

**SEATTLE ART MUSEUM
AND SUBSIDIARIES**

Consolidated Financial Statements

For the Years Ended June 30, 2021 and 2020

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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 financial statements of Seattle Art Museum and subsidiaries (collectively, the Museum), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2021 and 2020, 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.

Effects of Adopting New Accounting Standard

As discussed in Note 18, the Museum adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and related ASUs, as of and for the year ended June 30, 2021. Our opinion is not modified with respect to this matter.

Clark Nuber P.S.

Certified Public Accountants
November 30, 2021

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Balance Sheets
June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 24,612,516	\$ 19,894,146
Pledges receivable, current portion	1,227,018	1,515,334
Accounts receivable	77,084	555,483
Prepaid expenses and inventories	1,519,791	1,151,368
Total Current Assets	27,436,409	23,116,331
Pledges receivable, net of current portion	7,889,557	7,426,231
Incentive to lessee	3,894,938	4,288,588
Deferred rental receivable	9,457,058	9,398,640
Prepaid lease	609,000	613,666
Property and equipment, net	144,339,752	150,099,193
Cash restricted for long-term purposes	1,499,699	7,197,885
Investments restricted for long-term purposes	198,373,139	146,067,942
Funds held in trust by others	13,576,259	10,770,845
Collections (Note 1)		
Total Assets	\$ 407,075,811	\$ 358,979,321
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 1,105,163	\$ 1,224,150
Notes payable, current portion	1,051,115	351,197
Deferred revenue	4,759,262	3,629,238
Total Current Liabilities	6,915,540	5,204,585
Notes payable, net of current portion	10,303,009	11,254,123
Minimum pension liability	1,754,957	4,433,466
Total Liabilities	18,973,506	20,892,174
Net Assets:		
Net assets without donor restriction-		
SAM and controlling interest in consolidated subsidiaries	149,879,118	152,371,012
Noncontrolling interest in consolidated subsidiaries	6,460,676	6,073,685
Total net assets without donor restriction	156,339,794	158,444,697
Net assets with donor restriction	231,762,511	179,642,450
Total Net Assets	388,102,305	338,087,147
Total Liabilities and Net Assets	\$ 407,075,811	\$ 358,979,321

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statements of Activities
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net Assets Without Donor Restriction, Operating Activities		
Support and Revenues:		
Contributions and grants	\$ 6,487,718	\$ 10,451,037
Store and café	661,855	1,820,104
Admissions	1,918,317	2,134,001
Other income	1,095,303	635,095
Investment return	23,449	36,639
Contributions and endowment earnings released from restriction	10,333,500	10,348,164
Transfers from nonoperating activities	1,121,921	1,169,970
	<u>21,642,063</u>	<u>26,595,010</u>
Operating Expenses:		
Program-		
Exhibition and collection care	3,697,629	5,982,399
Facility and security	6,494,187	7,729,175
Marketing	1,410,801	1,978,868
Store and café	760,903	1,577,069
Education	865,323	1,753,202
	<u>13,228,843</u>	<u>19,020,713</u>
Total program expenses		
	13,228,843	19,020,713
Support expenses-		
Administration	4,335,868	4,577,964
Fundraising	1,424,278	1,353,154
Membership	726,102	1,013,110
Depreciation	753,608	624,237
	<u>7,239,856</u>	<u>7,568,465</u>
Total support expenses		
	7,239,856	7,568,465
Total Operating Expenses	<u>20,468,699</u>	<u>26,589,178</u>
Net Operating Activities	1,173,364	5,832

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statements of Activities (Continued)
For the Years Ended June 30, 2021 and 2020

	2021	2020
Nonoperating Activities:		
Rental income	7,455,063	7,255,703
Rental expense	(6,170,382)	(6,382,989)
Recovery of uncollectible pledges	33,861	9,405
Net capital contribution from noncontrolling interest	714,233	4,458,597
Capital projects expense	(148,707)	(848,418)
Capital projects depreciation	(6,051,668)	(6,007,599)
Accession of art objects	(238,861)	(223,200)
Financing expense	(217,758)	(367,091)
Minimum pension adjustment	2,950,861	(1,373,860)
Contributions and endowment earnings released from restriction	322,477	49,606,146
Transfers to operating activities	(1,121,921)	(1,169,970)
Net Nonoperating Activities	(2,472,802)	44,956,724
Change in Net Assets Without Donor Restriction	(1,299,438)	44,962,556
Net Assets With Donor Restriction:		
Contributions and grants	13,030,679	21,098,490
Loss on uncollectible pledges	(753,028)	
Art deaccessions	12,000	6,242
Investment return	47,278,628	(432,174)
Investment return from funds held in trust by others	2,805,413	(182,902)
Distribution received from funds held in trust by others	582,046	518,216
Contributions and endowment earnings released from restriction	(10,655,977)	(59,954,310)
Change in Net Assets With Donor Restriction	52,299,761	(38,946,438)
Change in Net Assets	51,000,323	6,016,118
Net assets, beginning of year	338,087,147	332,071,029
Cumulative effect of adopting new accounting pronouncement (Note 18)	(985,165)	
Net Assets, End of Year	\$ 388,102,305	\$ 338,087,147

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2021

	Program					Supporting			Total
	Exhibition and Collection Care	Facility and Security	Marketing	Store and Café	Education	Administration	Fundraising	Membership	
Operating expenses-									
Salaries and benefits	\$ 2,436,045	\$ 3,312,668	\$ 1,075,202	\$ 460,300	\$ 692,367	\$ 2,773,023	\$ 801,963	\$ 467,897	\$ 12,019,465
Professional fees	483,705	669,232	6,444	240	16,986	277,900	6,189	60,475	1,521,171
Facility cost	145,137	2,203,383	15	4,244	2,228	398,945	4		2,753,956
Other expense	397,510	307,646	40,951	83,107	152,716	874,926	588,650	150,880	2,596,386
Marketing	235,232	1,258	288,189	3,661	1,026	11,074	27,472	46,850	614,762
Cost of goods sold				209,351					209,351
Operating expenses before depreciation	3,697,629	6,494,187	1,410,801	760,903	865,323	4,335,868	1,424,278	726,102	19,715,091
Depreciation	40,884	442,059	2,823	24,990	12,209	230,643			753,608
Total Operating Expenses	3,738,513	6,936,246	1,413,624	785,893	877,532	4,566,511	1,424,278	726,102	20,468,699
Nonoperating expenses-									
Professional fees	19,089	38,177				7,142			64,408
Facility cost	31,180					6,139,087			6,170,267
Other expense	17,605	2,737				277,486			297,828
Marketing							4,344		4,344
Art accessions	238,861								238,861
Depreciation	5,249	3,873,177				2,173,242			6,051,668
Total Expenses	\$ 4,050,497	\$ 10,850,337	\$ 1,413,624	\$ 785,893	\$ 877,532	\$ 13,163,468	\$ 1,428,622	\$ 726,102	\$ 33,296,075

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 goods 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
Operating Expenses	6,035,012	8,045,052	1,979,953	1,601,946	1,765,411	4,795,540	1,353,154	1,013,110	26,589,178
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
Total Expenses	\$ 7,210,110	\$ 12,378,998	\$ 2,234,953	\$ 1,609,118	\$ 1,859,518	\$ 13,902,066	\$ 1,584,462	\$ 1,013,110	\$ 41,792,335

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities:		
Change in net assets	\$ 51,000,323	\$ 6,016,118
Adjustments to reconcile change in net assets to cash flows used by operating activities-		
Cumulative effect of adopting new accounting pronouncement	(985,165)	
Depreciation	6,805,276	6,631,836
Contributions and grants restricted for endowment and capital campaign	(11,157,524)	(14,949,568)
Realized and unrealized (gains) losses on investments	(45,626,852)	1,833,224
Change in value of funds held in trust by others	(2,805,414)	182,902
Change in minimum pension liability	(2,678,509)	1,478,640
Net capital contribution from noncontrolling interest	(714,233)	(4,458,597)
Accession of art objects, net	226,861	216,958
Changes in operating assets and liabilities:		
Pledges and accounts receivable	(3,387,879)	870,468
Other assets	(422,175)	196,427
Incentive to lessee	393,650	393,651
Accounts payable and accrued expenses	(118,987)	(374,141)
Deferred revenue	1,130,024	33,489
Net Cash Used by Operating Activities	(8,340,604)	(1,928,593)
Cash Flows From Investing Activities:		
Proceeds from sales of investments	15,107,658	23,972,484
Purchases of investments	(27,626,264)	(25,405,769)
Net change in cash equivalents included in investments	5,840,261	148,441
Purchases of property and equipment	(1,045,835)	(7,959,870)
Accession of art objects, net	(226,861)	(216,958)
Net Cash Used by Investing Activities	(7,951,041)	(9,461,672)
Cash Flows From Financing Activities:		
Proceeds from contributions and grants restricted for endowment and capital campaign	14,848,792	18,640,836
Net capital contribution from noncontrolling interest	714,233	4,458,597
Proceeds from notes payable	2,000,000	3,310,600
Principal payments on notes payable	(2,251,196)	(263,153)
Net Cash Provided by Financing Activities	15,311,829	26,146,880
Net Change in Cash and Restricted Cash	(979,816)	14,756,615
Cash and restricted cash, beginning of year	27,092,031	12,335,416
Cash and Restricted Cash, End of Year	\$ 26,112,215	\$ 27,092,031
Reconciliation to Consolidated Balance Sheet:		
Cash and cash equivalents	\$ 24,612,516	\$ 19,894,146
Cash restricted for long-term purposes	1,499,699	7,197,885
Cash and Restricted Cash	\$ 26,112,215	\$ 27,092,031
Supplementary Information:		
Cash paid for interest	\$ 217,752	\$ 356,394

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

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.

Seattle Fine Arts Society, the parent institution of the Seattle Art Museum, was founded in 1906. The Seattle Art Museum was legally incorporated in 1917. The main location of the Museum opened in December 1991 and is located in downtown Seattle (the City) at 1300 First Avenue (Downtown Location). 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. 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 has experienced intermittent re-openings and closures at the government's direction, and has since been open between February 6, 2021 through the date of these financial statements. The Seattle Asian Art Museum and the Olympic Sculpture Park pavilion re-opened April 30, 2021. As a result of these operating disruptions, 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. A second award of a PPP loan of \$2,000,000 was received on February 6, 2021. The Museum used the PPP proceeds largely to support and fund wages of employees.
- Salary and hour 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 have been incurred for personal protective equipment, training and enhanced sanitation processes and equipment.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

Note 1 - Continued

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.

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.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

Note 1 - Continued

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, 2021 and 2020 included \$893,319 and \$1,058,613, respectively, 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. 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.

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

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

Note 1 - Continued

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.

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. The Museum's policy is to use proceeds from deaccessioned collection items for acquisitions of new collection items and the direct care of existing collections.

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 Contributions - 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. As of June 30, 2021, the remaining unmatched deferred revenue balance was \$2,465,000.

During the year ended June 30, 2021, the Museum was awarded a \$300,000 conditional grant and received funds of \$100,000 during the year. Revenue of \$29,849 was recognized during the year ended June 30, 2021. At June 30, 2021, \$70,151 was included in deferred revenue on the consolidated balance sheet and \$200,000 remains unrecognized. The unrecognized amount of this grant will be recognized as revenue in future periods when the related conditions are met.

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 SAAM are partially funded by the City of Seattle. Such funding and the related costs are included as support and expenses in the accompanying consolidated statements of activities.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

Note 1 - Continued

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.

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 November 30, 2021, 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.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

Note 2 - Continued

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.

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:

	2021				2020 Total
	Endowment	SAAM Campaign	Operating	Total	
Pledges due in-					
Less than one year	\$ 3,495,442	\$ 480,080	\$ 746,938	\$ 4,722,460	\$ 3,521,928
Two to five years	1,715,000	459,292	792,030	2,966,322	3,517,916
More than five years	300,000		1,945,715	2,245,715	2,016,455
Less discount to present value (0.31% to 2.75%)	(18,436)	(2,889)	(14,850)	(36,175)	(45,250)
Less allowance for doubtful accounts	(750,000)	(31,129)	(618)	(781,747)	(69,484)
Total Pledges Receivable, Net	\$ 4,742,006	\$ 905,354	\$ 3,469,215	\$ 9,116,575	\$ 8,941,565

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.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

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 \$582,046 and \$518,216 in distributions from the trust during the years ended June 30, 2021 and 2020, 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 \$13,576,259 and \$10,770,845 as of June 30, 2021 and 2020, respectively.

Note 5 - Investments

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,949,949	\$ 4,008,447
Debt securities	24,249,019	21,991,948
Equity securities	43,355,914	36,283,932
Alternative investments	<u>127,818,257</u>	<u>83,783,615</u>
Total Investments	<u>\$ 198,373,139</u>	<u>\$ 146,067,942</u>

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

	<u>2021</u>	<u>2020</u>
Net assets without donor restriction-		
Dividends and interest	\$ 23,449	\$ 36,639
Net assets with donor restriction-		
Dividends and interest	2,307,594	2,052,032
Realized gains (losses)	4,776,387	(974,122)
Unrealized gains (losses)	40,850,465	(859,102)
Investment fees	<u>(655,818)</u>	<u>(650,982)</u>
	<u>47,278,628</u>	<u>(432,174)</u>
Total Investment Return	<u>\$ 47,302,077</u>	<u>\$ (395,535)</u>

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

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.

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, 2021 and 2020.

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 - Valued 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, 2021 and 2020

Note 6 - Continued

Fair Values Measured on a Recurring Basis - Fair values of assets measured on a recurring basis at June 30, 2021 and 2020, were as follows:

	Fair Value Measurements at June 30, 2021			
	Level 1	Level 2	Level 3	Total
Funds Held in Trust by Others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,576,259</u>	<u>\$ 13,576,259</u>
Investments:				
Marketable securities-				
Equity securities/mutual funds:				
Large blend	\$ 18,742,428	\$ -	\$ -	\$ 18,742,428
Foreign large growth	13,151,882			13,151,882
Natural resources	3,820,417			3,820,417
Foreign large blend	4,307,870			4,307,870
Global bond funds	3,333,317			3,333,317
Debt securities/mutual funds:				
Aggregate bonds	3,889,306			3,889,306
Inflation protection	5,629,244			5,629,244
U.S. government	14,730,469			14,730,469
Total Investments in the Fair Value Hierarchy	<u>\$ 67,604,933</u>	<u>\$ -</u>	<u>\$ -</u>	67,604,933
Investments measured at NAV ^(a)				127,818,257
Interest-bearing cash ^(b)				<u>2,949,949</u>
Total Investments				<u>\$ 198,373,139</u>

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

Note 6 - Continued

	Fair Value Measurements at June 30, 2020			
	Level 1	Level 2	Level 3	Total
Funds Held in Trust by Others	\$ -	\$ -	\$ 10,770,845	\$ 10,770,845
Investments:				
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
Total Investments in the Fair Value Hierarchy	\$ 58,275,880	\$ -	\$ -	58,275,880
Investments measured at NAV ^(a)				83,783,615
Interest-bearing cash ^(b)				4,008,447
Total Investments				\$ 146,067,942

(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, 2021 and 2020

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>
Limited Partnerships:					
Global venture capital/ private equity	\$ 1,225,308	Through 2022	\$ 64,500	None	None
US private equity	1,842,033	Through 2022	7,283,390	None	None
US venture capital	23,818,488	Through 2022	6,780,285	None	None
Emerging markets	4,590,885	None	None	Quarterly with 60 days notice.	None
Other	2,101,174	Through 2027	None	None	None
Multi-strategy	3,253,413	None	None	Quarterly with 90 days notice.	None
Real assets	1,474,001	None	None	Monthly with 16 days notice.	None
Limited Liability Corporation:					
Real assets	342,187	Through 2020	327,500	None	None
Other	2,526,894	None	None	Monthly with 10 days notice.	None
Global equity	8,502,114	None	2,100,000	Weekly with 3 business days notice.	None
Direct Investment:					
Long/short equity	72,529	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	21,398,513	None	None	Varies from annual to every two years with 90 days notice.	No redemption gate-10% fund level gate.
US private equity	22,408,349	None	None	Monthly with 31 days notice.	None
Emerging markets	18,801,841	None	None	Monthly with 60 days notice.	None
International Equity Funds:					
Emerging markets	5,016,322	None	None	Monthly with 60 days notice.	None
Global equity	10,444,206	None	None	Monthly with 10 business days notice.	None
	<u>\$ 127,818,257</u>		<u>\$ 16,555,675</u>		

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

Note 7 - Property and Equipment

Property and equipment is summarized as follows at June 30:

	<u>2021</u>	<u>2020</u>
Furnishings and equipment	\$ 23,398,686	\$ 23,022,252
Buildings	123,910,449	123,910,449
Tenant improvements	22,977,038	22,977,038
Remediation and hardscaping	39,216,655	39,179,760
Land	17,797,741	17,797,741
Work in progress	<u>932,105</u>	<u>299,599</u>
	228,232,674	227,186,839
Less accumulated depreciation	<u>(83,892,922)</u>	<u>(77,087,646)</u>
	<u>\$ 144,339,752</u>	<u>\$ 150,099,193</u>

During the year ended June 30, 2021, the Museum entered into a \$1.3 million contract for equipment. At June 30, 2021, the remaining commitment on the contract was \$0.6 million and is estimated to be completed during the year ending June 30, 2022.

Work in progress at June 30, 2021 consisted primarily of costs related equipment. Work in progress at June 30, 2020 consisted primarily of costs related to new arts enterprise software.

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, 2021 and 2020, the Museum contributed \$19,133 and \$468,709, 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, 2021 and 2020, the Museum recognized \$256,367 and \$104,780, respectively, of net periodic pension cost.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
Change in projected benefit obligation-		
Projected benefit obligation at beginning of year	\$ 13,876,976	\$ 12,408,013
Service cost	75,908	
Interest cost	323,723	399,633
Assumptions change	(235,459)	
Benefits paid	(1,251,177)	(522,272)
Administrative expenses	(63,112)	(66,447)
Actuarial (gain) loss	<u>(531,871)</u>	<u>1,658,049</u>
Projected benefit obligation at end of year	12,194,988	13,876,976
Change in plan assets-		
Fair value of plan assets at beginning of year	9,443,510	9,453,187
Actual gain return on plan assets	2,310,810	579,042
Benefits paid	(1,251,177)	(522,272)
Administrative expenses	<u>(63,112)</u>	<u>(66,447)</u>
Fair value of plan assets at end of year	<u>10,440,031</u>	<u>9,443,510</u>
Funded Status at Year End (Minimum Pension Liability)	<u>\$ (1,754,957)</u>	<u>\$ (4,433,466)</u>
Accumulated Benefit Obligation	<u>\$ 12,194,988</u>	<u>\$ 13,876,976</u>

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

	<u>2021</u>	<u>2020</u>
Weighted-average assumptions used to determine net periodic pension cost-		
Assumed discount rate	2.59%	3.31%
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%	2.42%
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, 2021 and 2020

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>2021</u>	<u>2020</u>
Money market funds	\$ 322,249	\$ 232,879
Debt mutual funds- Intermediate-term	3,624,862	3,007,845
Equity mutual funds-		
International	1,592,615	1,536,676
Large blend	1,101,101	1,025,606
Small blend	820,065	853,697
Large value	1,306,976	1,147,953
Large growth	1,328,604	1,356,188
Real estate mutual funds	<u>343,559</u>	<u>282,666</u>
Total Plan Assets	<u>\$ 10,440,031</u>	<u>\$ 9,443,510</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,

2022	\$ 823,281
2023	832,559
2024	819,954
2025	799,501
2026	780,201
2027 through 2031	<u>3,739,541</u>
	<u>\$ 7,795,037</u>

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

Note 9 - Notes Payable

Notes payable consisted of the following at June 30:

	<u>2021</u>	<u>2020</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.	\$ 1,826,567	\$ 1,949,954
Note payable to U.S. Bank in the original amount of \$2,802,964; bears interest at a rate of 4.22% per annum which is partially subsidized, resulting in an effective interest rate of 1.32% during the years ended June 30, 2021 and 2020; 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.	2,229,457	2,367,266
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.	1,200,000	3,100,000
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; matures in April 2025; secured by the purchased asset.	1,237,500	1,327,500
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.	2,860,600	2,860,600
Paycheck Protection Program loan payable to a bank carrying an annual interest rate of 1%. Principal and interest are payable in monthly installments beginning June 2022 through maturity on February 6, 2026.	<u>2,000,000</u>	
Gross notes payable	11,354,124	11,605,320
Less current portion	<u>(1,051,115)</u>	<u>(351,197)</u>
Long-Term Portion of Notes Payable	<u>\$ 10,303,009</u>	<u>\$ 11,254,123</u>

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

Note 9 - Continued

Interest expense for the years ended June 30, 2021 and 2020 was \$217,752 and \$356,394, respectively.

Aggregate principal maturities on the notes payable are as follows:

For the Year Ending June 30,	Paycheck Protection Program Loan	Other Notes Payable	Total
2022	\$ 678,048	\$ 373,067	\$ 1,051,115
2023	1,326,988	1,596,342	2,923,330
2024	1,340,319	421,107	1,761,426
2025	1,146,135	447,454	1,593,589
2026	369,110	1,262,978	1,632,088
Thereafter		2,392,576	2,392,576
	<u>\$ 4,860,600</u>	<u>\$ 6,493,524</u>	<u>\$ 11,354,124</u>

Paycheck Protection Program Loans - 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. The Museum received PPP loans during both the years ended June 30, 2021 and 2020. All or a portion of the PPP loans may be forgiven if certain terms and conditions of the program are met.

The Museum's accounting policy for recognition of revenue from forgiveness of the PPP loan is to recognize the gain from forgiveness when loan forgiveness is approved by the Small Business Administration (SBA). No such gain was recognized during the years ended June 30, 2021 or 2020. In July 2021, the Museum received notification from the lender and SBA that the first PPP loan of \$2.8 million was forgiven in full.

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 (1.03% at June 30, 2021). All outstanding principal is due April 30, 2022. There were no outstanding balances at June 30, 2021 or 2020. 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, 2021 and 2020, the Museum was in compliance with loan covenants.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

Note 11 - Net Assets

Net assets consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Net Assets Without Donor Restriction:		
SAM and controlling interest in consolidated subsidiaries	\$ 149,879,118	\$ 152,371,012
Noncontrolling interest in consolidated subsidiaries	<u>6,460,676</u>	<u>6,073,685</u>
Total Net Assets Without Donor Restriction	156,339,794	158,444,697
Net Assets With Donor Restriction:		
Time restricted pledges	2,715,773	2,724,905
Purpose restricted, including accumulated investment earnings or deficits of endowment funds-		
Art acquisition	4,314,069	2,256,774
Capital projects	152,539	157,206
Conservation Center	1,411,026	460,965
Education	4,922,270	(735,336)
Exhibition and collection care	4,986,130	(387,276)
General operations	22,854,707	1,471,766
Sculpture park operations	8,381,377	2,569,586
Library	51,607	8,354
Technology	60,237	23,595
Perpetual portion of endowment funds, restricted for the following purposes-		
Art acquisition	7,778,450	5,778,450
Conservation Center	567,500	567,324
Education	22,572,708	22,572,555
Exhibition and collection care	35,525,830	33,494,556
General operations	80,951,407	76,967,559
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>13,576,259</u>	<u>10,770,845</u>
Total Net Assets With Donor Restriction	<u>231,762,511</u>	<u>179,642,450</u>
Total Net Assets	<u><u>\$ 388,102,305</u></u>	<u><u>\$ 338,087,147</u></u>

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

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:

	<u>SAM</u>	<u>Noncontrolling Interest</u>	<u>Total</u>
Balances, June 30, 2019	\$ 111,533,785	\$ 1,948,356	\$ 113,482,141
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>
Balances, June 30, 2020	152,371,012	6,073,685	158,444,697
Cumulative effect adjustment (Note 18)	(805,465)		(805,465)
Capital contribution from noncontrolling interest		714,232	714,232
Other changes in net assets without donor restriction	<u>(1,686,429)</u>	<u>(327,241)</u>	<u>(2,013,670)</u>
Total change in net assets without donor restriction	<u>(2,491,894)</u>	<u>386,991</u>	<u>(2,104,903)</u>
Balances, June 30, 2021	<u>\$ 149,879,118</u>	<u>\$ 6,460,676</u>	<u>\$ 156,339,794</u>

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, 2021 and 2020

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>2021</u>	<u>2020</u>
Donor restricted endowment funds-		
Original donor-restricted gifts and amounts required to be maintained in perpetuity by donor	\$ 168,336,517	\$ 160,321,066
Accumulated investment earnings (deficit)	<u>33,813,297</u>	<u>(4,560,149)</u>
Total Endowment Net Assets	<u>\$ 202,149,814</u>	<u>\$ 155,760,917</u>

Reconciliation to endowment investments at June 30:

	<u>2021</u>	<u>2020</u>
Endowment net assets	\$ 202,149,814	\$ 155,760,917
Endowment cash receipts pending deposit to investment portfolio	(1,499,669)	(7,197,885)
Endowment pledges receivable	(4,742,006)	(4,960,090)
Conditional contribution deposited with endowment investments	<u>2,465,000</u>	<u>2,465,000</u>
Total Endowment Investments	<u>\$ 198,373,139</u>	<u>\$ 146,067,942</u>

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

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, 2021 and 2020, were as follows:

	Original Gift Amount and Amounts Required to be Maintained in Perpetuity	Accumulated Investment Earnings (Deficit)	Total
Balances, June 30, 2019	\$ 148,513,571	\$ 3,731,522	\$ 152,245,093
Endowment investment return		(432,174)	(432,174)
Contributions and pledge payments	11,807,495		11,807,495
Appropriation of endowment for expenditure		(7,859,497)	(7,859,497)
Balances, June 30, 2020	160,321,066	(4,560,149)	155,760,917
Endowment investment return		47,278,628	47,278,628
Contributions and pledge payments	8,015,451		8,015,451
Pledge written off as bad debt		(750,000)	(750,000)
Appropriation of endowment for expenditure		(8,155,182)	(8,155,182)
Balances, June 30, 2021	\$ 168,336,517	\$ 33,813,297	\$ 202,149,814

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 \$1,929,965, a current fair value of \$1,782,225, and a deficiency of \$147,740 as of June 30, 2021. As of June 30, 2020, the endowment funds with deficiencies of this nature had an original gift value of \$86,461,236, a current fair value of \$77,481,235, and a deficiency of \$8,980,001. 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, 2021 and 2020

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, 2021 and 2020, the Museum employed a blended distribution rate of approximately 5.6% and 5.7%, respectively, based on the endowment's average fair value over the three-year periods ending December 31, 2020 and 2019, 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, 2021 and 2020, total lease payments of \$609,000 and \$613,666, 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, 2021 and 2020

Note 13 - Continued

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

For the Fiscal Year Ending June 30,

2022	\$ 3,941,000
2023	3,939,750
2024	3,938,688
2025	3,940,000
2026	3,940,000
Thereafter	<u>18,716,000</u>
	<u>\$ 38,415,438</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, 2021 and 2020 approximated \$3,973,000 and \$3,968,000, respectively.

SAAM Building - The Museum leases the Seattle Asian Art Museum (SAAM) building from 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, the year in which the SAAM capital project was completed. 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. (Nordstrom) 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 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, 2021 and 2020

Note 14 - Continued

During each of the years ended June 30, 2021 and 2020, 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,

2022	\$ 5,299,188
2023	5,801,003
2024	6,503,544
2025	6,503,544
2026	6,503,544
Thereafter	<u>31,975,758</u>
	<u><u>\$ 62,586,581</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, 2021 and 2020, 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, 2021 and 2020 totaled \$123,387 and \$115,069, respectively. Amortization of the cash allowance approximated \$332,000 for the years ended June 30, 2021 and 2020.

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.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

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, 2021 and 2020, trustee contributions approximated \$4.9 million and \$12.1 million, respectively. Outstanding amounts associated with the trustee pledges receivable approximated \$0.3 million and \$1.4 million as of June 30, 2021 and 2020, respectively.

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

Note 17 - 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).

The following reflects the Museum's financial assets as of the consolidated balance sheet date of June 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 24,612,516	\$ 19,894,146
Pledges receivable	9,116,575	8,941,565
Accounts receivable	77,084	555,483
Cash restricted for long-term purposes	1,499,699	7,197,885
Investments restricted for long-term purposes	198,373,139	146,067,942
Funds held in trust by others	<u>13,576,259</u>	<u>10,770,845</u>
Total financial assets	247,255,272	193,427,866
Operating pledges receivable scheduled to be collected in more than one year	(2,722,277)	(1,479,716)
Contractual or donor-imposed restrictions-		
Cash balances of consolidated subsidiaries	(893,319)	(1,058,613)
Endowment funds investments	(198,373,139)	(146,067,942)
Endowment funds cash	(1,499,699)	(7,197,885)
Add back endowment amount appropriated for following year	8,558,284	8,155,182
Endowment pledges receivable	(4,742,006)	(4,960,089)
SAAM Campaign pledges receivable	(905,354)	(2,017,868)
Funds held in trust by others	(13,576,259)	(10,770,845)
Add back amount distributed the following year	<u>531,177</u>	<u>531,177</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 33,632,680</u>	<u>\$ 28,561,267</u>

SEATTLE ART MUSEUM AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2021 and 2020

Note 18 - Implementation of New Accounting Pronouncement

During the year ended June 30, 2021, the Museum adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)* and other related ASUs. These ASUs replaced the existing revenue recognition guidance in U.S. GAAP and require entities to recognize revenues when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The primary effect of adoption of these ASUs for the Museum is that memberships are now recognized over the membership period, whereas previously they were recognized on the date of sale. The Museum elected to adopt the changes from these ASUs using the modified retrospective method.

Results for the year ended June 30, 2020 are not adjusted and continue to be reported in accordance with the prior accounting guidance. The Museum recorded a cumulative effect adjustment in the statement of activities in the amount of \$985,165 for the year ended June 30, 2021, which represents membership revenue recognized during the year ended June 30, 2020 that are now to be included in deferred revenue until the following fiscal year.