

BATTLE OF FRANKLIN TRUST, INC.

FINANCIAL STATEMENTS

June 30, 2017

BATTLE OF FRANKLIN TRUST, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Battle of Franklin Trust, Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of Battle of Franklin Trust, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Battle of Franklin Trust, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As described in Note 9 to the financial statements, the Trust restated the classification of net assets at June 30, 2016 to properly reflect unrestricted, temporarily restricted, and permanently restricted net assets. Our opinion is not modified with respect to that matter.

Frasier Dean & Howard, PLLC

Frasier, Dean & Howard, PLLC

Nashville, Tennessee

November 3, 2017

BATTLE OF FRANKLIN TRUST, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS

Current assets:	
Cash and cash equivalents	\$ 403,080
Grant receivable	107,143
Inventory	104,668
Prepaid expenses	15,430
	<hr/>
Total current assets	630,321
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Investments	982,909
Beneficial interest in perpetual trust	921,437
Grant receivable, noncurrent, net	408,058
Land, buildings, equipment, and collections, net	3,414,528
Wagner Line partnership interest	62,800
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Total assets	\$ 6,420,053
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LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued liabilities	\$ 16,299
Deposits held for others	18,771
Note payable, current	87,500
Deferred revenue	25,062
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Total current liabilities	147,632
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Note payable	278,216
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Total liabilities	425,848
	<hr/>
Net assets:	
Unrestricted:	
Board designated investments	837,678
Undesignated	3,461,683
	<hr/>
Total unrestricted	4,299,361
	<hr/>
Temporarily restricted	333,474
Permanently restricted	1,361,370
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Total net assets	5,994,205
	<hr/>
Total liabilities and net assets	\$ 6,420,053
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See accompanying notes.

BATTLE OF FRANKLIN TRUST, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Tour admissions	\$ 1,059,661	\$ -	\$ -	\$ 1,059,661
Land contributions	422,800	-	-	422,800
Contributions	162,975	64,254	-	227,229
Museum shop, net	133,780	-	-	133,780
Ground rental	114,966	-	-	114,966
Membership dues	88,777	-	-	88,777
Special events	56,404	-	-	56,404
Investment income (loss), net	51,196	-	-	51,196
Grants	41,280	-	-	41,280
Gain on beneficial interest in perpetual trust	-	-	37,929	37,929
Other	6,430	-	-	6,430
Net assets released from restrictions	12,461	(12,461)	-	-
 Total support and revenue	 2,150,730	 51,793	 37,929	 2,240,452
Expenses:				
Program services	1,424,501	-	-	1,424,501
Management and general	183,180	-	-	183,180
Fundraising	177,709	-	-	177,709
 Total expenses	 1,785,390	 -	 -	 1,785,390
 Change in net assets	 365,340	 51,793	 37,929	 455,062
 Net assets, beginning of year - as previously reported	 4,685,400	 -	 -	 4,685,400
 Restatement	 (751,379)	 281,681	 1,323,441	 853,743
 Net assets, beginning of year - as restated	 3,934,021	 281,681	 1,323,441	 5,539,143
 Net assets, end of year	 \$ 4,299,361	 \$ 333,474	 \$ 1,361,370	 \$ 5,994,205

See accompanying notes.

BATTLE OF FRANKLIN TRUST, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

	Program Services	Management	Fundraising	Total
Salaries and wages	\$ 608,651	\$ 54,756	\$ 109,733	\$ 773,140
Garden and grounds maintenance	156,599	-	-	156,599
Depreciation	57,460	7,183	7,183	71,826
Payroll taxes	45,347	4,070	8,721	58,138
Advertising/promotions	48,197	9,120	-	57,317
Group health insurance	47,686	845	845	49,376
Marketing consultant	-	42,500	-	42,500
Development and membership	37,821	3,758	-	41,579
Special events	-	-	36,773	36,773
Loss on disposal of assets	36,044	-	-	36,044
Utilities	28,709	6,794	-	35,503
Credit card fees	34,443	-	-	34,443
Office equipment and supplies	22,774	10,445	-	33,219
Land improvements	30,320	-	-	30,320
Housekeeping	19,800	8,760	-	28,560
Event costs	27,459	-	-	27,459
Tour brochures/rack cards	23,225	-	-	23,225
Insurance	21,715	-	-	21,715
Interest	20,581	-	-	20,581
Telephone	15,322	5,107	-	20,429
Miscellaneous	15,427	1,931	2,321	19,679
Taxes/licenses	16,637	1,170	-	17,807
House maintenance	17,537	-	-	17,537
Carter property restorations	16,456	-	-	16,456
Newsletter	16,356	-	-	16,356
Office maintenance	12,288	3,745	-	16,033
Legacy dinner	8,015	-	8,015	16,030
Mileage	-	11,205	-	11,205
Security	9,532	-	-	9,532
Grounds rental expense	7,013	-	-	7,013
Education and training	6,841	-	-	6,841
Carnton property restorations	6,748	-	-	6,748
Miller House maintenance	-	6,596	-	6,596
Postage and printing	351	2,415	2,633	5,399
Exhibits	4,339	-	-	4,339
Collections management	3,700	-	-	3,700
Dues/subscriptions	1,108	358	1,245	2,711
Hospitality	-	1,879	-	1,879
Professional fees	-	543	240	783
	<u>\$ 1,424,501</u>	<u>\$ 183,180</u>	<u>\$ 177,709</u>	<u>\$ 1,785,390</u>

See accompanying notes.

BATTLE OF FRANKLIN TRUST, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

Cash flows from operating activities:	
Change in net assets	\$ 455,062
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Donated land and property	(422,800)
Net unrealized and realized gain on investments	(30,923)
Gain on beneficial interest in perpetual trust	(37,929)
Depreciation	71,826
Loss on disposal of property and equipment	36,044
Changes in assets and liabilities:	
Grant receivable	117,534
Inventory	(7,182)
Prepaid expenses	1,112
Accounts payable and accrued liabilities	(13,375)
Deposits held for others	18,771
Deferred revenue	(1,013)
Net cash provided by operating activities	<u>187,127</u>
Cash flows from investing activities:	
Sales of investments	30,000
Purchases of investments	(20,275)
Purchases of property, equipment, and collections	(60,806)
Net cash used in investing activities	<u>(51,081)</u>
Cash flows from financing activities:	
Payments on note payable	(87,500)
Net cash used in financing activities	<u>(87,500)</u>
Increase in cash and cash equivalents	48,546
Cash and cash equivalents, beginning of year	<u>354,534</u>
Cash and cash equivalents, end of year	<u>\$ 403,080</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	<u>\$ 20,581</u>
Donated property included in investment in property	<u>\$ 422,800</u>

See accompanying notes.

BATTLE OF FRANKLIN TRUST, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – ORGANIZATION AND PURPOSE

Battle of Franklin Trust, Inc. (“the Trust”) was incorporated in 2009, in accordance with the Tennessee General Corporate Act. Its purpose is to preserve, restore, maintain, and interpret properties, artifacts, documents, and other objects and material related to the Battle of Franklin so as to preserve an important part of the regional past, and so that visitors will be able to see and experience a living reminder of their national history. The Trust manages two historic sites in Franklin, Tennessee that witnessed the 1864 Battle of Franklin: Carter House and Carnton. Guided tours are provided on a daily basis at each location.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and reporting prescribed for not-for-profit organizations. Under these standards, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Trust and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Trust. Generally, donors of these assets permit the Trust to use all or part of the income earned for unrestricted or restricted purposes.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Trust considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

BATTLE OF FRANKLIN TRUST, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are valued at their fair market values in the statements of financial position. Unrealized gains and losses as well as appreciation or depreciation in market value are reflected in the accompanying statements of activities.

Inventory

Inventory consists of gift shop items. Inventory is stated at the lower of cost (determined on a first-in, first-out basis) or market (net realizable value).

Beneficial Interest in Perpetual Trust

The Trust is a beneficiary of an established and funded trust which are administered by an organization other than the Trust. Under the terms of the perpetual trust, the Trust has the irrevocable right to receive a portion of the income earned on the trust assets in perpetuity. Additionally, if the trust ceases operations, the Trust will receive a portion the assets of the trust.

Land, Building, Equipment, and Collections

Land, building, equipment, and collections are stated at cost, except those received by gift, which are stated at estimated market value as of the date of the gift. Expenditures for ordinary maintenance and repairs are charged to expense. Renewals and betterments that materially extend the life of the asset are capitalized. Depreciation on building and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Useful lives range from 5 years for software and computers to 27.5 years for buildings.

Board Designations

As of June 30, 2017, the board has designated \$837,678 of its unrestricted net assets for investment purposes to support future operations of the Trust.

Contributions

Contributions are recognized when the donor makes a promise to give to the Trust that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restrictions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Trust uses the allowance method to determine uncollectible unconditional promises to give.

BATTLE OF FRANKLIN TRUST, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Membership Dues

Membership dues generally cover a period of one year and renew annually. Revenue is recognized when payment is received.

Donated Property

During the year ended June 30, 2017, the Trust received in-kind contributions of land and property in the amount of \$360,000 that is included in land, building, equipment, and collections in the accompanying statement of financial position. Additionally, the Trust received an ownership interest in a partnership that owns land known as the Wagner Line property. The ownership interest is valued at \$62,800 at June 30, 2017.

Allocated Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services based on estimates by management.

Federal Income Taxes

No provision for federal income taxes is made in the accompanying financial statements, as the Trust is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Trust follows Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) guidance clarifying the accounting for uncertainty in income taxes recognized in an entity’s financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Trust has no tax penalties or interest reported in the accompanying financial statements.

Subsequent Events

The Trust evaluated subsequent events through November 3, 2017, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the accompanying financial statements.

BATTLE OF FRANKLIN TRUST, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017

NOTE 3 – GRANT RECEIVABLE

Grant receivable consists of an amount due from the City of Franklin, Tennessee. The grant proceeds are to be used to pay principal and interest on a note payable related to the purchase and preservation of historic land from the Battle of Franklin. See Note 7 related to the note payable. Any funds remaining at the end of the term are to be divided equally between the Trust and another nonprofit entity as described in the loan agreement.

A schedule of future grant payments are as follows:

Year Ending <u>June 30,</u>	
2018	\$ 107,143
2019	107,143
2020	107,143
2021	107,143
2022	<u>107,100</u>
	535,672
Less: unamortized discount on receivable	<u>(20,471)</u>
Net grant receivable	<u>\$ 515,201</u>

The grant receivable has been discounted using 1.52% rate.

NOTE 4 – DONOR RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2017:

Carter House and Carnton House properties restorations	\$ 157,733
City of Franklin grant – time restriction	149,485
Miller House investment earnings	14,432
Land funds	<u>11,824</u>
Total	<u>\$ 333,474</u>

Permanently restricted net assets are restricted for the following purpose at June 30, 2017:

Beneficial interest in perpetual trust	\$ 921,437
Miller House property	289,933
Miller House funds	<u>150,000</u>
Total	<u>\$ 1,361,370</u>

BATTLE OF FRANKLIN TRUST, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Trust has adopted the provisions of the Fair Value Measurement Topic of the FASB ASC. This guidance establishes a framework for measuring fair value for financial assets and financial liabilities. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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. The applicable levels of the fair value hierarchy are described below.

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust has the ability to access.

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 inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the 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 fair value of Level 1 assets was determined by obtaining quoted market prices in active markets.

The Trust's beneficial interest in a perpetual trust is valued using information obtained from third party sources, including detail listings of holdings from the trusts. These valuations are based upon the Trust's percent interest in the market value of the holdings.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Trust 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 overall investment objective of the Trust is to maintain a balanced portfolio, through a mix of equities, fixed income securities, and money market balances.

BATTLE OF FRANKLIN TRUST, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds	\$ 339,685	\$ -	\$ -	\$ 339,685
Corporate stocks	252,497	-	-	252,497
Exchange traded funds	131,416	-	-	131,416
Cash equivalents	<u>259,311</u>	<u>-</u>	<u>-</u>	<u>259,311</u>
Total investments at fair value	<u>\$ 982,909</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 982,909</u>
Beneficial interest in perpetual trust	<u>\$ -</u>	<u>\$ 921,347</u>	<u>\$ -</u>	<u>\$ 921,437</u>

For the year ended June 30, 2017, interest and dividends earned from these investments totaled \$27,045. Net appreciation of investments amounted to \$30,923 for the year ended June 30, 2017. Both are recorded in investment income on the statement of activities, net of related expenses totaling \$6,772 for the year ended June 30, 2017.

NOTE 6 – LAND, BUILDING, EQUIPMENT, AND COLLECTIONS

The components of land, building, equipment, and collection as of June 30, 2017 are as follows:

Land	\$ 624,089
Buildings and improvements	2,430,915
Historical improvements	33,565
Collections	707,868
Equipment	<u>54,771</u>
	3,851,208
Less: accumulated depreciation	<u>(436,680)</u>
Net land, building, equipment, and collections	<u>\$ 3,414,528</u>

BATTLE OF FRANKLIN TRUST, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017

NOTE 7 – NOTE PAYABLE

Effective February 2016, The Trust entered into a note payable with a bank subject to the following terms: interest fixed at 3.50%; maturity of February 10, 2023; secured by purchased property. The note was issued to purchase historic tracts of land from the Battle of Franklin that will ultimately be transferred to the City of Franklin, Tennessee. The historic land is not recorded as an asset in these financial statements. Additionally, the proceeds to pay the principal and interest of this note are to be funded by the grant receivable discussed in Note 3. Scheduled principal requirements are as follows:

Year Ending <u>June 30,</u>	
2018	\$ 87,500
2019	87,500
2020	87,500
2021	87,500
2022	<u>15,716</u>
Total	<u>\$ 365,716</u>

NOTE 8 – INVESTMENT IN DONATED PROPERTY

The Trust was gifted a partnership interest holding a parcel of land located in Franklin, Tennessee known as the Wagner Line property. At June 30, 2017, the Trust's ownership interest is value at \$62,800 based on the most recent appraised property value.

NOTE 9 – RESTATEMENT

A correction was made to the 2016 financial statements. This correction was necessary to record the Trust's ownership of a beneficial interest in a perpetual trust and to properly classify unrestricted, temporarily restricted, and permanently restricted net assets. Following is a summary of the effects of the correction on net assets and change in net assets for the year ended June 30, 2016.

Beginning net assets have been adjusted as follows at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Net assets – at June 30, 2016 as previously stated	\$ 4,685,400	\$ -	\$ -
Restatement to correct net asset classifications	(751,379)	281,681	439,933
Restatement to record beneficial interest	<u>-</u>	<u>-</u>	<u>883,508</u>
Net assets – at June 30, 2016 as restated	<u>\$ 3,934,021</u>	<u>\$ 281,681</u>	<u>\$ 1,323,441</u>