798,898)
Net cash provided (used) by investing activities	605,351	(1,493,248)
<b>Financing Activities</b>		
Proceeds from long term debt	195,000	1,202,245
Principal payments on long term debt	(898,734)	(217,526)
Cash held with fiscal agent	107,904	(937,704)
Net cash provided (used) by financing activities	(595,830)	47,015
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	302,094	9,165
<b>Cash and Cash Equivalents, Beginning of Year</b>	357,431	348,266
<b>Cash and Cash Equivalents, End of Year</b>	\$ 659,525	\$ 357,431
Interest Expense	\$ 308,648	\$ 226,172
Noncash Activity-		
Value of Donated Instruments, Books and Music	\$ 642,580	\$ 88,280
Value of Donated Capital Assets	\$ 30,677	\$ 184,052

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, 2022

---

## 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, 2022

---

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

Comparative Data: The financial statements include certain June 30, 2021 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, 2021 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, 2021 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, 2022 and 2021, the amount of inventory carried is \$207,834 and \$166,173, 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 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, 2022

---

### 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 January 12, 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, 2022

---

### 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, 2022.

During fiscal year 2022, 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 \$ 1,794,024

### 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, 2022, 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 changed as of January 1, 2022 from 4% to 3.9%, making the distribution rate for the years ending June 30, 2022 and 2021 3.9% and 4%, respectively, which was available for each account on July 1, 2022.

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

Notes to Financial Statements

June 30, 2022

---

#### 4. Reserve Investments – University of South Dakota Foundation: (Continued)

Funds held by the University of South Dakota Foundation as of June 30, 2022 are summarized as follows:

<b>Contributed</b>	
<b>Value</b>	<b>Market Value</b>
<u>\$ 4,534,685</u>	<u>\$ 5,634,665</u>

#### 5. Changes in Investments:

The following summarizes the reserve investment changes in the Statement of Financial Position for the years ended June 30, 2022 and 2021:

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>Beginning Balance</b>	\$ 6,922,432	\$ 6,123,534
<b>Additions</b>		
Investment income	72,420	96,929
Realized gain (loss)	116,950	145,723
Unrealized gain (loss)	(785,387)	1,054,633
Endowment gifts	98,609	--
<b>Distributions</b>		
Transfers/reclassification	(712,337)	(413,891)
Investment expenses	(78,022)	(84,496)
<b>Ending Balance</b>	<u>\$ 5,634,665</u>	<u>\$ 6,922,432</u>

#### 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. 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 expenses as incurred.

The following is a summary of property and equipment as of June 30, 2022 and 2021:

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Construction work in progress	\$ 1,133,302	\$ 617,331
Property & equipment	572,224	451,536
Right of use assets	4,331,629	4,331,629
Less accumulated depreciation	(589,441)	(453,203)
<b>Total</b>	<u>\$ 5,447,714</u>	<u>\$ 4,947,293</u>

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

Notes to Financial Statements

June 30, 2022

---

### 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, 2022, \$56,952 of the deposits held in Bank of the West and \$99,434 of the deposits held in First Bank and Trust were not insured by the FDIC.

The Museum is currently 1.91% of the USDF pooled portfolio's market value currently held with the University of South Dakota Foundation in Vermillion, South Dakota.

### 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, 2022, \$172,631 and \$13,755 and as of June 30, 2021, \$210,699 and \$17,326 was held in these two trusts.

### 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 \$635,733 and \$474,782 at June 30, 2022 and 2021, respectively, and is included in grants and other support with donor restrictions and expenses in the statement of activities.

### 10. 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.



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

Notes to Financial Statements

June 30, 2022

---

### 10. Available Resources and Liquidity: (Continued)

The following table reflects the Museum's financial assets as of June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>
		(Restated)
Total Financial Assets	\$ 9,965,630	\$ 10,992,122
Cash held with fiscal agent	(3,029,800)	(3,137,704)
Contributions receivable with liquidity greater than one year	(186,386)	(228,025)
Board designated funds	(3,346,581)	(4,182,708)
Donor restrictions perpetual	(128,913)	(145,041)
Donor restrictions conditional	(184,966)	(233,956)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,088,984</u>	<u>\$ 3,064,688</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.

### 11. 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 5.25% variable interest rate based on US Prime rate with a maturity date of June 18, 2023. As of June 30, 2022, \$3,530,000 of this note has been drawn down by the Museum with \$840,000 repayments made leaving a balance of \$2,690,000. 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 \$193,600, less construction expenditures of \$306,600 brings the cash with fiscal agent balance to \$3,029,800.

Current maturity of this note is \$2,690,000 as of June 30, 2022.

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

Notes to Financial Statements

June 30, 2022

---

### 12. 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 is available as an option to extend. The Museum is reasonably certain that it will exercise its option to renew the lease and has therefore considered this in the calculation of the value of the right to use asset.

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 \$4,161,763 and \$4,220,497 as of June 30, 2022 and 2021, respectively.

As of July 1, 2021, the beginning asset amount of this agreement was \$4,066,918. Amortization during the current period included \$144,387 with an ending asset amount of \$3,922,531, as of June 30, 2022.

The annual maturities of lease liabilities is as follows:

2023	\$	66,160
2024		63,499
2025		65,921
2026		68,435
2027		71,049
Thereafter		<u>3,826,699</u>
Total	\$	<u>4,161,763</u>

### 13. 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.

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

Notes to Financial Statements

June 30, 2022

### 13. Fair Value Measurements: (Continued)

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, 2022.

	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	\$ 1,583,341	\$ --	\$ --	\$ 1,583,341
Total Invested Cash	<u>1,583,341</u>	<u>--</u>	<u>--</u>	<u>1,583,341</u>
Short term fixed income	--	777,584	--	777,584
Long term fixed income	--	670,525	--	670,525
Equity-like	--	270,464	--	270,464
Emerging markets equity	--	338,080	--	338,080
International equity	--	963,528	--	963,528
Small-cap equity	--	478,947	--	478,947
Mid-cap equity	--	39,443	--	39,443
Large-cap equity	--	512,753	--	512,753
Total Foundation Investments	<u>--</u>	<u>4,051,324</u>	<u>--</u>	<u>4,051,324</u>
Total Invested Assets	<u>\$ 1,583,341</u>	<u>\$ 4,051,324</u>	<u>\$ --</u>	<u>\$ 5,634,665</u>

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

Notes to Financial Statements

June 30, 2022

---

### 14. Reclassifications:

Certain items in the financial statements for 2021 have been reclassified to conform with the current year presentation. Such reclassifications had no effect on the change in net assets.

### 15. Prior Period Adjustment:

During 2022, management was made aware that they were overpaid for a grant received and had to pay it back. Accordingly, the applicable amounts have been restated in these financial statements. The following is a summary of the line items from the 2021 financial statements that were restated:

	<b>As Previously Reported</b>	<b>Adjustment</b>	<b>Amount as Restated</b>
<b>Statement of Financial Position</b>			
Accounts payable	\$ 2,696	\$ 108,780	\$ 111,476
Total current liabilities	1,034,897	108,780	1,143,677
Total liabilities	7,686,666	108,780	7,795,446
Net assets without donor restrictions	7,847,382	(108,780)	7,738,602
Total net assets	8,454,404	(108,780)	8,345,624
<b>Statement of Activities</b>			
Governmental grants	839,474	(108,780)	730,694
Total Support and Revenue	3,308,771	(108,780)	3,199,991
Excess Revenue Over/(Under) Expense	1,408,485	(108,780)	1,299,705
Net assets - end of year - without donor restrictions 2021	8,454,404	(108,780)	8,345,624
<b>Statement of Cash Flows</b>			
Changes in net assets	1,408,485	(108,780)	1,299,705
Prior period adjustment	329,854	(329,854)	--
Net cash provided by operating activities	1,785,252	(329,854)	1,455,398
Purchase of property and equipment	(719,899)	24,775	(695,124)
Change in reserve investments	(1,103,977)	305,079	(798,898)
Net cash (used) by investing activities	\$ (1,823,102)	\$ 329,854	\$ (1,493,248)

## 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:**

<u>Donor</u>	<u>Purpose</u>	June, 30	
		<u>2022</u>	<u>2021</u>
Board Designated Current Funds:			<b>(Restated)</b>
Board of Trustees	Acquisitions	\$ 1,155	\$ 4,686
Board Designated Endowed Funds:			
Clifford Graese	Program	215,990	269,745
Rawlins/Larson Estate	Personnel	1,993,788	2,489,994
Rawlins	Insurance	426,601	532,772
Rawlins Estate	Program	603,875	754,164
Edith Siegrist	Operations	105,172	131,347
Total Board Designated		<u>3,346,581</u>	<u>4,182,708</u>
Undesignated:		4,846,636	3,555,894
Total Net Assets Without Donor Restrictions		<u>\$ 8,193,217</u>	<u>\$ 7,738,602</u>

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

<u>Donor</u>	<u>Purpose</u>	June, 30	
		<u>2022</u>	<u>2021</u>
Current Funds: (Subject to Expenditure for Specified Purposes)			
Cremona Exhibit	Exhibitions	\$ 6,059	\$ 20,210
Acquisitions Fund	Acquisitions	--	423
Exhibitions Fund	Exhibitions	50,000	50,000
John & Margaret Fowler	Acquisitions	--	18,787
Martin Guitar Charitable Foundation	Program	12,597	22,597
Al Hegyi Fund	Personnel	46,233	43,859
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
Programming and Events Fund	Program	500	--
Maud and Mary Adams Memorial Fund	Events	1,498	--
Clois E. Smith Fund	Acquisitions	44,779	44,780
Total for Specified Purposes		<u>184,966</u>	<u>233,956</u>
Split Interest Agreement - Remainder Trust (Time Restriction)			
Edith Siegrist Estate	Operations	<u>172,631</u>	<u>210,699</u>
Endowments and Perpetual Trust, Subject to Spending Policy and Appropriation:			
Andre Larson Endowment	Operations	88,652	98,609
Mary Adams Estate	Events	40,261	46,432
SD Community Foundation	Operations	13,755	17,326
Total Endowments and Split Interest Agreements		<u>142,668</u>	<u>162,367</u>
Total Net Assets With Donor Restrictions		<u>\$ 500,265</u>	<u>\$ 607,022</u>