

Lorraine Civil Rights Museum Foundation

(doing business as The National Civil Rights Museum)

Audited Financial Statements

Years Ended June 30, 2016 and 2015

Table of Contents

Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6



Independent Auditors' Report

Board of Directors
Lorraine Civil Rights Museum Foundation
Memphis, Tennessee

We have audited the accompanying financial statements of the Lorraine Civil Rights Museum Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 the Lorraine Civil Rights Museum Foundation as of June 30, 2016 and 2015, 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 21, 2016**

Lorraine Civil Rights Museum Foundation
Statements of Financial Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 3,656,223	\$ 874,240
Investments, at fair value	4,142,239	2,471,668
Contributions receivable, net	1,314,062	2,030,400
Accounts receivable	50,247	50,632
Inventory	155,631	197,370
Prepaid expenses and other assets	62,725	18,629
Fixed assets, net	<u>24,778,095</u>	<u>27,580,974</u>
 Total assets	 <u>\$ 34,159,222</u>	 <u>\$ 33,223,913</u>
LIABILITIES AND NET ASSETS		
Accounts payable and other liabilities	\$ 337,933	\$ 163,503
Deferred revenue	<u>161,000</u>	<u>102,500</u>
 Total liabilities	 498,933	 266,003
Net assets:		
Unrestricted	29,335,967	28,733,520
Temporarily restricted	1,322,052	2,084,288
Permanently restricted	<u>3,002,270</u>	<u>2,140,102</u>
 Total net assets	 <u>33,660,289</u>	 <u>32,957,910</u>
 Total liabilities and net assets	 <u>\$ 34,159,222</u>	 <u>\$ 33,223,913</u>

See accompanying notes.

Lorraine Civil Rights Museum Foundation
Statement of Activities
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Admissions	\$ 3,125,513	\$ -	\$ -	\$ 3,125,513
Memberships	74,872	-	-	74,872
Contributions and grants	3,067,079	220,095	687,156	3,974,330
Museum shop and café	1,477,089	-	-	1,477,089
Public events and programs	1,433,965	-	-	1,433,965
Investment income (loss)	7,759	4,179	-	11,938
Other	132,510	55,000	-	187,510
Apartment revenue	10,800	-	-	10,800
Net assets released from restrictions	1,041,510	(1,041,510)	-	-
Total revenues, gains, and other support	<u>10,371,097</u>	<u>(762,236)</u>	<u>687,156</u>	<u>10,296,017</u>
Expenses:				
Program services	4,011,304	-	-	4,011,304
Supporting services:				
Salaries and benefits	576,828	-	-	576,828
General administration	671,342	-	-	671,342
Facility and equipment	3,598,613	-	-	3,598,613
Museum shop and café	657,718	-	-	657,718
Professional and legal	77,833	-	-	77,833
Total supporting services	<u>5,582,334</u>	<u>-</u>	<u>-</u>	<u>5,582,334</u>
Total expenses	<u>9,593,638</u>	<u>-</u>	<u>-</u>	<u>9,593,638</u>
Change in net assets before donor modifications of restrictions	777,459	(762,236)	687,156	702,379
Donor modifications of restrictions	(175,012)	-	175,012	-
Change in net assets	602,447	(762,236)	862,168	702,379
Net assets at beginning of year	<u>28,733,520</u>	<u>2,084,288</u>	<u>2,140,102</u>	<u>32,957,910</u>
Net assets at end of year	<u>\$ 29,335,967</u>	<u>\$ 1,322,052</u>	<u>\$ 3,002,270</u>	<u>\$ 33,660,289</u>

See accompanying notes.

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

(Continued)

	<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	12,143,100	(1,153,872)	515,459	11,504,687
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	5,039,787	-	-	5,039,787
Total expenses	8,410,810	-	-	8,410,810
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
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating activities:		
Change in net assets	\$ 702,379	\$ 3,093,877
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss (gain) on investments	50,853	(52,746)
Depreciation	2,951,231	2,929,597
Interest accretion on lease contribution	(54,967)	(60,398)
Amortization of rent contribution	180,230	176,695
Changes in operating assets and liabilities:		
Receivables	591,460	1,133,567
Inventory	41,739	(56,932)
Prepaid expenses and other assets	(44,096)	8,316
Accounts payable and other liabilities	232,930	(167,746)
Net cash provided by operating activities	<u>4,651,759</u>	7,004,230
Investing activities:		
Capital expenditures	(148,352)	(618,018)
Proceeds from sales of investments	2,888,708	1,570,394
Purchases of investments	(4,610,132)	(1,981,601)
Net cash used in investing activities	<u>(1,869,776)</u>	(1,029,225)
Financing activities:		
Principal repayments on line of credit	-	(6,200,000)
Net cash used in financing activities	<u>-</u>	(6,200,000)
Net increase (decrease) in cash and cash equivalents	2,781,983	(224,995)
Cash and cash equivalents at the beginning of year	<u>874,240</u>	1,099,235
Cash and cash equivalents at the end of year	<u>\$ 3,656,223</u>	<u>\$ 874,240</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.

Located at the Lorraine Motel, the assassination site of Dr. Martin Luther King Jr., the National Civil Rights Museum chronicles the American civil rights movement, examines today's global civil and human rights issues, provokes thoughtful debate and serves as a catalyst for positive social change.

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, 2016 and 2015. The Foundation recorded in its Statements of Activities for the years ended June 30, 2016 and 2015, interest accretion in the "other" category of revenues, gains and other support totaling \$54,967 and \$60,398, respectively, and rent expense in the "facility and equipment" category of expenses totaling \$180,230 and \$176,695, respectively. The net present value of the lease contribution receivable was \$1,051,761 and \$1,177,024 at June 30, 2016 and 2015, 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, 2016 and 2015, include \$1,051,761 and \$1,177,024, respectively, for the contribution receivable related to the unconditional lease with the State of Tennessee. The remaining temporarily restricted net assets at June 30, 2016 and 2015, are held primarily for future renovation and equipment purchases.

Fundraising

Fundraising expenses totaled \$1,041,047 and \$788,376 for the years ended June 30, 2016 and 2015, respectively. Of this total, \$553,491 and \$431,173 is attributed to the Freedom Awards annual fundraiser, for the years ending June 30, 2016 and 2015, 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 2016 and 2015, 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, 2016 and 2015, 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.

Concentration of risk

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

Advertising costs

Advertising cost, which amounted to \$222,267 and \$135,787 for the years ended June 30, 2016 and 2015, respectively, are expensed as incurred.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

3. Contributions Receivable

The net present value of contributions receivable is \$1,314,062 and \$2,030,400 at June 30, 2016 and 2015, respectively. There is no allowance for uncollectible promises at June 30, 2016 or 2015. Contributions receivable at June 30, 2016 and 2015, are due as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 444,684	\$ 1,031,905
From one to five years	766,640	755,133
Greater than five years	<u>298,525</u>	494,116
	<u>1,509,849</u>	2,281,154
Less present value discount	<u>(195,787)</u>	<u>(250,754)</u>
	<u>\$ 1,314,062</u>	<u>\$ 2,030,400</u>

4. Fixed Assets

Fixed assets consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 514,503	\$ 514,503
Building	8,471,029	8,471,029
Exhibits	3,776,963	3,776,963
Equipment	1,559,719	1,432,565
Artwork	25,000	25,000
Leasehold improvements	21,985,391	21,985,391
Construction in progress	<u>27,485</u>	<u>6,286</u>
	<u>36,360,089</u>	36,211,737
Less accumulated depreciation	<u>(11,581,994)</u>	<u>(8,630,763)</u>
	<u>\$ 24,778,095</u>	<u>\$ 27,580,974</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, 2017. Borrowings against the line of credit are unsecured. There were no outstanding borrowings against the line of credit as of June 30, 2016 and 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

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

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, 2016 and 2015, by level within the fair value hierarchy:

Assets Measured at Fair Value at June 30, 2016				
	Level 1	Level 2	Level 3	Total
Money market mutual funds	\$ 171,564	\$ -	\$ -	\$ 171,564
Certificates of deposit	-	173,898	-	173,898
Domestic common stock	1,210,221	-	-	1,210,221
Domestic equity mutual funds	704,418	-	-	704,418
Fixed income mutual funds	146,900	-	-	146,900
Mortgage pool securities	-	36,749	-	36,749
Corporate debt securities	-	779,485	-	779,485
Government debt securities	-	917,712	-	917,712
	<u>2,233,103</u>	<u>1,907,844</u>	-	<u>4,140,947</u>
Uninvested cash	-	-	-	1,292
	<u>\$ 2,233,103</u>	<u>\$ 1,907,844</u>	<u>\$ -</u>	<u>\$ 4,142,239</u>

Assets Measured at Fair Value at June 30, 2015				
	Level 1	Level 2	Level 3	Total
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>\$ 1,686,443</u>	<u>\$ 785,225</u>	<u>\$ -</u>	<u>\$ 2,471,668</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, 2016 and 2015, \$687,156 and \$515,459, 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, 2016 and 2015. During the year ended June 30, 2016, the Foundation's board of directors designated \$2,000,000 as endowment funds, which are classified as unrestricted net assets as of June 30, 2016. The \$2,000,000 was included in cash and cash equivalents at June 30, 2016, and was transferred to investments in July 2016.

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 temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. Prior to July 1, 2016, the Foundation generally appropriated and spent the temporarily restricted net assets in the same year; therefore, there are no temporarily restricted endowment net assets at year end.

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 \$5,002,270 and \$2,140,102 at June 30, 2016 and 2015, respectively, of which \$2,000,000 and \$0 represented board-designated endowment funds, and \$3,002,270 and \$2,140,102 represented donor-restricted endowment funds at June 30, 2016 and 2015, respectively.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

Changes in endowment net assets for the year ended June 30, 2016 and 2015, are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2014	\$ -	\$ 1,624,643	\$ 1,624,643
Investment return:			
Investment income	-	50,000	50,000
Investment fees	-	(10,739)	(10,739)
Net appreciation (realized and unrealized)	<u>-</u>	<u>15,411</u>	<u>15,411</u>
Total investment return		54,672	54,672
Contributions	-	515,459	515,459
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(54,672)</u>	<u>(54,672)</u>
Endowment net assets, June 30, 2015	-	2,140,102	2,140,102
Investment return:			
Investment income	-	54,708	54,708
Investment fees	-	(9,728)	(9,728)
Net depreciation (realized and unrealized)	<u>-</u>	<u>(44,980)</u>	<u>(54,020)</u>
Total investment return (loss)	-	-	-
Board designation of endowment funds	2,000,000	-	2,000,000
Contributions	-	687,156	687,156
Donor modification of restrictions	-	175,012	175,012
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, June 30, 2016	<u>\$ 2,000,000</u>	<u>\$ 3,002,270</u>	<u>\$ 5,002,270</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.

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.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements

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. The income from the EF and the BDEF cannot be spent until the combined corpus reaches \$5 million dollars. 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, 2016, which depend on the occurrence of a specified future and uncertain event:

	<u>Original Promise</u>	<u>Remaining as of June 30, 2016</u>	<u>Remaining Term</u>
State of Tennessee - Major Repair 2014 Grant	\$ 300,000	\$ 129,405	4 years
State of Tennessee - Major Repair 2016 Grant	<u>300,000</u>	<u>300,000</u>	4 years
	<u>\$ 600,000</u>	<u>\$ 429,405</u>	

10. Subsequent Events

Management evaluated the effects subsequent events would have on the financial statements of the Foundation through November 21, 2016, the date the financial statements were available to be issued.