

Tacoma Art Museum: Will Less Be More?

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Tacoma Art Museum Director Stephanie Stebich pointed to a news article announcing free admission at the Chrysler Museum of Art in Norfolk, Virginia, and asked, "Can we do this?" Deputy Director Cameron Fellows had heard the question before. He wondered whether an admission fee kept people from visiting museums. Regardless of whether the price of admission was really a barrier, Fellows knew that his conservative fiscal stance was once again being questioned. The populist Director kept a close eye on trends in the museum field and had previous experience working at admission-free museums in Minneapolis and Cleveland. It was a good question, "Why not free admission at the Tacoma Art Museum?"

Fellows knew that this time Director Stebich was serious. She wanted to bring the discussion forward to the Board of Trustees; many had traveled extensively and had shared their experiences of visiting admission-free museums. Yet, some of the Board members had expressed their hesitancy in eliminating admission fees, since they were one of the few dependable, though at times variable revenue sources. Stebich and Fellows agreed that a decision to go admission-free would require the Tacoma Art Museum to raise significant endowment funds or generate additional earned income to support the lost revenue.

The Tacoma Art Museum (the Museum) was a regional, mid-sized museum in Western Washington, dedicated to collecting and exhibiting Northwest art. Its mission was to "connect people through art" (Tacoma Art Museum, 2014). The Museum's leadership had worked hard to achieve its vision as "a national model for regional museums by creating a dynamic museum that engages, inspires, and builds community through art" (ibid). In 2003 the Museum had moved into a beautiful new building and greatly increased the size of its collection. Recently, the Haub family had donated \$20 million and 280 pieces of primarily Western American art, the largest donation in the Museum's history. The generous gift would fund a new wing that would double the gallery space and be dedicated to showcasing primarily Western American art.

The leadership team wondered what more it could do to realize the mission of connecting people through art. Earlier in the year, Director Stebich and Deputy Director Fellows discussed whether to offer free admission for the regular collection to all visitors all the time. The Director supported the idea of free admission; she sought to increase the number of visitors in total and the number of visitors from targeted underrepresented groups. She had heard both positive and negative comments about free admission from her donors. However, the Deputy Director

expressed concern over the financial impact of free admission. It was a potentially risky decision that would require the Museum to use money from the endowment to cover the lost admission revenue upfront, with no guarantees that free admission would increase the number of visitors. Director Stebich called a meeting with Deputy Director Fellows to discuss the decision. They had less than one week to sort through the issues, reach agreement on whether to propose free admission, and to prepare their case for presentation to the Board of Trustees.

Brief History of the Museum

The Tacoma Art Museum was incorporated in 1935 as the Tacoma Arts Association. The association first met as the “Ida Cochran Group” to create an arts museum in memory of the former head of the Department of Art and Design at the College of Puget Sound, now the University of Puget Sound. For many years, the Museum was housed in Jones Hall on the university campus. Its first exhibition was of Northwest artists, followed by an exhibition of Peruvian textiles, then Japanese block prints, and even Cezanne (Tacoma Art Museum, 2010). The Museum has had several locations, and in 2003, it moved into a new building designed specifically for the Museum and its focus on Northwest art and artists (Tacoma Art Museum, 2014).

The Museum’s Leadership Team

Over the years, the Tacoma Art Museum had put together an excellent team. In a news release that announced the selection of Stephanie Stebich as the new Director, Vice President of the Board of Trustees Judith Nilan reported, “Stephanie not only has the credentials and the passion for community involvement that defines the Tacoma Art Museum, but she has the energy and drive to lead this organization to its next phase” (Tacoma Art Museum, 2005). Stebich had worked as Assistant Director at the Minneapolis Institute of Arts in Minnesota, where she managed the Programs and Events division. She also had held positions with several nationally regarded museums including the Cleveland Museum of Art, Brooklyn Museum, and Guggenheim Museum in New York. Additionally, Stebich had served in a number of roles for professional arts organizations at the regional and national levels (ibid). Stebich had earned a Master of Arts from New York University, a Bachelor of Art from Columbia University in New York, and a Certificate of Nonprofit Management from Case Western Reserve University in Ohio.

Cameron Fellows had joined the Museum in 2008 as Deputy Director and Director of Administration and Finance. He had worked closely with Stebich to implement the museum’s new strategic plan, to develop staff, and to ensure the integrity of financial reporting. Fellows had experience as the Executive Vice President and Treasurer of Northwest Center, a social entrepreneurial non-profit business and had helped to grow the organization from an operating budget of \$5 million to \$50 million. Fellows had earned a Bachelors of Arts in Accounting from the University of La Verne in California (Tacoma Art Museum, 2008). In his first job after college, he worked for the California Bean Association, an agricultural cooperative that had him literally counting beans.

Rock Hushka had been with the Museum since 2001 and was named Director of Curatorial Administration in 2006. Hushka had developed a reputation for his “strong connections in the local arts community and for his role in building and strengthening the Museum’s collection of Northwest contemporary art” (Tacoma Art Museum, 2006). He had developed creative exhibitions that emphasized art and artists of the Northwest and had brought several world-class exhibitions to Tacoma (ibid). Previously, Hushka had worked at the Seattle Art Museum and the Henry Art Gallery in Seattle. He had a Masters of Arts degree in Art History from the University of Wisconsin-Madison. An affiliate assistant professor of Art at the University of Washington, Hushka had made a number of scholarly contributions including published exhibition catalogues and essays that focused on the region’s artists. Successful in collaborating with lead curators at other institutions, he was exploring the connections between Northwest artists and national and international artists (ibid).

Stebich, Fellows, and Hushka had the education, experience, and passion to lead the Museum through the execution of the strategic plan, which had been approved by the Board of Trustees. The strategic plan required the leadership team “to shift from passive recipient of community’s collective generosity to active leadership role, to build significant collaborations with artists, collectors, and institutions, and to maximize limited resources” (Tacoma Art Museum, 2009, 8).

Model for a Regional Art Museum

The Board of Trustees had established a vision for the Tacoma Art Museum: to become “a national model for regional museums by creating a dynamic museum that engages, inspires, and builds community through art” (Tacoma Art Museum, 2014). The strategic plan specified four goals: Goal 1, “Changing lives through seeing, creating and exploring art together; Goal 2, Building the premier collection of Northwest art; Goal 3, Creating a gathering space for people, performances and art; and Goal 4, Providing art for everyone forever” (Tacoma Art Museum, 2009). For each goal, the Board of Trustees specified multiple objectives. For example, one objective related to Goal 1 was to “Engage visitors and artists in creating the stories of Northwest art in a national and international context” (ibid). Another objective related to Goal 1 was to “increase the length and frequency of visits and broaden participation” (ibid).

Stephanie Stebich was hired as Director only two years after the Museum had moved into its new building, which was designed by award-winning architect Antoine Predock to take advantage of light, water, and the importance of place. As part of the Museum’s 75th Anniversary Celebration, Director Stebich had said “the challenge for me [Stebich] was to fulfill the Board’s mandate to really throw the museum doors open, to deliver on the promise of what we do with this great building” (Tacoma Art Museum, 2010). Stebich prepared to shift the Museum’s focus from a passive role as the place with a collection of art to an active leadership role that involved direct engagement with community members “to build collaborations with artists, collectors, and institutions” (Tacoma Art Museum, 2009). Recently, the University of Washington Tacoma Milgard School of Business had honored Director Stebich as the Nonprofit Business Leader of the Year for her leadership within the Museum and her success in community building (Roberts, 2014).

Free Admission

According to Fellows, the typical visitor to the Tacoma Art Museum was female, generally college educated, and aged 35-70 years old. One of the museum's strategic objectives was to broaden participation. The Museum leadership sought to increase visitors who were from lower socio-economic backgrounds or from groups that had traditionally been underrepresented. The museum leadership also wanted to increase the number of visitors who considered themselves artists and increase the number of younger visitors. Fellows thought about how offering free admission for specific events had increased participation from underrepresented groups.

Programs Connecting Community Partners

Director Stebich and her curators had experimented with new exhibitions to connect people through art and to broaden participation from groups the leadership team had targeted. Fellows had thought about the success of two events in particular that had been designed to engage community members from lower socio-economic or underrepresented groups, that involved collaborations with community partners, and that had been offered 'admission-free'.

In one event, the Museum partnered with Centro Latino and Proyecto MoLÉ to celebrate *Día de los Muertos* (Day of the Dead), a two-week celebration and the Museum's largest annual community event. In a recent year, the celebration began on a Sunday in October. It culminated two weeks later, with a free festival that attracted more than 3,000 visitors who decorated sugar skulls, ate traditional food, and enjoyed music and dance performances (Tacoma Art Museum, 2013, October 1).

Another event proved successful at attracting members of the Northwest native tribal members. The Museum offered the Northwest Native Community Celebration, a free, day-long celebration of the region's Native American heritage. It involved music and dance performances by local groups, hands-on art activities, and a discussion panel on the subject of appropriation versus appreciation (Tacoma Art Museum, 2014, May 9).

Both of these events were now held annually and attracted thousands of visitors. Fellows marveled about the success of partnering with groups in the community, and added that visitors who participated in these events attended year-after-year. The events became a tradition for visitors and their families. Fellows reflected on other events that the Museum had tried without collaborating with community partners, and that were not as successful in attracting new members or increasing the number of visitors. He acknowledged that the most successful new events involved collaboration with local community groups.

Other Ways to Broaden Participation

To increase the number of visitors who considered themselves artists, the Museum offered free admission on the third Thursday of the month and promoted the event to local artists. According to Fellows, art was important to these folks. Many considered themselves artists and they came every other month.

In an effort aimed at enriching the arts and education experience of students, faculty, and all residents of the region, the Museum had developed partnerships with local colleges. For example, the Kittredge Gallery at the University of Puget Sound was known for its support of regional and national artists (University of Puget Sound, 2014). The Tacoma Art Museum assumed responsibility for management and programming of the art exhibitions at Kittredge, which was free and open to the public from September through May. Additionally, the Tacoma Art Museum offered free nights to students of local colleges (Tacoma Art Museum, 2014) and discounted tickets to faculty, staff, and graduates of local colleges through a membership program.

Fellows thought about the success of these initiatives. He supported the mission of the Museum to ‘connect people through art’ and believed that the new programming had greatly increased the number of visitors from targeted groups. He also understood the financial implications of offering free admission and wondered whether the Museum could afford to go ‘admission-free’.

What Does Admission Cost?

The Museum already participated in a part-time free admission program called “Museums on Us” which allowed visitors with a Bank of America credit card to attend the museum for free the first weekend of the month. According to Fellows, the Museum provided attendance numbers each year to the Bank of America and the Bank of America donated the admission fees lost.

A visit to the Museum’s web site revealed recent admission prices: adults, \$14; students, military, and seniors, \$12; a family including two adults and two children, \$35; children age 5 and under were free (Tacoma Art Museum, 2015a). The Museum offered various levels of membership. At the entry-level, a Friend Member price of \$50 included admission for exhibition openings and discounts at the Museum store and café. At the upper-level, a Collector Member price of \$250-\$500 included all of the benefits of the Friend Member price, plus admission for four adults and up to four youth under age 18, access to the North American Reciprocal Museums, and four complimentary guest passes (Tacoma Art Museum, 2015b).

Fellows realized that current admission prices only partially covered the cost per visitor. As a result, he was keenly aware that the Museum lost money on every ticket sale, and lost even more on any reduced-price or free admission visit. The Museum also lost money on entry-level memberships. According to M. Anderson (2014, p.24) “museum memberships costing under \$100 end up netting very little because of staffing overhead, events, mailings, and the opportunity cost of giving away free tickets and parking.”

From the perspective of a potential visitor, the admission price represented only part of the cost. According to Le Gall-Ely et. al. (2008), the true cost of a visit to a museum included additional financial factors such as costs for transportation including bus fare or parking, money spent in the museum gift shop and café, as well as non-financial factors such as the time to travel to the museum and possible disappointment in the museum experience. The admission price was considered only when a potential visitor was already interested in the museum. Thus, the price of admission was not the most significant hurdle for a potential visitor.

Evaluating the Impact of Free Admission

To prepare for his next meeting with Director Stebich, Fellows decided to quantify the financial impact of offering free admission to all visitors all of the time. He had past admission fee revenues from the Statement of Activities he had prepared for the management team (see Appendix A). As a first step, he computed admission fee income as a percent of total income. He did some quick math in his head and determined that the Museum would need an additional endowment of about \$3,250,000 to cover the lost admission fee revenue of approximately \$130,000. He worried about the greater challenge of how to prove to his donor base that offering free admission would increase overall visits and visits by targeted groups. Since the Board of Trustees insisted that the Museum operate on a balanced budget, Fellows felt strongly about the need to find a donor to cover the lost admission fee revenue.

Fellows also had concerns about how current donors and other stakeholder groups would view the decision to offer free admission. These groups had access to the Museum's audited financial statements, which had been prepared for outsiders. Sections of this report relevant to the case have been reproduced in Appendix B. The Museum also prepared an Annual Report with a message from the Treasurer of the Board of Trustees. Sections of this report relevant to the case have been reproduced in Appendix C.

Director Stebich reminded Fellows of the current national trend of offering free admission to museum visitors. She shared an article about the Dallas Museum of Art's (DMA) decision to offer free admission and membership as a way to broaden the demographic base of those who visited. In one, DMA Director Maxwell Anderson said, "We're a public institution supported by the taxpayers of Dallas, and many of those taxpayers don't have the disposable income to toss around for cultural endeavors. And I don't want an admission fee to be an obstacle to them" (Granberry, 2012). Anderson recognized that admission revenue represented only 2.7%, a very small percentage of the DMA's operating revenue. He likened the museum business model to a public library; most of the revenue was received from government agencies, foundations, corporations, and generous individuals and the goal was educational and not commercial (ibid).

The Dallas market was different from Western Washington. Further, the DMA was a public institution and the Tacoma Art Museum was a non-profit arts organization. Despite these differences, Director Stebich highlighted the financial benefits that DMA reported from its decision to offer free admission and she believed that similar benefits would accrue to the Tacoma Art Museum. One year after offering free memberships, the DMA had enrolled about 50,000 individuals as members and 95% of these new members had no prior affiliation with the museum (ibid, p. 24). This was on top of increasing the total number of visitors to the museum. Additionally, a number of members who renewed their memberships had also stepped up their contributions. For example, in the first year that the DMA offered free admission, it had received a \$9 million gift; \$4 million of the gift represented operating support to compensate the museum for lost admissions income (Anderson, 2014). According to Anderson, the DMA had created a new business model that offset losses in admission fee revenue with increases in contributed income. These were results that Director Stebich knew Fellows and the several members of the museum's Board of Trustees would find compelling.

The impact of universal free admission to museums in the U.K., another market different from Western Washington, had been analyzed by Cowell (2007). He reported that the number of total visits to sponsored museums increased. Many of the visits were by first-time visitors with the greatest increases in visits by children. “Both in terms of increasing the total number of visits to the sponsored museums, and in encouraging new visitors, free admission has been a demonstrable success” (ibid, p. 204). Cowell’s analysis offered additional evidence to support free admission as a way to increase the number of visitors and the number of first-time visitors.

Decision

Director Stebich called a meeting with Deputy Director Fellows to discuss the decision. They had less than one week to sort through the issues, reach agreement on whether to propose free admission, and to prepare their case for presentation to the Board of Trustees. Fellows thought long and hard about the decision to offer free admission to all visitors all of the time, or to offer free or discounted admission to select and targeted groups, such as residents of Tacoma, or of Pierce County, or to holders of Electronic Benefit Cards? Would it help the Museum to achieve its mission? Or would such a move create financial hardship that would prevent the Museum from advancing its mission? Will “less” be “more”?

Appendix A Tacoma Art Museum Statements of Activities

Tacoma Art Museum						
Fiscal Year (FY) 2013 Statements of Activities						
	FY 2012 Actual	FY 2013 Actual	FY 2012 Budget	FY Variance	YTD %	FY 2013 Budget
Annual Fund	\$29,201	\$30,514	\$25,000	\$5,514	122%	\$25,000
Individual – Trustee	\$105,409	\$118,800	\$120,000	(\$1,200)	99%	\$120,000
Individual - Major Gifts	\$785,580	\$493,042	\$550,000	(\$56,958)	90%	\$550,000
Individual Memberships	\$160,841	\$160,872	\$130,000	\$30,872	124%	\$130,000
Corporate Memberships	\$14,625	\$20,375	\$20,000	\$375	102%	\$20,000
Corporate Support	\$395,593	\$317,765	\$365,000	(\$47,235)	87%	\$365,000
Foundation Support	\$410,205	\$382,838	\$400,000	(\$17,162)	96%	\$400,000
Government Grants & Revenue	\$8,500	\$44,000	\$75,000	(\$31,000)	59%	\$75,000
Special Events/GALA (net)	\$130,846	\$153,463	\$140,000	\$13,463	110%	\$140,000
In-Kind Donations	\$87,266	\$196,645	\$75,000	\$121,645	262%	\$75,000
Total Contributed Income	\$2,128,066	\$1,918,314	\$1,900,000	\$18,314	101%	\$1,900,000
Interest Income	\$385	\$415	\$500	(\$85)	83%	\$500
Endowment Allocation (4.0%)	\$743,645	\$755,955	\$755,955		100%	\$755,955
Admissions	\$147,498	\$129,402	\$142,287	(\$12,885)	91%	\$142,287
Educational Programs and Tours	\$63,596	\$56,359	\$70,000	(\$13,641)	81%	\$70,000
Miscellaneous	\$46,257	\$117,757	\$50,000	\$67,757	236%	\$50,000
Parking Revenue (net)	\$93,735	\$89,262	\$85,000	\$4,262	105%	\$85,000
After Hours Events (net)	\$37,270	\$199	\$48,000	(\$47,801)	0%	\$48,000
Museum Café (net)	(\$14,825)	(\$12,073)	(\$10,000)	(\$2,073)	121%	(\$10,000)
Museum Store (net)	(\$6,311)	(\$3,860)	\$10,000	(\$13,860)	-39%	\$10,000
Total Earned Income	\$1,111,250	\$1,133,416	\$1,151,742	(\$18,326)	98%	\$1,151,742
Total Income	\$3,239,316	\$3,051,730	\$3,051,742	(\$12)	100%	\$3,051,742
Expenses by Department:						
Administration	\$502,549	\$530,701	\$529,000	(\$1,701)	100%	\$529,000
Facilities	\$582,149	\$561,212	\$586,000	\$24,788	96%	\$586,000
Exhibitions	\$706,492	\$493,519	\$515,000	\$21,481	96%	\$515,000
Curatorial/Collection/Registration	\$96,570	\$103,831	\$99,000	(\$4,831)	105%	\$99,000
Education	\$246,397	\$212,032	\$270,000	\$57,968	79%	\$270,000
Development	\$373,726	\$341,853	\$332,000	(\$9,853)	103%	\$332,000
Communications	\$407,857	\$383,682	\$388,000	\$4,318	99%	\$388,000
Visitor Services	\$122,434	\$109,973	\$121,000	\$11,027	91%	\$121,000
Total Operating Expenses	\$3,038,174	\$2,736,803	\$2,840,000	\$103,197	96%	\$2,840,000
In-kind Donations, Restricted Gifts, Capital Expenditures	(\$201,142)	(\$309,895)	(\$211,742)	(\$98,153)		(\$211,742)
Net Income	\$0	\$5,032	\$0	\$5,032		\$0

Source: Tacoma Art Museum. (2013b). Tacoma Art Museum FY13 Statements of Activities.

Appendix B Selections from The Tacoma Art Museum Independent Auditor's Report and Financial Statement

Tacoma Art Museum					
Statements of Financial Position					
June 30, 2013 and 2012					
				2013	2012
CURRENT ASSETS					
Cash and cash equivalents				\$773,351	\$368,421
Contributions receivable, net				\$23,631,370	\$1,465,463
Trusts receivable				\$226,047	\$10,000
Accounts receivable				\$23,489	\$20,419
Prepaid expenses				\$305,257	\$172,925
Inventory				\$84,205	\$100,857
Total current assets				\$25,043,719	\$2,138,085
OTHER CURRENT ASSETS					
Investments				\$20,921,577	\$19,838,757
Asset, available for sale				\$3,000,000	\$3,000,000
Contributions receivable, net				\$605,043	\$932,565
Trusts receivable, net				\$506,312	\$828,400
Bond issuance costs, net				\$188,271	\$198,223
				\$25,221,183	\$24,797,945
PERMANENT COLLECTIONS (Note 1)					
LAND, BUILDINGS AND EQUIPMENT, net of accumulated depreciation				\$18,373,291	\$17,941,048
TOTAL ASSETS				\$68,638,193	\$44,877,078
CURRENT LIABILITIES					
Accounts payable and accrued expenses				\$780,346	\$381,089
BONDS PAYABLE					
				\$10,000,000	\$10,000,000
NET ASSETS					
Unrestricted				\$24,853,865	\$23,481,467
Temporarily restricted				\$30,063,255	\$8,073,795
Permanently restricted				\$2,940,727	\$2,940,727
				\$57,857,847	\$34,495,989
TOTAL LIABILITIES AND NET ASSETS				\$68,638,193	\$44,877,078

Source: Tacoma Art Museum. (2013a). Tacoma Art Museum Independent Auditor's Report and Financial Statement, 3.

Appendix B continued

Tacoma Art Museum					
Statements of Activities					
Year Ended June 30, 2013 With Comparative Totals for 2012					
	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
SUPPORT AND REVENUE					
Public support					
Contributions	\$1,346,293	\$20,108,461		\$21,454,754	\$1,471,616
Grants	326,738	2,735,000		3,061,738	1,568,705
In-kind donations	196,645			196,645	87,266
Memberships	180,075			180,075	175,066
Total public support	\$2,049,751	\$22,843,461		\$24,893,212	\$3,302,653
Revenue					
Investment return, net	\$1,756,113	\$30,178		\$1,786,291	(\$265,132)
Museum store	154,496			154,496	168,630
Auxiliary income	407,486	13,000		420,486	412,035
Admissions/tours	186,901			186,901	211,094
Miscellaneous	296,685			296,685	279,486
Total revenue	\$2,801,681	\$43,178		\$2,844,859	\$806,113
Net assets released from restrictions	\$1,227,056	(\$1,227,056)			
Total support and revenue	\$6,078,488	\$21,659,583		\$27,738,071	\$4,108,766
EXPENSES					
Program services	\$3,582,182			\$3,582,182	\$3,762,373
Supporting services					
Administration	444,833			444,833	385,356
Development	655,775			655,775	593,681
Total supporting services	1,100,608			1,100,608	979,037
Total expenses	\$4,682,790			\$4,682,790	\$4,741,410
Change in net assets before non-operating income (expense)	\$1,395,698	\$21,659,583		\$23,055,281	(\$632,644)
NONOPERATING INCOME (EXPENSE)					
Deaccession of art		\$329,877		\$329,877	
Acquisition of collection items	(23,000)			(23,000)	101,500
Total nonoperating income (expense)	(23,000)	329,877		306,577	101,500
CHANGE IN NET ASSETS	\$1,372,398	\$21,989,460		\$23,361,858	(\$734,144)
NET ASSETS, beginning of year	\$23,481,467	\$8,073,795	\$2,940,727	\$34,495,989	\$35,230,133
NET ASSETS, end of year	\$24,853,865	\$30,063,255	\$2,940,727	\$57,857,847	\$34,495,989

Source: Tacoma Art Museum. (2013a). Tacoma Art Museum Independent Auditor's Report and Financial Statement, 4.

Appendix B continued

Tacoma Art Museum
Notes to Financial Statements
June 30, 2013 and 2012

Below are selections from Note 1 – Summary of Significant Accounting Policies for use in answering the case questions.

Nature of Organization

The Tacoma Art Museum (the Museum) is a not-for-profit corporation organized under the laws of the State of Washington for the purpose of promoting and cultivating the fine arts and arts education. Its primary sources of revenue and support are private contributions and grants.

Basis of Accounting

The Museum prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial statements include the accounts maintained by and directly under the control of the Museum.

Basis of Presentation

In accordance with GAAP, the Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net Asset Classes

The Museum segregates its net assets into classes that are defined by donor restrictions.

- Permanently restricted net assets result from contributions received from donors that have donor-imposed restrictions that cannot be satisfied by the passage of time or actions taken by the Museum, but whose investment or other return can be used for temporarily restricted or unrestricted activities.
- Temporarily restricted net assets are those assets that have donor restrictions that will expire at or over a period of time, or upon the Museum's performance of a specified activity, such as expending resources on a specific program or acquiring specific assets. Earnings on permanently and temporarily restricted net assets are classified as a change in unrestricted net assets unless the donor places restrictions on them. In addition, the Museum implies a time restriction on gifts of long-lived assets (and cash or other assets received that are restricted for the purchase of them) that have no donor restrictions stipulating how long the assets are to be used.
- Unrestricted net assets have no donor restrictions and may be used for any purpose consistent with the Museum's mission.

Net assets are released from temporary restrictions when the specified time period has elapsed for time restrictions, or the stated activity has been performed for purpose restrictions. Released net assets are reclassified from temporary restricted net assets to unrestricted net assets on the statement of activities.

Source: Tacoma Art Museum. (2013a). Tacoma Art Museum Independent Auditor's Report and Financial Statement, 8,9.

Appendix B continued

Permanent Collections

The Museum's collections are primarily American art with an emphasis on art created in the Northwest. The Museum does not capitalize its collections, nor does it recognize contributions of collection items as contribution revenue. Proceeds from deaccessions or insurance recoveries are reflected on the statement of activities based on the existence and nature of donor imposed restrictions. The Museum has stewardship policies for its collections regarding: accessioning and deaccessioning of collection items, care of the collection, access and control of collection, risk management, and loans to and from other institutions. Each collection item is catalogued, and activities verifying the existence and assessing the condition of the collection are performed continuously.

Memberships

Membership dues are recorded using the cash basis method of accounting. Memberships are good for one year from the date of purchase. Management believes the difference between the cash and accrual basis of recording dues revenues is not material to the financial statements.

Source: Tacoma Art Museum. (2013a). Tacoma Art Museum Annual Report, 12.

Note 15 is reproduced below for use in answering case questions.

Note 15- Haub Gift

In January of 2012, The Tacoma Art Museum received a letter of intent from a donor concerning a significant gift of western American art, expansion funding for exhibition spaces and lobby, endowment funds for future operating expense and transitional expenses.

In August of 2012, The Tacoma Art Museum and Haub Family signed an agreement that confirmed the prior letter of intent. The agreement calls for the outright and/or promised gift of title and interest in approximately 280 works of art, \$12,000,000 of expansion funding for exhibition spaces and lobby, \$7,000,000 of endowment funding for operations and \$1,000,000 for transitional expenses.

The timing of the pledge payments will be immediate reimbursement for construction and transition expenses with endowment payment to be received prior to the Wing opening. As of June 30, 2013 the museum has received reimbursements of \$363,163 for construction and \$30,812 for transitional expenses.

Source: Tacoma Art Museum. (2013a). Tacoma Art Museum Independent Report and Financial Statement, 23, 24.

Appendix C Selections from Tacoma Art Museum Annual Report FY 2013

INCOME	
Operating and Campaign Gifts	\$21,253,134
Corporate Support	398,265
Foundation Support	917,738
Government Grants & Rev.	2,144,000
Membership	180,075
EARNED INCOME	
Endowment & Investment Income	\$1,786,291
Admission & Tours	186,901
Store	154,496
Other*	717,171
TOTAL INCOME	\$27,738,071
EXPENSES	
Expenses by Program	
Exhibitions & Education	\$2,489,726
Supporting Services	215,319
Membership	215,319
Fundraising	655,775
Other**	570,560
TOTAL EXPENSES	\$4,376,213

* Other earned income is from after-hours events, parking, educational programs, special events, and other sources.

** Other includes those related to investments, financing, depreciation, the Museum Store, facilities, after-hours events, the Gala, and other expenses.

Source: Tacoma Art Museum. (2013c). Tacoma Art Museum Annual Report FY 2013.

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