

Lorraine Civil Rights Museum Foundation

(doing business as The National Civil Rights Museum)

Financial Statements

Years Ended June 30, 2018 and 2017

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Independent Auditors' Report

Board of Directors
Lorraine Civil Rights Museum Foundation
Memphis, Tennessee

We have audited the accompanying financial statements of Lorraine Civil Rights Museum Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

**Memphis, Tennessee
November 8, 2018**

Lorraine Civil Rights Museum Foundation
Statements of Financial Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,940,878	\$ 1,018,716
Investments	10,515,398	9,096,639
Contributions receivable, net	1,066,823	1,090,606
Accounts receivable	66,299	67,533
Inventory	215,902	201,648
Prepaid expenses and other assets	67,494	59,594
Fixed assets, net	<u>19,490,209</u>	<u>21,837,578</u>
 Total assets	 <u><u>\$ 33,363,003</u></u>	 <u><u>\$ 33,372,314</u></u>
 LIABILITIES AND NET ASSETS		
Accounts payable and other liabilities	\$ 331,658	\$ 393,226
Deferred revenue	<u>70,000</u>	<u>3,176</u>
 Total liabilities	 401,658	 396,402
 Net assets:		
Unrestricted	28,574,063	28,594,176
Temporarily restricted	1,263,104	1,269,403
Permanently restricted	<u>3,124,178</u>	<u>3,112,333</u>
 Total net assets	 <u>32,961,345</u>	 <u>32,975,912</u>
 Total liabilities and net assets	 <u><u>\$ 33,363,003</u></u>	 <u><u>\$ 33,372,314</u></u>

Lorraine Civil Rights Museum Foundation
Statement of Activities
Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Admissions	\$ 3,998,762	\$ -	\$ -	\$ 3,998,762
Memberships	81,348	-	-	81,348
Contributions and grants	1,015,567	384,000	11,845	1,411,412
Museum shop and café	2,146,841	-	-	2,146,841
Public events and programs	3,077,064	-	-	3,077,064
Investment income	658,619	-	-	658,619
Other	226,223	42,826	-	269,049
Apartment revenue	29,885	-	-	29,885
Net assets released from restrictions	433,125	(433,125)	-	-
	<u>11,667,434</u>	<u>(6,299)</u>	<u>11,845</u>	<u>11,672,980</u>
Total revenues, gains, and other support				
Expenses:				
Program services	5,546,838	-	-	5,546,838
Supporting services:				
Salaries and benefits	657,755	-	-	657,755
General administration	691,626	-	-	691,626
Facility and equipment	3,828,770	-	-	3,828,770
Museum shop and café	910,841	-	-	910,841
Professional and legal	51,717	-	-	51,717
	<u>6,140,709</u>	<u>-</u>	<u>-</u>	<u>6,140,709</u>
Total supporting services				
Total expenses	<u>11,687,547</u>	<u>-</u>	<u>-</u>	<u>11,687,547</u>
Change in net assets	(20,113)	(6,299)	11,845	(14,567)
Donor modifications of restrictions	-	-	-	-
	<u>(20,113)</u>	<u>(6,299)</u>	<u>11,845</u>	<u>(14,567)</u>
Change in net assets				
Net assets, beginning of year	<u>28,594,176</u>	<u>1,269,403</u>	<u>3,112,333</u>	<u>32,975,912</u>
Net assets, end of year	<u>\$ 28,574,063</u>	<u>\$ 1,263,104</u>	<u>\$ 3,124,178</u>	<u>\$ 32,961,345</u>

See accompanying notes.

Lorraine Civil Rights Museum Foundation
Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Admissions	\$ 3,425,542	\$ -	\$ -	\$ 3,425,542
Memberships	80,739	-	-	80,739
Contributions and grants	319,302	683,892	110,063	1,113,257
Museum shop and café	1,696,010	-	-	1,696,010
Public events and programs	2,175,289	-	-	2,175,289
Investment income	729,374	1,434	-	730,808
Other	125,417	49,117	-	174,534
Apartment revenue	26,430	-	-	26,430
Net assets released from restrictions	787,092	(787,092)	-	-
Total revenues, gains, and other support	9,365,195	(52,649)	110,063	9,422,609
Expenses:				
Program services	4,431,597	-	-	4,431,597
Supporting services:				
Salaries and benefits	608,087	-	-	608,087
General administration	633,304	-	-	633,304
Facility and equipment	3,653,928	-	-	3,653,928
Museum shop and café	745,387	-	-	745,387
Professional and legal	34,683	-	-	34,683
Total supporting services	5,675,389	-	-	5,675,389
Total expenses	10,106,986	-	-	10,106,986
Change in net assets	(741,791)	(52,649)	110,063	(684,377)
Donor modifications of restrictions	-	-	-	-
Change in net assets	(741,791)	(52,649)	110,063	(684,377)
Net assets, beginning of year	29,335,967	1,322,052	3,002,270	33,660,289
Net assets, end of year	<u>\$ 28,594,176</u>	<u>\$ 1,269,403</u>	<u>\$ 3,112,333</u>	<u>\$ 32,975,912</u>

See accompanying notes.

Lorraine Civil Rights Museum Foundation
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating activities:		
Change in net assets	\$ (14,567)	\$ (684,377)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(456,417)	(577,128)
Depreciation	2,976,750	2,965,804
Interest accretion on lease contribution	(42,826)	(49,117)
Amortization of rent contribution	187,047	183,834
Changes in operating assets and liabilities:		
Receivables	(119,204)	71,453
Inventory	(14,254)	(46,017)
Prepaid expenses and other assets	(7,900)	3,131
Accounts payable and other liabilities	5,256	(102,531)
Net cash provided by operating activities	<u>2,513,885</u>	1,765,052
Investing activities:		
Capital expenditures	(629,381)	(25,287)
Proceeds from sales of investments	1,996,941	10,452,094
Purchases of investments	<u>(2,959,283)</u>	<u>(14,829,366)</u>
Net cash used in investing activities	<u>(1,591,723)</u>	<u>(4,402,559)</u>
Net increase (decrease) in cash and cash equivalents	922,162	(2,637,507)
Cash and cash equivalents, beginning of year	<u>1,018,716</u>	<u>3,656,223</u>
Cash and cash equivalents, end of year	<u>\$ 1,940,878</u>	<u>\$ 1,018,716</u>

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

1. Nature of Activities

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. Located at the Lorraine Motel, the assassination site of Dr. Martin Luther King Jr., the Museum chronicles the American civil rights movement (the "Movement"), examines today's global civil and human rights issues, provokes thoughtful debate and serves as a catalyst for positive social change. 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. Fiscal year 2018 programming included a yearlong commemoration of the 50th anniversary of Dr. King's assassination on April 4, 1968, themed "MLK50: Where do we go from here?" 2018 revenues and expenses reflect an increase in sponsorships and programming expenses associated with MLK50.

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, 2018 and 2017. The Foundation recorded in its Statements of Activities for the years ended June 30, 2018 and 2017, interest accretion in the "other" category of revenues, gains and other support totaling \$42,826 and \$49,117, respectively, and rent expense in the "facility and equipment" category of expenses totaling \$187,047 and \$183,834, respectively. The net present value of the lease contribution receivable was \$772,824 and \$917,044 at June 30, 2018 and 2017, respectively.

Inventory

Inventory consists of items available for sale in the Museum gift shops and is stated at the lower of cost (first-in, first-out method) or net realizable value. 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

Collections

The Museum has collections comprised of objects, documents, textiles, photographs, and artwork which illustrate and highlight the key episodes of the Movement and its legacy to inspire participation in civil and human rights efforts on a global level. At its founding in 1991, the Museum was not a collecting institution but since then, through a steady process of acquiring gifts, bequests, and purchases, the Museum's collection now has approximately 2,000 items. While the primary scope of the collection is focused on the civil rights struggle during the 1950s and 1960s, the artifacts, oral histories, films, and interactive media, guide visitors through five centuries of American history spanning from slavery through the passing of the 1964 Civil Rights Act. The permanent collection also comprises the court documents in the criminal case against James Earl Ray, the alleged assassin of Dr. King. In addition the Museum has an education collection and an institutional history collection. The education collection contains artifacts used as teaching tools for hands-on learning in programs and workshops. Each of the items is catalogued, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collection.

Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the statements of activities. Proceeds from insurance recoveries are reflected as increases in the appropriate net asset classes.

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, 2018 and 2017, include \$772,824 and \$917,044, respectively, for the contribution receivable related to the unconditional lease with the State of Tennessee. The remaining temporarily restricted net assets at June 30, 2018 and 2017, represent pledges receivable and gifts restricted for use in programming, future renovation and equipment purchases.

Support and revenue

The Foundation receives support and revenue from a variety of sources, including private contributions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Restricted contributions and investment income (loss) that are limited to specific uses by donor-imposed restrictions are reported as increases (decreases) in temporarily or permanently restricted net assets depending on the nature of the restrictions. Unrestricted revenues consist of admissions and other program revenues, which are available and used for operations and programs.

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.

Lorraine Civil Rights Museum Foundation

Notes to Financial Statements

Temporarily restricted contributions for which the donor-imposed restriction is satisfied in the same year that the contribution is received are classified as unrestricted contributions in the statements of activities. During 2018 and 2017, the Foundation released temporarily restricted net assets for the purpose of funding donor-specified projects and programming, 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.

Fundraising

Fundraising expenses totaled \$1,148,140 and \$1,223,991 for the years ended June 30, 2018 and 2017, respectively. Of this total, \$532,901 and \$642,310 is attributed to the Freedom Awards annual fundraiser for the years ended June 30, 2018 and 2017, respectively.

Fair value of financial instruments

Investments, comprised of money market and other mutual funds, certificates of deposit, common stocks, and government and corporate debt securities, are carried at fair value. See Note 6 for discussion of fair value measurements.

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.

Concentration of risk

At times, the Foundation has bank deposits in excess of federal deposit insurance.

Advertising costs

Advertising costs, which amounted to \$299,120 and \$307,081 for the years ended June 30, 2018 and 2017, respectively, are expensed as incurred.

Subsequent events

Management has evaluated the effects subsequent events would have on the financial statements of the Foundation through November 8, 2018, the date the financial statements were available to be issued.

Recent accounting pronouncements

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes within the ASU impact the following areas:

1. **Net Asset Classes** - Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.
2. **Investment Return** - Investment return will be reported net of external and direct internal investment expenses and those netted expenses are no longer required to be disclosed.
3. **Expenses** - Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement or in the notes to the financial statements.

Lorraine Civil Rights Museum Foundation Notes to Financial Statements

4. **Liquidity and Availability of Resources** - The ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures with one year of the statement of financial position date.
5. **Presentation of Operating Cash Flows** - Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. The ASU removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

The above changes only impact the presentation and disclosures within the financial statements; however, within the ASU, there is one change in the accounting requirements for not-for-profit entities. The placed-in-service approach will now be required for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU eliminates the current option that, in the absence of explicit donor stipulations, had allowed a not-for-profit entity to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed, i.e. to match the depreciation expense on the asset) rather than when placed in service. The Foundation intends to adopt the new guidance using the retrospective method for the year ended June 30, 2019.

In May 2014, the FASB issued ASU No. 2016-14, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. ASU 2014-09 will supersede industry-specific GAAP guidance and provide a principles-based framework for revenue recognition using a 5-step process. The standard is effective for fiscal years beginning after December 15, 2018 (the Foundation's fiscal year 2020).

On June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which applies to all entities that receive or make contributions, including business entities. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a "barrier or hurdle" that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources (or if assets are advanced, a right to demand their return) if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is unconditional. No new disclosures are required.

For grants/contributions made, donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements.

For federal and other government grants, the ASU clarifies the definition of an exchange transaction. As a result, not-for-profit entities will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). An accommodation ("simultaneous release" option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today.

The Foundation is required to apply the amendments of the ASU on contributions received during its fiscal year 2020.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize on their statement of financial position all lease contracts with lease terms greater than 12 months, including operating leases. Specifically, lessees are required to recognize on the statement of financial position at lease commencement both a right-of-use, representing the lessee's right to use the leased asset over the term of the lease, and a lease liability, representing the lessee's contractual obligation to make lease payments over the term of the lease. The new lease standard requires lessees to classify leases as operating or finance leases, which are similar to the current operating and capital lease classifications. However, the distinction between these two classifications under the new standard

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

does not relate to balance sheet treatment, but relates to treatment and recognition in the statements of income and cash flows. The effective date of the amendment is for annual reporting periods beginning after December 15, 2019.

The Foundation is evaluating the effects of implementing the new accounting standards on its financial statements.

3. Contributions Receivable

Contributions receivable at June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 483,852	\$ 359,159
From one to five years	686,815	778,117
Greater than five years	<u>-</u>	<u>100,001</u>
	1,170,667	1,237,277
Less present value discount	<u>(103,844)</u>	<u>(146,671)</u>
	<u>\$ 1,066,823</u>	<u>\$ 1,090,606</u>

There is no allowance for uncollectible promises at June 30, 2018 or 2017.

4. Fixed Assets

Fixed assets consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 514,503	\$ 514,503
Building	8,471,029	8,471,029
Exhibits	4,130,805	3,776,963
Equipment	1,766,423	1,612,491
Artwork	25,000	25,000
Leasehold improvements	<u>22,107,000</u>	<u>21,985,391</u>
	37,014,760	36,385,377
Less accumulated depreciation	<u>(17,524,551)</u>	<u>(14,547,799)</u>
	<u>\$ 19,490,209</u>	<u>\$ 21,837,578</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 18, 2020. Borrowings against the line of credit are unsecured. There were no outstanding borrowings against the line of credit as of June 30, 2018 and 2017.

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, 2018 and 2017, by level within the fair value hierarchy:

	Assets Measured at Fair Value at June 30, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	\$ 303,975	\$ -	\$ -	\$ 303,975
Certificates of deposit	-	97,074	-	97,074
Domestic common stock	3,619,468	-	-	3,619,468
Domestic equity mutual funds	2,477,336	-	-	2,477,336
Fixed income mutual funds	592,462	-	-	592,462
Mortgage pool securities	-	231,485	-	231,485
Corporate debt securities	-	1,569,403	-	1,569,403
Government debt securities	-	1,622,140	-	1,622,140
	<u>\$ 6,993,241</u>	<u>\$ 3,520,102</u>	<u>\$ -</u>	10,513,343
Uninvested cash				<u>2,055</u>
				<u>\$10,515,398</u>

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

	Assets Measured at Fair Value at June 30, 2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	\$ 247,796	\$ -	\$ -	\$ 247,796
Certificates of deposit	-	72,211	-	72,211
Domestic common stock	2,982,845	-	-	2,982,845
Domestic equity mutual funds	2,083,288	-	-	2,083,288
Fixed income mutual funds	609,607	-	-	609,607
Mortgage pool securities	-	72,130	-	72,130
Corporate debt securities	-	1,407,488	-	1,407,488
Government debt securities	-	<u>1,619,202</u>	-	<u>1,619,202</u>
	<u>\$ 5,923,536</u>	<u>\$ 3,171,031</u>	<u>\$ -</u>	9,094,567
Uninvested cash				<u>2,072</u>
				<u>\$ 9,096,639</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. The Foundation's endowment fund consists of both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment consist of the following 3 funds:

- The National Endowment for the Humanities/Beverly Robertson Endowment Fund ("NEHBREF")
- The National Civil Rights Museum Endowment Fund ("EF")
- The National Civil Rights Museum Board Designated Endowment Fund ("BDEF")

During the years ended June 30, 2018 and 2017, \$11,845 and \$110,063, respectively, of contributions to the endowment fund were received by the Foundation. 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, 2018 and 2017.

Interpretation of relevant law

The board of directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted endowment net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. As of June 30, 2018 and 2017, there were no donor-imposed restrictions on the Foundation's endowment earnings appropriated for expenditure; therefore, there were no temporarily restricted endowment net assets.

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In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Foundation and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the investment and spending policies of the Foundation.

Endowment net asset composition

The net asset balance of the Foundation's endowment fund was \$8,885,737 and \$7,493,974 at June 30, 2018 and 2017, respectively, of which \$5,761,559 and \$4,381,641 represented board-designated endowment funds, and \$3,124,178 and \$3,112,333 represented donor-restricted endowment funds at June 30, 2018 and 2017, respectively.

Changes in endowment net assets for the years ended June 30, 2018 and 2017, are as follows:

	<u>Unrestricted BDEF</u>	<u>Permanently Restricted EF</u>	<u>Permanently Restricted NEHBREF</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 2,000,000	\$ 401,350	\$ 2,600,920	\$ 5,002,270
Investment return:				
Interest and dividends	51,859	8,997	66,535	127,391
Investment fees	(12,508)	(2,324)	(17,823)	(32,655)
Net appreciation (realized and unrealized)	<u>255,291</u>	<u>40,167</u>	<u>291,447</u>	<u>586,905</u>
Total investment return	294,642	46,840	340,159	681,641
Board designation of endowment funds	1,700,000	-	-	1,700,000
Contributions	-	110,063	-	110,063
Transfer of unrestricted endowment earnings	<u>386,999</u>	<u>(46,840)</u>	<u>(340,159)</u>	<u>-</u>
Endowment net assets, June 30, 2017	4,381,641	511,413	2,600,920	7,493,974
Investment return:				
Interest and dividends	93,013	11,730	68,678	173,421
Investment fees	(22,547)	(3,361)	(20,002)	(45,910)
Net appreciation (realized and unrealized)	<u>251,653</u>	<u>27,803</u>	<u>202,951</u>	<u>482,407</u>
Total investment return	322,119	36,172	251,627	609,918
Board designation of endowment funds	770,000	-	-	770,000
Contributions	-	11,845	-	11,845
Transfer of unrestricted endowment earnings	<u>287,799</u>	<u>(36,173)</u>	<u>(251,626)</u>	<u>-</u>
Endowment net assets, June 30, 2018	<u>\$ 5,761,559</u>	<u>\$ 523,257</u>	<u>\$ 2,600,921</u>	<u>\$ 8,885,737</u>

Return objectives and risk parameters

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. Under this, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index and the Government/Corporate Index while assuming a moderate level of investment risk.

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Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on fixed income and equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

Effective July 1, 2016, the Foundation adopted the following spending policy for the endowment fund. The NEHBREF corpus will be held in perpetuity and the income will be used for educational programming. The EF corpus will be held in perpetuity and the income will be used for education and operating expenses. The BDEF corpus will be held in perpetuity but it can be expended with a 66 2/3 board majority vote. Endowment fund income cannot be spent until the combined corpus of the EF and the BDEF reaches \$5 million dollars. The combined corpus of the BDEF and EF was \$4,993,258 and \$4,211,413 as of June 30, 2018 and 2017, respectively.

The amount of funds allocated for expenditure for the purposes for which the endowment fund was established will be based on the return on investment using a rolling average in order to smooth out the spending process due to market volatility. 90% of the average return over the last 3 years will be calculated annually at the end of the calendar year and funds shall be made available quarterly beginning on July 1 of the following fiscal year.

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.

9. Conditional Promises

The Foundation has received the following conditional promises to give as of June 30, 2018, which depend on the occurrence of a specified future and uncertain event:

	<u>Original Promise</u>	<u>Remaining as of June 30, 2018</u>	<u>Remaining Term</u>
State of Tennessee - Major Repair 2014 Grant	\$ 300,000	\$ 102,692	3 years
State of Tennessee - Major Repair 2016 Grant	300,000	300,000	3 years
State of Tennessee - Major Repair 2017 Grant	300,000	300,000	3 years
State of Tennessee - Major Repair 2018 Grant	<u>300,000</u>	<u>148,992</u>	3 years
	<u>\$ 1,200,000</u>	<u>\$ 851,684</u>	