

**KNOXVILLE MUSEUM OF ART**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

KNOXVILLE MUSEUM OF ART  
YEAR ENDED JUNE 30, 2014

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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, (the Organization) (nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2014, 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, 2014, 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.*

Bible Harris Smith, P.C.  
Knoxville, Tennessee  
November 10, 2014

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2014

CURRENT ASSETS		
Cash and Cash Equivalents	\$	381,161
Grants Receivable		18,500
Inventories		36,243
Prepaid Items		1,920
Total Current Assets		437,824
CASH HELD FOR LONG - TERM PURPOSES		206,030
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS		129,329
PROMISES TO GIVE		
Capital Campaign - Net of Allowance of \$50,000	\$	3,664,205
Art Commission		189,286
Endowment		370,000
Other		10,000
Total Promises to Give		4,233,491
ENDOWMENT INVESTMENTS		3,957,373
PROPERTY AND EQUIPMENT, NET		9,851,718
PERMANENT ART COLLECTION (NOTE 1)		-
TOTAL ASSETS		\$ 18,815,765
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$	171,366
Deferred Revenue		21,438
Current Portion of Long Term Debt		1,087,349
Total Current Liabilities		1,280,153
LONG TERM DEBT, LESS CURRENT PORTION		1,748,702
ART COMMISSION PAYABLE		271,899
TOTAL LIABILITIES		3,300,754

(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, 2014

(CONTINUED FROM PAGE 3)

NET ASSETS		
Unrestricted	\$ 9,824,588	
Temporarily Restricted	1,841,613	
Permanently Restricted	<u>3,848,810</u>	
Total Net Assets		<u>15,515,011</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 18,815,765</u>

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

KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>				
Memberships, Contributions and Fair Value Adjustments	\$ 807,565	\$ 4,755,387	\$ 390,000	\$ 5,952,952
Fund Raisers	688,893	-	-	688,893
Jolley Celebration	421,436	-	-	421,436
In-Kind Revenue	240,963	-	-	240,963
Government Grants and Appropriations	180,695	-	-	180,695
Facility Rentals and Catering	13,619	-	-	13,619
Investment Return	-	280,654	300,000	580,654
Museum Shop	83,058	-	-	83,058
Public Programs Special Exhibitions	27,784	-	-	27,784
Collector's Circle	54,363	-	-	54,363
Education Programs	29,665	-	-	29,665
Other Income	22,461	-	-	22,461
Change in Beneficial Interest in Assets Held by Others	-	14,100	-	14,100
Net Assets Released From Restrictions	4,531,352	(4,531,352)	-	-
<b>Total Revenues and Other Support</b>	<b>7,101,854</b>	<b>518,789</b>	<b>690,000</b>	<b>8,310,643</b>
<b>EXPENSES AND LOSSES</b>				
Program				
Curatorial	296,240	-	-	296,240
Depreciation	339,731	-	-	339,731
In-Kind Expenses	14,310	-	-	14,310
Facilities	236,980	-	-	236,980
Security	146,956	-	-	146,956
Education	120,275	-	-	120,275
Marketing	255,657	-	-	255,657
Museum Shop	99,020	-	-	99,020
Public Programs	46,201	-	-	46,201
Jolley Celebration	240,969	-	-	240,969
Collector's Circle	11,664	-	-	11,664
<b>Total Program</b>	<b>1,808,003</b>	<b>-</b>	<b>-</b>	<b>1,808,003</b>
Administration and Business Affairs	373,849	-	-	373,849
Fundraising and Development	659,599	-	-	659,599
<b>Total Expenses</b>	<b>2,841,451</b>	<b>-</b>	<b>-</b>	<b>2,841,451</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, 2014

(CONTINUED FROM PAGE 5)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO COLLECTION ITEMS NOT CAPITALIZED	4,260,403	518,789	690,000	5,469,192
CHANGES RELATED TO COLLECTION ITEMS NOT CAPITALIZED				
Collection Items Purchased	(221,891)	-	-	(221,891)
Proceeds from Sales of Collection Items	-	-	-	-
	(221,891)	-	-	(221,891)
CHANGE IN NET ASSETS	4,038,512	518,789	690,000	5,247,301
NET ASSETS BEGINNING OF YEAR	5,786,076	1,322,824	3,158,810	10,267,710
NET ASSETS END OF YEAR	\$ 9,824,588	\$ 1,841,613	\$ 3,848,810	\$ 15,515,011

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



KNOXVILLE MUSEUM OF ART  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 5,247,301
Adjustments to Reconcile Change in Net Assets	
To Net Cash Provided (Used) by Operating Activities:	
Depreciation	339,731
Collection Items Purchased	221,891
In Kind Contributions of Property and Equipment	(200,000)
Receipts Restricted for Long Term Purposes	(129,846)
Change in Value of Long Term Promises to Give	(4,882,375)
Change in Value of Art Commission Payable	100,846
Change in Value of Beneficial Interest	(8,764)
Investment Return on Endowment	(580,654)
Endowment Management Fees	10,595
Endowment Funds Appropriated for Expenditure	107,974
(Increase) Decrease in Assets:	
Grants Receivable	(12,415)
Inventories	(5,622)
Prepaid Items	3,043
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	110,992
Deferred Revenue	19,038
Net Cash Provided (Used) by Operating Activities	341,735

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Collection Items	(221,891)
Payments on Art Commission	(772,387)
Purchase of Endowment Investments	(207,200)
Building Renovation Costs	(4,231,846)
Purchase of Equipment	(22,443)
Net Cash Provided (Used ) by Investing Activities	(5,455,767)

(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, 2014

(CONTINUED FROM PAGE 7)

CASH FLOWS FROM FINANCING ACTIVITIES

Contributions Restricted for Long Term Purposes	129,846
Collections of Promises to Give Restricted for Long Term Purposes	2,753,141
Change in Cash Held for Long Term Purposes	(183,585)
Proceeds from Notes Payable	3,206,051
Payments on Long-Term Debt	<u>(753,260)</u>
Net Cash Provided (Used) by Financing Activities	<u>5,152,193</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 38,161

CASH AND CASH EQUIVALENTS - BEGINNING 343,000

CASH AND CASH EQUIVALENTS - ENDING \$ 381,161

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid During the Year for:

Interest, net of capitalized interest of \$80,276	\$	-
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, 2014 was \$271,899.

Contributions of art objects valued at \$240,000 were received by the Museum during the year ended June 30, 2014, excluding completion of an art installation funded by a donor with an estimated value of \$2,000,000.

Contributions of Property and Equipment valued at \$200,000 were received by the Museum during the year ended June 30, 2014.

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

KNOXVILLE MUSEUM OF ART  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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 \$240,000. Purchased art totaled \$221,891, including a change in the estimated total cost of a commission of \$101,000. There were no proceeds from sales of items deaccessioned. Management estimates that the market value of the permanent art collection is approximately \$5,500,000 as of June 30, 2014.

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, 2014, 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, 2014, the statute of limitations for tax years 2010 through 2012 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, 2014, 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 \$241,000 the year ended June 30, 2014, plus \$93,000 relating to fund raising special events. 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 \$6,000 for the year ended June 30, 2014.

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, 2014 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.	\$ 4,017,205	\$ 303,000	\$ 50,000	\$ 3,664,205
Permanently restricted unconditional contributions to the endowment	400,000	30,000	-	370,000
Temporarily restricted to payment of costs related to commissioned art, conditional only on incurring those costs	189,286	-	-	189,286
Temporarily restricted to payment of costs related to building repairs	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Total	<u>\$ 4,616,491</u>	<u>\$ 333,000</u>	<u>\$ 50,000</u>	<u>\$ 4,233,491</u>

Approximately 80% of promises to give at June 30, 2014 were from seven donors.

Unconditional Promises to Give at June 30, 2014 are due as follows:

	Due in 1 Year	Due in 1 to 5 Years	Due in More than 5 Years	Total
Capital Campaign	\$ 1,188,349	\$ 2,738,856	\$ 90,000	\$ 4,017,205
Art Commission	189,286	-	-	189,286
Endowment	100,000	300,000	-	400,000
Other	10,000	-	-	10,000
Total	<u>\$ 1,487,635</u>	<u>\$ 3,038,856</u>	<u>\$ 90,000</u>	<u>\$ 4,616,491</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 result in a concentration of credit risk. The risk involved is the event of nonperformance by the financial institution. The Organization has cash deposits in financial institutions in excess of the amounts insured by the Federal Depository Insurance Corporation totaling approximately \$211,000 at June 30, 2014.

### 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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor Restricted Endowment Funds	\$ -	\$ 523,892	\$ 3,848,810	\$ 4,372,702
Board Designated Endowment Funds	<u>84,000</u>	<u>-</u>	<u>-</u>	<u>84,000</u>
Total Funds	<u>\$ 84,000</u>	<u>\$ 523,892</u>	<u>\$ 3,848,810</u>	<u>\$ 4,456,702</u>

Changes in Endowment Net Assets as of June 30, 2014

Endowment Net Assets, Beginning	\$ 76,800	\$ 353,042	\$ 3,158,810	\$ 3,588,652
Contributions, Transfers, and Change in Discount	7,200	-	390,000	397,200
Investment Income	-	70,514	-	70,514
Realized Gains (Losses)	-	52,646	-	52,646
Net Appreciation (Depreciation)	-	173,242	300,000	473,242
Fiduciary Fees	-	(12,243)	-	(12,243)
Amounts Appropriated for Expenditure	<u>-</u>	<u>(113,309)</u>	<u>-</u>	<u>(113,309)</u>
Endowment Net Assets, Ending	<u>\$ 84,000</u>	<u>\$ 523,892</u>	<u>\$ 3,848,810</u>	<u>\$ 4,456,702</u>

The unrestricted component of the endowment assets represents Board Designated Endowment Funds of \$84,000, and the amount by which the fair value of the investments is less than the amount restricted by donors, if any.

The increase in Permanently Restricted Net Appreciation represents the change in value related to a promise to give annual contributions of \$100,000 until the total value including earnings reached \$1 million.

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, 2014 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.

	<u>Fair Value</u>	<u>Fair Value Measurement Using:</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fixed Income Mutual Funds	\$ 995,288	\$ 995,288	\$ -	\$ -
Equity Mutual Funds	2,364,581	2,364,581	-	-
International Equity Mutual Funds	448,248	448,248	-	-
Money Market Funds	<u>149,256</u>	<u>-</u>	<u>149,256</u>	<u>-</u>
Total Endowment Investments	3,957,373	3,808,117	149,256	-
Beneficial Interest In Assets Held by Others	<u>129,329</u>	<u>-</u>	<u>-</u>	<u>129,329</u>
Total	<u>\$ 4,086,702</u>	<u>\$ 3,808,117</u>	<u>\$ 149,256</u>	<u>\$ 129,329</u>



### Note 6 - Property And Equipment

Land	\$ 276,620
Building and Improvements	13,562,760
Land Improvements	2,062,982
Equipment	624,613
Furniture and Fixtures	<u>434,800</u>
Total	16,961,775
Less: Accumulated Depreciation	<u>(7,110,057)</u>
Property and Equipment – Net	<u>\$ 9,851,718</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 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, 2014, written documentation of the new agreement had not been completed.

### Note 8 - Retirement Plan

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

There was no cost to the Organization.

### 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, 2014:

Capital Campaign	\$ 1,005,636
Art Commission	189,286
Sarah Kramer Endowed Lecture Fund	12,150
Docent Fund	7,851
Art Acquisition Fund	92,185
East Tennessee Foundation - Operations - Restricted Until Disbursed by Foundation	34,329
Knoxville Museum of Art Foundation - Operations - Restricted Until Disbursed by Foundation	489,562
Sponsorships	<u>10,614</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,841,613</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>3,753,810</u>
Total Permanently Restricted Net Assets	<u>\$ 3,848,810</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, 2014 totaled \$5,336. 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, 2013	\$ 120,565
Investment Income	\$ 2,724
Net Realized and Unrealized Gain (Loss)	13,024
Fees	<u>(1,648)</u>
Change in Beneficial Interest in Net Assets Held by Others	14,100
Endowment Funds Appropriated for Expenditure	<u>(5,336)</u>
Fair Value at June 30, 2014	<u>\$ 129,329</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	\$ 2,836,051
Less Current maturities	<u>1,087,349</u>
Long Term Debt	<u>\$ 1,748,702</u>

Maturities of long-term debt as of June 30, 2014 are as follows:

2015	\$ 1,087,349
2016	826,667
2017	691,095
2018	<u>230,940</u>
	<u>\$ 2,836,051</u>

Total interest incurred during the year ended June 30, 2014 was \$81,096 including \$80,276 construction period interest capitalized and \$820 expensed.

#### Note 12 - Lines Of Credit

The Museum has available a line of credit, as follows:

\$200,000 bank line of credit, maturing August 31, 2015. Amounts borrowed under this agreement bear interest at 6%. At June 30, 2014, no balance was outstanding.

#### Note 13 – Fund Raisers

Significant special events that provided funds for the Museum during the year ended June 30, 2014 included:

<u>Event</u>	<u>Gross Revenue</u>	<u>Direct Costs</u>	<u>Net Revenue</u>
L'Amour du Vin	\$ 445,754	\$ 118,171	\$ 327,583
Artscapes	142,873	73,459	69,414
Other	100,266	44,007	56,259
Total	<u>\$ 688,893</u>	<u>\$ 235,637</u>	<u>\$ 453,256</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, and approximately \$460,000 (including an in-kind contribution of 200,000) incurred for construction supervision services related to the building renovation.

#### Note 15 – Subsequent Events

Management has evaluated subsequent events through November 10, 2014, the date the financial statements were available to be issued.