

International African American Museum

Report on the Consolidated Financial Statements

For the year ended December 31, 2023

International African American Museum

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Independent Auditor's Report

Board of Directors
International African American Museum and its subsidiaries
Charleston, South Carolina

Opinion

We have audited the consolidated financial statements of International African American Museum and its subsidiaries (collectively, the "Museum"), which comprise the consolidated statement of financial position as of December 31, 2023, the related consolidated statements of activities, functional expenses, and cash flows, for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Museum as of December 31, 2023, 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.

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 Consolidated Financial Statements section of our report. We are required to be independent of the Museum and to meet our other ethical responsibilities 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 GAAS 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 consolidated 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 consolidated 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 consolidated 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 the Museum'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis and is not required as part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina

July 1, 2024

International African American Museum

Consolidated Statement of Financial Position

As of December 31, 2023

Assets

Cash and cash equivalents	\$ 8,182,900
Restricted cash	4,265,023
Investments, at fair value	100,086
Contribution receivables, net	4,542,408
Inventory	49,602
Prepaid expenses	232,838
Notes receivable	11,970,480
Property and equipment, net	14,934,515
Total assets	<u>\$ 44,277,852</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 6,372,502
Accrued expenses	175,119
Interest payable	55,197
Deferred revenue	1,792,560
Notes payable, net	17,114,632
Total liabilities	<u>25,510,010</u>

Net assets

Without donor restrictions	10,142,387
With donor restrictions	8,625,455
Total net assets	<u>18,767,842</u>
Total liabilities and net assets	<u>\$ 44,277,852</u>

See Notes to Consolidated Financial Statements

International African American Museum

Consolidated Statement of Activities

For the year ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions and grants	\$ 2,267,564	\$ 6,022,040	\$ 8,289,604
Membership revenue	230,191	-	230,191
Contribution of nonfinancial assets	8,000	-	8,000
Rental income	63,834	-	63,834
Admissions revenue	1,216,026	-	1,216,026
Realized gain on investment	409,913	-	409,913
Interest income	291,633	-	291,633
Other	6,666	-	6,666
Subtotal	4,493,827	6,022,040	10,515,867
Net assets released from restriction	11,989,223	(11,989,223)	-
Total revenue and support	16,483,050	(5,967,183)	10,515,867
Expenses			
Program services			
Education and engagement	11,047,946	-	11,047,946
Support services			
Management and general	9,428,732	-	9,428,732
Fundraising	2,708,520	-	2,708,520
Total expenses	23,185,198	-	23,185,198
Decrease in net assets	(6,702,148)	(5,967,183)	(12,669,331)
Net assets, beginning of year	16,844,535	14,592,638	31,437,173
Net assets, end of year	\$ 10,142,387	\$ 8,625,455	\$ 18,767,842

See Notes to Consolidated Financial Statements

International African American Museum

Consolidated Statement of Functional Expenses

For the year ended December 31, 2023

	Education and Engagement	Management and General	Fundraising	Total
Compensation and related expenses				
Salaries	\$ 1,374,566	\$ 1,417,172	\$ 704,814	\$ 3,496,552
Employee benefits	195,326	320,999	95,779	612,104
Total compensation and related expenses	1,569,892	1,738,171	800,593	4,108,656
Other expenses				
Contribution expense for building costs	5,649,849	-	-	5,649,849
Professional fees	1,574,476	1,365,926	1,147,605	4,088,007
Special events	35,602	3,695,205	5,086	3,735,893
Occupancy expense	6,970	1,457,025	51,876	1,515,871
Office expense	20,005	419,396	61,301	500,702
Collections acquisition	273,649	176,169	-	449,818
Interest expense	276,583	-	-	276,583
Computer hardware and software	15,156	209,316	28,154	252,626
Advertising	-	9,770	238,677	248,447
Fundraising costs	-	-	227,785	227,785
Program expense	221,878	-	-	221,878
Miscellaneous expense	-	195,192	2,268	197,460
Credit card fees	-	11,124	81,249	92,373
Travel	16,865	55,099	2,303	74,267
Training	4,012	48,001	7,811	59,824
Management fee	-	27,504	-	27,504
Contribution to Coastal Community Foundation for endowment	-	-	27,000	27,000
Membership drive	-	-	25,712	25,712
Loan servicing fee	17,400	-	-	17,400
Dues and subscriptions	300	8,286	1,100	9,686
Telephone	-	4,609	-	4,609
Total other expenses	8,112,745	7,682,622	1,907,927	17,703,294
Total expenses before depreciation	9,682,637	9,420,793	2,708,520	21,811,950
Depreciation expense	1,365,309	7,939	-	1,373,248
Total expenses	\$ 11,047,946	\$ 9,428,732	\$ 2,708,520	\$ 23,185,198

See Notes to Consolidated Financial Statements

International African American Museum

Consolidated Statement of Cash Flows

For the year ended December 31, 2023

Operating activities

Decrease in net assets	\$ (12,669,331)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation	1,373,248
Amortization of debt issuance costs	92,552
Change in discount on contributions receivable	(19,504)
Changes in operating assets and liabilities:	
Contributions receivable	2,111,717
Inventory	(7,607)
Prepaid Expenses	704,246
Accounts payable	4,328,596
Accrued expenses	50,554
Interest payable	9,189
Deferred revenue	1,667,560
Net cash used by operating activities	<u>(2,358,780)</u>

Investing activities

Purchases of investments	(100,086)
Purchases of property and equipment	<u>(538,235)</u>
Net cash used by investing activities	<u>(638,321)</u>
Net decrease in cash and cash equivalents	(2,997,101)

Cash, cash equivalents, and restricted cash at beginning of year

15,445,024

Cash, cash equivalents, and restricted cash at end of year

\$ 12,447,923

Reconciliation of cash, cash equivalents, and restricted cash

Cash and cash equivalents	\$ 8,182,900
Restricted cash	<u>4,265,023</u>
	<u><u>\$ 12,447,923</u></u>
Supplemental disclosure:	
Interest paid	<u><u>\$ 184,031</u></u>

See Notes to Consolidated Financial Statements

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities:

The International African American Museum and its affiliate, IAAM Supporting Organization (the “Organization” or “ISO”) referred to collectively as the Museum, unless otherwise noted, plan to operate, maintain and promote a museum dedicated to presenting African American history, art, and culture through the lens and voice of the African American experience in Charleston and the Lowcountry, South Carolina, and the United States. Through its activities and programs, the Museum implements its mission to honor the story of the African American journey and illustrates and connects the relationship of this history and its impact to the history and culture of the African Diaspora on the Atlantic worlds, specifically the Caribbean, West Africa, Central Africa, and Europe.

- The Operations activities of the Museum manages facilities, gardens, security, technology, and IT. This division ensures the maintenance and functionality of Museum properties, implements security measures (including personnel and security technology), manages technological infrastructure, and oversees capital projects for facility improvements and maintenance. Operations manages revenue-generating departments, including the café, retail, and event rentals, contributing to the Museum’s financial stability, as well as visitor services which manages visitor experience inclusive of ticket sales.
- The Marketing and Communications division of the Museum is responsible for ensuring cohesive and compelling messaging that highlights the Museum’s educational initiatives and community impact, expanding audiences, inclusive of supporting membership, and amplifying the voice of learning and engagement activities. This division develops and implements strategic marketing plans, utilizing various media channels to promote exhibitions, programs, and events. By fostering public relations, managing social media, and executing targeted campaigns, the division enhances the Museum’s visibility, attracts diverse audiences, and drives membership growth, thereby supporting the Museum’s mission and overall success.
- The Learning and Engagement activities of the Museum encompass curatorial and exhibition management, public education and programs management, and school group management. This division also oversees the management of genealogy services, providing public access to genealogy training, education, and databases, as well as historical records. The division is responsible for delivering interpretive and educational initiatives aligned with the Museum’s mission through gallery and digital exhibitions, virtual and in-person programs, and public engagement activities. Stewardship of the Museum’s collection, which includes over 700 art pieces, objects, and artifacts spanning from the 17th century to the 21st century, falls under this division. The collection, featuring significant works from African American communities and the African Diaspora, with a focus on West African and Caribbean communities, is integral to the Museum’s mission and educational programs. By managing and activating these collections, the Learning and Engagement division enhances the Museum’s role as an educational and cultural resource, fostering a deeper understanding and appreciation of African American history and culture.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 1. Nature of Activities and Significant Accounting Policies, Continued

Nature of activities, continued:

- The Development and Fundraising activities of the Museum are dedicated to securing financial support to sustain and advance the Museum's mission. This division manages donor relations, including individual, corporate, and foundation contributions. It orchestrates fundraising campaigns, special events, and membership programs to generate essential revenue. Additionally, the division seeks grants and sponsorships to fund specific projects and initiatives. By cultivating and maintaining strong relationships with patrons and stakeholders, the Development and Fundraising division ensures the Museum's financial stability and growth, enabling the continuation of its educational, cultural, and community-focused programs. Through strategic planning and execution of fundraising activities, this division plays a crucial role in the Museum's ability to preserve its collections, expand its exhibitions, and enhance public engagement.
- Management and general activities include the functions necessary to provide support for the Museum's program activities. This division is responsible for organizational oversight, business management, and support of governance work and activities of the Board of Directors. The division encompasses financial management and accounting, budgeting, legal services, and human resource management. In collaboration with Operations, this division creates, manages, and evaluates systems and practices to foster healthy and inclusive work culture, adequate working environment, and an equitable employment program. This division drives business and data analytics collecting, analyzing, and interpreting data to inform strategic decision-making and improve operational efficiency. Additionally, this division identifies trends and benchmarks to create and support data-driven strategies for business growth and development.

Basis of presentation:

The consolidated financial statements of the Museum have been prepared on the accrual basis of accounting, whereby revenue is recognized at the time it is earned and expenditures are recorded at the time they are incurred. Accordingly, the financials reflect all significant receivables, payables, and other liabilities.

Net assets have been grouped into the following classes:

Net assets without donor restrictions are not subject to or are no longer subject to donor-imposed stipulations. Included in this balance are amounts that have been designated by the Board of Directors for specific purposes.

Net assets with donor restrictions are net assets whose use is limited by donor or grantor-imposed time and/or purpose restrictions.

Principles of consolidation:

The consolidating financial statements include the accounts of the International African American Museum and the IAAM Supporting Organization (collectively referred to as the "Museum" unless otherwise noted). All significant intercompany transactions have been eliminated in the consolidated presentation.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 1. Nature of Activities and Significant Accounting Policies, Continued

Cash and cash equivalents:

For the purposes of the consolidated Statement of Cash Flows, the Museum considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. This includes cash in banks, certificates of deposit and money market funds. Restricted cash is segregated from unrestricted cash on the consolidated Statement of Financial Position because of the restrictions on use for the construction of the Museum.

Investments:

The Museum investments consist of assets invested in equity securities. The Museum accounts for investments in accordance with FASB ASC 958-320 and subsections. This standard requires that investments in equity securities with readily determinable fair value be measured at fair value in the consolidated Statement of Financial Position. Fair value in marketable equities is based on quoted market process.

Investments are exposed to various risks such as significant world events, interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investments securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated Statement of Financial Position.

Investment income is recorded net of investment expenses. Realized gains or losses on investments are determined by comparison of specific cost of acquisition to proceeds at the time of disposal. Unrealized gains and losses are calculated by comparing cost to market values at the statement of financial position date. Unrealized and realized gains and losses are included in the change in net assets in the consolidated Statement of Activities.

Contributions receivable:

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of the promise. That fair value is computed using a present value technique applied to anticipate cash flows. Amortization of the resulting discount is recognized as additional contributions revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected for more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Prepaid expenses:

Prepaid expenses consist of asset management fee reserves, audit, tax and compliance expense reserve and success fee reserve required to be paid in advance under the New Market Tax Credit agreement. The items are expensed in the future period the costs are incurred.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 1. Nature of Activities and Significant Accounting Policies, Continued

Notes receivable and notes payable:

In accordance with the New Market Tax Credit agreement (see Notes 6 and 9), many of the notes carry below market interest rates and/or contain provisions for forgiveness of the principal. Such notes and related interest amounts are recorded in the consolidated financial statements according to the terms of the notes. No adjustment to market rates has been made due to the compliance requirements which must be met for forgiveness to occur. Forgiveness of debt for notes payable will be recorded as income in accordance with terms of the various loan agreements.

Property and equipment:

Purchased property and equipment are stated at cost. Donated property and equipment are recorded at the estimated fair value at the date of the donation. Expenditures for major additions and improvements, generally in excess of \$5,000, are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of the operations for the respective period. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from 3 to 15 years. Construction in progress is stated at cost and is not depreciated until put into use.

Leases, right-of-use asset and related liability for the Museum:

As part of its ongoing operations, the Museum entered into an arrangement which constitutes a lease as defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases*. Leases represent a contract or part of a contract that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. Such contracts result in both (a) right-of-use assets, which represent the Museum's right to use an underlying asset for the term of the contract; and (b) a corresponding liability which represents the Museum's obligation to make the lease payments arising from the contract, measured on a discounted basis. See Note 12.

Lease receivable for ISO:

Under ASC 842, *Leases*, the accounting for an operating lease requires rental income to be recognized on a straight-line basis with a lease receivable recorded related to any rent escalations. See Note 6 for the Organization's treatment of the building, improvements, and exhibits and the terms of the related lease.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 1. Nature of Activities and Significant Accounting Policies, Continued

Collections:

The Museum follows the Financial Accounting Standards Board FASB ASC 958-310-50, and therefore, collection items acquired either through purchase or donations are not capitalized. Purchases of collection items are recorded as decreases in net assets without donor restriction if purchased with funds without donor restriction and as decreases in net assets with donor restrictions if purchased with funds with donor restrictions. Noncash contributions of collection items are not recorded on the consolidated Statement of Activities. A collection inventory is maintained which lists a description of the item, source and storage location. If an item in the collection is sold, proceeds will directly benefit the collections on hand for direct care or for the acquisition of new collection items. The collection contains historically significant items which are considered priceless. They are held for public exhibition, education or research and are protected, cared for and preserved.

Compensated absences:

Employees of the Museum are entitled to paid vacations, paid sick days and personal days off, depending on job classification and length of service. Employees may carry over a maximum of 10 days of vacation time to the next calendar year.

Deferred revenue:

The Museum records revenues from exchange transactions as increases in net assets without donor restrictions to the extent that the earning process is complete. Resources received in exchange transactions are recognized as deferred revenue to the extent that the earning process has not been completed. These resources are recorded as revenues without donor restrictions when the related obligations have been satisfied.

Financing costs:

Financing costs are recorded as a deduction to the related debt liability on the consolidated Statement of Financial Position. Financing costs are amortized over the term of the applicable debt using the straight-line method. U.S. GAAP requires the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization of financing costs are included as a component of interest expense on the consolidated Statement of Activities.

Fair value of financial instruments:

Accounting Standards Codification ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 is effective for the Museum's financial assets and liabilities for the year ended December 31, 2023. The estimated fair value amounts for specific groups of financial instruments are presented within the footnotes. Accounts payable are stated at cost, which approximates fair value, due to their short term to maturity.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 1. Nature of Activities and Significant Accounting Policies, Continued

Net assets:

The consolidated financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

- **Net Assets Without Donor Restrictions**

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Museum are considered net assets without restrictions. These net assets may be used at the discretion of the Museum's management and the board of directors.

- **Net Assets With Donor Restrictions**

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Museum must continue to use the resources in accordance with the donor's instructions.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the consolidated financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment are reported as net assets with donor restrictions until the specified asset is placed in service by the Museum, unless the donor provides more specific directions about the period of its use.

Classification of transactions:

All revenues and net gains are reported as increases in net assets without donor restrictions in the consolidated Statement of Activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses are reported as decreases in net assets without donor restrictions.

Revenue recognition policy:

The Museum derives revenues primarily from contributions, membership fees, and admissions. The Museum recognizes contributions when cash, securities or other assets, an unconditional promise to give (contributions receivable) or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and right of return – are not recognized until the conditions are met.

Membership fees are accrued and amortized into revenue monthly over the annual term of the membership period.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 1. Nature of Activities and Significant Accounting Policies, Continued

Revenue recognition policy, continued:

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in the future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contributions is clearly intended to support activities in the current fiscal year. Conditional promises, such as matching contributions, are not recognized until they become unconditional, that is, until as conditions on which they depend are substantially met.

Contributed nonfinancial assets and services:

The Museum records various types of contributed nonfinancial assets. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received.

Donated use of facilities is reported as a contribution and as an expense at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the contribution is reported as a contribution and a contribution receivable at the date of gift, and the expense is reported over the term of the use.

Expense recognition and allocation:

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated Statement of Activities and in the consolidated Statement of Functional Expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, and employee benefits are allocated based on the amount of time spent in each department.
- Travel, general office supplies, software expenses, professional fees, occupancy expense, special events, and miscellaneous expenses that cannot be directly identified are allocated based on management's estimate of the amount of time spent or value used in each department.

Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 1. Nature of Activities and Significant Accounting Policies, Continued

Income tax status:

The Museum and ISO are exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. In accordance with IRC regulations, the Museum is taxed on unrelated business income, which consists of earnings from activities not related to the exempt purpose of the Museum. In addition, the Museum and ISO qualify for the charitable contribution deduction under Section 170(b)(1)(A). The Museum and ISO have been classified as organizations that are not private foundations under Section 509(a)(1) and Section 509(a)(3), respectively.

Management has evaluated the tax positions of the Museum and does not believe that any uncertain tax positions or unrecognized tax benefits exist for the year ended December 31, 2023. The Museum's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense. The Museum is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax period in progress.

Subsequent events:

The Museum has evaluated subsequent events through July 1, 2024, which is the date these consolidated financial statements were available to be issued.

Note 2. Available Resources and Liquidity

Financial assets available for general expenditure, that are without donor or other restrictions limiting their use within one year of the consolidated statement of financial position date of December 31, 2023, are comprised of the following:

Total assets at year-end	\$ 44,468,317
Less: amounts not available to be used within one year due to illiquidity:	
Contributions receivable, due after one year	1,750,409
Prepaid expenses	232,838
Notes receivable	11,970,480
Property and equipment, net	<u>14,934,515</u>
	<u>28,888,242</u>
Less: amounts not available to be used within one year due to donor imposed restrictions:	
Purpose-restricted cash	<u>4,265,023</u>
Assets available to meet cash needs for general expenditures within one year	<u>\$ 11,315,052</u>

As part of its liquidity plan, the Museum has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. The Museum invests excess cash in short-term investments, including equity securities, and has the ability to redeem certain investments as necessary to meet its obligations.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 3. Concentration of Credit Risk

Financial instruments that potentially expose the Museum to concentrations of credit and market risk consist primarily of cash and cash equivalents, money market accounts, and marketable securities. Cash and cash equivalents are maintained at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000 or by the Securities Investors Protection Corporation up to \$500,000. Certain accounts are also covered by the financial institutions' additional insurance for account balances in excess of \$500,000. Deposits may at times exceed the federally insured limits, and credit exposure is limited to deposits at any one institution in excess of this limit. The Museum has not experienced any losses on its cash and cash equivalents.

For the year ended December 31, 2023, approximately 52% of the Museum's revenue was derived from three donors.

Note 4. Contributions Receivable

Contributions receivable, net of discount to present value (at a rate of 7.50% for the year ended December 31, 2023) are due as follows as of December 31, 2023:

Beginning contributions receivable	\$ 6,634,621
Contribution commitments	1,473,426
Contribution payments	<u>(3,151,468)</u>
Total financial assets	4,956,579
Less: allowance for credit losses	(55,906)
Less: discount	<u>(358,265)</u>
Ending contributions receivable	<u>\$ 4,542,408</u>

The discount will be recognized as contribution income in years 2024 to 2033 as the discount is amortized using an effective yield over the duration of the contribution.

A summary of contributions receivable expected to be collected as of December 31, 2023 are as follows:

Gross amounts due in:	
One year	\$ 2,982,464
Two to five years	1,923,865
Greater than 5 years	<u>50,250</u>
Total	<u>\$ 4,956,579</u>

At December 31, 2023, two donor's pledge balances totaled \$1,000,000, representing 22% of total gross contributions receivable.

Note 5. Conditional Contributions

The Museum received payments from previously conditional contributions totaling \$1,200,000 during the year ended December 31, 2023. As of the year ended December 31, 2023, the Museum had no conditional contributions remaining.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 6. Notes Receivable

Notes receivable consist of a loan to a limited liability company under the New Market Tax Credit (NMTC) agreement (Note 9) for \$11,970,480 dated January 29, 2020. The loan is due on October 25, 2043, and bears interest at 1%. Beginning on April 5, 2020, and continuing the fifth day in January, April, July and October accrued and unpaid interest is due. Beginning October 5, 2027, and continuing the fifth day in January, April, July, and October forward, payments shall include principal and interest.

Note 7. Property and Equipment, Net

Property and equipment, net, consists of the following at December 31, 2023:

Buildings and land improvements	\$ 7,264,752
Exhibits	5,171,586
Equipment	2,484,926
Furniture and fixtures	778,155
Landscaping	<u>625,446</u>
	16,324,864
Less accumulated depreciation	<u>(1,390,349)</u>
Net property and equipment	<u>\$ 14,934,515</u>

Depreciation expense was \$1,373,248 for the year ended December 31, 2023.

Note 8. Collections

The Museum does not consider the collection pieces to be financial assets and does not capitalize the collection pieces, but rather considers them an irreplaceable treasure of the African American culture. There were purchases of \$299,631 of collection items for the year ended December 31, 2023. There were no sales of collection pieces, and the Museum did not loan out any of the collection pieces to other organizations during the year ended December 31, 2023.

Note 9. Notes Payable

In January 2020, Organization entered into a New Markets Tax Credit (NMTC) transaction to partially finance the construction of the International African American Museum. The NMTC program was designed to stimulate investment and economic growth in low-income communities by offering federal tax credits for Qualified Equity Investments (QEI) made through investment vehicles known as Qualified Active Low-Income Community Businesses (QALICB).

As part of the transaction, the Organization received four loans, as noted below, whose proceeds were designated for use of funding the project costs. Project costs include construction costs, upfit costs, fees related to the interest on loans and loan servicing fees as well as the financing costs.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 9. Notes Payable, Continued

To earn the tax credit, the QEI must remain invested in the QALICB for a seven-year period. The Organization and the NMTC investors have entered into a put/call option agreement to take place at the end of the seven-year period. Under the agreement, the NMTC investors can exercise a put option to sell all interest in the QEI for \$55,645 to the Organization. If the NMTC investors do not exercise the put option within six months of the end of the seven-year period, the Organization can exercise call options to purchase the interest of the QEI at an appraised fair market value.

Notes payable were made up of the following for the year ended December 31, 2023:

Loan dated January 29, 2020 for \$9,794,880 from CFCDC XVI, LLC. Loan is due January 29, 2050, interest rate of 1.057652%. Beginning April 1, 2020 and on the first day of each quarter, accrued and unpaid interest is due. Beginning October 1, 2027 and continuing on the first of each quarter, forward payments shall include interest and principal. The loan may not be prepaid prior to the seventh anniversary.

\$ 9,794,880

Loan dated January 29, 2020 for \$4,605,120 from CFCDC XVI, LLC. Loan is due January 29, 2050, interest rate of 1.057652%. Beginning April 1, 2020 and on the first day of each quarter, accrued and unpaid interest is due. Beginning October 1, 2027 and continuing on the first of each quarter, forward payments shall include interest and principal. The loan may not be prepaid prior to the seventh anniversary.

4,605,120

Loan dated January 29, 2020 for \$2,175,600 from South Carolina Community Loan Fund Sub-CDE III, LLC. Loan is due January 29, 2050, interest rate of 1.057652%. Beginning April 1, 2020 and on the first day of each quarter, accrued and unpaid interest is due. Beginning October 1, 2027 and continuing on the first of each quarter, forward payments shall include interest and principal. The loan may not be prepaid prior to the seventh anniversary.

2,175,600

Loan dated January 29, 2020 for \$824,400 from South Carolina Community Loan Fund Sub-CDE III, LLC. Loan is due January 29, 2050, interest rate of 1.057652%. Beginning April 1, 2020 and on the first day of each quarter accrued and unpaid interest is due. On January 29, 2027 a balloon payment of at least \$15,000 but not more than \$30,000 shall be due. Amount will be determined by the Lender. Beginning October 1, 2027 and continuing on the first quarter, forward payments shall include interest and principal. The loan may not be prepaid prior to the seventh anniversary.

824,400

17,400,000

(285,368)

Less: financing cost

\$ 17,114,632

Total notes payable, net

Principal payments are to start in October of 2027. The amount of the payments due will be calculated by the lenders prior to that time.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 10. Net Assets With Donor Restrictions

The Museum has net assets with donor restrictions that are available for the following purposes as of December 31, 2023:

Purpose Restrictions, Available for Spending:

Center for Family History	\$ 127,000
K-12 curriculum, toolkit and student access	976,969
Youth Advisory Council	100,000
Lowcountry Weavers Spotlight	150,000
Alternative Spring Break Program	25,000
Inaugural traveling exhibition	693,418
Planning, design and construction of Museum and gardens	764,935
Faith based	3,913
International program	8,597
Programs for underserved	13,845
Education program	1,000
Follow The North Star/Seeking Film	335,654
Black art fund	12,153
Exhibits	421,000
Grants to support salaries	<u>132,482</u>
Total purpose restrictions	3,765,966

Time Restrictions:

Planning, design, and construction of Museum and gardens	1,700,000
Exhibits	150,000
Contribution receivables not restricted by donors, but are unavailable for expenditure until due	<u>3,009,489</u>
Total time restrictions	<u>4,859,489</u>
Total net assets with donor restrictions	<u>\$ 8,625,455</u>

Note 11. Related Parties

ISO was formed to further the Museum's charitable purpose. Fifty percent of ISO's board is made up of members of the Museum board. During the year ended December 31, 2023, various Board members made contributions to the Museum in the amount of \$152,786.

During the year ended December 31, 2023, the Museum spent \$5,981,030 for construction costs related to the building, improvements, and exhibits, a portion of which is included in contribution expense on the accompanying consolidated Statement of Functional Expense.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 11. Related Parties, Continued

On January 29, 2020, the City of Charleston and the Museum entered into agreement to assign the lease of 14 Wharfside Street to ISO. The lease began once the final certificate of occupancy was issued in June 2023 and continues for fifty years with an option to extend the lease another fifty years before the first term expires. The rent is to be \$1 per year over the term of the lease.

Generally accepted accounting principles require that long-term leases with little to no consideration transferred are considered nonmonetary contributions and recorded at the estimated fair value as a contributed long-term asset and contribution revenue at the date of receipt. The building was leased to the Museum in 2022; however, no amounts are reflected in the accompanying financial statements for such contributed asset, as the fair value is not readily determinable due to the various restrictions in place on the use of the building for public education, additional restrictions placed upon the use of the land by the City of Charleston, and the lack of comparable properties with similar use in the area.

On January 29, 2020, ISO and the Museum entered into a sublease agreement for the Museum space. The lease began on January 1, 2022 and expires on December 31, 2049. Under the sublease, the Museum will pay escalating rent over the term of the lease agreement starting with quarterly payments of approximately \$52,000 increasing to approximately \$225,000 per quarter in September 2027. ISO recorded \$1,354,418 in rental payments during the year ended December 31, 2023, which was used to offset the amount due to the Museum at December 31, 2023.

See Note 12 for lease terms and scheduled payments over the life of the lease.

Note 12. Leases

As discussed in Note 11, the Museum has a long-term non-cancellable operating lease agreement with ISO to lease a building to construct, fabricate, and install exhibits and other elements required for the operation of the building as a museum. The lease begins on January 1, 2022 and expires December 31, 2049. Under the sublease, the Museum will pay escalating rent over the term of the lease agreement starting with quarterly payments of approximately \$52,000 increasing to approximately \$225,000 per quarter in September 2027. The lease agreement does not contain any material residual value guarantees or material restrictive covenants.

The right-of-use asset represents the Museum's right to use an underlying asset for the lease term and the lease obligation represents the Museum's obligation to make lease payments arising from the lease. Lease obligations are recognized at the implementation date based on the present value of the lease payments over the lease term. Right-of-use assets are recognized at the implementation date as the initial measurement of the lease liability, plus payments made prior to the lease implementation and any initial direct costs. Additionally, the Museum elected the private company alternative to use the risk-free rate in measuring the right-of-use asset and liability balances. Expenses are recognized on a straight-line basis over the lease term for operating leases.

International African American Museum

Notes to Consolidated Financial Statements

December 31, 2023

Note 12. Leases, Continued

Lease expense for the year ended December 31, 2023 was \$763,653 and is included in occupancy expenses in the consolidating Statement of Functional Expenses.

The expense and related income, as well as the lease assets and liability, are eliminated upon consolidation.

The weighted average discount rate for the operating lease as of December 31, 2023 was 2.01%. The weighted average remaining lease term for the operating lease as of December 31, 2023 was 26 years.

Future payments under this lease as of December 31, 2023 are as follows:

2024	\$ 207,476
2025	207,476
2026	207,476
2027	565,817
2028	900,632
Thereafter	<u>18,913,272</u>
Total future undiscounted lease payments	21,002,149
Less amounts representing imputed interest	<u>(5,104,259)</u>
Lease liability	<u>\$ 15,897,890</u>

Note 13. Coastal Community Foundation Endowment

The Coastal Community Foundation controls an endowment fund with a principal purpose to provide income for the operation of the Museum. The Museum does not own or control these funds; therefore, they are not included in the consolidated financial statements. The Museum received approximately \$311,150 in investment earnings from the funds during the year ended December 31, 2023, which is included in contributions in the consolidated Statement of Activities. During the year ended December 31, 2023, the Museum transferred \$27,000 to the fund.

Supplementary Information

International African American Museum

Schedule 1 – Consolidating Statement of Financial Position

As of December 31, 2023

	Museum	ISO	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 8,182,900	\$ -	\$ -	\$ 8,182,900
Restricted cash	4,261,039	3,984	-	4,265,023
Investments, at fair value	100,086	-	-	100,086
Contribution receivables, net	4,542,408	-	-	4,542,408
Inventory	49,602	-	-	49,602
Prepaid expenses	90,433	142,405	-	232,838
Right of use asset - operating lease	14,750,940	-	(14,750,940)	-
Due from related party	29,572,436	-	(29,572,436)	-
Notes receivable	11,970,480	-	-	11,970,480
Lease receivable	-	1,146,950	(1,146,950)	-
Property and equipment, net	32,346	14,902,169	-	14,934,515
Total assets	<u>\$ 73,552,670</u>	<u>\$ 16,195,508</u>	<u>\$ (45,470,326)</u>	<u>\$ 44,277,852</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 722,649	\$ 5,649,853	\$ -	\$ 6,372,502
Accrued expenses	175,119	-	-	175,119
Interest payable	9,189	46,008	-	55,197
Deferred revenue	1,792,560	-	-	1,792,560
Due to related party	-	29,572,436	(29,572,436)	-
Lease liabilities - operating lease	15,897,890	-	(15,897,890)	-
Notes payable, net	-	17,114,632	-	17,114,632
Total liabilities	<u>18,597,407</u>	<u>52,382,929</u>	<u>(45,470,326)</u>	<u>25,510,010</u>
Net assets				
Without donor restrictions	46,329,808	(36,187,421)	-	10,142,387
With donor restrictions	8,625,455	-	-	8,625,455
Total net assets	<u>54,955,263</u>	<u>(36,187,421)</u>	<u>-</u>	<u>18,767,842</u>
Total liabilities and net assets	<u>\$ 73,552,670</u>	<u>\$ 16,195,508</u>	<u>\$ (45,470,326)</u>	<u>\$ 44,277,852</u>

See Independent Auditor's Report

International African American Museum
Schedule 2 – Consolidating Statement of Activities
For the year ended December 31, 2023

	Museum			ISO		Total		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	Eliminations	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support								
Contributions	\$ 2,267,564	\$ 6,022,040	\$ 8,289,604	\$ -	\$ -	\$ 2,267,564	\$ 6,022,040	\$ 8,289,604
Membership revenue	230,191	-	230,191	-	-	230,191	-	230,191
Contributions of nonfinancial assets	8,000	-	8,000	-	-	8,000	-	8,000
Rental income	63,834	-	63,834	1,354,418	(1,354,418)	63,834	-	63,834
Admissions revenue	1,216,026	-	1,216,026	-	-	1,216,026	-	1,216,026
Retail revenue	409,913	-	409,913	-	-	409,913	-	409,913
Interest income	291,633	-	291,633	-	-	291,633	-	291,633
Other	6,666	-	6,666	-	-	6,666	-	6,666
Subtotal	4,493,827	6,022,040	10,515,867	1,354,418	(1,354,418)	4,493,827	6,022,040	10,515,867
Net assets released from restriction	11,989,223	(11,989,223)	-	-	-	11,989,223	(11,989,223)	-
Total revenue and support	16,483,050	(5,967,183)	10,515,867	1,354,418	(1,354,418)	16,483,050	(5,967,183)	10,515,867
Expenses								
Program services								
Education and engagement	3,738,805	-	3,738,805	7,309,141	-	11,047,946	-	11,047,946
Support services								
Management and general	10,741,713	-	10,741,713	41,437	(1,354,418)	9,428,732	-	9,428,732
Fundraising	2,708,520	-	2,708,520	-	-	2,708,520	-	2,708,520
Total expenses	17,189,038	-	17,189,038	7,350,578	(1,354,418)	23,185,198	-	23,185,198
Decrease in net asset	(705,988)	(5,967,183)	(6,673,171)	(5,996,160)	-	(6,702,148)	(5,967,183)	(12,669,331)
Net assets, beginning of year	47,035,796	14,592,638	61,628,434	(30,191,261)	-	16,844,535	14,592,638	31,437,173
Net assets, end of year	<u>\$ 46,329,808</u>	<u>\$ 8,625,455</u>	<u>\$ 54,955,263</u>	<u>\$ (36,187,421)</u>	<u>\$ -</u>	<u>\$ 10,142,387</u>	<u>\$ 8,625,455</u>	<u>\$ 18,767,842</u>

See Independent Auditor's Report