

SEATTLE ART MUSEUM

Financial Statements

For the Years Ended June 30, 2016 and 2015

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Financial Statements:	
Balance Sheets	3
Statements of Activities	4 - 5
Statements of Cash Flows	6 - 7
Notes to Financial Statements	8 - 30

Independent Auditor's Report

**To the Audit Committee of the Board of Trustees
Seattle Art Museum
Seattle, Washington**

We have audited the accompanying financial statements of Seattle Art Museum (the Museum), which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of activities 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 audits 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.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1700
Bellevue WA
98004

clarknuber.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2016 and 2015, 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.



Certified Public Accountants
December 16, 2016

SEATTLE ART MUSEUM

Balance Sheets
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 16,003,353	\$ 8,393,705
Receivables, current portion, net	11,736,594	12,246,314
Inventories	447,180	682,619
Prepaid expenses	<u>1,747,346</u>	<u>1,270,236</u>
Total Current Assets	29,934,473	22,592,874
Receivables, net of current portion	23,403,782	17,714,140
Funds held in trust by others	10,102,704	10,520,153
Incentive to lessee	5,863,192	6,256,843
Deferred rental receivable	9,164,970	9,106,552
Prepaid lease	632,333	636,998
Investments restricted for long-term purposes	105,794,980	107,882,829
Property and equipment, net	<u>113,581,695</u>	<u>119,458,508</u>
Total Assets	<u>\$ 298,478,129</u>	<u>\$ 294,168,897</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 1,915,402	\$ 1,569,215
Line of credit	1,673,592	3,873,657
Notes payable, current portion	186,235	87,038
Deferred rental income and revenues	<u>1,658,423</u>	<u>1,373,923</u>
Total Current Liabilities	5,433,652	6,903,833
Notes payable, net of current portion	4,982,469	2,365,740
Minimum pension liability	<u>4,234,412</u>	<u>1,349,812</u>
Total Liabilities	14,650,533	10,619,385
Net Assets:		
Unrestricted	19,739,906	26,098,584
Temporarily restricted	119,097,054	130,266,541
Permanently restricted	<u>144,990,636</u>	<u>127,184,387</u>
Total Net Assets	<u>283,827,596</u>	<u>283,549,512</u>
Total Liabilities and Net Assets	<u>\$ 298,478,129</u>	<u>\$ 294,168,897</u>

See accompanying notes.

SEATTLE ART MUSEUM

Statements of Activities
For the Years Ended June 30, 2016 and 2015

	2016	2015
Unrestricted Net Assets, Operating Activities:		
Support and revenues-		
Contributions and grants	\$ 6,489,947	\$ 5,756,039
Store and café	2,643,138	2,212,871
Admissions	3,157,110	1,809,610
Other income	1,463,411	1,629,858
Investment return	113,435	32,038
Net assets released from restrictions and nonoperating activities	<u>16,213,757</u>	<u>14,663,097</u>
Total support and revenues	30,080,798	26,103,513
Expenses:		
Program-		
Exhibition and collection care	6,517,729	5,289,312
Facility and security	5,873,829	5,602,587
Marketing	1,570,459	1,529,730
Store and café	2,006,072	1,626,803
Education	<u>1,491,079</u>	<u>1,306,726</u>
Total program expenses	17,459,168	15,355,158
Support expenses-		
Administration	4,562,283	4,493,049
Fundraising	1,441,127	1,660,670
Membership	1,047,931	991,391
Depreciation	<u>5,354,048</u>	<u>3,589,822</u>
Total support expenses	<u>12,405,389</u>	<u>10,734,932</u>
Total Expenses	<u>29,864,557</u>	<u>26,090,090</u>
Net Operating Activities	<u>216,241</u>	<u>13,423</u>

See accompanying notes.

SEATTLE ART MUSEUM

Statements of Activities (Continued)
For the Years Ended June 30, 2016 and 2015

	2016	2015
Nonoperating Activities:		
Rental income	6,661,202	6,667,321
Rental expense	(7,674,409)	(7,389,452)
Uncollectible pledges	(125,641)	(4,186)
Capital projects administration	(526,477)	(82,505)
Accession of art objects	(794,199)	(2,454,898)
Bond administration and interest	(26,921)	
Other income	1,828,516	
Minimum pension adjustment	(2,882,038)	(25,703)
Underwater endowment activity	(5,618,862)	(1,770,317)
Net assets released from restrictions	2,583,948	3,521,881
Total Nonoperating Activities	(6,574,881)	(1,537,859)
Change in Unrestricted Net Assets	(6,358,640)	(1,524,436)
Temporarily Restricted Net Assets:		
Contributions and grants	5,531,381	17,527,345
Art deaccessions	96,463	951,427
Investment return	(3,618,527)	(335,257)
Underwater endowment activity	5,618,862	1,770,317
Net assets released from restrictions	(18,797,705)	(18,184,978)
Change in Temporarily Restricted Net Assets	(11,169,526)	1,728,854
Permanently Restricted Net Assets:		
Contributions and grants	18,223,699	14,698,438
Investment return from funds held in trust by others	(417,449)	(416,113)
Change in Permanently Restricted Net Assets	17,806,250	14,282,325
Change in Net Assets	278,084	14,486,743
Net assets, beginning of year	283,549,512	269,062,769
Net Assets, End of Year	\$ 283,827,596	\$ 283,549,512

See accompanying notes.

SEATTLE ART MUSEUM

Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities:		
Change in net assets	\$ 278,084	\$ 14,486,743
Adjustments to reconcile change in net assets to cash flows used in operating activities-		
Depreciation and amortization	5,354,048	3,589,822
Rental property depreciation	1,431,447	1,431,447
Contributions restricted for long-term investment	(23,755,080)	(26,730,604)
Contributed fixed assets		(5,495,179)
Change in provision for uncollectible pledges	161,929	258,162
Unrealized loss on investments	5,000,719	2,000,548
Change in value of funds held in trust by others	417,449	416,113
Change in minimum pension liability	2,884,600	(416,537)
Accession of art objects, net	697,736	1,503,471
Changes in operating assets and liabilities:		
Inventories	235,439	144,344
Prepaid expenses and lease	(472,445)	(560,738)
Deferred rental receivable	(58,418)	(58,418)
Accounts payable and accrued expenses	346,187	172,167
Deferred rental income and revenues	284,500	(33,311)
Net Cash Used in Operating Activities	(7,193,805)	(9,291,970)
Cash Flows From Investing Activities:		
Proceeds from sales of investments	26,860,072	50,392,527
Purchases of investments	(29,772,942)	(45,968,638)
Purchases of property and equipment	(908,682)	(399,585)
Incentive to lessee, net	393,651	393,652
Accession of art objects, net	(697,736)	(1,503,471)
Net Cash (Used in) Provided by Investing Activities	(4,125,637)	2,914,485

See accompanying notes.

SEATTLE ART MUSEUM

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Financing Activities:		
Proceeds from contributions restricted for long-term investment	18,413,229	7,937,269
Proceeds from notes payable	2,802,964	
Borrowings on line of credit agreement, net	(87,038)	(81,170)
Principal payments on notes payable	<u>(2,200,065)</u>	<u>(1,676,343)</u>
Net Cash Provided by Financing Activities	<u>18,929,090</u>	<u>6,179,756</u>
Net Change in Cash and Cash Equivalents	7,609,648	(197,729)
Cash and cash equivalents, beginning of year	<u>8,393,705</u>	<u>8,591,434</u>
Cash and Cash Equivalents, End of Year	<u>\$ 16,003,353</u>	<u>\$ 8,393,705</u>
Supplementary Information:		
Cash paid for interest	\$ 220,243	\$ 231,038

See accompanying notes.

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of the Organization - The Seattle Art Museum (SAM) is a not-for-profit organization formed for the purpose of promoting and cultivating the fine arts, which includes acquiring and exhibiting paintings, sculptures and other works of art; providing lectures and art education; and generally fostering art in all of its locations.

The Museum Development Authority (the MDA) is a public corporation chartered by the City of Seattle (the City) pursuant to the Enabling Act. The public purpose of the MDA pursuant to its charter is to undertake, assist with and otherwise facilitate the development and operation of public art facilities in conjunction with SAM, including, but not limited to, a downtown art museum and a public sculpture park on the Seattle waterfront. The MDA owns a portion of the existing downtown SAM facility, which is operated by SAM. The activities, assets and liabilities of the MDA are not included in these financial statements as the organizations are not commonly controlled.

SAM's operations are primarily at three locations. The primary location of SAM opened in December 1991 and is located in downtown Seattle at 1300 First Avenue. An expansion of the downtown facility opened in 2007, approximately doubling its square footage to provide a new restaurant, an expanded retail store and more gallery space to exhibit SAM's collections.

SAM's original home in the City's Volunteer Park was built in 1933 by the City with funds contributed by SAM on the City property. The Volunteer Park facility underwent renovations and was reinstalled with displays of SAM's Asian art collection, reopening in August 1994 as the Seattle Asian Art Museum (SAAM).

The 8.5 acre Olympic Sculpture Park (OSP or the Park) opened in 2007. In 1999, SAM purchased the site, which was enhanced by the acquisition of adjacent property. The MDA owns one parcel of the Park's property. As a free community gathering space, it includes permanent and temporary sculptures, pedestrian paths, amphitheater, and a pavilion with a café and a parking garage.

Collectively, the organization as described above is referred to in these financial statements as the Museum.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of Presentation - The Museum reports its financial position and activities according to three classes of net assets, depending on the existence and nature of donor restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - Contains support received and revenue earned that are not subject to donor-imposed restrictions and over which the Board of Trustees has discretionary control.

Temporarily Restricted Net Assets - Contains donor-imposed restrictions that require the Museum to use or expend the assets as specified. The restrictions are satisfied either by the passage of time and/or by action of the Museum.

Permanently Restricted Net Assets - Contains support in the form of endowment or sustaining funds. In accordance with purposes established by donors, the Museum is permitted to expend part or all of the investment return derived for either specified or unspecified purposes. Such income (loss) is recognized on a dollar-for-dollar basis or on a budgeted basis as a change in unrestricted or temporarily restricted net assets based on donor stipulations.

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 1 - Continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. Contributions received to acquire long-lived assets are reported as temporarily restricted contributions and released from restriction ratably over the life of the asset.

Cash and Cash Equivalents - The Museum considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Receivables - Receivables primarily consist of unconditional promises to give, which are recognized as revenues or gains in the period in which the promise is given. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Accounts are charged to a reserve as they are deemed uncollectible based on a periodic review of the accounts. Receivable balances are unsecured.

Inventories - Inventories are stated at the lower of cost or market on a first in first out basis. Inventories primarily represent gift shop articles, books and supplies held for sale.

Investments - Investments consist primarily of marketable debt and equity securities as well as other nonmarketable securities. Investments in debt and equity securities are carried at fair value based on quoted market prices. Realized and unrealized gains and losses on investments are included in investment return in the statements of activities. Investments restricted for long-term purposes consist of contributions received that are restricted by the donor for long-term purposes such as for an endowment.

Investments in nonmarketable securities are carried at estimated fair value as provided by investment managers. The Museum reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of these investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

Funds Held in Trust by Others - The Museum benefits from a separate trust held by others in accordance with donor stipulations to benefit a number of not-for-profit organizations. Realized and unrealized gains and losses from the investments held by the trust are allocated pro-rata to the Museum's share in the trust assets.

Bond Issuance Costs - The Museum amortizes initial costs associated with financing arrangements over the life of the bonds using the straight-line method, which approximates the effective interest method.

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 1 - Continued

Property and Equipment - All expenditures for repairs, maintenance, renewals and betterments that substantially prolong the useful lives of assets are capitalized. All acquisitions of property and equipment in excess of \$2,500 that have an estimated useful life exceeding one year are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	40 years
Tenant improvements	Shorter of 40 years or life of lease
Park hardscaping	20 years
Furnishings and non-computer equipment	5 - 15 years
Computer equipment	3 years

The Museum capitalized certain administrative costs associated with the construction of the Museum Expansion Project and the Olympic Sculpture Park. The Museum believes this treatment more accurately reflects the costs incurred for these projects.

Deferred Rental Income and Revenues - Income from nonoperating rental activities and other revenues are deferred and recognized over the periods to which the activities relate.

Contributions - Donor-restricted contributions are recognized in the period the contribution is received. Unconditional promises to give are recorded in the period the promise is received. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity. Amortization of the discount is reported as contribution revenue. Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Art Collections - Art objects are expensed when purchased and therefore, are not shown as assets on the balance sheets. Art objects pledged or donated to the Museum are not recorded for financial accounting purposes and, accordingly, are not included as contributed revenue in the statements of activities or as receivables on the balance sheets. Proceeds from deaccessions or insurance recoveries are reflected in the statements of activities based on the existence and nature of donor-imposed restrictions.

Financial Instruments - The carrying amount in the financial statements of financial instruments, including cash and cash equivalents, receivables, investments, funds held by others, payables, deferred revenues, and long-term obligations, approximates fair value as of June 30, 2016 and 2015.

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 1 - Continued

Donated Services and Use of Facilities - The Museum recognizes contributed services as revenue and expense if the services create or enhance nonfinancial assets or require specialized skills. A substantial number of unpaid volunteers have made significant contributions of their time in furtherance of the Museum's programs. The value of this contributed time is not included in the accompanying financial statements as it does not meet the criteria for recognition.

Costs incurred by the Museum to operate and maintain the Volunteer Park facility are partially funded by the City of Seattle. Such funding and the related costs are included as support and expenses in the accompanying financial statements.

Operating and Nonoperating Activity - Operating activities represent support and revenues and expenses solely related to the annual exhibition and education programs for the Museum. Nonoperating activities are the support and revenues and expenses related to leasing of the expanded downtown facility and land from the MDA at the Olympic Sculpture Park, contributions for nonoperating activities, capital projects administration, debt financing, adjustments for uncollectible pledges, minimum pension adjustments and recovery of underwater endowments. Nonoperating activities also include accession purchases and deaccession proceeds related to the art collections. Art accession and deaccession are considered outside the scope of ongoing museum programs and operations due to the variable nature of this activity from one year to the next. Assets released from nonoperating activities represent a portion of endowment investment earnings used to support operating activities.

Income Taxes - SAM 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 taxes under the provisions of Section 501(a) of the Internal Revenue Code. However, certain activities not directly related to SAM's tax-exempt purpose are not exempt and are subject to federal income taxes. 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).

Use of Estimates - Management uses estimates and assumptions in preparing financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

Significant estimates included in the financial statements relate to the assumptions used in the reserve for uncollectible accounts, the discount rate on pledges receivable due after one year, the estimated life of capital assets, the calculation of net pension cost and the functional allocation of expenses.

Allocation of Functional Expenses - The costs of providing various programs and other operating activities have been summarized on a functional basis in the statements of activities, with the exception of depreciation and amortization expense, which has not been allocated. To evaluate the comparability of the Museum's management and general overhead with other nonprofit organizations, these costs must be allocated.

SEATTLE ART MUSEUM

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 1 - Continued

Operating expenses on a functional basis as defined by U.S. GAAP for the years ended June 30 are as follows:

	<u>2016</u>	<u>2015</u>
Program-		
Exhibition and collection care	\$ 6,614,530	\$ 5,407,935
Facility and security	5,934,154	5,679,594
Marketing	1,571,034	1,530,161
Store and café	2,006,111	1,628,759
Education	<u>1,495,861</u>	<u>1,309,948</u>
	17,621,690	15,556,397
Supporting-		
Administration	9,753,809	7,881,632
Fundraising	1,441,127	1,660,670
Membership	<u>1,047,931</u>	<u>991,391</u>
	<u>12,242,867</u>	<u>10,533,693</u>
	<u>\$ 29,864,557</u>	<u>\$ 26,090,090</u>

Subsequent Events - The Museum's management has evaluated subsequent events through December 16, 2016, the date on which the financial statements were issued.

Note 2 - Receivables

Receivables consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Pledges receivable	\$ 34,818,146	\$ 30,448,022
Accounts receivable	<u>960,985</u>	<u>231,789</u>
	35,779,131	30,679,811
Less discount to present value (1.00% to 1.70%)	(623,668)	(648,020)
Less allowance for doubtful accounts	<u>(15,087)</u>	<u>(71,337)</u>
	<u>\$ 35,140,376</u>	<u>\$ 29,960,454</u>

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 2 - Continued

Receivables at June 30 are due as follows:

	<u>2016</u>	<u>2015</u>
Accounts receivable	\$ 960,985	\$ 231,789
Pledges due in less than one year	10,790,696	12,085,862
Less allowance for doubtful accounts	<u>(15,087)</u>	<u>(71,337)</u>
Receivables, current portion	11,736,594	12,246,314
Pledges due in two to five years	24,027,450	18,362,160
Less discount to present value (1.00% to 1.70%)	<u>(623,668)</u>	<u>(648,020)</u>
Receivables, net of current portion	<u>23,403,782</u>	<u>17,714,140</u>
	<u>\$ 35,140,376</u>	<u>\$ 29,960,454</u>

Note 3 - Funds Held in Trust by Others

The Museum is a beneficiary of a trust held for the benefit of local nonprofit organizations. The trust, which is held in perpetuity, is administered by a financial institution and provides for quarterly earnings distributions to the Museum. The earnings are available for general operating purposes. The Museum's interest in the trust agreement, which is approximately 16%, is included in funds held in trust by others and permanently restricted net assets. The Museum received \$485,935 and \$485,565 in distributions from the trust during the years ended June 30, 2016 and 2015, respectively. The Museum's interest in gains and losses in the trust value are recognized in the statements of activities as permanently restricted.

Note 4 - Investments and Funds Held in Trust by Others

Investments and funds held in trust by others consisted of the following categories at June 30:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 3,253,014	\$ 1,877,151
Debt securities	13,121,137	13,692,573
Equity securities	31,870,134	35,181,665
Alternative investments	57,550,695	57,131,440
Funds held in trust by others	<u>10,102,704</u>	<u>10,520,153</u>
	<u>\$ 115,897,684</u>	<u>\$ 118,402,982</u>

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 4 - Continued

The following summarizes the return on investments and funds held in trust by others by net asset classification at June 30:

	<u>2016</u>	<u>2015</u>
Unrestricted (operating and nonoperating)- Dividends and interest	\$ 113,435	\$ 32,038
Temporarily restricted-		
Dividends and interest	1,774,836	2,089,351
Realized and unrealized loss	(5,000,719)	(2,000,548)
Investment fees	<u>(392,644)</u>	<u>(424,060)</u>
	(3,618,527)	(335,257)
Permanently restricted-		
Realized and unrealized loss	<u>(417,449)</u>	<u>(416,113)</u>
Total Investment Return	<u>\$ (3,922,541)</u>	<u>\$ (719,332)</u>

Note 5 - Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosure about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Valuation Techniques - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Interest-Bearing Cash - Includes money market funds valued at cost plus accrued interest, which approximates fair value.

Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the Museum at year end.

Equity Securities and Debt Securities - Valued at the closing price reported on the active market on which the securities are traded.

SEATTLE ART MUSEUM

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 5 - Continued

Funds Held in Trust by Others - Valued based on the quoted market prices of underlying investments of the trust and the Museums' proportional beneficial interest in the trust.

The valuation methodologies used by the Museum may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Museum's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair Values Measured on a Recurring Basis - Fair values of assets and liabilities measured on a recurring basis at June 30, 2016 and 2015, were as follows:

	Fair Value Measurements at June 30, 2016			
	Level 1	Level 2	Level 3	Total
Interest-bearing cash	\$ 3,253,014	\$ -	\$ -	\$ 3,253,014
Marketable securities-				
Equity securities/mutual funds:				
Large blend	9,454,348			9,454,348
Foreign large growth	10,118,589			10,118,589
Natural resources	2,756,400			2,756,400
Foreign large blend	2,626,809			2,626,809
Global bond funds	1,606,064			1,606,064
Emerging markets fund	5,307,923			5,307,923
Debt securities/mutual funds:				
Intermediate-term bonds	3,174,683			3,174,683
US government		9,946,455		9,946,455
Funds held in trust by others			10,102,704	10,102,704
Total Assets in the Fair Value Hierarchy	\$ 38,297,830	\$ 9,946,455	\$ 10,102,704	58,346,989
Investments measured at NAV ^(a)				57,550,695
Total Investments at Fair Value				\$ 115,897,684

SEATTLE ART MUSEUM

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 5 - Continued

	Fair Value Measurements at June 30, 2015			
	Level 1	Level 2	Level 3	Total
Interest-bearing cash	\$ 1,877,151	\$ -	\$ -	\$ 1,877,151
Marketable securities-				
Equity securities/mutual funds:				
Large blend	9,093,093			9,093,093
Foreign large growth	10,445,119			10,445,119
Small growth	2,223,830			2,223,830
Natural resources	3,150,751			3,150,751
Foreign large blend	2,450,823			2,450,823
Global bond funds	2,490,420			2,490,420
Emerging markets fund	5,327,629			5,327,629
Debt securities/mutual funds:				
Intermediate-term bonds	4,136,839			4,136,839
US government		9,555,734		9,555,734
Funds held in trust by others			10,520,153	10,520,153
Total Assets in the Fair Value Hierarchy	\$ 41,195,655	\$ 9,555,734	\$ 10,520,153	61,271,542
Investments measured at NAV ^(a)				57,131,440
Total Investments at Fair Value				\$ 118,402,982

- (a) In accordance with the Accounting Standards Codification (ASC) Subtopic 820-10, certain investments that were measured at fair value using the NAV per share (or its equivalent) practical expedient, which is industry standard, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

SEATTLE ART MUSEUM

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 5 - Continued

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) follows:

	June 30, 2015 Funds Held in Trust by Others <u> </u>
Balance at June 30, 2014	\$ 10,936,266
Total loss (realized/unrealized)	<u>(416,113)</u>
Balance at June 30, 2015	<u>\$ 10,520,153</u>
	June 30, 2016 Funds Held in Trust by Others <u> </u>
Balance at June 30, 2015	\$ 10,520,153
Total losses (realized/unrealized)	<u>(417,449)</u>
Balance at June 30, 2016	<u>\$ 10,102,704</u>

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 5 - Continued

The table below summarizes significant terms of the agreements with investment companies that value investments at NAV. There are no significant redemption restrictions or unfunded commitments on other types of investments.

Asset Class	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Limited Partnerships:					
Global venture capital/private equity	\$573K	Through 2022	\$ 409,577	None	None
US private equity	\$808K	Through 2022	\$ 382,311	None	None
US venture capital	\$1.5M	Through 2022	\$ 338,083	None	None
Emerging markets	\$2.2M	None	None	Quarterly with 60 days notice.	None
Multi-strategy	\$828k	None	None	Quarterly with 90 days notice.	None
Real assets	\$1.1M	None	None	Monthly with 15 days notice.	None
Other	\$650K	Through 2027	\$ 285,229	None	None
Limited Liability Corporation:					
Real assets	\$1.1M	Through 2020	\$ 1,379,246	None	None
Direct Investment:					
Long/short equity	\$6.1M	None	None	Varies from annual or 18 months with 45 days notice to annual or every two years with 60 days notice.	No redemption gate-20% fund level gate; one third and one-quarter investor level gates.
Multi-strategy	\$5.5M	None	None	Varies from annual to every two years with 90 days notice.	No redemption gate-25% fund level gate.
Opportunistic	\$6.5M	None	None	Varies from annual to every two years with 90 days notice.	No redemption gate-10% fund level gate.
Inflation Protection:					
Long/short equity	\$4.1M	None	None	Monthly liquidity with 10 days notice to quarterly with 62 days notice.	No redemption gate.

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 6 - Property and Equipment

Property and equipment is summarized as follows at June 30:

	<u>2016</u>	<u>2015</u>
Furnishings and equipment	\$ 19,967,427	\$ 19,297,775
Buildings	68,161,665	68,161,665
Tenant improvements	22,849,230	22,849,230
Remediation and hardscaping	38,764,162	38,670,676
Land	17,797,741	17,797,741
Work in progress	<u>152,364</u>	<u>6,820</u>
	167,692,589	166,783,907
Less accumulated depreciation	<u>(54,110,894)</u>	<u>(47,325,399)</u>
	<u>\$ 113,581,695</u>	<u>\$ 119,458,508</u>

Note 7 - Benefit Plans

The Museum maintains a defined contribution retirement plan (the DC Plan) qualified under Section 403(b) of the Internal Revenue Code. The DC Plan covers all permanent employees who have completed at least 1,000 hours of service and have attained the age of 21 years. The Museum contributes 4% of eligible employee's gross income to the DC Plan each pay period. Employer contributions are vested over a six year period. For the years ended June 30, 2016 and 2015, the Museum contributed \$365,055 and \$356,316, respectively. In addition to the aforementioned 4% contribution, the DC Plan was amended on July 1, 2013 to include an additional 50% match on up to 4% of employee contributions to the DC Plan.

The Museum also maintains a defined benefit pension plan (the DB Plan) covering a portion of its employees. Participant benefits are primarily related to years of credited service and annual earnings. As of September 1, 2006, the DB Plan was frozen to new participants. During the year ended June 30, 2013, the DB Plan was amended to freeze the accrual of benefits for all participants as of June 30, 2013. Benefits accrued through June 30, 2013, will not be reduced and participants will continue to earn vesting credit if not fully vested. The Museum's funding policy is to contribute amounts to the DB Plan sufficient to comply with the minimum regulatory funding requirements. For the years ended June 30, 2016 and 2015, the Museum recognized \$2,562 and \$7,760, respectively, of net periodic pension cost.

SEATTLE ART MUSEUM

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 7 - Continued

The following is the DB Plan's funded status and amounts recognized in the Museum's financial statements as of and for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Change in projected benefit obligation (PBO)-		
Projected benefit obligation at beginning of year	\$ 10,359,772	\$ 10,342,464
Interest cost	422,332	412,710
Benefits paid	(349,800)	(318,483)
Actuarial loss (gain)	<u>2,437,799</u>	<u>(76,919)</u>
Projected benefit obligation at end of year	12,870,103	10,359,772
Change in plan assets-		
Fair value of plan assets at beginning of year	9,009,960	8,576,115
Actual (loss) return on plan assets	(24,469)	302,328
Employer contributions		450,000
Benefits paid	<u>(349,800)</u>	<u>(318,483)</u>
Fair value of plan assets at end of year	<u>8,635,691</u>	<u>9,009,960</u>
Funded Status at Year End	<u>\$ (4,234,412)</u>	<u>\$ (1,349,812)</u>
Accumulated Benefit Obligation	<u>\$ 12,870,103</u>	<u>\$ 10,359,772</u>

Assumptions used to determine the benefit obligations for the DB Plan were as follows as of June 30:

	<u>2016</u>	<u>2015</u>
Weighted-average assumptions used to determine net periodic pension cost-		
Assumed discount rate	3.35%	4.18%
Expected long-term rate of return on DB Plan assets	6.00%	6.00%
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine benefit obligations-		
Assumed discount rate	3.35%	4.18%
Rate of compensation increase	N/A	N/A

SEATTLE ART MUSEUM

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 7 - Continued

The expected long-term rate of return on assets reflects anticipated future experience. This basis is consistent with the prior period.

Investment goals and risk management practices:

- The total portfolio will be managed on a balanced basis with considerations for diversification, quality and marketability, in accordance with the investment policy statement.
- The portfolio strategy employed seeks total return over a long-term basis. Consistency of returns on an annual basis is emphasized over individual year results.

The inputs and valuation techniques used to measure the fair value of the assets are consistently applied and described in Note 5.

The fair values of the Museum's DB Plan assets at June 30, 2016 and 2015, by asset class are as follows:

	Fair Value Measurements at June 30, 2016			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 156,651	\$ -	\$ -	\$ 156,651
Debt mutual funds-				
Intermediate-term	2,586,097			2,586,097
International bond	612,780			612,780
Equity mutual funds-				
International	1,313,735			1,313,735
Large blend	950,656			950,656
Small blend	679,250			679,250
Large value	1,038,470			1,038,470
Large growth	1,026,664			1,026,664
Real estate mutual funds	271,388			271,388
	<u>\$ 8,635,691</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,635,691</u>

SEATTLE ART MUSEUM

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 7 - Continued

	Fair Value Measurements at June 30, 2015			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 71,019	\$ -	\$ -	\$ 71,019
Debt mutual funds-				
Intermediate-term	2,432,979			2,432,979
International bond	1,067,889			1,067,889
Equity mutual funds-				
International	1,462,589			1,462,589
Large blend	726,054			726,054
Small blend	736,904			736,904
Large value	1,176,352			1,176,352
Large growth	1,184,509			1,184,509
Real estate mutual funds	151,665			151,665
	<u>\$ 9,009,960</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,009,960</u>

Pension benefit payments, which reflect expected future service, are expected to be paid in future years. Expected future benefit payments for each of the next five fiscal years and in the aggregate for the next five years are:

For the Fiscal Year Ending June 30,

2017	\$ 629,019
2018	632,227
2019	676,745
2020	675,556
2021	741,160
2022 through 2026	<u>3,793,150</u>
	<u>\$ 7,147,857</u>

As of the report date, the Museum is currently determining the optimal contribution amount to be made during the fiscal year ending June 30, 2017 for the plan year ended June 30, 2016.

SEATTLE ART MUSEUM

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 8 - Net Assets

Net assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Unrestricted	\$ 19,739,906	\$ 26,098,584
Temporarily Restricted:		
Museum-		
Art acquisition	2,514,357	2,875,662
Capital projects	104,735,536	108,641,631
Education	75,575	270,052
Exhibition and collection care	2,208,684	3,158,172
General operations	2,468,809	3,734,358
Sculpture park operations	2,139,207	4,325,385
Library	12,231	31,409
Time restricted pledges	4,942,655	7,229,872
Total Temporarily Restricted Net Assets	119,097,054	130,266,541
Permanently Restricted:		
Museum-		
Art acquisition	5,778,375	5,778,450
Education	23,245,033	8,460,371
Exhibition and collection care	26,410,677	26,161,915
General operations	68,615,929	65,843,029
Sculpture park operations	20,614,268	20,614,268
Technology	164,354	164,354
Library	162,000	162,000
Total Permanently Restricted Net Assets	144,990,636	127,184,387
Total Net Assets	<u>\$ 283,827,596</u>	<u>\$ 283,549,512</u>

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 8 - Continued

Temporarily Restricted - Capital Projects - Contributions received to acquire long-lived assets are reported as temporarily restricted contributions and released from restriction ratably over the life of the asset. There are some minor funds available to support art acquisitions, curatorial research, education programs or other specific purposes, as well as unreleased endowment earnings that carry donor purposed restrictions.

Note 9 - Endowments

The Museum's endowments consist of over 100 funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Trustees of the Museum has adopted the Washington State Prudent Management of Institutional Funds Act (PMIFA). The Board of Trustees has reviewed PMIFA and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of 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 is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Museum and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Museum; or
- The investment policies of the Museum.

As of June 30, 2016, endowment net assets, excluding endowment pledges receivable and beneficial interest held in trust, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>
Donor Restricted Endowment Funds	\$ (7,702,984)	\$ 3,354,054	\$ 110,143,911	\$ 105,794,981

SEATTLE ART MUSEUM

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 9 - Continued

As of June 30, 2015, endowment net assets, excluding endowment pledges receivable and beneficial interest held in trust, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>
Donor Restricted Endowment Funds	\$ (2,084,122)	\$ 7,827,722	\$ 102,139,228	\$ 107,882,828

Reconciliation to permanently restricted net assets at June 30:

	<u>2016</u>	<u>2015</u>
Permanently restricted endowment net assets	\$ 110,143,911	\$ 102,139,228
Permanently restricted endowment pledges receivable	24,744,021	14,525,006
Funds held in trust by others	<u>10,102,704</u>	<u>10,520,153</u>
Total Permanently Restricted Net Assets	<u>\$ 144,990,636</u>	<u>\$ 127,184,387</u>

Changes to endowment net assets, excluding endowment pledges receivable and beneficial interest held in trust, for the year ended June 30, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balances, June 30, 2015	\$ (2,084,122)	\$ 7,827,722	\$ 102,139,228	\$ 107,882,828
Underwater endowment activity	(5,618,862)	5,618,862		
Endowment investment return- Interest and dividends		1,288,901		1,288,901
Realized and unrealized losses		<u>(5,393,362)</u>		<u>(5,393,362)</u>
Total endowment investment return		(4,104,461)		(4,104,461)
Contributions and pledge payments			8,004,683	8,004,683
Appropriation of endowment for expenditure		<u>(5,988,069)</u>		<u>(5,988,069)</u>
Balances, June 30, 2016	<u>\$ (7,702,984)</u>	<u>\$ 3,354,054</u>	<u>\$ 110,143,911</u>	<u>\$ 105,794,981</u>

SEATTLE ART MUSEUM

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 9 - Continued

Changes to endowment net assets, excluding endowment pledges receivable and beneficial interest held in trust, for the year ended June 30, 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances, June 30, 2014	\$ (312,304)	\$ 12,723,893	\$ 101,845,294	\$ 114,256,883
Recovery of underwater amounts	(1,770,317)	1,770,317		
Endowment investment return-				
Interest and dividends		1,603,774		1,603,774
Realized and unrealized losses		(2,424,608)		(2,424,608)
Total endowment investment return		(820,834)		(820,834)
Contributions and pledge payments			293,934	293,934
Release for bad debt	(1,501)			(1,501)
Appropriation of endowment for expenditure		(5,845,654)		(5,845,654)
Balances, June 30, 2015	<u>\$ (2,084,122)</u>	<u>\$ 7,827,722</u>	<u>\$ 102,139,228</u>	<u>\$ 107,882,828</u>

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 or PMIFA requires the Museum to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$7,702,984 and \$2,084,122 as of June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters - The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that match or exceed the rate of return of a custom benchmark designed to effectively and proportionately represent the mix of asset classes within the Museum's portfolio while assuming a moderate level of investment risk. The primary investment objective of the endowment fund is to earn an average annual inflation-adjusted (real) return of at least 5% net of all investment management fees over the long term.

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 9 - Continued

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation, realized and unrealized gains and losses, and current yield, such as interest and dividends. The Museum 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy - For the year ended June 30, 2016, the Museum employed a blended distribution rate of 5.6% based on the endowment's average fair value over the three-year period ending December 31, 2014. For the year ended June 30, 2015, the Museum employed a blended distribution rate of 5.6% based on the endowment's average fair value over the three-year period ending December 31, 2013. Under the current investment policy, revised April 2015, the distribution rate is to be maintained within the 5.0% to 6.0% range. In establishing this policy, the Museum considered the long-term expected return on its endowment. The Museum's objective is to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 10 - Related Party Lease Agreements as Lessee

The Museum is leasing land from the MDA for use of its parcel at the Olympic Sculpture Park. Total lease payments of \$700,000 for this land are included in prepaid leases on the balance sheets and amortized over the life of the lease. The initial lease period expires in January 2152. The advanced lease payments are being amortized over the 150-year life of the lease. Contribution for the in-kind donation has not been recorded as the leased land is not readily susceptible to objective measurement or valuation given the unique required use of the land.

The Museum also leases units owned by the MDA for expanded exhibition space in the addition adjacent to the Museum's downtown Seattle facility. The lease expires in December 2103. Lease payments to the MDA for the years ended June 30, 2016 and 2015, approximated \$3,963,300 and \$3,858,300, respectively. Lease payments are due for the first 25 years of the lease agreement until 2031. In addition to the minimum lease payments, the Museum is also obligated to bear the operating expenses of the MDA, and comply with certain public benefit provisions.

Future minimum payments under the terms of the lease approximate the following:

For the Fiscal Year Ending June 30,

2017	\$ 3,945,000
2018	3,940,000
2019	3,939,000
2020	3,937,000
2021	3,941,000
Thereafter	<u>38,416,000</u>
	<u><u>\$ 58,118,000</u></u>

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 10 - Continued

The Museum is obligated to pay additional amounts under certain conditions specified in its lease agreements. Lease expense for the years ended June 30, 2016 and 2015, approximated \$3,991,000 and \$3,891,000, respectively.

As of June 30, 2016 and 2015, the Museum had no amounts due from the MDA.

Note 11 - Lease Agreement as Lessor

In April 2010, the Museum entered into an agreement with Nordstrom, Inc. to lease a portion of the condominium (Nordstrom Lease). The term of the lease is 21 years, ending on May 31, 2031, and provides an option to lease additional space. In addition to base rent, Nordstrom is also responsible for operating expenses, in accordance with the lease agreement. Approximately 70 percent of the space leased is owned by the Museum. The remaining approximately 30 percent of the space is owned by FSP-RIC, LLC and sublet by the Museum. The Museum originally entered into a separate lease agreement (FSP-RIC lease) with Northwestern Mutual Life Insurance Company (NWM) solely to allow the Museum to enter into the Nordstrom lease. Subsequently, the lease was assumed by FSP-RIC, LLC when NWM sold its interest in the property to FSP-RIC, LLC in April 2012. The FSP-RIC lease obligation is performed by Nordstrom, and the lease has the same commencement and expiration dates as the Nordstrom lease.

During the year ended June 30, 2016, the Museum received approximately \$5,358,000 in lease payments. The following is a schedule of the approximate minimum future rent receivable:

For the Fiscal Year Ending June 30,

2017	\$ 5,299,188
2018	5,299,188
2019	5,299,188
2020	5,299,188
2021	5,299,188
Thereafter	<u>61,261,784</u>
	<u><u>\$ 87,757,724</u></u>

As a lease incentive, the Museum has assumed two real estate leases (the Existing Leases) on space from which Nordstrom has vacated to occupy the Museum's condominium. The Museum has the right to terminate, assign or sublease any portion of the premises associated with the Existing Leases to reduce its obligation. The cost of the lease assumption without any mitigation is \$2,228,800 and is amortized against leasing income over the term of the Museum's lease with Nordstrom. However, in the year ended June 30, 2012, the Museum signed a lease amendment with Nordstrom and NWM to reduce the cost of the lease assumption by a total of \$849,756. For both of the years ended June 30, 2016 and 2015, amortization of the lease assumption approximated \$62,000.

The Museum also provided a cash allowance for tenant improvements totaling approximately \$6,735,900 of which \$2,507,400 was financed by a note payable from NWM at June 30, 2011. The note was subsequently assigned to FSP-RIC, LLC when NWM sold its interest in the property. Repayment on the note began in February 2012 and at that time accrued interest totaling \$200,831 was added to the principal balance. Principal payments during the years ending June 30, 2016 and 2015 totaled \$87,038 and \$81,170, respectively.

SEATTLE ART MUSEUM

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 11 - Continued

In November 2011, Nordstrom signed a lease amendment with the Museum to lease additional space, and the Museum agreed to provide an additional \$271,330 cash allowance for tenant improvements. Cash allowance for tenant improvements is capitalized and amortized against leasing income over the term of the lease. For the years ended June 30, 2016 and 2015, amortization of the cash allowance approximated \$318,000.

Note 12 - Notes Payable

Notes payable consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Note payable to FSP-RIC, LLC (formerly Northwestern Mutual Life) in the original amount of \$2,507,400 plus \$200,831 in accrued interest; bears interest at 7% per annum; monthly payment of principal and interest beginning on February 2012; matures in May 2031.	\$ 2,365,740	\$ 2,452,778
Note payable to U.S. Bank in the original amount of \$2,802,964; bears interest at a subsidized rate of 1.27% per annum; monthly payment of principal and interest beginning on May 2017; matures in May 2031.	<u>2,802,964</u>	
Gross notes payable	5,168,704	2,452,778
Less current portion	<u>(186,235)</u>	<u>(87,038)</u>
Long-Term Portion of Notes Payable	<u>\$ 4,982,469</u>	<u>\$ 2,365,740</u>

Interest expense for the years ended June 30, 2016 and 2015 was \$220,243 and \$174,805, respectively.

Aggregate principal maturities on the note payable are as follows:

For the Year Ending June 30,

2017	\$ 186,235
2018	203,241
2019	221,357
2020	240,652
2021	261,197
Thereafter	<u>4,056,022</u>
	<u>\$ 5,168,704</u>

SEATTLE ART MUSEUM

Notes to Financial Statements For the Years Ended June 30, 2016 and 2015

Note 13 - Line of Credit

During the year ended June 30, 2011, the Museum obtained a \$7,000,000 line of credit with U.S. Bank with an original maturity date of May 6, 2012. The line was renewed during the year ended June 30, 2016 with a maturity date of April 30, 2017. The line of credit is due on demand and collateralized with general endowment assets. Amounts borrowed under this agreement bear interest at 0.9% per annum plus the one-month LIBOR rate quoted by U.S. Bank (1.09% at June 30, 2016). There was an outstanding balance of \$1,673,592 and \$3,873,657 at June 30, 2016 and 2015, respectively.

Note 14 - Concentration of Credit Risk

Financial instruments that potentially subject the Museum to concentrations of credit risk consist principally of cash and cash equivalents, investments and receivables. Investment managers engaged by the Museum make investments, and the investments are monitored for the Museum by an investment advisor. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Museum and its beneficiaries. Balances in cash and cash equivalents and investments exceed federally insured limits.

Concentrations of credit risk with respect to receivables are generally diversified due to the large number of individuals composing the Museum's programs and donor base. The Museum performs ongoing credit evaluations and writes off uncollectible amounts as they become known. The Museum has had no experience with significant losses due to concentrations of credit risk.

Note 15 - Related Party Transactions

The Museum receives contributions from members of the Board of Trustees and through foundations and corporations associated with members of the Board of Trustees. For the years ended June 30, 2016 and 2015, trustee contributions totaled \$29,049,000 and \$20,648,000, respectively. Outstanding amounts associated with the trustee pledges receivable approximated \$28,682,000 and \$21,379,000 as of June 30, 2016 and 2015, respectively.

Note 16 - Exhibit and Other Commitments

The Museum has entered into agreements to host several major exhibits. These exhibits will open in upcoming fiscal years. Under these agreements, the Museum is obligated to pay fees for use of the exhibits and exhibit related expenses. At June 30, 2016 and 2015, estimated fees for other exhibition commitments totaled approximately \$683,000 and \$428,000, respectively.

On occasion the Museum will enter into employment agreements with employees. When this occurs the agreements are generally for multiple years and include provisions for salary and other employee benefits.