

KNOXVILLE MUSEUM OF ART
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

KNOXVILLE MUSEUM OF ART
YEAR ENDED JUNE 30, 2018

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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, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated 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, 2018, and the changes in its net assets and its 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.

Bible Harris Smith, P.C.
Knoxville, Tennessee
December 18, 2018

KNOXVILLE MUSEUM OF ART
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents		\$ 1,039,704
Investments		299,518
Bequest Receivable		164,170
Inventories		34,382
Prepaid Items		7,104
Total Current Assets		1,544,878

CASH HELD FOR LONG TERM PURPOSES 55,400

BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS 121,614

PROMISES TO GIVE

Capital Campaign	\$ 614,638	
Endowment	100,000	
Total Promises to Give	714,638	

ENDOWMENT INVESTMENTS 5,186,037

PROPERTY AND EQUIPMENT, NET 9,257,333

PERMANENT ART COLLECTION (NOTE 1) -

TOTAL ASSETS \$ 16,879,900

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable and Accrued Expenses		\$ 57,732
Deferred Revenue		11,569
Current Portion of Long Term Debt		110,000
Total Current Liabilities		179,301

LONG TERM DEBT, LESS CURRENT PORTION -

TOTAL LIABILITIES 179,301

NET ASSETS

Unrestricted	\$ 10,800,239	
Temporarily Restricted	1,757,563	
Permanently Restricted	4,142,797	
Total Net Assets	16,700,599	

TOTAL LIABILITIES AND NET ASSETS \$ 16,879,900

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

KNOXVILLE MUSEUM OF ART
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Memberships, Contributions and Fair Value Adjustments	\$ 1,941,718	\$ 1,032,079	\$ 8,000	\$ 2,981,797
Fund Raisers	1,030,425	-	-	1,030,425
In-Kind Revenue	12,500	-	-	12,500
Government Grants and Appropriations	177,470	-	-	177,470
Facility Rentals and Catering	123,870	-	-	123,870
Investment Return	(482)	533,931	-	533,449
Museum Shop	134,416	-	-	134,416
Public Programs Special Exhibitions	105,312	-	-	105,312
Collector's Circle	21,832	-	-	21,832
Education Programs	36,671	-	-	36,671
Other Income	18,694	-	-	18,694
Change in Beneficial Interest in Assets Held by Others	-	7,002	-	7,002
Net Assets Released From Restrictions	1,474,196	(1,474,196)	-	-
Total Revenues and Other Support	5,076,622	98,816	8,000	5,183,438
EXPENSES AND LOSSES				
Program				
Curatorial	323,583	-	-	323,583
Depreciation	491,452	-	-	491,452
In-Kind Expenses	-	-	-	-
Facilities	283,299	-	-	283,299
Security	103,174	-	-	103,174
Education	285,708	-	-	285,708
Marketing	107,309	-	-	107,309
Museum Shop	137,338	-	-	137,338
Public Programs	106,867	-	-	106,867
Collector's Circle	22,088	-	-	22,088
Total Program	1,860,818	-	-	1,860,818
Administration and Business Affairs	399,150	-	-	399,150
Fundraising and Development	651,097	-	-	651,097
Total Expenses	2,911,065	-	-	2,911,065

(CONTINUED ON PAGE 5)

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

KNOXVILLE MUSEUM OF ART
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

(CONTINUED FROM PAGE 4)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO COLLECTION ITEMS NOT CAPITALIZED	2,165,557	98,816	8,000	2,272,373
CHANGES RELATED TO COLLECTION ITEMS NOT CAPITALIZED				
Collection Items Purchased	(801,325)	-	-	(801,325)
	(801,325)	-	-	(801,325)
CHANGE IN NET ASSETS	1,364,232	98,816	8,000	1,471,048
NET ASSETS BEGINNING OF YEAR	9,436,007	1,658,747	4,134,797	15,229,551
NET ASSETS END OF YEAR	\$ 10,800,239	\$ 1,757,563	\$ 4,142,797	\$ 16,700,599

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

KNOXVILLE MUSEUM OF ART
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 1,471,048
Adjustments to Reconcile Change in Net Assets	
To Net Cash Provided (Used) by Operating Activities:	
Depreciation	491,452
Bad Debts	39,810
Collection Items Purchased	801,325
Property Contributed	(549,859)
Change in Value of Long Term Promises to Give	(43,000)
Change in Value of Beneficial Interest	(1,593)
Investment Return on Endowment	(533,931)
Investment Return	482
Endowment Management Fees	13,429
Endowment Funds Appropriated for Expenditure	183,751
(Increase) Decrease in Assets:	
Grants Receivable	(159,883)
Inventories	(1,225)
Prepaid Items	10,749
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	(13,218)
Deferred Revenue	(3,537)
Net Cash Provided (Used) by Operating Activities	1,705,800

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Collection Items	(801,325)
Purchase of Endowment Investments	(150,000)
Purchase of Investments	(600,009)
Sale of Investments	300,011
Building Improvement Costs	(468,512)
Net Cash Provided (Used) by Investing Activities	(1,719,835)

(CONTINUED ON PAGE 7)

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

KNOXVILLE MUSEUM OF ART
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

(CONTINUED FROM PAGE 6)

CASH FLOWS FROM FINANCING ACTIVITIES	
Collections of Promises to Give Restricted for Long Term Purposes	819,518
Change in Cash Held for Long Term Purposes	132,354
Payments on Long-Term Debt	<u>(570,000)</u>
Net Cash Provided (Used) by Financing Activities	<u>381,872</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	367,837
CASH AND CASH EQUIVALENTS - BEGINNING	<u>671,867</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 1,039,704</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid During the Year for:

Interest	\$ 23,352
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SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING
AND FINANCING ACTIVITIES:

Contributions of art objects valued at \$95,000 and property held for sale valued at \$549,859 were received by the Museum during the year ended June 30, 2018.

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

KNOXVILLE MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 inter-organizational 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 \$95,000 . Purchased art totaled \$802,000 . There were no proceeds from sales of items deaccessioned. Management estimates that the market value of the permanent art collection is approximately \$8,302,000 as of June 30, 2018.

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, 2018, 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, 2018, the statute of limitations for tax years 2014 through 2016 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, 2018, 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 \$12,500 the year ended June 30, 2018 relating to fund raising. In addition, auction items valued at \$93,000 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 \$8,289 for the year ended June 30, 2018.

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, 2018 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.	\$627,637	\$ 13,000	\$ -	\$614,637
Permanently restricted unconditional contributions to the endowment	100,000	-	-	100,000
Unrestricted Bequest	164,170	-	-	164,170
Totals	<u>\$891,807</u>	<u>\$13,000</u>	<u>\$ -</u>	<u>\$878,807</u>

Approximately 79% of promises to give at June 30, 2018 were from three donors.

Unconditional Promises to Give at June 30, 2018 are due as follows:

	Due in 1 Year	Due in 2 to 5 Years	Due in More than 5 Years	Total
Capital Campaign	\$ 381,837	\$ 240,800	\$ 5,000	\$ 627,637
Endowment	100,000	-	-	100,000
Unrestricted Bequest	164,170	-	-	164,170
Total	\$ 646,007	\$ 240,800	\$ 5,000	\$ 891,807

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 cash deposits of \$600,000 in financial institutions in excess of the amounts insured by the Federal Depository Insurance Corporation at June 30, 2018.

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 9). 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, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor Restricted Endowment Funds	\$ -	\$ 1,173,054	\$ 4,142,797	\$ 5,315,851
Board Designated Endowment Funds	91,800	-	-	91,800
Total Funds	<u>\$ 91,800</u>	<u>\$ 1,173,054</u>	<u>\$ 4,142,797</u>	<u>\$ 5,407,651</u>

Changes in Endowment Net Assets as of June 30, 2018

Endowment Net Assets, Beginning	\$ 91,800	\$ 834,710	\$ 4,134,797	\$ 5,061,307
Contributions, Transfers, and Change in Discount	-	-	8,000	8,000
Investment Income	-	108,805	-	108,805
Realized Gains (Losses)	-	-	-	-
Net Appreciation (Depreciation)	-	433,676	-	433,676
Fiduciary Fees	-	(14,977)	-	(14,977)
Amounts Appropriated for Expenditure	-	(189,160)	-	(189,160)
Endowment Net Assets, Ending	<u>\$ 91,800</u>	<u>\$ 1,173,054</u>	<u>\$ 4,142,797</u>	<u>\$ 5,407,651</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, 2018 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	\$ 720,853	\$ 720,853	\$ -	\$ -
Equity Mutual Funds	3,760,153	3,760,153	-	-
International Equity Mutual Funds	705,031	705,031	-	-
Total Endowment Investments	5,186,037	5,186,037	-	-
Fixed Income Mutual Funds	135,060	135,060	-	-
Equity Mutual Funds	140,934	140,934	-	-
International Equity Mutual Funds	23,524	23,524	-	-
Total Investments	299,518	299,518	-	-
Beneficial Interest in Assets Held by Others	121,614	-	-	121,614
Total	\$ 5,607,169	\$ 5,485,555	\$ -	\$ 121,614

Note 6 - Property And Equipment

Property and Equipment consisted of the following at June 30, 2018 :

Land	\$ 276,621
Building and Improvements	13,849,242
Land Improvements	2,086,283
Equipment	1,008,198
Furniture and Fixtures	484,808
Property Held for Sale	549,859
Total	<u>18,255,011</u>
Less: Accumulated Depreciation	<u>(8,997,678)</u>
Property and Equipment - Net	<u><u>\$9,257,333</u></u>

Note 7 - 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 \$17,271 were made during the year ended June 30, 2018.

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, 2018:

Capital Campaign	\$ 505,038
Docent Fund	17,312
Art Acquisition and Sculpture Fund	55,660
Sponsorship of Future Exhibition	6,500
East Tennessee Foundation - Operations - Restricted Until Disbursed by Foundation	26,614
Knoxville Museum of Art Foundation - Operations - Restricted Until Disbursed by Foundation	<u>1,146,440</u>
Total Temporarily Restricted Net Assets	<u><u>\$1,757,564</u></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>4,047,797</u>
Total Permanently Restricted Net Assets	<u><u>\$4,142,797</u></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, 2018 totaled \$5,409. 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, 2017		\$ 120,021
Investment Income	\$ 8,550	
Fees	<u>(1,548)</u>	
Change in Beneficial Interest in Net Assets Held by Others		7,002
Endowment Funds Appropriated for Expenditures		<u>(5,409)</u>
Fair Value at June 30, 2018		<u>\$ 121,614</u>

Note 10 - Long-Term Debt

Long Term Debt at June 30, 2018 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	\$ 110,000
Less Current maturities	<u>110,000</u>
Long Term Debt	<u>\$ -</u>

Maturities of long-term debt as of June 30, 2018 are as follows:

2019	<u>\$ 110,000</u>
	<u>\$ 110,000</u>

Interest incurred and expensed during the year ended June 30, 2018 totaled \$18,396.

Note 11 - Lines Of Credit

The Museum has available a bank line of credit, maturing August 5, 2018, subsequently renewed through December 5, 2019. Amounts borrowed under this agreement bear interest at 6%. At June 30, 2018, no balance was outstanding.

Note 12 – Fund Raisers

Significant special events that provided funds for the Museum during the year ended June 30, 2018 included:

<u>Event</u>	<u>Gross Revenue</u>	<u>Direct Costs</u>	<u>Net Revenue</u>
L'Amour du Vin	663,259	158,786	\$ 504,473
Kick Off to Summer	133,635	34,891	98,744
Holiday Home Tour	102,623	31,898	70,725
Artist on Location	70,178	43,872	26,306
ArtHouse	54,236	35,066	19,170
Other	6,494	7,674	(1,180)
Total	<u>\$ 1,030,425</u>	<u>\$ 312,187</u>	<u>\$ 718,238</u>

Note 13 – Subsequent Events

Management has evaluated subsequent events through December 18, 2018, the date the financial statements were available to be issued.