

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

COMBINED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2012
WITH REPORT OF INDEPENDENT AUDITOR

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

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DECEMBER 31, 2012

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REPORT OF INDEPENDENT AUDITOR

The Board of Directors
Sit-In Movement, Incorporated and Affiliated Entities

Report on the Combined Financial Statements:

I have audited the accompanying combined balance sheet as of December 31, 2012 of the organizations described in Note 1 (collectively the Project), and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements:

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility:

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Project's preparation and fair presentation of the combined 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 Project's internal control. Accordingly, I 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 combined financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

The Board of Directors
Sit-In Movement, Incorporated and Affiliated Entities

January 17, 2014

Opinion:

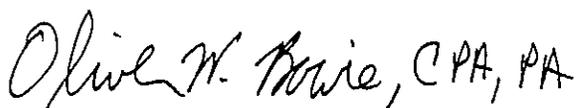
In my opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the combined financial position of the Organization described in Note 1 as of December 31, 2012, and the combined changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplemental Information:

My audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplemental information shown on pages 33 through 35 is presented for purposes of additional analysis, and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Emphasis of a Matter:

As discussed in Note 19 to the combined financial statements, the Project recorded an impairment loss on the real property owned by the Project of \$8,759,006 in 2012.



Oliver W. Bowie, CPA, PA
Greensboro, North Carolina

January 17, 2014

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

COMBINED BALANCE SHEET
DECEMBER 31, 2012

ASSETS

Cash and Cash Equivalents (Operating)	\$	39,395
Cash and Cash Equivalents (Restricted)		1,335,476
Unconditional Promises to Give (Net)		139,734
Receivables		67,899
Prepaid Expense and Other Assets		49,534
Fixed Assets (Net)		20,157,815
Intangible Assets (Net)		1,124,018

Total Assets	\$	22,913,871
		=====

LIABILITIES AND NET ASSETS

Accrued Expenses:

Accounts Payable and Other Accrued Expenses	\$	418,603

Total Accrued Expenses		418,603
Other Liabilities		44,265
Debt		24,997,651

Total Liabilities		25,460,519

Net Assets:

Unrestricted		
Available for Program and Supporting Activities		1,452,795
Net Investment in Fixed Assets		(3,760,709)

Total Unrestricted		(2,307,914)
Temporarily Restricted		(243,734)
Permanently Restricted		5,000

Total Net Assets		(2,546,648)

Total Liabilities and Net Assets	\$	22,913,871
		=====

The Accompanying Notes are an Integral Part of the Combined Financial Statements.

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support Support From the Public:				
Contributions	\$ 101,985	\$ -	\$ -	\$ 101,985
Special Events	154,768	-	-	154,768
Grant	2,500	-	-	2,500
Total Support From Public	259,253	-	-	259,253
Investment Income:				
Interest	240,650	-	-	240,650
Total Investment Income	240,650	-	-	240,650
Rental Income	14,867	-	-	14,867
Special Programming	6,089	-	-	6,089
Retail Sales	123,118	-	-	123,118
Museum Tours	372,011	-	-	372,011
Priority Return	185,000	-	-	185,000
Other Income	31,888	-	-	31,888
Total Revenue, Gains and Other Support	1,232,876	-	-	1,232,876
Net Asset Restriction Transfers	-	-	-	-
Satisfaction of Activity Restrictions	-	-	-	-
Total Net Asset Restriction Transfers	-	-	-	-
Expenses:				
Program Services:				
Museum Content Programming	1,926,594	-	-	1,926,594
Total Program Services	1,926,594	-	-	1,926,594

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Supporting Services:				
Administration Fundraising	10,780,096 86,201	-	-	10,780,096 86,201
Total Supporting Services	10,866,297	-	-	10,866,297
Total Program and Supporting Services Expenses	12,792,891	-	-	12,792,891
Change in Net Assets	(11,560,013)	-	-	(11,560,013)
Transfers	3,378,763	-	-	3,378,763
Net Assets, Beginning of Year	5,873,336	(243,734)	5,000	5,634,602
Net Assets, End of Year	\$ (2,307,914)	\$ (243,734)	\$ 5,000	\$ (2,546,648)

The Accompanying Notes are an Integral Part of the Combined Financial Statements.

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	PROGRAM SERVICES		SUPPORTING SERVICES		TOTAL
	Content Programming	Administration	Fundraising		
Salaries	\$ 305,620	\$ 190,511	\$ -	\$ -	496,131
Payroll Taxes	29,811	18,582	-	-	48,393
Employee Benefits	25,166	15,687	-	-	40,853
Professional Fees	16,248	66,046	-	-	82,294
Supplies	19,297	5,822	-	-	25,119
Telephone	-	16,229	-	-	16,229
Postage and Shipping	-	4,561	-	-	4,561
Cost of Goods Sold	57,081	-	-	-	57,081
Occupancy	211,490	17,766	-	-	229,256
Printing and Publications	477	-	-	-	477
Travel	-	8,415	-	-	8,415
Program Expense	33,955	534	-	-	34,489
Interest	209,662	85,636	-	-	295,298
Other Fundraising Project Expenses	-	-	63,253	-	63,253
Marketing and Advertising	-	-	22,948	-	27,986
Technology	-	5,038	-	-	5,038
Office Expense	-	33,804	-	-	33,804
Miscellaneous	-	11,515	-	-	11,515
Rent	-	19,186	-	-	19,186
Depreciation	-	13,099	-	-	13,099
Amortization	981,910	93,803	-	-	1,075,713
Security	-	59,299	-	-	59,299
Taxes and Licenses	-	44,971	-	-	44,971
Insurance	-	61,692	-	-	61,692
Asset Management Fee	-	35,455	-	-	35,455
Museum Support	-	235,000	-	-	235,000
Museum Support	35,877	-	-	-	35,877
Impairment Loss	-	8,759,006	-	-	8,759,006
Loss From Investment In II	-	978,439	-	-	978,439
	\$ 1,926,594	\$ 10,780,096	\$ 86,201	\$ -	\$ 12,792,891

The Accompanying Notes are an Integral Part of the Combined Financial Statements.

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

Cash Flows From Operating Activities:

Change in Net Assets	\$ (11,560,013)
<hr/>	
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used) in Operating Activities:	
Depreciation	1,075,713
Amortization	59,299
Fixed Asset Impairment	8,759,006
Changes in Assets and Liabilities	
Unconditional Promises to Give (Net)	744,105
Receivables	(44,559)
Prepaid Expense and Other Assets	(1,009)
Accrued Expenses (Net)	99,927
Other Liabilities	23,137
	<hr/>
	(844,394)

Cash Flows From Investing Activities:

Loss on Investment	978,439
Payments for Improvements, Property and Equipment	(800)
Payments for Intangible Assets	-
	<hr/>
Net Cash (Used in) Provided by Investing Activities	977,639

Cash Flows from Financing Activities:

Payments on Debt	(562,500)
Loan Proceeds	88,500
	<hr/>
Net Cash Provided by (Used in) Financing Activities	(474,000)

Net Change in Cash and Cash Equivalents	(340,755)
Cash and Cash Equivalents, Beginning of Year	1,715,626
Cash and Cash Equivalents, End of Year	<hr/> \$ 1,374,871 <hr/>

Supplemental Cash Flow Information

<hr/> Cash Paid for Interest	\$ 326,797
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The Accompanying Notes are an Integral Part of the Combined Financial Statements.

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1: ORGANIZATION:

The primary purpose of Sit-In Movement, Incorporated (the "Movement") is to rehabilitate and restore a Historic landmark and to create and support an International Civil Rights Center and Museum. Also, to provide on a non-profit basis office and /or retail space for prospective tenants.

In order to facilitate the development of the Museum the Movement formed several entities to accomplish the objective. The entities formed were: Civil Rights Museum, LLC, ICRCM, LLC, Museum Tenant, LLC, and Museum Landlord, LLC.

The combined financial statements include financial information of Civil Rights Museum, LLC (Museum), ICRCM, LLC (ICRCM) Museum Tenant, LLC (Tenant), and Museum Landlord, LLC (Landlord), collectively referred to herein as "the Project". The Project was formed under the laws of the State of North Carolina on June 2, 2009 to rehabilitate and operate a museum and commercial office space located in downtown Greensboro, North Carolina. The Project is generating federal and state historic tax credits and new markets tax credits pursuant to Sections 45D, 47 and 50 of the Internal Revenue Code ("the IRC"). The Project's property was partially placed in service on December 29, 2009 and the remainder was placed in service in February 2010.

Pursuant to the Amended and Restated Landlord and Tenant Operating Agreements (the "Agreements"), the ownership percentages of the Project as of December 31, 2012 were as follows:

Landlord

Managing Member - ICRCM, LLC	80.00%
Master Tenant - Museum Tenant, LLC	10.00%
CDE Investor Member - Stonehenge Community Development XII, LLC	10.00%

	100.00%
	=====

Tenant

Managing Member - ICRCM, LLC	0.01%
Investor Member - Community Historic Credit Fund VII, LLC	99.99%

	100.00%
	=====

Landlord remains in effect perpetually and Tenant remains in effect until August 18, 2044, unless sooner terminated as provided for in the Agreements.

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1: ORGANIZATION (CONCLUDED):

Purpose of Museum

The Museum operates the Civil Rights Museum which provides tours of the Museum and operates a gift shop.

Purpose of ICRCM

ICRCM is the managing member of the LLC entities.

Purpose of Tenant and Landlord Structure

Landlord owns the property and the improvements and is the borrower on the debt. In 2010, Landlord began leasing the property to Tenant under a Master Lease Agreement ("the Lease"), as further described in Note 12. Tenant in turn leases the property to a sub-tenant. The Tenant is responsible for making monthly payments to landlord under the terms of the Lease. The sub-tenant is responsible for most operating expenses incurred in connection with operating the property. Tenant and sub-tenant do not own the property or the rental improvements nor are they responsible for any payments under the loan agreements. The purpose of the Lease structure is to permit the allocation of Historic tax credits to the owners of the Tenant under the provisions of Section 50(d) of the IRC as described more fully in Note 16.

Purpose of Combined Financial Statements

The financial statements of the Project have been combined in order to provide a complete presentation of the operations of the Project. All inter-company transactions have been eliminated. Because the Lease payments were structured in order to provide funds necessary to cover the Landlord's debt obligations, combined financial statements are considered necessary due to the nature of the relationship between the entities.

The Sit-In Movement, Incorporated, has received tax exemption from the Federal Government under Section 501 (c)(3) of the Internal Revenue Code by exemption letter dated June 1, 1994.

The other entities are for-Profit and are subject to federal and state income taxation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the Project's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures* ("Topic 820")- Improving Disclosures about Fair Value Measurements. This ASU requires new disclosures and clarifies certain existing disclosure requirements about fair value measurements. ASU 2010-06 requires a reporting entity to disclose significant transfers in and out of Level 1, Level 2, and Level 3 fair value measurements, to describe the reasons for the transfers and to present separately information about purchases, sales, issuances and settlements for fair value measurements using significant unobservable inputs. ASU 2010-06 is effective for the year ended December 31, 2012, except for the disclosures about purchases, sales, issuances and settlements in the

SIT-IN MOVEMENT, INCORPORATED
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NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

New Accounting Pronouncements (Concluded):

roll forward of activity in Level 3 fair value measurements, which is effective for the year ended December 31, 2012. The Movement has adopted ASU 2010-06 for the year ended December 31, 2012.

In May 2011, FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements* in United States GAAP and IFRS's. This ASU changes the wording used to describe many of the requirements in United States GAAP for measuring fair value and for disclosing information about fair value measurements. FASB does not intend for this ASU to change the application of the requirements in Topic 820. ASU 2011-04 is effective for the year ended December 31, 2013. The Movement is currently evaluating the effect that the adoption of ASU 2011-04 will have on its combined financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment in Real Estate

Land, building, improvements, furnishings, artifacts and equipment are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable assets to operations over the estimated service lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

Estimated service lives are as follows:

<u>Assets</u>	<u>Method</u>	<u>Useful Lives</u>
Building & Improvements	Straight-Line	40 Years
Land Improvements	Straight-Line	20 Years
Furnishings	Straight-Line	10 Years

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Impairment

The Project reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flows expected to be generated by the rental property including the tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. The Project recorded \$8,759,006 in impairment losses for the year ended December 31, 2012, as discussed in Note 19.

Cash and Cash Equivalents

The Project considers all highly liquid investments with an original maturity of three (3) months or less, when purchased, to be cash equivalents.

The Project maintains its cash balance in several banks. The balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per depositor by each bank. The Project has not experienced any losses in connection with its cash deposits and management believes the risk of loss is negligible.

Tenant Receivables and Bad Debts

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. GAAP requires that the allowance method be used to recognize bad debts; however, the effect of using the direct write off method is not materially different from the results that would have been obtained under the allowance method. There were no write offs during the year ended December 31, 2012.

Intangible Assets

Intangible assets consist of legal fees and closing costs, which are being amortized over fifteen (15) years, and permanent loan fees which are being amortized over thirty-five (35) years, using the straight-line method.

Rental Income

Rental income is recognized as rent is receivable or as rent becomes due. The Lease transactions are eliminated in combination. The Sublease is classified as an operating lease.

Income Taxes

No income tax provision or benefit has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the owners individually.

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Income Taxes (Concluded)

The Project is required to evaluate the income tax positions taken to determine whether the position is more likely than not of being sustained upon examination by the applicable taxing authority, based on the technical merits of the position. Accounting rules for uncertain tax positions also provide guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, transition, and disclosure requirements. There were no interest and penalties recognized in the financial statements of the Project as of and for the year ended December 31, 2012. The Project's federal and state tax returns for the year 2009 and later remain subject to examination by taxing authorities.

Unconditional Promises to Give

Promises to give that are expected to be collected within one (1) year are recorded at net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Promises to give recorded in fiscal year 2012 have been discounted using a rate of 1.00%, which is commensurate with the risks involved with the ultimate collection of the promises to give. The discount is amortized using an effective yield over the expected life of promises to give and is reflected as contribution revenue.

The rate approximates the rate of return on United States government securities at the origination of the promise.

Fair Value of Financial Instruments

The Project's financial instruments consist of cash and cash equivalents, accounts payable and accrued expenses, and debt.

Receivables are recorded at their net realizable value, which approximates fair value. All other financial instruments are stated at cost, which approximates fair value.

Contributed Services

A substantial number of volunteers have made significant contributions of their time to the Project's program and supporting services. The value of this contributed time is not reflected in the combined financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, were provided by individuals possessing those skills, and would otherwise need to be purchased if not provided

SIT-IN MOVEMENT, INCORPORATED
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NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED):

Contributed Services (Concluded)

by donation. These services are recognized as revenue and expense.

Accounting for Contributions

Contributions are recognized when an unconditional promise to give is made or when cash is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. Unconditional promises to give without a stipulated due date and for which the Project has met all conditions precedent to receipt of the contribution prior to the Project's fiscal year-end are classified as unrestricted net assets.

A donor restriction is satisfied when a stipulated time restriction expires or when a purpose restriction is accomplished. Upon satisfaction, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the combined statement of activities as net assets released from restrictions. Temporarily restricted contributions received in the same year in which the restrictions are met are recorded as an increase to temporarily restricted support at the time of receipt and as net assets released from restrictions.

The principal and any donor restricted income from permanently restricted gifts are classified as permanently restricted net assets. Income on those assets, not permanently restricted by the donor, is classified as temporarily restricted (if restricted by the donor or by relevant law) or unrestricted revenue.

Contributed merchandise and other in-kind contributions, including merchandise remaining in inventory at year-end, are reflected as contributions at their estimated fair values when received or when an unconditional promise to give has been made. The Project does not imply time restrictions on contributions of long-lived assets (or of other assets restricted to the purchase of long-lived assets) received without donor stipulations about how long the contributed assets must be used. As a result, contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as temporarily restricted revenue that increases temporarily restricted net assets; those restrictions expire when the long-lived assets are placed in service.

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3: FAIR VALUE MEASUREMENT:

FASB Accounting Standards Codification 820, Fair Value Measurements and Disclosures, ("ASC 820") provides the framework for measuring and reporting fair value. The fair value framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three (3) levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Project has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in inactive markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies from December 31, 2011.

Securities listed on national and international exchanges are principally valued at the regular trading session closing price on the exchange or market in which such securities are principally traded on the last business day of each period presented using the market approach.

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3: FAIR VALUE MEASUREMENT (CONCLUDED):

The valuation methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Project believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Project values its financial instruments as Level 1 inputs.

NOTE 4: RESERVES AND RESTRICTED BALANCES:

Operating Reserve

Pursuant to the Landlord agreement, the Landlord is required to establish an operating reserve account. The operating reserve account is to be funded in the amount of \$1,000,000 from the CDE Investor Member's capital contribution on or before one (1) month of achieving the Completion Date as defined. The operating reserve is to be used to fund the Managing Member Priority Distribution (see Note 8) and other Landlord expenses with prior consent of the CDE Investor Member.

As of December 31, 2012, the operating reserve balance was \$408,419.

Insurance Reserve

In connection with the SCD Loan (see Note 11), the Landlord is required to establish an insurance premium reserve account in the amount of \$42,000 to pay the premiums due on the umbrella liability policy. Withdrawals from the insurance reserve are limited to a maximum of \$6,000 per annum. The insurance reserve has been funded and maintained by Sit-In Movement, Incorporated ("the Developer").

Working Capital and Contingency Reserves

Pursuant to the Landlord Agreement, the Landlord shall establish, fund, and maintain working capital and contingency reserves at the Managing Member's discretion with prior consent of the CDE Investor Member. As of December 31, 2012 the Project has not funded the working capital or contingency reserves.

Preferred Return Reserve

Pursuant to the Tenant Agreement, a preferred return reserve in the amount of \$619,669 is required to be established to fund the priority return to the Investor Member (see Note 8). Of this amount, the Tenant is required to establish the first \$100,000 of the reserve and the Developer is required to establish and maintain the remainder of the reserve. As of December 31, 2012, the remaining priority return reserve was maintained and held by the Developer.

SIT-IN MOVEMENT, INCORPORATED
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NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 5: UNCONDITIONAL PROMISES TO GIVE:

Unconditional promises to give at December 31, 2012 are as follows:

Receivable in Less Than one (1) Year	\$	126,756
Receivable in one (1) to Five (5) Years		32,250

Total Unconditional Promises to Give		159,006
Less Discounts to Net Present Value		1,353
Less Allowance for Uncollectible Promises		-

Net Unconditional Promises to Give December 31, 2012	\$	<u><u>157,653</u></u>

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 6: FIXED ASSETS:

Fixed assets as of December 31, 2012 are as follows:

Land	\$	790,000
Building and Improvements		15,320,893
Furniture, Fixtures, Equipment, and Other Capitalized Assets		7,359,103
Less: Accumulated Depreciation		(3,309,054)
Net Fixed Assets	\$	<u>20,160,942</u>

Depreciation expense for the year ended December 31, 2012 was approximately \$1,075,713.

NOTE 7: INTANGIBLE ASSETS:

As of December 31, 2012, intangible assets consisted of the following:

Permanent Loan Fees	\$	760,000
Legal Fees		481,967
Closing Costs		21,797
Copyrights		20,000
Tax Credit Fees		7,500
Accumulated Amortization		(167,246)

	\$	<u>1,124,018</u>

Amortization expense for the year ended December 31, 2012 was approximately \$59,299.

SIT-IN MOVEMENT, INCORPORATED
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NOTES TO COMBINED FINANCIAL STATEMENTS
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NOTE 8: RELATED ENTITY TRANSACTIONS:

The Landlord has the following transactions with related entities:

<u>DESCRIPTION</u>	<u>RELATED ENTITY</u>	<u>AMOUNT</u>
The Lease	Tenant	See Note 12.
Due to Tenant	Tenant	As of December 31, 2012 the Landlord owes \$851 to the Tenant for advances the Tenant made on its behalf. This transaction is eliminated in combination.
Shortfall Loan	Managing Member	The Managing Member may be required to fund any operating deficits of the Project in the form of a non-interest bearing Shortfall Loan. Any Shortfall Loan balances shall not bear interest and be repaid in accordance with cash flow priority as outlined in Note 13. As of December 31, 2012 there were no outstanding Shortfall Loans from the Managing Member.
Loan Guarantee Fee	Developer	The Project has paid the Developer a loan guarantee fee in the amount of \$1,160,000 as compensation for the contingent liabilities assumed by the Developer with respect to the repayment of the loans. As shown in Note 7 as permanent loan fees, \$760,000 of the guaranty is included in the financial statements in intangible assets as of December 31, 2012. The remaining \$400,000 guaranteed the completion of construction and was capitalized as part of building.
Priority Distribution	Managing Member	Beginning in 2010, the Landlord owes the Managing Member an annual priority distribution in the amount of \$135,000 throughout the New Markets Tax Credits Compliance Period as defined in the Landlord Agreement. The amount is payable from the operating reserve (see Note 4), and out of available cash flow (see Note 13). For the year ended December 31, 2012 priority distribution of \$185,000 was paid. As of December 31, 2012 the unpaid priority distribution was \$85,000. Priority return payments are not recorded until paid.
Due to /from Related Parties	Affiliates	As of December 31, 2012, the Landlord owes funds to the Developer of \$16,404. As of December 31, 2012, the Landlord is owed funds from Civil Rights Museum, LLC of \$227,623.

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DECEMBER 31, 2012

NOTE 8: RELATED ENTITY TRANSACTIONS (CONTINUED):

The Tenant has the following transactions with related entities:

<u>DESCRIPTION</u>	<u>RELATED ENTITY</u>	<u>AMOUNT</u>
Master Lease Agreement	Landlord	See Note 12.
Sublease Agreement	Civil Rights Museum, LLC	See Note 12.
Due from Landlord	Landlord	As of December 31, 2012, the Landlord owes \$851 to the Tenant for advances the Tenant made on its behalf. This inter-company balance is eliminated in combination.
Loan Receivable	Developer	The Tenant has a loan receivable from the Developer. The proceeds of the loan are to be used to fund the preferred return reserve and expense reserves (see Note 4). The loan accrues interest at a rate of 1%, and matures in February 2042. As of December 31, 2012, the outstanding loan receivable balance was \$3,149,902. As of December 31, 2012, the Tenant has an interest receivable balance in the amount of \$53,769 due from the Developer in connection with the loan outstanding as of December 31, 2012. This amount is eliminated in the combined financial statements.
Asset Management Fee	Investor Member	The Tenant is required to pay to the Investor Member an annual asset management fee equal to \$5,000 for asset management services. The fee is cumulative, pro-rated for any partial years and accrues if unpaid. As of December 31, 2012, the incurred asset management fee was \$5,000. As of December 31, 2012 the unpaid asset management fee was \$5,000 and included in accrued expenses.
Operating Deficit Loans	Managing Member	If at any time during the Compliance Period, as defined in the Tenant Agreement, an operating deficit exists, the Managing Member shall contribute funds to the Project as Operating Deficit Loans up to the aggregated amount of the shortfall.

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NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 8: RELATED ENTITY TRANSACTIONS (CONTINUED):

The Tenant has the following transactions with related entities (Concluded):

<u>DESCRIPTION</u>	<u>RELATED ENTITY</u>	<u>AMOUNT</u>
Operating Deficit Loans (Concluded)	Managing Member	Operating Deficit Loans shall not bear interest. As of December 31, 2012, there were no Operating Deficit Loans outstanding.
Managing Member Loans	Managing Member	If the Project is unable to make any required debt service payments, rent payments or pay other material expenses, then the Managing Member shall make a loan to the Project sufficient to cover the shortfall. Such Managing Member Loans are interest bearing at Prime plus 200 basis points and payable out of available cash flow as described in Note 13. As of December 31, 2012, there were no Managing Member Loans outstanding.
Investor Member Loan	Investor Member	If the Managing Member fails to make a Managing Member Loan to the Project to cover unpaid required debt service payments or material Project expenses, the Investor Member may, at its sole discretion, make an Investor Member Loan. Such Loans are interest bearing at Prime plus 200 basis points and payable out of available cash flow as described in Note 13. As of December 31, 2012 there were no Investor Member Loans outstanding.
Preferred Return	Investor Member	The Tenant owes the Investor Member a preferred return in the amount of 2.5% of its paid capital contribution related to the historic tax credits. The amount accrues and is payable out of available cash flow. For the year ended December 31, 2012, priority returns paid were \$101,574. As of December 31, 2012, the unpaid Preferred Return owed to the Investor was \$125,477. Priority return payments are recorded when paid.
Tax Liability Reimbursement	Investor Member	The Tenant is required to pay the Investor Member a tax liability reimbursement in the event the entity generates taxable income. The amount is calculated as 35% of the Investor Member's allocated net income. As of December 31, 2012 no tax liability reimbursement is owed to the Investor Member.
Due to Related Party	Affiliate	As of December 31, 2012, the Tenant owns funds to the Developer of \$12,138.

SIT-IN MOVEMENT, INCORPORATED
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NOTE 8: RELATED ENTITY TRANSACTIONS (CONTINUED):

SIM, Incorporated, has the following transactions with related entities:

<u>DESCRIPTION</u>	<u>RELATED ENTITY</u>	<u>AMOUNT</u>
Development Fee	Museum Landlord, LLC	Pursuant to the Development Services Agreement, SIM, Incorporated, received \$4,500,000 as a Development fee for the development of the Historic Tax Credit Project. The amount is included in revenues in the financial statements.
Loan Guarantee Fee	Museum Landlord, LLC	SIM, Incorporated, received a loan guarantee fee in the amount of \$1,160,000 as compensation for the contingent liabilities that it has assumed with respect to the repayment of the loans associated with the Historic Tax Credit Project.
Notes Payable	Museum Tenant, LLC	See Note 11.
Investment in LLC	ICRCM, LLC	See Note 9.
Lease Agreement	Civil Rights Museum, LLC	See Note 12.

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NOTE 8: RELATED ENTITY TRANSACTIONS (CONTINUED):

Civil Rights Museum has the following transactions with related entities:

<u>DESCRIPTION</u>	<u>RELATED ENTITY</u>	<u>AMOUNT</u>
Ownership	Sit-In Movement, Incorporated	Civil Rights Museum was formed as a wholly owned subsidiary of Sit-In Movement, Incorporated. Civil Rights Museum conducts the operations, collects earned revenues and pays expenses for the Museum.
The Lease	Sit-In Movement, Incorporated	Sit-In Movement, Incorporated paid \$201,665 to the Civil Rights Museum for scheduled rents during the 2012 operating year. This rent income to Civil Rights Museum will be eliminated in combination. See Note 12 for the schedule of annual rent income.
Sublease Agreement	Tenant	As of December 31, 2012, Civil Rights Museum, LLC, had a delinquent balance of \$138,426 in Accounts Payables that was due to the Tenant for rent. Civil Rights Museum LLC incurred \$360,000 of rent expense that was due to the Tenant as of December 31, 2012. This rent expense transaction will be eliminated on the combined financial statements. See Note 12 for the schedule of rent payments that are due each year to the Museum Tenant.
Due to Sit-In Movement, Incorporated	Sit-In Movement, Incorporated	As of December 31, 2012, Civil Rights Museum, LLC, had a balance due to Sit-In in the amount of \$937,436. The inter-company will be eliminated in combination.
Due to Landlord	Landlord, LLC	As of December 31, 2012, Civil Rights Museum LLC, had a balance due to the Landlord in the amount of \$93,623. The inter-company will be eliminated in combination.

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DECEMBER 31, 2012

NOTE 8: RELATED ENTITY TRANSACTIONS (CONCLUDED):

ICRCM has the following transactions with related entities:

<u>DESCRIPTION</u>	<u>RELATED ENTITY</u>	<u>AMOUNT</u>
Investment	Landlord	As of December 31, 2012 the Landlord allocated a loss of investment for the Managing Member in the amount of \$7,827,508 for the year. The Managing Member also owed \$79,452 to the Landlord for cost allocations. These inter-companies are to be eliminated in combination.
Investment	Tenant	As of December 31, 2012 the Tenant allocated a loss of investment for the Managing Member in the amount of \$95 for the year. The inter-company will be eliminated in combination.

NOTE 9: INVESTMENT IN LLC:

Sit-In Movement, Incorporated (SIM) invested \$1,795,883 in a related entity, ICRCM, LLC, a North Carolina Limited Liability Company ("ICRCM"). In order to facilitate the Project's financing for the Civil Rights Museum, SIM has organized and been admitted as the sole member of ICRCM, LLC.

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NOTE 10: NOTE RECEIVABLE:

Sit-In Movement, Incorporated, (SIM) ("Fund Lender") entered into a "Fund Loan Agreement" dated August 17, 2009 with USBCDE Investment Fund XXXVIII, LLC a Delaware Limited Liability Company ("Fund Borrower"). The purpose of the loan to the "Fund Borrower" was to facilitate the completion of the Civil Rights Museum.

Key provisions of the "Fund Loan Agreement" are as follows:

- 2.04. PREPAYMENT FOR FUND LOAN: Fund Borrower may prepay the Note, in whole or in part, prior to the Maturity Date without Fund Lender's consent.
- 2.05. LOAN DISBURSEMENTS: Following the satisfaction of all of the conditions precedent set forth in Article 4 hereof, Fund Lender shall make one (1) or more Advances of the Fund Loan in the maximum aggregate amount of \$19,886,200 to Fund Borrower, and Fund Borrower shall accept such Advances from Fund Lender.

ARTICLE 3. PAYMENTS

- 3.01. INTEREST: Provided no Event of Default has occurred under the Fund Loan Documents, from the date of the first (1st) Advance until the Maturity Date. Interest shall accrue on the outstanding principal balance at a fixed rate per annum equal to 1.206% (the Interest Rate). From and after the date of any Event of Default hereunder and from and after the Maturity Date, interest on all principal amounts outstanding under the Note shall accrue at the Default Rate. All interest payable hereunder shall be computed on the basis of a thirty (30) calendar day month and a three hundred sixty (360) calendar day year. Fund Lender is authorized to rely on the written loan requests, including facsimile, telecopy or telegraphic loan requests, which Fund Lender believes in its good faith judgment to emanate from a properly authorized representative of Fund Borrower, whether or not that is in fact the case.
- 3.02. REPAYMENT OF FUND LOAN: Fund Borrower hereby promises to pay to Fund Lender all unpaid principal, accrued and unpaid interest and any other amounts due hereunder or under the other Fund Loan Documents in accordance with the Note and the other Fund Loan Documents.

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NOTE 10: NOTE RECEIVABLE (CONCLUDED):

3.03. PAYMENTS: With respect to the Fund Loan, (A) Commencing on October 7, 2009 and continuing on the fifth (5th) Business Day of each January, April, July, and October thereafter until the payment due on January 8, 2019. Fund Borrower shall pay to Fund Lender consecutive quarterly installments of accrued interest only, in arrears, calculated upon the daily outstanding principal balance hereof during the preceding calendar quarter (January 1 through March 31, April 1 through June 30, July 1 through September 30, and October 1 through December 31, as applicable, of each calendar year), except that the initial payment of accrued interest only shall be calculated upon the daily outstanding principal balance from and including the date hereof through and including September 30, 2009. (B) Commencing on April 5, 2019 and continuing on the fifth (5th) Business Day of each July, October, January and April thereafter until the Maturity Date. Fund Borrower shall pay to Fund Lender consecutive quarterly payments consisting of (i) accrued interest on the daily outstanding principal balance hereof during the preceding calendar quarter calculated at the interest rate payable hereunder, plus (ii) principal in an amount equal to all of Fund Borrower's Income (as defined in the Fund Agreement) for such preceding calendar quarter less the amount of (1) Fund Borrower's Operating Expenses (as defined in the Fund Agreement) for such preceding calendar quarter, but excluding any Operating Expenses related to the Fund Loan (including any payments of interest and principal thereunder) and (2) the then due quarterly payments of interest of \$59,957 under the Fund Loan, and (C) Fund Borrower shall pay to Fund Lender a final payment of all outstanding principal, accrued interest and any and all unpaid fees and other charges owed pursuant to the Fund Loan Documents on the Maturity Date. Notwithstanding anything to the contrary in this Agreement, Fund Lender hereby agrees to accept an assignment of a note or notes in connection with an Approved Loan (as defined in the Fund Agreement) in an aggregate amount not less than the outstanding principal amount of the Fund Loan in full satisfaction of Fund Borrower's unpaid obligations under the Fund Loan.

The note balance at December 31, 2012 is \$ 19,886,200.

NOTE 11: DEBT:

Debt as of December 31, 2012 is as follows:

Loan 1

Sit-In Movement, Incorporated, entered into a note agreement with Carolina Bank on July 28, 2009. The note payable as of December 31, 2012 represents a loan of \$4,000,000. The balance due at December 31, 2012 is \$ 987,500. The short-term (due within one (1) year) portion of the loan is \$987,500. Interest is being charged at the announced prime lending rate of Carolina Bank (+.75%), with a floor of 5.25% on the Prime Rate.

Beginning September 15, 2009 there were forty-one (41) interest payments due monthly on the 15th day of each month; periodic principal paydowns were required so that \$1,000,000 is paid annually by February 15, 2010, February 15, 2011 and February 15, 2012; on the maturity date of February 15, 2013 one (1) payment of all outstanding principal plus accrued interest will be due and payable.

The loan is secured by a first (1st) lien on the accounts receivable, notes receivable and unconditional promises to give of Sit-In Movement, Incorporated, d/b/a International Civil Rights Center and Museum.

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NOTE 11: DEBT (CONTINUED):

Loan 2

Sit-In Movement, Incorporated, ("Borrower") entered into a note agreement with Museum Tenant, LLC a North Carolina Limited Liability Company ("Lender") on August 17, 2009. The note payable as of December 31, 2012 represents a single line of credit loan of \$4,000,000. The balance due at December 31, 2012 is \$3,149,902 (due January 2, 2030). Interest is being charged at a fixed rate of one percent (1%) per annum. Interest only is to be paid on October 1, 2009 and continuing on the first business day of each January, April, July and October thereafter until the payment due on January 2, 2030. Commencing on April 1, 2030 and continuing on the first (1st) business day of each July, October, January and April thereafter until and including the Maturity Date, Borrower shall pay Lender consecutive quarterly payments consisting of one (i) principal in the amount of \$50,394, plus (ii) accrued interest on the outstanding principal balance.

The line is secured by funds deposited to Branch Banking and Trust Company.

Loan 3

Sit-In Movement, Incorporated, ("Borrower") entered into a note agreement with Wells Fargo Bank ("Lender") on November 5, 2012. The note payable as of December 31, 2012 represents a \$400,000 line of credit loan. The balance due at December 31, 2012 is \$88,500 (due November 5, 2013). Interest is being charged at a "Floating" rate of 4.250% at December 31, 2012. Interest only is to be paid on a monthly basis until the date of note maturity.

The line is secured by Museum Landlord, LLC, as grantor, pledges and grants to Wells Fargo Bank a first priority security interest in personal property, whether existing or hereafter arising, now owned or hereafter acquired, and wherever located.

SUMMARY OF DEBT FOR LOANS 1,2 AND 3

	2012 ----- Current Amount -----	2012 ----- Long-Term Amount -----	2012 ----- Total -----
Loan #1	\$ 987,500	\$ -	\$ 987,500
Loan #2	-	3,149,902	3,149,902
Loan #3	88,500	-	88,500
	\$ 1,076,000 =====	\$ 3,149,902 =====	\$ 4,225,902 =====

Approximate annual payments as of December 31, 2012 excluding interest, are payable as follows:

Fiscal Year 2013	\$ 1,076,000
Thereafter	3,149,902
	\$ 4,225,902 =====

SIT-IN MOVEMENT, INCORPORATED
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NOTE 11: DEBT (CONCLUDED):

Related Entity Debt

The Landlord's debt at December 31, 2012 consisted of the following:

\$18,971,651 loan with Stonehenge Community Development XII, LLC (the "SCD Loan"). Interest accrues daily on the unpaid balance at the fixed rate of 1% per annum. Accrued interest payments are paid quarterly. All principal and unpaid interest shall be fully due and payable on August 18, 2044. The Loan is guaranteed by the Developer.

\$ 18,971,651

Accrued interest at December 31, 2012 is \$47,429.

\$4,950,000 loan with U. S. Bank ("US Bank Loan"). All principal and unpaid interest shall be fully due and payable on August 17, 2044. The Project is also required to pay all premiums on the insurance as they come due. Accrued interest as of December 31, 2012 was \$12,375. The loan is guaranteed by the Developer.

4,950,000

The Project is not required to make any principal payments on either loan until 2019.

Total Related Entity Debt

\$ 23,921,651
=====

The fair value of the Debt is estimated based on the current rates offered to Sit-In Movement and Landlord for Debt of the same remaining maturities. At December 31, 2012 the fair value of the Debt approximates the amount in the financial statements.

NOTE 12: LEASE AGREEMENTS AND SUBLEASE AGREEMENT:

A. On August 17, 2009, the Civil Rights Museum, LLC and SIM, Incorporated, entered into a Lease Agreement. Under terms of the Lease, the SIM, Incorporated, pays monthly base rent payments and supplemental rent payments, as defined, commencing in 2011 through December 2017 in exchange for exclusive use of the 14,600 rentable square feet of the entire second (2nd) floor of 132-134 South Elm Street, Greensboro, North Carolina. Under the terms of the Lease, Tenant is responsible for its pro-rata share of operating expenses, real estate taxes, insurance, maintenance and repairs of the property.

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NOTE 12: LEASE AGREEMENTS AND SUBLEASE AGREEMENT (CONCLUDED):

Annual base rent payments under the Lease are estimated to be as follows:

For the Year Ended:

2013	\$ 218,545
2014	225,102
2015	231,855
2016	238,810
2017	245,975

	\$ 1,160,287
	=====

- B. On August 17, 2009, the Landlord and Tenant entered into the Lease. Under the terms of the Lease, the Tenant pays monthly base rent payments and supplemental rent payments, as defined, commencing in 2011 through December 2041 in exchange for exclusive use of the property. Under the terms of the Lease, Tenant is responsible for all operating expenses, real estate taxes, insurance, maintenance and repairs of the property. The Landlord received rent payments of \$180,000 in regards to the Lease transactions during the period as of December 31, 2012.

Annual base rent and supplemental rent payments and receipts under the Lease are expected as follows:
For the Year Ended

2013	\$ 345,000
2014	355,000
2015	355,000
2016	355,000
2017	355,000
Thereafter	9,645,000

	\$ 11,410,000
	=====

For the year ended December 31, 2012 the Lease payments due were \$325,000. As of December 31, 2012, the Tenant owes the Landlord master lease payments of \$127,257.

- C. Tenant entered into a Sublease with Civil Rights Museum, LLC ("CRM"), a related entity. The Sublease is classified as an operating lease for financial reporting purposes. The Sublease commenced in 2009 and continues through 2020. Under the terms of the Sublease, CRM pays base rent in monthly installments beginning in 2010 as set forth in the Sublease agreement. The Tenant received \$360,000. As of December 31, 2012 the Tenant is owed \$60,000 in connection with Sublease transactions.

Estimated future minimum rental income under the Sublease is expected as follows:

For the Year Ended

2013	\$ 360,000
2014	360,000
2015	360,000
2016	360,000
2017	360,000
Thereafter	1,397,123

Total Payments	\$ 3,197,123
	=====

CRM has Sub-subleased the Property to the Developer ("the Sub-sublease"). The Sub-sublease commenced in 2010 and expires in 2020.

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DECEMBER 31, 2012

NOTE 13: PROJECT PROFITS, LOSSES AND DISTRIBUTIONS:

Landlord

All profits and losses are allocated 10% to the Investor Member, 10% to the Master Tenant Investor and 80% to the Managing Member.

Pursuant to the Landlord Agreement, cash distributions shall be made to the owners annually in the following order of priority:

1. To the Managing Member, the Managing Member Priority Distribution (to the extent not paid from the operating reserve);
2. To the repayment of any Shortfall Loans, pro rata in accordance with the outstanding amount balance of each;
3. To the Members in accordance with their respective percentage interests.

In addition, the Agreement provides certain provisions for the application and priorities for the allocation of profit and use of cash in the event of sale or refinancing.

Tenant

All profits and losses and tax credits earned under Section 47 of the Code are allocated .01% to the Managing Member and 99.99% to the Investor Member. Pursuant to the Tenant Agreement, cash distributions shall be made to the owners in the following order of priority after the end of each year.

1. To the Investor Member as payment of any unpaid negative Credit Adjustment amount;
2. To the Investor Member as payment of the Asset Management Fee;
3. To the Investor Member as payment of the Preferred Return (to the extent not funded out of the Preferred Return Reserve held);
4. To the Investor Member until the Investor Member has received distributions equal to its Tax Liability Reimbursement, if any outstanding as of the date of the distribution;
5. To the Investor Member as repayment of any Investor Loan;
6. To the payment of the Supplemental Rent;
7. To the Managing Member as repayment of any Operating Deficit Loan and any Managing Member Loan pro rata in accordance with the balance of each loan as repayment of any Operating Deficit Loan; and
8. Thereafter, remaining operating cash flow if any, to the Members in accordance with their percentage interests.

In addition, the Tenant Agreement provides certain provisions for the application and priorities for the allocation of profit and use of cash in the event of sale or refinancing.

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DECEMBER 31, 2012

NOTE 14: CAPITAL CONTRIBUTIONS:

Under the terms of Agreements, as of December 31, 2012, the Managing Member is not obligated to make any additional capital contributions to the Project. As of December 31, 2012, \$1,839,783 of contributions have been made. Under the terms of the Tenant Agreement, the Investor Member is obligated to make total capital contributions of \$6,705,000 subject to adjustment mainly due to the amount and timing of the actual federal and state historic tax credits delivered. The upward adjustment was \$-0-. As of December 31, 2012, contributions of \$ 7,578,251 have been made and no adjustments were deemed necessary.

Under the terms of the Landlord Agreement, the CDE Investor Member is obligated to make total capital contributions of \$4,028,349, subject to adjustment as described in Landlord Agreement. As of December 31, 2012, contributions of \$4,035,849, have been made and no adjustments were deemed necessary.

The Credit Investor is obligated to make capital contributions of \$4,028,349 to the Tenant Investor Member, subject to adjustment in accordance with Tenant Agreement. As of December 31, 2012, contributions of \$4,035,849 have been made and no adjustment was deemed necessary.

NOTE 15: TAX CREDITS:

The National Park Service has determined that the Project is eligible to receive Federal historic rehabilitation tax credits equal to 20% of the Project's qualified rehabilitation expenditures ("QRE") pursuant to Section 47 of the IRC. The Project's tax credits are contingent on its ability to maintain compliance with Section 47 of the Code. Failure to maintain compliance could result in recapture of previously taken tax credits plus interest.

The Project has elected, under Section 50(d) of the Code, to pass-through the historic tax credits related to the QRE incurred by Landlord to the Tenant. Tenant is subject to recapture on a gradually declining scale of 20% of the total Historic credits per year if it were to sell the building within the next five (5) years. Because the Historic tax credits are being passed through to Tenant under IRC 50(d) of the Code, no reduction in depreciable basis is required for tax purposes. However, the total Historic tax credits allocated to Tenant is required to be treated as taxable income to Tenant over the depreciable life of the building.

NOTE 16: CONCENTRATION RISK:

The Project operates in Greensboro, North Carolina. Future operations could be affected by changes in 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 CRM were to be negatively impacted, it could have a significant effect on the overall operations of the Project.

NOTE 17: INCOME TAXES:

The Project has adopted accounting rules for uncertain tax positions. These rules require financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. The rules also provide guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, transition, and disclosure requirements for uncertain tax positions. The adoption of the new rules had no impact on the financial statements. The Project's federal and state tax returns for tax years 2009 and later remain subject to examination by taxing authorities.

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NOTES TO COMBINED FINANCIAL STATEMENTS
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Note 18: SUBSEQUENT EVENTS:

Management has evaluated the need for disclosures and/or adjustments resulting from subsequent events through January 17, 2014 the date combined financial statements were available to be issued.

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. See Note 11, Loan #1.

On October 22, 2013, The City of Greensboro approved a \$1,500,000.00 dollars-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.

Note 19: IMPAIRMENT:

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 buildings and improvements.

OTHER FINANCIAL INFORMATION

SIT-IN MOVEMENT, INCORPORATED
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COMBINING BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2012

ASSETS

	Sit-In Movement, Incorporated	Civil Rights Museum, LLC	ICRCM, LLC	Museum Landlord, LLC	Museum Tenant, LLC	Eliminations	Total
Cash and Cash Equivalents (Operating)	\$ 35,868	\$ 2,820	\$ 378	\$ 57	\$ 282	\$ -	\$ 39,395
Cash and Cash Equivalents (Restricted)	927,057	-	-	408,419	-	-	1,335,476
Unconditional Promises to Give (Net)	157,653	-	-	-	36,853	(17,919)	139,734
Receivables	45,442	11,123	-	127,257	3,149,902	(152,776)	67,899
Loan Receivable	-	-	-	-	3,149,902	(3,149,902)	-
Investment in Affiliated Entities	980,459	-	129,536	-	54,620	(1,035,079)	-
Due from Affiliated Entities	21,783,657	-	-	267,220	2,760,215	(24,940,828)	-
Prepaid and Other Assets	5,001	44,533	-	-	211,139	-	49,534
Fixed Assets (Net)	85,057	16,233	-	19,845,386	-	-	20,157,815
Intangible Assets (Net)	17,042	-	-	1,106,976	-	-	1,124,018
Total Assets	\$ 24,037,226	\$ 74,709	\$ 129,914	\$ 21,755,315	\$ 6,213,011	\$ (29,296,304)	\$ 22,913,871

LIABILITIES AND NET ASSETS

Accrued Expenses:							
Accounts Payable and Other Accrued Expenses	\$ 268,976	\$ 205,725	\$ -	\$ 101,566	\$ 132,257	\$ (289,921)	\$ 418,603
Total Accrued Expenses	268,976	205,725	-	101,566	132,257	(289,921)	418,603
Other Liabilities	30	44,235	-	-	-	-	44,265
Debt	4,225,902	-	-	23,921,651	-	(3,149,902)	24,997,651
Total Liabilities	4,494,908	249,960	-	24,023,217	132,257	(3,439,823)	25,460,519
Due to Affiliated Entities	53,701	1,316,161	270	56,851	(89,233)	(1,337,750)	-
Net Assets							
Unrestricted	19,639,167	(1,507,645)	129,644	1,751,512	5,958,848	(24,518,731)	1,452,795
Available for Program and Supporting Services	88,184	16,233	-	(4,076,265)	211,139	-	(3,760,709)
Net Investment in Fixed Assets							
Total Unrestricted	19,727,351	(1,491,412)	129,644	(2,324,753)	6,169,987	(24,518,731)	(2,307,914)
Temporarily Restricted	(243,734)	-	-	-	-	-	(243,734)
Permanently Restricted	5,000	-	-	-	-	-	5,000
Total Net Assets	19,488,617	(1,491,412)	129,644	(2,324,753)	6,169,987	(24,518,731)	(2,546,648)
Total Liabilities and Net Assets	\$ 24,037,226	\$ 74,709	\$ 129,914	\$ 21,755,315	\$ 6,213,011	\$ (29,296,304)	\$ 22,913,871

The Accompanying Notes are an Integral Part of the Combined Financial Statements.

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

COMBINING STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Sit-In Movement, Incorporated	Civil Rights Museum, LLC	ICROM, LLC	Museum Landlord, LLC	Museum Tenant, LLC	Eliminations	Total
Revenue, Gains and Other Support Support from the Public	\$ 101,985	-	-	-	-	\$ -	\$ 101,985
Contributions	154,768	-	-	-	-	-	154,768
Special Events	2,500	-	-	-	-	-	2,500
Grant	-	-	-	-	-	-	-
Total Support From the Public	259,253	-	-	-	-	-	259,253
Investment Income	233,088	-	-	7,563	31,499	(31,499)	240,651
Interest	233,088	-	-	7,563	31,499	-	240,651
Total Investment Income	-	216,532	-	324,345	360,000	(886,009)	14,868
Rental Income	-	21	-	-	-	-	6,089
Special Programming	6,068	123,118	-	-	-	-	123,118
Retail Sales	-	372,011	-	-	-	-	372,011
Museum Tours	134,000	-	51,000	-	-	-	185,000
Priority Return	-	70,541	-	(38,663)	-	-	31,888
Other Income	-	-	-	-	-	-	-
Total Revenue, Gains and Other Support	632,409	782,223	51,000	293,255	391,499	(917,508)	1,232,878
Net Asset Restriction Transfers	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-
Satisfaction of Activity Restrictions	-	-	-	-	-	-	-
Unrestricted Net Asset Restriction Transfer	-	-	-	-	-	-	-
Temporarily Restricted	-	-	-	-	-	-	-
Satisfaction of Activity Restrictions	-	-	-	-	-	-	-
Temporarily Restricted Net Asset Restriction Transfer	-	-	-	-	-	-	-
Expenses	-	-	-	-	-	-	-
Program Services	317,324	477,464	-	-	1,131,806	-	1,926,594
Museum Content Programming	317,324	477,464	-	-	1,131,806	-	1,926,594
Total Program Services	844,083	566,791	1,165	10,077,640	207,925	(917,508)	10,780,096
Supporting Services	86,201	-	-	-	-	-	86,201
Administration	930,284	566,791	1,165	10,077,640	207,925	(917,508)	10,868,297
Fundraising	1,247,608	1,044,256	1,165	10,077,640	1,339,731	(917,508)	12,792,891
Total Supporting Services	(615,199)	(262,032)	49,835	(9,784,385)	(948,232)	-	(11,560,013)
Total Program and Supporting Services	(3,404,581)	404,510	86,437	1,146,860	6,101,781	(956,244)	3,378,763
Change in Net Assets	23,508,398	(1,633,890)	(6,628)	6,312,772	1,016,438	(23,562,488)	5,634,602
Transfers	-	-	-	-	-	-	-
Net Assets, Beginning of Year	18,488,618	(1,491,412)	129,644	(2,324,753)	6,169,987	\$(24,518,732)	\$(2,546,648)
Net Assets, End of Year							

The Accompanying Notes are an Integral Part of the Combined Financial Statements.

SIT-IN MOVEMENT, INCORPORATED
AND AFFILIATED ENTITIES

COMBINING STATEMENT OF EXPENSES BY NATURAL CLASSIFICATION
FOR THE YEAR ENDED DECEMBER 31, 2012

	Sit-In Movement, Incorporated	Civil Rights Museum, LLC	ICRCK, LLC	Museum Landlord, LLC	Museum Tenant, LLC	Eliminations	Total
Salaries	\$ 255,509	\$ 240,622	\$ -	\$ -	\$ -	\$ -	\$ 496,131
Payroll Taxes	20,260	28,133	-	-	-	-	48,393
Employee Benefits	18,392	22,462	-	-	-	-	40,854
Professional Fees	65,462	12,902	895	1,985	1,050	-	82,294
Supplies	3,193	21,926	-	-	-	-	25,119
Telephone	5,410	10,819	-	-	-	-	16,229
Postage and Shipping	190	4,371	-	-	-	-	4,561
Occupancy	70,325	158,931	-	-	-	-	229,256
Printing and Publications	310	167	-	-	-	-	477
Travel	460	7,955	-	-	-	-	8,415
Program Expenses	33,955	534	-	-	-	-	34,489
Interest	87,496	84	-	239,217	-	(31,499)	295,298
Fundraising	86,201	-	-	-	-	-	86,201
Marketing and Advertising	-	5,038	-	-	-	-	5,038
Technology	13,552	20,252	-	-	-	-	33,804
Office Expense	2,883	8,632	-	-	-	-	11,515
Miscellaneous	603	18,510	-	33	40	-	19,186
Rent	212,594	361,515	-	-	325,000	(886,010)	13,099
Depreciation	90,600	3,106	-	952,007	30,000	-	1,075,713
Amortization	1,000	-	-	58,299	-	-	59,299
Security	14,422	30,548	-	-	-	-	44,970
Taxes and Licenses	(654)	2,312	270	59,562	202	-	61,692
Insurance	-	28,355	-	7,100	-	-	35,455
Asset Management Fee	230,000	-	-	-	5,000	-	235,000
Museum Support	35,445	-	-	432	-	-	35,877
Cost of Goods Sold	-	57,081	-	-	-	-	57,081
Impairment Loss	-	-	-	8,759,006	-	-	8,759,006
Loss From Investment	-	-	-	-	978,439	-	978,439
Total Program and Supporting Services Expenses	\$ 1,247,608	\$ 1,044,255	\$ 1,165	\$ 10,077,641	\$ 1,339,731	\$ (917,509)	\$ 12,792,891

The Accompanying Notes are an Integral Part of the Combined Financial Statements.