

**SEATTLE ART MUSEUM  
AND SUBSIDIARIES**

Consolidated Financial Statements

For the Years Ended June 30, 2020 and 2019

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## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Seattle Art Museum and subsidiaries (collectively, the Museum), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated 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.



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## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Museum as of June 30, 2020 and 2019, and the consolidated 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.

*Clark Nuber P.S.*

Certified Public Accountants  
December 8, 2020

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Balance Sheets  
June 30, 2020 and 2019

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 19,894,146	\$ 12,335,416
Pledges receivable, current portion	1,515,334	1,132,923
Accounts receivable	555,483	225,373
Prepaid expenses and inventories	1,151,368	1,401,545
<b>Total Current Assets</b>	<b>23,116,331</b>	<b>15,095,257</b>
Pledges receivable, net of current portion	7,426,231	12,276,488
Government grant receivable		424,000
Incentive to lessee	4,288,588	4,682,239
Deferred rental receivable	9,398,640	9,340,223
Prepaid lease	613,666	618,333
Property and equipment, net	150,099,193	152,218,237
Cash restricted for long-term purposes	7,197,885	
Investments restricted for long-term purposes	146,067,942	146,616,322
Funds held in trust by others	10,770,845	10,953,747
Collections (Note 1)		
<b>Total Assets</b>	<b>\$ 358,979,321</b>	<b>\$ 352,224,846</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 1,224,150	\$ 1,598,291
Construction costs payable and retainage		3,447,078
Notes payable, current portion	351,197	252,975
Deferred revenue	3,629,238	3,595,749
<b>Total Current Liabilities</b>	<b>5,204,585</b>	<b>8,894,093</b>
Notes payable, net of current portion	11,254,123	8,304,898
Minimum pension liability	4,433,466	2,954,826
<b>Total Liabilities</b>	<b>20,892,174</b>	<b>20,153,817</b>
<b>Net Assets:</b>		
Net assets without donor restriction-		
SAM and controlling interest in consolidated subsidiaries	152,371,012	111,533,785
Noncontrolling interest in consolidated subsidiaries	6,073,685	1,948,356
Total net assets without donor restriction	158,444,697	113,482,141
Net assets with donor restriction	179,642,450	218,588,888
<b>Total Net Assets</b>	<b>338,087,147</b>	<b>332,071,029</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 358,979,321</b>	<b>\$ 352,224,846</b>

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statements of Activities  
For the Years Ended June 30, 2020 and 2019

	2020	2019
<b>Net Assets Without Donor Restriction, Operating Activities</b>		
<b>Support and Revenues:</b>		
Contributions and grants	\$ 10,451,037	\$ 7,593,421
Store and café	1,820,104	2,445,241
Admissions	2,134,001	2,375,887
Other income	635,095	1,620,620
Investment return	36,639	46,991
Contributions and endowment earnings released from restriction	10,348,164	9,778,382
Transfers from nonoperating activities	1,169,970	1,168,479
<b>Total Support and Revenues</b>	<b>26,595,010</b>	<b>25,029,021</b>
<b>Operating Expenses:</b>		
Program-		
Exhibition and collection care	5,982,399	6,125,158
Facility and security	7,729,175	6,077,606
Marketing	1,978,868	1,938,908
Store and café	1,577,069	1,799,503
Education	1,753,202	1,847,585
Total program expenses	19,020,713	17,788,760
Support expenses-		
Administration	4,577,964	4,723,009
Fundraising	1,353,154	1,493,166
Membership	1,013,110	1,114,860
Depreciation	624,237	634,728
Total support expenses	7,568,465	7,965,763
<b>Total Operating Expenses</b>	<b>26,589,178</b>	<b>25,754,523</b>
<b>Net Operating Activities</b>	<b>5,832</b>	<b>(725,502)</b>

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statements of Activities (Continued)  
For the Years Ended June 30, 2020 and 2019

	2020	2019
<b>Nonoperating Activities:</b>		
Rental income	7,255,703	8,297,643
Rental expense	(6,382,989)	(6,392,299)
Recovery of uncollectible pledges	9,405	40,370
Net capital contribution from noncontrolling interest	4,458,597	
Capital projects expense	(848,418)	
Capital projects depreciation	(6,007,599)	(4,350,491)
Accession of art objects	(223,200)	(843,100)
Financing expense	(367,091)	(213,693)
Minimum pension adjustment	(1,373,860)	(1,038,859)
Contributions and endowment earnings released from restriction	49,606,146	848,537
Transfers to operating activities	(1,169,970)	(1,168,479)
<b>Net Nonoperating Activities</b>	<b>44,956,724</b>	<b>(4,820,371)</b>
<b>Change in Net Assets Without Donor Restriction</b>	<b>44,962,556</b>	<b>(5,545,873)</b>
<b>Net Assets With Donor Restriction:</b>		
Contributions and grants	21,098,490	13,968,506
Art deaccessions	6,242	403,610
Investment return	(432,174)	5,440,834
Investment return from funds held in trust by others	(182,902)	164,444
Distribution received from funds held in trust by others	518,216	544,662
Contributions and endowment earnings released from restriction	(59,954,310)	(10,626,919)
<b>Change in Net Assets With Donor Restriction</b>	<b>(38,946,438)</b>	<b>9,895,137</b>
<b>Change in Net Assets</b>	<b>6,016,118</b>	<b>4,349,264</b>
Net assets, beginning of year	332,071,029	327,721,765
<b>Net Assets, End of Year</b>	<b>\$ 338,087,147</b>	<b>\$ 332,071,029</b>

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2020

	Program					Supporting			Total
	Exhibition and Collection Care	Facility and Security	Marketing	Store and Café	Education	Administration	Fundraising	Membership	
Operating expenses-									
Salaries and benefits	\$ 2,942,924	\$ 4,445,808	\$ 1,482,201	\$ 955,991	\$ 1,424,914	\$ 2,888,906	\$ 993,660	\$ 556,351	\$ 15,690,755
Professional fees	233,985	655,796	12,604	887	26,504	349,049	40,848	54,050	1,373,723
Facility cost	250,071	2,311,341	221	16,191	16,697	274,123	446	119	2,869,209
Other expense	2,097,049	314,321	134,593	133,305	274,749	1,045,742	288,166	294,903	4,582,828
Marketing	458,370	1,909	349,249	7,916	10,338	20,144	30,034	107,687	985,647
Cost of good sold				462,779					462,779
Operating expenses before depreciation	5,982,399	7,729,175	1,978,868	1,577,069	1,753,202	4,577,964	1,353,154	1,013,110	25,964,941
Depreciation	52,613	315,877	1,085	24,877	12,209	217,576			624,237
<b>Total Operating Expenses</b>	<b>6,035,012</b>	<b>8,045,052</b>	<b>1,979,953</b>	<b>1,601,946</b>	<b>1,765,411</b>	<b>4,795,540</b>	<b>1,353,154</b>	<b>1,013,110</b>	<b>26,589,178</b>
Nonoperating expenses-									
Salaries and benefits	261,376	55,261	7,928		12,752	1,495,789	18,758		1,851,864
Professional fees	463,368	17,042	35,090	2,379	27,290	79,131	20,116		644,416
Facility cost	39,739				7,277	4,572,731	(8,456)		4,611,291
Other expense	180,231	341,192	18,689	4,793	45,209	829,701	137,685		1,557,500
Marketing	1,935	47,275	193,293		1,579		63,205		307,287
Art accessions	223,200								223,200
Depreciation	5,249	3,873,176				2,129,174			6,007,599
<b>Total Expenses</b>	<b>\$ 7,210,110</b>	<b>\$ 12,378,998</b>	<b>\$ 2,234,953</b>	<b>\$ 1,609,118</b>	<b>\$ 1,859,518</b>	<b>\$ 13,902,066</b>	<b>\$ 1,584,462</b>	<b>\$ 1,013,110</b>	<b>\$ 41,792,335</b>

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2019

	Program					Supporting			Total
	Exhibition and Collection Care	Facility and Security	Marketing	Store and Café	Education	Administration	Fundraising	Membership	
Operating expenses-									
Salaries and benefits	\$ 2,836,162	\$ 3,151,804	\$ 1,380,536	\$ 935,929	\$ 1,386,541	\$ 3,062,568	\$ 801,060	\$ 512,459	\$ 14,067,059
Professional fees	500,216	630,833	15,878	1,544	18,631	374,709	88,967	77,475	1,708,253
Facility cost	263,050	2,156,012	814	9,745	16,270	313,586	39	134	2,759,650
Other expense	1,849,654	137,797	139,900	165,367	412,931	930,070	543,521	371,231	4,550,471
Marketing	676,076	1,160	401,780	17,113	13,212	42,076	59,579	153,561	1,364,557
Cost of good sold				669,805					669,805
Operating expenses before depreciation	6,125,158	6,077,606	1,938,908	1,799,503	1,847,585	4,723,009	1,493,166	1,114,860	25,119,795
Depreciation	52,272	255,236	575	39	11,750	314,856			634,728
<b>Operating Expenses</b>	<b>6,177,430</b>	<b>6,332,842</b>	<b>1,939,483</b>	<b>1,799,542</b>	<b>1,859,335</b>	<b>5,037,865</b>	<b>1,493,166</b>	<b>1,114,860</b>	<b>25,754,523</b>
Nonoperating expenses-									
Salaries and benefits	201,840	48,341	23,583		9,286	1,125,780	302,827		1,711,657
Professional fees	252,570	45,463			68,994	440,742	90		807,859
Facility cost	60,676				613	4,513,546	8,456		4,583,291
Other expense	161,371		30		9,804	367,264			538,469
Marketing	382		1,485	(131)	1,806	33			3,575
Art accessions	843,100								843,100
Depreciation	5,249	2,213,588				2,131,654			4,350,491
<b>Total Expenses</b>	<b>\$ 7,702,618</b>	<b>\$ 8,640,234</b>	<b>\$ 1,964,581</b>	<b>\$ 1,799,411</b>	<b>\$ 1,949,838</b>	<b>\$ 13,616,884</b>	<b>\$ 1,804,539</b>	<b>\$ 1,114,860</b>	<b>\$ 38,592,965</b>

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 6,016,118	\$ 4,349,264
Adjustments to reconcile change in net assets to cash flows used by operating activities-		
Depreciation	6,631,836	4,985,219
Contributions and grants restricted for endowment and capital campaign	(14,949,568)	(11,941,264)
Realized and unrealized losses (gains) on investments	1,833,224	(3,788,249)
Change in value of funds held in trust by others	182,902	(164,444)
Change in minimum pension liability	1,478,640	1,072,673
Net capital contribution from noncontrolling interest	(4,458,597)	
Accession of art objects, net	216,958	439,490
Gain on disposal of fixed assets		(4,607)
Changes in operating assets and liabilities:		
Pledges and accounts receivable	870,468	(57,344)
Other assets	196,427	130,066
Incentive to lessee	393,651	393,652
Accounts payable and accrued expenses	(374,141)	601,112
Deferred revenue	33,489	445,382
<b>Net Cash Used by Operating Activities</b>	<b>(1,928,593)</b>	<b>(3,539,050)</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sales of investments	23,972,484	12,086,573
Purchases of investments	(25,405,769)	(17,167,054)
Net change in cash equivalents included in investments	148,441	2,888,499
Proceeds from sales of property and equipment		24,294
Purchases of property and equipment	(7,959,870)	(31,585,986)
Accession of art objects, net	(216,958)	(439,490)
<b>Net Cash Used by Investing Activities</b>	<b>(9,461,672)</b>	<b>(34,193,164)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from contributions and grants restricted for endowment and capital campaign	18,640,836	26,481,869
Net capital contribution from noncontrolling interest	4,458,597	
Proceeds from notes payable	3,310,600	4,000,000
Principal payments on notes payable	(263,153)	(221,357)
<b>Net Cash Provided by Financing Activities</b>	<b>26,146,880</b>	<b>30,260,512</b>
<b>Net Change in Cash and Restricted Cash</b>	<b>14,756,615</b>	<b>(7,471,702)</b>
Cash and restricted cash, beginning of year	12,335,416	19,807,118
<b>Cash and Restricted Cash, End of Year</b>	<b>\$ 27,092,031</b>	<b>\$ 12,335,416</b>
<b>Reconciliation to Consolidated Balance Sheet:</b>		
Cash and cash equivalents	\$ 19,894,146	\$ 12,335,416
Cash restricted for long-term purposes	7,197,885	
<b>Cash and Restricted Cash</b>	<b>\$ 27,092,031</b>	<b>\$ 12,335,416</b>
<b>Supplementary Information:</b>		
Property and equipment purchases in accounts payable	\$ -	\$ 3,447,078
Cash paid for interest	\$ 356,394	\$ 197,222

See accompanying notes.

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

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#### 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. The accompanying consolidated financial statements include the activity of SAM and SAM's controlled subsidiaries (collectively referred to as the Museum). The Museum's activities include acquiring, exhibiting and caring for paintings, sculptures and other works of art, providing lectures and art education, and generally fostering art in all of its locations.

The Museum started as The Seattle Fine Arts Society in 1917 and has three locations. The main location of the Museum opened in December 1991 and is located in downtown Seattle (the City) at 1300 First Avenue. An expansion of the downtown facility opened in 2007, approximately doubling its square footage to provide more gallery space to exhibit the Museum's collections.

The Museum's original home in the City's Volunteer Park was built in 1933 by the Museum on the City property. The Volunteer Park facility underwent renovations and was reinstalled with displays of the Museum's Asian art collection, reopening in August 1994 as the Seattle Asian Art Museum (SAAM). A major renovation and expansion of the SAAM was completed during the year ended June 30, 2020 as further described in Note 2.

The 8.5-acre Olympic Sculpture Park (OSP or the Park) in downtown Seattle opened in 2007. In 1999, the Museum purchased the site, which was enhanced by the acquisition of adjacent property. As a free community gathering space, it includes outdoor sculptures, pedestrian paths, amphitheater, pavilion with temporary art installations and a parking garage.

**Impacts of the COVID-19 Pandemic** - In March 2020, the World Health Organization categorized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result of the spread of COVID-19, and at the government's direction, on March 13, 2020, the Museum closed the downtown location, the Seattle Asian Art Museum, and the pavilion at the Olympic Sculpture Park. The downtown location (Seattle Art Museum) re-opened on September 11, 2020 and closed again on November 16, 2020 at the government's direction. The Seattle Asian Art Museum and the Olympic Sculpture Park pavilion remain closed since March 13, 2020. As a result, the Museum has experienced negative impacts to its earned revenues. As of the date these financial statements were issued the COVID-19 pandemic was ongoing and the related governmental preventive and protective measures continued, and as a result, the related financial impact and duration of the pandemic cannot be reasonably estimated at this time.

Management has taken the following actions to mitigate the financial impacts of the COVID-19 pandemic:

- An award of \$2,860,600 in Paycheck Protection Program ("PPP") funding was received on April 16, 2020 in conjunction with passage of the federal Coronavirus Aid, Relief, and Economic Security Act ("CARES") on March 27, 2020. The Museum used the PPP proceeds largely to support and fund wages of employees.
- Salary and hours reductions were implemented in spring 2020 and continue through the date of these financial statements.
- Expenses have been severely curtailed and discretionary disbursements indefinitely postponed. New expenditures are being incurred for personal protective equipment, training and enhanced sanitation processes and equipment.

**Principles of Consolidation** - The accompanying financial statements include the activity of SAM and SAM's controlled subsidiaries, SAM-SAAM Renovation, LLC, SAAM Building Landlord, LLC, and SAAM Building Master Tenant, LLC. Inter-organization balances and transactions have been eliminated in consolidation.

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

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#### Note 1 - Continued

SAM's controlled subsidiaries (collectively referred to as the LLCs) were formed under the laws of the State of Washington effective December 2017. The LLCs were formed for the purpose of receiving historic tax credit funding as a part of the SAAM renovation and expansion project further described in Note 2. SAM-SAAM Renovation, LLC is wholly-owned by SAM. The owners of SAAM Building Master Tenant, LLC are SAM-SAAM Renovation, LLC with a 1% managing member interest and a historic tax credit investor with a 99% investor member interest. SAAM Building Landlord LLC is owned 80% by SAM-SAAM Renovation LLC and 20% by SAAM Building Master Tenant, LLC.

Noncontrolling interest presented in the consolidated financial statements is comprised of the direct ownership interest of the historic tax investor in SAAM Building Master Tenant, LLC and the indirect ownership interest in SAAM Building Landlord, LLC.

**Basis of Accounting** - The accompanying consolidated 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 two classes of net assets, depending on the existence and nature of donor restrictions: net assets with donor restriction and net assets without donor restriction.

Net Assets Without Donor Restriction - Contains support received and revenue earned that are not subject to donor-imposed restrictions and over which the Board of Trustees has discretionary control.

Net Assets With Donor Restriction - 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 or are 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 as a change in net assets without donor restriction or net assets with donor restriction based on donor stipulations.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law. Expirations of 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 contributions with donor restriction and released when the asset is placed in service.

**Cash and Cash Equivalents** - The Museum considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash balances include operating reserves maintained for the lease described at Note 13. Cash balances at June 30, 2020 included \$1.06 million that was held by SAM's controlled subsidiaries and are generally only available for the purposes of those subsidiaries and not broadly for SAM's operations; there were no such balances at June 30, 2019. The balance reported separately on the consolidated balance sheets as cash restricted for long-term purposes represents contributions to endowment funds received in cash and not yet deposited into the endowment funds investment portfolio as of fiscal year end.

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

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#### Note 1 - Continued

**Receivables** - Receivables primarily consist of unconditional promises to give (pledges receivable), which are recognized as revenues or gains in the period in which the promise is given, government grants receivable, and trade receivables. Conditional promises to give are recognized only when the conditions on which they depend are 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.

**Incentive to Lessee and Deferred Rental Receivable** - Incentives paid to a lessee have been capitalized on the consolidated balance sheets as an asset and amortized over the term of the lease under the straight-line method. Deferred rental receivable represents the cumulative difference of recognizing lease revenue on a straight-line basis and the actual cash rental payments.

**Investments** - Investments consist 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 consolidated 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.

**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

From time to time, the Museum engages in large construction projects to remodel or expand existing locations. The Museum capitalizes certain administrative costs associated with these construction projects as the Museum believes this treatment more accurately reflects the costs incurred for these projects.

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

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#### Note 1 - Continued

**Art Collections** - Art objects are expensed when purchased and therefore, are not shown as assets on the consolidated 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 consolidated statements of activities or as receivables on the consolidated balance sheets. Proceeds from deaccessions or insurance recoveries are reflected in the consolidated statements of activities based on the existence and nature of donor-imposed restrictions.

**Deferred 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.

**Conditional Contribution** - During the year ended June 30, 2018, the Museum received a \$2,495,000 conditional endowment contribution. To be entitled to retain the contribution the Museum is required to raise a matching amount of contributions for the endowed purpose. The funds received were deposited with the endowment investments and a corresponding liability was recorded and included in deferred revenues on the consolidated balance sheets. The liability will be relieved in future years, and contribution revenue will be recognized, when the Museum receives the qualifying matching contributions from other donors. During each of the years ended June 30, 2020 and 2019, the Museum received \$15,000 in qualifying matching contributions. As of June 30, 2020, the remaining unmatched deferred revenue balance was \$2,465,000.

**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 and would otherwise need to be purchased by the Museum. 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 consolidated 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 consolidated financial statements.

**Functional Allocation of Expenses** - The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. To evaluate the comparability of the Museum's management and general overhead with other nonprofit organizations, all expenses, including depreciation, amortization, and nonoperating expenses, are presented on a functional basis in the consolidated statements of functional expenses. Depreciation expense is attributable to one or more program or supporting services of the Museum. Depreciation is allocated to specific departments that use the related assets and building depreciation is allocated half to program activities and half to supporting activities based on square footage.

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

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#### Note 1 - Continued

**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 at the Olympic Sculpture Park, contributions for nonoperating activities, capital contributions from noncontrolling interest, capital projects administration and other expenses, debt financing, adjustments for uncollectible pledges, and minimum pension adjustments. Nonoperating activities also include accession purchases 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. Transfers reported on the consolidated statement of activities from nonoperating to operating activities represent prior nonoperating funding received utilized for operating activities in the current fiscal year.

**Income Taxes** - SAM has been notified by the Internal Revenue Service that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) with the exception of income from any activities that are not related to SAM's tax-exempt purpose. SAM is further classified as an organization that is not a private foundation under Section 509(a)(1) of the Code. The LLCs have no provision for or benefit from income taxes included in these consolidated financial statements as taxable income or loss passes through to, and is reportable by, each member individually.

**Use of Estimates** - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

**Subsequent Events** - The Museum's management has evaluated subsequent events through December 8, 2020, the date on which the financial statements were issued.

#### Note 2 - SAAM Renovation and Expansion Project

In September 2017, the Museum committed to a major renovation and modest expansion of the SAAM. The City owns the SAAM building, and the building is listed on the National Register of Historic Places and landmarked by the City. The building had not been substantially renovated or restored since its original construction in 1933. The renovation included new climate and humidity control for optimum art preservation, updated plumbing and electrical systems, seismic upgrades to safeguard visitors and collections, an updated loading dock and receiving area for safer art transport, as well as improvements to accessibility. The renovation also restored the existing building and its facades and finishes to National Historic Rehabilitation Standards.

The SAAM building renovation qualified for federal tax credits under the Historic Rehabilitation Tax Credit (HRTC) federal tax statutes. In order to take advantage of federal tax credits, which are only available to private business entities, the leasing structure was modified to create the LLCs. These LLCs are controlled by SAM and are included in the Museum's consolidated financial statements.

The expansion is new construction on the southeast side of the building, extending the building footprint by approximately 3,200 square feet. The addition added approximately 12,000 useable square feet on three floors. This additional space provides for a new art gallery, a new dedicated education space for school and other groups, a new conservation space, new space for expanded mechanical and electrical systems, and offices. The renovation was completed during the year ended June 30, 2020.

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

#### Note 2 - Continued

The total project cost was approximately \$56 million, which included construction, design and engineering, entitlements, art moving, storage and reinstallation, and was funded through a combination of city and state funding, a capital campaign and historical rehabilitation tax credits.

#### Note 3 - Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2020				2019 Total
	Endowment	SAAM Campaign	Other	Total	
Pledges due in-					
Less than one year	\$ 1,937,109	\$ 1,100,927	\$ 483,892	\$ 3,521,928	\$ 10,249,390
Two to five years	2,508,333	988,708	20,875	3,517,916	1,818,834
More than five years	550,000		1,466,455	2,016,455	1,497,426
Less discount to present value (1.00% to 2.75%)	(35,353)	(9,078)	(819)	(45,250)	(59,960)
Less allowance for doubtful accounts		(62,689)	(6,795)	(69,484)	(96,279)
<b>Total Pledges Receivable, Net</b>	<b><u>\$ 4,960,089</u></b>	<b><u>\$ 2,017,868</u></b>	<b><u>\$ 1,963,608</u></b>	<b><u>\$ 8,941,565</u></b>	<b><u>\$ 13,409,411</u></b>

Endowment pledges that are due in less than one year are reported as noncurrent pledges receivable on the consolidated balance sheets because the proceeds are restricted by donors for long-term investment.

#### Note 4 - 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 net assets with donor restriction. The Museum received \$518,215 and \$544,662 in distributions from the trust during the years ended June 30, 2020 and 2019, respectively. The Museum's interest in gains and losses in the trust value are recognized in the consolidated statements of activities as restricted. The balance related to the Museum's interest in this trust is reported at fair value and totaled \$10,770,845 and \$10,953,747 as of June 30, 2020 and 2019, respectively.

**SEATTLE ART MUSEUM AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019**

**Note 5 - Investments**

Investments are held for the endowment funds described in Note 12 and consisted of the following categories at June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,008,447	\$ 2,800,121
Debt securities	21,991,948	21,456,955
Equity securities	36,283,932	48,813,678
Alternative investments	<u>83,783,615</u>	<u>73,545,568</u>
<b>Total Investments</b>	<b><u>\$ 146,067,942</u></b>	<b><u>\$ 146,616,322</u></b>

The following summarizes the return on investments by net asset classification for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Net assets without donor restriction- Dividends and interest	\$ 36,639	\$ 46,991
Net assets with donor restriction- Dividends and interest	2,052,032	2,135,024
Realized and unrealized gains	(1,833,224)	3,788,249
Investment fees	<u>(650,982)</u>	<u>(482,439)</u>
	<u>(432,174)</u>	<u>5,440,834</u>
<b>Total Investment Return</b>	<b><u>\$ (395,535)</u></b>	<b><u>\$ 5,487,825</u></b>

**Note 6 - 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.

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

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#### Note 6 - Continued

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, 2020 and 2019.

Mutual Funds - Valued at quoted market prices in active markets.

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

Debt Securities - Valued using bid valuations from similar instruments in actively traded markets.

Alternative Investments - Value at net asset value (NAV) per share, or its equivalent, as a practical expedient, as reported by the investment manager unless specific evidence indicates the NAV should be adjusted.

Funds Held in Trust by Others - Valued based on the trust's investment manager's valuations of the trust and the Museum's 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.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019

Note 6 - Continued

**Fair Values Measured on a Recurring Basis** - Fair values of assets measured on a recurring basis at June 30, 2020 and 2019, were as follows:

	Fair Value Measurements at June 30, 2020			
	Level 1	Level 2	Level 3	Total
<b>Funds Held in Trust by Others</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,770,845</u>	<u>\$ 10,770,845</u>
<b>Investments:</b>				
Marketable securities-				
Equity securities/mutual funds:				
Large blend	\$ 15,230,394	\$ -	\$ -	\$ 15,230,394
Foreign large growth	11,616,821			11,616,821
Natural resources	2,538,574			2,538,574
Foreign large blend	3,490,156			3,490,156
Global bond funds	3,407,987			3,407,987
Debt securities/mutual funds:				
Aggregate bonds	3,753,032			3,753,032
Inflation protection	4,326,462			4,326,462
U.S. government		13,912,454		13,912,454
<b>Total Investments in the Fair Value Hierarchy</b>	<u>\$ 44,363,426</u>	<u>\$ 13,912,454</u>	<u>\$ -</u>	58,275,880
Investments measured at NAV <sup>(a)</sup>				83,783,615
Interest-bearing cash <sup>(b)</sup>				<u>4,008,447</u>
<b>Total Investments</b>				<u>\$ 146,067,942</u>

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019

Note 6 - Continued

	Fair Value Measurements at June 30, 2019			Total
	Level 1	Level 2	Level 3	
<b>Funds Held in Trust by Others</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,953,747</b>	<b>\$ 10,953,747</b>
<b>Investments:</b>				
Marketable securities-				
Equity securities/mutual funds:				
Large blend	\$ 19,154,174	\$ -	\$ -	\$ 19,154,174
Foreign large growth	14,304,295			14,304,295
Natural resources	3,033,549			3,033,549
Global bond funds	4,128,965			4,128,965
Emerging markets fund	8,192,695			8,192,695
Debt securities/mutual funds:				
Aggregate bonds	4,810,963			4,810,963
Inflation protection	4,185,224			4,185,224
U.S. government		12,460,768		12,460,768
<b>Total Investments in the Fair Value Hierarchy</b>	<b>\$ 57,809,865</b>	<b>\$ 12,460,768</b>	<b>\$ -</b>	<b>70,270,633</b>
Investments measured at NAV <sup>(a)</sup>				73,545,568
Interest-bearing cash <sup>(b)</sup>				2,800,121
<b>Total Investments</b>				<b>\$ 146,616,322</b>

(a) In accordance with U.S. GAAP, 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 these tables are intended to permit reconciliation of the fair value hierarchy to the investment line item presented in the consolidated balance sheets.

(b) Interest-bearing cash is reported at cost plus accrued interest. The balance presented in these tables are intended to permit reconciliation of the fair value hierarchy to the investment line item presented in the consolidated balance sheets.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 6 - 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.

<u>Asset Class</u>	<u>Fair Value</u>	<u>Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
<b>Limited Partnerships:</b>					
Global venture capital/ private equity	\$ 184,100	Through 2022	\$ 67,500	None	None
US private equity	2,299,060	Through 2022	2,762,041	None	None
US venture capital	8,906,319	Through 2022	5,295,826	None	None
Emerging markets	3,473,435	None	None	Quarterly with 60 days notice.	None
Other	3,036,150	Through 2027	10,948	None	None
Multi-strategy	4,244,068	None	None	Quarterly with 90 days notice.	None
Real assets	1,123,726	None	None	Monthly with 16 days notice.	None
<b>Limited Liability Corporation:</b>					
Real assets	2,022,198	Through 2020	352,500	None	None
Other	2,505,523	None	None	Monthly with 10 days notice.	None
Global equity	12,022,428	None	2,700,000	Weekly with 3 business days notice.	None
<b>Direct Investment:</b>					
Long/short equity	1,279,704	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.
Opportunistic	12,830,070	None	None	Varies from annual to every two years with 90 days notice.	No redemption gate- 10% fund level gate.
US private equity	15,368,084	None	None	Monthly with 31 days notice.	None
Emerging markets	2,685,284	None	None	Monthly with 60 days notice.	None
<b>International Equity Funds:</b>					
Emerging markets	2,915,430	None	None	Monthly with 60 days notice.	None
Global equity	8,888,036	None	None	Monthly with 10 business days notice.	None
	<u>\$ 83,783,615</u>		<u>\$ 11,188,815</u>		

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

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#### Note 7 - Property and Equipment

Property and equipment is summarized as follows at June 30:

	<u>2020</u>	<u>2019</u>
Furnishings and equipment	\$ 23,022,252	\$ 19,397,307
Buildings	123,910,449	70,760,305
Tenant improvements	22,977,038	22,977,038
Remediation and hardscaping	39,179,760	39,120,003
Land	17,797,741	17,797,741
Work in progress	<u>299,599</u>	<u>52,633,486</u>
	227,186,839	222,685,880
Less accumulated depreciation	<u>(77,087,646)</u>	<u>(70,467,643)</u>
	<u><b>\$ 150,099,193</b></u>	<u><b>\$ 152,218,237</b></u>

Work in progress at June 30, 2020 consisted primarily of costs related to new arts enterprise software. Work in progress at June 30, 2019 consisted primarily of the SAAM capital project described in Note 2.

#### Note 8 - Benefit Plans

**Defined Contribution Retirement Plan** - 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. Employer contributions are vested over a six year period. For the years ended June 30, 2020 and 2019, the Museum contributed \$468,709 and \$371,591, respectively.

**Defined Benefit Retirement 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, 2020 and 2019, the Museum recognized \$104,780 and \$33,814, respectively, of net periodic pension cost.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019

Note 8 - Continued

Pension funding requirements are computed by an actuary and are subject to certain actuarial assumptions regarding discount rates and mortality rates. The obligations, funded status, and change in benefit obligations computed by the actuary and amounts recognized in the Museum's consolidated financial statements as of and for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Change in projected benefit obligation (PBO)-		
Projected benefit obligation at beginning of year	\$ 12,408,013	\$ 11,334,472
Interest cost	399,633	444,807
Assumptions change		(16,929)
Benefits paid	(522,272)	(570,475)
Administrative expenses	(66,447)	(65,670)
Actuarial loss	<u>1,658,049</u>	<u>1,281,808</u>
Projected benefit obligation at end of year	13,876,976	12,408,013
Change in plan assets-		
Fair value of plan assets at beginning of year	9,453,187	9,452,319
Actual gain return on plan assets	579,042	637,013
Benefits paid	(522,272)	(570,475)
Administrative expenses	<u>(66,447)</u>	<u>(65,670)</u>
Fair value of plan assets at end of year	<u>9,443,510</u>	<u>9,453,187</u>
<b>Funded Status at Year End (Minimum Pension Liability)</b>	<b><u>\$ (4,433,466)</u></b>	<b><u>\$ (2,954,826)</u></b>
<b>Accumulated Benefit Obligation</b>	<b><u>\$ 13,876,976</u></b>	<b><u>\$ 12,408,013</u></b>

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

	<u>2020</u>	<u>2019</u>
Weighted-average assumptions used to determine net periodic pension cost-		
Assumed discount rate	3.31%	4.03%
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	2.42%	3.31%
Rate of compensation increase	N/A	N/A

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

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 8 - Continued**

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 6. All assets are valued using Level 1 inputs and consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 232,879	\$ 229,254
Debt mutual funds-		
Intermediate-term	3,007,845	2,930,207
International bond		464,259
Equity mutual funds-		
International	1,536,676	1,448,319
Large blend	1,025,606	974,423
Small blend	853,697	780,628
Large value	1,147,953	1,155,686
Large growth	1,356,188	1,180,158
Real estate mutual funds	<u>282,666</u>	<u>290,253</u>
<b>Total Plan Assets</b>	<b><u>\$ 9,443,510</u></b>	<b><u>\$ 9,453,187</u></b>

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,

2021	\$ 740,991
2022	798,598
2023	798,978
2024	788,493
2025	770,068
2026 through 2030	<u>3,702,385</u>
	<b><u>\$ 7,599,513</u></b>

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 9 - Notes Payable**

Notes payable consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Note payable to FSP-RIC, LLC in the original amount of \$2,507,400; bears interest at 7% per annum; monthly payment of principal and interest beginning on February 2012; matures in May 2031.	\$ 1,949,954	\$ 2,065,023
Note payable to U.S. Bank in the original amount of \$2,802,964; bears interest at a rate of 4.22% per annum; monthly payment of principal and interest beginning on May 2017; matures in May 2031; secured with all equipment, property and improvements acquired with proceeds of the loan.	2,367,266	2,492,850
Note payable to U.S. Bank that allows for borrowings up to \$15 million through a draw period that ends on the maturity date of April 25, 2023; bears interest at a rate of LIBOR plus 1.06%; interest is payable monthly; principal due at maturity; secured by the SAAM campaign pledges receivable.	3,100,000	3,000,000
Note payable to U.S. Bank that allows for borrowings up to \$2 million through a draw period that ended April 25, 2020; bears interest at a rate of LIBOR plus 1.32%; interest is payable monthly and monthly payments of principal began May 2020; secured by the purchased asset.	1,327,500	1,000,000
Paycheck Protection Program loan payable to a bank carrying an annual interest rate of 1%. Principal and interest are payable in monthly installments beginning August 2021 through maturity on April 16, 2025.	<u>2,860,600</u>	
Gross notes payable	11,605,320	8,557,873
Less current portion	<u>(351,197)</u>	<u>(252,975)</u>
<b>Long-Term Portion of Notes Payable</b>	<b><u>\$ 11,254,123</u></b>	<b><u>\$ 8,304,898</u></b>

Interest expense for the years ended June 30, 2020 and 2019 was \$356,394 and \$197,222, respectively.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 9 - Continued**

Aggregate principal maturities on the notes payable are as follows:

For the Year Ending June 30,	<u>Paycheck Protection Program Loan</u>	<u>Other Notes Payable</u>	<u>Total</u>
2021	\$ -	\$ 351,197	\$ 351,197
2022	678,048	373,067	1,051,115
2023	788,783	3,496,341	4,285,124
2024	796,707	421,107	1,217,814
2025	597,062	447,454	1,044,516
Thereafter	<u>                    </u>	<u>3,655,554</u>	<u>3,655,554</u>
	<u><b>\$ 2,860,600</b></u>	<u><b>\$ 8,744,720</b></u>	<u><b>\$ 11,605,320</b></u>

**Paycheck Protection Program Loan** - In response to the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. During fiscal 2020 the Museum received a PPP loan. All or a portion of the PPP loan may be forgiven if certain terms and conditions of the program are met.

**Note 10 - Line of Credit**

The Museum has a \$7,000,000 line of credit with U.S. Bank. 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 (1.6% at June 30, 2020). All outstanding principal is due April 30, 2021. There were no outstanding balances at June 30, 2020 or 2019. The Museum is subjected to certain loan covenants as stipulated in the debt agreements, which include a liquidity coverage ratio, fixed charge coverage ratio and collateral coverage ratio among others. As of June 30, 2020 and 2019, the Museum was in compliance with loan covenants.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 11 - Net Assets**

Net assets consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
<b>Net Assets Without Donor Restriction:</b>		
SAM and controlling interest in consolidated subsidiaries	\$ 152,371,012	\$ 111,533,785
Noncontrolling interest in consolidated subsidiaries	<u>6,073,685</u>	<u>1,948,356</u>
<b>Total Net Assets Without Donor Restriction</b>	<b>158,444,697</b>	<b>113,482,141</b>
<b>Net Assets With Donor Restriction:</b>		
Time restricted pledges	2,724,905	2,512,969
Purpose restricted, including accumulated investment earnings or deficits of endowment funds-		
Art acquisition	2,256,774	2,373,701
Capital projects	157,206	46,486,245
Conservation Center	460,965	543,364
Education	(735,336)	623,598
Exhibition and collection care	(387,276)	671,580
General operations	1,471,766	2,040,911
Sculpture park operations	2,569,586	3,826,862
Library	8,354	18,319
Technology	23,595	24,021
Perpetual portion of endowment funds, restricted for the following purposes-		
Art acquisition	5,778,450	5,778,450
Conservation Center	567,324	537,412
Education	22,572,555	22,547,210
Exhibition and collection care	33,494,556	27,645,301
General operations	76,967,559	71,064,576
Sculpture park operations	20,614,268	20,614,268
Library	164,354	164,354
Technology	162,000	162,000
Funds held in trust by others	<u>10,770,845</u>	<u>10,953,747</u>
<b>Total Net Assets With Donor Restriction</b>	<b><u>179,642,450</u></b>	<b><u>218,588,888</u></b>
<b>Total Net Assets</b>	<b><u>\$ 338,087,147</u></b>	<b><u>\$ 332,071,029</u></b>

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

#### Note 11 - Continued

**Net Assets With Donor Restrictions-Capital Projects** - Contributions received to acquire long-lived assets are reported as contributions with donor restriction and released from restriction when the asset is placed in service. 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. During the year ended June 30, 2020, \$49.5 million was released from restriction for capital projects due to the completion of the SAAM renovation and expansion project (Note 2) and the placement of that project in service.

The following is a schedule of changes in the consolidated net assets without donor restriction of the Museum attributable to SAM and to the noncontrolling interest in the consolidated subsidiaries for the years ended June 30:

	SAM	Noncontrolling Interest	Total
Balances, June 30, 2018	\$ 117,079,658	\$ 1,948,356	\$ 119,028,014
Other changes in net assets without donor restriction	<u>(5,545,873)</u>		<u>(5,545,873)</u>
<b>Balances, June 30, 2019</b>	<b>111,533,785</b>	<b>1,948,356</b>	<b>113,482,141</b>
Capital contribution from noncontrolling interest		4,479,267	4,479,267
Capital distribution to noncontrolling interest		(20,670)	(20,670)
Other changes in net assets without donor restriction	<u>40,837,227</u>	<u>(333,268)</u>	<u>40,503,959</u>
Total change in net assets without donor restriction	<u>40,837,227</u>	<u>4,125,329</u>	<u>44,962,556</u>
<b>Balances, June 30, 2020</b>	<b><u>\$ 152,371,012</u></b>	<b><u>\$ 6,073,685</u></b>	<b><u>\$ 158,444,697</u></b>

#### Note 12 - 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.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019

Note 12 - Continued

**Interpretation of Relevant Law** - The Museum is subject to the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restriction because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditure. Some of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restriction. The Board of Trustees of the Museum has interpreted PMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Museum considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Museum has interpreted PMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, 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 organization 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 organization; and
- The investment policies of the Museum.

As of June 30, endowment net assets, excluding endowment pledges receivable and funds held in trust by others, consisted of the following:

	<u>2020</u>	<u>2019</u>
Donor restricted endowment funds-		
Original donor-restricted gifts and amounts required to be maintained in perpetuity by donor	\$ 155,360,976	\$ 140,404,800
Accumulated investment earnings	(4,560,149)	3,731,522
<b>Total Endowment Net Assets</b>	<b><u>\$ 150,800,827</u></b>	<b><u>\$ 144,136,322</u></b>

Reconciliation to endowment investments at June 30:

	<u>2020</u>	<u>2019</u>
Endowment net assets	\$ 150,800,827	\$ 144,136,322
Endowment cash receipts pending deposit to investment portfolio	(7,197,885)	
Conditional contribution deposited with endowment investments	2,465,000	2,480,000
<b>Total Endowment Investments</b>	<b><u>\$ 146,067,942</u></b>	<b><u>\$ 146,616,322</u></b>

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 12 - Continued**

Changes to endowment net assets, excluding endowment pledges receivable and funds held in trust by others, for the years ended June 30, 2020 and 2019, were as follows:

	Original Gift Amount and Amounts Required to be Maintained in Perpetuity	Accumulated Investment Earnings (Deficit)	Total
Balances, June 30, 2018	\$ 132,394,227	\$ 5,746,864	\$ 138,141,091
Endowment investment return		5,440,834	5,440,834
Contributions and pledge payments	8,010,573		8,010,573
Appropriation of endowment for expenditure		(7,456,176)	(7,456,176)
<b>Balances, June 30, 2019</b>	<b>140,404,800</b>	<b>3,731,522</b>	<b>144,136,322</b>
Endowment investment return		(432,174)	(432,174)
Contributions and pledge payments	14,956,176		14,956,176
Appropriation of endowment for expenditure		(7,859,497)	(7,859,497)
<b>Balances, June 30, 2020</b>	<b>\$ 155,360,976</b>	<b>\$ (4,560,149)</b>	<b>\$ 150,800,827</b>

**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. Deficiencies of this nature existed in some of the Museum's donor-restricted endowment funds, which together have an original gift value of \$86,461,236, a current fair value of \$77,481,235, and a deficiency of \$8,980,001 as of June 30, 2020. As of June 30, 2019, the endowment funds with deficiencies of this nature had an original gift value of \$62,462,942, a current fair value of \$57,578,198, and a deficiency of \$4,884,744. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

**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 AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

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#### Note 12 - 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 years ended June 30, 2020 and 2019, the Museum employed a blended distribution rate of approximately 5.7% based on the endowment's average fair value over the three-year periods ending December 31, 2019 and 2018, respectively. Under the current investment policy, 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 13 - Lease Agreements as Lessee

**Museum Development Authority** - 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 the Museum, including, but not limited to, a downtown art museum and a public sculpture park on the Seattle waterfront. In accordance with the MDA charter, the Museum appoints three of the nine members of the MDA governing council. The MDA owns a portion of the existing downtown Museum facility, which is leased to the Museum. The activities, assets and liabilities of the MDA are not included in these consolidated financial statements.

The Museum is leasing land from MDA for use of its parcel at the Olympic Sculpture Park. As of June 30, 2020 and 2019, total lease payments of \$618,333 and \$623,000, respectively, are included in prepaid leases for this land on the consolidated balance sheets. 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 MDA for expanded exhibition space in the addition adjacent to the Museum's downtown Seattle facility. The lease expires in December 2031, with required minimum lease payments through 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.

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

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#### Note 13 - Continued

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

For the Fiscal Year Ending June 30,

2021	\$ 3,941,438
2022	3,941,000
2023	3,939,750
2024	3,938,688
2025	3,940,000
Thereafter	<u>22,656,750</u>
	<u><u>\$ 42,357,626</u></u>

The Museum is obligated to pay additional amounts under certain conditions specified in its lease agreements. Lease expense for the years ended June 30, 2020 and 2019 approximated \$3,968,000 and \$4,010,000, respectively.

**SAAM Building** - The Museum leases the Seattle Asian Art Museum (SAAM) building from the City of Seattle (the City). During the year ended June 30, 2018, the Museum and the City signed a new agreement for the SAAM building in conjunction with the start of the SAAM capital project described in Note 2. The lease commenced in December 2017 and terminates in December 2072. The lease agreement requires no cash rent payments from the Museum to the City. Instead, the lease requires the Museum to undertake the SAAM capital project described in Note 2, maintain and operate the SAAM building as a museum open to the public, and maintain the historic features of the SAAM building. The lease also requires the Museum to provide certain public benefits and to perform property operation activities. To help defray the Museum's costs of operating and maintaining the SAAM building, the City will provide annual operating support payments to the Museum beginning in the year ended June 30, 2020 as the SAAM capital project was completed during the year. The operating support payments start at \$250,000 per year and increase every five years during the term of the lease.

#### Note 14 - Lease Agreement as Lessor

The Museum has an agreement with Nordstrom, Inc. to lease a portion of a condominium (Nordstrom Lease). Approximately 70% of the leased space is owned by the Museum. The remaining approximately 30% of the leased space is owned by FSP-RIC, LLC, which the Museum leases solely in order to sublet the space to Nordstrom, Inc. as part of the Nordstrom lease. The Nordstrom Lease term is 21 years, ending on May 31, 2031. In addition to base rent, Nordstrom is also responsible for operating expenses, in accordance with the lease agreement. The FSP-RIC Lease obligation is performed by Nordstrom, and the lease has the same commencement and expiration dates as the Nordstrom Lease.

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

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#### Note 14 - Continued

During each of the years ended June 30, 2020 and 2019, 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,

2021	\$ 5,299,188
2022	5,299,188
2023	5,801,003
2024	6,503,544
2025	6,503,544
Thereafter	<u>38,479,302</u>
	<u><u>\$ 67,885,769</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 cost of the lease assumption was \$849,756 and is amortized against leasing income over the term of the Museum's lease with Nordstrom. For both of the years ended June 30, 2020 and 2019, amortization of the lease assumption approximated \$62,000.

The Museum also provided a cash allowance for tenant improvements totaling approximately \$7,007,230. Cash allowance for tenant improvements is capitalized and amortized against leasing income over the term of the lease. Of the cash allowance, \$2,507,400 was financed by a note payable from FSP-RIC, LLC. Principal payments during the years ended June 30, 2020 and 2019 totaled \$115,069 and \$107,311, respectively. Amortization of the cash allowance approximated \$332,000 and \$318,000 for the years ended June 30, 2020 and 2019, respectively.

#### Note 15 - 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 investment purchases, 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 pledges receivable 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.

## SEATTLE ART MUSEUM AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

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#### **Note 16 - 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, 2020 and 2019, trustee contributions approximated \$12.1 million and \$9.2 million, respectively. Outstanding amounts associated with the trustee pledges receivable approximated \$1.4 million and \$8.8 million as of June 30, 2020 and 2019, respectively.

The Museum leases real property from MDA, a related party, as further described in Note 13.

#### **Note 17 - 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, 2019, estimated fees for exhibition commitments totaled approximately \$400,000. At June 30, 2020, there were no such commitments.

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.

#### **Note 18 - Liquidity and Availability**

As part of the Museum's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, the Museum also could draw upon \$7 million of an available line of credit (as further discussed in Note 10).

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 18 - Continued**

The following reflects the Museum's financial assets as of the consolidated balance sheet date of June 30, 2020 and 2019, reduced by amounts not available for general use within one year of the consolidated balance sheet date because of contractual or donor-imposed restrictions.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 19,894,146	\$ 12,335,418
Pledges receivable	8,941,565	13,409,411
Accounts and government grants receivable	555,483	649,373
Cash restricted for long-term purposes	7,197,885	
Investments restricted for long-term purposes	146,067,942	146,616,321
Funds held in trust by others	<u>10,770,845</u>	<u>10,953,747</u>
 Total financial assets	 193,427,866	 183,964,270
 Operating pledges receivable scheduled to be collected in more than one year	 (1,479,716)	 (1,665,661)
Contractual or donor-imposed restrictions-		
Cash balances of consolidated subsidiaries	(1,058,613)	
Endowment funds investments	(146,067,942)	(146,616,321)
Endowment funds cash	(7,197,885)	
Add back endowment amount appropriated for following year	8,155,182	7,859,497
Endowment pledges receivable	(4,960,089)	(8,098,770)
SAAM Campaign pledges receivable and government grant receivable	(2,017,868)	(2,936,057)
Funds held in trust by others	(10,770,845)	(10,953,747)
Add back amount distributed the following year	<u>531,177</u>	<u>517,303</u>
 <b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	 <b><u>\$ 28,561,267</u></b>	 <b><u>\$ 22,070,514</u></b>