

**TACOMA ART MUSEUM**  
**INDEPENDENT AUDITOR'S REPORT**  
**AND**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

BRANTLEY JANSON YOST & ELLISON  
Certified Public Accountants  
A Professional Service Corporation  
1617 South 325<sup>th</sup> Street  
Federal Way, Washington 98003-6009

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**INDEPENDENT AUDITOR'S REPORT**

October 15, 2010

Board of Trustees  
Tacoma Art Museum  
Tacoma, Washington

We have audited the accompanying statements of financial position of Tacoma Art Museum (a not-for-profit organization) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements, based on our audit. The prior year summarized comparative information has been derived from the Tacoma Art Museum's 2009 financial statements and, in our report dated October 15, 2009, we expressed an unqualified opinion on those financial statements.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Brantley Janson Yost & Ellison*

**TACOMA ART MUSEUM**

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2010 AND 2009**

**ASSETS**

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 334,750	\$ 350,264
Contributions receivable, net	658,224	426,392
Trust receivable	10,000	10,000
Accounts receivable	29,890	13,089
Prepaid expenses	244,340	229,232
Inventory	<u>130,058</u>	<u>166,059</u>
Total current assets	1,407,262	1,195,036
OTHER ASSETS		
Investments	17,807,415	16,954,353
Asset, available for sale	3,000,000	3,000,000
Real estate, available for sale	678,637	1,162,090
Contributions receivable, net	20,480	86,968
Trusts receivable, net	890,030	754,263
Bond issuance costs, net	<u>218,129</u>	<u>228,081</u>
	22,614,691	22,185,755
PERMANENT COLLECTIONS (Note 1)		
LAND, BUILDINGS AND EQUIPMENT, net of accumulated depreciation	<u>18,817,468</u>	<u>19,213,987</u>
TOTAL ASSETS	<u>\$ 42,839,421</u>	<u>\$ 42,594,778</u>

**LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES		
Line of credit	\$ 200,312	\$ 70,770
Accounts payable and accrued expenses	<u>233,475</u>	<u>212,807</u>
Total current liabilities	433,787	283,577
BONDS PAYABLE	10,000,000	10,000,000
NET ASSETS		
Unrestricted	23,135,052	22,961,297
Temporarily restricted	6,494,209	6,573,531
Permanently restricted	<u>2,776,373</u>	<u>2,776,373</u>
	<u>32,405,634</u>	<u>32,311,201</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 42,839,421</u>	<u>\$ 42,594,778</u>

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

TACOMA ART MUSEUM

STATEMENTS OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010 WITH COMPARATIVE TOTALS FOR 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
<b>SUPPORT AND REVENUE</b>					
Public support					
Contributions	\$ 837,930	\$ 107,785	\$	\$ 945,715	\$ 3,908,137
Grants	506,418	45,500		551,918	442,216
In-kind donations	61,053			61,053	118,963
Memberships	116,391			116,391	130,872
Net assets released from restrictions	261,120	(261,120)			
Total public support	1,782,912	(107,835)		1,675,077	4,600,188
Revenue					
Investment return (loss), net	2,094,874	7,056		2,101,930	(2,048,057)
Loss on value of real estate, available for sale	(498,592)			(498,592)	
Museum store	126,093			126,093	294,432
Auxiliary income	239,931	15,000		254,931	631,971
Admissions/tours	160,480			160,480	205,444
Miscellaneous	249,959	6,457		256,416	53,384
Total revenue	2,372,745	28,513		2,401,258	(862,826)
Total support and revenue	4,155,657	(79,322)		4,076,335	3,737,362
<b>EXPENSES</b>					
Program services	3,010,883			3,010,883	3,954,516
Supporting services					
Administration	499,760			499,760	587,209
Development	460,409			460,409	487,785
Total supporting services	960,169			960,169	1,074,994
Total expenses	3,971,052			3,971,052	5,029,510
Change in net assets before nonoperating expense	184,605	(79,322)		105,283	(1,292,148)
<b>NONOPERATING EXPENSE</b>					
Acquisition of collection items	10,850			10,850	10,665
<b>CHANGE IN NET ASSETS</b>	173,755	(79,322)		94,433	(1,302,813)
<b>NET ASSETS, beginning of year</b>	22,961,297	6,573,531	2,776,373	32,311,201	33,614,014
<b>NET ASSETS, end of year</b>	\$ 23,135,052	\$ 6,494,209	\$ 2,776,373	\$ 32,405,634	\$ 32,311,201

TACOMA ART MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2010 WITH COMPARATIVE TOTALS FOR 2009

	Program Services					Supporting Activities			
	Exhibitions/ Curatorial	Education	Marketing	Museum Services	Membership	Program Services	Administration	Development	Supporting Activities
						Total			2010 Total
									2009
Salaries	\$ 417,896	\$ 192,319	\$ 75,082	\$ 208,622	\$ 64,582	\$ 958,501	\$ 262,764	\$ 195,287	\$ 1,416,552
Payroll taxes	49,938	19,629	7,650	22,479	5,956	105,652	27,687	18,055	151,394
Employee benefits	42,835	25,876	6,584	20,631	4,513	100,439	28,169	13,712	142,320
Total salaries and related expenses	510,669	237,824	89,316	251,732	75,051	1,164,592	318,620	227,054	1,710,266
Bad debt expense					971	971	5,503	2,913	9,387
Bldg. repairs & maintenance	37,360	4,461	525	2,552	1,496	46,394	1,783	4,804	52,981
Catering	1,103	535	13	1,273	14,624	17,548	9,412	43,880	70,840
Contracted services	71,207	25,971	29,212	3,370	12,233	141,993	41,681	104,411	288,085
Donated goods and services			50,000		2,763	52,763		8,290	356,760
Dues and subscriptions	422	1,478	1,692	1,872	255	5,719	15,568	770	61,053
Equipment rental/maintenance	2,551	289	30	1,318	12	4,200	3,674	55	22,057
Exhibition loan fees	30,900					30,900			7,929
Insurance	18,471					18,471	37,242		30,900
Investment expenses	207,228	24,744	2,914	14,154	1,165	250,205	4,662	5,244	55,713
Bank charges	23,589	2,834	328	1,645	131	28,527	525	591	260,111
Labor exhibition installation	30,141					30,141			29,643
Merchandise expense						83,978			30,141
Miscellaneous	9,454	1,302		2,891	441	14,088	478	1,405	83,978
Off-site storage	1,665					1,665			15,971
Photography	1,982					2,087			1,665
Postage & shipping	54,348	3,465	105	1,407	1,975	68,272	3,121	6,640	2,087
Printing & publications	16,764	1,442	24,334	778	3,340	46,658	15,021	10,064	78,033
Professional development				11	177	1,251	507	532	71,743
Publicity & advertising			114,862	1,981		116,843			2,290
Real estate and misc. taxes	359	43	5	78	2	487	2,857	9	116,843
Supplies	56,134	17,077	2,693	4,074	6,549	86,527	18,307	20,768	3,353
Telephone	3,433	2,592	1,226	981	490	8,722	6,228	2,207	39,075
Travel & entertainment	10,182	2,247	43	70	1,678	14,220		4,556	125,602
Utilities	139,018	16,600	1,955	9,495	782	167,850	3,284	3,518	17,157
Total expenses before depreciation and amortization	1,228,043	342,904	326,330	383,660	124,135	2,405,072	488,473	447,711	18,776
Depreciation and amortization	501,752	59,912	7,054	34,271	2,822	605,811	11,287	12,698	174,652
Total expenses	\$ 1,729,795	\$ 402,816	\$ 333,384	\$ 417,931	\$ 126,957	\$ 3,010,883	\$ 499,760	\$ 460,409	\$ 3,971,052
									\$ 5,029,510

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

# TACOMA ART MUSEUM

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u> (Reclassified)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 94,433	\$ (1,302,813)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	629,796	634,816
Net investment (gains) losses	(2,101,930)	2,048,057
Adjustment to investment in real estate	431,200	
Loss on sale of personal property included with investment in real estate	38,758	
Non-cash adjustments to receivables and inventory		242,826
Non-cash contribution		(3,000,000)
Contributions restricted for long-term assets		(3,250)
Acquisition of collection items	10,850	10,665
Changes in assets and liabilities:		
Contributions receivable	(165,344)	305,282
Trust receivable	(135,767)	174,677
Accounts receivable	(16,801)	(8,502)
Prepaid expenses	(15,108)	1,587
Inventory	36,001	11,363
Proceeds from sale of investments	1,248,868	955,660
Accounts payable and accrued expenses	20,668	(147,322)
Net cash provided (used) by operating activities	<u>75,624</u>	<u>(76,954)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(223,325)	(101,397)
Proceeds from sale of contents of investment in real estate	13,495	
Acquisition of collection items	(10,850)	(10,665)
Net cash used by investing activities	<u>(220,680)</u>	<u>(112,062)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Collections of contributions restricted for long-term assets		3,250
Change in line of credit, net	129,542	70,770
Net cash provided by financing activities	<u>129,542</u>	<u>74,020</u>
<b>NET CHANGE IN CASH</b>	(15,514)	(114,996)
<b>CASH, beginning of year</b>	<u>350,264</u>	<u>465,260</u>
<b>CASH, end of year</b>	<u>\$ 334,750</u>	<u>\$ 350,264</u>

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

## TACOMA ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

#### 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. The financial statements include the accounts maintained by and directly under the control of the Museum.

##### Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### Basis of Presentation

The Museum presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, "Not-For-Profit Entities – Presentation of Financial Statements," 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 and supplemental information 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, 2009, 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, 2010 AND 2009

#### 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 FASB ASC section 820-10 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures regarding fair value measurements. Fair value is defined under FASB ASC 820-10 as the exit price associated with the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date.

Valuation techniques used to measure fair value under FASB ASC 820-10 must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, FASB ASC 820-10 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- *Level 1* – Quoted prices in active markets for identical assets or liabilities;
- *Level 2* – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted market prices that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or,

## TACOMA ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Fair Value Measurement (Continued)

- *Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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, contributions and trust receivables, approximate their fair value based on their short-term nature. The recorded values of the line of credit and bonds payable approximate their fair values, 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. There were no uninsured cash balances at June 30, 2010.

##### Contributions and Contributions 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.

## TACOMA ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Contributions and Contributions Receivable (Continued)

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

Contributions receivable due in the next year are recorded at their net realizable value. Contributions 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.

##### Inventory

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

##### 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 are reported as operating activities in the statement of cash flows.

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.

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.

## TACOMA ART MUSEUM

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009**

#### **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. In 2009, one Chihuly glass piece with minor damage was replaced by the artist at no cost.

##### 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 computed using the straight-line method over the useful lives of the assets, which are: equipment – 3 to 10 years; building and renovations – 30 to 40 years. Planned major maintenance activities which significantly extend the useful life of the asset are capitalized.

##### 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.

##### 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, 2010 and 2009. Accumulated amortization is \$80,451 and \$70,499 at June 30, 2010 and 2009, 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. 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).

## TACOMA ART MUSEUM

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### Accounting for Uncertain Tax Positions

The Museum has adopted FASB ASC 740-10-25. Under ASC 740-10-25, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of ASC 740-10-25 had no impact on the Museum's financial statements. The Museum does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. No interest or penalties were accrued as of July 01, 2009, as a result of the adoption of ASC 740-10-25. For the year ended June 30, 2010, there were no interest or penalties recorded or included in 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.

##### Donated Goods and Services

The Museum records donated goods and services that meet the criteria under FASB ASC Section 958-605-25-2, as contributions in the accompanying statements at their estimated fair market values at date of donation. There were contributed goods and services of \$61,053 and \$118,963 during 2010 and 2009.

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 FASB ASC Section 958-605-25-2. During the years ended June 30, 2010 and 2009, the Museum received approximately 11,680 and 10,900 volunteer hours.

## TACOMA ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 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 series 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 \$116,843 and \$102,517 for the years ended June 30, 2010 and 2009.

##### Management Review of Subsequent Events

Management evaluated the effects of subsequent events through October 15, 2010, the date the financial statements were available to be issued.

##### Reclassifications

Certain amounts in 2009 have been reclassified to conform to the 2010 presentation.

#### NOTE 2 - ENDOWMENT

Washington State adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective July 1, 2009. In previous fiscal years, the Museum was required to follow the Uniform Management of Institutional Funds Act (UMIFA). 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



# TACOMA ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

### NOTE 2 – ENDOWMENT (Continued)

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 at June 30, 2010 and 2009. Interest earned on the mutual funds is considered appropriated as received. The Museum's spending policy is to expend the earned interest as it is received. 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. Performance of the Museum's investments is reviewed by the Museum's Board of Trustees on a quarterly basis.

Endowment fund composition by type of fund:

June 30, 2010		Temporarily	Permanently	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Total</u>
Donor-restricted		\$ 252,543	\$ 2,776,373	\$ 3,028,916
Board-designated	\$10,832,721			10,832,721
Restricted endowment for capital campaign		3,025,095		3,025,095
Unrestricted contributions	<u>920,683</u>	<u>          </u>	<u>          </u>	<u>920,683</u>
Total funds as of June 30, 2010	<u>\$11,753,404</u>	<u>\$3,277,638</u>	<u>\$ 2,776,373</u>	<u>\$ 17,807,415</u>
June 30, 2009		Temporarily	Permanently	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Total</u>
Donor-restricted		\$ 242,840	\$2,776,373	\$ 3,019,213
Board-designated	\$10,214,111			10,214,111
Restricted endowment for capital campaign		3,025,095		3,025,095
Unrestricted contributions	<u>695,934</u>	<u>          </u>	<u>          </u>	<u>695,934</u>
Total funds as of June 30, 2009	<u>\$10,910,045</u>	<u>\$3,267,935</u>	<u>\$ 2,776,373</u>	<u>\$ 16,954,353</u>

# TACOMA ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

### NOTE 2 – ENDOWMENT (Continued)

#### Changes in Endowment Net Assets:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 01, 2008	\$16,449,439	\$ 732,258	\$ 2,776,373	\$ 19,958,070
Investment return:				
Dividend and interest	600,723	7,492	12,592	620,807
Realized gain	176,049	779	7,270	184,098
Unrealized loss	<u>(2,818,154)</u>	<u>(14,946)</u>	<u>(19,862)</u>	<u>(2,852,962)</u>
Total investment return	(2,041,382)	(6,675)		(2,048,057)
Transfer of capital campaign for bond retirement	(2,542,352)	2,542,352		
Appropriation of endowment assets for expenditure	<u>(955,660)</u>			<u>(955,660)</u>
Endowment net assets, June 30, 2009	10,910,045	3,267,935	2,776,373	16,954,353
Investment return:				
Dividend and interest	580,771	1,671		582,442
Realized gain	218,819	2,445		221,264
Unrealized gain	<u>1,292,637</u>	<u>5,587</u>		<u>1,298,224</u>
Total investment return	2,092,227	9,703		2,101,930
Appropriation of endowment assets for expenditure	<u>(1,248,868)</u>			<u>(1,248,868)</u>
Endowment net assets, June 30, 2010	<u>\$11,753,404</u>	<u>\$3,277,638</u>	<u>\$2,776,373</u>	<u>\$ 17,807,415</u>

Permanently restricted net assets consist of the Baskin Memorial Fund, the Ramona Solberg Fund, the William K. and Barbara N. Street Endowment, and the Museum Endowment. All or a portion of the capital gains from the Baskin Memorial Fund, the Ramona Solberg Fund, and the Street Endowment are restricted as defined by each agreement. Income and net appreciation from the Museum Endowment can be used to support the Museum's general activities.



# TACOMA ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

### NOTE 3 - INVESTMENTS

In accordance with FASB ASC 820-10, 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, 2010	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities	\$ 17,807,415	\$ 17,807,415		
Asset, available for sale	3,000,000			\$ 3,000,000
Real estate, available for sale	<u>678,637</u>		\$ 678,637	
	<u>\$ 21,486,052</u>	<u>\$ 17,807,415</u>	<u>\$ 678,637</u>	<u>\$ 3,000,000</u>
Percent of total	100%	83%	3%	14%
June 30, 2009	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities	\$ 16,954,353	\$ 16,954,353		
Asset, available for sale	3,000,000			\$ 3,000,000
Real estate, available for sale	<u>1,162,090</u>		\$1,162,090	
	<u>\$ 21,116,443</u>	<u>\$ 16,954,353</u>	<u>\$1,162,090</u>	<u>\$ 3,000,000</u>
Percent of total	100%	80%	6%	14%

The Museum's valuation techniques used to measure the fair value of equities were derived using third-party quotations. The value of the asset, available for sale was determined by a third-party appraiser. The real estate value was determined using the approximate property tax values. These items are included at their carrying values, in the statements of financial position, which approximated their fair values at June 30, 2010 and 2009.

The asset, available for sale is an art asset that was received in the year ending June 30, 2009. It was not accepted into the museum collection at the donor's request as it does not fit the Museum's collection focus. The art asset for \$3,000,000 is temporarily restricted for art acquisitions. See note 10.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable consisted of the following at:

June 30, 2010	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Receivables due in:				
less than one year	\$ 523,284	\$ 142,780		\$ 666,064
in two to five years		21,410		21,410
more than six years		5,900	\$ 4,100	10,000
Total receivables	523,284	170,090	4,100	697,474
Less: net present value		8,368	2,562	10,930
Less: allowance for uncollectible amounts	7,839			7,839
Net contributions receivable	<u>\$ 515,445</u>	<u>\$ 161,722</u>	<u>\$ 1,538</u>	<u>\$ 678,704</u>
June 30, 2009	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Receivables due in:				
less than one year	\$ 306,279	\$ 176,352		\$ 482,631
in two to five years	28,432	57,123		85,555
more than six years		5,900	\$ 4,100	10,000
Total receivables	334,711	239,375	4,100	578,186
Less: net present value	1,662	4,696	2,229	8,587
Less: allowance for uncollectible amounts	11,338	44,901		56,239
Net contributions receivable	<u>\$ 321,711</u>	<u>\$ 189,778</u>	<u>\$ 1,871</u>	<u>\$ 513,360</u>

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

## TACOMA ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

#### NOTE 5 - TRUSTS RECEIVABLE

The Museum was named as a beneficiary of two charitable lead trusts under which the Museum will receive payments each year through 2014. In 2009, the lead portion of one of the trust agreements was terminated due to sustaining heavy losses. The trusts have been recognized at the present value of the contributions to be received using a discount rate of 4%. Additionally, the Museum was named as a beneficiary of five charitable remainder trusts, one of which is to be disbursed in 2014. The Museum's interest in the five remainder trusts upon distribution is expected to approximate \$190,460, \$74,325, \$209,693, \$400,552 and \$25,000.

The trusts receivable consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Receivable due in less than one year	\$ 10,000	\$ 10,000
Receivable due in two to five years	232,900	236,098
Receivable due more than five years	<u>902,726</u>	<u>760,553</u>
Total trusts receivable	1,145,426	1,006,651
Less: net present value	<u>(245,396)</u>	<u>(242,388)</u>
Net trusts receivable	<u>\$ 900,030</u>	<u>\$ 764,263</u>

#### NOTE 6 - REAL ESTATE AVAILABLE FOR SALE

An individual donor entered into an agreement with the Museum to make gifts of partial undivided interests in his home, which had an estimated fair value of \$380,000 at the time of the original agreement in 1983. In 2010, the value of the house was adjusted to a fair market value of \$650,000. In 1992 and 1997, the donor gifted the contents of his home, consisting of a variety of oriental rugs, furniture and accessories, paintings and sculptures, and books. These gifts were appraised by certified appraisers at \$80,890. In 2010, the Museum sold a portion of the contents for \$13,495 and recognized a loss on sale of \$38,758. As of June 30, 2010 and 2009, the gifts represent real estate available for sale on the balance sheet at the fair values of \$678,637 and \$1,162,090, respectively.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 7 - LAND, BUILDINGS, AND EQUIPMENT**

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

	<u>2010</u>	<u>2009</u>
Land	\$ 1,843,594	\$ 1,843,594
Buildings	19,820,310	19,652,035
Furniture and equipment	<u>1,306,044</u>	<u>1,298,761</u>
	22,969,948	22,794,390
Less: accumulated depreciation	<u>(4,200,246)</u>	<u>(3,580,403)</u>
	18,769,702	19,213,987
Collection management project	<u>47,766</u>	<u>                    </u>
	<u>\$18,817,468</u>	<u>\$ 19,213,987</u>

Depreciation expense at June 30, 2010 and 2009 was \$619,843 and \$624,863.

**NOTE 8 - LINE OF CREDIT**

The Museum has an agreement with a bank for a line of credit in the amount of \$250,000, which expires January 25, 2011 with an interest rate at prime (3.25% at June 30, 2010). The outstanding balance at June 30, 2010 and 2009 was \$200,312 and \$70,770, respectively.

**NOTE 9 - 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, 2010 and 2009, the variable daily interest rates were .16% and .3%. 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, 2010 and 2009.

## TACOMA ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

#### NOTE 9 - BONDS PAYABLE (Continued)

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 for which the Museum obtained a waiver at June 30, 2010.

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 April 10, 2007 the LOC expiration date was extended to December 4, 2011, 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.

#### NOTE 10 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are as follows at June 30:

	<u>2010</u>	<u>2009</u>
Time restrictions		
General operations	\$ 169,551	\$ 217,123
Purpose restrictions		
Endowment research and development		13,750
Capital campaign	3,025,095	3,025,095
Art acquisitions	<u>3,299,563</u>	<u>3,317,563</u>
	<u>\$ 6,494,209</u>	<u>\$ 6,573,531</u>

Temporarily restricted net assets released during 2010 and 2009 totaled \$261,120 and \$177,974, respectively. The Museum had met the time or purpose restrictions for these contributions.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 11 - LEASES**

**Operating Leases**

The Museum has two noncancelable operating leases for copiers that expire in 2011 and 2012. The leases require the Museum to pay all executory costs such as taxes, maintenance, and insurance. Rental expense for the leases was approximately \$16,000 for the years ended June 30, 2010 and 2009. Future minimum rental payments under noncancelable operating leases approximate:

<u>June 30,</u>	
2011	\$ 12,587
2012	<u>4,275</u>
	<u>\$ 16,862</u>

**NOTE 12 - 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. As of April 2010, the Museum matches \$0.10 for each \$1.00 contributed by an eligible employee up to 3% of total compensation. Prior to April 2010, the Museum matched \$0.50 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, 2010 and 2009, the Museum contributed \$14,573 and \$23,357 in matching contributions.

**NOTE 13 - SUPPLEMENTAL CASH FLOW INFORMATION**

Cash of approximately \$106,000 and \$195,000 was paid during 2010 and 2009 for interest.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 14 – FUTURE COMMITMENTS**

In 2009, the Museum entered into agreements for exhibitions scheduled through 2012. At June 30, 2010 the approximate balances included in prepaid expenses for future exhibits are as follows:

2011	\$ 162,000
2012	<u>31,000</u>
	<u>\$ 193,000</u>