

# TACOMA **ART** MUSEUM

## Independent Auditor's Report and Financial Statements

July 1, 2011– June 30, 2012



*Featuring the generous gift of 406 works of studio glass art by Paul Marioni.*

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## INDEPENDENT AUDITOR'S REPORT

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, 2012 and 2011, 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 2011 financial statements and, in our report dated October 11, 2011, 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, 2012 and 2011, 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.

November 2, 2012

**TACOMA ART MUSEUM**

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2012 AND 2011**

**ASSETS**

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 368,421	\$ 265,079
Contributions receivable, net	1,465,463	733,005
Trust receivable	10,000	10,000
Accounts receivable	20,419	79,238
Prepaid expenses	172,925	214,675
Inventory	<u>100,857</u>	<u>96,610</u>
Total current assets	2,138,085	1,398,607
OTHER ASSETS		
Investments	19,838,757	21,052,807
Asset, available for sale	3,000,000	3,000,000
Contributions receivable, net	932,565	430,323
Trusts receivable, net	828,400	1,077,101
Bond issuance costs, net	<u>198,223</u>	<u>208,176</u>
	24,797,945	25,768,407
PERMANENT COLLECTIONS (Note 1)		
LAND, BUILDINGS AND EQUIPMENT, net of accumulated depreciation	<u>17,941,048</u>	<u>18,303,063</u>
TOTAL ASSETS	<u>\$ 44,877,078</u>	<u>\$ 45,470,077</u>

**LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 381,089	\$ 239,944
BONDS PAYABLE	10,000,000	10,000,000
NET ASSETS		
Unrestricted	23,481,467	25,483,629
Temporarily restricted	8,073,795	6,805,777
Permanently restricted	<u>2,940,727</u>	<u>2,940,727</u>
	<u>34,495,989</u>	<u>35,230,133</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 44,877,078</u>	<u>\$ 45,470,077</u>

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

**TACOMA ART MUSEUM**

**STATEMENTS OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2012	2011
<b>SUPPORT AND REVENUE</b>					
Public support					
Contributions	\$ 1,231,827	\$ 239,789		\$ 1,471,616	\$ 1,857,221
Grants	343,705	1,225,000		1,568,705	477,934
In-kind donations	87,266			87,266	90,154
Memberships	175,066			175,066	197,671
Net assets released from restrictions	<u>213,739</u>	<u>(213,739)</u>			
Total public support	2,051,603	1,251,050		3,302,653	2,622,980
Revenue					
Investment return, net	(276,600)	11,468		(265,132)	3,692,019
Museum store	168,630			168,630	219,371
Auxiliary income	406,535	5,500		412,035	305,792
Admissions/tours	211,094			211,094	431,290
Miscellaneous	<u>279,486</u>			<u>279,486</u>	<u>307,412</u>
Total revenue	<u>789,145</u>	<u>16,968</u>		<u>806,113</u>	<u>4,955,884</u>
Total support and revenue	<u>2,840,748</u>	<u>1,268,018</u>		<u>4,108,766</u>	<u>7,578,864</u>
<b>EXPENSES</b>					
Program services	3,762,373			3,762,373	3,558,609
Supporting services					
Administration	385,356			385,356	449,774
Development	<u>593,681</u>			<u>593,681</u>	<u>711,158</u>
Total supporting services	<u>979,037</u>			<u>979,037</u>	<u>1,160,932</u>
Total expenses	<u>4,741,410</u>			<u>4,741,410</u>	<u>4,719,541</u>
Change in net assets before nonoperating expense	<u>(1,900,662)</u>	<u>1,268,018</u>		<u>(632,644)</u>	<u>2,859,323</u>
<b>NONOPERATING EXPENSE</b>					
Acquisition of collection items	<u>101,500</u>			<u>101,500</u>	<u>34,824</u>
CHANGE IN NET ASSETS	(2,002,162)	1,268,018		(734,144)	2,824,499
NET ASSETS, beginning of year	<u>25,483,629</u>	<u>6,805,777</u>	<u>\$ 2,940,727</u>	<u>35,230,133</u>	<u>32,405,634</u>
NET ASSETS, end of year	<u>\$ 23,481,467</u>	<u>\$ 8,073,795</u>	<u>\$ 2,940,727</u>	<u>\$ 34,495,989</u>	<u>\$ 35,230,133</u>

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

**TACOMA ART MUSEUM**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011**

	Program Services					Total Program Services
	<u>Exhibitions/ Curatorial</u>	<u>Education</u>	<u>Marketing</u>	<u>Museum Services</u>	<u>Membership</u>	
Salaries	\$ 476,463	\$ 195,392	\$ 160,432	\$ 292,063	\$ 62,629	\$ 1,186,979
Payroll taxes	51,317	19,541	15,456	31,449	5,589	123,352
Employee benefits	49,705	27,209	14,819	30,327	5,867	127,927
Total salaries and related expenses	577,485	242,142	190,707	353,839	74,085	1,438,258
Bad debt expense				2,168	9,043	11,211
Bank charges	8,459	630	128	1,016	37	10,270
Bldg. repairs & maintenance	38,182	4,234	618	4,431	177	47,642
Catering	667	835	9	620	7,785	9,916
Contracted services	89,977	25,862	49,481	95,821	31,393	292,534
Donated goods and services					21,817	21,817
Dues and subscriptions	920	2,015	5,060	2,122	53	10,170
Equipment rental/maintenance	3,026	84	1,000	1,506	3	5,619
Exhibition loan fees	223,630					223,630
Insurance	20,675	369	323	876	92	22,335
Interest and bond expenses	95,490	10,589	1,546	9,709	442	117,776
Investment fees	93,567	10,376	1,514	9,514	433	115,404
Merchandise expense				140,814		140,814
Miscellaneous	21,378	1,586	(511)	16,627	(142)	38,938
Off-site storage	420					420
Photography	7,646					7,646
Postage & shipping	50,488	2,265	4,289	4,578	2,390	64,010
Printing & publications	34,824	129	54,386	1,184	611	91,134
Professional development	60		1,136			1,196
Publicity & advertising	2,207		123,662	1,700		127,569
Real estate and misc. taxes	4,433	492	72	1,730	21	6,748
Supplies	67,103	17,631	9,967	30,104	3,069	127,874
Telephone	3,316	2,631	1,934	5,250	553	13,684
Travel & entertainment	18,890	2,884	909	334	4,386	27,403
Utilities	140,280	15,556	2,271	14,263	649	173,019
Total expenses before depreciation and amortization	1,503,123	340,310	448,501	698,206	156,897	3,147,037
Depreciation and amortization	498,903	55,323	8,075	50,727	2,308	615,336
Total expenses	\$ 2,002,026	\$ 395,633	\$ 456,576	\$ 748,933	\$ 159,205	\$ 3,762,373

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

**TACOMA ART MUSEUM**

**STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)**  
**YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011**

Supporting Activities			2012 Total	2011
<u>Administration</u>	<u>Development</u>	Total Supporting Activities		
\$ 240,999	\$ 228,892	\$ 469,891	\$ 1,656,870	\$ 1,577,820
18,517	20,821	39,338	162,690	164,039
220	17,674	17,894	145,821	139,633
259,736	267,387	527,123	1,965,381	1,881,492
	27,129	27,129	38,340	71,934
146	146	292	10,562	22,033
2,011	706	2,717	50,359	68,710
3,660	23,358	27,018	36,934	71,597
23,635	156,771	180,406	472,940	488,319
	65,450	65,450	87,267	90,154
14,682	174	14,856	25,026	13,380
14	14	28	5,647	7,101
			223,630	205,760
34,439	369	34,808	57,143	85,341
1,766	1,766	3,532	121,308	109,678
1,731	1,731	3,462	118,866	45,110
			140,814	173,184
8,711	(763)	7,948	46,886	36,973
			420	756
			7,646	3,223
1,887	7,617	9,504	73,514	77,536
	1,832	1,832	92,966	88,724
600		600	1,796	1,227
			127,569	175,428
82	82	164	6,912	6,988
11,521	12,714	24,235	152,109	140,944
2,325	2,210	4,535	18,219	17,725
6,586	13,164	19,750	47,153	26,525
2,595	2,595	5,190	178,209	172,253
376,127	584,452	960,579	4,107,616	4,082,095
9,229	9,229	18,458	633,794	637,446
<u>\$ 385,356</u>	<u>\$ 593,681</u>	<u>\$ 979,037</u>	<u>\$ 4,741,410</u>	<u>\$ 4,719,541</u>

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

**TACOMA ART MUSEUM**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (734,144)	\$ 2,824,499
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	633,794	637,446
Net investment (gains) losses	265,132	(3,692,019)
Loss on sale of assets included with investment in real estate		65,859
Collections of contributions restricted for long-term assets		(164,354)
Acquisition of collection items	101,500	10,540
Changes in assets and liabilities:		
Contributions receivable	(1,234,700)	(484,624)
Trusts receivable	248,701	(187,071)
Accounts receivable	58,819	(49,348)
Prepaid expenses	41,750	29,665
Inventory	(4,247)	33,448
Proceeds from sale of investments	948,918	716,170
Accounts payable and accrued expenses	141,145	6,469
Net cash provided (used) by operating activities	<u>466,668</u>	<u>(253,320)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(261,826)	(113,088)
Purchase of investments, net		(269,543)
Proceeds from sale of real estate		612,778
Acquisition of collection items	(101,500)	(10,540)
Net cash provided (used) by investing activities	<u>(363,326)</u>	<u>219,607</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of contributions restricted for long-term assets		164,354
Change in line of credit, net		(200,312)
Net cash used by financing activities		<u>(35,958)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	103,342	(69,671)
CASH AND CASH EQUIVALENTS, beginning of year	<u>265,079</u>	<u>334,750</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 368,421</u>	<u>\$ 265,079</u>

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

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**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

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

Basis of Presentation

The financial statements are presented in accordance with generally accepted accounting principles accepted in the United States of America (GAAP). The Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

## **TACOMA ART MUSEUM**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011**

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

##### **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.
- 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**

GAAP 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 GAAP 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 GAAP must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, GAAP establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

## TACOMA ART MUSEUM

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011**

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

##### Fair Value Measurement (Continued)

- *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,
- *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 and 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, 2012.

##### 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. See Note 4.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**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 and Cafe, 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 appropriated for expenditure by the Board are reported as operating activities in the statement of cash flows. See Note 2.

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, 2012 AND 2011**

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

##### **Permanent Collections**

The Museum's collections are primarily American art with an emphasis on art created in the Northwest. The Museum does not capitalize its collections, nor does it recognize contributions of collection items as contribution revenue. Proceeds from deaccessions or insurance recoveries are reflected on the statement of activities based on the existence and nature of donor imposed restrictions. The Museum has stewardship policies for its collections regarding: accessioning and deaccessioning of collection items, care of the collection, access and control of collection, risk management, and loans to and from other institutions. Each collection item is catalogued, and activities verifying the existence and assessing the condition of the collection are performed continuously.

##### **Property and Equipment**

Expenditures for the acquisition of property and equipment are capitalized at cost when the cost exceeds \$2,500. The fair value of donated property and equipment is similarly capitalized. Depreciation 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, 2012 and 2011. Accumulated amortization is \$100,357 and \$90,404 at June 30, 2012 and 2011, respectively.

##### **Income Tax**

The Museum is a not-for-profit organization as defined in Section 501(c)(3) of the Internal Revenue Code and accordingly is generally exempt from federal income tax under the provisions of Section 501(a) of the Internal Revenue Code. However, certain activities not directly related to the Museum tax-exempt purpose are not exempt and are subject to federal income tax. Income tax expense was zero for the years ended June 30, 2012 and 2011. 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, 2012 AND 2011**

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

##### **Accounting for Uncertain Tax Positions**

The Museum follows GAAP for financial statement recognition and measurement of a tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the years ended June 30, 2012 and 2011, the Museum has no material uncertain tax positions to be accounted for in the financial statements. Typically, the U.S. federal tax returns are open to examination for a period of three years after the filing date.

##### **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 GAAP, as contributions in the accompanying statements at their estimated fair market values at date of donation. There were contributed goods and services of \$87,266 and \$90,154 during 2012 and 2011.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Museum. The Museum receives volunteer hours which are not recognized in the accompanying financial statements because they do not meet recognition criteria under GAAP. During the years ended June 30, 2012 and 2011, the Museum received approximately 12,792 and 11,360 volunteer hours.

##### **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.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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

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 \$127,569 and \$175,428 for the years ended June 30, 2012 and 2011.

Management Review of Subsequent Events

Management evaluated the effects of subsequent events through November 2, 2012, the date the financial statements were available to be issued.

**NOTE 2 – ENDOWMENT**

Washington State adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective July 1, 2009. UPMIFA provides uniform and fundamental rules for the prudent investment of funds held by charitable institutions and the expenditure of funds donated as endowments to those Institutions. The Museum's investment policy requires compliance with UPMIFA. Management believes they are managing their endowment funds in compliance with UPMIFA.

The Board of Trustees of the Museum has interpreted the law as requiring the preservation of the fair value of corpus of a donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of any subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets (that is, its net unspent appreciation and income) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 2 – ENDOWMENT (Continued)**

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, 2012 and 2011. Interest earned on the mutual funds is considered appropriated as received. The Museum's spending policy is to expend the three to five percent of the average investment balance annually as approved by the board. The Museum has adopted this investment policy for endowed assets in an attempt to provide a predictable stream of funding for programs supported by the endowment while seeking to maintain the purchasing power of endowed assets and honor the donor's desired restrictions. The Museum's investment policy guidelines for all investments is reviewed and reconfirmed or revised on at least an annual basis.

Endowment fund composition by type of fund:

June 30, 2012	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted		\$ 305,608	\$ 2,940,727	\$ 3,246,335
Board-designated	\$ 13,567,327			13,567,327
Restricted endowment for building campaign		<u>3,025,095</u>		<u>3,025,095</u>
Total funds as of June 30, 2012	<u>\$ 13,567,327</u>	<u>\$ 3,330,703</u>	<u>\$ 2,940,727</u>	<u>\$ 19,838,757</u>
June 30, 2011	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted		\$ 294,140	\$ 2,940,727	\$ 3,234,867
Board-designated	\$ 14,792,845			14,792,845
Restricted endowment for building campaign		<u>3,025,095</u>		<u>3,025,095</u>
Total funds as of June 30, 2011	<u>\$ 14,792,845</u>	<u>\$ 3,319,235</u>	<u>\$ 2,940,727</u>	<u>\$ 21,052,807</u>

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**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, 2010	\$11,753,404	\$ 3,277,638	\$ 2,776,373	\$ 17,807,415
Investment return:				
Dividend and interest	515,054	5,441		520,495
Realized gain	348,908	9,579		358,487
Unrealized gain	<u>2,786,460</u>	<u>26,577</u>		<u>2,813,037</u>
Total investment return	3,650,422	41,597		3,692,019
Contributions	105,189		164,354	269,543
Appropriation of endowment assets for expenditure	<u>(716,170)</u>			<u>(716,170)</u>
Endowment net assets, June 30, 2011	14,792,845	3,319,235	2,940,727	21,052,807
Investment return:				
Dividend and interest	575,148	9,362		584,510
Realized gain	661,281	17,980		679,261
Unrealized loss	<u>(1,513,029)</u>	<u>(15,874)</u>		<u>(1,528,903)</u>
Total investment return	(276,600)	11,468		(265,132)
Appropriation of endowment assets for expenditure	<u>(948,918)</u>			<u>(948,918)</u>
Endowment net assets, June 30, 2012	<u>\$ 13,567,327</u>	<u>\$ 3,330,703</u>	<u>\$ 2,940,727</u>	<u>\$ 19,838,757</u>

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 3 – INVESTMENTS**

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

June 30, 2012	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and equities	\$ 19,838,757	\$ 19,838,757		
Asset, available for sale	<u>3,000,000</u>	<u>                    </u>	<u>                    </u>	<u>\$ 3,000,000</u>
	<u>\$ 22,838,757</u>	<u>\$ 19,838,757</u>	<u>\$                      </u>	<u>\$ 3,000,000</u>
Percent of total	100%	87%	0%	13%
June 30, 2011	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and equities	\$ 21,052,807	\$ 21,052,807		
Asset, available for sale	<u>3,000,000</u>	<u>                    </u>	<u>                    </u>	<u>\$ 3,000,000</u>
	<u>\$ 24,052,807</u>	<u>\$ 21,052,807</u>	<u>\$                      </u>	<u>\$ 3,000,000</u>
Percent of total	100%	88%	0%	12%

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. These items are included at their carrying values, in the statements of financial position, which approximated their fair values at June 30, 2012 and 2011.

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 9.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 4 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable consisted of the following at:

June 30, 2012	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Receivables due in:				
less than one year	\$ 1,062,216	\$ 427,247		\$ 1,489,463
in two to five years	166,625	809,148		975,773
more than five years	<u>2,250</u>	<u>          </u>	<u>          </u>	<u>2,250</u>
Total receivables	1,231,091	1,236,395		2,467,486
Less: net present value	11,660	33,798		45,458
Less: allowance for uncollectible amounts	<u>19,111</u>	<u>4,889</u>	<u>          </u>	<u>24,000</u>
Net contributions receivable	<u>\$ 1,200,320</u>	<u>\$ 1,197,708</u>	<u>          </u>	<u>\$ 2,398,028</u>
June 30, 2011				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Receivables due in:				
less than one year	\$ 602,791	\$ 154,214		\$ 757,005
in two to five years	<u>250,767</u>	<u>215,576</u>	<u>          </u>	<u>466,343</u>
Total receivables	853,558	369,790		1,223,348
Less: net present value	16,751	19,269		36,020
Less: allowance for uncollectible amounts	<u>19,111</u>	<u>4,889</u>	<u>          </u>	<u>24,000</u>
Net contributions receivable	<u>\$ 817,696</u>	<u>\$ 345,632</u>	<u>          </u>	<u>\$ 1,163,328</u>

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

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**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. 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 four charitable remainder trusts one of which is to be disbursed in 2014.

The trusts receivable consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Receivable due in less than one year	\$ 10,000	\$ 10,000
Receivable due in two to five years	934,496	905,919
Receivable due more than five years	<u>          </u>	<u>416,108</u>
Total trusts receivable	944,496	1,332,027
Less: net present value	<u>(109,096)</u>	<u>(244,926)</u>
Net trusts receivable	<u>\$ 838,400</u>	<u>\$ 1,087,101</u>

**NOTE 6 – LAND, BUILDINGS, AND EQUIPMENT**

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

	<u>2012</u>	<u>2011</u>
Land	\$ 1,843,594	\$ 1,843,594
Buildings	19,685,369	19,682,745
Furniture and equipment	<u>1,596,318</u>	<u>1,450,599</u>
	23,125,281	22,976,938
Less: accumulated depreciation	<u>(5,450,017)</u>	<u>(4,827,739)</u>
	17,675,264	18,149,199
Plaza redesign project	76,489	57,809
Museum expansion	189,295	
Collection management project	<u>          </u>	<u>96,055</u>
	<u>\$ 17,941,048</u>	<u>\$ 18,303,063</u>

Depreciation expense at June 30, 2012 and 2011 was \$623,841 and \$627,493.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 7 – LINE OF CREDIT**

The Museum has an agreement with a bank for a line of credit in the amount of \$350,000, which expires January 27, 2013 with an interest rate at prime plus 1.75% (5% at June 30, 2012). The outstanding balance at June 30, 2012 and 2011 was zero.

**NOTE 8 – BONDS PAYABLE**

On June 1, 2002, the Washington State Housing Finance Commission issued \$10,000,000 in variable rate demand nonprofit revenue bonds, Series 2002 (bonds). The proceeds of the bonds were loaned to the Museum to finance the acquisition, construction, and equipping of a new art museum. The bonds were issued pursuant to a loan and financing agreement and a trust indenture dated June 1, 2002.

The bonds are subject to annual redemption at a redemption price of 100% of principal amount to be redeemed plus accrued interest. At June 30, 2012 and 2011, the variable daily interest rates were .18% and .08%. The bonds are collateralized by a letter of credit with a bank. The bonds are callable at any time by the museum and require no principal payments until maturity in June 2032. Bonds payable totaled \$10,000,000 at June 30, 2012 and 2011.

The terms of the bonds include covenants that require the maintenance of certain financial ratios, submission of quarterly reports, and certain limits on the incurrence of additional borrowings. The Museum was in compliance these covenants at June 30, 2012.

Pursuant to a Reimbursement Agreement dated June 1, 2002, between the Museum and the bank, an irrevocable direct pay letter of credit (LOC) was issued by the bank in the amount of \$10,136,987 as collateral for the payment of principal and interest on the bonds. Effective June 14, 2011 the LOC expiration date was extended to December 4, 2014, as provided for in the LOC Reimbursement Agreement.

Should the LOC be drawn upon, the outstanding balance would accrue interest at the Bank's prime rate. The Museum is required to pay a quarterly LOC fee of .8% per annum. Although the LOC is unsecured, the Museum must maintain cash and investment balances that are legally available for repayment of the bonds, in an amount equal to 110% of current bond balance. These funds reside in the "Investments" line on the statements of financial position.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 9 – RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets are as follows at June 30:

	<u>2012</u>	<u>2011</u>
Time restrictions		
General operations	\$ 277,196	\$ 138,235
Purpose restrictions		
2003 building campaign	3,025,095	3,025,095
2010 plaza redesign campaign	1,421,928	296,500
Art acquisitions	<u>3,349,576</u>	<u>3,345,947</u>
	<u>\$ 8,073,795</u>	<u>\$ 6,805,777</u>

Temporarily restricted net assets released during 2012 and 2011 totaled \$213,739 and \$152,759, respectively. The Museum had met the time or purpose restrictions for these contributions.

**NOTE 10 – OPERATING LEASES**

The Museum has one noncancelable operating lease for copiers that expires in 2015. The lease requires the Museum to pay all executory costs such as taxes, maintenance, and insurance. Rental expense for the lease was approximately \$13,000 and \$25,000 for the years ended June 30, 2012 and 2011. Future minimum rental payments under noncancelable operating lease approximates:

<u>June 30,</u>	
2013	\$ 13,313
2014	13,313
2015	13,313
2016	<u>4,438</u>
	<u>\$ 44,377</u>

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 11 – 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 July 2011, the Museum matches \$0.25 for each \$1.00 contributed by an eligible employee up to 3% of total compensation. Prior to July 2011, the Museum matched \$0.10 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, 2012 and 2011, the Museum contributed \$8,707 and \$3,447 in matching contributions.

**NOTE 12 – SUPPLEMENTAL CASH FLOW INFORMATION**

Cash of approximately \$12,438 and \$23,400 was paid during 2012 and 2011 for interest.

**NOTE 13 – FUTURE COMMITMENTS**

In 2009, the Museum entered into agreements for exhibitions scheduled through 2015. At June 30, 2012 the approximate balances included in prepaid expenses for future exhibits are as follows:

2013	\$ 1,968
2015	<u>70,816</u>
	<u>\$ 72,784</u>

**NOTE 14 – CAPITAL CAMPAIGN**

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

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 14 – CAPITAL CAMPAIGN (Continued)**

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

	<u>2012</u>	<u>2011</u>
Donor Designation Amount		
Undesignated (Unrestricted)	\$ 1,327,455	\$ 998,064
Access (Unrestricted)	30,000	30,000
Art Acquisition		
(Temporarily and Permanently Restricted)	3,164,354	3,164,354
Plaza Re-design (Temporarily Restricted)	<u>1,586,419</u>	<u>296,500</u>
	<u>\$ 6,108,228</u>	<u>\$ 4,488,918</u>

In addition the Campaign has received commitments of \$970,000 of planned gifts as of June 30, 2012. These gifts have not been included in the financial statements. It is the museum's expectation these future gifts will be fulfilled.

The Board has established that funds will not be expended for the campaign until raised and collected. As of June 30, 2012 the museum spent \$433,098 with \$76,489 for the plaza re-design and \$356,608 for campaign expenses.

**NOTE 15 – MARIONI GIFT**

During 2012, Tacoma Art Museum received a glass art collection valued at \$500,000 for which the Museum incurred art accession fees of \$100,000, which are included in the acquisition of collection items on the accompanying statement of activities. The difference between the value and purchase price is considered a gift by the artist. Per museum policy, permanent collections are not capitalized or recognized as contributions to the collection, see Note 1.

**NOTE 16 – SUBSEQUENT EVENT**

In January of 2012, the Tacoma Art Museum received a letter of intent from a donor to donate a significant western art collection comprised of approximately 280 works. Additionally, the donor committed funds for the construction of a 15,000 square foot exhibition space and lobby expansion to house the collection. Included in the gift are endowment funds for the future care of the collection. The agreement was executed on August 16, 2012. In 2012, \$189,295 was spent on early stage project feasibility, of which \$156,012 was contributed by the donor.