

**KNOXVILLE MUSEUM OF ART**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

KNOXVILLE MUSEUM OF ART  
YEAR ENDED JUNE 30, 2015

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# Bible Harris Smith, P.C.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Knoxville Museum of Art  
Knoxville, Tennessee

We have audited the accompanying consolidated financial statements of Knoxville Museum of Art and its affiliate, Knoxville Museum of Art Foundation, (nonprofit Organization), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2015, and the 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.

Bible Harris Smith, P.C.  
Knoxville, Tennessee  
November 9, 2015

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2015

CURRENT ASSETS		
Cash and Cash Equivalents	\$	403,594
Grants Receivable		11,632
Inventories		37,009
Prepaid Items		11,921
Total Current Assets		464,156
CASH HELD FOR LONG - TERM PURPOSES		78,436
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS		124,105
PROMISES TO GIVE		
Capital Campaign - Net of Allowance of \$50,000	2,709,610	
Art Commission	95,000	
Endowment	284,000	
Total Promises to Give		3,088,610
ENDOWMENT INVESTMENTS		4,044,006
PROPERTY AND EQUIPMENT, NET		9,440,914
PERMANENT ART COLLECTION (NOTE 1)		-
TOTAL ASSETS		\$ 17,240,227
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$	85,696
Deferred Revenue		14,763
Current Portion of Long Term Debt		744,000
Total Current Liabilities		844,459
LONG TERM DEBT, LESS CURRENT PORTION		1,207,051
ART COMMISSION PAYABLE		95,000
TOTAL LIABILITIES		2,146,510

(CONTINUED ON PAGE 4)

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

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2015

(CONTINUED FROM PAGE 3)

NET ASSETS		
Unrestricted	\$ 9,886,354	
Temporarily Restricted	1,344,553	
Permanently Restricted	<u>3,862,810</u>	
Total Net Assets		<u>15,093,717</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 17,240,227</u></u>

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

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>				
Memberships, Contributions and Fair Value Adjustments	\$ 864,949	\$ 502,160	14,000	\$ 1,381,109
Fund Raisers	719,153	-	-	719,153
In-Kind Revenue	248,500	-	-	248,500
Government Grants and Appropriations	190,345	-	-	190,345
Facility Rentals and Catering	89,818	-	-	89,818
Investment Return	-	140,802	-	140,802
Museum Shop	132,646	-	-	132,646
Public Programs Special Exhibitions	73,509	-	-	73,509
Collector's Circle	57,583	-	-	57,583
Education Programs	27,344	-	-	27,344
Other Income	38,102	-	-	38,102
Change in Beneficial Interest in Assets Held by Others	-	297	-	297
Net Assets Released From Restrictions	1,140,319	(1,140,319)	-	-
<b>Total Revenues and Other Support</b>	<b>3,582,268</b>	<b>(497,060)</b>	<b>14,000</b>	<b>3,099,208</b>
<b>EXPENSES AND LOSSES</b>				
<b>Program</b>				
Curatorial	281,299	-	-	281,299
Depreciation	478,824	-	-	478,824
In-Kind Expenses	225,800	-	-	225,800
Facilities	298,435	-	-	298,435
Security	173,574	-	-	173,574
Education	133,375	-	-	133,375
Marketing	104,371	-	-	104,371
Museum Shop	140,504	-	-	140,504
Public Programs	80,198	-	-	80,198
25th Anniversary	77,985	-	-	77,985
Collector's Circle	49,775	-	-	49,775
<b>Total Program</b>	<b>2,044,140</b>	<b>-</b>	<b>-</b>	<b>2,044,140</b>
Administration and Business Affairs	486,285	-	-	486,285
Fundraising and Development	593,647	-	-	593,647
<b>Total Expenses</b>	<b>3,124,072</b>	<b>-</b>	<b>-</b>	<b>3,124,072</b>

(CONTINUED ON PAGE 6)

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

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015

(CONTINUED FROM PAGE 5)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO COLLECTION ITEMS NOT CAPITALIZED	458,196	(497,060)	14,000	(24,864)
CHANGES RELATED TO COLLECTION ITEMS NOT CAPITALIZED				
Collection Items Purchased	(396,430)	-	-	(396,430)
Proceeds from Sales of Collection Items	-	-	-	-
	(396,430)	-	-	(396,430)
CHANGE IN NET ASSETS	61,766	(497,060)	14,000	(421,294)
NET ASSETS BEGINNING OF YEAR	9,824,588	1,841,613	3,848,810	15,515,011
NET ASSETS END OF YEAR	\$ 9,886,354	\$ 1,344,553	\$ 3,862,810	\$ 15,093,717

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



KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets \$ (421,294)

Adjustments to Reconcile Change in Net Assets

To Net Cash Provided (Used) by Operating Activities:

Depreciation	478,824
Collection Items Purchased	396,430
Loss on Disposition	10,724
Receipts Restricted for Long Term Purposes	(146,602)
Change in Value of Long Term Promises to Give	(356,316)
Change in Value of Beneficial Interest	5,224
Investment Return on Endowment	(140,802)
Endowment Management Fees	11,926
Endowment Funds Appropriated for Expenditure	150,043

(Increase) Decrease in Assets:

Grants Receivable	6,868
Inventories	(766)
Prepaid Items	(10,001)

Increase (Decrease) in Liabilities:

Accounts Payable and Accrued Expenses	(85,669)
Deferred Revenue	(6,675)
Net Cash Provided (Used) by Operating Activities	(108,086)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Collection Items	(396,430)
Payments on Art Commission	(176,899)
Purchase of Endowment Investments	(107,800)
Purchase of Equipment	(78,745)
Net Cash Provided (Used ) by Investing Activities	(759,874)

(CONTINUED ON PAGE 8)

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

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2015

(CONTINUED FROM PAGE 7)

CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions Restricted for Long Term Purposes	146,602
Collections of Promises to Give Restricted for Long Term Purposes	1,501,197
Change in Cash Held for Long Term Purposes	127,594
Payments on Long-Term Debt	(885,000)
Net Cash Provided (Used) by Financing Activities	890,393
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 22,433
 CASH AND CASH EQUIVALENTS - BEGINNING	 <u>381,161</u>
 CASH AND CASH EQUIVALENTS - ENDING	 <u><u>\$ 403,594</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid During the Year for:

Interest	\$ 128,351
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, 2015 was \$95,000.

Contributions of art objects valued at \$1,090,800 were received by the Museum during the year ended June 30, 2015.

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

KNOXVILLE MUSEUM OF ART  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

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 the Museum and the Foundation. 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 \$1,090,800. Purchased art totaled \$396,430. There were no proceeds from sales of items deaccessioned. Management estimates that the market value of the permanent art collection is approximately \$6,931,000 as of June 30, 2015.

Inventories - Inventories, which consist primarily 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 greater than \$1,500 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 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. The Organization has 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, 2015, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. As of June 30, 2015, the statute of limitations for tax years 2011 through 2013 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, 2015, the Organization had no accruals for interest and/or penalties.

In-Kind Gifts - In addition to gifts to the Permanent Art Collection disclosed above, 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, adjusted to actual cash received in the case of items for fundraising auctions. In-kind gifts

amounted to approximately \$248,500 the year ended June 30, 2015 including program related of \$225,800 and \$22,700 relating to fund raising. In addition, auction items valued at \$72,000 are included in Fund Raisers revenue. 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 \$9,000 for the year ended June 30, 2015.

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, 2015 include:

	<u>Promise</u>	<u>Unamortized Discount</u>	<u>Allowance for Uncollectible</u>	<u>Net</u>
Capital Campaign - Temporarily restricted to funding renovations to the building.	\$2,922,610	\$ 163,000	\$ 50,000	\$2,709,610
Permanently restricted unconditional contributions to the endowment	300,000	16,000	-	284,000
Temporarily restricted to payment of costs related to commissioned art, conditional only on incurring those costs	95,000	-	-	95,000
Totals	<u>\$3,317,610</u>	<u>\$179,000</u>	<u>\$50,000</u>	<u>\$3,088,610</u>

Approximately 75% of promises to give at June 30, 2015 were from five donors.

Unconditional Promises to Give at June 30, 2015 are due as follows:

	Due in 1 Year	Due in 1 to 5 Years	Due in More than 5 Years	Total
Capital Campaign	\$ 1,259,126	\$ 1,663,484	\$ -	\$ 2,922,610
Art Commission	95,000	-	-	95,000
Endowment	100,000	200,000	-	300,000
Total	<u>\$ 1,454,126</u>	<u>\$ 1,863,484</u>	<u>\$ -</u>	<u>\$ 3,317,610</u>

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

### Note 3 – Cash and Cash Equivalents

The Organization has various bank accounts with local financial institutions that may result in a concentration of credit risk. The risk involved is the event of nonperformance by the financial institution. The Organization had no cash deposits in financial institutions in excess of the amounts insured by the Federal Depository Insurance Corporation at June 30, 2015.

### Note 4 – Endowments

The Organization's endowment includes assets held by the Foundation, the income from which is available to support the Museum. The Organization's endowment also includes assets held by East Tennessee Foundation (see Note 10). 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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor Restricted Endowment Funds	\$ -	\$ 497,501	\$ 3,862,810	\$ 4,360,311
Board Designated Endowment Funds	<u>91,800</u>	<u>-</u>	<u>-</u>	<u>91,800</u>
Total Funds	<u>\$ 91,800</u>	<u>\$ 497,501</u>	<u>\$ 3,862,810</u>	<u>\$ 4,452,111</u>

Changes in Endowment Net Assets as of June 30, 2015

Endowment Net Assets, Beginning	\$ 84,000	\$ 523,892	\$ 3,848,810	\$ 4,456,702
Contributions, Transfers, and Change in Discount	7,800	-	14,000	21,800
Investment Income	-	84,319	-	84,319
Realized Gains (Losses)	-	-	-	-
Net Appreciation (Depreciation)	-	58,369	-	58,369
Fiduciary Fees	-	(13,515)	-	(13,515)
Amounts Appropriated for Expenditure	-	(155,564)	-	(155,564)
Endowment Net Assets, Ending	<u>\$ 91,800</u>	<u>\$ 497,501</u>	<u>\$ 3,862,810</u>	<u>\$ 4,452,111</u>

The unrestricted component of the endowment assets represents Board Designated Endowment Funds of 91,800 , and the amount by which the fair value of the investments is less than the amount restricted by donors, if any.

## Note 5 - 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 mutual funds and exchange traded funds are based on quoted net asset values of the shares held by the Organization at year-end.

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 10.

Gains and losses (realized and unrealized) included in activities for the year ended June 30, 2015 are reported in Investment Return 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	\$ 1,046,632	\$ 1,046,632	\$ -	\$ -
Equity Mutual Funds	2,504,281	2,504,281	-	-
International Equity Mutual Funds	435,293	435,293	-	-
Money Market Funds	57,800	-	57,800	-
Total Endowment Investments	4,044,006	3,986,206	57,800	-
Beneficial Interest in Assets Held by Others	124,105	-	-	124,105
Total	\$ 4,168,111	\$ 3,986,206	\$ 57,800	\$ 124,105

## Note 6 - Property And Equipment

Property and Equipment consisted of the following at June 30, 2015:

Land	\$ 276,620
Building and Improvements	13,588,289
Land Improvements	2,062,982
Equipment	646,748
Furniture and Fixtures	455,157
Total	<u>17,029,796</u>
Less: Accumulated Depreciation	<u>(7,588,882)</u>
Property and Equipment - Net	<u>\$ 9,440,914</u>



## Note 7 – 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 lease stated that the City would transfer ownership of the parking lot to the Museum for \$1 under certain conditions. The lease was amended June 5, 2015. Under the terms of the amended lease, the Museum believes it has met the conditions to request that the property be transferred, and voted to do so subsequent to June 30, 2015.

## Note 8 - Retirement Plan

The Museum has established a 403(b) salary reduction plan for the benefit of all eligible employees. Effective January 1, 2015, the Museum matches the lesser of 50% of employee contributions or 3% of wages. Matching contributions of \$674 were made during the year ended June 30, 2015.

## Note 9 - 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, 2015:

Capital Campaign	\$ 813,776
Sarah Kramer Endowed Lecture Fund	3,621
Hartley Docent Development Fund	7,851
Raskin Docent Fund	11,803
Art Acquisition Fund	9,000
Art Conservation Fund	1,000
East Tennessee Foundation - Operations - Restricted Until Disbursed by Foundation	29,106
Knoxville Museum of Art Foundation - Operations - Restricted Until Disbursed by Foundation	468,396
Total Temporarily Restricted Net Assets	<u>\$ 1,344,553</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	3,767,810
Total Permanently Restricted Net Assets	<u>\$ 3,862,810</u>

## Note 10 - 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, 2015 totaled \$5,521. 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, 2014		\$ 129,329
Investment Income	\$ 1,887	
Fees	<u>(1,590)</u>	
Change in Beneficial Interest in Net Assets Held by Others		297
Endowment Funds Appropriated for Expenditures		<u>(5,521)</u>
Fair Value at June 30, 2015		<u><u>\$ 124,105</u></u>

#### Note 11 - Long-Term Debt

Long Term Debt at June 30, 2014 is comprised of a bank note payable collateralized by Capital Campaign Promises to Give, due in quarterly installments of interest at 4.75% and monthly installments of principal equal to amounts collected Capital Campaign Promises to Give until maturity at August 5, 2018. The terms of the note require that collections of Capital Campaign Promises to Give be deposited in a specially designated account with the lender.

Principal Balance	\$ 1,951,051
Less Current maturities	<u>744,000</u>
Long Term Debt	<u><u>\$ 1,207,051</u></u>

Maturities of long-term debt as of June 30, 2015 are as follows:

2016	\$ 744,000
2017	665,000
2018	<u>542,051</u>
	<u><u>\$ 1,951,051</u></u>

Interest incurred and expensed during the year ended June 30, 2015 totaled \$118,424 .

#### Note 12 - Lines Of Credit

The Museum has available a \$200,000 bank line of credit, maturing August 31, 2016. Amounts borrowed under this agreement bear interest at 6%. At June 30, 2015, no balance was outstanding.

Note 13 – Fund Raisers

Significant special events that provided funds for the Museum during the year ended June 30, 2015 included:

<u>Event</u>	<u>Gross Revenue</u>	<u>Direct Costs</u>	<u>Net Revenue</u>
L'Amour du Vin	502,726	147,177	\$ 355,549
Artsclapes	119,462	56,027	63,435
Holiday Home Tour	82,165	26,145	56,020
Other	14,800	9,680	5,120
Total	<u>\$ 719,153</u>	<u>\$ 239,029</u>	<u>\$ 480,124</u>

Note 14 – Related Party Transactions

Transactions with entities owned or controlled by members of the Organization's Board of Directors include the long term debt discussed in Note 11.

Note 15 – Subsequent Events

Management has evaluated subsequent events through November 9, 2015, the date the financial statements were available to be issued.