



FINANCIAL STATEMENTS
With Independent Auditor's Report
Years Ended June 30, 2018 and 2017

**TACOMA
ART
MUSEUM**

Front Cover Image Credit:

Henry Inman (1801-1846)

A-Na-Cam-E-Gish-Ca, 1832-33

Oil on canvas

38 1/2 x 34 inches

Tacoma Art Museum, Gift of Gerald Peters in memory of Erivan Haub, 2018.7.1

Lino Tagliapietra

Medusa, 2006

Blown glass

17 3/4 x 18 1/4 x 6 3/4 inches

Tacoma Art Museum, Promised gift of the Rebecca and Jack Benaroya Collection

Photo by Russell Johnson

TACOMA ART MUSEUM
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

November 13, 2018

Board of Trustees
Tacoma Art Museum
Tacoma, Washington

We have audited the accompanying financial statements of Tacoma Art Museum (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to in the first paragraph of this letter present fairly, in all material respects, the financial position of Tacoma Art Museum as of June 30, 2018 and 2017, 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.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

TACOMA ART MUSEUM

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 575,762	\$ 733,878
Promises to give, net (Note B)	364,935	113,646
Accounts and grants receivable	161,084	175,049
Prepays and deposits	106,788	128,469
Inventory	93,480	89,542
Total Current Assets	<u>1,302,049</u>	<u>1,240,584</u>
Other Assets		
Long-term promises to give, net (Note B)	8,639,461	12,891,051
Investments (Note C)	29,625,472	30,550,237
Assets held in trust (Note E)	1,753,864	679,758
Total Other Assets	<u>40,018,797</u>	<u>44,121,046</u>
Permanent Collection (Note F)	-	-
Property and Equipment, net (Note G)	<u>34,295,710</u>	<u>29,997,275</u>
Total Assets	<u>\$ 75,616,556</u>	<u>\$ 75,358,905</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 743,086	\$ 199,182
Accrued expenses	35,089	103,085
Total Current Liabilities	<u>778,175</u>	<u>302,267</u>
Bonds Payable (Note H)	-	9,851,540
Line of Credit (Note I)	<u>9,000,000</u>	-
Total Liabilities	<u>9,778,175</u>	<u>10,153,807</u>
Net Assets		
Unrestricted	38,995,034	33,884,960
Temporarily restricted	10,704,224	15,499,091
Permanently restricted	16,139,123	15,821,047
Total Net Assets	<u>65,838,381</u>	<u>65,205,098</u>
Total Liabilities and Net Assets	<u>\$ 75,616,556</u>	<u>\$ 75,358,905</u>

See notes to financial statements.

TACOMA ART MUSEUM

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING:								
Support								
Contributions	\$ 831,762	\$ 194,175	\$ -	\$ 1,025,937	\$ 368,733	\$ 675,406	\$ -	\$ 1,044,139
Grants	429,820	12,800	-	442,620	860,749	40,000	-	900,749
Special events	398,783	12,000	-	410,783	340,562	2,950	-	343,512
Business contributions	173,031	11,500	-	184,531	21,180	116,167	-	137,347
Memberships	211,467	-	-	211,467	249,612	-	-	249,612
In-kind contributions	13,840	-	-	13,840	32,676	-	-	32,676
Endowment appropriation transferred from non-operating	1,082,889	-	-	1,082,889	1,049,732	-	-	1,049,732
Total Support	<u>3,141,592</u>	<u>230,475</u>	<u>-</u>	<u>3,372,067</u>	<u>2,923,244</u>	<u>834,523</u>	<u>-</u>	<u>3,757,767</u>
Revenue								
Retail income, net	360,218	-	-	360,218	328,119	-	-	328,119
Admissions and tours	194,398	-	-	194,398	252,744	-	-	252,744
Facility rental	127,691	-	-	127,691	93,276	-	-	93,276
Art loan fees and shipping	22,545	-	-	22,545	134,421	-	-	134,421
Other income	109,795	-	-	109,795	44,618	-	-	44,618
Total Revenue	<u>814,647</u>	<u>-</u>	<u>-</u>	<u>814,647</u>	<u>853,178</u>	<u>-</u>	<u>-</u>	<u>853,178</u>
Net Assets Released from Restrictions								
Satisfaction of purpose restrictions	7,047,086	(7,047,086)	-	-	1,764,630	(1,764,630)	-	-
Satisfaction of time restrictions	-	-	-	-	-	-	-	-
Total Net Assets Released from Restrictions	<u>7,047,086</u>	<u>(7,047,086)</u>	<u>-</u>	<u>-</u>	<u>1,764,630</u>	<u>(1,764,630)</u>	<u>-</u>	<u>-</u>
Total Operating Support and Revenue	<u>11,003,325</u>	<u>(6,816,611)</u>	<u>-</u>	<u>4,186,714</u>	<u>5,541,052</u>	<u>(930,107)</u>	<u>-</u>	<u>4,610,945</u>
Expenses								
Program Services								
Exhibitions and curatorial	994,570			994,570	1,380,429			1,380,429
Museum services	983,998			983,998	1,003,468			1,003,468
Marketing	274,220			274,220	372,629			372,629
Education	424,464			424,464	444,212			444,212
Total Program Services Expenses	<u>2,677,252</u>			<u>2,677,252</u>	<u>3,200,738</u>			<u>3,200,738</u>
Administration	888,155			888,155	918,345			918,345
Development	606,637			606,637	863,073			863,073
Total Supporting Services Expenses	<u>1,494,792</u>			<u>1,494,792</u>	<u>1,781,418</u>			<u>1,781,418</u>
Total Operating Expenses	<u>4,172,044</u>			<u>4,172,044</u>	<u>4,982,156</u>			<u>4,982,156</u>
Operating Change in Net Assets	<u>6,831,281</u>	<u>(6,816,611)</u>	<u>-</u>	<u>14,670</u>	<u>558,896</u>	<u>(930,107)</u>	<u>-</u>	<u>(371,211)</u>

See notes to financial statements.

TACOMA ART MUSEUM

STATEMENTS OF ACTIVITIES (Continued)

YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NON-OPERATING:								
Endowment contributions	\$ -	\$ -	\$ 318,076	\$ 318,076	\$ -	\$ -	\$ 442,305	\$ 442,305
Capital contributions	-	175,520	-	175,520	-	766,168	-	766,168
Change in value of assets held in trust	-	1,074,106	-	1,074,106	-	(13,759)	-	(13,759)
Depreciation	(1,048,534)	-	-	(1,048,534)	(1,078,219)	-	-	(1,078,219)
Interest and dividends	341,602	298,453	-	640,055	415,848	143,488	-	559,336
Investment gain, net of fees of \$104,943 and \$77,565	557,039	473,665	-	1,030,704	2,307,924	951,099	-	3,259,023
Acquisition of collection items	(99,200)	-	-	(99,200)	(109,977)	-	-	(109,977)
Amortization, interest and fees	(389,846)	-	-	(389,846)	(183,693)	-	-	(183,693)
Gain on sale of assets	621	-	-	621	22,785	-	-	22,785
Transfer of endowment appropriation to operating	(1,082,889)	-	-	(1,082,889)	(1,049,732)	-	-	(1,049,732)
Non-Operating Change in Net Assets	<u>(1,721,207)</u>	<u>2,021,744</u>	<u>318,076</u>	<u>618,613</u>	<u>324,936</u>	<u>1,846,996</u>	<u>442,305</u>	<u>2,614,237</u>
Total Change in Net Assets	5,110,074	(4,794,867)	318,076	633,283	883,832	916,889	442,305	2,243,026
Net Assets - beginning of year	<u>33,884,960</u>	<u>15,499,091</u>	<u>15,821,047</u>	<u>65,205,098</u>	<u>33,001,128</u>	<u>14,582,202</u>	<u>15,378,742</u>	<u>62,962,072</u>
Net Assets - end of year	<u>\$ 38,995,034</u>	<u>\$ 10,704,224</u>	<u>\$ 16,139,123</u>	<u>\$ 65,838,381</u>	<u>\$ 33,884,960</u>	<u>\$ 15,499,091</u>	<u>\$ 15,821,047</u>	<u>\$ 65,205,098</u>

TACOMA ART MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program Services					Supporting Services			
	Exhibitions/ Curatorial	Museum Services	Marketing	Education	Total Program Services	Administration	Development	Total Supporting Services	Total
Operating Expenses									
Salaries and related expenses	\$ 386,242	\$ 703,522	\$ 133,075	\$ 246,570	\$ 1,469,409	\$ 612,254	\$ 367,352	\$ 979,606	\$ 2,449,015
Contracted services	104,941	87,537	29,965	80,591	303,034	80,364	84,931	165,295	468,329
Telephone and utilities	85,531	26,317	-	10,966	122,814	96,496	55	96,551	219,365
Supplies	57,079	43,545	5,469	32,751	138,844	13,629	49,612	63,241	202,085
Printing and publications	63,583	3,967	25,877	5,982	99,409	3,874	14,162	18,036	117,445
Travel and entertainment	48,642	12,530	2,792	19,264	83,228	11,845	21,520	33,365	116,593
Catering	2,263	56,778	334	5,365	64,740	1,792	47,213	49,005	113,745
Postage and shipping	84,492	3,460	2,122	1,038	91,112	3,106	7,025	10,131	101,243
Insurance	63,033	5,994	-	2,497	71,524	21,976	-	21,976	93,500
Publicity and advertising	(14)	1,343	55,440	987	57,756	25	856	881	58,637
Building repairs and maintenance	16,029	8,236	-	2,055	26,320	18,083	-	18,083	44,403
Miscellaneous	12,522	2,608	119	4,774	20,023	18,994	2,632	21,626	41,649
Interest and bank charges	5,670	12,237	1,890	4,400	24,197	10,151	7,131	17,282	41,479
Dues and subscriptions	3,618	5,053	15,288	3,420	27,379	3,621	61	3,682	31,061
Exhibition loan fees	30,908	-	-	-	30,908	-	-	-	30,908
Professional development	8,497	9,171	1,849	3,804	23,321	(8,055)	7,052	(1,003)	22,318
Photography	15,838	-	-	-	15,838	-	250	250	16,088
Donated goods and services	-	-	-	-	-	-	13,840	13,840	13,840
Equipment rental/maintenance	5,696	1,700	-	-	7,396	-	-	-	7,396
Bad debt recovery	-	-	-	-	-	-	(17,055)	(17,055)	(17,055)
Total Operating Expenses	994,570	983,998	274,220	424,464	2,677,252	888,155	606,637	1,494,792	4,172,044
Depreciation	403,685	126,873	-	52,427	582,985	465,549	-	465,549	1,048,534
Amortization, interest and fees	102,119	27,396	-	11,415	140,930	248,916	-	248,916	389,846
Acquisition of collection items	99,200	-	-	-	99,200	-	-	-	99,200
Total Expenses	\$ 1,599,574	\$ 1,138,267	\$ 274,220	\$ 488,306	\$ 3,500,367	\$ 1,602,620	\$ 606,637	\$ 2,209,257	\$ 5,709,624

TACOMA ART MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Program Services					Supporting Services			
	Exhibitions/ Curatorial	Museum Services	Marketing	Education	Total Program Services	Administration	Development	Total Supporting Services	Total
Operating Expenses									
Salaries and related expenses	\$ 432,951	\$ 737,784	\$ 167,355	\$ 255,530	\$ 1,593,620	\$ 664,008	\$ 398,406	\$ 1,062,414	\$ 2,656,034
Contracted services	176,196	64,573	75,591	83,183	399,543	66,133	226,811	292,944	692,487
Telephone and utilities	82,652	25,432	-	10,597	118,681	93,250	1,537	94,787	213,468
Supplies	62,551	35,748	4,068	32,637	135,004	12,492	14,906	27,398	162,402
Printing and publications	29,493	4,290	33,452	2,453	69,688	4,305	22,328	26,633	96,321
Travel and entertainment	60,335	9,687	2,968	24,515	97,505	9,545	18,194	27,739	125,244
Catering	433	65,265	168	12,132	77,998	779	39,535	40,314	118,312
Postage and shipping	217,786	3,074	2,734	1,761	225,355	2,954	6,800	9,754	235,109
Insurance	84,300	6,498	-	2,708	93,506	23,827	-	23,827	117,333
Publicity and advertising	-	2,709	65,569	374	68,652	-	113	113	68,765
Building repairs and maintenance	18,205	5,863	-	2,334	26,402	20,538	-	20,538	46,940
Miscellaneous	13,678	10,610	2,165	4,401	30,854	(1,287)	3,884	2,597	33,451
Interest and bank charges	7,966	15,856	3,125	5,529	32,476	14,493	1,145	15,638	48,114
Dues and subscriptions	13,704	5,156	13,907	3,965	36,732	5,437	597	6,034	42,766
Exhibition loan fees	114,806	-	-	-	114,806	-	-	-	114,806
Professional development	18,053	1,720	1,515	1,935	23,223	1,814	-	1,814	25,037
Photography	32,288	-	-	-	32,288	-	1,499	1,499	33,787
Donated goods and services	15,000	7,630	-	-	22,630	-	10,046	10,046	32,676
Equipment rental/maintenance	32	1,573	12	158	1,775	57	-	57	1,832
Bad debt expense	-	-	-	-	-	-	117,272	117,272	117,272
Total Operating Expenses	1,380,429	1,003,468	372,629	444,212	3,200,738	918,345	863,073	1,781,418	4,982,156
Depreciation	414,433	130,581	-	54,409	599,423	478,796	-	478,796	1,078,219
Interest and fees	77,712	20,848	-	8,687	107,247	76,446	-	76,446	183,693
Acquisition of collection items	109,977	-	-	-	109,977	-	-	-	109,977
Total Expenses	\$ 1,982,551	\$ 1,154,897	\$ 372,629	\$ 507,308	\$ 4,017,385	\$ 1,473,587	\$ 863,073	\$ 2,336,660	\$ 6,354,045

TACOMA ART MUSEUM

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash received from:		
Donors	\$ 2,303,885	\$ 3,287,404
Retail income	469,843	356,378
Admissions and tours	194,398	252,744
Facility rental	127,691	93,276
Other	132,340	179,039
Cash paid for:		
Personnel	(2,517,011)	(2,708,514)
Services and supplies	(1,878,987)	(2,623,845)
Interest and fees	<u>(241,386)</u>	<u>(173,741)</u>
Net Cash Used by Operating Activities	<u>(1,409,227)</u>	<u>(1,337,259)</u>
Cash Flows from Investing Activities		
Purchases of investments	(14,146,284)	(6,721,051)
Proceeds from sale of investments	16,741,808	7,987,306
Purchases of property and equipment	<u>(4,809,763)</u>	<u>(639,319)</u>
Net Cash (Used) Provided by Investing Activities	<u>(2,214,239)</u>	<u>626,936</u>
Cash Flows from Financing Activities		
Cash received from endowment contributions	50,000	330,888
Cash received from capital contributions	4,415,350	436,070
Payments on bond	(10,000,000)	-
Proceeds from line of credit	10,000,000	-
Payments on line of credit	<u>(1,000,000)</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>3,465,350</u>	<u>766,958</u>
Changes in Cash and Cash Equivalents	(158,116)	56,635
Cash and Cash Equivalents - beginning of year	<u>733,878</u>	<u>677,243</u>
Cash and Cash Equivalents - end of year	<u>\$ 575,762</u>	<u>\$ 733,878</u>

TACOMA ART MUSEUM

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of Change in Net Assets to Net Cash		
Flows from Operating Activities		
Change in net assets	\$ 633,283	\$ 2,243,026
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	1,048,534	1,078,219
Amortization	148,460	9,952
Interest and dividends reinvested	(640,055)	(559,336)
Gain on investments	(1,030,704)	(3,259,023)
Change in value of assets held in trust	(1,074,106)	158,759
Gain on sale of assets	(621)	(22,785)
Artwork approved for sale	-	80,000
(Increase) decrease in		
Promises to give	(465,049)	(821,428)
Accounts and grants receivable	13,965	(74,836)
Prepays and deposits	21,681	(45,258)
Inventory	(3,938)	6,105
Increase (decrease) in		
Accounts payable	7,319	(78,174)
Accrued expenses	(67,996)	(52,480)
Net Cash Used by Operating Activities	<u>\$ (1,409,227)</u>	<u>\$ (1,337,259)</u>

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Tacoma Art Museum (TAM) is a nonprofit corporation organized under the laws of the State of Washington for the purpose of promoting and cultivating the fine arts and arts education. Its primary sources of revenue and support are private contributions and grants.

TAM is a public-spirited institution that champions a dynamic and responsive approach to exhibitions. The staff and Board of Trustees are driven by the mission of connecting people through art, empowering visitors to create meaning with artworks through innovative interpretation and programs. Named by USA Today as one of the “Top 10 Great Places to See Art in Smaller Cities,” TAM has developed a reputation for presenting art in a thought-provoking yet accessible manner, with a strong commitment to Northwest art. Founded in 1935, TAM has strong roots in the community.

Basis of accounting

TAM prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Federal income taxes

The Internal Revenue Service has recognized TAM as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation. However, certain activities not directly related to TAM's tax-exempt purpose are not exempt and are subject to federal income tax. TAM incurred no income tax expense for the years ended June 30, 2018 and 2017.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Advertising

TAM uses advertising to promote its programs among the audiences it serves. The costs of advertising are expensed as incurred. Advertising costs totaled \$58,637 and \$68,765 for the years ended June 30, 2018 and 2017, respectively.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation

In accordance with financial accounting standards, TAM is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets of TAM are classified as follows:

Unrestricted net assets are available without restriction for support of TAM's mission.

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or future periods. Temporarily restricted net assets are available as follows at June 30:

	<u>2018</u>	<u>2017</u>
Benaroya building expansion and exhibition	\$ 3,448,477	\$ 8,440,507
Debt redemption (2003 building campaign)	1,974,814	2,974,814
Accumulated operating endowment earnings	2,122,982	2,053,933
Assets held in trust (time restricted)	1,753,864	679,758
Other projects and programs	638,054	644,357
Art acquisition	413,706	463,683
Accumulated art endowment earnings	144,540	135,147
Accumulated Haub endowment earnings	207,787	106,892
	<u>\$10,704,224</u>	<u>\$15,499,091</u>

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used as specified by the donors. Permanently restricted net assets are available as follows at June 30:

	<u>2018</u>	<u>2017</u>
Haub endowment	\$ 8,591,167	\$ 8,591,167
Museum operating endowment	2,711,023	2,711,023
Art endowment	594,602	594,602
	<u>11,896,792</u>	<u>11,896,792</u>
Pledges receivable for future endowment	4,242,331	3,924,255
	<u>\$16,139,123</u>	<u>\$15,821,047</u>

Cash and cash equivalents

Cash and cash equivalents consist of checking and savings accounts. TAM considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. TAM maintains cash deposits in bank accounts which exceed federally insured limits. TAM has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

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

Investments consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Endowment investments	\$ 27,215,280	\$ 27,433,256
Non-endowment investments	<u>2,410,192</u>	<u>3,116,981</u>
	<u>\$ 29,625,472</u>	<u>\$ 30,550,237</u>

Receivables

Receivables are stated at net realizable value.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to give

Unconditional promises to give are stated at net realizable value. In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Inventory

Inventory is stated at the lower of cost or market under the first-in, first-out method of accounting and consists of merchandise and café supplies.

Property and equipment

Land, building and equipment are stated at cost. Long-lived asset purchases that exceed \$2,500 are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets. Planned major maintenance activities which significantly extend the useful life of the asset are capitalized.

Restricted and unrestricted support

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reported as net assets released from restrictions.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Concentration

Approximately 93% and 94% of promises to give were due from one donor at June 30, 2018 and 2017, respectively.

Non-operating activities

TAM's non-operating activities include endowment contributions, capital contributions, depreciation, investment returns, art acquisition and sales, interest and fees for debt, and certain endowment transfers.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-kind donations

In accordance with financial accounting standards, the financial statements reflect only those contributed services requiring specific expertise, which TAM would otherwise need to purchase. However, many individuals volunteer their time and perform a variety of tasks that assist TAM. TAM receives volunteer hours which are not recognized in the accompanying financial statements because they do not meet the recognition criteria. TAM received approximately 6,200 and 8,200 volunteer hours during the years ended June 30, 2018 and 2017, respectively.

NOTE B - PROMISES TO GIVE

Promises to give consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 8,813,236	\$ 6,864,027
Receivable in one to five years	237,500	6,724,864
Receivable in more than five years	<u>700</u>	<u>4,450</u>
	9,051,436	13,593,341
Less: present value discount	(34,465)	(556,018)
Less: allowance for doubtful accounts	<u>(12,575)</u>	<u>(32,626)</u>
	<u>\$ 9,004,396</u>	<u>\$13,004,697</u>

Promises to give for endowment and capital purposes are included in long-term promises to give on the statements of financial position, as the assets are considered for long-term use. Promises to give due in more than one year are recorded at the present value of estimated future cash flows using a discount rate of 4%.

When considered necessary, an allowance is recorded based on management's estimate of uncollectibility, including such factors as prior collection history, type of contribution, and the nature of fundraising activity.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE C - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis (at least annually) are as follows:

	Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of June 30, 2018				
Equity	\$18,536,598	\$ -	\$ -	\$18,536,598
Hedge Funds	3,628,203	-	-	3,628,203
REITs	1,707,309	-	-	1,707,309
Commodities	663,288	-	-	663,288
Fixed Income	4,260,566	-	-	4,260,566
Cash Equivalents	829,508	-	-	829,508
Investments	29,625,472	-	-	29,625,472
Assets Held in Trust	-	-	1,753,864	1,753,864
	<u>\$29,625,472</u>	<u>\$ -</u>	<u>\$ 1,753,864</u>	<u>\$31,379,336</u>
As of June 30, 2017				
Equity	\$18,549,582	\$ -	\$ -	\$18,549,582
Hedge Funds	4,253,669	-	-	4,253,669
REITs	1,771,888	-	-	1,771,888
Fixed Income	4,383,757	-	-	4,383,757
Cash Equivalents	1,591,341	-	-	1,591,341
Investments	30,550,237	-	-	30,550,237
Assets Held in Trust	-	-	679,758	679,758
	<u>\$30,550,237</u>	<u>\$ -</u>	<u>\$ 679,758</u>	<u>\$31,229,995</u>

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities, and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Assets Held <u>in Trust</u>
Fair Value as of July 1, 2016	\$ 838,517
Change in value	(13,759)
Write-off of uncollectible trusts	<u>(145,000)</u>
Fair Value as of June 30, 2017	679,758
Additions	983,424
Change in value	<u>90,682</u>
Fair Value as of June 30, 2018	<u><u>\$ 1,753,864</u></u>

NOTE D - ENDOWMENT

TAM's endowment fund consists of five funds: (1) board designated quasi-endowment for operations, (2) board designated quasi-endowment for debt repayment, (3) donor restricted endowment for operations, (4) donor restricted Haub endowment for programming purposes, and (5) donor restricted art acquisition endowment, which is intended for the purchase of new items for the collection.

Under generally accepted accounting principles, the net assets of endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

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

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE D - ENDOWMENT (Continued)

In accordance with UPMIFA, TAM considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the organization and the endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation or deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the organization; and
- (7) The investment policy.

Investment and Spending Policies

TAM's spending policy is to expend three to five percent of the average investment balance of the last five years annually as approved by the Board. TAM has adopted this policy in order to provide a predictable stream of funding for programs supported by the endowment, which include education, exhibitions, and general operations support for programming and community engagement. TAM's investment policy for all investments is reviewed and reconfirmed or revised on an annual basis. JP Morgan is the investment advisor for the investment assets.

A portion of the endowment is held in the Tacoma Art Museum living trust (the trust). The trust is an irrevocable, perpetual fund and distributions to TAM from the trust are limited by the terms of the trust. Income and net appreciation in the fair value of the assets above historical dollar value are available for distribution and use for the activities of TAM.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, TAM relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). TAM targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE D - ENDOWMENT (Continued)

Endowment net assets by fund type as of June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated - operations	\$ 4,113,254			\$ 4,113,254
Board designated - debt	8,729,925			8,729,925
Donor restricted - operations	-	\$ 423,177	\$ 2,327,788	2,750,965
Donor restricted - operations, Held in Trust	-	1,699,805	383,235	2,083,040
Donor restricted - Haub	-	207,787	8,591,167	8,798,954
Donor restricted - art	-	144,540	594,602	739,142
	<u>\$12,843,179</u>	<u>\$ 2,475,309</u>	<u>\$11,896,792</u>	<u>\$27,215,280</u>

Change in endowment net assets for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$13,240,492</u>	<u>\$ 2,295,972</u>	<u>\$11,896,792</u>	<u>\$27,433,256</u>
Investment return:				
Dividend and interest	332,386	285,911	-	618,297
Realized gain	928,893	808,871	-	1,737,764
Unrealized loss	<u>(362,638)</u>	<u>(353,031)</u>	-	<u>(715,669)</u>
Total investment return	898,641	741,751	-	1,640,392
Contributions, net	-	10,000	-	10,000
Appropriation	<u>(1,295,954)</u>	<u>(572,414)</u>	-	<u>(1,868,368)</u>
Endowment net assets, end of year	<u>\$12,843,179</u>	<u>\$ 2,475,309</u>	<u>\$11,896,792</u>	<u>\$27,215,280</u>

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE D - ENDOWMENT (Continued)

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

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

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

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

NOTE E - ASSETS HELD IN TRUST

TAM has been named as a beneficiary of certain charitable remainder trusts as of June 30, 2018 and 2017. The trusts have been recognized at the present value of the contributions to be received, using a discount rate of 4%. Changes in the value of these trusts have been reported in the statements of activities as increases or decreases in temporarily restricted net assets.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE F - PERMANENT COLLECTION

TAM's collection is primarily American art with an emphasis on art created in the Northwest. TAM does not capitalize its collection, nor does it recognize contributions of collection items as contribution revenue. TAM has stewardship policies for its collection regarding: accessioning and deaccessioning of collection items, care of the collection, access and control of the collection, risk management, and loans to and from other institutions. Each collection item is catalogued and activities verifying the existence and assessing the condition of the collection are performed continuously.

Since its founding in 1935, TAM has focused on the art and artists of the Northwest in both its exhibitions and collecting. A key goal in TAM's strategic plan is to build the premier collection of Northwest art and be a leader in the preservation and scholarship of the region's visual arts. TAM's rich collection now includes 5,000 artworks, 3,300 of which are by Northwest artists or related to the region. They range across all media and span from the 19th century to the present.

In addition, TAM has and continues to selectively acquire works by national and international artists. These artworks provide connections to broader contexts in which to understand Northwest art, such as how it relates to national and international art movements, compares and contrasts with other regional expressions, reflects important historical moments and trends, and reveals key influences on its development.

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	Estimated Useful Lives	2018	2017
Land		\$ 1,843,594	\$ 1,843,594
Building and renovations	30 – 40 years	34,696,195	34,689,292
Furniture and equipment	3 – 15 years	<u>1,876,827</u>	<u>1,849,572</u>
		38,416,616	38,382,458
Less: accumulated depreciation		(10,156,946)	(9,108,412)
Construction in progress		<u>6,036,040</u>	<u>723,229</u>
		<u>\$34,295,710</u>	<u>\$29,997,275</u>

NOTE H - BONDS PAYABLE

On June 1, 2002, the Washington State Housing Finance Commission issued \$10,000,000 in variable rate demand nonprofit revenue bonds, Series 2002 (bonds). The proceeds of the bonds were loaned to TAM to finance the acquisition, construction, and equipping of a new art museum. The bonds were subject to annual redemption at a redemption price of 100% of principal amount to be redeemed plus accrued interest. At June 30, 2017, the variable daily interest rate was 0.94%. The bonds were callable at any time by TAM and required no principal payments until maturity in June 2032.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE H - BONDS PAYABLE (Continued)

Pursuant to a Reimbursement Agreement dated June 1, 2002 between TAM and the bank, an irrevocable direct pay letter of credit (LOC) was issued by the bank in the amount of \$10,136,987 as collateral for the payment of principal and interest on the bonds. The LOC expiration date was December 4, 2017, as provided in the LOC Reimbursement Agreement. Should the LOC be drawn upon, the outstanding balance would accrue interest at the bank's prime rate. TAM was required to pay a quarterly LOC fee of .8% per annum. Although the LOC was unsecured, TAM must maintain cash and investment balances that were legally available for repayment of the bonds, in an amount equal to 110% of the current bond balance. TAM was in compliance with these requirements at June 30, 2017.

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

The terms of the bonds included covenants that require the maintenance of certain financial ratios, submission of quarterly reports, and certain limits on the incurrence of additional borrowings. TAM was in compliance with these covenants at June 30, 2017. In the fall of 2017, the direct pay letter of credit expired and TAM management made the decision to redeem the bonds in November 2017. A line of credit of \$10,000,000 with JP Morgan was used to retire the bonds, offering TAM's management flexibility in repayment of the outstanding debt. Management then repaid \$1,000,000 of this debt in November 2017, and management will decide on an annual basis whether to repay more of this line of credit.

Bonds payable consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Bonds payable	\$ -	\$10,000,000
Loan issuance costs	-	298,580
Accumulated amortization	-	(150,120)
Less: Net loan issuance costs	-	148,460
Net bonds payable	<u>\$ -</u>	<u>\$ 9,851,540</u>

NOTE I - LINES OF CREDIT

TAM has an agreement with Union Bank for a line of credit in the amount of \$350,000, which expires June 1, 2019, with an interest rate at the bank's reference rate plus 1.00% (6.0% at June 30, 2018). This line of credit is used for museum operation needs and is collateralized by TAM's investment portfolio. There was no balance outstanding on the line of credit at June 30, 2018 or 2017.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NOTE I - LINES OF CREDIT (Continued)

TAM has two lines of credit with JP Morgan in the amounts of \$10,000,000 and \$3,000,000, expiring on December 31, 2019. Each borrowing shall bear interest at the Variable Libor Rate plus 1% (3.06% at June 30, 2018). The lines of credit are collateralized by TAM's investment portfolio. The balance outstanding on these lines of credit was \$9,000,000 and \$0 at June 30, 2018 and 2017, respectively.

NOTE J - DEFINED CONTRIBUTION PLAN

TAM sponsors a 403(b) defined contribution pension plan. Employees may contribute up to the Internal Revenue Service limits each year. TAM matches \$0.25 for each \$1.00 contributed by an eligible employee up to 6% of total compensation. Eligible employees include all employees who have reached the age of 18, have worked for a period of one year, defined as 1,000 hours or more, and were employed by TAM at year-end. For the years ended June 30, 2018 and 2017, TAM contributed \$11,186 and \$13,595, respectively, in matching contributions.

NOTE K - BENAROYA GIFT

In January 2016, Becky Benaroya announced a legacy gift and bequeathed the art collection of her late husband, Jack Benaroya. The original promised gift included 235 works of art, including paintings, sculpture and glass. In December 2017, Becky Benaroya promised an additional 118 works of art. The Benaroya Collection now totals 353 works of art.

This gift also included \$9.2 million for the construction of a new 7,390 square-foot wing in which to present the collection, an endowment fund for its care, and funds for a dedicated curator. A preview exhibition occurred during October 2016 through April 2017. The building construction started in October 2017 and will open to the public in January 2019.

NOTE L - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2018 through November 13, 2018, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at June 30, 2018, including the estimates inherent in the processing of financial statements.