

Lorraine Civil Rights Museum Foundation

(doing business as The National Civil Rights Museum)

Audited Financial Statements

Years Ended June 30, 2015 and 2014

Table of Contents

Independent Auditors' Report	3
Financial Statements:	
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8

Independent Auditors' Report

Board of Directors
Lorraine Civil Rights Museum Foundation

We have audited the accompanying financial statements of the Lorraine Civil Rights Museum Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lorraine Civil Rights Museum Foundation as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Lorraine Civil Rights Museum Foundation as of June 30, 2014, were audited by other auditors whose report dated March 20, 2015, expressed an unmodified opinion on those statements.

Dixon Hughes Goodman LLP

Memphis, Tennessee
November 16, 2015

Lorraine Civil Rights Museum Foundation
Statements of Financial Position
June 30, 2015 and 2014

Assets	2015	2014
Cash and cash equivalents	\$ 874,240	\$ 1,099,235
Investments, at fair value	2,471,668	2,007,715
Contributions receivable, net	2,030,400	3,187,788
Accounts receivable	50,632	143,108
Inventory	197,370	140,438
Prepaid expenses and other assets	18,629	26,945
Fixed assets, net	27,580,974	29,892,553
Total assets	<u>\$ 33,223,913</u>	<u>\$ 36,497,782</u>
Liabilities and net assets		
Accounts payable and other liabilities	\$ 163,503	\$ 385,121
Deferred revenue	102,500	48,628
Debt	-	6,200,000
Total liabilities	<u>266,003</u>	<u>6,633,749</u>
Net assets:		
Unrestricted	28,733,520	25,001,230
Temporarily restricted	2,084,288	3,238,160
Permanently restricted	2,140,102	1,624,643
Total net assets	<u>32,957,910</u>	<u>29,864,033</u>
Total liabilities and net assets	<u>\$ 33,223,913</u>	<u>\$ 36,497,782</u>

See accompanying notes.

Lorraine Civil Rights Museum Foundation
Statement of Activities
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support				
Admissions	\$ 2,973,482	\$ -	\$ -	\$ 2,973,482
Memberships	61,434	-	-	61,434
Contributions and grants	5,208,356	230,095	515,459	5,953,910
Museum shop and café	1,192,410	-	-	1,192,410
Public events and programs	1,061,458	-	-	1,061,458
Investment income (loss)	61,585	(295)	-	61,290
Other	112,072	60,398	-	172,470
Apartment revenue	28,233	-	-	28,233
Net assets released from restrictions	1,444,070	(1,444,070)	-	-
Total revenues, gains, and other support	<u>12,143,100</u>	<u>(1,153,872)</u>	<u>515,459</u>	<u>11,504,687</u>
Expenses				
Program services	3,371,023	-	-	3,371,023
Supporting services				
Salaries and benefits	513,249	-	-	513,249
General administration	499,209	-	-	499,209
Facility and equipment	3,428,445	-	-	3,428,445
Museum shop and café	529,952	-	-	529,952
Interest	12,805	-	-	12,805
Professional and legal	56,127	-	-	56,127
Total supporting services	<u>5,039,787</u>	<u>-</u>	<u>-</u>	<u>5,039,787</u>
Total expenses	<u>8,410,810</u>	<u>-</u>	<u>-</u>	<u>8,410,810</u>
Change in net assets	3,732,290	(1,153,872)	515,459	3,093,877
Net assets at beginning of year	25,001,230	3,238,160	1,624,643	29,864,033
Net assets at end of year	<u>\$ 28,733,520</u>	<u>\$ 2,084,288</u>	<u>\$ 2,140,102</u>	<u>\$ 32,957,910</u>

See accompanying notes.

Lorraine Civil Rights Museum Foundation
Statement of Activities
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support				
Admissions	\$ 1,886,005	\$ -	\$ -	\$ 1,886,005
Memberships	22,867	-	-	22,867
Contributions and grants	2,302,939	233,692	765,068	3,301,699
Museum shop and café	870,789	-	-	870,789
Public events and programs	1,036,211	-	-	1,036,211
Investment income (loss)	135,896	(16,451)	-	119,445
Other	32,336	65,432	-	97,768
Apartment revenue	11,950	-	-	11,950
Net assets released from restrictions	1,363,844	(1,363,844)	-	-
Total revenues, gains, and other support	<u>7,662,837</u>	<u>(1,081,171)</u>	<u>765,068</u>	<u>7,346,734</u>
Expenses				
Program services	3,146,942	-	-	3,146,942
Supporting services				
Salaries and benefits	420,722	-	-	420,722
General administration	527,888	-	-	527,888
Facility and equipment	1,358,113	-	-	1,358,113
Museum shop and café	380,513	-	-	380,513
Professional and legal	49,702	-	-	49,702
Total supporting services	<u>2,736,938</u>	<u>-</u>	<u>-</u>	<u>2,736,938</u>
Total expenses	<u>5,883,880</u>	<u>-</u>	<u>-</u>	<u>5,883,880</u>
Change in net assets	1,778,957	(1,081,171)	765,068	1,462,854
Net assets at beginning of year	23,222,273	4,319,331	859,575	28,401,179
Net assets at end of year	<u>\$ 25,001,230</u>	<u>\$ 3,238,160</u>	<u>\$ 1,624,643</u>	<u>\$ 29,864,033</u>

See accompanying notes.

Lorraine Civil Rights Museum Foundation
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating activities		
Change in net assets	\$ 3,093,877	\$ 1,462,854
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized appreciation on investments	(52,746)	-
Depreciation	2,929,597	870,771
Interest accretion on lease contribution	(60,398)	(65,432)
Amortization of rent contribution	176,695	173,231
Changes in operating assets and liabilities:		
Receivables	1,133,567	842,626
Inventory	(56,932)	(68,718)
Prepaid expenses and other assets	8,316	(23,315)
Accounts payable and other liabilities	(167,746)	102,529
Net cash provided by operating activities	<u>7,004,230</u>	<u>3,294,546</u>
Investing activities		
Capital expenditures	(618,018)	(12,645,168)
Proceeds from sales of investments	1,570,394	4,350,965
Purchases of investments	(1,981,601)	(801,567)
Net cash used in investing activities	<u>(1,029,225)</u>	<u>(9,095,770)</u>
Financing activities		
Principal repayments on line of credit	(6,200,000)	-
Proceeds from borrowings on line of credit	-	6,200,000
Net cash provided by (used in) financing activities	<u>(6,200,000)</u>	<u>6,200,000</u>
Net increase (decrease) in cash and cash equivalents	(224,995)	398,776
Cash and cash equivalents at the beginning of year	1,099,235	700,459
Cash and cash equivalents at the end of year	<u>\$ 874,240</u>	<u>\$ 1,099,235</u>
Supplemental disclosure of noncash investing activities		
Accrued construction in progress	<u>\$ -</u>	<u>\$ 17,001</u>

See accompanying notes.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

1. Nature of Activities

The Lorraine Civil Rights Museum Foundation (the "Foundation") is a not-for-profit (exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code) organization that operates the National Civil Rights Museum (the "Museum") in Memphis, Tennessee. The State of Tennessee owns the original Museum building and certain exhibits. The Foundation funded the construction of an expansion building and additional exhibits which were completed in 2003. The Foundation completed a major renovation of the Lorraine Motel building and exhibits in 2014.

2. Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid, short-term securities with initial maturities of three months or less.

Contributions Receivable

Contributions receivable represent unconditional promises from supporters to make contributions to the Foundation in future periods. Contributions are recorded at the net present value of the estimated future cash flows from the contributions using a risk-free interest rate on the date of pledge.

Also included in contributions receivable is the estimated fair value of a fifteen-year lease with the State of Tennessee which commenced on January 1, 2008. No monetary rent is required, and the lease does not contain a purchase option. This lease, which provides the Foundation with use of the primary Museum building as well as the Lorraine Motel and attached museum, is considered to be unconditional. Therefore, the lease was determined to be a contribution and recorded at its estimated fair value which was determined based upon the net present value of the estimated future contributed lease amounts using a risk free rate at the inception of the lease (4.67%). The estimated fair value of the contribution was determined to be \$1,854,637 at inception and is included in temporarily restricted net assets, net of amortization for rent expense offset by interest accretion, at June 30, 2015 and 2014. The Foundation recorded in its Statements of Activities for the years ended June 30, 2015 and 2014, interest accretion in the "other" category of revenues, gains and other support totaling \$60,398 and \$65,432, respectively, and rent expense in the "facility and equipment" category of expenses totaling \$176,695 and \$173,231, respectively. The net present value of the lease contribution receivable was \$1,177,024 and \$1,293,321 at June 30, 2015 and 2014, respectively.

Inventory

Inventory consists of items available for sale to Museum visitors in the Museum gift shops and is stated at the lower of cost (first-in, first-out method) or market. The cost of inventory sold is included in Museum shop and cafe expenses.

Fixed Assets

Fixed assets are stated at cost or appraised value for donated fixed assets. Depreciation expense is recorded using the straight-line method over the estimated useful lives of the related assets, ranging from 3 to 39 years.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

Net Assets

Net assets are classified into three categories: unrestricted net assets, which have no donor-imposed restrictions; temporarily restricted net assets, which have donor-imposed restrictions that will expire based on either action by the Foundation or passage of time; and permanently restricted net assets, which have donor-imposed restrictions such that the principal amount of gifts must be permanently retained. Temporarily restricted net assets at June 30, 2015 and 2014, include \$1,177,023 and \$1,293,321, respectively, for the contribution receivable related to the unconditional lease with the State of Tennessee. The remaining temporarily restricted net assets at June 30, 2015 and 2014, are held primarily for future renovation and equipment purchases.

Fundraising

Fundraising expenses totaled \$788,376 and \$718,691 for the years ended June 30, 2015 and 2014, respectively. Of this total, \$431,173 and \$369,419 is attributed to the Freedom Awards annual fundraiser, for the years ending June 30, 2015 and 2014, respectively.

Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop and sustain the Museum's programs. The value of this contributed time is not reflected in these statements as these services did not create or enhance non-financial assets, would not have been purchased if not provided by contribution, did not require specialized skills or were not provided by individuals possessing such specialized skills.

Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. At that time, the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed or the stipulated purpose for which the resource was restricted has been fulfilled. During 2015 and 2014, the Foundation released temporarily restricted net assets for the purpose of funding donor-specified projects, rent expense and the purchase of property and equipment. Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenue. Contributions of cash or other assets to be used to acquire land, buildings, and equipment without any other donor stipulations are reported as temporarily restricted revenue. The restrictions are considered to expire at the time of acquisition of such long-lived assets as these events satisfy the donor-imposed restriction.

Fair Value of Financial Instruments

Investments, comprised of money market funds, certificates of deposit, and government and corporate debt securities, are carried at fair value. As of June 30, 2015 and 2014, there were no financial assets or liabilities measured at fair value on a nonrecurring basis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation. These reclassifications had no impact on the Foundation's financial position or change in net assets.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

3. Contributions Receivable

The net present value of contributions receivable is \$2,030,400 and \$3,187,788 at June 30, 2015 and 2014, respectively. There is no allowance for uncollectible promises at June 30, 2015 or 2014. Contributions receivable at June 30, 2015 and 2014, are due as follows:

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 1,031,905	\$ 1,414,638
From one to five years	755,133	1,399,912
Greater than five years	<u>494,116</u>	<u>686,816</u>
	2,281,154	3,501,366
Less present value discount	<u>(250,754)</u>	<u>(313,578)</u>
	<u>\$ 2,030,400</u>	<u>\$ 3,187,788</u>

4. Fixed Assets

Fixed assets consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 514,503	\$ 514,503
Building	8,471,029	8,471,029
Exhibits	3,776,963	3,776,963
Equipment	1,432,565	1,348,977
Artwork	25,000	25,000
Leasehold improvements	21,985,391	21,419,647
Construction in progress	<u>6,286</u>	<u>37,600</u>
	36,211,737	35,593,719
Less accumulated depreciation	<u>(8,630,763)</u>	<u>(5,701,166)</u>
	<u>\$ 27,580,974</u>	<u>\$ 29,892,553</u>

5. Debt

The Foundation has a \$250,000 line of credit to fund current operations of the Museum. Borrowings under the line of credit bear a variable interest rate equal to the bank's base commercial (prime) rate plus 67 basis points. The credit line maturity date is April 30, 2016. Borrowings against the line of credit are unsecured. There were no outstanding borrowings against the line of credit as of June 30, 2015.

On March 27, 2013, the Foundation entered into a loan agreement with a bank providing for a revolving credit facility up to \$11,000,000. The loan agreement, which was amended in June 2014, permits advances under the revolving credit facility until August 31, 2014, at which time the revolving credit feature terminated. Interest was payable monthly based on a fixed rate of 2.24% for the term of the loan.

The proceeds from borrowings under the loan agreement were used to fund the renovation and new construction of the Museum and its surrounding grounds. Borrowings were secured by charitable pledges and contributions to the Foundation with respect to the renovation capital campaign and excluded any pledges to the endowment fund. The loan agreement contained covenants related to minimum unrestricted liquidity levels and a minimum debt service coverage ratio.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

Borrowings under the revolving credit facility at June 30, 2014, totaled \$6,200,000. The advance of \$6,200,000 was paid in full during 2015.

6. Fair Value Measurements

Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of hierarchy are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices for identical assets traded in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable and are significant to the fair value measurement.

At least annually, the Foundation evaluates the various types of securities and investment funds in its investment portfolio for performance and to determine an appropriate fair value hierarchy level based upon trading activity and observable market inputs.

The following tables present the balances of assets measured at fair value on a recurring basis as of June 30, 2015 and 2014, by level within the fair value hierarchy:

	Assets Measured at Fair Value at June 30, 2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	\$ 75,062	\$ -	\$ -	\$ 75,062
Certificates of deposit	25,019	-	-	25,019
Domestic common stock	839,029	-	-	839,029
Domestic equity mutual funds	512,544	-	-	512,544
Fixed income mutual funds	121,775	-	-	121,775
Corporate debt securities	-	531,382	-	531,382
Government debt securities	138,033	228,824	-	366,857
	<u>\$ 1,711,462</u>	<u>\$ 760,206</u>	<u>\$ -</u>	<u>\$ 2,471,668</u>

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

	Assets Measured at Fair Value at June 30, 2014			
	Level 1	Level 2	Level 3	Total
Money market mutual funds	\$ 138,833	\$ -	\$ -	\$ 138,833
Common stock	630,499	-	-	630,499
Equity mutual funds	146,286	-	-	146,286
Fixed income mutual funds	122,695	-	-	122,695
Corporate debt securities	-	617,673	-	617,673
Government debt securities	280,689	71,040	-	351,729
	<u>\$ 1,319,002</u>	<u>\$ 688,713</u>	<u>\$ -</u>	<u>\$ 2,007,715</u>

7. Endowment Fund

During the year ended June 30, 2013, the Foundation established an endowment fund to manage endowment gifts and to distribute income to the Museum for general operations and programs to promote the mission of the Museum. During the years ended June 30, 2015 and 2014, \$515,459 and \$765,068, respectively, of contributions to the Endowment Fund were received by the Foundation. The Board of Directors of the Museum is in the process of developing formal policies with respect to the appropriation of the returns from these assets for expenditure. The contributions were given with the stipulation that the principal be maintained intact in perpetuity; therefore, the related net assets are classified as permanently restricted as of June 30, 2015 and 2014.

The Foundation has adopted investment policies for endowment assets that attempt to maintain the value of the endowment assets in perpetuity and achieve investment returns to support the operations and programs of the Museum. Under the Foundation's investment policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a long-term total return (income and appreciation) of 5%. The Foundation's asset allocation policy is to provide a diversified strategic mix of asset classes that places emphasis on investments in equity securities and funds, fixed income securities and funds, and money market mutual funds to achieve its long-term return objective within a prudent risk framework.

8. Tax-Exempt Status

The Internal Revenue Service has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is not a private foundation as defined in Section 509(a) of the Code. Accordingly, the individual donors are entitled to the maximum charitable deduction under Section 170(c) of the Code. As a tax-exempt organization, the Foundation is required to operate under the provisions of the Code in order to maintain such tax-exempt status. The Foundation is also exempt from State income tax.

The Foundation follows the guidance contained in ASC Topic 740-10-25, *Accounting for Uncertainty in Income Taxes*. ASC Topic 740-10-25 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken. Based upon its evaluation, the Foundation concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. Fiscal years ending on or after June 30, 2012, remain subject to examination by federal and state taxing authorities.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

9. Conditional Promises

The Foundation has received the following conditional promises to give as of June 30, 2015, which depend on the occurrence of a specified future and uncertain event:

	Original Promise	Remaining as of June 30, 2015	Remaining Term
Economic Development Administration	\$ 2,000,000*	\$ 2,000,000	6 months
National Endowment for the Humanities	750,000	286,880	2 years
State of Tennessee - Major Repair 2014 Grant	<u>300,000</u>	<u>229,906</u>	5 years
	<u>\$ 3,050,000</u>	<u>\$ 2,516,786</u>	

* not to exceed \$2,000,000

The Economic Development Administration capital grant is subject to the reimbursement of actual expenditures for renovation and design development and construction at the Museum. The National Endowment for the Humanities has promised to pay an annual amount subject to nonfederal funds to be raised by the Foundation. The State of Tennessee Major Repair Grant is subject to the reimbursement of actual expenditures for major maintenance repairs and improvements.

10. Subsequent Events

Management evaluated the effects subsequent events would have on the financial statements of the Foundation through November 16, 2015, the date the financial statements were available to be issued.