SEATTLE ART MUSEUM
AND SUBSIDIARIES

Consolidated Financial Statements

For the Years Ended June 30, 2023 and 2022

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Clark Nuber PS

Independent Auditor's Report

To the Board of Trustees
Seattle Art Museum
Seattle, Washington

Opinion

We have audited the financial statements of Seattle Art Museum and subsidiaries (collectively, the Museum), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Museum and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Museum adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and related ASUs, for the year ended June 30, 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Clark Nuber P.S.

Certified Public Accountants
December 5, 2023

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Balance Sheets
For the Years Ended June 30, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	$ 21,923,236	$ 23,551,650
Pledges receivable, current portion	3,567,261	602,090
Accounts receivable	218,860	116,830
Prepaid expenses and inventories	1,532,415	1,841,173
Total Current Assets	**27,241,772**	**26,111,743**
Pledges receivable, net of current portion	3,167,156	6,404,684
Incentive to lessee	3,107,635	3,501,288
Deferred rental receivable	9,072,077	9,515,476
Prepaid lease	-	604,333
Property and equipment, net	133,672,798	138,601,831
Operating lease right-of-use asset	599,666	-
Finance lease right-of-use asset	31,786,806	-
Cash restricted for long-term purposes	1,050,000	506,000
Investments restricted for long-term purposes	192,153,549	188,534,069
Funds held in trust by others	11,465,892	11,237,945
Collections (Note 1)	-	-
Total Assets	**$413,317,351**	**$385,017,369**
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 2,086,846	$ 1,453,473
Notes payable, current portion	421,107	996,341
Finance lease liability, current portion	3,938,688	-
Deferred revenue	1,290,161	1,541,566
Total Current Liabilities	**7,736,802**	**3,991,380**
Notes payable, net of current portion	4,103,009	4,524,116
Finance lease liability, net of current portion	21,438,282	-
Minimum pension liability	1,246,473	1,641,975
Total Liabilities	**34,524,566**	**10,157,471**
Net Assets		
Net assets without donor restriction-		
SAM and controlling interest in consolidated subsidiaries	149,144,753	148,495,431
Noncontrolling interest in consolidated subsidiaries	5,758,482	6,116,676
Total net assets without donor restriction	154,903,235	154,612,107
Net assets with donor restriction	223,889,550	220,247,791
Total Net Assets	**378,792,785**	**374,859,898**
Total Liabilities and Net Assets	**$413,317,351**	**$385,017,369**

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statements of Activities
For the Years Ended June 30, 2023 and 2022

	2023	2022
Net Assets Without Donor Restriction, Operating Activities		
Support and Revenues:		
Contributions and grants	$ 6,727,403	$ 10,566,758
Store and café	2,946,844	1,669,760
Admissions	4,289,089	5,042,418
Other income	625,461	459,131
Investment return	29,317	27,889
Contributions and endowment earnings released from restriction	16,061,959	12,293,276
Transfers from nonoperating activities	1,602,750	959,342
Total Support and Revenues	**32,282,823**	**31,018,574**
Operating Expenses:		
Program expenses-		
Exhibition and collection care	6,971,476	5,150,763
Facility and security	9,852,027	8,767,728
Marketing	2,531,815	2,018,566
Store and café	2,160,140	1,741,017
Education	1,834,569	1,136,071
Total program expenses	23,350,027	18,814,145
Support expenses-		
Administration	4,769,435	4,435,802
Fundraising	1,857,333	1,672,660
Membership	1,111,159	1,017,463
Total support expenses	7,737,927	7,125,925
Depreciation expense	894,402	745,463
Total Operating Expenses	**31,982,356**	**26,685,533**
Net Operating Activities	**300,467**	**4,333,041**

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statements of Activities (Continued)
For the Years Ended June 30, 2023 and 2022

	2023	2022
Nonoperating Activities:		
Rental income	7,621,784	7,503,251
Rental expense	(4,175,509)	(6,576,714)
Interest on financing lease	(1,323,812)	-
Uncollectible pledges	(56,370)	10,193
Capital projects expense	(98,871)	(80,538)
Capital projects depreciation	(6,001,418)	(5,926,165)
Accession of art objects	(369,395)	(20,342,348)
Financing expense	(210,367)	(193,236)
Minimum pension adjustment	565,620	104,127
Contributions and endowment earnings released from restriction	369,395	20,400,044
Transfers to operating activities	(1,602,750)	(959,342)
Net Nonoperating Activities	**(5,281,693)**	**(6,060,728)**
Change in Net Assets Without Donor Restriction	**(4,981,226)**	**(1,727,687)**
Net Assets With Donor Restriction:		
Contributions and grants	7,681,587	30,771,160
Recovery (loss) on uncollectible pledges	70,122	(19,513)
Art deaccessions	-	4,225
Investment return	11,583,988	(7,901,145)
Investment return from funds held in trust by others	227,947	(2,338,314)
Distribution received from funds held in trust by others	509,469	662,187
Contributions and endowment earnings released from restriction	(16,431,354)	(32,693,320)
Change in Net Assets With Donor Restriction	**3,641,759**	**(11,514,720)**
Change in Net Assets	**(1,339,467)**	**(13,242,407)**
Net assets, beginning of year	374,859,898	388,102,305
Cumulative effect of adopting new accounting pronouncement (Note 1)	5,272,354	-
Net Assets, End of Year	**$378,792,785**	**$374,859,898**

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program					Supporting			
	Exhibition and Collection Care	Facility and Security	Marketing	Store and Café	Education	Administration	Fundraising	Membership	Total
Operating expenses-									
Salaries and benefits	$ 3,577,563	$ 4,728,995	$ 2,051,885	$ 1,255,782	$ 1,475,460	$ 3,489,419	$ 1,175,726	$ 595,410	$ 18,350,240
Professional fees	557,729	1,136,299	5,862	3,488	55,587	311,178	93,888	81,100	2,245,131
Facility cost	228,375	2,942,725	-	-	6,566	561,792	2,745	-	3,742,203
Other expense	1,672,510	1,043,791	156,615	166,106	288,257	403,878	534,232	345,370	4,610,759
Marketing	935,299	217	317,453	18,963	8,699	3,168	50,742	89,279	1,423,820
Cost of goods sold	-	-	-	715,801	-	-	-	-	715,801
Operating expenses before depreciation	6,971,476	9,852,027	2,531,815	2,160,140	1,834,569	4,769,435	1,857,333	1,111,159	31,087,954
Depreciation	76,134	567,904	2,823	1,398	13,286	232,857	-	-	894,402
Total Operating Expenses	**7,047,610**	**10,419,931**	**2,534,638**	**2,161,538**	**1,847,855**	**5,002,292**	**1,857,333**	**1,111,159**	**31,982,356**
Nonoperating expenses-									
Facility cost	26,043	76,523	-	-	-	5,633,387	72,606	-	5,808,559
Art accessions	369,395	-	-	-	-	-	-	-	369,395
Depreciation	5,249	3,857,380	-	-	-	2,138,789	-	-	6,001,418
Total Expenses	**$ 7,448,297**	**$ 14,353,834**	**$ 2,534,638**	**$ 2,161,538**	**$ 1,847,855**	**$ 12,774,468**	**$ 1,929,939**	**$ 1,111,159**	**$ 44,161,728**

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program					Supporting			
	Exhibition and Collection Care	Facility and Security	Marketing	Store and Café	Education	Administration	Fundraising	Membership	Total
Operating expenses-									
Salaries and benefits	$ 2,856,284	$ 4,340,141	$ 1,792,392	$ 919,558	$ 931,331	$ 2,767,709	$ 958,122	$ 567,433	$ 15,132,970
Professional fees	406,016	898,820	4,590	239	63,614	740,079	132,352	130,450	2,376,160
Facility cost	167,884	2,563,934	32	2,348	3,600	485,308	14,181	-	3,237,287
Other expense	1,350,596	963,168	130,873	135,903	135,229	425,158	527,205	252,111	3,920,243
Marketing	369,983	1,665	90,679	4,948	2,297	17,548	40,800	67,469	595,389
Cost of goods sold	-	-	-	678,021	-	-	-	-	678,021
Operating expenses before depreciation	5,150,763	8,767,728	2,018,566	1,741,017	1,136,071	4,435,802	1,672,660	1,017,463	25,940,070
Depreciation	43,789	446,273	2,823	7,296	12,868	232,414	-	-	745,463
Total Operating Expenses	**5,194,552**	**9,214,001**	**2,021,389**	**1,748,313**	**1,148,939**	**4,668,216**	**1,672,660**	**1,017,463**	**26,685,533**
Nonoperating expenses-									
Facility cost	40,258	6,214	-	-	-	6,799,882	4,134	-	6,850,488
Art accessions	20,342,348	-	-	-	-	-	-	-	20,342,348
Depreciation	5,667	3,867,742	-	-	-	2,052,756	-	-	5,926,165
Total Expenses	**$ 25,582,825**	**$ 13,087,957**	**$ 2,021,389**	**$ 1,748,313**	**$ 1,148,939**	**$ 13,520,854**	**$ 1,676,794**	**$ 1,017,463**	**$ 59,804,534**

See accompanying notes.

SEATTLE ART MUSEUM AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities:		
Change in net assets	$ (1,339,467)	$ (13,242,407)
Adjustments to reconcile change in net assets		
to cash flows (used) provided by operating activities-		
Loss on disposal of fixed assets	-	571,121
Depreciation	6,895,820	6,671,628
Contributions and grants restricted for endowment and capital campaign	(120,980)	(7,469,272)
Realized and unrealized (gains) losses on investments	(10,113,713)	10,294,506
Change in value of funds held in trust by others	(227,947)	2,338,314
Change in minimum pension liability	(395,502)	(112,982)
Accession of art objects, net of proceeds from deaccessions	369,395	20,338,123
Paycheck Protection Program loan forgiveness	-	(4,860,600)
Changes in operating assets and liabilities:		
Pledges and accounts receivable	(1,973,778)	(1,850,328)
Other assets	752,157	(375,133)
Incentive to lessee	393,653	393,650
Operating lease liability, net of right-of-use asset	4,667	-
Financing lease liability, net of right-of-use asset	1,478,456	-
Accounts payable and accrued expenses	633,373	348,310
Deferred revenue	(251,405)	(3,217,696)
Net Cash (Used) Provided by Operating Activities	**(3,895,271)**	**9,827,234**
Cash Flows From Investing Activities:		
Proceeds from sales of investments	66,935,590	79,630,898
Purchases of investments	(60,441,357)	(82,264,336)
Net change in cash equivalents included in investments	-	2,178,002
Purchases of property and equipment	(1,966,787)	(1,504,828)
Accession of art objects, net of proceeds from deaccessions	(369,395)	(20,338,123)
Net Cash Provided (Used by) Investing Activities	**4,158,051**	**(22,298,387)**
Cash Flows From Financing Activities:		
Proceeds from contributions and grants		
restricted for endowment and capital campaign	2,265,085	11,389,655
Payments on financing leases	(2,615,938)	-
Principal payments on notes payable	(996,341)	(973,067)
Net Cash (Used) Provided by Financing Activities	**(1,347,194)**	**10,416,588**
Net Change in Cash, Cash Equivalents and Restricted Cash	**(1,084,414)**	**(2,054,565)**
Cash, cash equivalents and restricted cash, beginning of year	24,057,650	26,112,215
Cash, Cash Equivalents and Restricted Cash, End of Year	**$ 22,973,236**	**$ 24,057,650**
Reconciliation to Consolidated Balance Sheet:		
Cash and cash equivalents	$ 21,923,236	$ 23,551,650
Cash restricted for long-term purposes	1,050,000	506,000
Cash and Restricted Cash	**$ 22,973,236**	**$ 24,057,650**
Supplementary Information:		
Cash paid for interest	$ 210,367	$ 193,236

See accompanying notes.

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).

The 8.5-acre Olympic Sculpture Park (OSP) 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.

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).

Note 1 - Continued

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, 2023 and 2022 included $1,256,967 and $898,993, 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.

Pledges Receivable - Pledges receivable are recognized as revenues or gains in the period in which the promise is given and are shown net of unrealizable amounts. 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.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts by setting up a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

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.

Note 1 - Continued

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.

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.

Note 1 - Continued

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.

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 sheet. During the year ended June 30, 2022, the contribution was recognized in full when the Museum received the qualifying matching contributions from other donors. At the year ended June 30, 2023, there were no conditional promises to give outstanding.

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.

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 art accessions and other 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 statements of activities from nonoperating to operating activities represent prior nonoperating funding received utilized for operating activities in the current fiscal year.

Note 1 - Continued

Adoption of New Accounting Standard - Effective July 1, 2022, the Museum adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASC Topic 842) using the modified retrospective approach with comparative accounting periods continuing to be presented under previous lease guidance (ASC Topic 840). In implementing the new guidance, the Museum reclassified the lease with MDA for building space (Note 13) to be a finance lease. Previously, this lease was accounted for as an operating lease. As a result of the adoption of the new lease accounting guidance, the Museum recognized on July 1, 2022 a lease liability of $27,992,908, lease right-of-use assets of $33,869,595, a cumulative effect adjustment of $5,272,354 to the opening balance of net assets, and derecognized the prepaid lease asset balance of $604,333.

Leases - The Museum determines if an arrangement contains a lease at inception. Operating and financing leases are included in ROU assets and lease liabilities in the consolidated balance sheet. ROU assets represent a right to use an underlying asset for the lease term and lease liabilities represent the Museum's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Museum's leases do not provide an implicit rate of return; thus, The Museum uses the risk-free discount rate, determined using a period comparable with that of the lease term from the later of the lease commencement date or implementation date. The ROU asset also includes prepaid lease payments and unamortized initial direct costs, and excludes lease incentives. The Museum has lease agreements with lease and non-lease components which are accounted for as a single lease component. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Museum will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. A ROU asset and operating lease liability is not recognized for leases with an initial term of 12 months or less or when total lease payments are less than $20,000.

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.

Reclassifications - Certain reclassifications have been made to the 2022 balances to conform to the 2023 presentation. The reclassifications have no effect on the previously reported total assets, liabilities, net assets or change in net assets.

Subsequent Events - The Museum's management has evaluated subsequent events through December 5, 2023, the date on which the financial statements were available to be issued.

Note 2 - SAAM Renovation and Expansion Project

During the year ended June 30, 2020, the Museum completed 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 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:

	2023				
	Endowment	SAAM Campaign	Operating	Total	2022 Total
Pledges due in-					
Less than one year	$ 1,530,137	$ 32,776	$ 2,004,348	$ 3,567,261	$ 3,382,740
Two to five years	800,000	-	1,259,744	2,059,744	2,689,918
More than five years	-	-	1,906,842	1,906,842	1,746,115
Less discount to present value (0.31% to 2.88%)	(5,088)	-	(54,899)	(59,987)	(30,319)
Less allowance for doubtful accounts	(675,000)	(983)	(63,460)	(739,443)	(781,680)
Total Pledges Receivable, Net	**$ 1,650,049**	**$ 31,793**	**$ 5,052,575**	**$ 6,734,417**	**$ 7,006,774**

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 $509,469 and $662,187 in distributions from the trust during the years ended June 30, 2023 and 2022, 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 $11,465,892 and $11,237,945 as of June 30, 2023 and 2022, respectively.

Note 5 - Investments

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

	2023	2022
Cash and cash equivalents	$ 3,538,755	$ 4,447,944
Debt securities	26,088,608	25,760,393
Equity securities	32,606,645	30,211,325
Alternative investments	129,919,541	128,114,407
Total Investments	**$192,153,549**	**$188,534,069**

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

	2023	2022
Net assets without donor restriction-		
Dividends and interest	$ 29,317	$ 27,889
Net assets with donor restriction-		
Dividends and interest	2,065,565	1,687,400
Realized gains	4,027,460	13,520,948
Unrealized gains (losses)	6,086,253	(22,050,511)
Investment fees	(595,290)	(1,058,982)
	11,583,988	(7,901,145)
Total Investment Return	**$ 11,613,305**	**$ (7,873,256)**

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, 2023 and 2022.

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.

Note 6 - Continued

Fair Values Measured on a Recurring Basis - Fair values of assets measured on a recurring basis at June 30, 2023 and 2022, were as follows:

	Fair Value Measurements at June 30, 2023			
	Level 1	Level 2	Level 3	Total
Funds Held in Trust by Others	**$ -**	**$ -**	**$ 11,465,892**	**$ 11,465,892**
Investments:				
Marketable securities-				
Equity securities/mutual funds:				
Large blend	$ 8,930,298	$ -	$ -	$ 8,930,298
Foreign large growth	9,218,775	-	-	9,218,775
Natural resources	2,263,416	-	-	2,263,416
Foreign large blend	200,195	-	-	200,195
International equity fund	11,993,961	-	-	11,993,961
Debt securities/mutual funds:				
Aggregate bonds	4,480,538	-	-	4,480,538
Inflation protection	5,180,800	-	-	5,180,800
U.S. government	16,427,270	-	-	16,427,270
Total Investments in the Fair Value Hierarchy	**$ 58,695,253**	**$ -**	**$ -**	58,695,253
Investments measured at NAV[a]				129,919,541
Interest-bearing cash[b]				3,538,755
Total Investments				**$192,153,549**

Note 6 - Continued

	Fair Value Measurements at June 30, 2022			
	Level 1	Level 2	Level 3	Total
Funds Held in Trust by Others	**$ -**	**$ -**	**$ 11,237,945**	**$ 11,237,945**
Investments:				
Marketable securities-				
Equity securities/mutual funds:				
Large blend	$ 4,745,635	$ -	$ -	$ 4,745,635
Foreign large growth	7,890,142	-	-	7,890,142
Natural resources	3,976,598	-	-	3,976,598
Foreign large blend	171,795	2,260,520	-	2,432,315
Global bond funds	3,034,610	-	-	3,034,610
International equity fund	8,132,025	-	-	8,132,025
Debt securities/mutual funds:				
Aggregate bonds	3,477,732	-	-	3,477,732
Inflation protection	5,683,673	-	-	5,683,673
U.S. government	16,598,988	-	-	16,598,988
Total Investments in the Fair Value Hierarchy	**$ 53,711,198**	**$ 2,260,520**	**$ -**	55,971,718
Investments measured at NAV[(a)]				128,114,407
Interest-bearing cash[(b)]				4,447,944
Total Investments				**$188,534,069**

(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.

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.

Asset Class	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Limited Partnerships:					
Global opportunistic	$ 9,754,599	None	$ 485,379	None	None
Global other	2,394,688	Through 2023	1,107,000	None	None
US private equity	4,421,529	Through 2023	6,667,411	None	None
US venture capital	8,501,319	Through 2023	6,235,704	None	None
US equities	6,600,046	None	2,700,000	None	None
Opportunistic	4,593,997	None	524,790	None	None
Technology credit	5,625,128	None	1,725,822	None	None
Other	17,710,887	Through 2027	-	None	None
Limited Liability Corporation:					
Real assets	220,790	Through 2023	319,698	None	None
Distressed credit	2,332,312	None	153,198	None	None
Other	5,516,641	None	None	Monthly with 10 days notice	None
Direct Investment:					
Long/short equity	118,503	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	1,005,390	None	None	Varies from annual to every two years with 90 days notice.	No redemption gate-10% fund level gate.
Emerging markets	3,018,542	None	None	Annually each December with 60	None
Other	46,005,427	None	None	Quarterly with 65 days notice	No redemption gate-10% fund level gate.
International Equity Funds:					
Emerging markets	4,251,144	None	None	None	None
Commingled Accounts:					
Global equity	7,848,599	None	None	None	None
	$129,919,541		**$ 19,919,002**		

Note 7 - Property and Equipment

Property and equipment is summarized as follows at June 30:

	2023	2022
Furnishings and equipment	$ 26,834,328	$ 23,594,773
Buildings	123,946,495	123,640,121
Tenant improvements	22,977,038	22,977,038
Remediation and hardscaping	39,216,655	39,216,655
Land	17,797,741	17,797,741
Work in progress	307,825	1,886,969
	231,080,082	229,113,297
Less accumulated depreciation	(97,407,284)	(90,511,466)
Property and Equipment, Net	**$133,672,798**	**$138,601,831**

Work in progress at June 30, 2023 and 2022 consisted primarily of costs related to equipment.

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. There were no employer contributions made for the year ended June 30, 2022. For the year ended June 30, 2023, the Museum contributed $326,715.

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. 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, 2023 and 2022, the Museum recognized ($170,118) and ($8,855), respectively, of net periodic pension cost.

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:

	2023	2022
Change in projected benefit obligation-		
Projected benefit obligation at beginning of year	$ 9,652,041	$ 12,194,988
Service cost	76,639	75,971
Interest cost	407,849	305,189
Settlement	-	(452,040)
Benefits paid	(865,950)	(518,505)
Administrative expenses	(58,996)	(58,784)
Actuarial gain	(281,801)	(1,894,778)
Projected benefit obligation at end of year	8,929,782	9,652,041
Change in plan assets-		
Fair value of plan assets at beginning of year	8,010,066	10,440,031
Actual return on plan assets	598,189	(1,323,404)
Benefits paid	(865,950)	(1,047,777)
Administrative expenses	(58,996)	(58,784)
Fair value of plan assets at end of year	7,683,309	8,010,066
Funded Status at Year End (Minimum Pension Liability)	**$ (1,246,473)**	**$ (1,641,975)**
Accumulated Benefit Obligation	**$ 8,929,782**	**$ 9,652,041**

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

	2023	2022
Weighted-average assumptions used to determine net periodic pension cost-		
Assumed discount rate	4.37%	2.59%
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	4.89%	4.37%
Rate of compensation increase	N/A	N/A

Note 8 - Continued

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

Investment goals and risk management practices include:

- 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 result.

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:

	2023	2022
Money market funds	$ 122,378	$ 273,504
Debt mutual funds-		
Intermediate-term	2,380,195	2,562,697
Equity mutual funds-		
International	1,263,835	1,317,726
Large blend	1,071,788	1,044,093
Small blend	626,330	621,926
Large value	959,501	1,005,872
Large growth	1,039,518	945,278
Real estate mutual funds	219,764	238,970
Total Plan Assets	**$ 7,683,309**	**$ 8,010,066**

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,	
2024	$ 614,734
2025	606,753
2026	610,544
2027	611,472
2028	600,622
2029 through 2032	2,892,759

Note 9 - Notes Payable

Notes payable consisted of the following at June 30:

	2023	2022
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.	$ 1,552,389	$ 1,694,260
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, 2023 and 2022; 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.	1,914,227	2,078,697
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.	1,057,500	1,147,500
Note payable to U.S. Bank that allows for borrowings up to $15 million through a draw period that ended on the maturity date of April 25, 2023. The note bore interest at a rate of LIBOR plus 1.06%. Principal was paid at maturity.	-	600,000
Total notes payable	4,524,116	5,520,457
Less current portion	(421,107)	(996,341)
Long-Term Portion of Notes Payable	**$ 4,103,009**	**$ 4,524,116**

Note 9 - Continued

Interest expense for the years ended June 30, 2023 and 2022 was $210,367 and $193,236, respectively.

Aggregate principal maturities on the notes payable are as follows:

For the Year Ending June 30,	
2024	$ 421,107
2025	1,324,954
2026	385,478
2027	415,280
2028	446,968
Thereafter	1,530,329
	$ 4,524,116

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). During the year ended June 30, 2022 both PPP loans, totaling $4.86 million, were forgiven in full and recognized as operating contribution and grant revenue in the statement of activities.

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 BSBY rate quoted by U.S. Bank (6.06% at June 30, 2023). All outstanding principal is due April 30, 2024. There were no outstanding balances at June 30, 2023 or 2022. 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, 2023 and 2022, the Museum was in compliance with loan covenants.

Note 11 - Net Assets

Net assets consisted of the following at June 30:

	2023	2022
Net Assets Without Donor Restriction:		
SAM and controlling interest in consolidated subsidiaries	$ 149,144,753	$ 148,495,431
Noncontrolling interest in consolidated subsidiaries	5,758,482	6,116,676
Total Net Assets Without Donor Restriction	**154,903,235**	**154,612,107**
Net Assets With Donor Restriction:		
Time restricted pledges	5,657,936	3,130,917
Purpose restricted, including accumulated investment earnings or deficits of endowment funds-		
Art acquisition	3,894,733	3,599,755
Capital projects	205,696	159,505
Conservation Center	1,322,802	1,118,513
Education	3,118,472	2,888,336
Exhibition and collection care	5,607,736	4,364,423
General operations	10,781,309	11,855,446
Sculpture park operations	6,430,444	6,073,503
Library	37,064	34,416
Technology	40,583	37,896
Perpetual portion of endowment funds, restricted for the following purposes-		
Art acquisition	7,778,450	7,778,450
Conservation Center	5,518,172	5,504,175
Education	22,573,017	22,572,862
Exhibition and collection care	35,536,335	35,536,085
General operations	82,980,287	83,414,942
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	11,465,892	11,237,945
Total Net Assets With Donor Restriction	**223,889,550**	**220,247,791**
Total Net Assets	**$378,792,785**	**$374,859,898**

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.

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, 2021	$ 149,879,118	$ 6,460,676	$ 156,339,794
Changes in net assets without donor restriction	(1,383,687)	(344,000)	(1,727,687)
Balances, June 30, 2022	**148,495,431**	**6,116,676**	**154,612,107**
Cumulative effect adjustment (Note 1)	5,272,354	-	5,272,354
Changes in net assets without donor restriction	(4,623,032)	(358,194)	(4,981,226)
Balances, June 30, 2023	**$149,144,753**	**$ 5,758,482**	**$154,903,235**

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.

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:

	2023	2022
Donor restricted endowment funds-		
Original donor-restricted gifts and amounts required to be maintained in perpetuity by donor	$ 175,326,883	$ 175,747,136
Accumulated investment earnings	19,526,715	17,334,362
Total Endowment Net Assets	**$194,853,598**	**$193,081,498**

Reconciliation to endowment investments at June 30:

	2023	2022
Endowment net assets	$ 194,853,598	$ 193,081,498
Endowment cash receipts pending deposit to investment portfolio	(1,050,000)	(506,000)
Endowment pledges receivable	(1,650,049)	(4,041,429)
Total Endowment Investments	**$192,153,549**	**$188,534,069**

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, 2023 and 2022, were as follows:

	Original Gift Amount and Amounts Required to be Maintained in Perpetuity	Accumulated Investment Earnings (Deficit)	Total
Balances, June 30, 2021	$ 168,336,517	$ 33,813,297	$ 202,149,814
Endowment investment return	-	(7,901,138)	(7,901,138)
Contributions and pledge payments	7,410,619	-	7,410,619
Pledge written off as bad debt	-	(19,513)	(19,513)
Appropriation of endowment for expenditure	-	(8,558,284)	(8,558,284)
Balances, June 30, 2022	**175,747,136**	**17,334,362**	**193,081,498**
Endowment investment return	-	11,583,988	11,583,988
Contributions and pledge payments	79,747	-	79,747
Donor release from restriction	(500,000)	-	(500,000)
Recovery of pledge written off as bad debt	-	70,122	70,122
Appropriation of endowment for expenditure	-	(9,461,757)	(9,461,757)
Balances, June 30, 2023	**$175,326,883**	**$ 19,526,715**	**$194,853,598**

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 $47,341,069, a current fair value of $45,034,463, and a deficiency of $2,306,606 as of June 30, 2023. As of June 30, 2022, the endowment funds with deficiencies of this nature had an original gift value of $48,344,794, a current fair value of $45,561,701, and a deficiency of $2,783,093. 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.

Note 12 - Continued

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.

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, 2023 and 2022, the Museum employed a blended distribution rate of approximately 5.7% and 5.4%, respectively, based on the endowment's average fair value over the three-year periods ending December 31, 2022 and 2021, 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 that is accounted for as an operating lease. The Museum made an advance lease payment at the start of the lease. As of June 30, 2023 and 2022, the Museum has included a lease right-of-use asset of $599,666 and $604,333, respectively, on the consolidated balance sheet for the unamortized amount of the advance lease payment. The initial lease period expires in January 2152. The advanced lease payment is amortized over the 150-year life of the lease.

Note 13 - Continued

The Museum also leases units owned by MDA for expanded exhibition space in the addition adjacent to the Museum's downtown Seattle facility that is accounted for as a finance lease. The lease expires in December 2103, with required minimum lease payments through 2031. The right-of-use asset for this lease totaled $31,786,806 at June 30, 2023, is amortized over the estimated useful life of the asset of 40 years. 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. This lease is capitalized as a finance lease on the consolidated balance sheet and amortized using a discount rate of 5%.

The components of lease expense for the year ended June 30, 2023 are as follows:

Finance lease costs-	
Amortization of right-of-use asset	$ 1,244,129
Interest on finance lease liabilities	1,323,812
Operating lease costs	4,667
Short-term lease costs	244,900
Total Leasing Costs	**$ 2,817,508**

Supplemental cash flow information related to leases as of June 30, 2023 is as follows:

Cash paid for amounts included in measurement of lease liabilities-	
Operating cash flows	$ 1,323,812
Financing cash flows	2,615,938

Future minimum payments under the terms of the lease are as follows as of June 30, 2023:

For the fiscal year ending June 30,	
2024	$ 3,938,688
2025	3,940,000
2026	3,940,750
2027	3,941,875
2028	3,939,250
Thereafter	10,834,874
Total undiscounted cash flows	30,535,437
Less present value discount	(5,158,467)
Total Finance Lease Liability	**$ 25,376,970**

Note 13 - Continued

Future minimum payments under the terms of the lease were as follows as of June 30, 2022:

For the fiscal year ending June 30,	
2023	$ 3,939,750
2024	3,938,688
2025	3,940,000
2026	3,940,000
2027	3,939,625
Thereafter	14,774,125
Total Lease Obligation	**$ 34,472,188**

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 provides annual operating support payments to the Museum. The operating support payments start at $250,000 per year, beginning the year ended June 30, 2020, 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.

Note 14 - Continued

During each of the years ended June 30, 2023 and 2022, the Museum received approximately $5,801,000 and $5,358,000 in lease payments, respectively, for the leased space that is owned by the Museum. The following is a schedule of the approximate minimum future rent receivable:

For the fiscal year ending June 30,

2024	$ 6,503,544
2025	6,503,544
2026	6,503,544
2027	6,503,544
2028	6,503,544
Thereafter	18,968,670
	$ 51,486,390

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, 2023 and 2022, 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, 2023 and 2022 totaled $141,871 and $132,307, respectively. Amortization of the cash allowance approximated $319,000 and $318,000 for the years ended June 30, 2023 and 2022, 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.

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, 2023 and 2022, trustee contributions approximated $4.9 million and $27.1 million, respectively. Outstanding amounts associated with the trustee pledges receivable approximated $5.7 million and $1.5 million as of June 30, 2023 and 2022, 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, 2023 and 2022, reduced by amounts not available for general use within one year of the consolidated balance sheet date because of contractual or donor-imposed restrictions.

	2023	2022
Cash and cash equivalents	$ 21,923,236	$ 23,551,650
Pledges receivable	6,734,417	7,006,774
Accounts receivable	218,860	116,830
Cash restricted for long-term purposes	1,050,000	506,000
Investments restricted for long-term purposes	192,153,549	188,534,069
Funds held in trust by others	11,465,892	11,237,945
Total financial assets	233,545,954	230,953,268
Operating pledges receivable scheduled to be collected in more than one year	(3,048,227)	(2,374,199)
Contractual or donor-imposed restrictions-		
Cash balances of consolidated subsidiaries	(1,256,967)	(893,993)
Endowment funds investments	(192,153,549)	(188,534,069)
Endowment funds cash	(1,050,000)	(506,000)
Add back endowment amount appropriated for following year	10,336,532	9,461,746
Endowment pledges receivable	(1,650,049)	(4,041,429)
SAAM Campaign pledges receivable	(31,793)	(180,301)
Funds held in trust by others	(11,465,892)	(11,237,945)
Add back amount distributed the following year	598,000	786,647
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	**$ 33,824,009**	**$ 33,433,725**