



FINANCIAL STATEMENTS
With Independent Auditor's Report
Year Ended June 30, 2016

**TACOMA
ART
MUSEUM**

Ginny Ruffner (American, born 1952)

Anatomy of the Ear, circa 1986

Lampworked glass with pastel

16 × 24 × 7 inches

Tacoma Art Museum, Promised gift of the Rebecca and Jack Benaroya Collection

Photo © TAM, photo by Russell Johnson and Jeff Curtis

TACOMA ART MUSEUM
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

November 15, 2016

Board of Trustees
Tacoma Art Museum
Tacoma, Washington

We have audited the accompanying financial statements of Tacoma Art Museum (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2016 and the related statements of activities, functional expenses 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 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.

Auditors' 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.

Opinion

In our opinion, the financial statements referred to in the first paragraph of this letter present fairly, in all material respects, the financial position of Tacoma Art Museum as of June 30, 2016, 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.

A handwritten signature in black ink that reads "Jacobson Jarvis & Co, PLLC". The signature is written in a cursive, flowing style.

Jacobson Jarvis & Co, PLLC

TACOMA ART MUSEUM

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$ 677,243
Promises to give, net (Note B)	277,124
Accounts and grants receivable	100,213
Prepays and deposits	83,211
Art held for sale	80,000
Inventory	95,647

Total Current Assets 1,313,438

Other Assets

Long-term promises to give, net (Note B)	12,673,103
Investments (Note C)	27,998,133
Assets held in trust (Note E)	838,517
Bond issuance costs, net	158,412

Total Other Assets 41,668,165

Permanent Collection (Note F) -

Property and Equipment, net (Note G) 30,352,566

Total Assets \$ 73,334,169

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 216,532
Accrued expenses	155,565

Total Current Liabilities 372,097

Bonds Payable (Note I) 10,000,000

Total Liabilities 10,372,097

Net Assets

Unrestricted	33,001,128
Temporarily restricted	14,582,202
Permanently restricted	15,378,742

Total Net Assets 62,962,072

Total Liabilities and Net Assets \$ 73,334,169

TACOMA ART MUSEUM
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING:				
Support				
Contributions	\$ 778,089	\$ 139,831	\$ -	\$ 917,920
Grants	343,700	127,300	-	471,000
Special events	422,940	37,500	-	460,440
Business contributions	235,959	63,138	-	299,097
Memberships	260,800	-	-	260,800
In-kind contributions	95,824	-	-	95,824
Endowment appropriation transferred from non-operating	1,011,067	-	-	1,011,067
Total Support	<u>3,148,379</u>	<u>367,769</u>	<u>-</u>	<u>3,516,148</u>
Revenue				
Retail income, net	330,314	-	-	330,314
Admissions and tours	237,562	-	-	237,562
Facility rental	103,699	-	-	103,699
Art loan fees and shipping	99,736	-	-	99,736
Other income	106,762	-	-	106,762
Total Revenue	<u>878,073</u>	<u>-</u>	<u>-</u>	<u>878,073</u>
Net Assets Released from Restrictions				
Satisfaction of purpose restrictions	792,314	(792,314)	-	-
Satisfaction of time restrictions	116,616	(116,616)	-	-
Total Net Assets Released from Restrictions	<u>908,930</u>	<u>(908,930)</u>	<u>-</u>	<u>-</u>
Total Operating Support and Revenue	<u>4,935,382</u>	<u>(541,161)</u>	<u>-</u>	<u>4,394,221</u>
Expenses				
Program Services				
Exhibitions and curatorial	1,694,875			1,694,875
Museum services	1,084,530			1,084,530
Marketing	543,559			543,559
Education	534,362			534,362
Total Program Services Expenses	<u>3,857,326</u>			<u>3,857,326</u>
Administration	380,138			380,138
Development	764,151			764,151
Total Supporting Services Expenses	<u>1,144,289</u>			<u>1,144,289</u>
Total Operating Expenses	<u>5,001,615</u>			<u>5,001,615</u>
Operating Change in Net Assets	<u>\$ (66,233)</u>	<u>\$ (541,161)</u>	<u>\$ -</u>	<u>\$ (607,394)</u>

See notes to financial statements.

TACOMA ART MUSEUM

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
NON-OPERATING:				
Endowment contributions	\$ -	\$ -	\$ 3,812,838	\$ 3,812,838
Capital contributions	-	8,492,033	-	8,492,033
Change in value of assets held in trust	-	(70,229)	-	(70,229)
Depreciation and amortization	(1,071,859)	-	-	(1,071,859)
Interest and dividends	605,118	54,271	-	659,389
Investment loss, net of fees of \$108,891	(1,515,148)	(57,606)	-	(1,572,754)
Acquisition of collection items	(206,805)	-	-	(206,805)
Bond interest and fees	(121,789)	-	-	(121,789)
Loss on sale of assets	(41,480)	-	-	(41,480)
Transfer of endowment appropriation to operating	<u>(1,011,067)</u>	<u>-</u>	<u>-</u>	<u>(1,011,067)</u>
Non-Operating Change in Net Assets	<u>(3,363,030)</u>	<u>8,418,469</u>	<u>3,812,838</u>	<u>8,868,277</u>
Total Change in Net Assets	(3,429,263)	7,877,308	3,812,838	8,260,883
Net Assets - beginning of year (as restated)	<u>36,430,391</u>	<u>6,704,894</u>	<u>11,565,904</u>	<u>54,701,189</u>
Net Assets - end of year	<u>\$ 33,001,128</u>	<u>\$ 14,582,202</u>	<u>\$ 15,378,742</u>	<u>\$ 62,962,072</u>

TACOMA ART MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	Program Services					Supporting Services			
	Exhibitions/ Curatorial	Museum Services	Marketing	Education	Total Program Services	Administration	Development	Total Supporting Services	Total
Operating Expenses									
Salaries and related expenses	\$ 580,097	\$ 592,300	\$ 260,284	\$ 319,463	\$ 1,752,144	\$ 278,397	\$ 379,730	\$ 658,127	\$ 2,410,271
Contracted services	260,581	184,366	60,546	73,373	578,866	30,919	201,272	232,191	811,057
Postage and shipping	236,405	5,526	1,885	3,187	247,003	1,773	10,335	12,108	259,111
Telephone and utilities	50,194	85,019	22,987	27,375	185,575	30,083	1,275	31,358	216,933
Supplies	118,605	37,850	7,734	27,742	191,931	5,795	14,978	20,773	212,704
Travel and entertainment	105,746	13,590	4,110	32,526	155,972	4,808	14,000	18,808	174,780
Catering	410	65,925	50	3,003	69,388	66	71,108	71,174	140,562
Publicity and advertising	2,763	1,205	120,046	4,400	128,414	-	92	92	128,506
Dues and subscriptions	72,809	9,363	24,968	5,670	112,810	3,058	1,563	4,621	117,431
Insurance	71,558	23,380	6,141	7,313	108,392	8,035	-	8,035	116,427
Donated goods and services	30,000	16,030	-	-	46,030	-	40,978	40,978	87,008
Printing and publications	11,072	1,752	21,615	12,126	46,565	623	38,998	39,621	86,186
Exhibition loan fees	64,795	-	-	-	64,795	-	-	-	64,795
Photography	55,011	-	960	-	55,971	-	-	-	55,971
Bank charges	10,011	18,170	4,528	5,342	38,051	5,821	766	6,587	44,638
Building repairs and maintenance	8,513	15,233	3,899	4,643	32,288	5,102	-	5,102	37,390
Miscellaneous	8,589	12,477	2,599	3,804	27,469	4,930	1,905	6,835	34,304
Professional development	6,074	1,126	903	3,316	11,419	331	521	852	12,271
Equipment rental/maintenance	1,642	1,218	304	1,079	4,243	397	275	672	4,915
Bad debt recovery	-	-	-	-	-	-	(13,645)	(13,645)	(13,645)
Total Operating Expenses	1,694,875	1,084,530	543,559	534,362	3,857,326	380,138	764,151	1,144,289	5,001,615
Depreciation and amortization	418,025	128,623	-	53,593	600,241	471,618	-	471,618	1,071,859
Acquisition of collection items	206,805	-	-	-	206,805	-	-	-	206,805
Bond interest and fees	28,741	46,986	13,162	15,675	104,564	17,225	-	17,225	121,789
Total Expenses	\$ 2,348,446	\$ 1,260,139	\$ 556,721	\$ 603,630	\$ 4,768,936	\$ 868,981	\$ 764,151	\$ 1,633,132	\$ 6,402,068

TACOMA ART MUSEUM
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

Cash Flows from Operating Activities

Cash received from:

Donors	\$ 2,828,883
Retail income	434,079
Admissions and tours	237,562
Facility rental	103,699
Other	206,498

Cash paid for:

Personnel	(2,360,103)
Services and supplies	(2,652,767)
Bond interest and fees	<u>(121,789)</u>

Net Cash Used by Operating Activities (1,323,938)

Cash Flows from Investing Activities

Purchases of investments	(28,571,016)
Proceeds from sale of investments	29,704,635
Purchases of property and equipment	(177,337)
Proceeds from sale of art held for sale	<u>310,000</u>

Net Cash Provided by Investing Activities 1,266,282

Changes in Cash and Cash Equivalents (57,656)

Cash and Cash Equivalents - beginning of year 734,899

Cash and Cash Equivalents - end of year \$ 677,243

TACOMA ART MUSEUM
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

Reconciliation of Change in Net Assets to Net Cash

Flows from Operating Activities

Change in net assets	\$ 8,260,883
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation and amortization	1,081,812
Interest and dividends reinvested	(659,389)
Loss on investments	1,572,754
Change in value of assets held in trust	70,229
Loss on sale of assets	41,480
Artwork approved for sale	(80,000)
(Increase) decrease in	
Promises to give	(11,764,794)
Accounts and grants receivable	(38,767)
Prepays and deposits	237,973
Inventory	(26,033)
(Decrease) increase in	
Accounts payable	(70,254)
Accrued expenses	<u>50,168</u>
Net Cash Used by Operating Activities	<u>\$ (1,323,938)</u>

TACOMA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Tacoma Art Museum (TAM) is a nonprofit corporation organized under the laws of the State of Washington for the purpose of promoting and cultivating the fine arts and arts education. Its primary sources of revenue and support are private contributions and grants.

TAM is a public-spirited institution that champions a dynamic and responsive approach to exhibitions. The staff and Board of Trustees are driven by the mission of connecting people through art, empowering visitors to create meaning with artworks through innovative interpretation and programs. Named by USA Today as one of the “Top 10 Great Places to See Art in Smaller Cities,” TAM has developed a reputation for presenting art in a thought-provoking yet accessible manner, with a strong commitment to Northwest art. Founded in 1935, TAM has strong roots in the community.

Basis of accounting

TAM prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of presentation

In accordance with financial accounting standards, TAM 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. The net assets of TAM are classified as follows:

Unrestricted net assets are available without restriction for support of TAM's mission.

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or future periods. Temporarily restricted net assets are available as follows at June 30, 2016:

Benaroya building expansion and exhibition	\$ 8,492,033
Bond redemption (2003 building campaign)	2,974,814
Accumulated operating endowment earnings	1,412,053
Assets held in trust (time restricted)	838,517
Art acquisition	480,329
Other projects and programs	332,806
Accumulated art endowment earnings	51,650
	<u>\$14,582,202</u>

TACOMA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used as specified by the donors. Permanently restricted net assets are available as follows at June 30, 2016:

Haub endowment	\$ 8,591,167
Museum operating endowment	2,711,023
Art endowment	<u>263,714</u>
	11,565,904
Pledges receivable for future endowment	<u>3,812,838</u>
	<u>\$15,378,742</u>

Cash and cash equivalents

Cash and cash equivalents consist of checking and savings accounts. TAM considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. TAM maintains cash deposits in bank accounts which exceed federally insured limits. TAM has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value 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. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

Investments are carried at fair value.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Receivables

Receivables are stated at net realizable value.

Promises to give

Unconditional promises to give are stated at net realizable value. In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Inventory

Inventory is stated at the lower of cost or market under the first-in, first-out method of accounting and consists of merchandise and café supplies.

Bond issuance costs

TAM amortizes initial costs associated with financing arrangements over the life of the bonds using the effective interest method. Amortization expense is \$9,953 for the year ended June 30, 2016 and accumulated amortization is \$140,168 at June 30, 2016.

Art held for sale

The Collection Committee (with Board authorization), at their December 29, 2011 meeting, agreed to accept a work on paper, Untitled (Blue Cross) by Sam Francis, 1984, to be sold to benefit the collection. The Board of Trustees then approved the sale of the item (via Sotheby's) at their May 17, 2016 meeting. The Sotheby's auction will occur on November 18, 2016. The estimate provided by Sotheby's is \$80,000-120,000 (less shipping costs and Sotheby's vendor commission fee).

Property and equipment

Land, building and equipment are stated at cost. Long-lived asset purchases that exceed \$2,500 are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets. Planned major maintenance activities which significantly extend the useful life of the asset are capitalized.

TACOMA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and unrestricted support

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reported as net assets released from restrictions.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Non-operating activities

TAM's non-operating activities include endowment contributions, capital contributions, depreciation and amortization, investment returns, art acquisition and sales, bond interest and fees, and certain endowment transfers.

In-kind donations

In accordance with financial accounting standards, the financial statements reflect only those contributed services requiring specific expertise, which TAM would otherwise need to purchase. However, many individuals volunteer their time and perform a variety of tasks that assist TAM. TAM receives volunteer hours which are not recognized in the accompanying financial statements because they do not meet the recognition criteria. During the year ended June 30, 2016, TAM received approximately 8,660 volunteer hours.

Concentration

For the year ended June 30, 2016, 29% of TAM's support was from one donor and at June 30, 2016, 93% of promises to give were due from the same donor.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Advertising

TAM uses advertising to promote its programs among the audiences it serves. The costs of advertising are expensed as incurred. Advertising costs totaled \$128,506 for the year ended June 30, 2016.

TACOMA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal income taxes

The Internal Revenue Service has recognized TAM as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation.

However, certain activities not directly related to TAM's tax-exempt purpose are not exempt and are subject to federal income tax. TAM incurred no income tax expense for the year ended June 30, 2016.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

NOTE B - PROMISES TO GIVE

Promises to give consisted of the following at June 30, 2016:

Receivable in less than one year	\$ 675,875
Receivable in one to five years	13,795,538
Receivable in more than five years	<u>6,000</u>
	14,477,413
Less: present value discount	(1,472,398)
Less: allowance for doubtful accounts	<u>(54,788)</u>
	<u>\$12,950,227</u>

Promises to give for endowment and capital purposes are included in long-term promises to give on the statement of financial position, as the assets are considered for long-term use. Promises to give due in more than one year are recorded at the present value of estimated future cash flows using a discount rate of 4%.

When considered necessary, an allowance is recorded based on management's estimate of uncollectibility, including such factors as prior collection history, type of contribution, and the nature of fundraising activity.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE C - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis (at least annually) are as follows:

	Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of June 30, 2016				
Equity	\$17,168,887	\$ -	\$ -	\$17,168,887
Hedge Funds	4,184,641	-	-	4,184,641
Real Estate	1,528,159	-	-	1,528,159
Fixed Income	5,070,522	-	-	5,070,522
Cash	45,924	-	-	45,924
Investments	27,998,133	-	-	27,998,133
Assets Held in Trust	-	-	838,517	838,517
	<u>\$27,998,133</u>	<u>\$ -</u>	<u>\$ 838,517</u>	<u>\$28,836,650</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Assets Held in Trust
Fair Value as of July 1, 2015	\$ 908,746
Total losses included in change in net assets	(70,229)
Fair Value as of June 30, 2016	<u>\$ 838,517</u>

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities, and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input.

NOTE D - ENDOWMENT

TAM's endowment fund consists of five funds: (1) board designated quasi-endowment for operations, (2) board designated quasi-endowment for bond repayment, (3) donor restricted endowment for operations, (4) donor restricted Haub endowment for programming purposes, and (5) donor restricted art acquisition endowment, which is intended for the purchase of new items for the collection.

Under generally accepted accounting principles, the net assets of endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

TACOMA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE D - ENDOWMENT (Continued)

Interpretation of Relevant Law

TAM's investment policy complies with the rules of Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides uniform and fundamental rules for the prudent investment of funds held by charitable institutions and the expenditure of funds donated as endowments to those institutions.

The Board of Trustees of TAM has interpreted the law as requiring the preservation of the fair value of the corpus of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, TAM classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of any 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 (that is, its net unspent appreciation and income) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by TAM.

In accordance with UPMIFA, TAM considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the organization and the endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation or deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the organization; and
- (7) The investment policy.

Investment and Spending Policies

TAM's spending policy is to expend three to five percent of the average investment balance of the last five years annually as approved by the Board. TAM has adopted this policy in order to provide a predictable stream of funding for programs supported by the endowment, which include education, exhibitions, and general operations support for programming and community engagement. TAM's investment policy for all investments is reviewed and reconfirmed or revised on an annual basis.

A portion of the endowment is held in the Tacoma Art Museum living trust (the trust). The trust is an irrevocable, perpetual fund and distributions to TAM from the trust are limited by the terms of the trust. Income and net appreciation in the fair value of the assets above historical dollar value are available for distribution and use for the activities of TAM.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE D - ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, TAM relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). TAM targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires TAM to retain as a fund of perpetual duration. In accordance with financial accounting standards, deficiencies of this nature that are reported in unrestricted net assets were \$2,394,049 as of June 30, 2016. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Trustees.

Endowment net assets by fund type as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated - operations	\$ 2,787,922			\$ 2,787,922
Board designated - bonds	11,395,694			11,395,694
Donor restricted - operations	(1,739,093)	\$ -	\$ 2,327,788	588,695
Donor restricted - operations, Held in Trust	-	1,412,053	383,235	1,795,288
Donor restricted - Haub	(654,956)	-	8,591,167	7,936,211
Donor restricted - art	-	51,650	263,714	315,364
	<u>\$11,789,567</u>	<u>\$ 1,463,703</u>	<u>\$11,565,904</u>	<u>\$24,819,174</u>

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE D - ENDOWMENT (Continued)

Change in endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$14,011,824	\$ 1,494,688	\$11,565,904	\$27,072,416
Investment return:				
Dividend and interest	605,118	54,271	-	659,389
Realized (loss) gain	(764,826)	107,793	-	(657,033)
Unrealized loss	(606,030)	(165,399)	-	(771,429)
Total investment return	(765,738)	(3,335)	-	(769,073)
Contributions, net	60,814	-	-	60,814
Appropriation	(1,517,333)	(27,650)	-	(1,544,983)
Endowment net assets, end of year	<u>\$11,789,567</u>	<u>\$ 1,463,703</u>	<u>\$11,565,904</u>	<u>\$24,819,174</u>

NOTE E - ASSETS HELD IN TRUST

TAM has been named as a beneficiary of charitable remainder trusts by more than ten donors as of June 30, 2016. The trusts have been recognized at the present value of the contributions to be received, using a discount rate of 4%. Changes in the value of these trusts have been reported in the statement of activities as increases or decreases in temporarily restricted net assets.

NOTE F - PERMANENT COLLECTION

TAM's collection is primarily American art with an emphasis on art created in the Northwest. TAM does not capitalize its collection, nor does it recognize contributions of collection items as contribution revenue. TAM has stewardship policies for its collection regarding: accessioning and deaccessioning of collection items, care of the collection, access and control of collection, risk management, and loans to and from other institutions. Each collection item is catalogued, and activities verifying the existence and assessing the condition of the collection are performed continuously.

Since its founding in 1935, TAM has focused on the art and artists of the Northwest in both its exhibitions and collecting. A key goal in TAM's strategic plan is to build the premier collection of Northwest art and be a leader in the preservation and scholarship of the region's visual arts. TAM's rich collection now includes 4,800 artworks, 3,300 of which are by Northwest artists or related to the region. They range across all media and span from the 19th century to the present.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE F - PERMANENT COLLECTION (Continued)

In addition, TAM has and continues to selectively acquire works by national and international artists. These artworks provide connections to broader contexts in which to understand Northwest art, such as how it relates to national and international art movements, compares and contrasts with other regional expressions, reflects important historical moments and trends, and reveals key influences on its development.

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2016:

	Estimated <u>Useful Lives</u>	
Land		\$ 1,843,594
Building and renovations	30 – 40 years	34,668,472
Furniture and equipment	3 – 15 years	<u>1,892,827</u>
		38,404,893
Less: accumulated depreciation		(8,112,206)
Construction in progress		<u>59,879</u>
		<u><u>\$30,352,566</u></u>

NOTE H - LINES OF CREDIT

TAM has an agreement with a bank for a line of credit in the amount of \$350,000, which expires May 1, 2017, with an interest rate at prime plus 1.75% (5.25% at June 30, 2016). This line of credit is used for museum operation needs. There was no balance outstanding on the line of credit at June 30, 2016.

In July 2016, TAM entered into agreements with a bank for two lines of credit for future construction in the amounts of \$10,000,000 and \$3,000,000, expiring in July 2017. Each borrowing shall bear interest at the Variable Libor Rate plus 1.3% unless TAM specifically requests the Fixed Libor Rate plus 1.3%. Any Fixed Libor borrowings must be in an amount of at least \$5 million. The initial borrowing for each line of credit must be in an amount of at least \$60,000.

NOTE I - BONDS PAYABLE

On June 1, 2002, the Washington State Housing Finance Commission issued \$10,000,000 in variable rate demand nonprofit revenue bonds, Series 2002 (bonds). The proceeds of the bonds were loaned to TAM to finance the acquisition, construction, and equipping of a new art museum. The bonds are subject to annual redemption at a redemption price of 100% of principal amount to be redeemed plus accrued interest. At June 30, 2016 the variable daily interest rate was .01%. The bonds are callable at any time by TAM and require no principal payments until maturity in June 2032.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE I - BONDS PAYABLE (Continued)

Pursuant to a Reimbursement Agreement dated June 1, 2002 between TAM and the bank, an irrevocable direct pay letter of credit (LOC) was issued by the bank in the amount of \$10,136,987 as collateral for the payment of principal and interest on the bonds. The LOC expiration date is December 4, 2017, as provided for in the LOC Reimbursement Agreement. Should the LOC be drawn upon, the outstanding balance would accrue interest at the bank's prime rate. TAM is required to pay a quarterly LOC fee of .8% per annum. Although the LOC is unsecured, TAM must maintain cash and investment balances that are legally available for repayment of the bonds, in an amount equal to 110% of current bond balance. These funds are board designated as a reserve for bond repayment.

The terms of the bonds include covenants that require the maintenance of certain financial ratios, submission of quarterly reports, and certain limits on the incurrence of additional borrowings. TAM was in compliance with these covenants at June 30, 2016.

NOTE J - DEFINED CONTRIBUTION PLAN

TAM sponsors a 403(b) defined contribution pension plan. Employees may contribute up to the Internal Revenue Service limits each year. TAM matches \$0.25 for each \$1.00 contributed by an eligible employee up to 3% of total compensation. Eligible employees include all employees who have reached the age of 18, have worked for a period of one year, defined as 1,000 hours or more, and were employed by TAM at year-end. For the year ended June 30, 2016, TAM contributed \$10,794 in matching contributions.

NOTE K - BENAROYA GIFT

In January 2016, Becky Benaroya announced a legacy gift and bequeathed the art collection of her and her late husband, Jack Benaroya. The promised gift includes 225 works of art, including paintings, sculpture and glass; in fact, the gift's 150 works in glass bring TAM's glass holdings to within the top five studio art glass collections in the country.

This gift also includes contributed funds for the construction of a new 7,390 square-foot wing in which to present the collection, an endowment fund for its care, and funds for a dedicated curator. A preview exhibition is planned for October 2016.

NOTE L - PRIOR PERIOD ADJUSTMENT

Errors resulting in the understatement of previously reported temporarily restricted net assets for assets held in trust and accumulated operating endowment earnings were discovered during the current year. Accordingly, an adjustment of \$2,356,654 was made to the previously reported unrestricted and temporarily restricted balances to correct these balances. An adjustment of \$5,520 was also made to the previously reported unrestricted and permanently restricted balances to correct these balances.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE M - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2016 through November 15, 2016, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at June 30, 2016, including the estimates inherent in the processing of financial statements.