



FINANCIAL STATEMENTS

With Independent Auditor's Report

YEARS ENDED JUNE 30, 2020 AND 2019

TAM

JOYCE J. SCOTT

(BORN BALTIMORE, MARYLAND, 1948)

UNTITLED

DATE UNKNOWN, SEED BEADS AND PEWTER

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GIFT OF FLORA BOOK, 2012.10.8

TACOMA ART MUSEUM
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

November 24, 2020

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, 2020 and 2019 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, 2020 and 2019, 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.

A handwritten signature in cursive script that reads "Jacobson Jarvis & Co, PLLC".

Jacobson Jarvis & Co, PLLC

TACOMA ART MUSEUM
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,210,003	\$ 821,905
Promises to give, net (Note C)	146,000	170,650
Accounts and grants receivable	19,563	29,997
Prepays and deposits	120,149	99,070
Inventory	280,077	277,632
Total Current Assets	<u>1,775,792</u>	<u>1,399,254</u>
Other Assets		
Long-term promises to give, net (Note C)	39,482	326,981
Investments (Note D)	30,187,813	32,699,624
Assets held in trust (Note E)	1,226,798	1,843,558
Total Other Assets	<u>31,454,093</u>	<u>34,870,163</u>
Permanent Collection (Note G)	-	-
Property and Equipment, net (Note H)	<u>36,382,392</u>	<u>36,873,109</u>
Total Assets	<u>\$ 69,612,277</u>	<u>\$ 73,142,526</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 157,988	\$ 144,662
Accrued expenses	7,092	12,747
Paycheck Protection Program loan	520,283	-
Total Current Liabilities	685,363	157,409
Line of Credit (Note J)	<u>7,650,000</u>	<u>8,650,000</u>
Total Liabilities	<u>8,335,363</u>	<u>8,807,409</u>
Net Assets		
Without donor restrictions	40,392,521	41,022,505
With donor restrictions	<u>20,884,393</u>	<u>23,312,612</u>
Total Net Assets	<u>61,276,914</u>	<u>64,335,117</u>
Total Liabilities and Net Assets	<u>\$ 69,612,277</u>	<u>\$ 73,142,526</u>

TACOMA ART MUSEUM

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING:						
Support						
Contributions	\$ 849,358	\$ 19,945	\$ 869,303	\$ 565,553	\$ 89,475	\$ 655,028
Grants	451,990	25,000	476,990	1,206,344	49,000	1,255,344
Special events	375,286	17,500	392,786	429,349	9,700	439,049
Business contributions	194,191	-	194,191	200,505	5,000	205,505
In-kind contributions	21,373	-	21,373	14,410	-	14,410
Transfers from non-operating activity	1,676,018	-	1,676,018	905,440	-	905,440
Total Support	3,568,216	62,445	3,630,661	3,321,601	153,175	3,474,776
Revenue						
Retail income	338,879	-	338,879	447,212	-	447,212
Admissions and tours	255,617	-	255,617	197,685	-	197,685
Memberships	169,528	-	169,528	188,002	-	188,002
Facility rentals	58,977	-	58,977	114,989	-	114,989
Art loan fees and shipping	10,228	-	10,228	1,692	-	1,692
Other income	41,528	-	41,528	73,084	-	73,084
Total Revenue	874,757	-	874,757	1,022,664	-	1,022,664
Net Assets Released from Restrictions						
Satisfaction of purpose restrictions	894,379	(894,379)	-	9,211,956	(9,211,956)	-
Total Operating Support and Revenue	5,337,352	(831,934)	4,505,418	13,556,221	(9,058,781)	4,497,440
Expenses						
Program Services						
Exhibitions and curatorial	1,034,018		1,034,018	1,135,560		1,135,560
Museum services	951,076		951,076	982,241		982,241
Marketing	278,911		278,911	330,229		330,229
Education	450,610		450,610	486,693		486,693
Total Program Services Expenses	2,714,615		2,714,615	2,934,723		2,934,723
Administration	876,632		876,632	833,309		833,309
Development	735,931		735,931	723,760		723,760
Total Supporting Services Expenses	1,612,563		1,612,563	1,557,069		1,557,069
Total Operating Expenses	4,327,178		4,327,178	4,491,792		4,491,792
Operating Change in Net Assets	1,010,174	(831,934)	178,240	9,064,429	(9,058,781)	5,648

TACOMA ART MUSEUM

STATEMENTS OF ACTIVITIES (Continued)

YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
NON-OPERATING:						
Endowment contributions	\$ -	\$ 11,100	\$ 11,100	\$ -	\$ 18,794	\$ 18,794
Change in value of assets held in trust	-	163,240	163,240	-	89,694	89,694
Depreciation	(1,337,952)	-	(1,337,952)	(1,216,238)	-	(1,216,238)
Investment returns	(58,151)	(94,607)	(152,758)	429,154	553,676	982,830
Acquisition of collection items	(36,488)	-	(36,488)	(177,335)	-	(177,335)
Interest and fees	(208,947)	-	(208,947)	(301,734)	-	(301,734)
Gain on sale of assets	1,380	-	1,380	517	-	517
Satisfaction of purpose restrictions	1,676,018	(1,676,018)	-	905,440	(905,440)	-
Transfers to operating activity	<u>(1,676,018)</u>	<u>-</u>	<u>(1,676,018)</u>	<u>(905,440)</u>	<u>-</u>	<u>(905,440)</u>
Non-Operating Change in Net Assets	<u>(1,640,158)</u>	<u>(1,596,285)</u>	<u>(3,236,443)</u>	<u>(1,265,636)</u>	<u>(243,276)</u>	<u>(1,508,912)</u>
Total Change in Net Assets	(629,984)	(2,428,219)	(3,058,203)	7,798,793	(9,302,057)	(1,503,264)
Net Assets - beginning of year	<u>41,022,505</u>	<u>23,312,612</u>	<u>64,335,117</u>	<u>33,223,712</u>	<u>32,614,669</u>	<u>65,838,381</u>
Net Assets - end of year	<u><u>\$ 40,392,521</u></u>	<u><u>\$ 20,884,393</u></u>	<u><u>\$ 61,276,914</u></u>	<u><u>\$ 41,022,505</u></u>	<u><u>\$ 23,312,612</u></u>	<u><u>\$ 64,335,117</u></u>

TACOMA ART MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services					Supporting Services			
	<u>Exhibitions/ Curatorial</u>	<u>Museum Services</u>	<u>Marketing</u>	<u>Education</u>	<u>Total Program Services</u>	<u>Administration</u>	<u>Development</u>	<u>Total Supporting Services</u>	<u>Total</u>
Operating Expenses									
Salaries and related expenses	\$ 562,766	\$ 683,326	\$ 172,319	\$ 321,310	\$ 1,739,721	\$ 472,261	\$ 522,195	\$ 994,456	\$ 2,734,177
Contracted services	95,040	80,185	34,132	60,861	270,218	71,198	64,555	135,753	405,971
Telephone and utilities	91,054	23,293	-	8,470	122,817	88,937	-	88,937	211,754
Printing and publications	69,763	301	7,310	4,850	82,224	18,519	19,990	38,509	120,733
Supplies	33,883	39,191	2,158	28,250	103,482	11,696	4,217	15,913	119,395
Insurance	42,302	-	-	-	42,302	65,369	-	65,369	107,671
Catering	325	48,125	839	4,374	53,663	1,264	31,610	32,874	86,537
Cost of goods sold	-	67,168	-	-	67,168	-	-	-	67,168
Travel and entertainment	12,311	175	1,174	12,818	26,478	27,954	11,428	39,382	65,860
Exhibition loan fees	65,081	-	-	-	65,081	-	-	-	65,081
Postage and shipping	41,543	1,362	-	-	42,905	10,917	3,401	14,318	57,223
Publicity and advertising	-	47	52,271	187	52,505	-	626	626	53,131
Building repairs and maintenance	330	-	-	1,360	1,690	-	48,424	48,424	50,114
Interest and bank charges	156	2,177	70	105	2,508	39,635	4,247	43,882	46,390
Miscellaneous	10,718	781	156	1,286	12,941	24,123	767	24,890	37,831
Dues and subscriptions	2,478	3,496	6,930	2,548	15,452	15,101	1,102	16,203	31,655
Professional development	3,306	-	981	4,191	8,478	11,233	1,996	13,229	21,707
Donated goods and services	-	-	-	-	-	-	21,373	21,373	21,373
Bad debt	-	-	-	-	-	18,425	-	18,425	18,425
Photography	2,287	-	571	-	2,858	-	-	-	2,858
Equipment rental/maintenance	675	1,449	-	-	2,124	-	-	-	2,124
Total Operating Expenses	1,034,018	951,076	278,911	450,610	2,714,615	876,632	735,931	1,612,563	4,327,178
Acquisition of collection items	36,488	-	-	-	36,488	-	-	-	36,488
Depreciation	574,249	144,097	-	59,673	778,019	559,933	-	559,933	1,337,952
Interest and fees	89,680	22,504	-	9,319	121,503	87,444	-	87,444	208,947
Total Expenses	<u>\$ 1,734,435</u>	<u>\$ 1,117,677</u>	<u>\$ 278,911</u>	<u>\$ 519,602</u>	<u>\$ 3,650,625</u>	<u>\$ 1,524,009</u>	<u>\$ 735,931</u>	<u>\$ 2,259,940</u>	<u>\$ 5,910,565</u>

TACOMA ART MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program Services					Supporting Services			
	<u>Exhibitions/ Curatorial</u>	<u>Museum Services</u>	<u>Marketing</u>	<u>Education</u>	<u>Total Program Services</u>	<u>Administration</u>	<u>Development</u>	<u>Total Supporting Services</u>	<u>Total</u>
Operating Expenses									
Salaries and related expenses	\$ 600,685	\$ 590,902	\$ 172,537	\$ 311,771	\$ 1,675,895	\$ 573,519	\$ 440,592	\$ 1,014,111	\$ 2,690,006
Contracted services	81,969	64,287	34,642	52,737	233,635	56,168	104,249	160,417	394,052
Telephone and utilities	92,096	23,560	-	8,567	124,223	89,955	-	89,955	214,178
Printing and publications	67,795	6,665	7,073	5,472	87,005	4,191	14,121	18,312	105,317
Supplies	61,610	35,927	3,180	36,225	136,942	10,553	9,818	20,371	157,313
Insurance	67,319	6,053	-	2,201	75,573	23,112	-	23,112	98,685
Catering	246	64,426	217	12,938	77,827	412	62,900	63,312	141,139
Cost of goods sold	-	113,821	-	-	113,821	-	-	-	113,821
Travel and entertainment	34,280	11,430	2,456	20,244	68,410	9,841	15,814	25,655	94,065
Exhibition loan fees	7,000	-	-	-	7,000	-	-	-	7,000
Postage and shipping	51,744	4,599	624	1,375	58,342	3,239	4,886	8,125	66,467
Publicity and advertising	-	818	93,310	2,287	96,415	-	534	534	96,949
Building repairs and maintenance	21,898	6,352	-	2,037	30,287	21,389	-	21,389	51,676
Interest and bank charges	7,053	14,830	2,281	4,992	29,156	11,665	5,333	16,998	46,154
Miscellaneous	14,165	8,103	1,861	7,389	31,518	6,129	2,605	8,734	40,252
Dues and subscriptions	10,573	20,605	8,837	12,307	52,322	15,510	404	15,914	68,236
Professional development	7,781	8,510	3,211	5,716	25,218	7,626	2,332	9,958	35,176
Donated goods and services	-	-	-	-	-	-	14,920	14,920	14,920
Bad debt	-	-	-	-	-	-	33,252	33,252	33,252
Photography	5,590	-	-	-	5,590	-	-	-	5,590
Equipment rental/maintenance	3,756	1,353	-	435	5,544	-	12,000	12,000	17,544
Total Operating Expenses	1,135,560	982,241	330,229	486,693	2,934,723	833,309	723,760	1,557,069	4,491,792
Depreciation	522,009	130,989	-	54,244	707,242	508,996	-	508,996	1,216,238
Interest and fees	129,504	32,497	-	13,457	175,458	126,276	-	126,276	301,734
Acquisition of collection items	177,335	-	-	-	177,335	-	-	-	177,335
Total Expenses	<u>\$ 1,964,408</u>	<u>\$ 1,145,727</u>	<u>\$ 330,229</u>	<u>\$ 554,394</u>	<u>\$ 3,994,758</u>	<u>\$ 1,468,581</u>	<u>\$ 723,760</u>	<u>\$ 2,192,341</u>	<u>\$ 6,187,099</u>

TACOMA ART MUSEUM

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Cash received from:		
Donors	\$ 3,263,853	\$ 2,852,993
Retail income	338,879	449,825
Admissions and tours	255,617	197,685
Membership	169,528	188,002
Facility rental	58,977	114,989
Other	51,756	74,776
Cash paid for:		
Personnel	(2,739,832)	(2,712,348)
Services and supplies	(1,672,208)	(2,069,432)
Interest and fees	<u>(208,947)</u>	<u>(301,734)</u>
Net Cash Used by Operating Activities	<u>(482,377)</u>	<u>(1,205,244)</u>
Cash Flows from Investing Activities		
Purchases of investments	(11,383,489)	(13,525,785)
Proceeds from sale of investments	13,742,542	11,434,463
Purchases of property and equipment	<u>(791,961)</u>	<u>(4,463,257)</u>
Net Cash Provided (Used) by Investing Activities	<u>1,567,092</u>	<u>(6,554,579)</u>
Cash Flows from Financing Activities		
Cash received from endowment contributions	100,000	4,099,815
Cash received from capital contributions	203,383	4,256,151
Payments on line of credit	<u>(1,000,000)</u>	<u>(350,000)</u>
Net Cash (Used) Provided by Financing Activities	<u>(696,617)</u>	<u>8,005,966</u>
Changes in Cash and Cash Equivalents	388,098	246,143
Cash and Cash Equivalents - beginning of year	<u>821,905</u>	<u>575,762</u>
Cash and Cash Equivalents - end of year	<u><u>\$ 1,210,003</u></u>	<u><u>\$ 821,905</u></u>

TACOMA ART MUSEUM

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Change in Net Assets to Net Cash		
Flows from Operating Activities		
Change in net assets	\$ (3,058,203)	\$ (1,503,264)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	1,337,952	1,216,238
Interest and dividends reinvested	(754,565)	(705,998)
Loss (gain) on investments	907,323	(276,832)
Change in value of assets held in trust	616,760	(89,694)
Gain on sale of assets	(1,380)	(517)
Decrease (increase) in		
Promises to give	8,766	150,799
Accounts and grants receivable	10,434	131,087
Prepays and deposits	(21,079)	7,718
Inventory	(2,445)	(111,424)
(Decrease) increase in		
Accounts payable	(40,568)	(1,015)
Accrued expenses	<u>514,628</u>	<u>(22,342)</u>
Net Cash Used by Operating Activities	<u>\$ (482,377)</u>	<u>\$ (1,205,244)</u>

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

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.

Celebrating over 80 years of business, Tacoma Art Museum is an anchor in Tacoma's downtown with a mission of connecting people through art. TAM's collection contains more than 5,000 works, with an emphasis on the art and artists of the Northwest and broader Western region, 25% of which consists of studio glass. The collection includes the largest retrospective museum collection of glass art by Tacoma native Dale Chihuly on permanent view; the most significant collection of studio art jewelry by Northwest artists; key holdings in 19th century European and 20th century American art; one of the finest collections of Japanese woodblock prints on the West Coast; and more than 300 works of western American art from the Haub Family Collection, one of the premier such collections in the nation. In January 2019, TAM inaugurated the Rebecca and Jack Benaroya Wing which features the extensive Benaroya collection of studio glass as well as TAM's own collection of studio glass started in 1971. TAM is located in the heart of Tacoma's vibrant Museum District, which consists of six museums, including the Museum of Glass, a frequent collaborator.

Adoption of new accounting pronouncements

FASB Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. TAM has implemented Topic 606 and considered the need for adjustment to the presentation in these financial statements. Analysis of various provisions of this standard resulted in no significant changes in the way Tacoma Art Museum recognizes revenue and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. TAM has implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation

TAM presents its financial statements on an accrual basis of accounting in accordance with FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, TAM is required to report information regarding its financial position and activities based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets with donor restrictions are available as follows at June 30:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specific purpose:		
Assets held in trust (time restricted)	\$ 1,226,798	\$ 1,843,558
Other projects and programs	864,814	500,524
Debt redemption (2003 building campaign)	624,814	1,624,814
Art acquisition	321,571	313,214
Benaroya building expansion and exhibition	-	443,951
	<u>3,037,997</u>	<u>4,726,061</u>
Endowments:		
Subject to endowment spending policy and appropriation:		
Haub endowment	8,261,277	8,685,153
Benaroya endowment	4,046,140	4,106,690
Museum operating endowment	2,516,389	2,682,401
Art endowment	943,670	846,202
	<u>15,767,476</u>	<u>16,320,446</u>
Not subject to TAM endowment spending policy and appropriation:		
Museum operating endowment held in trust	2,056,880	2,105,165
Pledges receivable for future endowment	22,040	160,940
	<u>17,846,396</u>	<u>18,586,551</u>
Total Net Assets with Donor Restrictions	<u>\$20,884,393</u>	<u>\$23,312,612</u>

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 that 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.

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 net assets without donor restrictions unless the use of the assets is limited by donor-imposed restrictions. Realized and unrealized gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law.

Investments consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Endowment investments	\$ 29,145,908	\$ 30,602,328
Non-endowment investments	<u>1,041,905</u>	<u>2,097,296</u>
	<u>\$ 30,187,813</u>	<u>\$ 32,699,624</u>

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Receivables are stated at net realizable value.

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.

Inventory

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

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.

Support and revenue recognition

TAM recognizes revenue from ticket sales at the time of admission. TAM recognizes revenue from services when the services are provided. TAM recognizes contributions when cash, securities or other assets, and unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return or release, are not recognized until the conditions on which they depend have been met.

Donor-restricted support is reported as an increase in donor 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), donor restricted net assets are reported as net assets released from restrictions.

Gifts of equipment are reported as net assets without donor restriction 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.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retail income

Retail income includes gross revenue originated from the museum store and museum café. All revenue generated from retail income goes to support TAM's mission of connecting people through art. All of these transactions are cash based and do not result in any accounts receivable.

Admissions and tours

Admissions and tours revenue includes ticket sales for admission into the museum, school tour income, and group tours. Revenue is recorded on an accrual basis. The majority of this revenue is paid upon receipt.

Memberships

Membership revenue represents amounts paid for by patrons of the museum one time annually. Dues can be paid over a period of one year, or upon receipt at the option of the patron. Regardless, membership revenue is recorded on a cash basis. Dues are not amortized over the course of the year, due to immateriality, even though benefits derived from the membership sale last for one year.

Facility rentals

Facility rentals include income from the rental of spaces of the museum by the general public. Those include weddings, business meetings, holiday parties and other similar events. Revenue is recorded on an accrual basis. Generally, a refundable deposit is paid to reserve the space and is recorded as a liability. Monies are generally owed by the client after the event is concluded and paid within 30 days.

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 1,300 and 2,900 volunteer hours during the years ended June 30, 2020 and 2019, respectively.

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.

Administrative expenses are allocated to program services based on a percentage of total FTE. Depreciation and amortization costs are allocated to departments based on building square footage.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

TAM uses advertising to promote its programs among the audiences it serves. The costs of advertising are expensed as incurred. Advertising costs totaled \$53,131 and \$96,949 for the years ended June 30, 2020 and 2019, 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.

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, 2020 and 2019.

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.

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended June 30, 2019.

NOTE B - LIQUIDITY

Available cash balances are reviewed monthly by management. Cash on hand includes unrestricted and restricted cash holdings. TAM maintains an operating line of credit of \$350,000 for use during the year. TAM has at least 90 days of cash reserves as of June 30, 2020. During the year ended June 30, 2017, TAM established a capital reserve fund for the maintenance and preservation of its facilities.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE B - LIQUIDITY (Continued)

The following table presents financial assets available for general expenditures within one year at June 30:

	<u>2020</u>	<u>2019</u>
Total Financial Assets	\$ 32,829,659	\$ 35,892,715
Add: Approved fiscal year 2021 endowment appropriation	1,490,889	1,336,605
Less: Endowment investments	(29,145,908)	(30,602,328)
Less: Donor-imposed purpose restrictions	(1,186,385)	(2,882,503)
Less: Assets held in trust	(624,814)	(1,843,558)
Less: Long-term pledge receivables	(39,450)	(105,598)
	<u>\$ 3,323,991</u>	<u>\$ 1,795,333</u>

NOTE C - PROMISES TO GIVE

Promises to give consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 158,000	\$ 392,033
Receivable in one to five years	39,450	132,200
Receivable in more than five years	-	-
	<u>197,450</u>	<u>524,233</u>
Less: present value discount	(3,968)	(14,727)
Less: allowance for doubtful accounts	(8,000)	(11,875)
	<u>\$ 185,482</u>	<u>\$ 497,631</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, 2020 AND 2019

NOTE D - 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, 2020				
Equity	\$18,388,943	\$ -	\$ -	\$18,388,943
Fixed Income	7,763,513	-	-	7,763,513
Hedge Funds	2,442,821	-	-	2,442,821
Cash Equivalents	745,865	-	-	745,865
REITs	525,086	-	-	525,086
Commodities	321,585	-	-	321,585
Investments	30,187,813	-	-	30,187,813
Assets Held in Trust	-	-	1,226,798	1,226,798
	<u>\$30,187,813</u>	<u>\$ -</u>	<u>\$ 1,226,798</u>	<u>\$31,414,611</u>
	Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of June 30, 2019				
Equity	\$20,033,908	\$ -	\$ -	\$20,033,908
Fixed Income	7,293,514	-	-	7,293,514
Hedge Funds	3,909,544	-	-	3,909,544
Cash Equivalents	758,321	-	-	758,321
REITs	704,337	-	-	704,337
Investments	32,699,624	-	-	32,699,624
Assets Held in Trust	-	-	1,843,558	1,843,558
	<u>\$32,699,624</u>	<u>\$ -</u>	<u>\$ 1,843,558</u>	<u>\$34,543,182</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, 2020 AND 2019

NOTE D - 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, 2018	\$ 1,753,864
Change in value	<u>89,694</u>
Fair Value as of June 30, 2019	1,843,558
Disbursements	(780,000)
Change in value	<u>163,240</u>
Fair Value as of June 30, 2020	<u>\$ 1,226,798</u>

NOTE E - ASSETS HELD IN TRUST

TAM has been named as a beneficiary of certain charitable remainder trusts as of June 30, 2020 and 2019. 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 net assets with donor restrictions.

NOTE F - ENDOWMENT

TAM's endowment fund consists of six 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, (5) donor-restricted art acquisition endowment, which is intended for the purchase of new items for the collection, and (6) donor-restricted Benaroya endowment for programming purposes.

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.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE F - ENDOWMENT (Continued)

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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of any subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires TAM to retain as a fund of perpetual duration. Deficiencies of this nature were \$329,890 and \$0 for the years ended June 30, 2020 and 2019, respectively. These deficiencies resulted from unfavorable market fluctuations.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE F - ENDOWMENT (Continued)

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.

Endowment net assets by fund type as of June 30, 2020:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Board designated - operations	\$ 3,771,263		\$ 3,771,263
Board designated - debt	7,550,289		7,550,289
Donor restricted - operations	-	\$ 2,516,389	2,516,389
Donor restricted - operations, Held in Trust	-	2,056,880	2,056,880
Donor restricted - Haub	-	8,261,277	8,261,277
Donor restricted - Benaroya	-	4,046,140	4,046,140
Donor restricted - art	-	943,670	943,670
	<u>\$11,321,552</u>	<u>\$17,824,356</u>	<u>\$29,145,908</u>

Change in endowment net assets for the year ended June 30, 2020:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$12,176,717	\$18,425,611	\$30,602,328
Investment return	(58,150)	(87,723)	(145,873)
Contributions, net	-	150,000	150,000
Appropriation	(797,015)	(663,532)	(1,460,547)
Endowment net assets, end of year	<u>\$11,321,552</u>	<u>\$17,824,356</u>	<u>\$29,145,908</u>

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE F - ENDOWMENT (Continued)

Endowment net assets by fund type as of June 30, 2019:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Board designated - operations	\$ 4,021,379		\$ 4,021,379
Board designated - debt	8,155,338		8,155,338
Donor restricted - operations	-	\$ 2,682,401	2,682,401
Donor restricted - operations, Held in Trust	-	2,105,165	2,105,165
Donor restricted - Haub	-	8,685,153	8,685,153
Donor restricted - Benaroya	-	4,106,690	4,106,690
Donor restricted - art	-	846,202	846,202
	<u>\$12,176,717</u>	<u>\$18,425,611</u>	<u>\$30,602,328</u>

Change in endowment net assets for the year ended June 30, 2019:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$12,843,179	\$14,372,101	\$27,215,280
Investment return	429,155	528,675	957,830
Contributions, net	-	4,100,000	4,100,000
Appropriation	(1,095,617)	(575,165)	(1,670,782)
Endowment net assets, end of year	<u>\$12,176,717</u>	<u>\$18,425,611</u>	<u>\$30,602,328</u>

NOTE G - 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.

TAM's collection is subject to internal policies and guidelines which requires TAM to use proceeds from the sale of collection items for the following purposes: acquisition of additional works of art or to cover expenses incurred that are directly related to the deaccession process in a manner consistent with TAM's policy on the use of restricted acquisition funds. The funds shall not be used to support general operating expenses or capital purchases.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE G - PERMANENT COLLECTION (Continued)

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 H - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	Estimated Useful Lives	2020	2019
Land		\$ 1,843,594	\$ 1,843,594
Building and renovations	30 – 40 years	44,289,875	43,731,907
Furniture and equipment	3 – 15 years	<u>2,822,356</u>	<u>2,294,418</u>
		48,955,825	47,869,919
Less: accumulated depreciation		(12,573,433)	(11,235,481)
Construction in progress		<u>-</u>	<u>238,671</u>
		<u><u>\$36,382,392</u></u>	<u><u>\$36,873,109</u></u>

NOTE I - PAYCHECK PROTECTION PROGRAM LOAN

In May 2020, TAM applied for and received loan proceeds in the amount of \$520,283 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides loans to qualifying organization for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying organization. The loan and accrued interest are subject to forgiveness after 24 weeks as long as the qualifying organization uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the qualifying organization terminates employees or reduces salaries during the 24-week period.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE I - PAYCHECK PROTECTION PROGRAM LOAN (Continued)

The loan was funded on May 1, 2020 and has a maturity date of April 30, 2022. TAM entered into the program with the intention of complying with the terms for forgiveness and has recognized the loan as a conditional grant. Should TAM fail to meet the terms for forgiveness, interest at a rate of 1% will be added to the amount owing and the first monthly payment of \$49,624 would be due December 1, 2020. On November 12, 2020 TAM received notice from the Small Business Administration that its Paycheck Protection Program loan was forgiven in full.

NOTE J - 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, 2021, with an interest rate at the bank's reference rate plus 1.00% (3.25% at June 30, 2020). 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, 2020 or 2019.

TAM has one line of credit with JP Morgan in the amount of \$10,000,000, expiring on December 31, 2020. Each borrowing shall bear interest at Variable LIBOR (0.19% at June 30, 2020) plus 1%. This line of credit is collateralized by the portion of TAM's investment portfolio that is without donor restrictions. The balance outstanding on this line of credit was \$7,650,000 and \$8,650,000 at June 30, 2020 and 2019, respectively.

TAM maintains a quasi-board designated fund with a balance of \$7,550,288 and donor restricted funds with a balance of \$624,814 as of June 30, 2020 for the purposes of debt repayment.

NOTE K - 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, 2020 and 2019, TAM contributed \$12,495 and \$8,615, respectively, in matching contributions.

NOTE L - RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. On March 23, 2020 the Governor of Washington declared a health emergency and issued an order to close all nonessential businesses until further notice. TAM closed the museum in mid-March 2020 and it remained closed as of June 30, 2020. Management continues to evaluate the financial impact of the COVID-19 pandemic and monitor carefully the effect on TAM's financial position, change in net assets, and cash flows in the future.

TACOMA ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE M - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2020 through November 24, 2020, 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, 2020, including the estimates inherent in the processing of financial statements.