




Lorraine Civil Rights Museum Foundation (doing business as The National Civil Rights Museum)

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

June 30, 2024 and 2023



Lorraine Civil Rights Museum Foundation
Contents
June 30, 2024 and 2023

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Independent Auditor's Report

Board of Directors
Lorraine Civil Rights Museum Foundation
Memphis, Tennessee

Opinion

We have audited the financial statements of Lorraine Civil Rights Museum Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Forvis Mazars, LLP

**Memphis, Tennessee
December 18, 2024**

Lorraine Civil Rights Museum Foundation
Statements of Financial Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 3,652,033	\$ 11,546,390
Investments	27,646,067	25,490,106
Contributions and grants receivable		
Grants receivable	231,688	481,688
Contributions receivable, net	4,248,516	158,518
Contributed lease receivable	4,687,844	4,896,037
	<u>9,168,048</u>	<u>5,536,243</u>
Accounts receivable	228,966	105,590
Inventory	311,556	261,234
Prepaid expenses and other assets	58,982	22,747
Fixed assets, net	18,041,397	8,638,716
	<u>59,107,049</u>	<u>51,601,026</u>
Total assets	<u>\$ 59,107,049</u>	<u>\$ 51,601,026</u>
LIABILITIES AND NET ASSETS		
Accounts payable and other liabilities	\$ 1,056,570	\$ 717,513
Deferred revenue	835,000	350,500
	<u>1,891,570</u>	<u>1,068,013</u>
Total liabilities	1,891,570	1,068,013
Net Assets		
Without donor restrictions	26,718,977	25,346,595
With donor restrictions	30,496,502	25,186,418
	<u>57,215,479</u>	<u>50,533,013</u>
Total net assets	<u>57,215,479</u>	<u>50,533,013</u>
Total liabilities and net assets	<u>\$ 59,107,049</u>	<u>\$ 51,601,026</u>

Lorraine Civil Rights Museum Foundation
Statements of Activities
Years Ended June 30, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Support						
Admissions	\$ 3,808,598	\$ -	\$ 3,808,598	\$ 3,954,846	\$ -	\$ 3,954,846
Memberships	54,110	-	54,110	38,300	-	38,300
Contributions and grants	1,396,950	1,269,801	2,666,751	1,673,154	1,257,879	2,931,033
Payroll Protection Program forgiveness	-	-	-	579,400	-	579,400
Public events and programs	1,767,261	-	1,767,261	2,057,770	-	2,057,770
Freedom Awards	110,880	-	110,880	171,549	-	171,549
In-kind rent contribution	-	175,768	175,768	-	5,085,648	5,085,648
Retail sales	1,716,128	-	1,716,128	1,919,751	-	1,919,751
Less cost of goods sold	(763,901)	-	(763,901)	(853,462)	-	(853,462)
	952,227	-	952,227	1,066,289	-	1,066,289
Investment return, net	3,063,749	-	3,063,749	1,623,459	-	1,623,459
Other	457,929	-	457,929	278,675	4,462	283,137
Apartment revenue	17,225	-	17,225	29,075	-	29,075
Net assets released from restrictions	1,557,411	(1,557,411)	-	1,942,773	(1,942,773)	-
Total Revenues, Gains and Support	13,186,340	(111,842)	13,074,498	13,415,290	4,405,216	17,820,506
Expenses						
Program services						
Museum and other program services	7,673,145	-	7,673,145	8,837,829	-	8,837,829
Freedom Awards	614,662	-	614,662	543,790	-	543,790
	8,287,807	-	8,287,807	9,381,619	-	9,381,619
Supporting services						
Management and general administration	2,363,214	-	2,363,214	2,145,946	-	2,145,946
Fundraising	1,162,937	-	1,162,937	1,094,826	-	1,094,826
	3,526,151	-	3,526,151	3,240,772	-	3,240,772
Total expenses	11,813,958	-	11,813,958	12,622,391	-	12,622,391
Change in net assets from operating activity	1,372,382	(111,842)	1,260,540	792,899	4,405,216	5,198,115

See Notes to Financial Statements

Lorraine Civil Rights Museum Foundation
Statements of Activities
Years Ended June 30, 2024 and 2023

(Continued)

	2024			2023		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Capital Campaign Activities						
Contributions and grants	-	5,444,692	5,444,692	-	11,000,000	11,000,000
Expenses	(22,766)	-	(22,766)	(3,835)	-	(3,835)
Net assets released from restrictions	<u>22,766</u>	<u>(22,766)</u>	<u>-</u>	<u>1,440,086</u>	<u>(1,440,086)</u>	<u>-</u>
Total capital campaign activities	-	5,421,926	5,421,926	1,436,251	9,559,914	10,996,165
Change in net assets	1,372,382	5,310,084	6,682,466	2,229,150	13,965,130	16,194,280
Net Assets, Beginning of Year	<u>25,346,595</u>	<u>25,186,418</u>	<u>50,533,013</u>	<u>23,117,445</u>	<u>11,221,288</u>	<u>34,338,733</u>
Net Assets, End of Year	<u><u>\$ 26,718,977</u></u>	<u><u>\$ 30,496,502</u></u>	<u><u>\$ 57,215,479</u></u>	<u><u>\$ 25,346,595</u></u>	<u><u>\$ 25,186,418</u></u>	<u><u>\$ 50,533,013</u></u>

Lorraine Civil Rights Museum Foundation
Statement of Functional Expenses
Year Ended June 30, 2024

	Program Services		Supporting Services		Total
	Museum and Other Program Services	Freedom Awards	Management and General	Fundraising	
Salaries and benefits	\$ 3,296,360	\$ -	\$ 1,446,092	\$ 653,105	\$ 5,395,557
Staff development/relations	116,455	-	56,392	28,509	201,356
Travel and meetings	55,827	-	49,824	36,182	141,833
Professional association fees/subscriptions	37,528	-	16,137	13,367	67,032
Professional services	109,894	-	322,768	35,448	468,110
Marketing and advertising	174,941	-	47,360	5,712	228,013
Office expenses	171,591	-	89,442	142,913	403,946
Information technology	271,459	-	134,934	111,369	517,762
Contracted services	782,166	-	103,421	-	885,587
Community and volunteer relations	34,326	-	1,860	4,891	41,077
Development and membership	44	-	-	53,689	53,733
Interpretation/collections/education/special events	1,083,813	614,662	15	61,977	1,760,467
Facility and equipment	1,076,010	-	47,644	-	1,123,654
Depreciation and amortization	462,731	-	47,325	15,775	525,831
	<u>\$ 7,673,145</u>	<u>\$ 614,662</u>	<u>\$ 2,363,214</u>	<u>\$ 1,162,937</u>	<u>\$ 11,813,958</u>

Lorraine Civil Rights Museum Foundation
Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services		Supporting Services		Total
	Museum and Other Program Services	Freedom Awards	Management and General	Fundraising	
Salaries and benefits	\$ 2,843,084	\$ -	\$ 1,249,524	\$ 526,261	\$ 4,618,869
Staff development/relations	45,233	-	31,155	17,968	94,356
Travel and meetings	51,551	-	47,477	13,102	112,130
Professional association fees/subscriptions	9,689	-	9,297	3,535	22,521
Professional services	153,639	-	215,327	128,245	497,211
Marketing and advertising	138,062	-	34,045	-	172,107
Office expenses	144,043	-	85,005	65,354	294,402
Information technology	268,251	-	114,137	110,802	493,190
Contracted services	717,354	-	75,011	-	792,365
Community and volunteer relations	14,525	-	1,135	449	16,109
Development and membership	935	-	-	103,055	103,990
Interpretation/collections/education/special events	1,205,541	543,790	-	45,752	1,795,083
Facility and equipment	1,028,871	-	57,089	4,722	1,090,682
Depreciation and amortization	2,217,051	-	226,744	75,581	2,519,376
	<u>\$ 8,837,829</u>	<u>\$ 543,790</u>	<u>\$ 2,145,946</u>	<u>\$ 1,094,826</u>	<u>\$ 12,622,391</u>

Lorraine Civil Rights Museum Foundation
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating Activities		
Change in net assets	\$ 6,682,466	\$ 16,194,280
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(2,386,828)	(1,103,184)
Depreciation and amortization	525,831	2,519,376
Discount on contributions receivable	216,484	-
Interest accretion on lease contribution	(175,768)	(94,140)
Amortization of rent contribution	383,961	289,612
Forgiveness of Payroll Protection Plan loan	-	(579,400)
Changes in operating assets and liabilities		
Receivables	(4,179,858)	(5,033,091)
Inventory	(50,322)	(61,090)
Prepaid expenses and other assets	(36,235)	9,476
Accounts payable and other liabilities	823,557	142,939
	<u>1,803,288</u>	<u>12,284,778</u>
Investing Activities		
Capital expenditures	(9,928,512)	(2,094,619)
Proceeds from sales of investments	31,721,280	31,934,472
Purchases of investments	(31,490,413)	(35,479,976)
	<u>(9,697,645)</u>	<u>(5,640,123)</u>
Net cash used in investing activities		
	<u>(7,894,357)</u>	<u>6,644,655</u>
Net change in cash and cash equivalents		
	<u>11,546,390</u>	<u>4,901,735</u>
Cash and Cash Equivalents, Beginning of Year		
	<u>11,546,390</u>	<u>4,901,735</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,652,033</u>	<u>\$ 11,546,390</u>

Note 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. The Museum, located at the historic Lorraine Motel, honors and preserves the legacy of Dr. Martin Luther King, Jr., chronicles the American civil rights movement (the "Movement") and tells the story of the ongoing struggle for human rights. Through education, the Museum serves as a catalyst to inspire action to create 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.

Note 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.

Investments

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.

Net Investment Return

Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the average cost method.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

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, and automatically renewed on January 1, 2023. The lease provides the Foundation with use of the primary Museum building as well as the Lorraine Motel and attached museum. No monetary rent is required, and the lease does not contain a purchase option. Therefore, the lease was determined to be a donor-restricted contribution and recorded at its estimated fair value at inception, which was determined based on the net present value of the estimated future annual contributed lease amounts using a risk-free rate. The estimated fair value of the contribution of the original lease was recognized at its inception in fiscal year 2008 in the amount of \$1,854,637. The estimated fair value of the contribution related to the 2023 renewal was

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements
June 30, 2024 and 2023

recognized in the 2023 statement of activities in the amount of \$4,995,970. The net present value of lease contributions receivable was \$4,687,844 and \$4,896,037 as of June 30, 2024 and 2023, respectively, net of amortization for rent expense, offset by interest accretion. In its statements of activities for the years ended June 30, 2024 and 2023, the Foundation recorded interest accretion in the "other" category of revenues, gains and support totaling \$175,768 and \$89,678, respectively, and rent expense in the "facility and equipment" category of expenses totaling \$383,961 and \$189,611, 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 cost of goods sold.

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.

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 10,000 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 net assets without donor restrictions if purchased with net assets without donor restrictions and as decreases in net assets with donor restrictions if purchased with net assets with donor restrictions. 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, revenues, gains and support are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions

Net assets in which no payer or donor-imposed restrictions were stipulated beyond the general stated purposes of the Foundation. Revenues without donor restrictions consist of admissions and other program revenues, which are available and used for operations and programs. At the discretion of the Foundation's management and board of directors, these net assets may be expended for any purpose in performing the primary objectives of the organization. The Foundation's governing board has designated endowment net assets from net assets without donor restrictions.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements
June 30, 2024 and 2023

Net Assets with Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation pursuant to those stipulations, or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the resources be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when the stipulated time has elapsed or the stipulated purpose for which the resource was restricted has been fulfilled), net assets are released from restriction. At that time, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions for which the donor-imposed restriction is satisfied in the same year that the contribution is received are classified as contributions without donor restrictions in the statements of activities.

Support and Revenue

Contributions and Grants

Contributions are recognized when cash, securities or other assets, or an unconditional promise to give are received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Government grants are recognized as revenue over time as related expenses are incurred. Contract assets represent expenditures in excess of grant funds received under specific grants. Contract liabilities or deferred revenue represent funds received in excess of qualifying expenditures.

Memberships

The Foundation offers individual and corporate memberships. These are for a single year period and are incorporated as part of operating support. Each membership has both a gift and exchange transaction component. The exchange component for membership is insignificant; therefore, the Foundation recognizes memberships as contributions when received.

Special Events

Benefits and special events income results from the Foundation's efforts to produce a wide variety of events around fundraisers and rentals of the Foundation's facilities. The revenue is recognized in the period that the benefits and events are held.

Admissions

Admission fees are from daily attendance and group visits to the Foundation. Revenue is recognized upon sale for access to the Museum.

Retail Sales

Revenue from the gift shop and other retail is recognized when goods are transferred to the customers.

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.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements
June 30, 2024 and 2023

Advertising Costs

Advertising costs, which amounted to \$228,013 and \$172,107 for the years ended June 30, 2024 and 2023, respectively, are expensed as incurred.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

Leases

The Foundation determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Foundation determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Foundation uses the implicit rate when readily determinable.

The Foundation has elected not to record leases with an initial term of 12 months or less on the Statements of Financial Position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Adoption of New Accounting Standard

Effective July 1, 2023, the Foundation adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses (Topic 326)* ("ASC 326"). This guidance, commonly referred to as Current Expected Credit Losses ("CECL"), significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under this standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Foundation that are subject to the guidance in ASC 326 are accounts receivable, grants and pledges receivable. The adoption of this standard had no impact to the financial statements.

Subsequent Events

Management has evaluated the effects subsequent events would have on the financial statements of the Foundation through December 18, 2024, the date the financial statements were available to be issued.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements
June 30, 2024 and 2023

Note 3. Availability and Liquidity

The following represents the Foundation's financial assets available for expenditure within one year as of June 30:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents, excluding capital campaign funds	\$ 1,817,225	\$ 480,034
Accounts receivable	228,966	105,590
Contributions and grants receivable within one year, excluding capital campaign	856,688	640,206
Operating reserve investments	<u>4,583,106</u>	<u>5,074,243</u>
 Total financial assets available to meet general expenditures over the next 12 months	 <u>\$ 7,485,985</u>	 <u>\$ 6,300,073</u>

As part of the Foundation's liquidity plan, excess cash is invested in both short-term and long-term securities. The Foundation's board-designated endowment fund of \$13,947,727 and \$11,632,815 at June 30, 2024 and 2023, respectively, is subject to spending based on our spending policy described in Note 9. Although the Foundation does not intend to fund general expenditures from this board designated endowment, these amounts could be made available if necessary.

Note 4. Contributions Receivable

Contributions receivable are as follows at June 30:

	<u>2024</u>	<u>2023</u>
Less than one year	\$ 2,210,248	\$ 1,024,167
From one to five years	4,550,888	1,633,218
Greater than five years	<u>3,994,081</u>	<u>4,425,310</u>
	10,755,217	7,082,695
Present value discount	<u>(1,587,169)</u>	<u>(1,546,452)</u>
	<u>\$ 9,168,048</u>	<u>\$ 5,536,243</u>

There is no allowance for uncollectible contributions at June 30, 2024 and 2023.

Lorraine Civil Rights Museum Foundation
Notes to Financial Statements
June 30, 2024 and 2023

Note 5. Fixed Assets

Fixed assets consist of the following at June 30:

	<u>2024</u>	<u>2023</u>
Land	\$ 514,503	\$ 514,503
Building	8,448,636	8,448,636
Exhibits	4,130,806	4,130,806
Equipment	1,423,221	918,814
Artwork	25,000	25,000
Leasehold improvements	23,179,414	23,179,414
Construction in progress	<u>11,963,366</u>	<u>2,539,262</u>
	49,684,946	39,756,435
Accumulated depreciation	<u>(31,643,549)</u>	<u>(31,117,719)</u>
	<u>\$ 18,041,397</u>	<u>\$ 8,638,716</u>

During 2023, the Museum launched a capital campaign to fund renovations to its Legacy Building and Founders Park. The project is expected to cost \$38,000,000. Costs incurred related to the renovation are included in construction in progress. Renovations are expected to be complete in 2026.

Note 6. Fair Value Measurements

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.

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The following tables present the balances of assets measured at fair value on a recurring basis as of June 30, 2024 and 2023, by level within the fair value hierarchy:

	Assets Measured at Fair Value at June 30, 2024			
	Level 1	Level 2	Level 3	Total
Money market mutual funds	\$ 312,003	\$ -	\$ -	\$ 312,003
Certificates of deposit	-	850,795	-	850,795
Domestic common stock	12,410,664	-	-	12,410,664
Domestic equity mutual funds	454,478	-	-	454,478
Fixed income mutual funds	515,865	-	-	515,865
Mortgage pool securities	-	1,684,086	-	1,684,086
Corporate debt securities	-	1,772,384	-	1,772,384
Government debt securities	-	6,879,398	-	6,879,398
Asset backed securities	-	2,766,394	-	2,766,394
	<u>\$13,693,010</u>	<u>\$13,953,057</u>	<u>\$ -</u>	<u>\$27,646,067</u>

	Assets Measured at Fair Value at June 30, 2023			
	Level 1	Level 2	Level 3	Total
Money market mutual funds	\$ 1,253,053	\$ -	\$ -	\$ 1,253,053
Certificates of deposit	-	1,133,121	-	1,133,121
Domestic common stock	10,326,259	-	-	10,326,259
Domestic equity mutual funds	381,932	-	-	381,932
Fixed income mutual funds	511,879	-	-	511,879
Mortgage pool securities	-	2,746,975	-	2,746,975
Corporate debt securities	-	2,112,368	-	2,112,368
Government debt securities	-	7,024,519	-	7,024,519
	<u>\$12,473,123</u>	<u>\$13,016,983</u>	<u>\$ -</u>	<u>\$25,490,106</u>

Note 7. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted as follows at June 30:

	2024	2023
Programming, renovation, and equipment purchases	\$ 3,865,583	\$ 4,506,442
Capital Campaign	14,981,840	9,559,914
Time restrictions:		
Lease contribution receivable	4,687,844	4,896,037
Other contributions receivable	1,442,689	705,479
Endowment funds not subject to appropriation or expenditure	<u>5,518,546</u>	<u>5,518,546</u>
	<u>\$ 30,496,502</u>	<u>\$ 25,186,418</u>

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Net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes for the years ended June 30, 2024 and 2023, as follows:

	<u>2024</u>	<u>2023</u>
Programming, renovation, and equipment purchases	\$ 789,932	\$ 847,293
Capital Campaign	22,766	1,440,086
Time restrictions:		
Lease contribution receivable	383,961	289,611
Other contributions receivable	<u>383,518</u>	<u>805,869</u>
	<u>\$ 1,580,177</u>	<u>\$ 3,382,859</u>

Note 8. 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 consists of the following 4 funds:

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

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 net assets with donor restrictions (a) the original value of gifts donated to the endowment with donor restrictions, (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.

Earnings on the donor-restricted endowment funds are classified as BDEF net assets without donor restrictions 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, 2024 and 2023, there were no donor-imposed restrictions on the Foundation’s endowment earnings.

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.

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Endowment Net Assets Composition

On June 30, 2024 and 2023, the net assets balance of the Foundation's endowment fund was \$19,466,273 and \$17,151,361, respectively, of which \$13,947,727 and \$11,632,815, respectively, represented board-designated endowment funds, and \$5,518,546 and \$5,518,546, respectively, represented donor-restricted endowment funds.

Changes in endowment net assets for the years ended June 30, 2024 and 2023, are as follows:

	Without Donor Restrictions	With Donor Restrictions		
	BDEF	EF	NEHBREF	CEF
Endowment net assets, June 30, 2022	\$ 10,207,072	\$ 1,917,625	\$ 2,600,921	\$ 1,000,000
Investment return, net	841,842	192,554	268,654	122,693
Transfer of unrestricted endowment earnings	<u>583,901</u>	<u>(192,554)</u>	<u>(268,654)</u>	<u>(122,693)</u>
Endowment net assets, June 30, 2023	11,632,815	1,917,625	2,600,921	1,000,000
Investment return, net	1,268,764	340,598	500,091	205,459
Contributions	-	-	-	-
Transfer of unrestricted endowment earnings	<u>1,046,148</u>	<u>(340,598)</u>	<u>(500,091)</u>	<u>(205,459)</u>
Endowment net assets, June 30, 2024	<u>\$ 13,947,727</u>	<u>\$ 1,917,625</u>	<u>\$ 2,600,921</u>	<u>\$ 1,000,000</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.

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 policy was amended

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effective November 1, 2019, such that endowment fund income cannot be spent until the combined corpus of the EF and the BDEF reaches \$14,000,000 (formerly \$5,000,000). The combined corpus of the BDEF and EF was \$7,986,724 and \$7,827,625 as of June 30, 2024 and 2023, respectively.

During fiscal year 2019, the CEF was established. The corpus of the CEF will be held in perpetuity and the income will be used for the acquisition and preservation of collections and artifacts, beginning in fiscal year 2021.

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. As of June 30, 2024, approximately \$181,392 available for expenditure from the NEHBREF.

Note 9. Long-term Debt

Subsequent to year end, the Foundation entered into a line of credit agreement with a bank with borrowings up to \$30,000,000 which is secured by all pledges receivable, grants receivable and its direct deposit account. The line of credit bears interest at Term SOFR plus 1.60%, with interest only payments beginning September 15, 2024. The outstanding principal plus any accrued and unpaid interest is due upon maturity on August 7, 2029; however, the agreement provides for a cap on the outstanding principal as follows:

	Principal shall not exceed
June 30, 2026	\$ 26,000,000
June 30, 2027	16,500,000
June 30, 2028	15,500,000

The line of credit requires a debt service coverage ratio of 1.10:1.00 and a minimum unrestricted liquidity of \$13,000,000 to be tested annually beginning June 30, 2025.

Note 10. 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.

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Note 11. Conditional Promises

The Foundation has received the following conditional promises to give as of June 30, 2024, which depend on the occurrence of a specified future and uncertain event:

	<u>Original Promise</u>	<u>Remaining as of June 30, 2024</u>	<u>Remaining Term</u>
Amendment 2 2021	750,000	171,790	n/a
Amendment 3 2021	1,050,000	412,506	2 years
Amendment 4 2024	1,350,000	539,170	1 year
Foundation Grant	<u>2,500,000</u>	<u>1,500,000</u>	2 years
	<u>\$ 3,850,000</u>	<u>\$ 2,039,170</u>	

Note 12. Employee Retention Credit

In response to the economic impact of the COVID-19 pandemic, Congress introduced the Employee Retention Credit (“ERC”). The ERC is a refundable payroll tax credit available to taxpayers who experienced either a full or partial suspension of business operations due to government orders or had a significant drop in gross receipts during 2020 and 2021. The credit is available for 50 percent of qualified wages for 2020 with a maximum potential credit per qualified employee of \$5,000 and for 70 percent of up to \$10,000 of qualified wages for 2021 per employee per quarter with a maximum potential credit per qualified employee of \$7,000 per eligible employee per quarter.

The Foundation must account for the ERC as a government grant according to ASC Subtopic 958-605, *Application of the Limited Discretion Indicator and Accounting for Cost-Sharing Provisions in a Grant Agreement*. Under ASC 958-605, the ERC may be recognized once the conditions attached to the grant have been substantially met. In September 2022, the Foundation completed its analysis of qualifying wages and met the conditions required to qualify for the ERC for calendar years 2020 and 2021. The Foundation recognized grant income of \$231,688 for qualifying wages associated with the ERC in its statement of activities for the year ending June 30, 2023. The receivable is outstanding as of June 30, 2024 and 2023.