

February 14, 2014

TO: Mary Vigue, Interim Assistant City Manager, General Government Results Area

FROM: Internal Audit Division

SUBJECT: Civil Rights Museum / External Audit

The Internal Audit Division has completed our review of the Civil Rights Museum's Financial Statements as requested by the City Manager's Office. This review involved the analysis of financial statements provided to us for the year-ended December 31, 2012

These statements are titled "Sit-In Movement, Incorporated and Affiliated Entities". The affiliated entities include: Civil Rights Museum, LLC; International Civil Rights Center and Museum, LLC; Museum Landlord, LLC; and Museum Tenant, LLC. You may recall these entities being discussed in greater detail in our memo dated July 24, 2013. All of these entities are related parties that were formed in order to facilitate the development of the Museum.

The audited financial statements mentioned above have an Unqualified Opinion by the local CPA Firm. This means that these statements fairly present the financial position at December 31, 2012 in accordance with Generally Accepted Accounting Principles (GAAP). Additionally, all entities were combined to produce one set of financial statements for the year.

However, we feel that the following items are worth noting:

- These statements were not prepared in a timely fashion with the issuance date being January 17, 2014.
- These statements contain a note to the financials titled *Note 16 Concentration Risk* which states, "The Project operates in Greensboro, North Carolina. Future operations could be affected by changes to the economy or other conditions in that geographic area. The Tenant receives 100% of its rental revenue from CRM, a related entity, in connection with the Sublease. If the operations of the CRM were to be negatively impacted, it could have a significant effect on the overall operations of the Project."
- Sit-In Movement, Incorporated, entered into a note agreement with Carolina Bank on July 28, 2009. The balance due at December 31, 2012 is \$987,500.
- Sit-In Movement, Incorporated, entered into a note agreement with Wells Fargo Bank on November 5, 2012. The balance due at December 31, 2012 is \$88,500.
- In the December 31, 2012 financials there is a note titled *Note 18 Subsequent Events* which states: "Subsequent to December 31, 2012, Sit-In Movement, Incorporated

entered into a Loan Modification Agreement dated August 15, 2013 with Carolina Bank to extend the loan maturity date to February 15, 2014.

- Additionally in the note titled *Note 18 Subsequent Events*, the following is contained: “On October 22, 2013, The City of Greensboro approved a \$1,500,000 forgivable loan-to-Sit-In Movement, Incorporated (Borrower) provided that a dollar for dollar match is raised over the course of the three (3) year period, 2014-2016. Borrower will assign to the City a security interest in the real property located at 134 South Elm Street, Greensboro, North Carolina. The purpose of the Loan is to provide operating support and development of the business located at 134 South Elm Street, Greensboro, North Carolina (the “*Business*”) for the International Civil Rights Center and Museum, Incorporated with the objectives of (1) satisfying debt requirements; (2) retaining existing jobs; and (3) maintaining utilities of the Business.

Further, it is understood that the Project will have until July 1, 2015 to raise \$1,500,000 in matching funds from rental and fundraising activities to ensure that the liability to the City is fully forgiven. The City holds two (2) board level seats as a result of the above loan arrangement.”

- The change in the Net Income from the Combined Statement of Activities for the year ended December 31, 2012 was a negative (\$11,560,015). Approximately seventy-six (76%) percent of this loss is comprised of an Impairment on the Real Property located at 134 South Elm Street (explained in more detail below).
- In the December 31, 2012 financials there is a note titled *Note 19 Impairment* which states: “For the year-ended December 31, 2012, the Project recorded an Impairment Loss on the Real Property of \$8,759,006, the difference between the book value of the real property and the fair value of \$13,500,000. Fair value was determined by third party appraisal of the Project’s building and improvements.”

In summary, these financial statements have been prepared in accordance with Generally Accepted Accounting Principles and appear to be acceptable.

Please contact us with any questions that you may have.



Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director