



FINANCIAL STATEMENTS
With Independent Auditor's Report
Years Ended June 30, 2017 and 2016

**TACOMA
ART
MUSEUM**

Juventino Aranda
Yerba Buena, Buffalo Soldiers, Three Strikes (Yosemite), 2015
Pendleton wool and oil stick
72 × 55 inches
Tacoma Art Museum, Gift of Collect 21NW, 2016, 2016.10.1

TACOMA ART MUSEUM
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

TABLE OF CONTENTS

| | |
|------------------------------------|---------|
| INDEPENDENT AUDITOR'S REPORT | 2 |
| STATEMENTS OF FINANCIAL POSITION | |
| June 30, 2017 and 2016 | 4 |
| STATEMENTS OF ACTIVITIES | |
| Years ended June 30, 2017 and 2016 | 5 - 6 |
| STATEMENTS OF FUNCTIONAL EXPENSES | |
| Year ended June 30, 2017 | 7 |
| Year ended June 30, 2016 | 8 |
| STATEMENTS OF CASH FLOWS | 9 - 10 |
| Years ended June 30, 2017 and 2016 | |
| NOTES TO FINANCIAL STATEMENTS | 11 - 23 |

INDEPENDENT AUDITOR'S REPORT

November 14, 2017

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 statements of financial position as of June 30, 2017 and 2016 and the related statements of activities, 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.

Auditors' 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 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, 2017 and 2016, 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.

A handwritten signature in cursive script that reads "Jacobson Jarvis & Co, PLLC".

Jacobson Jarvis & Co, PLLC

TACOMA ART MUSEUM

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 733,878 | \$ 677,243 |
| Promises to give, net (Note B) | 113,646 | 277,124 |
| Accounts and grants receivable | 175,049 | 100,213 |
| Prepays and deposits | 128,469 | 83,211 |
| Art held for sale | - | 80,000 |
| Inventory | 89,542 | 95,647 |
| Total Current Assets | <u>1,240,584</u> | <u>1,313,438</u> |
| Other Assets | | |
| Long-term promises to give, net (Note B) | 12,891,051 | 12,673,103 |
| Investments (Note C) | 30,550,237 | 27,998,133 |
| Assets held in trust (Note E) | 679,758 | 838,517 |
| Total Other Assets | <u>44,121,046</u> | <u>41,509,753</u> |
| Permanent Collection (Note F) | - | - |
| Property and Equipment, net (Note G) | <u>29,997,275</u> | <u>30,352,566</u> |
| Total Assets | <u>\$ 75,358,905</u> | <u>\$ 73,175,757</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current Liabilities | | |
| Accounts payable | \$ 199,182 | \$ 216,532 |
| Accrued expenses | 103,085 | 155,565 |
| Total Current Liabilities | 302,267 | 372,097 |
| Bonds Payable (Note I) | <u>9,851,540</u> | <u>9,841,588</u> |
| Total Liabilities | <u>10,153,807</u> | <u>10,213,685</u> |
| Net Assets | | |
| Unrestricted | 33,884,960 | 33,001,128 |
| Temporarily restricted | 15,499,091 | 14,582,202 |
| Permanently restricted | <u>15,821,047</u> | <u>15,378,742</u> |
| Total Net Assets | <u>65,205,098</u> | <u>62,962,072</u> |
| Total Liabilities and Net Assets | <u>\$ 75,358,905</u> | <u>\$ 73,175,757</u> |

See notes to financial statements.

TACOMA ART MUSEUM

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | | | | 2016 | | | |
|--|--------------|------------------------|------------------------|--------------|--------------|------------------------|------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| OPERATING: | | | | | | | | |
| Support | | | | | | | | |
| Contributions | \$ 368,733 | \$ 675,406 | \$ - | \$ 1,044,139 | \$ 778,089 | \$ 139,831 | \$ - | \$ 917,920 |
| Grants | 860,749 | 40,000 | - | 900,749 | 433,500 | 37,500 | - | 471,000 |
| Special events | 340,562 | 2,950 | - | 343,512 | 397,302 | 63,138 | - | 460,440 |
| Business contributions | 21,180 | 116,167 | - | 137,347 | 171,797 | 127,300 | - | 299,097 |
| Memberships | 249,612 | - | - | 249,612 | 260,800 | - | - | 260,800 |
| In-kind contributions | 32,676 | - | - | 32,676 | 95,824 | - | - | 95,824 |
| Endowment appropriation transferred from non-operating | 1,049,732 | - | - | 1,049,732 | 1,011,067 | - | - | 1,011,067 |
| Total Support | 2,923,244 | 834,523 | - | 3,757,767 | 3,148,379 | 367,769 | - | 3,516,148 |
| Revenue | | | | | | | | |
| Retail income, net | 328,119 | - | - | 328,119 | 330,314 | - | - | 330,314 |
| Admissions and tours | 252,744 | - | - | 252,744 | 237,562 | - | - | 237,562 |
| Facility rental | 93,276 | - | - | 93,276 | 103,699 | - | - | 103,699 |
| Art loan fees and shipping | 134,421 | - | - | 134,421 | 99,736 | - | - | 99,736 |
| Other income | 44,618 | - | - | 44,618 | 106,762 | - | - | 106,762 |
| Total Revenue | 853,178 | - | - | 853,178 | 878,073 | - | - | 878,073 |
| Net Assets Released from Restrictions | | | | | | | | |
| Satisfaction of purpose restrictions | 1,764,630 | (1,764,630) | - | - | 792,314 | (792,314) | - | - |
| Satisfaction of time restrictions | - | - | - | - | 116,616 | (116,616) | - | - |
| Total Net Assets Released from Restrictions | 1,764,630 | (1,764,630) | - | - | 908,930 | (908,930) | - | - |
| Total Operating Support and Revenue | 5,541,052 | (930,107) | - | 4,610,945 | 4,935,382 | (541,161) | - | 4,394,221 |
| Expenses | | | | | | | | |
| Program Services | | | | | | | | |
| Exhibitions and curatorial | 1,380,429 | | | 1,380,429 | 1,690,624 | | | 1,690,624 |
| Museum services | 1,003,468 | | | 1,003,468 | 1,080,279 | | | 1,080,279 |
| Marketing | 372,629 | | | 372,629 | 543,559 | | | 543,559 |
| Education | 444,212 | | | 444,212 | 534,362 | | | 534,362 |
| Total Program Services Expenses | 3,200,738 | | | 3,200,738 | 3,848,824 | | | 3,848,824 |
| Administration | 918,345 | | | 918,345 | 378,687 | | | 378,687 |
| Development | 863,073 | | | 863,073 | 764,151 | | | 764,151 |
| Total Supporting Services Expenses | 1,781,418 | | | 1,781,418 | 1,142,838 | | | 1,142,838 |
| Total Operating Expenses | 4,982,156 | | | 4,982,156 | 4,991,662 | | | 4,991,662 |
| Operating Change in Net Assets | \$ 558,896 | \$ (930,107) | \$ - | \$ (371,211) | \$ (56,280) | \$ (541,161) | \$ - | \$ (597,441) |

See notes to financial statements.

TACOMA ART MUSEUM

STATEMENTS OF ACTIVITIES (Continued)

YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | | | | 2016 | | | |
|---|----------------------|---------------------------|---------------------------|----------------------|----------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| NON-OPERATING: | | | | | | | | |
| Endowment contributions | \$ - | \$ - | \$ 442,305 | \$ 442,305 | \$ - | \$ - | \$ 3,812,838 | \$ 3,812,838 |
| Capital contributions | - | 766,168 | - | 766,168 | - | 8,492,033 | - | 8,492,033 |
| Change in value of assets held in trust | - | (13,759) | - | (13,759) | - | (70,229) | - | (70,229) |
| Depreciation | (1,078,219) | - | - | (1,078,219) | (1,071,859) | - | - | (1,071,859) |
| Interest and dividends | 415,848 | 143,488 | - | 559,336 | 605,118 | 54,271 | - | 659,389 |
| Investment gain (loss), net of fees of \$77,565 and \$108,891 | 2,307,924 | 951,099 | - | 3,259,023 | (1,515,148) | (57,606) | - | (1,572,754) |
| Acquisition of collection items | (109,977) | - | - | (109,977) | (206,805) | - | - | (206,805) |
| Bond interest and fees | (183,693) | - | - | (183,693) | (131,742) | - | - | (131,742) |
| Gain (loss) on sale of assets | 22,785 | - | - | 22,785 | (41,480) | - | - | (41,480) |
| Transfer of endowment appropriation to operating | (1,049,732) | - | - | (1,049,732) | (1,011,067) | - | - | (1,011,067) |
| Non-Operating Change in Net Assets | 324,936 | 1,846,996 | 442,305 | 2,614,237 | (3,372,983) | 8,418,469 | 3,812,838 | 8,858,324 |
| Total Change in Net Assets | 883,832 | 916,889 | 442,305 | 2,243,026 | (3,429,263) | 7,877,308 | 3,812,838 | 8,260,883 |
| Net Assets - beginning of year | 33,001,128 | 14,582,202 | 15,378,742 | 62,962,072 | 36,430,391 | 6,704,894 | 11,565,904 | 54,701,189 |
| Net Assets - end of year | <u>\$ 33,884,960</u> | <u>\$ 15,499,091</u> | <u>\$ 15,821,047</u> | <u>\$ 65,205,098</u> | <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, 2017

| | Program Services | | | | | Supporting Services | | | |
|----------------------------------|-----------------------------------|---------------------------|-------------------|-------------------|-------------------------------------|-----------------------|--------------------|--|---------------------|
| | Exhibitions/ <u>Curatorial</u> | Museum <u>Services</u> | <u>Marketing</u> | <u>Education</u> | Total Program <u>Services</u> | <u>Administration</u> | <u>Development</u> | Total Supporting <u>Services</u> | <u>Total</u> |
| Operating Expenses | | | | | | | | | |
| Salaries and related expenses | \$ 432,951 | \$ 737,784 | \$ 167,355 | \$ 255,530 | \$ 1,593,620 | \$ 664,008 | \$ 398,406 | \$ 1,062,414 | \$ 2,656,034 |
| Contracted services | 176,196 | 64,573 | 75,591 | 83,183 | 399,543 | 66,133 | 226,811 | 292,944 | 692,487 |
| Postage and shipping | 217,786 | 3,074 | 2,734 | 1,761 | 225,355 | 2,954 | 6,800 | 9,754 | 235,109 |
| Telephone and utilities | 82,652 | 25,432 | - | 10,597 | 118,681 | 93,250 | 1,537 | 94,787 | 213,468 |
| Supplies | 62,551 | 35,748 | 4,068 | 32,637 | 135,004 | 12,492 | 14,906 | 27,398 | 162,402 |
| Travel and entertainment | 60,335 | 9,687 | 2,968 | 24,515 | 97,505 | 9,545 | 18,194 | 27,739 | 125,244 |
| Catering | 433 | 65,265 | 168 | 12,132 | 77,998 | 779 | 39,535 | 40,314 | 118,312 |
| Insurance | 84,300 | 6,498 | - | 2,708 | 93,506 | 23,827 | - | 23,827 | 117,333 |
| Bad debt expense | - | - | - | - | - | - | 117,272 | 117,272 | 117,272 |
| Exhibition loan fees | 114,806 | - | - | - | 114,806 | - | - | - | 114,806 |
| Printing and publications | 29,493 | 4,290 | 33,452 | 2,453 | 69,688 | 4,305 | 22,328 | 26,633 | 96,321 |
| Publicity and advertising | - | 2,709 | 65,569 | 374 | 68,652 | - | 113 | 113 | 68,765 |
| Interest and bank charges | 7,966 | 15,856 | 3,125 | 5,529 | 32,476 | 14,493 | 1,145 | 15,638 | 48,114 |
| Building repairs and maintenance | 18,205 | 5,863 | - | 2,334 | 26,402 | 20,538 | - | 20,538 | 46,940 |
| Dues and subscriptions | 13,704 | 5,156 | 13,907 | 3,965 | 36,732 | 5,437 | 597 | 6,034 | 42,766 |
| Photography | 32,288 | - | - | - | 32,288 | - | 1,499 | 1,499 | 33,787 |
| Miscellaneous | 13,678 | 10,610 | 2,165 | 4,401 | 30,854 | (1,287) | 3,884 | 2,597 | 33,451 |
| Donated goods and services | 15,000 | 7,630 | - | - | 22,630 | - | 10,046 | 10,046 | 32,676 |
| Professional development | 18,053 | 1,720 | 1,515 | 1,935 | 23,223 | 1,814 | - | 1,814 | 25,037 |
| Equipment rental/maintenance | 32 | 1,573 | 12 | 158 | 1,775 | 57 | - | 57 | 1,832 |
| Total Operating Expenses | 1,380,429 | 1,003,468 | 372,629 | 444,212 | 3,200,738 | 918,345 | 863,073 | 1,781,418 | 4,982,156 |
| Depreciation | 414,433 | 130,581 | - | 54,409 | 599,423 | 478,796 | - | 478,796 | 1,078,219 |
| Bond interest and fees | 77,712 | 20,848 | - | 8,687 | 107,247 | 76,446 | - | 76,446 | 183,693 |
| Acquisition of collection items | 109,977 | - | - | - | 109,977 | - | - | - | 109,977 |
| Total Expenses | <u>\$ 1,982,551</u> | <u>\$ 1,154,897</u> | <u>\$ 372,629</u> | <u>\$ 507,308</u> | <u>\$ 4,017,385</u> | <u>\$ 1,473,587</u> | <u>\$ 863,073</u> | <u>\$ 2,336,660</u> | <u>\$ 6,354,045</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 |
| Insurance | 71,558 | 23,380 | 6,141 | 7,313 | 108,392 | 8,035 | - | 8,035 | 116,427 |
| Bad debt recovery | - | - | - | - | - | - | (13,645) | (13,645) | (13,645) |
| Exhibition loan fees | 64,795 | - | - | - | 64,795 | - | - | - | 64,795 |
| Printing and publications | 11,072 | 1,752 | 21,615 | 12,126 | 46,565 | 623 | 38,998 | 39,621 | 86,186 |
| Publicity and advertising | 2,763 | 1,205 | 120,046 | 4,400 | 128,414 | - | 92 | 92 | 128,506 |
| Interest and 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 |
| Dues and subscriptions | 72,809 | 9,363 | 24,968 | 5,670 | 112,810 | 3,058 | 1,563 | 4,621 | 117,431 |
| Photography | 55,011 | - | 960 | - | 55,971 | - | - | - | 55,971 |
| Miscellaneous | 4,338 | 8,226 | 2,599 | 3,804 | 18,967 | 3,479 | 1,905 | 5,384 | 24,351 |
| Donated goods and services | 30,000 | 16,030 | - | - | 46,030 | - | 40,978 | 40,978 | 87,008 |
| 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 |
| Total Operating Expenses | 1,690,624 | 1,080,279 | 543,559 | 534,362 | 3,848,824 | 378,687 | 764,151 | 1,142,838 | 4,991,662 |
| Depreciation | 418,025 | 128,623 | - | 53,593 | 600,241 | 471,618 | - | 471,618 | 1,071,859 |
| Bond interest and fees | 32,992 | 51,237 | 13,162 | 15,675 | 113,066 | 18,676 | - | 18,676 | 131,742 |
| Acquisition of collection items | 206,805 | - | - | - | 206,805 | - | - | - | 206,805 |
| 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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|--------------------------|--------------------------|
| Cash Flows from Operating Activities | | |
| Cash received from: | | |
| Donors | \$ 3,287,404 | \$ 2,828,883 |
| Retail income | 356,378 | 434,079 |
| Admissions and tours | 252,744 | 237,562 |
| Facility rental | 93,276 | 103,699 |
| Other | 179,039 | 206,498 |
| Cash paid for: | | |
| Personnel | (2,708,514) | (2,360,103) |
| Services and supplies | (2,623,845) | (2,652,767) |
| Bond interest and fees | <u>(173,741)</u> | <u>(121,789)</u> |
| Net Cash Used by Operating Activities | <u>(1,337,259)</u> | <u>(1,323,938)</u> |
| Cash Flows from Investing Activities | | |
| Purchases of investments | (6,721,051) | (28,571,016) |
| Proceeds from sale of investments | 7,987,306 | 29,704,635 |
| Purchases of property and equipment | (639,319) | (177,337) |
| Proceeds from sale of art held for sale | <u>-</u> | <u>310,000</u> |
| Net Cash Provided by Investing Activities | <u>626,936</u> | <u>1,266,282</u> |
| Cash Flows from Financing Activities | | |
| Cash received from endowment contributions | 330,888 | - |
| Cash received from capital contributions | <u>436,070</u> | <u>-</u> |
| Net Cash Provided by Financing Activities | <u>766,958</u> | <u>-</u> |
| Changes in Cash and Cash Equivalents | 56,635 | (57,656) |
| Cash and Cash Equivalents - beginning of year | <u>677,243</u> | <u>734,899</u> |
| Cash and Cash Equivalents - end of year | <u><u>\$ 733,878</u></u> | <u><u>\$ 677,243</u></u> |

TACOMA ART MUSEUM

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| Reconciliation of Change in Net Assets to Net Cash | | |
| Flows from Operating Activities | | |
| Change in net assets | \$ 2,243,026 | \$ 8,260,883 |
| Adjustments to reconcile change in net assets to net cash used by operating activities | | |
| Depreciation and amortization | 1,088,171 | 1,081,812 |
| Interest and dividends reinvested | (559,336) | (659,389) |
| (Gain) loss on investments | (3,259,023) | 1,572,754 |
| Change in value of assets held in trust | 158,759 | 70,229 |
| (Gain) loss on sale of assets | (22,785) | 41,480 |
| Artwork approved for sale | 80,000 | (80,000) |
| (Increase) decrease in | | |
| Promises to give | (821,428) | (11,764,794) |
| Accounts and grants receivable | (74,836) | (38,767) |
| Prepays and deposits | (45,258) | 237,973 |
| Inventory | 6,105 | (26,033) |
| (Decrease) increase in | | |
| Accounts payable | (78,174) | (70,254) |
| Accrued expenses | <u>(52,480)</u> | <u>50,168</u> |
| Net Cash Used by Operating Activities | <u>\$ (1,337,259)</u> | <u>\$ (1,323,938)</u> |

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 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:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Benaroya building expansion and exhibition | \$ 8,440,507 | \$ 8,492,033 |
| Bond redemption (2003 building campaign) | 2,974,814 | 2,974,814 |
| Accumulated operating endowment earnings | 2,053,933 | 1,412,053 |
| Assets held in trust (time restricted) | 679,758 | 838,517 |
| Other projects and programs | 644,357 | 332,806 |
| Art acquisition | 463,683 | 480,329 |
| Accumulated art endowment earnings | 135,147 | 51,650 |
| Accumulated Haub endowment earnings | 106,892 | - |
| | <u>\$15,499,091</u> | <u>\$14,582,202</u> |

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 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:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Haub endowment | \$ 8,591,167 | \$ 8,591,167 |
| Museum operating endowment | 2,711,023 | 2,711,023 |
| Art endowment | <u>594,602</u> | <u>263,714</u> |
| | 11,896,792 | 11,565,904 |
| Pledges receivable for future endowment | <u>3,924,255</u> | <u>3,812,838</u> |
| | <u>\$15,821,047</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.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are carried at fair value.

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.

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.

Concentration

One donor gave 29% of TAM's support for the year ended June 30, 2016. 94% and 93% of promises to give were due from that same donor at June 30, 2017 and 2016, respectively.

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.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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. TAM received approximately 8,200 and 8,600 volunteer hours during the years ended June 30, 2017 and 2016, respectively.

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 \$68,765 and \$128,506 for the years ended June 30, 2017 and 2016, respectively.

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 years ended June 30, 2017 and 2016.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Change in accounting principle

Effective July 1, 2016, TAM adopted the provisions of Accounting Standards Update 2015-3, Simplifying the Presentation of Debt Issuance Costs. Under this new principle, bond issuance costs, net of accumulated amortization, are reported as a direct reduction of the bond payable. Amortization of bond issuance costs is reported as a component of interest expense and is reported using the effective interest rate method. TAM has retrospectively presented all debt issuance costs as a direct reduction from the carrying amount of the related bond payable on the statements of financial position. The effect of the retrospective application of the accounting change for the year ended June 30, 2016 was a decrease of \$158,412 to bond issuance costs and an offsetting decrease to the bond payable by the same amount. In addition, the amortization costs for the bond payable have been reclassified from miscellaneous expense to bond interest and fees to conform with current year presentation. These reclassifications had no effect on the total net assets or total change in net assets as of or for the year ended June 30, 2016.

NOTE B - PROMISES TO GIVE

Promises to give consisted of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|---------------------|---------------------|
| Receivable in less than one year | \$ 6,864,027 | \$ 675,875 |
| Receivable in one to five years | 6,724,864 | 13,795,538 |
| Receivable in more than five years | <u>4,450</u> | <u>6,000</u> |
| | 13,593,341 | 14,477,413 |
| Less: present value discount | (556,018) | (1,472,398) |
| Less: allowance for doubtful accounts | <u>(32,626)</u> | <u>(54,788)</u> |
| | <u>\$13,004,697</u> | <u>\$12,950,227</u> |

Promises to give for endowment and capital purposes are included in long-term promises to give on the statements 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%.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE B - PROMISES TO GIVE (Continued)

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.

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, 2017 | | | | |
| Equity | \$18,549,582 | \$ - | \$ - | \$18,549,582 |
| Hedge Funds | 4,253,669 | - | - | 4,253,669 |
| REITs | 1,771,888 | - | - | 1,771,888 |
| Fixed Income | 4,383,757 | - | - | 4,383,757 |
| Cash Equivalents | 1,591,341 | - | - | 1,591,341 |
| Investments | 30,550,237 | - | - | 30,550,237 |
| Assets Held in Trust | - | - | 679,758 | 679,758 |
| | <u>\$30,550,237</u> | <u>\$ -</u> | <u>\$ 679,758</u> | <u>\$31,229,995</u> |
| | | | | |
| | 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 |
| REITs | 1,528,159 | - | - | 1,528,159 |
| Fixed Income | 5,070,522 | - | - | 5,070,522 |
| Cash Equivalents | 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> |

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

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.

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 |
| Change in value | (70,229) |
| Fair Value as of June 30, 2016 | 838,517 |
| Write-off of uncollectible trusts | (145,000) |
| Change in value | (13,759) |
| Fair Value as of June 30, 2017 | <u>\$ 679,758</u> |

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.

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.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE D - ENDOWMENT (Continued)

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. JP Morgan is the investment advisor for the investment assets.

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.

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.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE D - ENDOWMENT (Continued)

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. There were no such deficiencies as of June 30, 2017.

Endowment net assets by fund type as of June 30, 2017:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Board designated - operations | \$ 4,097,809 | | | \$ 4,097,809 |
| Board designated - bonds | 9,142,683 | | | 9,142,683 |
| Donor restricted - operations | - | \$ 426,205 | \$ 2,327,788 | 2,753,993 |
| Donor restricted - operations, Held in Trust | - | 1,627,728 | 383,235 | 2,010,963 |
| Donor restricted - Haub | - | 106,892 | 8,591,167 | 8,698,059 |
| Donor restricted - art | - | 135,147 | 594,602 | 729,749 |
| | <u>\$13,240,492</u> | <u>\$ 2,295,972</u> | <u>\$11,896,792</u> | <u>\$27,433,256</u> |

Change in endowment net assets for the year ended June 30, 2017:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | <u>\$11,789,567</u> | <u>\$ 1,463,703</u> | <u>\$11,565,904</u> | <u>\$24,819,174</u> |
| Investment return: | | | | |
| Dividend and interest | 410,612 | 140,325 | - | 550,937 |
| Realized gain | 361,880 | 187,139 | - | 549,019 |
| Unrealized gain | <u>1,944,165</u> | <u>755,789</u> | <u>-</u> | <u>2,699,954</u> |
| Total investment return | 2,716,657 | 1,083,253 | - | 3,799,910 |
| Contributions, net | - | - | 330,888 | 330,888 |
| Appropriation | <u>(1,265,732)</u> | <u>(250,984)</u> | <u>-</u> | <u>(1,516,716)</u> |
| Endowment net assets, end of year | <u>\$13,240,492</u> | <u>\$ 2,295,972</u> | <u>\$11,896,792</u> | <u>\$27,433,256</u> |

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE D - ENDOWMENT (Continued)

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> |

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 | <u>\$14,011,824</u> | <u>\$ 1,494,688</u> | <u>\$11,565,904</u> | <u>\$27,072,416</u> |
| 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 certain charitable remainder trusts as of June 30, 2017. 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 statements of activities as increases or decreases in temporarily restricted net assets.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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.

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:

| | Estimated Useful Lives | 2017 | 2016 |
|--------------------------------|---------------------------|----------------------------|----------------------------|
| Land | | \$ 1,843,594 | \$ 1,843,594 |
| Building and renovations | 30 – 40 years | 34,689,292 | 34,668,472 |
| Furniture and equipment | 3 – 15 years | <u>1,849,572</u> | <u>1,892,827</u> |
| | | 38,382,458 | 38,404,893 |
| Less: accumulated depreciation | | (9,108,412) | (8,112,206) |
| Construction in progress | | <u>723,229</u> | <u>59,879</u> |
| | | <u><u>\$29,997,275</u></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 June 1, 2018, with an interest rate at prime plus 1.75% (4.25% at June 30, 2017). This line of credit is used for museum operation needs and is collateralized by TAM's investment portfolio. There was no balance outstanding on the line of credit at June 30, 2017 or 2016.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE H - LINES OF CREDIT (Continued)

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. The lines of credit are collateralized by TAM's investment portfolio.

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, 2017, the variable daily interest rate was 0.94%. The bonds are callable at any time by TAM and require no principal payments until maturity in June 2032.

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. TAM was in compliance with these requirements at June 30, 2017.

Bond issuance costs, net of accumulated amortization, are reported as a direct reduction of the bond payable. Amortization of bond issuance costs is reported as a component of interest expense.

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, 2017.

Bonds payable consist of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|---------------------|---------------------|
| Bonds payable | \$10,000,000 | \$10,000,000 |
| Loan issuance costs | 298,580 | 298,580 |
| Accumulated amortization | <u>(150,120)</u> | <u>(140,168)</u> |
| Less: Net loan issuance costs | <u>148,460</u> | <u>158,412</u> |
| Net bonds payable | <u>\$ 9,851,540</u> | <u>\$ 9,841,588</u> |

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 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 years ended June 30, 2017 and 2016, TAM contributed \$13,595 and \$10,794, respectively, 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 occurred during October 2016 through April 2017. The building construction started in October 2017.

NOTE L - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2017 through November 14, 2017, 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, 2017, including the estimates inherent in the processing of financial statements. The following events arose after June 30, 2017 relating to conditions that did not exist as of June 30, 2017:

In September 2017, the Board of Trustees approved the redemption of TAM's \$10,000,000 outstanding bond payable. The bond was redeemed in November 2017. Management has an agreement with JP Morgan for a \$10,000,000 line of credit with an interest rate of LIBOR plus 1% expiring on December 31, 2018.