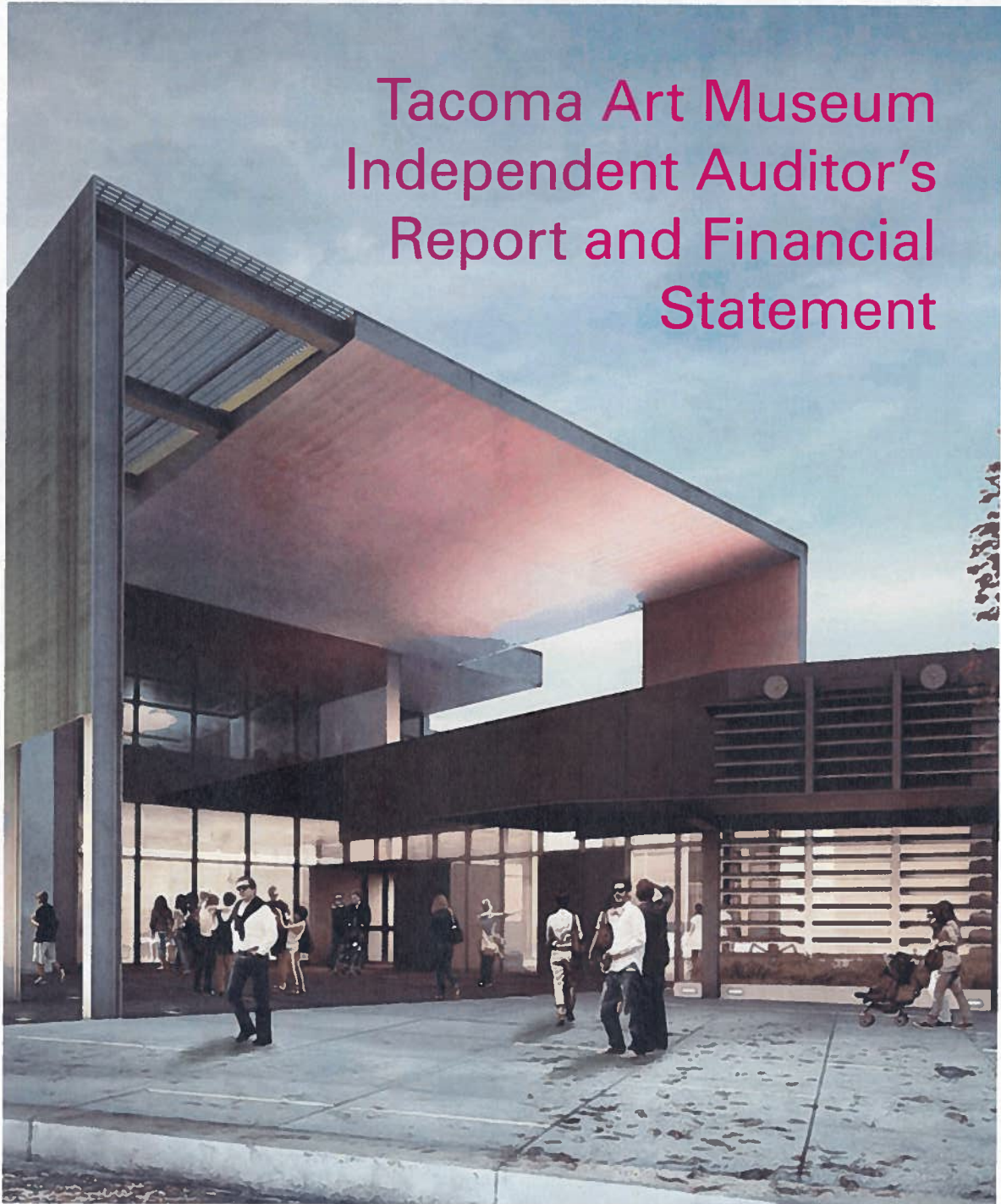


Tacoma Art Museum Independent Auditor's Report and Financial Statement



July 1, 2012 – June 30, 2013

TACOMA **ART** MUSEUM

TACOMA ART MUSEUM
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Tacoma Art Museum
Tacoma, Washington

We have audited the accompanying financial statements of Tacoma Art Museum (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

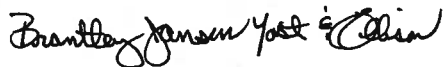
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tacoma Art Museum as of June 30, 2013 and 2012, 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.

Report on Summarized Comparative Information

We have previously audited the Tacoma Art Museum's 2012 financial statements, and our report dated November 2, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented on the statement of activities and the statement of functional expenses for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.



November 19, 2013

TACOMA ART MUSEUM

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012**

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 773,351	\$ 368,421
Contributions receivable, net	23,631,370	1,465,463
Trusts receivable	226,047	10,000
Accounts receivable	23,489	20,419
Prepaid expenses	305,257	172,925
Inventory	<u>84,205</u>	<u>100,857</u>
Total current assets	25,043,719	2,138,085
OTHER ASSETS		
Investments	20,921,577	19,838,757
Asset, available for sale	3,000,000	3,000,000
Contributions receivable, net	605,023	932,565
Trusts receivable, net	506,312	828,400
Bond issuance costs, net	<u>188,271</u>	<u>198,223</u>
	25,221,183	24,797,945
PERMANENT COLLECTIONS (Note 1)		
LAND, BUILDINGS AND EQUIPMENT, net of accumulated depreciation	<u>18,373,291</u>	<u>17,941,048</u>
TOTAL ASSETS	<u>\$ 68,638,193</u>	<u>\$ 44,877,078</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 780,346	\$ 381,089
BONDS PAYABLE	10,000,000	10,000,000
NET ASSETS		
Unrestricted	24,853,865	23,481,467
Temporarily restricted	30,063,255	8,073,795
Permanently restricted	<u>2,940,727</u>	<u>2,940,727</u>
	<u>57,857,847</u>	<u>34,495,989</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 68,638,193</u>	<u>\$ 44,877,078</u>

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

TACOMA ART MUSEUM

**STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE TOTALS FOR 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2013	2012
SUPPORT AND REVENUE					
Public support					
Contributions	\$ 1,346,293	\$ 20,108,461		\$ 21,454,754	\$ 1,471,616
Grants	326,738	2,735,000		3,061,738	1,568,705
In-kind donations	196,645			196,645	87,266
Memberships	180,075			180,075	175,066
Total public support	2,049,751	22,843,461		24,893,212	3,302,653
Revenue					
Investment return, net	1,756,113	30,178		1,786,291	(265,132)
Museum store	154,496			154,496	168,630
Auxiliary income	407,486	13,000		420,486	412,035
Admissions/tours	186,901			186,901	211,094
Miscellaneous	296,685			296,685	279,486
Total revenue	2,801,681	43,178		2,844,859	806,113
Net assets released from restrictions	1,227,056	(1,227,056)			
Total support and revenue	6,078,488	21,659,583		27,738,071	4,108,766
EXPENSES					
Program services	3,582,182			3,582,182	3,762,373
Supporting services					
Administration	444,833			444,833	385,356
Development	655,775			655,775	593,681
Total supporting services	1,100,608			1,100,608	979,037
Total expenses	4,682,790			4,682,790	4,741,410
Change in net assets before nonoperating income (expense)	1,395,698	21,659,583		23,055,281	(632,644)
NONOPERATING INCOME (EXPENSE)					
Deaccession of art		329,877		329,877	
Acquisition of collection items	(23,300)			(23,300)	101,500
Total nonoperating income (expense)	(23,300)	329,877		306,577	101,500
CHANGE IN NET ASSETS	1,372,398	21,989,460		23,361,858	(734,144)
NET ASSETS, beginning of year	23,481,467	8,073,795	\$ 2,940,727	34,495,989	35,230,133
NET ASSETS, end of year	\$ 24,853,865	\$ 30,063,255	\$ 2,940,727	\$ 57,857,847	\$ 34,495,989

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

TACOMA ART MUSEUM

**STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE TOTALS FOR 2012**

	Program Services					Total Program Services
	Exhibitions/ Curatorial	Education	Marketing	Museum Services	Membership	
Salaries	\$ 500,554	\$ 160,132	\$ 158,427	\$ 305,986	\$ 80,557	\$ 1,205,656
Payroll taxes	48,401	15,181	14,388	30,960	7,191	116,121
Employee benefits	48,521	17,349	15,366	25,566	4,296	111,098
Total salaries and related expenses	597,476	192,662	188,181	362,512	92,044	1,432,875
Bad debt expense	2,937	326	48	299	6,514	10,124
Bank charges	7,949	925	123	888	35	9,920
Bldg. repairs & maintenance	51,771	5,741	838	7,484	244	66,078
Catering	483	3,041	51	1,316	9,169	14,060
Contracted services	34,614	28,557	25,856	158,751	41,306	289,084
Donated goods and services					49,136	49,136
Dues and subscriptions	3,762	1,348	9,781	2,087	993	17,971
Equipment rental/maintenance	3,440	21	714	10,707	1	14,883
Exhibition loan fees	47,500					47,500
Insurance	8,053			2,297		10,350
Interest and bond expenses	87,284	9,679	1,413	8,875	404	107,655
Investment fees	83,103	9,215	1,345	8,450	384	102,497
Merchandise expense				164,678		164,678
Miscellaneous	3,750	2,086	1,001	7,877	407	15,121
Off-site storage	1,977					1,977
Photography	9,851					9,851
Postage & shipping	48,913	4,912	2,595	3,236	2,936	62,592
Printing & publications	59,828	97	43,949	271	1,006	105,151
Professional development	99		110	25	69	303
Publicity & advertising			120,653	31,585		152,238
Real estate and misc. taxes	4,235	470	69	781	20	5,575
Supplies	38,832	19,596	10,791	32,794	1,874	103,887
Telephone	2,687	2,071	1,567	4,255	455	11,035
Travel & entertainment	7,334	1,343	408	2,560	5,482	17,127
Utilities	137,795	15,280	2,230	16,967	637	172,909
Total expenses before depreciation and amortization	1,243,673	297,370	411,723	828,695	213,116	2,994,577
Depreciation and amortization	476,419	52,830	7,711	48,442	2,203	587,605
Total expenses	<u>\$ 1,720,092</u>	<u>\$ 350,200</u>	<u>\$ 419,434</u>	<u>\$ 877,137</u>	<u>\$ 215,319</u>	<u>\$ 3,582,182</u>

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

TACOMA ART MUSEUM

**STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE TOTALS FOR 2012**

<u>Supporting Activities</u>				
<u>Administration</u>	<u>Development</u>	<u>Total Supporting Activities</u>	<u>2013 Total</u>	<u>2012</u>
\$ 247,992	\$ 242,680	\$ 490,672	\$ 1,696,328	\$ 1,656,870
20,296	21,671	41,967	158,088	162,690
<u>22,445</u>	<u>12,977</u>	<u>35,422</u>	<u>146,520</u>	<u>145,821</u>
290,733	277,328	568,061	2,000,936	1,965,381
54	19,554	19,608	29,732	38,340
141	141	282	10,202	10,562
2,440	970	3,410	69,488	50,359
1,830	27,507	29,337	43,397	36,934
44,269	126,163	170,432	459,516	472,940
	147,408	147,408	196,544	87,267
9,982	3,008	12,990	30,961	25,026
4	4	8	14,891	5,647
			47,500	223,630
43,204		43,204	53,554	57,143
1,615	1,615	3,230	110,885	121,308
1,537	1,537	3,074	105,571	118,866
			164,678	140,814
3,366	1,737	5,103	20,224	46,886
			1,977	420
			9,851	7,646
8,054	9,148	17,202	79,794	73,514
	3,018	3,018	108,169	92,966
	206	206	509	1,796
			152,238	127,569
78	78	156	5,731	6,912
11,601	6,721	18,322	122,209	152,109
1,939	1,814	3,753	14,788	18,219
12,624	16,456	29,080	46,207	47,153
<u>2,549</u>	<u>2,549</u>	<u>5,098</u>	<u>178,007</u>	<u>178,209</u>
436,020	646,962	1,082,982	4,077,559	4,107,616
<u>8,813</u>	<u>8,813</u>	<u>17,626</u>	<u>605,231</u>	<u>633,794</u>
<u>\$ 444,833</u>	<u>\$ 655,775</u>	<u>\$ 1,100,608</u>	<u>\$ 4,682,790</u>	<u>\$ 4,741,410</u>

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

TACOMA ART MUSEUM

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 23,361,858	\$ (734,144)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	605,231	633,794
Net investment (gains) losses	(1,786,291)	265,132
Deaccession of art	(329,877)	
Acquisition of collection items	23,300	101,500
Changes in assets and liabilities:		
Contributions receivable	(21,838,365)	(1,234,700)
Trusts receivable	106,041	248,701
Accounts receivable	(3,070)	58,819
Prepaid expenses	(132,332)	41,750
Inventory	16,652	(4,247)
Proceeds from sale of investments	1,008,749	948,918
Accounts payable and accrued expenses	399,257	141,145
Net cash provided by operating activities	<u>1,431,153</u>	<u>466,668</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,027,522)	(261,826)
Purchase of investments, net	(305,278)	
Deaccession of art	329,877	
Acquisition of collection items	(23,300)	(101,500)
Net cash used by investing activities	<u>(1,026,223)</u>	<u>(363,326)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	404,930	103,342
CASH AND CASH EQUIVALENTS, beginning of year	<u>368,421</u>	<u>265,079</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 773,351</u>	<u>\$ 368,421</u>

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

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Tacoma Art Museum (the Museum) is a not-for-profit corporation organized under the laws of the state of Washington for the purpose of promoting and cultivating the fine arts and arts education. Its primary sources of revenue and support are private contributions and grants.

Basis of Accounting

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

Use of Estimates

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

Basis of Presentation

In accordance with GAAP, the Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The accompanying financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under GAAP are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access;
- Level 2 – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement (Continued)

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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

Cash and Cash Equivalents

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

Concentrations of Credit Risk

The Museum maintains certain cash balances in bank deposit and brokerage accounts which, at times, may exceed the federally insured limits. Management does not anticipate any material adverse consequence as a result of this concentration of credit risk. Uninsured cash balances at June 30, 2013 amounted to \$454,000.

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 9.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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's 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 3.

Dividend, interest, and other investment income are reported in the period earned as increases in unrestricted net assets unless the use of the assets is limited by donor-imposed restrictions, in which case they are reported as increases in temporarily or permanently restricted net assets. Realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or law.

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, 2013 AND 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanent Collections

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

Property and Equipment

Expenditures for the acquisition of property and equipment are capitalized at cost when the cost exceeds \$2,500. The fair value of donated property and equipment is similarly capitalized. Depreciation is computed using the straight-line method over the useful lives of the assets, which are: equipment – 3 to 10 years; 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, 2013 and 2012. Accumulated amortization is \$110,309 and \$100,357 at June 30, 2013 and 2012, 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, 2013 and 2012. 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, 2013 AND 2012**

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, 2013 and 2012, 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 \$196,645 and \$87,266 during 2013 and 2012.

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, 2013 and 2012, the Museum received approximately 14,713 and 12,792 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, 2013 AND 2012**

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 \$152,238 and \$127,569 for the years ended June 30, 2013 and 2012.

Management Review of Subsequent Events

Management evaluated the effects of subsequent events through November 19, 2013, 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, 2013 AND 2012**

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, 2013 and 2012. 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, 2013	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted		\$ 641,044	\$ 2,940,727	\$ 3,581,771
Board-designated	\$ 14,314,711			14,314,711
Haub endowment		7,000,000		7,000,000
Restricted endowment for building campaign		<u>3,025,095</u>		<u>3,025,095</u>
Total funds as of June 30, 2013	<u>\$ 14,314,711</u>	<u>\$10,666,139</u>	<u>\$ 2,940,727</u>	<u>\$ 27,921,577</u>
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>

During 2013, as part of the gift from the Haub's (See Note 15), the Museum has recorded a receivable of \$7,000,000 which is restricted for the Endowment fund. All other Endowment fund assets are recorded as investments on the Statement of Financial Position.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 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	13,567,327	3,330,703	2,940,727	19,838,757
Investment return:				
Dividend and interest	534,143	9,707		543,850
Realized gain	2,257,216	8,200		2,265,416
Unrealized loss	<u>(1,035,246)</u>	<u>12,271</u>		<u>(1,022,975)</u>
Total investment return	1,756,113	30,178		1,786,291
Contributions		7,305,258		7,305,258
Appropriation of endowment assets for expenditure	<u>(1,008,729)</u>			<u>(1,008,729)</u>
Endowment net assets, June 30, 2013	<u>\$ 14,314,711</u>	<u>\$10,666,139</u>	<u>\$ 2,940,727</u>	<u>\$ 27,921,577</u>

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 2013	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stock	\$ 4,027,570	\$ 3,706,920	\$ 320,650	
Mutual funds				
Equity	7,976,385	774,881	7,201,504	
Bond	6,991,042	991,487	5,999,555	
Commodities	385,692		385,692	
Real estate	891,648	104,039	787,609	
Cash	649,240	649,240		
Asset, available for sale	<u>3,000,000</u>	_____	_____	<u>\$ 3,000,000</u>
	<u>\$ 23,921,577</u>	<u>\$ 6,226,567</u>	<u>\$14,695,010</u>	<u>\$ 3,000,000</u>
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>\$ 3,000,000</u>
	<u>\$ 22,838,757</u>	<u>\$ 19,838,757</u>	_____	<u>\$ 3,000,000</u>

The Museum’s valuation techniques used to measure the fair value of equities were derived using third-party quotations, and the allocation between the various levels were determined by the entity that holds the investments. The allocation by levels and security type were not available for the year ended June 30, 2012, so the assets are all presented as Level 1 for that year. 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, 2013 and 2012.

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, 2013 AND 2012**

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at:

June 30, 2013	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Receivables due in:				
less than one year	\$ 596,384	\$23,084,986		\$ 23,681,370
in two to five years	409,475	218,764		628,239
more than five years	<u>500</u>	<u>25,000</u>		<u>25,500</u>
Total receivables	1,006,359	23,328,750		24,335,109
Less: net present value	33,736	14,980		48,716
Less: allowance for uncollectible amounts	<u>45,111</u>	<u>4,889</u>		<u>50,000</u>
Net contributions receivable	<u>\$ 927,512</u>	<u>\$23,308,881</u>		<u>\$ 24,236,393</u>
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>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>24,000</u>
Net contributions receivable	<u>\$ 1,200,320</u>	<u>\$ 1,197,708</u>		<u>\$ 2,398,028</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, 2013 AND 2012**

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.

During 2013, management evaluated the calculation of life expectancy for the trusts, and changed the method to utilizing the IRS life expectancy tables. The change of estimate resulted in a reduction of approximately \$115,000 to the net present value of the trust receivable.

The trusts receivable consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Receivable due in less than one year	\$ 235,459	\$ 10,000
Receivable due in two to five years	<u>727,624</u>	<u>937,496</u>
Total trusts receivable	963,083	947,496
Less: net present value	<u>(230,724)</u>	<u>(109,096)</u>
Net trusts receivable	<u>\$ 732,359</u>	<u>\$ 838,400</u>

NOTE 6 – LAND, BUILDINGS, AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Land	\$ 1,843,594	\$ 1,843,594
Buildings	19,685,369	19,685,369
Furniture and equipment	<u>1,602,215</u>	<u>1,596,318</u>
	23,131,178	23,125,281
Less: accumulated depreciation	<u>(6,045,295)</u>	<u>(5,450,017)</u>
	17,085,883	17,675,264
Construction in progress	<u>1,287,408</u>	<u>265,784</u>
	<u>\$ 18,373,291</u>	<u>\$ 17,941,048</u>

Depreciation expense at June 30, 2013 and 2012 was \$595,278 and \$623,841.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 7 – LINE OF CREDIT

The Museum has an agreement with a bank for a line of credit in the amount of \$350,000 for museum operations, which expires January 27, 2014 with an interest rate at prime plus 1.75% (5% at June 30, 2013). The outstanding balance at June 30, 2013 and 2012 was zero.

After year end, the Museum obtained an additional line of credit with a bank in the amount of \$1,000,000 expiring July 2015 with an interest rate at prime minus 1.75%. The line was obtained for the capital building project (see Note 14).

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, 2013 and 2012, 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, 2013 and 2012.

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, 2013.

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, 2013 AND 2012**

NOTE 9 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are as follows at June 30:

	<u>2013</u>	<u>2012</u>
Time restrictions		
General operations	\$ 418,759	\$ 277,196
Purpose restrictions		
2003 building campaign (held for bond redemption)	3,025,095	3,025,095
2010 campaign and Haub gift		
Museum plaza and Haub galleries	14,964,175	1,421,928
Haub endowment	7,000,000	
Haub transition expense	1,000,000	
Art acquisitions	3,000,000	3,000,000
Art endowment	<u>655,226</u>	<u>349,576</u>
	<u>\$ 30,063,255</u>	<u>\$ 8,073,795</u>

Temporarily restricted net assets released during 2013 and 2012 totaled \$1,227,056 and \$213,739, 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 \$13,000 for the years ended June 30, 2013 and 2012. Future minimum rental payments under noncancelable operating lease approximates:

<u>June 30,</u>	
2014	\$ 13,313
2015	13,313
2016	<u>4,438</u>
	<u>\$ 31,064</u>

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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. 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, 2013 and 2012, the Museum contributed \$10,826 and \$8,707 in matching contributions.

NOTE 12 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash of approximately \$14,287 and \$12,438 was paid during 2013 and 2012 for interest.

NOTE 13 – FUTURE COMMITMENTS

In 2009, the Museum entered into agreements for exhibitions scheduled through 2015. At June 30, 2013 the approximate balances included in prepaid expenses for future exhibits are as follows:

2014	\$ 77,180
2015	<u>142,888</u>
	<u>\$ 220,068</u>

NOTE 14 – 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, 2013 AND 2012**

NOTE 14 – CAMPAIGN (Continued)

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

	<u>2013</u>	<u>2012</u>
Donor Designation Amount		
Undesignated (Unrestricted)	\$ 1,576,449	\$ 1,147,298
Access (Unrestricted)	3,040,000	30,000
Art Acquisition (Temporarily and Permanently Restricted)	3,164,354	3,164,354
Museum plaza (Temporarily Restricted)	<u>2,654,762</u>	<u>1,586,419</u>
	<u>\$ 10,435,565</u>	<u>\$ 5,928,071</u>

In addition the Campaign has received commitments of \$990,000 of planned gifts as of June 30, 2013. 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, 2013 the museum has recorded \$1,287,408 of construction in progress and \$519,211 of campaign expenses. As of June 30, 2013, the museum has received \$1,880,557 of cash gifts for the use towards construction.

The Campaign pledges to date include Haub Gift (Note 15) for access in the amount of \$3,000,000.

NOTE 15 – HAUB GIFT

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

In August of 2012, The Tacoma Art Museum and Haub Family signed an agreement that confirmed the prior letter of intent. The agreement calls for the outright and/or promised gift of title and interest in approximately 280 works of art, \$12,000,000 of expansion funding for exhibition spaces and lobby, \$7,000,000 of endowment funding for operations and \$1,000,000 for transitional expenses.

TACOMA ART MUSEUM

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 15 – HAUB GIFT (Continued)

The timing of the pledge payments will be immediate reimbursement for construction and transition expenses with endowment payment to be received prior to the Wing opening. As of June 30, 2013 the museum has received reimbursements of \$363,163 for construction and \$30,812 for transitional expenses.

NOTE 16 – PAUL 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.