



**INDEPENDENT
AUDITOR'S REPORT AND
FINANCIAL STATEMENT**

July 1, 2013-June 30, 2014

**TACOMA
ART
MUSEUM**

Seattle arts patron Anne Gould Hauberg recently completed her gift of her entire collection of studio art glass to Tacoma Art Museum. An important focus of her collecting has been the women artists who worked at the Pilchuck Glass School, including the important work by Cappy Thompson, *I Receive a Great Blessing from the Sun and the Moon: I Will Be an Artist and Walk the Path of Beauty* (1995). In this work, Thompson demonstrates her mastery of traditional stained glass techniques over the course of her renowned career.

Cappy Thompson, *I Receive a Great Blessing from the Sun and the Moon: I Will Be an Artist and Walk the Path of Beauty*, 1995. Blown glass and fired enamels, 17 × 14½ × 14½ inches. Tacoma Art Museum, Gift of Anne Gould Hauberg. Photo: Doug Yapple.

TACOMA ART MUSEUM

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

JUNE 30, 2014 AND 2013

BRANTLEY JANSON YOST & ELLISON
Certified Public Accountants
A Professional Service Corporation
1617 South 325th Street
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TABLE OF CONTENTS

Independent Auditor's Report	1-2
Financial Statements	
Statements of financial position	3
Statements of activities and changes in net assets	4-5
Statements of functional expenses	6-7
Statements of cash flows	8
Notes to financial statements	9-23

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Tacoma Art Museum
Tacoma, Washington

We have audited the accompanying financial statements of Tacoma Art Museum (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of material misstatement.

An audit includes 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tacoma Art Museum as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

November 18, 2014

TACOMA ART MUSEUM

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,042,880	\$ 773,351
Pledges receivable, net	16,006,609	23,631,370
Trusts receivable	231,939	226,047
Accounts receivable	72,119	23,489
Prepaid expenses	307,814	305,257
Inventory	<u>68,687</u>	<u>84,205</u>
Total current assets	17,730,048	25,043,719
OTHER ASSETS		
Investments	22,855,908	20,921,577
Assets, available for sale	3,098,500	3,000,000
Long-term pledges receivable, net	631,578	605,023
Trusts receivable, net	584,447	506,312
Bond issuance costs, net	<u>178,318</u>	<u>188,271</u>
	27,348,751	25,221,183
PERMANENT COLLECTIONS (Note 1)		
LAND, BUILDINGS AND EQUIPMENT, net		
of accumulated depreciation	<u>27,244,042</u>	<u>18,373,291</u>
TOTAL ASSETS	<u>\$ 72,322,841</u>	<u>\$ 68,638,193</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Line of credit	\$ 1,750	
Accounts payable and accrued expenses	<u>1,767,162</u>	<u>\$ 780,346</u>
Total current liabilities	1,768,912	780,346
BONDS PAYABLE	10,000,000	10,000,000
NET ASSETS		
Unrestricted	36,131,064	24,853,865
Temporarily restricted	21,482,138	30,063,255
Permanently restricted	<u>2,940,727</u>	<u>2,940,727</u>
	<u>60,553,929</u>	<u>57,857,847</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 72,322,841</u>	<u>\$ 68,638,193</u>

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

TACOMA ART MUSEUM

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Public support				
Contributions	\$ 815,558	\$ 1,026,394		\$ 1,841,952
Grants	447,355	538,956		986,311
In-kind donations	42,861			42,861
Memberships	198,795			198,795
Total public support	1,504,569	1,565,350		3,069,919
Revenue				
Investment return, net	3,306,059			3,306,059
Museum store	97,169			97,169
Auxiliary income	400,311	41,000		441,311
Admissions/tours	137,832			137,832
Miscellaneous	391,501			391,501
Total revenue	4,332,872	41,000		4,373,872
Net assets released from restrictions	10,187,467	(10,187,467)		
Total support and revenue	16,024,908	(8,581,117)		7,443,791
EXPENSES				
Program services	3,467,483			3,467,483
Supporting services				
Administration	529,690			529,690
Development	480,505			480,505
Total supporting services	1,010,195			1,010,195
Total expenses	4,477,678			4,477,678
Change in net assets before nonoperating expense	11,547,230	(8,581,117)		2,966,113
NONOPERATING EXPENSE				
Acquisition of collection items	(270,031)			(270,031)
CHANGE IN NET ASSETS	11,277,199	(8,581,117)		2,696,082
NET ASSETS, beginning of year	24,853,865	30,063,255	\$ 2,940,727	57,857,847
NET ASSETS, end of year	<u>\$ 36,131,064</u>	<u>\$ 21,482,138</u>	<u>\$ 2,940,727</u>	<u>\$ 60,553,929</u>

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

TACOMA ART MUSEUM

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Public support				
Contributions	\$ 1,346,293	\$ 20,108,461		\$ 21,454,754
Grants	326,738	2,735,000		3,061,738
In-kind donations	196,645			196,645
Memberships	180,075			180,075
Total public support	2,049,751	22,843,461		24,893,212
Revenue				
Investment return, net	1,756,113	30,178		1,786,291
Museum store	154,496			154,496
Auxiliary income	407,486	13,000		420,486
Admissions/tours	186,901			186,901
Miscellaneous	296,685			296,685
Total revenue	2,801,681	43,178		2,844,859
Net assets released from restrictions	1,227,056	(1,227,056)		
Total support and revenue	6,078,488	21,659,583		27,738,071
EXPENSES				
Program services	3,582,182			3,582,182
Supporting services				
Administration	444,833			444,833
Development	655,775			655,775
Total supporting services	1,100,608			1,100,608
Total expenses	4,682,790			4,682,790
Change in net assets before nonoperating income (expense)	1,395,698	21,659,583		23,055,281
NONOPERATING INCOME (EXPENSE)				
Deaccession of art		329,877		329,877
Acquisition of collection items	(23,300)			(23,300)
Total nonoperating income (expense)	(23,300)	329,877		306,577
CHANGE IN NET ASSETS	1,372,398	21,989,460		23,361,858
NET ASSETS, beginning of year	23,481,467	8,073,795	\$ 2,940,727	34,495,989
NET ASSETS, end of year	\$ 24,853,865	\$ 30,063,255	\$ 2,940,727	\$ 57,857,847

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

TACOMA ART MUSEUM

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014**

	Program Services					Supporting Activities				
	Exhibitions/ Curatorial	Education	Marketing	Museum Services	Membership	Total Program Services	Administration	Development	Total Supporting Activities	2014 Total
Salaries	\$ 477,194	\$ 148,815	\$ 159,678	\$ 285,786	\$ 76,451	\$ 1,147,924	\$ 261,778	\$ 230,292	\$ 492,070	\$ 1,639,994
Payroll taxes	49,696	14,321	14,632	30,038	6,912	115,599	18,349	20,827	39,176	154,774
Employee benefits	39,335	13,551	16,302	27,381	5,645	102,214	29,364	17,020	46,384	148,598
Total salaries and related expenses	566,225	176,687	190,612	343,205	89,008	1,365,737	309,491	268,139	577,630	1,943,367
Bad debt expense	21,651	2,401	350	2,556	1,616	28,574	401	4,947	5,347	33,921
Bank charges	21,270	2,350	343	2,345	117	26,425	392	450	842	27,267
Bldg. repairs & maintenance	52,522	5,824	850	5,340	243	64,779	1,325	972	2,297	67,076
Catering	438	5,716	2,149	5,281	14,450	28,034	13,246	43,357	56,603	84,637
Contracted services	81,509	33,906	25,391	145,011	28,192	314,009	41,762	87,569	129,331	443,340
Donated goods and services					42,861	42,861				42,861
Dues and subscriptions	1,114	1,454	7,361	3,559	921	14,408	14,243	2,804	17,047	31,456
Equipment rental/maintenance	1,769	20	3	855	405	3,052	3	1,215	1,219	4,271
Exhibition loan fees	2,650					2,650				2,650
Insurance	21,193			2,402	217	23,813	39,550	651	40,201	64,013
Interest and bank expenses	90,008	9,981	1,457	9,152	416	111,014	1,665	1,665	3,330	114,344
Investment fees	96,681	10,721	1,565	9,830	447	119,245	1,788	1,788	3,577	122,821
Merchandise expense				123,106		123,106				123,106
Miscellaneous	248	72	429	67	580	1,397	10,080	1,747	11,827	13,223
Off-site storage	1,858					1,858				1,858
Photography	12,890					12,890				12,890
Postage & shipping	54,450	5,214	2,244	4,497	3,442	69,847	1,836	10,801	12,638	82,485
Printing & publications	104,298		49,989		4,407	158,694		13,220	13,220	171,914
Professional development	527	17	547	324	113	1,528	6,503	340	6,843	8,371
Publicity & advertising		15	67,564	23,258	875	91,711		2,624	2,624	94,335
Real estate and misc. taxes	1,735	192	28	264	8	2,228	32	32	64	2,292
Supplies	38,130	21,793	9,073	28,203	2,322	99,521	7,110	8,039	15,149	114,669
Telephone	2,612	1,742	1,524	4,136	435	10,450	1,742	1,742	3,483	13,933
Travel & entertainment	18,874	1,556	1,249	2,712	5,860	30,252	15,344	17,613	32,957	63,209
Utilities	137,696	15,269	2,229	14,001	637	169,831	2,547	2,547	5,094	174,925
Total expenses before depreciation and amortization	1,330,348	294,930	364,957	730,104	197,572	2,917,911	469,060	472,262	941,322	3,859,234
Depreciation and amortization	445,583	49,410	7,212	45,306	2,061	549,572	60,630	8,243	68,873	618,445
Total expenses	\$ 1,775,931	\$ 344,340	\$ 372,169	\$ 775,410	\$ 199,633	\$ 3,467,483	\$ 529,690	\$ 480,505	\$ 1,010,195	\$ 4,477,678

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

TACOMA ART MUSEUM

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE, 30, 2013**

	Program Services					Supporting Activities				
	Exhibitions/ Curatorial	Education	Marketing	Museum Services	Membership	Total Program Services	Administration	Development	Total Supporting Activities	2013 Total
Salaries	\$ 500,554	\$ 160,132	\$ 158,427	\$ 305,986	\$ 80,557	\$ 1,205,656	\$ 247,992	\$ 242,680	\$ 490,672	\$ 1,696,328
Payroll taxes	48,401	15,181	14,388	30,960	7,191	116,121	20,296	21,671	41,967	158,088
Employee benefits	48,521	17,349	15,366	25,566	4,296	111,098	22,445	12,977	35,422	146,520
Total salaries and related expenses	597,476	192,662	188,181	362,512	92,044	1,432,875	290,733	277,328	568,061	2,000,936
Bad debt expense	2,937	326	48	299	6,514	10,124	54	19,554	19,608	29,732
Bank charges	7,949	925	123	888	35	9,920	141	141	282	10,202
Bldg. repairs & maintenance	51,771	5,741	838	7,484	244	66,078	2,440	970	3,410	69,488
Catering	483	3,041	51	1,316	9,169	14,060	1,830	27,507	29,337	43,397
Contracted services	34,614	28,557	25,856	158,751	41,306	289,084	44,269	126,163	170,432	459,516
Donated goods and services					49,136	49,136		147,408	147,408	196,544
Dues and subscriptions	3,762	1,348	9,781	2,087	993	17,971	9,982	3,008	12,990	30,961
Equipment rental/maintenance	3,440	21	714	10,707	1	14,883	4	4	8	14,891
Exhibition loan fees	47,500					47,500				47,500
Insurance	8,053			2,297		10,350	43,204		43,204	53,554
Interest and bond expenses	87,284	9,679	1,413	8,875	404	107,655	1,615	1,615	3,230	110,885
Investment fees	83,103	9,215	1,345	8,450	384	102,497	1,537	1,537	3,074	105,571
Merchandise expense				164,678		164,678				164,678
Miscellaneous	3,750	2,086	1,001	7,877	407	15,121	3,366	1,737	5,103	20,224
Off-site storage	1,977					1,977				1,977
Photography	9,851					9,851				9,851
Postage & shipping	48,913	4,912	2,595	3,236	2,936	62,592	8,054	9,148	17,202	79,794
Printing & publications	59,828	97	43,949	271	1,006	105,151		3,018	3,018	108,169
Professional development	99		110	25	69	303		206	206	509
Publicity & advertising			120,653	31,585		152,238				152,238
Real estate and misc. taxes	4,235	470	69	781	20	5,575	78	78	156	5,731
Supplies	38,832	19,596	10,791	32,794	1,874	103,887	11,601	6,721	18,322	122,209
Telephone	2,687	2,071	1,567	4,255	455	11,035	1,939	1,814	3,753	14,788
Travel & entertainment	7,334	1,343	408	2,560	5,482	17,127	12,624	16,456	29,080	46,207
Utilities	137,795	15,280	2,230	16,967	637	172,909	2,549	2,549	5,098	178,007
Total expenses before depreciation and amortization	1,243,673	297,370	411,723	828,695	213,116	2,994,577	436,020	646,962	1,082,982	4,077,559
Depreciation and amortization	476,419	52,830	7,711	48,442	2,203	587,605	8,813	8,813	17,626	605,231
Total expenses	\$ 1,720,092	\$ 350,200	\$ 419,434	\$ 877,137	\$ 215,319	\$ 3,582,182	\$ 444,833	\$ 655,775	\$ 1,100,608	\$ 4,682,790

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

TACOMA ART MUSEUM

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,696,082	\$ 23,361,858
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	618,445	605,231
Interest and dividends reinvested	(415,954)	(470,307)
Net investment gains	(2,786,449)	(1,315,984)
Change in value of trusts receivable	(84,028)	106,041
Donation of assets available for sale	(98,500)	
Changes in assets and liabilities:		
Pledges receivable	7,598,206	(21,838,365)
Accounts receivable	(48,630)	(3,070)
Prepaid expenses	(2,557)	(132,332)
Inventory	15,518	16,652
Accounts payable and accrued expenses	986,817	399,257
Net cash provided by operating activities	<u>8,478,950</u>	<u>728,981</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(9,479,243)	(18,773)
Sale (purchase) of investments, net	<u>1,268,072</u>	<u>(305,278)</u>
Net cash used by investing activities	(8,211,171)	(324,051)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in line of credit, net	<u>1,750</u>	<u></u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	269,529	404,930
CASH AND CASH EQUIVALENTS, beginning of year	<u>773,351</u>	<u>368,421</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,042,880</u>	<u>\$ 773,351</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 5,998</u>	<u>\$ 14,287</u>

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

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Tacoma Art Museum (the Museum) is a not-for-profit 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.

Basis of Accounting

The Museum prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial statements include the accounts maintained by and directly under the control of the Museum.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates that are particularly susceptible to significant changes relate to the determination of the contributions and accounts receivable allowance for doubtful accounts and assets available for sale. Actual results could differ from those estimates.

Basis of Presentation

In accordance with GAAP, the Museum 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 accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Net Asset Classes

The Museum segregates its net assets into classes that are defined by donor restrictions.

- Permanently restricted net assets result from contributions received from donors that have donor-imposed restrictions that cannot be satisfied by the passage of time or actions taken by the Museum, but whose investment or other return can be used for temporarily restricted or unrestricted activities.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Classes (Continued)

- Temporarily restricted net assets are those assets that have donor restrictions that will expire at or over a period of time, or upon the Museum's performance of a specified activity, such as expending resources on a specific program or acquiring specific assets. Earnings on permanently and temporarily restricted net assets are classified as a change in unrestricted net assets unless the donor places restrictions on them. In addition, the Museum implies a time restriction on gifts of long-lived assets (and cash or other assets received that are restricted for the purchase of them) that have no donor restrictions stipulating how long the assets are to be used.
- Unrestricted net assets have no donor restrictions and may be used for any purpose consistent with the Museum's mission.

Net assets are released from temporary restrictions when the specified time period has elapsed for time restrictions, or the stated activity has been performed for purpose restrictions. Released net assets are reclassified from temporary restricted net assets to unrestricted net assets on the statement of activities.

Fair Value Measurement

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 under FASB ASC 820 are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access;
- Level 2 – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in 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.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement (Continued)

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.

The Museum's financial instruments, other than investments, are cash and cash equivalents, accounts receivable and contributions receivables, accounts payable and accrued expenses, line of credit and bonds payable. The recorded values of cash and cash equivalents, accounts receivable and contributions and trust receivables approximate their fair value based on their short-term nature. The recorded values of the bonds payable approximate their fair value, as interest approximates market rates.

Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the Museum considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist primarily of deposits at commercial banks and money market funds, which are not subject to withdrawal restrictions or penalties, and are not pledged as collateral.

Concentrations of Credit Risk

The Museum maintains certain cash balances in bank deposit and brokerage accounts which, at times, may exceed the federally insured limits. Management does not anticipate any material adverse consequence as a result of this concentration of credit risk. Uninsured cash balances at June 30, 2014 amounted to \$823,000.

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 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. Proceeds from the sale of trading securities appropriated for expenditure by the Board are reported as operating activities in the statement of cash flows. See Note 3.

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.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Unrestricted investments are board-designated and include interest and net appreciation earned from the permanently restricted Museum Endowment investments. These board-designated funds are set aside for art and educational activities, as well as the operations of the Museum's facility.

Although there have been recent uncertainties in the investment markets, management believes that the Museum appropriately monitors its activity in the market and will be able to successfully maintain its holdings in future years.

Contributions and Pledges Receivable

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction expires, or a purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted support. 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. See Note 9.

Unconditional promises to give are recorded when received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Pledges receivable due in the next year are recorded at their net realizable value. Pledges receivable due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the contributions are to be received. When considered necessary, an allowance is recorded based on management estimate of uncollectibility including such factors as prior collection history, type of contribution, and the nature of fund-raising activity.

Future Exhibitions

The Museum has entered into agreements for exhibitions scheduled through 2017. At June 30, 2014 the approximate prepaid expenses for future exhibitions are \$209,705.

Inventory

Inventory consists of items held at the Museum Store and Cafe, which are stated at cost, using the first-in, first-out method.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanent Collections

The Museum's collections are primarily American art with an emphasis on art created in the Northwest. 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 on the statement of activities based on the existence and nature of donor imposed restrictions. The Museum has stewardship policies for its collections 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.

Property and Equipment

Expenditures for the acquisition of property and equipment are capitalized at cost when the cost exceeds \$2,500. The fair value of donated property and equipment is similarly capitalized. Depreciation is computed using the straight-line method over the useful lives of the assets, which are: equipment – 3 to 10 years; furniture – 15 years; building and renovations – 30 to 40 years. Planned major maintenance activities which significantly extend the useful life of the asset are capitalized.

Bond Issuance Costs

The Museum amortizes initial costs associated with financing arrangements over the life of the bonds using the effective interest method. Amortization expense is \$9,953 for each of the years ended June 30, 2014 and 2013. Accumulated amortization is \$120,262 and \$110,309 at June 30, 2014 and 2013, respectively.

Memberships

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

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum reclassifies temporarily restricted net assets to unrestricted net assets at that time.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services

The Museum records donated goods and services that meet the criteria under GAAP, as contributions in the accompanying statements at their estimated fair market values at date of donation. There were contributed goods and services of \$42,861 and \$196,645 during 2014 and 2013, respectively.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Museum. The Museum receives volunteer hours which are not recognized in the accompanying financial statements because they do not meet recognition criteria under GAAP. During the years ended June 30, 2014 and 2013, the Museum received approximately 12,329 and 14,713 volunteer hours, respectively.

Functional Allocation of Expenses

The costs of providing the Museum's program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting services on the basis of benefits received.

Advertising

The Museum uses advertising to promote its programs among the audiences it serves. The costs of advertising are expensed as incurred. Advertising costs totaled \$94,360 and \$152,238 for the years ended June 30, 2014 and 2013, respectively.

Income Tax

The Museum is a not-for-profit organization as defined in Section 501(c)(3) of the Internal Revenue Code and accordingly is generally exempt from federal income tax under the provisions of Section 501(a) of the Internal Revenue Code. However, certain activities not directly related to the Museum tax-exempt purpose are not exempt and are subject to federal income tax. Income tax expense was zero for the years ended June 30, 2014 and 2013. In addition, the Museum qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Accounting for Uncertain Tax Positions

The Museum follows GAAP for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the years ended June 30, 2014 and 2013, the Museum has no material uncertain tax positions to be accounted for in the financial statements. Typically, the U.S. federal tax returns are open to examination for a period of three years after the filing date.

Management Review of Subsequent Events

Management evaluated the effects of subsequent events through November 18, 2014, the date the financial statements were available to be issued.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 – ENDOWMENT

Washington State adopted the 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 Museum's investment policy requires compliance with UPMIFA. Management believes they are managing their endowment funds in compliance with UPMIFA.

The Board of Trustees of the Museum has interpreted the law as requiring the preservation of the fair value of corpus of a donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum 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 the Museum.

The Museum's endowment fund consists of two funds: (1) board designated funds as a reserve for bond repayment and operational needs and (2) donor-restricted funds for operational needs. The endowment assets are invested in mutual funds that are included in the investments and receivables at June 30, 2014 and 2013. Interest earned on the mutual funds is considered appropriated as received. The Museum's spending policy is to expend the three to five percent of the average investment balance annually as approved by the board. The Museum has adopted this investment policy for endowed assets in an attempt to provide a predictable stream of funding for programs supported by the endowment while seeking to maintain the purchasing power of endowed assets and honor the donor's desired restrictions. The Museum's investment policy guidelines for all investments is reviewed and reconfirmed or revised on at least an annual basis.

Endowment fund composition by type of fund:

June 30, 2014	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted		\$ 393,732	\$ 2,940,727	\$ 3,334,459
Board-designated	\$ 16,249,041			16,249,041
Haub endowment		8,509,690		8,509,690
Restricted endowment for building campaign		<u>2,974,814</u>		<u>2,974,814</u>
Total funds as of June 30, 2014	<u>\$ 16,249,041</u>	<u>\$ 11,878,236</u>	<u>\$ 2,940,727</u>	<u>\$ 31,068,004</u>

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 – ENDOWMENT (Continued)

June 30, 2013	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted		\$ 641,044	\$ 2,940,727	\$ 3,581,771
Board-designated	\$ 14,314,711			14,314,711
Haub endowment		7,000,000		7,000,000
Restricted endowment for building campaign		3,025,095		3,025,095
Total funds as of June 30, 2013	<u>\$ 14,314,711</u>	<u>\$ 10,666,139</u>	<u>\$ 2,940,727</u>	<u>\$ 27,921,577</u>
Changes in Endowment Net Assets:				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2012	\$ 13,567,327	\$ 3,330,703	\$ 2,940,727	\$ 19,838,757
Investment return:				
Dividend and interest	534,143	9,707		543,850
Realized gain	2,257,216	8,200		2,265,416
Unrealized loss	<u>(1,035,246)</u>	<u>12,271</u>		<u>(1,022,975)</u>
Total investment return	1,756,113	30,178		1,786,291
Contributions		7,305,258		8,829,130
Appropriation of endowment assets for expenditure	<u>(1,008,729)</u>			<u>(1,008,729)</u>
Endowment net assets, June 30, 2013	14,314,711	10,666,139	2,940,727	27,921,577
Investment return:				
Dividend and interest	522,971			522,971
Realized gain	652,471			652,471
Unrealized gain	<u>2,133,977</u>			<u>2,133,977</u>
Total investment return	3,309,419			3,309,419
Contributions	309,775	1,531,947		317,850
Appropriation of endowment assets for expenditure	<u>(1,684,864)</u>	<u>(319,850)</u>		<u>(2,004,714)</u>
Endowment net assets, June 30, 2014	<u>\$ 16,249,041</u>	<u>\$ 11,878,236</u>	<u>\$ 2,940,727</u>	<u>\$ 31,068,004</u>

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 3 – INVESTMENTS

The following table represents the Museum's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of:

June 30, 2014	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common Stock	\$ 5,728,531	\$ 5,501,366	\$ 227,165	
Preferred Stock	54,234	54,234		
Mutual funds				
Common Stock	8,938,976	685,691	8,253,285	
Equity	688,616	688,616		
Bond	5,948,641	2,162,340	3,786,301	
Commodities	445,112		445,112	
Real Estate	570,397	570,397		
Cash	481,401	481,401		
Assets, available for sale	<u>3,098,500</u>			<u>\$ 3,098,500</u>
	<u>\$ 25,954,408</u>	<u>\$ 10,144,045</u>	<u>\$ 12,711,863</u>	<u>\$ 3,098,500</u>
June 30, 2013				
Common Stock	\$ 4,027,570	\$ 3,706,920	\$ 320,650	
Mutual funds				
Equity	7,976,385	774,881	7,201,504	
Bond	6,991,042	991,487	5,999,555	
Commodities	385,692		385,692	
Real Estate	891,648	104,039	787,609	
Cash	649,240	649,240		
Asset, available for sale	<u>3,000,000</u>			<u>\$ 3,000,000</u>
	<u>\$ 23,921,577</u>	<u>\$ 6,226,567</u>	<u>\$ 14,695,010</u>	<u>\$ 3,000,000</u>

The Museum's valuation techniques used to measure the fair value of equities were derived using third-party quotations. The value of the assets, available for sale was determined by third-party appraisers. These items are included at their fair market values in the statements of financial position, which approximated their fair values at June 30, 2014 and 2013. The art assets were not accepted into the museum collection at the donor's request as it does not fit the Museum's collection focus. The art assets valued at \$3,098,500 are temporarily restricted for art acquisitions. See Note 9.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable consisted of the following at:

June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Receivables due in:			
less than one year	\$ 363,973	\$ 15,717,636	\$ 16,081,609
in two to five years	440,509	211,333	651,842
more than five years	<u>5,000</u>	<u> </u>	<u>5,000</u>
Total receivables	809,482	15,928,969	16,738,451
Less: net present value	(17,135)	(8,129)	(25,264)
Less: allowance for uncollectible amounts	<u>(75,000)</u>	<u> </u>	<u>(75,000)</u>
Net pledges receivable	<u>\$ 717,347</u>	<u>\$ 15,920,840</u>	<u>\$ 16,638,187</u>

June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Receivables due in:			
less than one year	\$ 596,384	\$ 23,084,986	\$ 23,681,370
in two to five years	409,475	218,764	628,239
more than five years	<u>500</u>	<u>25,000</u>	<u>25,500</u>
Total receivables	1,006,359	23,328,750	24,335,109
Less: net present value	(33,736)	(14,980)	(48,716)
Less: allowance for uncollectible amounts	<u>(45,111)</u>	<u>(4,889)</u>	<u>(50,000)</u>
Net contributions receivable	<u>\$ 927,512</u>	<u>\$ 23,308,881</u>	<u>\$ 24,236,393</u>

The net present value of estimated cash flows is calculated using a discount rate of 4%. See Note 1.

NOTE 5 – TRUSTS RECEIVABLE

The Museum was named as a beneficiary of four charitable remainder trusts, one of which was received in August 2014 for \$231,939. The trusts have been recognized at the present value of the contributions to be received using a discount rate of 4%.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 – TRUSTS RECEIVABLE (Continued)

The trusts receivable consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Receivable due in less than one year	\$ 231,939	\$ 235,459
Receivable due in two to five years	25,000	25,000
Receivable due more than five years	<u>828,264</u>	<u>702,624</u>
Total trusts receivable	1,085,203	963,083
Less: net present value	<u>(268,817)</u>	<u>(230,724)</u>
Net trusts receivable	<u>\$ 816,386</u>	<u>\$ 732,359</u>

NOTE 6 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 1,843,594	\$ 1,843,594
Buildings	19,685,369	19,685,369
Furniture and equipment	<u>1,621,771</u>	<u>1,602,215</u>
	23,150,734	23,131,178
Less: accumulated depreciation	<u>(6,653,787)</u>	<u>(6,045,295)</u>
	16,496,947	17,085,883
Construction in progress	<u>10,747,095</u>	<u>1,287,408</u>
	<u>\$ 27,244,042</u>	<u>\$ 18,373,291</u>

Depreciation expense at June 30, 2014 and 2013 was \$608,492 and \$595,278, respectively.

NOTE 7 – LINES OF CREDIT

The Museum has an agreement with a bank for a line of credit in the amount of \$350,000, which expires May 31, 2015 with an interest rate at prime plus 1.75% (5% at June 30, 2014). This line of credit is used for museum operation needs. The outstanding balance at June 30, 2014 and 2013 was \$1,750 and zero, respectively.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 – LINES OF CREDIT (Continued)

The Museum has an agreement with a bank dated July 10, 2013 for a line of credit in the amount of \$1,000,000, which expires July, 2015 with an interest rate at prime minus 1.75%. The line of credit is secured by museum investments held by the bank. The line of credit may be used for temporary cash flow needs of the building project detailed in footnote 12 and 13. The outstanding balance at June 30, 2014 and 2013 was zero.

NOTE 8 – 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 the Museum to finance the acquisition, construction, and equipping of a new art museum. The bonds were issued pursuant to a loan and financing agreement and a trust indenture dated June 1, 2002.

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, 2014 and 2013, the variable daily interest rates were .04% and .08%. The bonds are collateralized by a letter of credit with a bank. The bonds are callable at any time by the museum and require no principal payments until maturity in June 2032. Bonds payable totaled \$10,000,000 at June 30, 2014 and 2013.

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. The Museum was in compliance these covenants at June 30, 2014.

Pursuant to a Reimbursement Agreement dated June 1, 2002, between the Museum 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. Effective June 14, 2011 the LOC expiration date was extended to December 4, 2014, 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. The Museum is required to pay a quarterly LOC fee of .8% per annum. Although the LOC is unsecured, the Museum 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 reside in the "Investments" line on the statements of financial position.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are as follows at June 30:

	<u>2014</u>	<u>2013</u>
Time restrictions		
General operations	\$ 239,927	\$ 381,784
Purpose restrictions		
2003 building campaign (held for bond redemption)	2,974,814	3,025,095
2010 campaign and Haub gift		
Museum plaza and Haub galleries	5,214,406	13,454,485
Haub endowment	8,509,690	8,509,690
Haub transition expense	720,490	1,000,000
Art acquisitions	3,353,725	3,000,000
Art endowment	<u>469,086</u>	<u>692,201</u>
	<u>\$ 21,482,138</u>	<u>\$ 30,063,255</u>

Temporarily restricted net assets released during 2014 and 2013 totaled \$10,187,467 and \$1,227,056, respectively. The Museum had met the time or purpose restrictions for these contributions.

NOTE 10 – DEFINED CONTRIBUTION PLAN

The Museum sponsors a 403(b) defined contribution pension plan. Employees may contribute up to the new Internal Revenue Service limits per year. The Museum 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 the Museum at year-end. For the years ended June 30, 2014 and 2013, the Museum made matching contributions of \$11,007 and \$10,826, respectively.

NOTE 11 – FUTURE COMMITMENTS

The Museum has committed to spend \$15,500,000 for construction of its new wing. As of June 30, 2014 the museum has expended \$10,747,095 and has a remaining commitment of \$4,752,905.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 12 – CAMPAIGN

The Tacoma Art Museum's Board of Directors unanimously approved at their May 25, 2010 meeting to engage in a \$17 million Capital Campaign. The Campaign has three components: (1) increase the Museum's endowments by \$10,000,000 providing access and education for the community (2) provide funds to re-design the Museum's plaza for \$3,500,000 and (3) provide funds to enhance the Museum's art collection for \$2,500,000. The Museum estimates campaign expenses to be \$1,000,000.

To date the Campaign has received pledges and contributions in the amount:

	<u>2014</u>	<u>2013</u>
Donor Designation Amount		
Undesignated (Unrestricted)	\$ 1,761,449	\$ 1,576,449
Access (Unrestricted)	3,040,000	3,040,000
Art Acquisition		
(Temporarily and Permanently Restricted)	3,512,854	3,164,354
Museum plaza (Temporarily Restricted)	<u>3,479,762</u>	<u>2,654,762</u>
	<u>\$ 11,794,065</u>	<u>\$ 10,435,565</u>

In addition the Campaign has received commitments of \$1,005,000 of planned gifts as of June 30, 2014. These gifts have not been included in the financial statements. It is the Museum's expectation these future gifts will be fulfilled.

The Board has established that funds will not be expended for the campaign until raised and collected. As of June 30, 2014 the Museum has recorded \$10,747,095 of construction in progress and \$683,588 of campaign expenses. As of June 30, 2014, the Museum has received \$10,747,095 of cash gifts for use towards construction.

NOTE 13 – HAUB GIFT

In January of 2012, The Tacoma Art Museum's received a letter of intent from a donor concerning a significant gift of Western American art, expansion funding for exhibition spaces and lobby, endowment funds for future operating expense and transitional expenses.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 13 – HAUB GIFT (Continued)

In August of 2012, The Tacoma Art Museum and the Haub Family signed an Update to the prior LOI. The Update called for: the outright and/or promised gift of title and interest in approximately 280 works of art; \$12,000,000 of expansion funding for exhibition spaces and lobby; \$7,000,000 of endowment funding; and \$1,000,000 for transitional expenses. In October 2013, The Tacoma Art Museum and the Haubs signed a Final Haub/TAM Donation Agreement which more fully set out the details of the gift and changed the allocation of the \$12,000,000 cash gift to: up to \$1,000,000 in transitional expenses; up to \$10,490,310 in expansion construction; and the balance to endowment.

The timing of the pledge payments will be immediate reimbursement for construction and transition expenses with endowment payment to be received prior to the wing opening. As of June 30, 2014 the museum has received reimbursements of \$6,725,074 for construction and \$316,584 for transitional expenses.

Subsequent to year end, \$6,000,000 was received from the Haub family for the Haub Family Endowment as a portion of the \$8,509,690 endowment funding noted above. At the September 2014 board meeting, the Board accessioned 138 outright gifts of works of art and 157 promised gifts of works of art from the Haub Family Collection for a total of 295 works of art.

NOTE 14 – ANNE GOULD HAUBERG GIFT

Between April and December 2013, Tacoma Art Museum accepted 139 works from Seattle arts patron Anne Gould Hauberg. These works were accepted throughout the year as per the request of the donor's trustees. The collection includes primarily studio art glass by artists associated with the Pilchuck Glass School as well as the painting *Northwest Fantasy* by Mark Toby. The approximate value for these works is \$1,023,000. Per Museum policy, permanent collections are not capitalized or recognized as contributions to the collection, see Note 1.

NOTE 15 – RECLASSIFICATIONS

Certain amounts reported in prior years have been reclassified to conform to the presentation at June 30, 2014. The reclassifications have no impact on the previously reported change in net assets.