



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

*July 1, 2014-June 30, 2015*

**TACOMA  
ART  
MUSEUM**

John Nieto (American, born 1936)  
Buffalo at Sunset, 1996  
Acrylic on canvas  
48 × 60 inches  
Tacoma Art Museum, Haub Family Collection,  
Gift of Erivan and Helga Haub, 2014.6.89

**TACOMA ART MUSEUM**

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

**JUNE 30, 2015 AND 2014**

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

## **TABLE OF CONTENTS**

Independent Auditor's Report	1-2
Financial Statements	
Statements of financial position	3
Statements of activities and changes in net assets	4-5
Statements of functional expenses	6-7
Statements of cash flows	8
Notes to financial statements	9-22

## **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, 2015 and 2014, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tacoma Art Museum as of June 30, 2015 and 2014, 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.

*Brantley Janson Yost & Ellison*

November 17, 2015

**TACOMA ART MUSEUM**

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2015 AND 2014**

**ASSETS**

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 734,899	\$ 1,042,880
Pledges receivable, net	657,230	16,006,609
Trusts receivable		231,939
Accounts receivable	61,446	72,119
Prepaid expenses	321,184	307,814
Inventory	<u>69,614</u>	<u>68,687</u>
Total current assets	1,844,373	17,730,048
OTHER ASSETS		
Investments	30,045,117	22,855,908
Assets, available for sale	310,000	3,098,500
Long-term pledges receivable, net	528,203	631,578
Trusts receivable, net	908,746	584,447
Bond issuance costs, net	<u>168,365</u>	<u>178,318</u>
Total other assets	31,960,431	27,348,751
PERMANENT COLLECTIONS (Note 1)		
LAND, BUILDINGS AND EQUIPMENT, net	<u>31,288,568</u>	<u>27,244,042</u>
TOTAL ASSETS	<u>\$ 65,093,372</u>	<u>\$ 72,322,841</u>

**LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES		
Line of credit		\$ 1,750
Accounts payable and accrued expenses	<u>\$ 392,183</u>	<u>1,767,162</u>
Total current liabilities	392,183	1,768,912
BONDS PAYABLE	<u>10,000,000</u>	<u>10,000,000</u>
TOTAL LIABILITIES	10,392,183	11,768,912
NET ASSETS		
Unrestricted	38,781,525	36,131,064
Temporarily restricted	4,348,240	21,482,138
Permanently restricted	<u>11,571,424</u>	<u>2,940,727</u>
	<u>54,701,189</u>	<u>60,553,929</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 65,093,372</u>	<u>\$ 72,322,841</u>

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

**TACOMA ART MUSEUM**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Public support				
Contributions	\$ 1,491,052	\$ 428,613	\$ 39,530	\$ 1,959,195
Grants	314,593	262,000		576,593
In-kind donations	194,459			194,459
Memberships	246,304			246,304
Total public support	2,246,408	690,613	39,530	2,976,551
Revenue				
Investment return, net	22,765	160,938		183,703
Museum store	267,809			267,809
Auxiliary income	567,916	2,500		570,416
Admissions/tours	364,181			364,181
Miscellaneous	360,013			360,013
Total revenue	1,582,684	163,438		1,746,122
Net assets released from restrictions	6,715,782	(6,715,782)		
Total support and revenue	10,544,874	(5,861,731)	39,530	4,722,673
<b>EXPENSES</b>				
Program services	5,458,078			5,458,078
Supporting services				
Administration	1,045,265			1,045,265
Development	902,025			902,025
Total supporting services	1,947,290			1,947,290
Total expenses	7,405,368			7,405,368
Change in net assets before nonoperating income (expense)	3,139,506	(5,861,731)	39,530	(2,682,695)
<b>NONOPERATING EXPENSES</b>				
Change in value of assets available for sale		(2,681,000)		(2,681,000)
Acquisition of collection items	(489,045)			(489,045)
Total nonoperating expenses	(489,045)	(2,681,000)		(3,170,045)
CHANGE IN NET ASSETS	2,650,461	(8,542,731)	39,530	(5,852,740)
NET ASSETS, beginning of year	36,131,064	21,482,138	2,940,727	60,553,929
Change to restrictions (See Note 12)		(8,591,167)	8,591,167	
NET ASSETS, end of year	\$ 38,781,525	\$ 4,348,240	\$ 11,571,424	\$ 54,701,189

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



**TACOMA ART MUSEUM**

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

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

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

**TACOMA ART MUSEUM**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2015**

	Program Services						Supporting Activities			Total
	Exhibitions/ Curatorial	Education	Marketing	Museum Services	Membership	Total Program Services	Administration	Development	Total Supporting Activities	
Salaries	\$ 626,270	\$ 190,728	\$ 227,289	\$ 528,703	\$ 41,581	\$ 1,614,571	\$ 169,943	\$ 265,889	\$ 435,832	\$ 2,050,403
Payroll taxes	59,571	18,142	21,620	50,290	3,955	153,578	16,166	25,291	41,457	195,035
Employee benefits	52,775	16,072	19,153	44,553	3,504	136,057	14,321	22,406	36,727	172,784
Total salaries and related expenses	738,616	224,942	268,062	623,546	49,040	1,904,206	200,430	313,586	514,016	2,418,222
Bad debt expense	869	352	353	1,565	95	3,234	1,359	279,012	280,371	283,605
Bank charges	10,804	4,486	4,581	20,196	1,168	41,235	16,714	79	16,793	58,028
Building repairs and maintenance	17,530	7,106	7,129	26,400	1,917	60,082	27,424		27,424	87,506
Catering	35,952	6,024	1,562	7,605	564	51,707	2,466	113,234	115,700	167,407
Contracted services	307,153	40,169	76,321	173,238	5,370	602,251	76,809	129,165	205,974	808,225
Donated goods and services	38,955	15,791	15,841	58,668	4,261	133,516	60,943		60,943	194,459
Dues and subscriptions	9,716	3,891	12,056	7,885	539	34,087	5,210	1,006	6,216	40,303
Equipment rental/maintenance	374	136	136	533	37	1,216	525	508	1,033	2,249
Exhibition loan fees	202,531					202,531				202,531
Insurance	59,663	3,809	3,821	16,554	1,028	84,875	14,700		14,700	99,575
Investment fees	55,400	20,093	20,158	74,653	5,422	175,726	77,548		77,548	253,274
Merchandise expense				197,682		197,682				197,682
Miscellaneous	15,722	4,717	3,161	11,107	867	35,574	11,693	1,284	12,977	48,551
Parking expense	2,721	(952)	583	5,369	382	8,103	5,473	1,134	6,607	14,710
Photography	18,502		2,000			20,502				20,502
Postage and shipping	195,618	4,634	2,900	9,051	4,163	216,366	4,696	3,553	8,249	224,615
Printing and publications	89,864	2,812	39,782	509	22,765	155,732	224	16,318	16,542	172,274
Professional development	1,288	1,686	657	664	24	4,319	343	2,316	2,659	6,978
Publicity and advertising	225,645		129,944	19,442	350	375,381		(1,138)	(1,138)	374,243
Real estate and misc. taxes	995	404	405	2,309	109	4,222	41,547		41,547	45,769
Supplies	270,844	17,311	17,773	73,103	2,332	381,363	20,994	6,194	27,188	408,551
Telephone	2,833	1,133	1,133	4,250	283	9,632	3,116	1,417	4,533	14,165
Travel & entertainment	57,262	25,377	1,244	5,649	280	89,812	4,006	13,383	17,389	107,201
Utilities	41,947	16,779	16,779	62,921	4,195	142,621	46,142	20,974	67,116	209,737
Total expenses before depreciation and amortization	2,400,804	400,700	626,381	1,402,899	105,191	4,935,975	622,362	902,025	1,524,387	6,460,362
Depreciation and amortization	368,132	45,098		108,873		522,103	422,903		422,903	945,006
Total expenses	\$ 2,768,936	\$ 445,798	\$ 626,381	\$ 1,511,772	\$ 105,191	\$ 5,458,078	\$ 1,045,265	\$ 902,025	\$ 1,947,290	\$ 7,405,368

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

**TACOMA ART MUSEUM**

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

	Program Services						Supporting Activities			Total
	Exhibitions/ Curatorial	Education	Marketing	Museum Services	Membership	Total Program Services	Administration	Development	Total Supporting Activities	
Salaries	\$ 477,194	\$ 148,815	\$ 159,678	\$ 285,786	\$ 76,451	\$ 1,147,924	\$ 261,778	\$ 230,292	\$ 492,070	\$ 1,639,994
Payroll taxes	49,696	14,321	14,632	30,038	6,912	115,599	18,349	20,827	39,176	154,775
Employee benefits	39,335	13,551	16,302	27,381	5,645	102,214	29,364	17,020	46,384	148,598
Total salaries and related expenses	566,225	176,687	190,612	343,205	89,008	1,365,737	309,491	268,139	577,630	1,943,367
Bad debt expense	21,651	2,401	350	2,556	1,616	28,574	401	4,947	5,348	33,922
Bank charges	21,270	2,350	343	2,345	117	26,425	392	450	842	27,267
Building repairs and maintenance	52,522	5,824	850	5,340	243	64,779	1,325	972	2,297	67,076
Catering	438	5,716	2,149	5,281	14,450	28,034	13,246	43,357	56,603	84,637
Contracted services	81,509	33,906	25,391	145,011	28,192	314,009	41,762	87,569	129,331	443,340
Donated goods and services					42,861	42,861				42,861
Dues and subscriptions	1,114	1,454	7,361	3,559	921	14,409	14,243	2,804	17,047	31,456
Equipment rental/maintenance	1,769	20	3	855	405	3,052	3	1,215	1,218	4,270
Exhibition loan fees	2,650					2,650				2,650
Insurance	21,193			2,402	217	23,812	39,550	651	40,201	64,013
Interest and bank expenses	90,008	9,981	1,457	9,152	416	111,014	1,665	1,665	3,330	114,344
Investment fees	96,681	10,721	1,565	9,830	447	119,244	1,788	1,788	3,576	122,820
Merchandise expense				123,106		123,106				123,106
Miscellaneous	2,106	72	429	67	580	3,254	10,080	1,747	11,827	15,081
Photography	12,890					12,890				12,890
Postage and shipping	54,450	5,214	2,244	4,497	3,442	69,847	1,836	10,801	12,637	82,484
Printing and publications	104,298		49,989		4,407	158,694		13,220	13,220	171,914
Professional development	527	17	547	324	113	1,528	6,503	340	6,843	8,371
Publicity and advertising		15	67,564	23,258	875	91,712		2,624	2,624	94,336
Real estate and misc. taxes	1,735	192	28	264	8	2,227	32	32	64	2,291
Supplies	38,130	21,793	9,073	28,203	2,322	99,521	7,110	8,039	15,149	114,670
Telephone	2,612	1,742	1,524	4,136	435	10,449	1,742	1,742	3,484	13,933
Travel & entertainment	18,874	1,556	1,249	2,712	5,860	30,251	15,344	17,613	32,957	63,208
Utilities	137,696	15,269	2,229	14,001	637	169,832	2,547	2,547	5,094	174,926
Total expenses before depreciation and amortization	1,330,348	294,930	364,957	730,104	197,572	2,917,911	469,060	472,262	941,322	3,859,233
Depreciation and amortization	445,583	49,410	7,212	45,306	2,061	549,572	60,630	8,243	68,873	618,445
Total expenses	\$ 1,775,931	\$ 344,340	\$ 372,169	\$ 775,410	\$ 199,633	\$ 3,467,483	\$ 529,690	\$ 480,505	\$ 1,010,195	\$ 4,477,678

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

**TACOMA ART MUSEUM**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (5,852,740)	\$ 2,696,082
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	945,006	618,445
Interest and dividends reinvested	(566,241)	(415,954)
Net investment gains	512,311	(2,786,449)
Change in value of trusts receivable	(17,095)	(84,028)
Change in value of assets, available for sale	2,681,000	
Donation of assets, available for sale		(98,500)
Changes in assets and liabilities:		
Pledges receivable	335,625	389,814
Trusts receivable	(75,264)	
Accounts receivable	10,673	(48,630)
Prepaid expenses	(13,370)	(2,557)
Inventory	(927)	15,518
Accounts payable and accrued expenses	(1,374,980)	986,817
Net cash provided (used) by operating activities	(3,416,002)	1,270,558
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	(7,135,279)	1,268,072
Purchase of property and equipment	(4,979,579)	(9,479,243)
Sale of assets, available for sale	107,500	
Net cash used by investing activities	(12,007,358)	(8,211,171)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for construction and endowment	15,117,129	7,208,392
Change in line of credit, net	(1,750)	1,750
Net cash provided by financing activities	15,115,379	7,210,142
NET CHANGE IN CASH AND CASH EQUIVALENTS	(307,981)	269,529
CASH AND CASH EQUIVALENTS, beginning of year	1,042,880	773,351
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 734,899</u>	<u>\$ 1,042,880</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 4,011</u>	<u>\$ 5,998</u>

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

## TACOMA ART MUSEUM

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014**

#### **NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### Nature of Organization

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 allowance for doubtful accounts and net realizable value for the pledges receivable. Actual results could differ from those estimates.

##### Net Asset Classes

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

- Unrestricted net assets have no donor restrictions and may be used for any purpose consistent with the Museum's mission.
- 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.
- 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, 2015 AND 2014**

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

**Net Asset Classes (Continued)**

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

**Fair Value Measurement**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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

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

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

In 2015, there was a change in the value of Level 3 assets due to the sale described in Note 13.

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 and trusts 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, accounts payable and accrued expenses 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.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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

**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, 2015 amounted to \$485,000.

**Investments**

Under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-320 *Investments – Debt and Equity Securities*, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statements of financial position. Investments in private equity partnerships for which observable prices in active markets do not exist are reported at fair value as described in 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.

The Museum has some exposure to investment risks, including interest rate, market, and credit risks, for both marketable and non-marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the accompanying financial statements.

## **TACOMA ART MUSEUM**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014**

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

##### **Contributions and Pledges Receivable**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recorded when received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Pledges receivable due in the next year are recorded at their estimated fair value. Pledges receivable due in subsequent years are reported at the present value of their net realizable value, using a rate of 4%. 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. Management has estimated the allowance for uncollectible pledges at \$150,000 and \$75,000 as of June 30, 2015 and 2014, respectively.

##### **Future Exhibitions**

The Museum has entered into agreements for exhibitions scheduled through 2017. At June 30, 2015 the approximate prepaid expenses for future exhibitions are \$246,125.

##### **Inventory**

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

##### **Permanent Collections**

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

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

Expenditures for the acquisition of property and equipment are capitalized at cost when the cost exceeds \$2,500. The fair value of donated property and equipment is similarly capitalized. Depreciation is computed using the straight-line method over the useful lives of the assets, which are: equipment – 3 to 10 years; furniture – 15 years; building and renovations – 30 to 40 years. Planned major maintenance activities which significantly extend the useful life of the asset are capitalized. Depreciation expense at June 30, 2015 and 2014 was \$935,053 and \$608,492, respectively.



## TACOMA ART MUSEUM

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014**

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

##### 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 the years ended June 30, 2015 and 2014. Accumulated amortization is \$130,215 and \$120,262 at June 30, 2015 and 2014, respectively.

##### Memberships

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

##### Donated 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 the date of donation. There were contributed goods and services of \$194,459 and \$42,861 during 2015 and 2014, respectively.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Museum. The Museum receives volunteer hours which are not recognized in the accompanying financial statements because they do not meet recognition criteria under GAAP. During the years ended June 30, 2015 and 2014, the Museum received approximately 9,674 and 12,329 volunteer hours, respectively.

##### Functional Allocation of Expenses

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

##### Publicity and 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 \$374,243 and \$94,336 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014. 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, 2015 AND 2014**

#### **NOTE 1 – NATURE OF OPERATIONS AND 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, 2015 and 2014, the Museum had 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. The Museum has timely filed their returns.

##### Management Review of Subsequent Events

Management evaluated the effects of subsequent events through November 17, 2015, the date the financial statements were available to be issued.

#### **NOTE 2 – ENDOWMENT**

The Museum's investment policy complies with the rules of Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides uniform and fundamental rules for the prudent investment of funds held by charitable institutions and the expenditure of funds donated as endowments to those Institutions.

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

The Museum's endowment fund consists of two funds: (1) board designated funds as a reserve for bond repayment and operational needs and (2) donor-restricted funds for operational needs. The endowment assets are invested in securities that are included in the investments at June 30, 2015 and 2014. The Museum's spending policy is to expend three to five percent of the average investment balance of the last five years annually as approved by the board. 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 an annual basis.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 2 – ENDOWMENT (Continued)**

Endowment fund composition by type of fund:

June 30, 2015	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated - operations	\$ 2,779,649			\$ 2,779,649
Board designated - bonds	12,735,068			12,735,068
Donor restricted - bonds		\$ 2,974,814		2,974,814
Donor restricted - other		46,780	\$ 2,974,737	3,021,517
Haub endowment (Note 12)	<u>(57,098)</u>		<u>8,591,167</u>	<u>8,534,069</u>
Total - June 30, 2015	<u>\$ 15,457,619</u>	<u>\$ 3,021,594</u>	<u>\$ 11,565,904</u>	<u>\$ 30,045,117</u>
June 30, 2014	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated - operations	\$ 4,027,448			\$ 4,027,448
Board designated - bonds	12,221,593			12,221,593
Donor restricted - bonds		\$ 2,974,814		2,974,814
Donor-restricted - other		393,732	\$ 2,940,727	3,334,459
Haub endowment (Note 12)		<u>8,509,690</u>		<u>8,509,690</u>
Total - June 30, 2014	<u>\$ 16,249,041</u>	<u>\$ 11,878,236</u>	<u>\$ 2,940,727</u>	<u>\$ 31,068,004</u>

Changes in Endowment Net Assets:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 01, 2013	\$ 14,314,711	\$ 10,666,139	\$ 2,940,727	\$ 27,921,577
Investment return:				
Dividend and interest	522,971			522,971
Realized gain	652,471			652,471
Unrealized gain	<u>2,133,977</u>			<u>2,133,977</u>
Total investment return	3,309,419			3,309,419
Contributions	309,775	1,531,947		1,841,722
Appropriation of endowment assets for expenditure	<u>(1,684,864)</u>	<u>(319,850)</u>		<u>(2,004,714)</u>
Endowment net assets, June 30, 2014	<u>\$ 16,249,041</u>	<u>\$ 11,878,236</u>	<u>\$ 2,940,727</u>	<u>\$ 31,068,004</u>

# TACOMA ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

### NOTE 2 – ENDOWMENT (Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2014	\$ 16,249,041	\$ 11,878,236	\$ 2,940,727	\$ 31,068,004
Investment return:				
Dividend and interest	514,811	172,846		687,657
Realized gain	302,215	65,644		367,859
Unrealized loss	<u>(794,235)</u>	<u>(67,104)</u>		<u>(861,339)</u>
Total investment return	22,791	171,386		194,177
Contributions		84,633	34,010	118,643
Endowment reclass (Note 12)		(8,591,167)	8,591,167	
Appropriation of endowment assets for expenditure	<u>(781,346)</u>	<u>(554,361)</u>		<u>(1,335,707)</u>
Endowment net assets, June 30, 2015	<u>\$ 15,490,486</u>	<u>\$ 2,988,727</u>	<u>\$ 11,565,904</u>	<u>\$ 30,045,117</u>

### NOTE 3 – INVESTMENTS

The Museum's valuation techniques used to measure the fair value of equities were derived using third-party quotations. The value of the assets, available for sale was determined by third-party appraisers. These items are included at their fair market values in the statements of financial position, which approximated their fair values at June 30, 2015 and 2014. The art assets were not accepted into the museum collection at the donor's request as they do not fit the Museum's collection focus. The art assets valued at \$310,000 are temporarily restricted for art acquisitions. See Note 13.

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, 2015	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stock	\$ 6,597,218	\$ 345,745		\$ 6,942,963
Preferred Stock	18,968			18,968
Mutual funds				
Common Stock	9,299,753	3,654,380		12,954,133
Equity	1,107,640			1,107,640
Bond	2,428,164	4,768,192		7,196,356
Real Estate	928,453			928,453
Cash	896,604			896,604
Asset, available for sale			\$ 310,000	310,000
	<u>\$ 21,276,800</u>	<u>\$ 8,768,317</u>	<u>\$ 310,000</u>	<u>\$ 30,355,117</u>

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 3 – INVESTMENTS (Continued)**

June 30, 2014	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stock	\$ 5,501,366	\$ 227,165		\$ 5,728,531
Preferred Stock	54,234			54,234
Mutual funds				
Common Stock	685,691	8,253,285		8,938,976
Equity	688,616			688,616
Bond	2,162,340	3,786,301		5,948,641
Commodities		445,112		445,112
Real Estate	570,397			570,397
Cash	481,401			481,401
Assets, available for sale			\$ 3,098,500	3,098,500
	<u>\$ 10,144,045</u>	<u>\$ 12,711,863</u>	<u>\$ 3,098,500</u>	<u>\$ 25,954,408</u>

**NOTE 4 – PLEDGES RECEIVABLE**

Pledges receivable consisted of the following at:

June 30, 2015	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Receivables due in:			
less than one year	\$ 548,227	\$ 259,002	\$ 807,229
in two to five years	420,767	160,000	580,767
Total receivables	968,994	419,002	1,387,996
Less: net present value	(36,563)	(16,000)	(52,563)
Less: allowance for uncollectible amounts	(150,000)		(150,000)
Net pledges receivable	<u>\$ 782,431</u>	<u>\$ 403,002</u>	<u>\$ 1,185,433</u>
June 30, 2014	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Receivables due in:			
less than one year	\$ 363,973	\$ 15,717,636	\$ 16,081,609
in two to five years	445,509	211,333	656,842
Total receivables	809,482	15,928,969	16,738,451
Less: net present value	(17,135)	(8,129)	(25,264)
Less: allowance for uncollectible amounts	(75,000)		(75,000)
Net pledges receivable	<u>\$ 717,347</u>	<u>\$ 15,920,840</u>	<u>\$ 16,638,187</u>

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 5 – TRUSTS RECEIVABLE**

The Museum has been named as a beneficiary of charitable remainder trusts by more than ten donors as of June 30, 2015. The trusts have been recognized at the present value of the contributions to be received using a discount rate of 4%.

The trusts receivable consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Receivable due in less than one year		\$ 231,939
Receivable due in two to five years	\$ 25,000	25,000
Receivable due more than five years	<u>1,443,263</u>	<u>828,264</u>
Total trusts receivable	1,468,263	1,085,203
Less: net present value	<u>(559,517)</u>	<u>(268,817)</u>
Net trusts receivable	<u>\$ 908,746</u>	<u>\$ 816,386</u>

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

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

	<u>2015</u>	<u>2014</u>
Land	\$ 1,843,594	\$ 1,843,594
Buildings	34,564,435	19,685,369
Furniture and equipment	<u>2,469,380</u>	<u>1,621,771</u>
	38,877,409	23,150,734
Less: accumulated depreciation	(7,588,841)	(6,653,787)
Construction in progress	<u></u>	<u>10,747,095</u>
	<u>\$ 31,288,568</u>	<u>\$ 27,244,042</u>

**NOTE 7 – LINES OF CREDIT**

The Museum has an agreement with a bank for a line of credit in the amount of \$350,000, which expires May 31, 2016 with an interest rate at prime (3.25% at June 30, 2015) plus 1.75%. This line of credit is used for museum operation needs. The outstanding balance at June 30, 2015 and 2014 was zero and \$1,750, respectively.

The Museum has an agreement with a bank for a line of credit in the amount of \$1,000,000, which expires in July 2016 with an interest rate at the lower of 1.50% or prime (3.25% at June 30, 2015) less 1.75%. The Museum has not taken any advances on this line of credit.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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 are subject to annual redemption at a redemption price of 100% of principal amount to be redeemed plus accrued interest. At June 30, 2015 and 2014, the variable daily interest rates were .04% and .08%, respectively. 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, 2015 and 2014.

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 with these covenants at June 30, 2015.

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. The LOC expiration date is July 10, 2016, 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 9 – RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets are as follows at June 30:

	<u>2015</u>	<u>2014</u>
Time restrictions		
General operations	\$ 654,960	\$ 239,927
Purpose restrictions		
2003 building campaign (held for bond redemption)	2,974,814	2,974,814
2010 campaign and Haub gift		
Museum plaza and Haub galleries		5,214,406
Haub endowment		8,509,690
Haub transition expense		720,490
Art acquisitions	671,686	3,353,725
Art endowment	<u>46,780</u>	<u>469,086</u>
	<u>\$ 4,348,240</u>	<u>\$ 21,482,138</u>

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 9 – RESTRICTIONS ON NET ASSETS (Continued)**

Temporarily restricted net assets released during 2015 and 2014 totaled \$6,715,782 and \$10,187,467, respectively. The Museum had met the time or purpose restrictions for these contributions.

Permanently restricted net assets are as follows at June 30:

	<u>2015</u>	<u>2014</u>
Haub endowment	\$ 8,591,167	
Museum operating endowment	2,815,903	\$ 2,776,373
Art endowment	<u>164,354</u>	<u>164,354</u>
	<u>\$ 11,571,424</u>	<u>\$ 2,940,727</u>

**NOTE 10 – DEFINED CONTRIBUTION PLAN**

The Museum sponsors a 403(b) defined contribution pension plan. Employees may contribute up to the new Internal Revenue Service limits per year. The Museum matches \$0.25 for each \$1.00 contributed by an eligible employee up to 3% of total compensation. Eligible employees include all employees who have reached the age of 18, have worked for a period of one year, defined as 1,000 hours or more, and were employed by the Museum at year-end. For the years ended June 30, 2015 and 2014, the Museum contributed \$9,832 and \$11,007 in matching contributions, respectively.

**NOTE 11 – CAMPAIGN**

The 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, 2015 AND 2014**

**NOTE 11 – CAMPAIGN (Continued)**

To date the Campaign has received the following pledges and contributions as of June 30:

	<u>2015</u>	<u>2014</u>
Donor Designation Amount		
Undesignated (Unrestricted)	\$ 3,016,359	\$ 1,761,449
Access (Unrestricted)	4,065,000	3,040,000
Art Acquisition		
(Temporarily and Permanently Restricted)	4,291,617	3,512,854
Museum Plaza	<u>3,667,304</u>	<u>3,479,762</u>
	<u>\$ 15,040,280</u>	<u>\$ 11,794,065</u>

In addition the Campaign has received commitments of \$1,005,000 of planned gifts as of June 30, 2015, \$615,000 of which are included in trusts receivable. It is the Museum's expectation that 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, 2015, the construction of the new wing was finalized and the Museum has capitalized \$14,879,067 of building costs and \$683,588 of campaign expenses.

**NOTE 12 – HAUB GIFT**

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

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

This year, \$8,591,167 was received from the Haub family for the Haub Family Endowment, along with final payment of the pledge for construction. At the September 2014 board meeting, the Board accessioned 138 outright gifts of works of art and 161 promised gifts of works of art from the Haub Family Collection of Western American Art.

As of June 30, 2015, the Museum has received reimbursements of \$10,490,310 for construction and \$918,523 for transitional expenses. The balance of \$81,477 was contributed toward the Haub Family Endowment.

**TACOMA ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 12 – HAUB GIFT (Continued)**

The endowment funds were initially recorded as temporarily restricted net assets based on the language used in the agreement. During fiscal 2015, as the final gift was received and the new wing was opened, management had further discussions with the donor and their legal representative. It was determined that the intent of the donor was for the endowment to be permanently restricted, with earnings on the endowment to be available to cover certain costs related to the new wing. Management has made an entry to change the classification of the endowment from temporarily restricted to permanently restricted during the year ended June 30, 2015.

**NOTE 13 – SUBSEQUENT EVENT**

During September 2015, the Museum agreed to sell a piece of art for \$310,000. The piece of art had been received by the Museum with the expectation from the donor that the art would be sold, and the proceeds to be used to increase the art endowment. The piece of art had been valued at \$3,000,000 based on an appraisal performed at the time it was received in 2009. Based on the subsequent sale, the Museum has recorded a loss on the value of the asset available for sale of \$2,690,000 for the year ended June 30, 2015.

**NOTE 14 – RECLASSIFICATIONS**

Certain amounts reported in prior years have been reclassified to conform to the presentation at June 30, 2015. The reclassifications have no impact on the previously reported change in net assets.