

**KMAC MUSEUM INC**  
**Financial Statements**

*Years Ended June 30, 2018 and 2017  
with Report of Independent Auditors*

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## **Report of Independent Auditors**

Board of Directors  
KMAC Museum Inc  
Louisville, Kentucky

### **Report on Financial Statements**

We have audited the accompanying financial statements of KMAC Museum Inc, which comprise the statement of financial position as of June 30, 2018, the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

Board of Directors  
KMAC Museum Inc  
Report of Independent Auditors, continued

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KMAC Museum Inc 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.

### **Other Matter**

#### Other Auditors

The financial statements of KMAC Museum Inc, as of and for the year ended June 30, 2017, were audited by other auditors whose report, dated April 12, 2018, expressed an unmodified opinion on those statements.

*Dean Dotson Allen Ford, PLLC*

Louisville, Kentucky  
February 20, 2019

KMAC MUSEUM INC

Statements of Financial Position

June 30, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 80,630	\$ 131,471
Cash restricted to capital campaign	43,148	33,500
Accounts receivable	36,175	23,871
Contributions receivable, net	206,475	321,850
Gallery-owned inventories	49,537	26,987
Prepaid expenses and other assets	<u>7,653</u>	<u>9,723</u>
Total current assets	<u>423,618</u>	<u>547,402</u>
Property and equipment:		
Land	643,500	643,500
Building and improvements	4,988,501	4,988,501
Fixtures and equipment	<u>90,689</u>	<u>90,689</u>
	5,722,690	5,722,690
Less accumulated depreciation	<u>(1,126,444)</u>	<u>(949,498)</u>
	<u>4,596,246</u>	<u>4,773,192</u>
Other assets		
Contributions receivable, net	589,504	855,864
Investments	<u>1,117,802</u>	<u>962,231</u>
	1,707,306	1,818,095
Total assets	<u>\$ 6,727,170</u>	<u>\$ 7,138,689</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Line of credit	\$ 30,000	\$ 125,000
Notes payable	300,000	306,587
Accounts payable	20,236	69,033
Accrued liabilities and other	<u>58,332</u>	<u>51,504</u>
Total current liabilities	<u>408,568</u>	<u>552,124</u>
Long term liabilities		
Notes payable	<u>1,341,847</u>	<u>1,638,691</u>
Total liabilities	<u>1,750,415</u>	<u>2,190,815</u>
Net assets		
Unrestricted	3,190,811	2,685,579
Temporarily restricted	708,585	1,191,010
Permanently restricted	<u>1,077,359</u>	<u>1,071,285</u>
Total net assets	<u>4,976,755</u>	<u>4,947,874</u>
Total liabilities and net assets	<u>\$ 6,727,170</u>	<u>\$ 7,138,689</u>

See accompanying notes to financial statements.

KMAC MUSEUM INC

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues				
Grants	\$ 204,261	\$ 433,762	\$ -	\$ 638,023
Contributions	262,237	-	6,074	268,311
Membership	73,854	-	-	73,854
Capital campaign	-	30,516	-	30,516
Special events, net	62,207	-	-	62,207
Exhibition, workshop and other program revenues	123,007	-	-	123,007
Gallery and exhibition sales, net	57,296	-	-	57,296
Interest and dividends	24,319	-	-	24,319
Realized and unrealized gains on investments, net	60,903	-	-	60,903
Rental income	11,835	-	-	11,835
Net assets released from restrictions	<u>946,703</u>	<u>(946,703)</u>	<u>-</u>	<u>-</u>
Total support and revenues	1,826,622	(482,425)	6,074	1,350,271
Expenses				
Program services				
Exhibition, workshop and other program expenses	909,643	-	-	909,643
Gallery expenses	<u>154,056</u>	<u>-</u>	<u>-</u>	<u>154,056</u>
Total program services	1,063,699	-	-	1,063,699
				-
Fundraising expenses	134,769	-	-	134,769
General and administrative expenses	<u>122,922</u>	<u>-</u>	<u>-</u>	<u>122,922</u>
				-
Total expenses	<u>1,321,390</u>	<u>-</u>	<u>-</u>	<u>1,321,390</u>
Change in net assets	505,232	(482,425)	6,074	28,881
Net assets at beginning of year	<u>2,685,579</u>	<u>1,191,010</u>	<u>1,071,285</u>	<u>4,947,874</u>
Net assets at end of year	\$ <u>3,190,811</u>	\$ <u>708,585</u>	\$ <u>1,077,359</u>	\$ <u>4,976,755</u>

See accompanying notes to financial statements.

(Continued)

KMAC MUSEUM INC

Statement of Activities and Changes in Net Assets (Continued)

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues				
Grants	\$ 172,125	\$ 209,268	\$ -	\$ 381,393
Contributions	126,113	30,000	9,394	165,507
Membership	68,736	-	-	68,736
Capital campaign	-	105,569	-	105,569
Special events, net	46,173	-	-	46,173
Exhibition, workshop and other program revenues	81,291	-	-	81,291
Gallery and exhibition sales, net	60,066	-	-	60,066
Interest and dividends	19,365	-	-	19,365
Realized and unrealized gains on investments, net	87,207	-	-	87,207
Rental income	3,995	-	-	3,995
Net assets released from restrictions	<u>589,210</u>	<u>(589,210)</u>	<u>-</u>	<u>-</u>
Total support and revenues	1,254,281	(244,373)	9,394	1,019,302
Expenses				
Program services				
Exhibition, workshop and other program expenses	897,400	-	-	897,400
Gallery expenses	<u>151,669</u>	<u>-</u>	<u>-</u>	<u>151,669</u>
Total program services	1,049,069	-	-	1,049,069
Fundraising expenses	155,970	-	-	155,970
General and administrative expenses	94,950	-	-	94,950
Loss on disposal of assets	689,030	-	-	689,030
Loss on contributed assets	<u>77,450</u>	<u>-</u>	<u>-</u>	<u>77,450</u>
Total expenses	<u>2,066,469</u>	<u>-</u>	<u>-</u>	<u>2,066,469</u>
Change in net assets before changes related to collection items not capitalized	(812,188)	(244,373)	9,394	(1,047,167)
Collection items purchased	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Change in net assets	(827,188)	(244,373)	9,394	(1,062,167)
Net assets at beginning of year	<u>3,512,767</u>	<u>1,435,383</u>	<u>1,061,891</u>	<u>6,010,041</u>
Net assets at end of year	\$ <u><u>2,685,579</u></u>	\$ <u><u>1,191,010</u></u>	\$ <u><u>1,071,285</u></u>	\$ <u><u>4,947,874</u></u>

See accompanying notes to financial statements.

KMAC MUSEUM INC

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 28,881	\$ (1,062,167)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	176,946	176,395
Loss on disposal of property	-	689,030
Amortization of debt issuance costs	3,156	3,156
Bad debt expense	6,600	77,450
Realized and unrealized gains on investments, net	(60,903)	(87,207)
Changes in operating assets and liabilities		
Cash restricted to capital campaign	(9,648)	454,026
Accounts receivable	(12,304)	739
Contributions receivable, net	375,135	349,645
Gallery-owned inventories	(22,550)	(4,313)
Prepaid expenses and other assets	2,070	11,919
Accounts payable	(48,797)	(351,488)
Accrued liabilities and other	<u>6,828</u>	<u>(3,913)</u>
Net cash provided by operating activities	445,414	253,272
Cash flows from investing activities		
Purchases of property and equipment	-	(391,932)
Purchases of investments	(393,045)	(989,508)
Proceeds from sale of investments	<u>298,377</u>	<u>1,020,053</u>
Net cash used in investing activities	(94,668)	(361,387)
Cash flows from financing activities		
Net (repayments) borrowings on line of credit	(95,000)	64,670
Borrowings on notes payable	-	601,676
Repayments on notes payable	<u>(306,587)</u>	<u>(515,428)</u>
Net cash (used in) provided by financing activities	<u>(401,587)</u>	<u>150,918</u>
(Decrease) increase in cash and cash equivalents	(50,841)	42,803
Cash and cash equivalents at beginning of year	<u>131,471</u>	<u>88,668</u>
Cash and cash equivalents at end of year	\$ <u><u>80,630</u></u>	\$ <u><u>131,471</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ <u><u>85,765</u></u>	\$ <u><u>84,375</u></u>

See accompanying notes to financial statements.



## KMAC MUSEUM INC

### Notes to the Financial Statements

(1) Description of Organization and Summary of Significant Accounting Policies

(a) Description of Organization

The KMAC Museum Inc (formerly known as Kentucky Museum of Art and Craft) (the Museum) is a Kentucky nonprofit corporation formed on March 13, 1981. The Museum exists to inspire, connect and nourish Kentucky artists and to educate people about Kentucky crafts. The Museum's support comes primarily from donor contributions, memberships, gallery sales, and grants.

(b) Basis of Accounting

The financial statements of the Museum have been prepared on the accrual basis of accounting as generally accepted in the United States of America.

(c) Net Assets

Net assets and revenues and expenses are classified based upon the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets – include the portion of expendable funds that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – include gifts of cash and other assets subject to donor imposed restrictions that are expected to be met with the passage of time or fulfillment of other restrictions. Expirations of temporary restrictions on net assets by fulfillment of the donor-stipulated purpose or by passage of the stipulated time period are reported as net assets released from restrictions.

Permanently Restricted Net Assets – include amounts for which the donor has stipulated that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

(d) Cash and Cash Equivalents

The Museum considers all highly liquid investments with maturities of three months or less to be cash equivalents. The Museum has received contributions to fund its Capital Campaign (Note 13). Terms of the contributions require the funds to be segregated from other Museum funds. These funds are shown as cash restricted to capital campaign on the statement of financial position.

(Continued)

KMAC MUSEUM INC

Notes to the Financial Statements

(1) Description of Organization and Summary of Significant Accounting Policies (Continued)

(e) Accounts Receivable

Receivables are written off based on individual credit evaluation and specific circumstances. No provision for doubtful accounts has been made at June 30, 2018 and 2017, as management considers all amounts to be fully collectible.

(f) Contributions and Contributions Receivable

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Contributions receivable due in more than one year are discounted at an appropriate discount rate commensurate with the risks involved. The allowance for uncollectible amounts is the Museum's best estimate of the amount of probable losses in the Museum's existing contributions receivable. Receivables are written off based on individual credit evaluation and specific circumstances.

(g) Gallery-Owned Inventories

Gallery-owned inventories consist of items for sale in the Museum gift shop and are stated at the lower of cost or net realizable value determined by the first-in, first-out (FIFO) method.

(h) Property and Equipment

The Museum records all purchases of long-lived, tangible property and equipment at cost. The Museum capitalizes items costing or valued over \$1,000. Property and equipment is depreciated over the estimated useful lives of fixtures and equipment for 3 to 10 years and building and improvements for 20 to 39 years using the straight-line method. Depreciation expense for the years ended June 30, 2018 and 2017 was \$176,946 and \$176,395, respectively.

(Continued)

## KMAC MUSEUM INC

### Notes to the Financial Statements

(1) Description of Organization and Summary of Significant Accounting Policies (Continued)

(i) Collections

The Museum's collections are items for exhibition purposes. The Museum does not capitalize its collections, nor does it recognize contributions of collection items as contribution revenue. Proceeds from deaccessions or insurance recoveries are reflected in the statement of activities and changes in net assets based on the existence and nature of donor imposed restrictions. Collections are held for public exhibition and education rather than financial gain and are protected, kept unencumbered, cared for and preserved. The Museum's policy is to require proceeds from sales of collection items to be used to acquire other collection items. Each collection item is catalogued, and activities verifying the existence and assessing the condition of the collection are performed continuously.

(j) Investments

Investments in debt and equity securities that have readily determinable market values are accounted for and reported at fair value. Investments received by gift are initially recorded at fair market value at the date of acquisition, and subsequently adjusted for changes in fair value. The Museum classifies its debt and equity securities as trading securities. Trading securities are bought and held principally for the purpose of generating operating income.

Dividend, interest, and other investment income are reported in the period earned as increases in unrestricted net assets unless the use of the assets is limited by donor-imposed restrictions, in which case they are reported as increases in temporarily or permanently restricted net assets. Realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or law.

(k) Membership

Membership dues are recorded using the cash basis method of accounting. Memberships are valid for one year from the date of purchase. Management believes the difference between the cash and accrual basis of recording membership dues revenues is not material to the financial statements.

(Continued)

KMAC MUSEUM INC

Notes to the Financial Statements

(1) Description of Organization and Summary of Significant Accounting Policies (Continued)

(l) Donated Goods and Services

Donated goods and services are recorded as support and expenses or capital assets at fair value when received and determinable.

No amounts have been reflected in the financial statements for donated services which are not objectively quantifiable. However, a large number of volunteers have given significant amounts of their time for the operation of the Museum.

(m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. The fair values are assigned a level within the fair value hierarchy, depending on the source of the inputs to the calculation.

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable.

Level 3 – Unobservable inputs that reflect estimates and assumptions.

(o) Advertising Costs

Advertising costs are expensed as incurred. These expenses were \$12,348 and \$16,769 for the years ended June 30, 2018 and 2017, respectively.

(Continued)

KMAC MUSEUM INC

Notes to the Financial Statements

(1) Description of Organization and Summary of Significant Accounting Policies (Continued)

(p) Expense Allocation

The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets. During the years ended June 30, 2018 and 2017, certain costs have been allocated among the program services and supporting services as benefited.

(q) Income Taxes

The Museum is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified by the Internal Revenue Service (IRS) as an organization that is not a private foundation.

(r) Subsequent Events

Management has evaluated subsequent events through February 20, 2019, the date which the financial statements were available to be issued, and determined there were no items to disclose, except for items disclosed in Note 7.

(2) Contributions Receivable

Included in contributions receivable are the following unconditional promises to give, which are summarized as follows at June 30:

	<u>2018</u>	<u>2017</u>
Accounts receivable in:		
Less than one year	\$ 216,799	\$ 416,271
One to five years	<u>723,800</u>	<u>999,865</u>
Total	940,599	1,416,136
Less allowance for uncollectible amounts	-	(77,450)
Less present value discount	<u>(144,620)</u>	<u>(160,972)</u>
Contributions receivable, net	\$ <u><u>795,979</u></u>	\$ <u><u>1,177,714</u></u>

The present value of the estimated cash flows is calculated using a discount rate of 5% and 4.25% for the years ended June 30, 2018 and 2017, respectively.

(Continued)

KMAC MUSEUM INC

Notes to the Financial Statements

(3) Inventories Held on Consignment

The Museum holds art and craft objects on consignment on behalf of the artists and craftspeople who created the items. The retail value of this craftwork, as valued by the craftspeople, approximates \$107,300 and \$76,600 at June 30, 2018 and 2017, respectively. These amounts are not reflected in the accompanying financial statements.

(4) Investments

Investments are summarized as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual funds	\$ 1,117,802	\$ 1,071,327	\$ 962,231	\$ 942,397

Investment income consists of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 24,319	\$ 19,365
Net realized gains	26,503	19,515
Net unrealized gains	<u>34,400</u>	<u>67,692</u>
Total investment income	\$ <u>85,222</u>	\$ <u>106,572</u>

(5) Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value on a recurring basis as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributions receivable	\$ -	\$ 795,979	\$ -	\$ 795,979
Investments				
Mutual funds				
Fixed income	407,218	-	-	407,218
Equities	<u>710,584</u>	<u>-</u>	<u>-</u>	<u>710,584</u>
Total Assets	\$ <u>1,117,802</u>	\$ <u>795,979</u>	\$ <u>-</u>	\$ <u>1,913,781</u>

(Continued)

KMAC MUSEUM INC

Notes to the Financial Statements

(5) Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value on a recurring basis as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributions receivable	\$ -	\$ 1,177,714	\$ -	\$ 1,177,714
Investments				
Mutual funds				
Fixed income	363,572	-	-	363,572
Equities	<u>598,659</u>	<u>-</u>	<u>-</u>	<u>598,659</u>
Total Assets	<u>\$ 962,231</u>	<u>\$ 1,177,714</u>	<u>\$ -</u>	<u>\$ 2,139,945</u>

The fair value of contributions receivable is determined using present value techniques that consider historical trends of collection, general economic conditions, and market interest rate assumptions. Level 1 securities consist of mutual funds and are valued at quoted prices in active markets. There have been no changes in the methodologies used at June 30, 2018 and 2017.

At June 30, 2018 and 2017, the fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximated their carrying values because of the short term nature of the investments.

(6) Endowment Fund

The Museum's endowment fund was formed during a former capital campaign and established for operating activities. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Museum follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) under Kentucky law, the provisions of which apply to endowment funds existing on or established after enactment. The Museum is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds.

The Museum has interpreted UPMIFA 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. The Museum classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the application donor gift instrument at the time the accumulation is added to the fund.

(Continued)

KMAC MUSEUM INC

Notes to the Financial Statements

(6) Endowment Fund (Continued)

The Museum has followed investment and spending guidelines for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Museum expects its endowment funds, over time, to provide an average rate of return of approximately five percent annually. Actual results in any given year may vary from this amount.

To satisfy its long-term rate-of-return objective, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The Museum targets diversified assets allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The Museum has a policy, at its discretion, of appropriating a set distribution amount each year. For the years ended June 30, 2018 and 2017, the Museum's policy for appropriating for distribution was four percent of its endowment fund's three year average fair value. In establishing this policy, the Museum considered the long-term expected return on its endowment and the expectation for growth through new gifts and investment return.

During the year ended June 30, 2011, the Finance Committee approved an inter-fund loan of \$105,690 from the endowment fund to cover an operations shortfall. These borrowings from the endowment fund are unsecured and non-interest bearing. The inter-fund loan is not reflected as an asset or liability in these financial statements. The Finance Committee approved a monthly repayment plan that began in December 2012. The balance of the inter-fund loan at June 30, 2018 and 2017 was \$73,690 and \$79,690, respectively.

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment	\$ -	\$ -	\$ 988,816	\$ 988,816
Board-designated endowment	<u>226,295</u>	<u>-</u>	<u>-</u>	<u>226,295</u>
Total	<u>\$ 226,295</u>	<u>\$ -</u>	<u>\$ 988,816</u>	<u>\$ 1,215,111</u>

(Continued)



KMAC MUSEUM INC

Notes to the Financial Statements

(6) Endowment Fund (Continued)

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 216,146	\$ -	\$ 938,816	\$ 1,154,962
Investment return				
Interest and dividends	24,319	-	-	24,319
Realized and unrealized gains on investments, net	60,903	-	-	60,903
Contributions	-	-	50,000	50,000
Amounts appropriated for expenditures	(65,938)	-	-	(65,938)
Investment expense	<u>(9,135)</u>	<u>-</u>	<u>-</u>	<u>(9,135)</u>
Endowment net assets, end of the year	\$ <u>226,295</u>	\$ <u>-</u>	\$ <u>988,816</u>	\$ <u>1,215,111</u>

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment	\$ -	\$ -	\$ 938,816	\$ 938,816
Board-designated endowment	<u>216,146</u>	<u>-</u>	<u>-</u>	<u>216,146</u>
Total	\$ <u>216,146</u>	\$ <u>-</u>	\$ <u>938,816</u>	\$ <u>1,154,962</u>

(Continued)

KMAC MUSEUM INC

Notes to the Financial Statements

(6) Endowment Fund (Continued)

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 177,228	\$ -	\$ 888,816	\$ 1,066,044
Investment return				
Interest and dividends	19,365	-	-	19,365
Realized and unrealized gains on investments, net	87,207	-	-	87,207
Contributions	-	-	50,000	50,000
Amounts appropriated for expenditures	(61,516)	-	-	(61,516)
Investment expense	(8,633)	-	-	(8,633)
Other	<u>2,495</u>	<u>-</u>	<u>-</u>	<u>2,495</u>
Endowment net assets, end of the year	\$ <u>216,146</u>	\$ <u>-</u>	\$ <u>938,816</u>	\$ <u>1,154,962</u>

(7) Line of Credit

Effective November 2014, the Museum entered into a credit agreement with a bank, which provided for a maximum line of credit of \$125,000. Interest is payable monthly at the prime rate (5% and 4.25% as of June 30, 2018 and 2017, respectively). The line of credit is collateralized by the Museum's inventory, chattel paper, accounts and equipment. The outstanding balance on the line of credit at June 30, 2018 and 2017 was \$30,000 and \$125,000, respectively. In January 2019, the line of credit maturity date was extended from January 27, 2019 to January 26, 2020.

(Continued)

KMAC MUSEUM INC

Notes to the Financial Statements

(8) Notes Payable

In November 2014, the Museum borrowed \$45,389 payable in monthly installments of \$1,329, including interest at 3.39%. The balance of the note payable was \$6,587 as of June 30, 2017. The note was collateralized by the Museum's inventory, chattel paper, accounts and equipment. The note was paid in full in November 2017.

In January 2016, the Museum entered into a construction loan with a borrowing limit of \$2,450,000. Interest is payable monthly at the prime rate (5% and 4.25% as of June 30, 2018 and 2017, respectively). The loan is collateralized by a first priority mortgage on the Museum's primary location. Principal payments began in January 2017. The balance of the loan was \$1,641,847 and \$1,938,691 (net of \$8,153 and \$11,309 unamortized debt issuance costs) as of June 30, 2018 and 2017, respectively. The loan matures on January 28, 2021.

Notes payable mature as follows:

<u>Year ending June 30:</u>	
2019	\$ 300,000
2020	300,000
2021	<u>1,050,000</u>
	<u>\$ 1,650,000</u>

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Operating	\$ 125,753	\$ 20,000
Capital campaign	582,832	1,118,010
Exhibition and education	<u>-</u>	<u>53,000</u>
	<u>\$ 708,585</u>	<u>\$ 1,191,010</u>

(10) Pension Plan

Employees of the Museum who meet certain requirements can participate in a matched savings plan. The plan is qualified under IRC Section 403(b) and matches, within IRS limitations, employees' contributions up to 3% of the participating employee's payroll. The Museum made plan contributions of \$2,214 and \$2,163 during the years ended June 30, 2018 and 2017, respectively.

(Continued)

KMAC MUSEUM INC

Notes to the Financial Statements

(11) Special Events

Revenues and expenses for fundraising events during the years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Bourbon Bash		
Revenues	\$ 39,773	\$ 44,005
Expenses	<u>(27,336)</u>	<u>(19,531)</u>
	<u>12,437</u>	<u>24,474</u>
Couture		
Revenues	141,692	109,984
Expenses	<u>(91,922)</u>	<u>(88,285)</u>
	<u>49,770</u>	<u>21,699</u>
Special events, net	<u>\$ 62,207</u>	<u>\$ 46,173</u>

(12) Related Party Transactions

During the year ended June 30, 2015, approximately \$895,000 was pledged by the Museum's Board Members to the capital campaign. As of June 30, 2018 and 2017, the amount of contributions receivable due from the Museum's Board Members for these pledges was approximately \$86,600 and \$472,000, respectively.

(13) Capital Campaign

The Museum's Board of Directors established a capital campaign during the year ended June 30, 2014. Approximately \$3,187,000 of commitments to the capital campaign has been made as of June 30, 2018. Related contributions receivable are included in the financial statements at a discounted rate (Note 2). It is the Museum's expectation that these future contributions will be fulfilled. The Museum expended \$87,449 and \$438,407 of capital campaign funds during the years ended June 30, 2018 and 2017. As a result of the building renovation, the Museum disposed of net property of \$689,030 during the year ended June 30, 2017.

In December 2017, the Museum's Board of Directors established a new strategic plan to raise \$2,000,000 for capital expenditures and the endowment fund. The Museum has started raising funds toward this plan.

(Continued)

KMAC MUSEUM INC

Notes to the Financial Statements

(14) Concentrations

The Museum maintains its cash and cash equivalents in various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures the cash and cash equivalents balances up to \$250,000 per institution. At times, balances at these financial institutions may exceed the FDIC insurance level.

(15) Contingent Liabilities

In the normal course of business, the Museum is subject to various pending and possible legal actions. The Museum believes the results of these legal actions, if any, will not have a material adverse effect on the Museum's financial position, results of operations or cash flows.