

**KNOXVILLE MUSEUM OF ART**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010**

KNOXVILLE MUSEUM OF ART  
YEAR ENDED JUNE 30, 2010

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Knoxville Museum of Art  
Knoxville, Tennessee

We have audited the accompanying consolidated statement of financial position of Knoxville Museum of Art and its affiliate, Knoxville Museum of Art Foundation, (the Organization) as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Knoxville Museum of Art as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Bible Harris Smith, P.C.*

Bible Harris Smith, P.C.

Knoxville, Tennessee  
October 8, 2010

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2010

|   |           |                  |
|---|-----------|------------------|
| <b>CURRENT ASSETS</b>                               |           |                  |
| Cash and Cash Equivalents                           | \$        | 165,287          |
| Inventories   |           | 22,479           |
| Prepaid Items                                       |           | 14,049           |
| Total Current Assets                                |           | 201,815          |
| <b>CASH HELD FOR LONG - TERM PURPOSES</b>           |           | 14,031           |
| <b>BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS</b> |           | 105,221          |
| <b>PROMISES TO GIVE - ART COMMISSION</b>            |           | 892,000          |
| <b>ENDOWMENT INVESTMENTS</b>                        |           | 1,926,791        |
| <b>ENDOWMENT PROMISES TO GIVE</b>                   |           | 924,000          |
| <b>PROPERTY AND EQUIPMENT, NET</b>                  |           | 5,879,248        |
| <b>PERMANENT ART COLLECTION (NOTE 1)</b>            |           | -                |
| <b>TOTAL ASSETS</b>                                 | <b>\$</b> | <b>9,943,106</b> |
| <b>LIABILITIES AND NET ASSETS</b>                   |           |                  |
| <b>CURRENT LIABILITIES</b>                          |           |                  |
| Accounts Payable and Accrued Expenses               | \$        | 104,260          |
| Deferred Revenue                                    |           | 8,028            |
| Current Portion of Long Term Debt                   |           | 19,244           |
| Total Current Liabilities                           |           | 131,532          |
| <b>LONG TERM DEBT, LESS CURRENT PORTION</b>         |           | 61,316           |
| <b>ART COMMISSION PAYABLE</b>                       |           | 892,000          |
| <b>NET ASSETS</b>                                   |           |                  |
| Unrestricted  | \$        | 4,689,089        |
| Temporarily Restricted                              |           | 966,359          |
| Permanently Restricted                              |           | 3,202,810        |
| Total Net Assets                                    |           | 8,858,258        |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>             | <b>\$</b> | <b>9,943,106</b> |

The accompanying notes are an integral part of these financial statements.

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>     |
|--|---------------------|-----------------------------------|-----------------------------------|------------------|
| <b>REVENUES AND OTHER SUPPORT</b>                |                     |                                   |                                   |                  |
| Memberships and Contributions                    | \$ 645,000          | \$ 54,320                         | \$ 63,000                         | \$ 762,320       |
| Fund Raisers                                     | 614,539             | -                                 | -                                 | 614,539          |
| In-Kind Revenue                                  | 348,000             | -                                 | -                                 | 348,000          |
| Government Grants and Appropriations             | 213,100             | -                                 | -                                 | 213,100          |
| Public Programs Special Exhibitions              | 68,909              | -                                 | -                                 | 68,909           |
| Facility Rentals and Catering                    | 59,436              | -                                 | -                                 | 59,436           |
| Other Income                                     | 14,671              | -                                 | -                                 | 14,671           |
| Museum Shop                                      | 90,052              | -                                 | -                                 | 90,052           |
| Collector's Circle                               | 9,500               | 29,310                            | -                                 | 38,810           |
| Education Programs                               | 20,094              | -                                 | -                                 | 20,094           |
| Net Investment Return                            | 83,778              | -                                 | -                                 | 83,778           |
| Change in Beneficial Interest in Assets          |                     |                                   |                                   |                  |
| Held by Others                                   | -                   | 11,223                            | -                                 | 11,223           |
| Net Assets Released From Restrictions            | 211,134             | (211,134)                         | -                                 | -                |
| Total Revenues and Other Support                 | <u>2,378,213</u>    | <u>(116,281)</u>                  | <u>63,000</u>                     | <u>2,324,932</u> |
| <b>EXPENSES AND LOSSES</b>                       |                     |                                   |                                   |                  |
| Program  |                     |                                   |                                   |                  |
| Curatorial                                       | 193,669             | -                                 | -                                 | 193,669          |
| Facilities                                       | 213,084             | -                                 | -                                 | 213,084          |
| In-Kind Expenses                                 | 348,000             | -                                 | -                                 | 348,000          |
| Education  | 160,537             | -                                 | -                                 | 160,537          |
| Security   | 104,555             | -                                 | -                                 | 104,555          |
| Marketing  | 98,301              | -                                 | -                                 | 98,301           |
| Public Programs                                  | 81,484              | -                                 | -                                 | 81,484           |
| Museum Shop                                      | 103,807             | -                                 | -                                 | 103,807          |
| Collector's Circle                               | 9,689               | -                                 | -                                 | 9,689            |
| Total Program                                    | 1,313,126           | -                                 | -                                 | 1,313,126        |
| Administration and Business Affairs              | 417,437             | -                                 | -                                 | 417,437          |
| Fundraising and Development                      | 386,134             | -                                 | -                                 | 386,134          |
| Total Expenses Before Depreciation<br>and Losses | <u>2,116,697</u>    | <u>-</u>                          | <u>-</u>                          | <u>2,116,697</u> |

(CONTINUED ON PAGE 4)

The accompanying notes are an integral part of these financial statements.

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

(CONTINUED FROM PAGE 3)

|   | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total        |
|---|--------------|---------------------------|---------------------------|--------------|
| CHANGE IN NET ASSETS<br>BEFORE DEPRECIATION AND<br>CHANGES RELATED TO COLLECTION<br>ITEMS NOT CAPITALIZED | \$ 261,516   | \$ (116,281)              | \$ 63,000                 | \$ 208,235   |
| DEPRECIATION  | (291,393)    | -                         | -                         | (291,393)    |
| CHANGE IN NET ASSETS BEFORE<br>CHANGES RELATED TO COLLECTION<br>ITEMS NOT CAPITALIZED                     | (29,877)     | (116,281)                 | 63,000                    | (83,158)     |
| CHANGES RELATED TO COLLECTION<br>ITEMS NOT CAPITALIZED<br>Collection Items Purchased                      | (79,775)     | -                         | -                         | (79,775)     |
| CHANGE IN NET ASSETS  | (109,652)    | (116,281)                 | 63,000                    | (162,933)    |
| NET ASSETS BEGINNING OF YEAR  | 4,798,741    | 1,082,640                 | 3,139,810                 | 9,021,191    |
| NET ASSETS END OF YEAR  | \$ 4,689,089 | \$ 966,359                | \$ 3,202,810              | \$ 8,858,258 |

The accompanying notes are an integral part of these financial statements.

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

|  |              |
|--|--------------|
| Change in Net Assets                                 | \$ (162,933) |
| Adjustments to Reconcile Change in Net Assets        |              |
| To Net Cash Provided (Used) by Operating Activities: |              |
| Depreciation   | 291,393      |
| Collection Items Purchased                           | 79,775       |
| Receipts Restricted for Long Term Purposes           | (29,310)     |
| Change in Value of Long Term Promises to Give        | (73,000)     |
| Change in Beneficial Interest                        | (5,893)      |
| Investment Return on Endowment                       | (83,778)     |
| Endowment Funds Appropriated for Expenditure         | 58,176       |
| (Increase) Decrease in Assets:                       |              |
| Promises to Give                                     | -            |
| Inventories  | 4,127        |
| Prepaid Items  | (13,042)     |
| Increase (Decrease) in Liabilities:                  |              |
| Accounts Payable and Accrued Expenses                | 38,734       |
| Deferred Revenue                                     | 78           |
| Net Cash Provided (Used) by Operating Activities     | 104,327      |

CASH FLOWS FROM INVESTING ACTIVITIES

|   |           |
|---|-----------|
| Purchase of Collection Items                      | (219,775) |
| Purchase of Endowment Investments                 | (333,500) |
| Purchase of Equipment                             | (1,920)   |
| Net Cash Provided (Used ) by Investing Activities | (555,195) |

CASH FLOWS FROM FINANCING ACTIVITIES

|   |          |
|---|----------|
| Contributions Restricted for Long Term Purposes                   | 29,310   |
| Collections of Promises to Give Restricted for Long Term Purposes | 450,000  |
| Change in Cash Held for Long Term Purposes                        | (8,156)  |
| Payments on Long-Term Debt  | (18,676) |
| Net Cash Provided (Used) by Financing Activities                  | 452,478  |

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 1,610

CASH AND CASH EQUIVALENTS - BEGINNING 163,677

CASH AND CASH EQUIVALENTS - ENDING \$ 165,287

(CONTINUED ON PAGE 6)

The accompanying notes are an integral part of these financial statements.

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2010

(CONTINUED FROM PAGE 5)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid During the Year for:

|              |          |
|--------------|----------|
| Interest     | \$ 3,946 |
| Income Taxes | \$ -     |

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING  
AND FINANCING ACTIVITIES:

The Organization has commissioned an art installation to be funded by a donor. The estimated unpaid amount at June 30, 2010 was \$ 892,000.

Contributions of art objects valued at \$140,000 were received by the Museum during the year ended June 30, 2010.

The accompanying notes are an integral part of these financial statements

KNOXVILLE MUSEUM OF ART  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

Note 1 - Nature Of Organization And Summary Of Significant Accounting Policies

Organization - The Knoxville Museum of Art (Museum) is a nonprofit corporation that is supported principally through grants, contributions and endowments. The Museum operates under the governance of a board of trustees elected by contributing members. The board employs the Museum's executives, who are responsible for the employment of their personnel. The board and the Museum's executive staff approve contracts and determine the Museum's exhibits. The board independently reviews, approves and revises the Museum's budget. No governmental entity has control in the Museum's fiscal management.

The Knoxville Museum of Art Foundation (Foundation), a nonprofit corporation, was established in 1998 to support the Knoxville Museum of Art. On June 30, 1999, the Museum transferred endowment investments and pledges receivable totaling approximately \$815,000 to fund the Foundation. Other donors have also contributed to the Foundation since that date. Quarterly distributions are made from the Foundation to the Museum to meet expenditure needs of the Museum, in accordance with the spending rule adopted by the Foundation's board of directors.

Programs – The mission of the Knoxville Museum of Art is to engage, educate and inspire through collection, exhibition and interpretation of visual art.

Principles of Consolidation - The consolidated financial statements include the accounts of Knoxville Museum of Art Foundation. The Museum and the Foundation (the Organization) have elected to consolidate. All material interorganizational transactions have been eliminated.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation - The Organization follows the requirements of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958). In accordance with these standards, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions, and the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions 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 and reported in the statement of activities as net assets released from restrictions.

The Organization has adopted a policy of not implying 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. Accordingly, contributions of

long-lived assets with no donor-imposed time restrictions are reported as unrestricted support. Contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as restricted support that increases temporarily restricted net assets. These restrictions expire when the long-lived assets are placed in service by the Organization.

Losses on the investments of a donor-restricted endowment fund first reduce any undistributed appreciation. Any additional losses reduce unrestricted net assets. Any future gains are recorded as increases in unrestricted net assets until the total amount of the gains offset the amount of the losses previously recorded as decreases in the unrestricted net assets.

Cash Equivalents - For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. However, cash funds which are restricted or designated for long-term purposes are not included in cash and cash equivalents for purposes of the statement of cash flows.

Permanent Art Collection - The Museum's collections are made up of art objects that are held for exhibition and curatorial purposes. Each of the items is cataloged, preserved, and cared for. The value of the permanent art collection is not reflected in the accompanying statement of financial position nor are donations of art to the permanent art collection recognized in the statement of activities. There were donations of art in the current year valued at \$140,000. Purchased art totaled \$79,775. Certain collection items have been deaccessioned in prior years and are to be auctioned. There were no sales of items deaccessioned. Management estimates that the market value of the permanent art collection is approximately \$3,528,000 as of June 30, 2010. Estimated value includes \$1,192,000 for a commission in progress.

Inventories - Inventories, which consist of Museum shop merchandise, are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. Donated inventories are recorded at fair market value as of the date contributed.

Property and Equipment - Purchased property and equipment are stated at cost. Expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Donations of property and equipment are recorded as support at their estimated fair value and capitalized. Depreciation is computed principally on the straight-line method over the estimated useful lives of the assets (5 to 40 years).

Income Tax Status - The Museum and the Foundation are exempt from federal income tax as qualifying 501(c)(3) organizations.

In-Kind Gifts - The Museum receives contributions of various services and other items, including printing, design, advertising and items for fundraising auctions. These are reflected at their estimated fair market value at the date of receipt. In-kind gifts are not allocated to other income and expense accounts, but rather are shown on the statement of activities as in-kind revenue and expense in the same amount. In-kind gifts amounted to approximately \$348,000 in 2010. A substantial number of unpaid volunteers have donated significant amounts of their time to develop and staff the Museum's many programs. No amounts are reflected in the financial statements for these services, as no objective basis is available to measure the value of such services.

Deferred Revenue - Income from certain fees is deferred and recognized over the periods to which it relates.

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 certain reported amounts and disclosures. Significant estimates used in preparing these financial statements include the assumptions used in determining the value of beneficial interests in assets held by others and the value of in kind contributions. Actual results could differ from those estimates.

Advertising - Advertising costs are charged to expense as incurred and totaled \$11,520 for the year ended June 30, 2010.

Financial Awards - Financial awards from state and local governmental entities in the form of grants may be subject to special audit. Such audits could result in claims against the Museum for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

Note 2 – Promises to Give

Promises to Give at June 30, 2010 include:

|   | <u>Promise</u> | <u>Unamortized<br/>Discount</u> | <u>Net</u> |
|---|----------------|---------------------------------|------------|
| Permanently restricted unconditional contributions to the endowment   | \$ 985,000     | \$ 61,000                       | \$ 924,000 |
| Temporarily restricted to payment of costs related to commissioned art, conditional only on incurring those costs | \$ 950,000     | \$ 58,000                       | \$ 892,000 |

All promises to give at June 30, 2010 were from two donors.

Unconditional Promises to Give at June 30, 2010 are considered fully collectible and due as follows:

| <u>Year Ending June 30,</u> |                     |
|-----------------------------|---------------------|
| 2011                        | \$ 500,000          |
| 2012                        | 550,000             |
| 2013                        | 600,000             |
| 2014                        | 100,000             |
| 2015                        | 100,000             |
| Thereafter                  | <u>85,000</u>       |
| Total                       | 1,935,000           |
| Less Unamortized Discount   | <u>(119,000)</u>    |
| Net                         | <u>\$ 1,816,000</u> |

Promises to give that are receivable in more than one year are discounted at 3%.

### Note 3 – Endowments

The Organization's endowment consists of assets held by the Foundation, the income from which is available to support the Museum. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

The Organization has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets as follows:

- Objective - To preserve and enhance the real purchasing power of assets by providing above average risk-adjusted returns over the long term.
- Risk Philosophy – Moderate risk level to preserve principal and produce a total return sufficient to protect the purchasing power of the assets from inflation after meeting annual spending requirements.
- Asset Mix –
  - Equities: Target 60%, Minimum 45%, Maximum 75%
  - Fixed Income and Cash Equivalents: Target 40%, Minimum 25%, Maximum 55%
- Performance Standard – Total return is expected to outperform a benchmark composite return for a similar asset mix.
- Specific Requirements – No more than 10% in any one issuer (except for Treasuries, agencies and money market funds). Turnover to be maintained at lowest level consistent with strategy.
- Withdrawal and Liquidity – Quarterly distributions to the Museum will be made in the amount of 4.5% of the average market value of the endowment, less any agency fees, management fees, commissions or other expenses of the Foundation.

Endowment net asset composition by type of fund as of June 30, 2010

|                                  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total Net<br>Endowment<br>Assets |
|----------------------------------|---------------------|---------------------------|---------------------------|----------------------------------|
| Donor Restricted Endowment Funds | \$ (315,519)        | \$ 10,221                 | \$3,202,810               | \$ 2,897,512                     |
| Board Designated Endowment Funds | 58,500              | -                         | -                         | 58,500                           |
| <b>Total Funds</b>               | <b>\$ (257,019)</b> | <b>\$ 10,221</b>          | <b>\$ 3,202,810</b>       | <b>\$ 2,956,012</b>              |

Changes in Endowment Net Assets as of June 20, 2010

|   |                     |                 |                     |                     |
|---|---------------------|-----------------|---------------------|---------------------|
| Endowment Net Assets, Beginning         | \$ (316,121)        | \$ 4,328        | \$ 3,139,810        | \$ 2,828,017        |
| Contributions                           | -                   | -               | 63,000              | 63,000              |
| Board Designations                      | 33,500              |                 |                     | 33,500              |
| Investment Income                       | 44,750              | -               | -                   | 44,750              |
| Realized Gains (Losses)                 | (50,015)            | -               | -                   | (50,015)            |
| Net Appreciation (Depreciation)         | 94,333              | -               | -                   | 94,333              |
| Fiduciary Fees                          | (5,290)             | -               | -                   | (5,290)             |
| Net Increase in Perpetual Trusts        |                     | 11,223          | -                   | 11,223              |
| Amounts Appropriated for<br>Expenditure | (58,176)            | (5,330)         | -                   | (63,506)            |
| <b>Endowment Net Assets, Ending</b>     | <b>\$ (257,019)</b> | <b>\$10,221</b> | <b>\$ 3,202,810</b> | <b>\$ 2,956,012</b> |

The unrestricted component of the endowment assets represents the amount by which the fair value of the investments is less than the amount restricted by donors.

Note 4 - Fair Value Measurements

FASB ASC 820-10, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs include quoted prices for similar assets in active markets, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

Level 1 Fair Value Measurements - The fair value of registered investment companies is based on quoted net asset values of the shares held by the Organization at year-end.

Level 2 Fair Value Measurements – The fair value of collective investment funds are based primarily on quoted prices from a national stock exchange for similar assets or broker quotes.

Level 3 Fair Value Measurements - The beneficial interest is not actively traded and significant other observable inputs are not available. Thus, the fair value of beneficial interest is equal to the value reported by the trustee. Further details of the Level 3 fair value measurements are provided in Note 9.

Gains and losses (realized and unrealized) included in activities for the year ended June 30, 2010 are reported in Net Investment Loss and Change in Beneficial Interest in Assets Held by Others.

The Organization's investments are reported at fair value in the accompanying statement of financial position.

|  | Fair Value          | Fair Value Measurement Using:                                  |   |   |
|--|---------------------|--|---|---|
|  |                     | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Fixed Income Mutual Funds                    | \$ 598,080          | \$ 598,080   | \$ -  | \$ -                                      |
| Equity Mutual Funds                          | 533,272             | 533,272  | -   | -   |
| Equity ETFs                                  | 464,170             | 464,170  | -   | -   |
| International Equity Mutual Funds            | 203,850             | 203,850  | -   | -   |
| Equity Collective Investment Funds           | 59,536              | -  | 59,536  | -   |
| Money Market Funds                           | 34,832              | 34,832   | -   | -   |
| Fixed Income Collective Investment Funds     | 18,070              | -  | 18,070  | -   |
| Common Stock                                 | 14,981              | 14,981   | -   | -   |
| Total Endowment Investments                  | 1,926,791           | 1,849,185  | 77,606  | -   |
| Beneficial Interest In Assets Held by Others | 105,221             | -  | -   | 105,221                                   |
| Total  | <u>\$ 2,032,012</u> | <u>\$ 1,849,185</u>  | <u>\$ 77,606</u>                              | <u>\$ 105,221</u>                         |

#### Note 5 - Property And Equipment

|                                |                     |
|--------------------------------|---------------------|
| Land                           | \$ 276,620          |
| Building                       | 10,383,795          |
| Land Improvements              | 150,813             |
| Equipment                      | 572,953             |
| Furniture and Fixtures         | 394,267             |
| Total                          | 11,778,448          |
| Less: Accumulated Depreciation | (5,899,200)         |
| Property and Equipment – Net   | <u>\$ 5,879,248</u> |

#### Note 6 – Leases

The Museum leases certain real estate from the City of Knoxville under an operating lease. The original lease agreement, dated April 1, 1987, contained an initial term of ten years and five options for additional terms of ten years each. The lease was amended during the year ended June 30, 2006 to substitute the use

of an adjacent parking lot, on an as needed basis, for the building space originally leased. Rent is \$1 per year. The City will transfer ownership of the parking lot to the Museum if it is needed for construction of additional Museum facilities during the lease term. The current term of the original lease expired during the year ended June 30, 2008. As of June 30, 2010, written documentation of the new agreement had not been completed.

Note 7 - Retirement Plan

The Museum has established a 403(b) salary reduction plan for the benefit of all eligible employees.

Note 8 - Restricted and Designated Net Assets

Temporarily Restricted Net Assets consist primarily of cash and promises to give, and are available for the following purposes or time periods as of June 30, 2010:

|  |                   |
|--|-------------------|
| Art Commission   | \$ 892,000        |
| Sarah Kramer Endowed Lecture Fund  | 22,956            |
| Docent Fund  | 6,467             |
| Purchase of Art  | 8,215             |
| East Tennessee Foundation - Operations - Restricted<br>Until Disbursed by Foundation | 10,221            |
| Sponsorships   | 26,500            |
|  | <u>\$ 966,359</u> |

Permanently Restricted Net Assets consist of endowments to be held indefinitely, the income from which is expendable to support operations of the Museum:

|   |                     |
|---|---------------------|
| East Tennessee Foundation               | \$ 95,000           |
| Knoxville Museum of Art Foundation      | <u>3,107,810</u>    |
| Total Permanently Restricted Net Assets | <u>\$ 3,202,810</u> |

Cash held for long term purposes includes amounts that are:

|                             |                 |
|-----------------------------|-----------------|
| Temporarily Restricted for: |                 |
| Purchase of Art             | <u>\$ 8,215</u> |

Note 9 - Beneficial Interest In Assets Held By Others

The East Tennessee Foundation holds money for the benefit of the Museum in two endowment funds. These funds are not accessible by the Museum, but the Museum is the beneficiary of any distributions, determined by the East Tennessee Foundation based on the income of the funds. Distributions during the year ended June 30, 2010 totaled \$5,330. The Museum has not granted variance power to the East Tennessee Foundation. When a nonprofit organization transfers assets to a charitable trust or community foundation in which the resource provider names itself as the beneficiary, the economic benefit of the transferred assets remains with the resource provider. If the assets are transferred permanently the asset received in exchange is a beneficial interest in assets held by others, measured by the fair value of the assets contributed. Changes in the value are recognized in the statement of activities, as "Change in Beneficial Interest in Assets Held by Others." Components of the Change in Beneficial Interest are:

|  |                   |
|--|-------------------|
| Fair Value at June 30, 2009                                | <u>\$ 99,328</u>  |
| Investment Income  | 3,094             |
| Net Realized and Unrealized Gain (Loss)                    | 9,772             |
| Fees   | <u>(1,643)</u>    |
| Change in Beneficial Interest in Net Assets Held by Others | 11,223            |
| Endowment Funds Appropriated for Expenditure               | <u>(5,330)</u>    |
| Fair Value at June 30, 2010                                | <u>\$ 105,221</u> |

#### Note 10 - Long-Term Debt

Long Term Debt at June 30, 2010 is comprised of a note payable to State of Tennessee (energy loan), due in monthly installments of \$1,784 including interest at 3.0% to June 15, 2014, secured by endowment withdrawals and equipment with a carrying value of \$80,560 at June 30, 2010.

|                         |                  |
|-------------------------|------------------|
| Principal Balance       | \$ 80,560        |
| Less Current maturities | <u>19,244</u>    |
| Long Term Debt          | <u>\$ 61,316</u> |

Maturities of long-term debt as of June 30, 2010 are as follows:

|      |                  |
|------|------------------|
| 2011 | \$ 19,244        |
| 2012 | 19,829           |
| 2013 | 20,432           |
| 2014 | <u>21,055</u>    |
|      | <u>\$ 80,560</u> |

Total interest expense was \$3,946 for the fiscal year ending June 30, 2010.

#### Note 11 - Line Of Credit

The Museum has a \$100,000 bank line of credit. Amounts borrowed under this agreement bear interest at the bank's prime rate plus 0.25%. At June 30, 2010, no balance was outstanding on this line.

#### Note 12 – Fund Raisers

Significant special events that provided funds for the Museum during the year ended June 30, 2010 included:

| <u>Event</u>   | <u>Gross Revenue</u> | <u>Direct Costs</u> | <u>Net Revenue</u> |
|----------------|----------------------|---------------------|--------------------|
| L'Amour du Vin | \$ 365,600           | \$ 75,013           | \$ 290,587         |
| Artsapses      | 145,900              | 48,462              | 97,438             |
| Other          | <u>103,039</u>       | <u>64,532</u>       | <u>38,507</u>      |
| Total          | <u>\$ 614,539</u>    | <u>\$ 188,007</u>   | <u>\$ 426,532</u>  |

### Note 13 – Income Taxes

The Knoxville Museum of Art and The Knoxville Museum of Art Foundation are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the accompanying financial statements as the Organization had no net unrelated business income. Effective July 1, 2009, the Organization adopted the authoritative guidance for the uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization performed an evaluation of uncertain tax positions for the year ended June 30, 2010, and determined that there were no matters that would require recognition in the financial statements or which may have any affect on its tax-exempt status. As of June 30, 2010, the statute of limitations for tax years 2006 through 2008 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax if any, in income tax expense. As of June 30, 2010, the Organization had no accruals for interest and/or penalties.

### Note 14 – Subsequent Events

Management has evaluated subsequent events through October 8, 2010, the date the financial statements were available to be issued.