

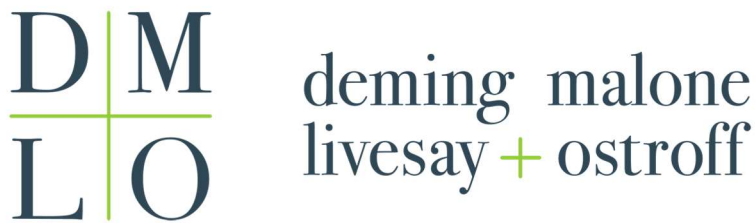
**KMAC MUSEUM, INC.**

**FINANCIAL STATEMENTS**

**Years Ended June 30, 2022 and 2021**

## Table of Contents

	Page
<b>Independent Auditors' Report</b>	1 and 2
<b>Financial Statements</b>	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7-20



## **Independent Auditors' Report**

To the Board of Directors  
KMAC Museum, Inc.  
Louisville, Kentucky

### **Opinion**

We have audited the accompanying financial statements of KMAC Museum, Inc. (a not-for-profit organization), which comprise the statements of financial position, as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of KMAC Museum, Inc. and to meet other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about KMAC Museum, Inc.'s ability to continue as a going concern within one year after the date the financial statements are available to be issued.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 KMAC Museum, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KMAC Museum, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

*Deming, Malone, Linsay & Ostroff*

Louisville, Kentucky  
January 23, 2023

**KMAC MUSEUM, INC.**

**STATEMENTS OF FINANCIAL POSITION**

June 30, 2022 and 2021

<b>Assets</b>	<u>2022</u>	<u>2021</u>
<b>Current Assets</b>		
Cash	\$ 2,224,847	\$ 136,326
Accounts receivable	22,972	31,603
Grants and pledges receivable	26,099	293,213
Inventory	35,625	33,891
Prepaid expenses	<u>26,014</u>	<u>25,703</u>
<b>Total current assets</b>	<u>2,335,557</u>	<u>520,736</u>
<b>Property and Equipment</b>		
Land	643,500	643,500
Buildings and improvements	4,988,502	4,988,502
Furniture and equipment	<u>96,589</u>	<u>96,589</u>
	5,728,591	5,728,591
Less accumulated depreciation	<u>1,829,445</u>	<u>1,656,065</u>
	<u>3,899,146</u>	<u>4,072,526</u>
<b>Other Assets</b>		
Pledges receivable		150,000
Investments	<u>1,178,999</u>	<u>1,428,331</u>
	<u>1,178,999</u>	<u>1,578,331</u>
<b>Total assets</b>	<u>\$ 7,413,702</u>	<u>\$ 6,171,593</u>

See Notes to Financial Statements.

<b>Liabilities and Net Assets</b>	<u>2022</u>	<u>2021</u>
<b>Current Liabilities</b>		
Current maturities of note payable	\$ 90,000	\$ 90,000
Accounts payable	29,970	26,893
Accrued expenses	38,636	23,098
Deferred revenues	<u>254,950</u>	<u>4,950</u>
<b>Total current liabilities</b>	<u>413,556</u>	<u>144,941</u>
<b>Notes Payable, less current maturities</b>		
Note payable	983,606	1,073,606
Note payable - SBA		114,700
Note payable - EIDL	<u>150,000</u>	<u>150,000</u>
<b>Total liabilities</b>	<u>1,547,162</u>	<u>1,483,247</u>
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	4,479,727	2,748,909
Board designated	<u>120,330</u>	<u>369,662</u>
	4,600,057	3,118,571
With donor restrictions	<u>1,266,483</u>	<u>1,569,775</u>
<b>Total net assets</b>	<u>5,866,540</u>	<u>4,688,346</u>
<b>Total liabilities and net assets</b>	<u>\$ 7,413,702</u>	<u>\$ 6,171,593</u>

**KMAC MUSEUM, INC.**

**STATEMENTS OF ACTIVITIES**

Years Ended June 30, 2022 and 2021

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues</b>			
Grants and contributions	\$ 2,109,367	\$ 225,000	\$ 2,334,367
Forgiveness of debt - SBA	114,700		114,700
Membership	12,590		12,590
Capital campaign			
Special events, net of expenses of \$166,408 and \$13,015 in 2022 and 2021, respectively	71,727		71,727
Exhibition, workshop and other program revenues	103,281		103,281
Gallery and exhibition sales, net	39,305		39,305
Net investment (loss) gain	(156,284)		(156,284)
Rental income	1,700		1,700
	2,296,386	225,000	2,521,386
<b>Net assets released from restrictions</b>	528,292	(528,292)	
<b>Total revenues</b>	2,824,678	(303,292)	2,521,386
<b>Expenses</b>			
Program services	940,394		940,394
General and administrative	340,109		340,109
Fundraising	62,689		62,689
<b>Total expenses</b>	1,343,192		1,343,192
<b>Net change in total net assets</b>	1,481,486	(303,292)	1,178,194
Net assets at beginning of year	3,118,571	1,569,775	4,688,346
Net assets at end of year	\$ 4,600,057	\$ 1,266,483	\$ 5,866,540

See Notes to Financial Statements.

2021		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 363,592	\$ 140,000	\$ 503,592
120,400		120,400
8,665		8,665
23,500		23,500
66,412		66,412
53,732		53,732
25,360		25,360
296,682		296,682
958,343	140,000	1,098,343
194,833	(194,833)	
1,153,176	(54,833)	1,098,343
724,906		724,906
232,160		232,160
52,294		52,294
1,009,360		1,009,360
143,816	(54,833)	88,983
2,974,755	1,624,608	4,599,363
\$ 3,118,571	\$ 1,569,775	\$ 4,688,346



**KMAC MUSEUM, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES**

Years Ended June 30, 2022 and 2021

	2022			
	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 399,500	\$ 165,727	\$ 39,291	\$ 604,518
Depreciation	156,310	12,323	4,747	173,380
Educational and artistic expenses	106,053	9,306	4,236	119,595
Professional fees	53,050	30,753	2,092	85,895
Office expense	42,443	8,956	349	51,748
Payroll taxes	31,205	12,225	2,925	46,355
Interest expense		42,814		42,814
Repairs and maintenance	34,704	4,628	932	40,264
Utilities	33,431	2,727	1,034	37,192
Accessions				
Employee benefits	22,337	10,438	2,197	34,972
Professional development	7,053	15,184	677	22,914
Insurance	12,736	8,033	1,010	21,779
Bank and credit card fees	10,395	10,183	617	21,195
Rental expense	12,492	1,055	252	13,799
Marketing	8,065	1		8,066
Travel	7,397			7,397
Miscellaneous	1,441	4,762	61	6,264
Postage	1,782	994	2,269	5,045
Bad debt expense				
	\$ 940,394	\$ 340,109	\$ 62,689	\$ 1,343,192

See Notes to Financial Statements.

## 2021

<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
\$ 360,159	\$ 94,660	\$ 27,315	\$ 482,134
134,628	31,943	9,229	175,800
35,729	2,417	3,183	41,329
23,449	20,849	1,059	45,357
16,334	1,269	273	17,876
31,553	7,486	2,163	41,202
	46,047		46,047
13,740	3,260	942	17,942
22,484	5,335	1,541	29,360
20,000			20,000
15,436	3,663	1,058	20,157
1,257	855	66	2,178
12,993	4,995	749	18,737
12,692	5,183	440	18,315
13,010	877	253	14,140
4,652		934	5,586
688			688
4,044	2,382	180	6,606
1,449	413	909	2,771
609	526	2,000	3,135
<u>\$ 724,906</u>	<u>\$ 232,160</u>	<u>\$ 52,294</u>	<u>\$ 1,009,360</u>

**KMAC MUSEUM, INC.**

**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2022 and 2021

	2022	2021
<b>Cash Flows from Operating Activities</b>		
Net change in total net assets	\$ 1,178,194	\$ 88,983
Adjustments to reconcile net change in total net assets to net cash provided by (used in) operating activities:		
Depreciation	173,380	175,800
Amortization of debt issuance costs		1,841
Forgiveness of debt - SBA	(114,700)	(120,400)
Realized and unrealized losses (gains) on investments, net	186,154	(273,498)
Changes in operating assets and liabilities:		
Accounts receivable	8,631	10,408
Grants and pledges receivable	417,114	69,936
Inventory	(1,734)	15,649
Prepaid expenses	(311)	(17,421)
Accounts payable	3,077	5,917
Accrued expenses	15,538	(1,110)
Deferred revenues	250,000	(1,050)
<b>Net cash provided by (used in) operating activities</b>	<b>2,115,343</b>	<b>(44,945)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(337,224)	(357,384)
Proceeds from sale of investments	400,402	365,991
<b>Net cash provided by investing activities</b>	<b>63,178</b>	<b>8,607</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from notes payable		114,700
Principal payments on notes payable	(90,000)	(90,000)
<b>Net cash (used in) provided by financing activities</b>	<b>(90,000)</b>	<b>24,700</b>
<b>Change in cash</b>	2,088,521	(11,638)
<b>Cash at beginning of year</b>	<b>136,326</b>	<b>147,964</b>
<b>Cash at end of year</b>	<b>\$ 2,224,847</b>	<b>\$ 136,326</b>
<b>Supplemental Cash Flow Disclosures</b>		
Cash paid for interest	\$ 42,814	\$ 44,206

See Notes to Financial Statements.

**KMAC MUSEUM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Nature of Activities and Summary of Significant Accounting Policies**

**Nature of activities:**

KMAC Museum, Inc. (KMAC) is a Kentucky not-for-profit corporation formed in 1981. KMAC exists to inspire, connect, and nourish Kentucky artists and to educate people about Kentucky crafts. KMAC's support comes primarily from contributions, grants, memberships, special events, exhibits, workshops, and gallery sales.

**Summary of significant accounting policies:**

The summary of significant accounting policies of KMAC is presented to assist in understanding KMAC's financial statements. The financial statements are representations of KMAC's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

**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.

**Cash:**

For purposes of the statements of cash flows, KMAC considers its operating cash account to be cash.

**Receivables:**

The valuation of accounts, grants, and pledges receivable is based upon a detail analysis of past due accounts and the history of uncollectible accounts. Estimated uncollectible accounts increase the allowance for doubtful accounts, and when receivables are written-off, the allowance for doubtful accounts is decreased. Management considers all receivables to be collectible and accordingly, there was no allowance for doubtful accounts as of June 30, 2022 and 2021.

## NOTES TO FINANCIAL STATEMENTS

### **Investments:**

Investments are stated at fair value. Fair value is 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.

Net investment return is reported in the statements of activities and consists of interest and dividend income less external and direct internal investment expenses, and realized and unrealized gains and losses.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. It is reasonably possible that changes in the values of investments could occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

### **Property and equipment:**

KMAC has a policy to capitalize property and equipment with a cost of \$1,000 or more with a useful life greater than one year. Property and equipment are stated at cost if purchased, or at fair value if donated. Depreciation of property and equipment is computed by the straight-line method based on the estimated useful lives of the related assets.

### **Contributions and grants:**

Revenue for contributions and grants is recognized at a point in time when cash, securities, or other assets are received. Contributions and grants received are recorded as being without restrictions or with restrictions depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in net assets without donor restrictions. Donor restricted support is reported as an increase in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions and grants receivable due in more than one year are discounted at an appropriate discount rate commensurate with the risks involved.

### **Contributed services and in-kind donations:**

Contributions other than cash are recorded at their fair value as of the date of donation. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, KMAC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

## NOTES TO FINANCIAL STATEMENTS

Contributed services must meet the specific expertise requirements and would normally have been purchased before they are recorded. Individuals donate their time and perform a variety of tasks that assist KMAC for which no value has been assigned because these services do not meet the criteria for recognition in the financial statements.

### **Revenue from contracts with customers (FASB ASC 606):**

Revenue is recognized in accordance with ASC Topic 606, Revenue from Contracts with Customers, and subsequently issued additional related ASUs (“Topic 606”).

The following table disaggregates KMAC’s contract revenue based on the timing of satisfaction of performance obligations for the year ended June 30, 2022:

	<u>2022</u>	<u>2021</u>
Performance obligations satisfied at a point in time	94%	94%
Performance obligations satisfied over time	6%	6%

### **Membership dues:**

Revenue from membership dues is recognized over time beginning with the date each individual completes the online membership application. Memberships are valid for one year from the date of purchase and do not renew automatically.

### **Special events, exhibitions and workshops:**

Revenues from special events, including Vernissage and KMAC Couture, as well as from exhibitions and workshops are recognized at the point in time when the events occur.

Deferred revenues on the statements of financial position represent primarily contractual liabilities for receipts for special activities which have been collected, but not yet recognized as revenue. The opening balance of deferred revenues was \$4,950 and \$6,000 for the years ended June 30, 2022 and 2021, respectively.

### **Rentals and Gallery and exhibition sales:**

Revenues from rentals and from gallery and exhibition sales are recognized at the point in time when the events occur.

## NOTES TO FINANCIAL STATEMENTS

### **Net assets:**

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

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions include assets designated by the board of directors for a specific purpose.

*Net Assets with Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

### **Inventory:**

Inventory consists of items for sale in the museum gift shop and is stated at the lower of cost or net realizable value determined by the first-in, first-out (FIFO) method.

### **Collections:**

KMAC maintains collections of items for exhibition purposes. KMAC 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 statements of activities based on the existence and nature of donor-imposed restrictions. The costs of objects purchased are included as expense in the statements of activities and changes in net assets. Collections are held for public exhibition and education rather than for financial gain and are protected, kept unencumbered, cared for and preserved. KMAC's policy is to require proceeds from the sales of collection items to be used to acquire other collection items. All collection items are catalogued, and activities verifying the existence and assessing the condition of the collection are performed continuously.

### **Advertising costs:**

Advertising costs are expensed as incurred. Advertising expense totaled \$8,066 and \$5,586 for the years ended June 30, 2022 and 2021, respectively.

### **Functional expenses:**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supported services benefited.

## NOTES TO FINANCIAL STATEMENTS

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Occupancy expenses are generally allocated based on square footage. Administrative expenses are generally allocated on the basis of estimates of time and effort.

### Income taxes:

KMAC is exempt from federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified by the Internal Revenue Service as an organization that is not a private foundation. KMAC files informational tax returns with the U.S. federal jurisdiction and with the Kentucky Office of the Attorney General. However, income from certain activities not directly related to KMAC's tax-exempt purpose may be subject to taxation as unrelated business income. Management does not believe that KMAC has unrelated business income for the years ended June 30, 2022 and 2021.

As of June 30, 2022 and 2021, KMAC did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the year then ended.

### Newly issued standards not yet effective:

The Financial Accounting Standards Board has issued accounting standard No. 2016-02, *Leases*, concerning the accounting for leases, effective for years beginning after December 15, 2021, and No. 2016-13, *Financial Instruments – Credit Losses*, effective for years beginning after December 15, 2022. KMAC is evaluating the impact that adoption of these standards will have on future financial position and results of operations.

### Subsequent events:

Subsequent events have been evaluated through January 23, 2023, which is the date the financial statements were available to be issued.

## Note 2. Grants and Pledges Receivable

KMAC has pledges receivable from individuals in connection with the prior and current capital campaigns for the purchase and renovation of the museum building and to fund ongoing building maintenance, future capital expenditures, the endowment fund, and grants receivable to expand its art exhibits. Total grants and pledges receivable as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Due in less than one year	\$26,099	\$293,213
Due in one to five years	<u>          </u>	<u>150,000</u>
	<u>\$26,099</u>	<u>\$443,213</u>



## NOTES TO FINANCIAL STATEMENTS

Certain donors accounted for approximately 90% of the gross grants and pledges receivable at June 20, 2021 as follows:

	<u>2021</u>
Donor 1	\$300,000
Donor 2	100,000

### Note 3. Inventory Held on Consignment

KMAC holds art and craft objects on consignment on behalf of the artists and craftspeople who created the items. The value of the consignment items is not reflected in the accompanying financial statements, since KMAC does not own these items. Upon the sale of these consigned items, KMAC receives commission revenue as determined by agreement with the various artists.

### Note 4. Investments

Cost and fair value of investments consisted of the following as of June 30, 2022 and 2021:

	2022		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and cash equivalents	\$ 43,012	\$ 43,012	
Equities	551,964	676,808	\$124,844
Fixed income	<u>489,563</u>	<u>459,179</u>	<u>(30,384)</u>
	<u>\$1,084,539</u>	<u>\$1,178,999</u>	<u>\$ 94,460</u>
	2021		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and cash equivalents	\$ 55,783	\$ 55,783	
Equities	553,574	862,707	\$309,133
Fixed income	<u>494,592</u>	<u>509,841</u>	<u>15,249</u>
	<u>\$1,103,949</u>	<u>\$1,428,331</u>	<u>\$324,382</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that KMAC has the ability to access.
- Level 2 – Inputs to the valuation methodology include; quoted prices for similar assets or liabilities in active or inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

All assets have been valued using a market approach. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2022 and 2021.

Cash equivalents and mutual funds – valued at the closing price reported in the active market in which the securities are traded.

Federal, state, corporate and foreign bonds – valued based on quotes prices for similar assets in active markets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although KMAC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## NOTES TO FINANCIAL STATEMENTS

The following table sets forth the level, within the fair value hierarchy, of KMAC's investments at fair value as of June 30, 2022 and 2021:

	2022		Total
	Level 1	Level 2	
Cash equivalents	\$ 43,012		\$ 43,012
Equity mutual funds	676,808		676,808
Fixed income mutual fund	30,528		30,528
Federal agency bonds		\$ 24,938	24,938
State and municipal bonds		14,898	14,898
Corporate bonds		363,655	363,655
Foreign bonds		25,160	25,160
	\$750,348	\$428,651	\$1,178,999
	2021		
	Level 1	Level 2	Total
Cash equivalents	\$ 55,783		\$ 55,783
Equity mutual funds	862,707		862,707
Fixed income mutual fund	33,988		33,988
State and municipal bonds		\$ 16,515	16,515
Corporate bonds		406,673	406,673
Foreign bonds		52,665	52,665
	\$952,478	\$475,853	\$1,428,331

Net investment returns for the years ended June 30, 2022 and 2021, included the following:

	2022	2021
Net investment returns:		
Interest and dividends	\$ 41,251	\$ 33,840
Realized and unrealized (losses) gains	(186,154)	273,498
Investment expenses	(11,381)	(10,656)
Total net investment return	\$(156,284)	\$296,682

### Note 6. Endowment Funds

KMAC endowment funds consist of investments held in a brokerage account and was created during a former capital campaign and established to provide funding for ongoing operations. The investments include both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## NOTES TO FINANCIAL STATEMENTS

Endowment net asset composition by type of fund for the years ended June 30, 2022 and 2021 is as follows:

	2022		Total
	Without Donor Restrictions	With Donor Restrictions	
Donor-restricted endowment		\$1,127,359	\$1,127,359
Board-designated endowment	\$120,330	<u>                    </u>	<u>120,330</u>
Total	<u>\$120,330</u>	<u>\$1,127,359</u>	<u>\$1,247,689</u>
	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
Donor-restricted endowment		\$1,127,359	\$1,127,359
Board-designated endowment	\$369,662	<u>                    </u>	<u>369,662</u>
Total	<u>\$369,662</u>	<u>\$1,127,359</u>	<u>\$1,497,021</u>

### Interpretation of relevant law:

KMAC has interpreted the Kentucky Uniform Prudent Management of Institutional Funds Act (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 donor stipulations to the contrary. As a result of this interpretation, KMAC classifies net assets with donor restrictions as (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 is also included in net assets with donor restriction but are tracked separately until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, KMAC 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 KMAC.

## NOTES TO FINANCIAL STATEMENTS

### Return objectives and risk parameters:

KMAC has followed investment and spending guidelines for endowment asset 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. KMAC 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.

### Strategies employed for achieving objectives:

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

### Spending policy and how the investment objectives relate to spending policy:

KMAC has a policy, at its discretion, of appropriating a set distribution amount each year. For the years ended June 30, 2022 and 2021, the amount was equal to four percent of its endowment fund's three-year average fair value. In establishing this policy, KMAC considered the long-term expected return on its endowment and the expectation of growth through new gifts and investment returns.

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. The 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 approves repayments to the endowment fund as operating funds become available. The balance of the inter-fund loan at both June 30, 2022 and 2021 was \$68,690.

Changes in endowment net assets for the years ended June 30, 2022 and 2021 are as follows:

	2022		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
Endowment net assets, beginning of year	\$369,662	\$1,127,359	\$1,497,021
Net investment return:			
Interest and dividends	41,251		41,251
Realized and unrealized losses on investments, net	(186,154)		(186,154)
Investment expense	(11,381)		(11,381)
Amounts appropriated for expenditures	<u>(93,048)</u>	<u>                    </u>	<u>(93,048)</u>
Endowment net assets, end of year	<u>\$120,330</u>	<u>\$1,127,359</u>	<u>\$1,247,689</u>

## NOTES TO FINANCIAL STATEMENTS

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$104,770	\$1,127,359	\$1,232,129
Contributions	50,000		50,000
Net investment return:			
Interest and dividends	33,840		33,840
Realized and unrealized gains on investments, net	273,498		273,498
Investment expense	(10,656)		(10,656)
Amounts appropriated for expenditures	(81,790)		(81,790)
Endowment net assets, end of year	<u>\$369,662</u>	<u>\$1,127,359</u>	<u>\$1,497,021</u>

### Note 7. Operating Leases

KMAC leases underground storage space to house its permanent art collection. Monthly payments of \$800 are due on a month-to-month basis. Rent expense for the years ended June 30, 2022 and 2021, were \$9,600 each. KMAC also leases office equipment from an outside vendor. The lease agreement runs for sixty (60) months through March 2027 with required monthly payments of \$312. Rent expense was approximately \$3,900 and \$2,600 for the years ended June 30, 2022 and 2021, respectively. Future minimum lease payments for the years ending June 30 are as follows:

2023	\$ 3,736
2024	3,736
2025	3,736
2026	3,376
2027	<u>2,802</u>
	<u>\$17,746</u>

### Note 8. Line of Credit

KMAC has an available \$125,000 line of credit agreement with Republic Bank & Trust Company which matures in January 2024. Interest is payable monthly at the prime rate (4.75% as of June 30, 2022). The line is collateralized by a mortgage on certain property at 715 West Main Street owned by KMAC. There was no outstanding balance on the line of credit as of June 30, 2022 or 2021.

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Note Payable

KMAC has a note payable to Republic Bank & Trust Company. The note is collateralized by a first mortgage on KMAC’s building. Payments of interest are due monthly with interest at the prime rate (4.75% as of June 30, 2022). Annual principal payments are also due beginning in 2017, each January through 2029, with a final balloon payment of the entire unpaid balance due in January 2030. The outstanding balance on the note was \$1,073,606 and \$1,163,606 as of June 30, 2022 and 2021, respectively. The loan is collateralized by the land, building, and equipment with a net book value of approximately \$3,899,000.

Future maturities of the note payable are as follows:

Year ending June 30, 2023	\$ 90,000
2024	90,000
2025	90,000
2026	90,000
2027	90,000
Thereafter	<u>623,606</u>
	<u>\$1,073,606</u>

### Note 10. Notes Payable - SBA

In April 2020, KMAC qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender, for an aggregate principal amount of \$120,400 (the “PPP Loan 1”). The PPP Loan 1 bears interest at a fixed rate of 1.00% per annum, with deferred interest, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan 1 is subject to forgiveness under the Paycheck Protection Program upon KMAC’s request, to the extent the PPP Loan 1 proceeds are used to pay certain expenses permitted and incurred by KMAC. KMAC applied for and received forgiveness of the entire principal and interest of the PPP Loan 1 effective April 30, 2021. As such, the original \$120,400 has been recognized as forgiveness of debt – SBA on the statement of activities for the year ended June 30, 2021.

In February 2021, KMAC qualified for and received \$114,700 as a second draw term loan under the Small Business Administration Paycheck Protection Program, the (“PPP Loan 2”). The PPP Loan 2 bears an interest at a fixed rate of 1.00% per annum, with deferred interest, has a term of five years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan 2 is subject to forgiveness under the Paycheck Protection Program upon KMAC’s request, to the extent the PPP Loan 2 proceeds are used to pay certain expenses permitted and incurred by KMAC. KMAC applied for and received forgiveness of the entire principal and interest of the PPP Loan 2 effective August 12, 2021. As such the original \$114,700 has been recognized as forgiveness of debt – SBA on the statement of activities for the year ended June 30, 2022.

## NOTES TO FINANCIAL STATEMENTS

In June 2020, KMAC qualified for and received a loan pursuant to the Economic Injury Disaster Loan Program (EIDL), a program implemented by the U.S. Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender, for an aggregate principal amount of \$150,000. The loan bears interest at a fixed rate of 2.75% per annum, has a term of thirty years, and is secured with the assets of KMAC and guaranteed by the SBA. Monthly payments of \$641 commence in December 2022 and will continue through the maturity date in June 2050. Payments will first apply to the accrued interest and any remainder to principal.

**Note 11. Concentration of Revenues**

During the year ended June 30, 2022, KMAC received approximately \$1,757,000 in contributions from the estates of two major donors, which represents approximately 76% of total grants and contributions revenue on the statement of activities. The contributions also included full payment of a remaining \$150,000 pledge receivable received in a prior year.

**Note 12. Concentration of Cash**

KMAC maintains cash balances at a financial institution located in Kentucky. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2022, KMAC’s uninsured cash balances totaled approximately \$1,921,000.

**Note 13. Retirement Plan**

Employees of KMAC who meet certain requirements can participate in a matched savings plan. The Plan is qualified under IRC Section 403(b) and KMAC matches, within IRS limitations, employees’ contributions up to 3% of the participating employee’s payroll. KMAC made contributions of approximately \$3,800 and \$2,200, respectively, during the years ended June 30, 2022 and 2021.

**Note 14. Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2022</u>	<u>2021</u>
Time restricted:		
Operations and building maintenance	\$ 139,124	\$ 425,749
Purpose restricted:		
40 <sup>th</sup> anniversary		16,667
Endowments restricted in perpetuity	<u>1,127,359</u>	<u>1,127,359</u>
	<u>\$1,266,483</u>	<u>\$1,569,775</u>



## NOTES TO FINANCIAL STATEMENTS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose by occurrence of events specified by the donors, or by a change in the restrictions satisfied by the donor. Those amounts released from restrictions during the years ended June 30, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Subject to the passage of time:		
Operations and building maintenance	\$511,625	\$191,500
Subject to purpose restriction	<u>16,667</u>	<u>3,333</u>
	<u>\$528,292</u>	<u>\$194,833</u>

### Note 15. Liquidity and Availability

Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the June 30, 2022 and 2021 balance sheet dates, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash	\$ 2,224,847	\$ 136,326
Accounts receivable	22,972	31,603
Current grants and pledges receivable	26,099	293,213
Investments	<u>1,178,999</u>	<u>1,428,331</u>
Total current financial assets	3,452,917	1,889,473
Less donor restricted	<u>(1,398,897)</u>	<u>(1,489,775)</u>
Available for general expenditures	<u>\$ 2,054,020</u>	<u>\$ 399,698</u>

KMAC manages its liquidity and reserves following two guiding principles: operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund near-term operating needs.