

Phoenix Art Museum and Phoenix Art
Museum Endowment Fund, Inc.

Consolidated Financial Statements

June 30, 2022 and 2021

PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Phoenix Art Museum and Phoenix Art Museum Endowment Fund, Inc.
Phoenix, Arizona

Opinion

We have audited the accompanying consolidated financial statements of Phoenix Art Museum and Phoenix Art Museum Endowment Fund, Inc., (Arizona nonprofit corporations) (collectively the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of June 30, 2022 and 2021, and the changes in their net assets and their 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization 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.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards and *Government Auditing Standards* 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 judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Organization'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated , on our consideration of the Organization's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Tempe, Arizona
January 9, 2023

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,022,751	\$ 3,473,957
Accounts receivable	61,366	307,443
Promises to give	337,372	625,491
Grants receivable	50,000	75,000
Prepaid expenses	170,143	94,103
Inventory	212,281	203,948
TOTAL CURRENT ASSETS	7,853,913	4,779,942
OTHER ASSETS		
Promises to give	67,373	179,136
Investments - endowments	26,801,685	31,062,876
Investments - collateral	1,127,133	1,241,410
Charitable gift annuities	62,074	89,728
Property and equipment, net	2,886,777	3,381,467
Beneficial interest in perpetual trust	484,746	559,148
TOTAL ASSETS	<u>\$ 39,283,701</u>	<u>\$ 41,293,707</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 172,615	\$ 161,566
Accrued expenses	474,773	635,247
Deferred revenue	595,846	825,441
Deferred conditional contribution	-	445,324
Note payable, current	99,217	95,016
TOTAL CURRENT LIABILITIES	1,342,451	2,162,594
OTHER LIABILITIES		
Accrued pension	367,444	479,438
Note payable, net of current	662,813	762,030
Charitable gift annuity liabilities	73,319	100,858
TOTAL LIABILITIES	<u>2,446,027</u>	<u>3,504,920</u>
NET ASSETS/(DEFICITS)		
Without donor restrictions - undesignated	5,839,846	1,192,191
Without donor restrictions - board-designated	1,209,796	-
	<u>7,049,642</u>	<u>1,192,191</u>
With donor restrictions	29,788,032	36,596,596
TOTAL NET ASSETS	<u>36,837,674</u>	<u>37,788,787</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,283,701</u>	<u>\$ 41,293,707</u>

See accompanying notes.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
SUPPORT AND REVENUE						
Earned and other revenue:						
Admissions	\$ 1,249,883	\$ -	\$ 1,249,883	\$ 728,535	\$ -	\$ 728,535
Membership revenue	1,172,757	-	1,172,757	966,326	-	966,326
Museum store income	736,959	-	736,959	471,538	-	471,538
Shared costs reimbursements	384,484	-	384,484	273,229	-	273,229
Royalties	6,645	-	6,645	20,242	-	20,242
Facility rentals	464,359	-	464,359	22,950	-	22,950
Miscellaneous income	50,995	-	50,995	261,914	-	261,914
Perpetual trust net change	-	(74,402)	(74,402)	-	93,744	93,744
Investment income, net	(224,495)	(3,899,376)	(4,123,871)	20,273	6,858,714	6,878,987
Total earned and other revenue	3,841,587	(3,973,778)	(132,191)	2,765,007	6,952,458	9,717,465
Support:						
Contributions	5,698,194	1,292,904	6,991,098	2,170,558	948,730	3,119,288
Donated facilities, materials and services	5,130,180	-	5,130,180	4,495,289	-	4,495,289
Paycheck Protection Program grant	445,324	-	445,324	1,449,614	-	1,449,614
Employee Retention Credit	475,015	-	475,015	635,708	-	635,708
Shuttered Venue Operators grant	497,410	-	497,410	-	-	-
Other government grants	432,649	-	432,649	110,142	-	110,142
Change in value of charitable gift annuity	(115)	-	(115)	2,576	-	2,576
Net assets released from time and purpose restrictions	2,441,254	(2,441,254)	-	1,382,079	(1,382,079)	-
Net assets released from endowments	1,686,436	(1,686,436)	-	1,871,600	(1,871,600)	-
Total support	16,806,347	(2,834,786)	13,971,561	12,117,566	(2,304,949)	9,812,617
Special event revenue	638,789	-	638,789	58,700	-	58,700
Direct benefit to donors	(124,400)	-	(124,400)	-	-	-
Special events, net	514,389	-	514,389	58,700	-	58,700
TOTAL SUPPORT AND REVENUE	21,162,323	(6,808,564)	14,353,759	14,941,273	4,647,509	19,588,782
EXPENSES						
Program services expenses	11,771,303	-	11,771,303	9,707,513	-	9,707,513
Supporting services expenses						
Management and general	1,735,097	-	1,735,097	1,767,196	-	1,767,196
Fundraising	1,468,027	-	1,468,027	1,200,800	-	1,200,800
Membership	330,445	-	330,445	314,899	-	314,899
TOTAL EXPENSES	15,304,872	-	15,304,872	12,990,408	-	12,990,408
CHANGE IN NET ASSETS	5,857,451	(6,808,564)	(951,113)	1,950,865	4,647,509	6,598,374
NET ASSETS (DEFICITS), BEGINNING OF YEAR	1,192,191	36,596,596	37,788,787	(758,674)	31,949,087	31,190,413
NET ASSETS/(DEFICITS), END OF YEAR	\$ 7,049,642	\$ 29,788,032	\$ 36,837,674	\$ 1,192,191	\$ 36,596,596	\$ 37,788,787

See accompanying notes.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	Program Services				Supporting Services			Cost of Direct Benefit to Donors	Totals
	Collections and Exhibits	Education and Community Services	Museum Store	Total Program Services	Management and General	Fundraising	Membership		
Personnel expenses:									
Salaries and wages	\$ 2,519,033	\$ 229,601	\$ 207,101	\$ 2,955,735	\$ 619,946	\$ 874,636	\$ 143,585	\$ -	\$ 4,593,902
Payroll taxes	173,125	15,780	14,233	203,138	42,607	60,111	9,868	-	315,724
Employee benefits	338,719	21,831	38,307	398,857	246,662	60,815	9,940	-	716,274
	3,030,877	267,212	259,641	3,557,730	909,215	995,562	163,393	-	5,625,900
Advertising and marketing	244,660	-	114	244,774	6,800	-	-	-	251,574
Art acquisitions	145,110	-	-	145,110	-	-	-	-	145,110
Bank and merchant fees	55,707	393	16,316	72,416	27,087	1,214	2,867	-	103,584
Cost of sales	390	-	306,156	306,546	-	889	20,945	-	328,380
Curatorial expense	201,652	261	260	202,173	-	-	-	-	202,173
Depreciation expense	396,691	43,207	19,001	458,899	12,132	20,244	10,596	-	501,871
Equipment	12,036	1,199	63	13,298	223	604	2,461	-	16,586
Equipment rental	22,411	858	897	24,166	5,727	27,308	693	-	57,894
Equipment maintenance and repairs	98,314	1,422	521	100,257	2,894	459	254	-	103,864
Exhibition expense	571,529	1,451	59	573,039	272	96	45	-	573,452
Occupancy	299,965	33,538	9,384	342,887	38,728	5,687	3,373	-	390,675
Insurance expense	122,209	3,363	3,888	129,460	18,086	6,349	3,004	-	156,899
Interest expense	18,275	1,384	1,600	21,259	7,444	2,613	1,236	-	32,552
In-kind expenses:									
Raffle items	350	-	-	350	-	-	-	-	350
Advertising	66,435	-	-	66,435	-	-	-	-	66,435
Professional fees	2,786	296	82	3,164	16,212	44	29	-	19,449
Printing	52,235	-	-	52,235	-	-	-	-	52,235
Occupancy	3,693,486	446,256	124,330	4,264,072	508,421	66,605	44,404	124,400	5,007,902
Catering	-	-	-	-	-	27,613	-	-	27,613
Miscellaneous	15,393	18,571	1,264	35,228	7,061	15,040	238	-	57,567
Postage and shipping	3,837	185	8,891	12,913	273	1,850	43,012	-	58,048
Printing	56,967	2,832	4	59,803	4,590	61,341	16,145	-	141,879
Professional fees	485,515	31,645	14,926	532,086	93,469	149,052	9,566	-	784,173
Dues and subscriptions	17,418	9,384	1,073	27,875	3,245	59,820	1,651	-	92,591
Technology	182,216	12,197	6,899	201,312	37,796	8,829	2,446	-	250,383
Travel expenses	45,095	1,101	1,459	47,655	4,730	8,178	823	-	61,386
Utilities	201,836	24,386	6,794	233,016	28,416	3,640	2,427	-	267,499
Supplies	9,557	5,950	27,638	43,145	2,276	4,990	837	-	51,248
	10,052,952	907,091	811,260	11,771,303	1,735,097	1,468,027	330,445	124,400	15,429,272
Less amounts reported in revenue and support on the consolidated statement of activities	-	-	-	-	-	-	-	(124,400)	(124,400)
TOTAL EXPENSES	\$ 10,052,952	\$ 907,091	\$ 811,260	\$ 11,771,303	\$ 1,735,097	\$ 1,468,027	\$ 330,445	\$ -	\$ 15,304,872

See accompanying notes.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	Program Services				Supporting Services			Cost of Direct Benefit to Donors	Totals
	Collections and Exhibits	Education and Community Services	Museum Store	Total Program Services	Management and General	Fundraising	Membership		
Personnel expenses:									
Salaries and wages	\$ 1,994,618	\$ 158,300	\$ 175,290	\$ 2,328,208	\$ 733,254	\$ 842,398	\$ 96,271	\$ -	\$ 4,000,131
Payroll taxes	137,335	10,899	12,069	160,303	50,487	58,002	6,629	-	275,421
Employee benefits	423,022	30,093	40,854	493,969	197,158	100,069	19,778	-	810,974
	2,554,975	199,292	228,213	2,982,480	980,899	1,000,469	122,678	-	5,086,526
Advertising and marketing	208,449	-	170	208,619	4,335	-	-	-	212,954
Art acquisitions	171,506	-	-	171,506	-	-	-	-	171,506
Bank and merchant fees	38,354	71	12,369	50,794	20,690	3,367	11	-	74,862
Cost of sales	169	-	206,877	207,046	-	717	16,506	-	224,269
Curatorial expense	13,110	-	101	13,211	-	-	-	-	13,211
Depreciation expense	375,645	44,383	27,401	447,429	37,937	36,729	10,237	-	532,332
Equipment	13,877	-	-	13,877	1,261	464	-	-	15,602
Equipment rental	14,432	1,246	1,190	16,868	5,411	2,326	832	-	25,437
Equipment maintenance and repairs	58,623	1,248	451	60,322	1,854	448	211	-	62,835
Exhibition expense	403,966	850	-	404,816	-	-	-	-	404,816
Occupancy	237,834	27,408	7,843	273,085	32,531	5,568	2,770	-	313,954
Insurance expense	87,171	3,710	11,131	102,012	35,619	14,841	1,484	-	153,956
Interest expense	2,688	1,344	4,032	8,064	12,902	5,376	537	-	26,879
In-kind expenses:									
Raffle items	15,815	-	-	15,815	-	-	-	-	15,815
Advertising	16,440	-	-	16,440	-	-	-	-	16,440
Professional fees	500	-	-	500	-	590	-	-	1,090
Miscellaneous supplies	-	-	-	-	-	-	24,338	-	24,338
Occupancy	3,356,248	405,510	112,977	3,874,735	461,999	60,524	40,349	-	4,437,607
Miscellaneous	8,294	5,667	749	14,710	31,445	1,745	373	-	48,273
Postage and shipping	5,328	40	12,241	17,609	1,494	550	55,737	-	75,390
Printing	79,594	1,588	99	81,281	682	446	30,978	-	113,387
Professional fees	330,008	15,374	12,765	358,147	82,136	-	2,608	-	442,891
Dues and subscriptions	13,027	11,274	992	25,293	3,512	58,226	1,518	-	88,549
Technology	109,615	13,924	6,302	129,841	25,173	3,965	1,503	-	160,482
Travel expenses	3,512	-	-	3,512	-	-	-	-	3,512
Utilities	172,524	20,817	5,800	199,141	23,717	3,107	2,071	-	228,036
Supplies	6,075	2,483	1,802	10,360	3,599	1,342	158	-	15,459
	8,297,779	756,229	653,505	9,707,513	1,767,196	1,200,800	314,899	-	12,990,408
Less amounts reported in revenue and support on the consolidated statement of activities	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	\$ 8,297,779	\$ 756,229	\$ 653,505	\$ 9,707,513	\$ 1,767,196	\$ 1,200,800	\$ 314,899	\$ -	\$ 12,990,408

See accompanying notes.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (951,113)	\$ 6,598,374
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	501,871	532,332
Change in discount and allowance on promises to give	(5,987)	(216,067)
Paycheck Protection Program loan forgiveness	(445,324)	(608,600)
Net realized/unrealized (gain)/loss on investments	4,571,754	(6,530,844)
Change in charitable gift annuity	115	(2,576)
Change in value of perpetual trust	74,402	(93,744)
(Increase) decrease:		
Accounts receivable	246,077	(157,135)
Promises to give	405,869	280,074
Grants receivable	25,000	25,000
Prepaid expenses	(76,040)	(55,626)
Inventory	(8,333)	107,734
Increase (decrease):		
Accounts payable	11,049	(11,125)
Accrued expenses	(272,468)	267,634
Deferred revenue	(229,595)	97,332
Deferred conditional contribution	-	445,324
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,847,277	678,087
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,998,096)	(2,512,434)
Proceeds from sales of investments	1,801,810	3,755,838
Endowment promises to give received	-	300,000
Purchases of property and equipment	(7,181)	(7,188)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(203,467)	1,536,216
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(95,016)	(46,104)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(95,016)	(46,104)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,548,794	2,168,199
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,473,957	1,305,758
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 7,022,751	\$ 3,473,957

See accompanying notes.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Activities

Phoenix Art Museum (the Museum) is a nonprofit museum incorporated in May 1949 as an Arizona nonprofit corporation. The purpose of the Museum is to educate and expose the broadest segment of the population to the historical and aesthetic attributes of the visual arts.

Phoenix Art Museum Endowment Fund, Inc. (the Endowment Fund) was incorporated in January 1994 as an Arizona nonprofit corporation with the Phoenix Art Museum as the sole member. The purpose of the Endowment Fund is to receive and accept title of donated assets, to hold such assets as an endowment, to invest said assets, and to distribute income and gains from these assets for the benefit of the Museum.

Arizona Costume Institute, LLC (ACI), a wholly owned subsidiary of the Museum, promotes the appreciation and understanding of fashion design through the acquisition and preservation of works of historical and aesthetic significance, education programs and support for the Museum's Fashion Design department.

In addition, the Museum is supported by Phoenix Men's Art Council (MAC), a separate 501(c)(3) organization.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Museum, the Endowment Fund, and ACI (collectively the "Organization"). All inter-organizational balances and transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less at date of acquisition to be cash equivalents. Cash held in accounts with stock brokerage firms are reported as investments as they represent accounts used for the purchases and sales of investments and are excluded from this definition.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Accounts Receivable

Accounts receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. The Organization evaluates the collectability of its accounts receivable based on a combination of factors. The Organization records a reserve based on a percentage of the accounts receivable balance. Accounts are charged off against the allowance when they are deemed to be uncollectible. Accounts receivable as of June 30, 2022 and 2021 are considered to be fully collectible.

Promises to Give and Grants Receivable

Unconditional promises to give and grants receivable include promises for general purposes or program activities. Promises to give and grants receivable are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate as determined by management applicable in the years in which the promises are received. Amortization of the discounts is reflected in contributions.

The Organization records a specific reserve to reduce the amounts recorded to what it believes will be collected. Promises to give are charged off against the allowance when they are deemed uncollectible.

Inventory

Inventory consists of books, gift items, and art related objects held for resale and carried at the lower of cost or net realizable value as determined by the average cost method.

Fair Value Measurements

Accounting Standards establish a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. |
|---------|---|

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Fair Value Measurements (Continued)

Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. <p>If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments are measured at fair value or net asset value in the consolidated statements of financial position. Investments are recorded at fair value as determined by quoted prices in active markets or other valuation inputs. Investment income or loss (including realized and unrealized gains and losses, net of investment expenses) is included in the change in net assets without donor restrictions in the accompanying consolidated statements of activities, unless the income or loss is restricted by donor or law.

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Property and Equipment (Continued)

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Endowment Funds

The Organization's endowment funds consist of 43 donor restricted funds established for a variety of purposes and one board-designated endowment fund. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization follows Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds. When a donor's intent is not expressed, MCFA directs the Organization to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the fund continues in perpetuity.

The Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The donor-restricted endowment fund also includes accumulated earnings in the fund that are also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by MCFA.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Endowment Funds (Continued)

In accordance with MCFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the Organization's other resources, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. The Organization's primary objective is to obtain the best possible return on investments with the appropriate degree of risk and to meet the priorities of the Organization over time. Endowment assets are invested in a conservative, well diversified asset mix that is intended to result in a consistent inflation-protected rate of return with an average level of risk and may experience moderate levels of volatility.

Spending Policy. The Endowment Foundation's Board of Directors establishes the spending policy and draw percentage in coordination with the Museum, on a yearly basis. In establishing this policy, the Organization considers all factors outlined in the MCFA. This is consistent with the Organization's objective 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.

Charitable Gift Annuities

The Organization administers 7 charitable gift annuities. Assets received from charitable gift annuities are recorded as contribution income for the amount that exceeds the annuity liability. The annuity liability is recorded in an amount equal to the present value of the estimated future obligations to beneficiaries based on mortality rates derived from the life expectancy tables.

Beneficial Interest in Perpetual Trust

The Organization is the beneficiary of a single perpetual trust. Under the agreement, the Organization recorded the contribution with donor restriction at the fair value of the Organization's beneficial interest in the trust assets. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as changes in value of split-interest agreements to net assets with donor restrictions.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Fine Art Collection

The Organization's fine art collection consists of purchased and donated works of art. The collection items are on display for the general public. The Organization employs professional staff to ensure that the collection items are preserved and protected. Each of the items is cataloged, preserved, and cared for, and kept unencumbered, and activities verifying their existence and assessing their condition are performed continuously. Collection items acquired either through purchase or donation are not capitalized. The proceeds from deaccession of collection items may be used for acquisitions of new collection items or the direct care of existing collections.

The Organization adheres to the ethical principles and definition of direct care established by the American Alliance of Museums and considers direct care to entail actions that enhance the life, usefulness, or quality of the collection items to ensure they will continue to benefit the public. The Organization's collection management policy includes conservation services, archival services, collections care investments identified through a conservation assessment and/or plan, and collection care training for staff and volunteers, as activities that are considered direct care of collection items.

Purchases of collection items are recorded as decreases in net assets without donor restrictions if purchased with assets without donor restrictions and as decreases in net assets with donor restrictions if purchased with donor-restricted assets. Acquisitions of fine art for the years ended June 30, 2022 and 2021 totaled \$145,110 and \$171,506, respectively. Contributions of collection items are not recognized in the consolidated statements of activities.

Revenue Recognition

Other than membership revenue, the majority of the Organization's revenue arrangements generally consist of a single performance obligation to transfer promised goods or services.

Membership revenue:

Memberships can be purchased for either one-year or two-year terms. Over the term of the membership, the members receive various benefits depending on the membership level purchased. Benefits include free admission to the museum, free and discounted admission to lectures and films, discounts in the museum store and restaurant, and other benefits. The exchange transaction portion of the membership dues paid is determined to be earned revenue and is based on the value of the benefits provided. This earned membership revenue is recognized and earned on an equal monthly basis over the term of the membership as the benefits are provided to members relatively equally each month. Membership dues received as of year-end relating to the months in the membership terms that occur subsequent to year-end, are recorded as a contract liability (deferred revenue) at June 30th.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Revenue Recognition (Continued)

Admissions and museum store income:

Museum ticket sales and sales of merchandise are earned revenues where performance obligations are satisfied at a point in time. Tickets are sold daily for access to the museum, so the performance obligation is also satisfied on a daily basis. Ticket sales are earned and recognized as revenue in the period the transfer of these services is provided. Museum store income is recognized in the period the goods are sold and is reported net of sales taxes.

Facility rentals:

The Organization periodically provides space in the museum to organizations and individuals for a rental fee where half of the total fee is due at the time of the reservation and the remainder due on the day of the event. The single performance obligation is satisfied on the day the space is provided for use and the facility rental income is recognized in the period the rental occurs. Amounts received in advance of the event are recorded as a contract liability (deferred revenue).

Deferred revenue:

The activity in the contract liability accounts (deferred revenue) included the following:

	Deferred Membership Revenue	Deferred Facility Rental Revenue
Balance at June 30, 2020	\$ 533,377	\$ 138,800
Amounts received in fiscal year 2021	993,093	(45,850)
Revenue recognized in fiscal year 2021	(966,326)	(22,950)
Balance at June 30, 2021	560,144	70,000
Amounts received in fiscal year 2022	1,071,571	462,009
Revenue recognized in fiscal year 2022	(1,172,757)	(464,359)
Balance at June 30, 2022	<u>\$ 458,958</u>	<u>\$ 67,650</u>

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Contributions

Contributions received are recorded as either support with donor restrictions or as support without donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. If the restriction is met or expires in the same fiscal year the contribution is received, the amount is classified as net assets without donor restrictions.

Non-Cash Donations and Change in Accounting Principle

In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU was issued to increase the transparency of contributed nonfinancial (non-cash) assets for not-for-profit entities through enhancements to presentation and disclosure. The change in accounting principle was adopted on a retrospective basis as of July 1, 2020. There was no adjustment to the beginning net assets balance as a result of the adoption of this standard.

Donated materials and rent are recorded at their estimated fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donated services, are recorded at their fair market values in the period received.

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated from net assets without donor restrictions amounts for a board designated endowment fund.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Net Assets (Continued)

- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Advertising

The Organization uses advertising to promote its programs to the community it serves. Advertising costs are charged to operations as incurred. Advertising expense charged to operations was approximately \$252,000 and \$213,000 for the years ended June 30, 2022 and 2021, respectively.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Directly identifiable expenses are charged to programs and supporting services. The consolidated financial statements of the Organization report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. These expenses are allocated based on use, square footage basis, or on the basis of time and effort. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Tax Status

The Museum and the Endowment Fund each qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and, therefore, there is no provision for income taxes. In addition, they qualify for the charitable contribution deduction under Section 170 of the code and have been classified as organizations that are not private foundations under Section 509(a)(2).

Arizona Costume Institute, LLC is treated as a disregarded entity for tax reporting purposes. All transactions and account balances of Arizona Costume Institute, LLC are reported for tax purposes by Phoenix Art Museum, the sole member of Arizona Costume Institute, LLC.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Income Tax Status (Continued)

The Organization recognizes uncertain tax positions in the consolidated financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2022 and 2021, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

The Organization recognizes interest and penalties associated with income tax in operating expenses. During the years ended June 30, 2022 and 2021, the Organization did not have any income tax related interest and penalty expense.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 9, 2023, the date the consolidated financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors its liquidity in order to meet its operating needs and other contractual commitments. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, promises to give and other readily liquid financial instruments. Additionally, the Organization has a \$5.5 million line of credit which it can draw from when needed.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 2 LIQUIDITY AND AVAILABILITY (Continued)

As of June 30, 2022 and 2021, the following table shows the total financial assets held by the Organization that are available for expenditure in the following year:

	2022	2021
Cash and cash equivalents	\$ 7,022,751	\$ 3,473,957
Accounts receivable	61,366	307,443
Current promises to give (excluding those restricted for endowments)	337,372	625,491
Grants receivable	50,000	75,000
Endowment funds for distribution	1,156,107	1,573,500
Financial assets available to be used within one year	<u>\$ 8,627,596</u>	<u>\$ 6,055,391</u>

NOTE 3 CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, promises to give, and grants receivable. The Organization maintains its cash in bank accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances. Investment balances with brokerage firms are insured up to \$500,000 by SIPC. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on investment balances.

Promises to give include amounts due from five donors totaling 66% of total gross promises as of June 30, 2022 and amounts due from two donors totaling 31% of total gross promises to give as of June 30, 2021. Grants receivable include amounts due from two donors for each of the years ended June 30, 2022 and 2021. Concentrations of credit risk with respect to promises to give and grants receivable are limited due to the relationship and history with these donors.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 4 PROMISES TO GIVE AND GRANTS RECEIVABLE

Promises to give and grants receivable consist of the following unconditional promises at June 30:

	2022	2021
Grants receivable due in less than one year	\$ 50,000	\$ 75,000
Promises to give due in less than one year	337,372	625,491
Promises to give due in one to five years	67,500	185,250
Promises to give due in more than five years	18,000	18,000
	<hr/>	<hr/>
Total promises to give and grants receivable	472,872	903,741
Discount to present value	(18,127)	(24,114)
Allowance for uncollectible promises to give	-	-
	<hr/>	<hr/>
Net promises to give and grants receivable	454,745	879,627
Grants receivable, current portion	(50,000)	(75,000)
Promises to give, current portion	(337,372)	(625,491)
	<hr/>	<hr/>
Promises to give and grants receivable	<u>\$ 67,373</u>	<u>\$ 179,136</u>

The estimated cash flows for promises to give were discounted over the collection period using a discount rate of 4%.

NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments with readily determinable fair values are measured at fair value in the consolidated statements of financial position as determined by quoted market prices in active markets (Level 1). Alternative investments include private equity funds which are valued at net asset value based on information provided by the investment fund manager.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a summary of investments measured at fair value and net asset value on a recurring basis at June 30, 2022:

	Level 1	Level 2	Level 3	Total
Investments measured at fair value:				
Cash and fixed income	\$ 471,895	\$ -	\$ -	\$ 471,895
Fixed income funds	6,062,104	-	-	6,062,104
Equity funds	18,741,513	-	-	18,741,513
Total investments measured at fair value	<u>\$ 25,275,512</u>	<u>\$ -</u>	<u>\$ -</u>	25,275,512
Investments measured at net asset value:				
Private equity funds				2,653,306
Total investments				<u>\$ 27,928,818</u>

The following is a summary of investments measured at fair value and net asset value on a recurring basis at June 30, 2021:

	Level 1	Level 2	Level 3	Total
Investments measured at fair value:				
Cash and fixed income	\$ 573,075	\$ -	\$ -	\$ 573,075
Mutual funds	7,341,367	-	-	7,341,367
Equity funds	22,354,839	-	-	22,354,839
Total investments measured at fair value	<u>\$ 30,269,281</u>	<u>\$ -</u>	<u>\$ -</u>	30,269,281
Investments measured at net asset value:				
Private equity funds				2,035,005
Total investments				<u>\$ 32,304,286</u>

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

In accordance with Accounting Standards, certain investments that are measured using the net asset value per share (or its equivalent) as a practical expedient and have not been classified in the fair value hierarchy. The net asset value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The Organization invests in private equity funds with a diversified portfolio across general partners, industries, stages of business development and geographies. Redemptions are not permitted during the life of the fund. When the assets are sold, the proceeds less any incentives due to the fund sponsor will be distributed to the investors. The sale of the assets is subject to the approval of the fund's manager and unfunded commitments totaled approximately \$1,243,000 and \$1,470,000 as of June 30, 2022 and 2021, respectively.

Investment return is summarized as follows for the year ended June 30:

	2022	2021
Interest and dividend income	\$ 577,040	\$ 451,649
Realized gains	1,828,472	354,791
Unrealized gains/(losses)	(6,400,226)	6,176,053
Investment fees	(129,157)	(103,506)
	(4,123,871)	6,878,987
Gain/(loss) on perpetual trust	(74,402)	93,744
	<u>\$ (4,198,273)</u>	<u>\$ 6,972,731</u>

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Other assets measured at fair value on a recurring basis include the charitable gift annuity investments and beneficial interest in perpetual trust. The Organization serves as the trustee for the charitable gift annuities and the investments held are measured at fair value as determined by quoted market prices in active markets. A third-party trustee holds the perpetual trust assets. The fair value of the interest in the perpetual trust is estimated at the fair value of the Organization's portion of the underlying assets of the trust using information provided by the trustee. The fair value of these assets is summarized as follows for the year ended June 30, 2022:

	Level 1	Level 2	Level 3	Total
Charitable gift annuities:				
Cash and money market	\$ 2,681	\$ -	\$ -	\$ 2,681
Fixed income mutual funds	26,412	-	-	26,412
Equity mutual funds	31,838	-	-	31,838
Real asset funds	1,143	-	-	1,143
Total charitable gift annuities	62,074	-	-	62,074
Beneficial interest in perpetual trust	-	-	484,746	484,746
	<u>\$ 62,074</u>	<u>\$ -</u>	<u>\$ 484,746</u>	<u>\$ 546,820</u>

The fair value of these assets is summarized as follows for the year ended June 30, 2021:

	Level 1	Level 2	Level 3	Total
Charitable gift annuities:				
Cash and money market	\$ 2,619	\$ -	\$ -	\$ 2,619
Fixed income mutual funds	31,022	-	-	31,022
Equity mutual funds	51,839	-	-	51,839
Other funds	2,656	-	-	2,656
Real asset funds	1,592	-	-	1,592
Total charitable gift annuities	89,728	-	-	89,728
Beneficial interest in perpetual trust	-	-	559,148	559,148
	<u>\$ 89,728</u>	<u>\$ -</u>	<u>\$ 559,148</u>	<u>\$ 648,876</u>

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using the significant unobservable inputs (Level 3) during the years ended June 30, 2022 and 2021.

Balance at June 30, 2020	\$ 465,404
Change in fair value	<u>93,744</u>
Balance at June 30, 2021	559,148
Change in fair value	<u>(74,402)</u>
Balance at June 30, 2022	<u>\$ 484,746</u>

NOTE 6 BENEFICIAL INTEREST IN PERPETUAL TRUST

The Organization is an income beneficiary of one perpetual trust. The trust fund is held and controlled by a third-party trustee. The Organization is entitled to a specified percentage of the annual income distributions from the trust as defined in the trust agreement. The Organization will also be entitled to a specified percentage of the total amount of the corpus assets that will be distributed if the trust is ever dissolved. At June 30, 2022 and 2021, the Organization has estimated the fair value of its beneficial interest in the trust based upon the Organization's respective interest in the value of the underlying assets held by the trust. For the year ended June 30, 2022, there were no distributions from the perpetual trust. For the year ended June 30, 2021, there was a distribution of \$15,000 from the perpetual trust. Future distributions will be included in investment income with donor restrictions in the consolidated statements of activities and are restricted for the purpose of purchasing Asian art.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2022	2021
Land	\$ 699,253	\$ 699,253
Building and improvements	8,750,179	8,750,179
Equipment	797,250	797,250
Furniture and fixtures	75,446	75,446
Website	298,000	298,000
	<u>10,620,128</u>	<u>10,620,128</u>
Accumulated depreciation	(7,747,719)	(7,245,846)
Construction in progress	14,368	7,185
	<u>\$ 2,886,777</u>	<u>\$ 3,381,467</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was approximately \$502,000 and \$532,000, respectively.

NOTE 8 LINE OF CREDIT

The Organization has a \$5,500,000 line of credit with a variable interest rate equal to the variable SOFR (Secured Overnight Financing Rate) plus 1.1%. This line of credit agreement is collateralized by marketable securities and expires in May 2023. There was no outstanding balance due on the line of credit as of June 30, 2022 and 2021.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 9 LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	<u>2022</u>	<u>2021</u>
Note payable with Arizona Community Foundation (ACF) due in monthly installments of \$10,631, including interest payable at a fixed rate of 4%. The Organization signed deferment agreements with ACF to defer payments from April 2020 to December 2020 due to the pandemic. This loan is collateralized by securities under a pledge agreement.	\$ 762,030	\$ 857,046
Current portion	<u>(99,217)</u>	<u>(95,016)</u>
	<u>\$ 662,813</u>	<u>\$ 762,030</u>

The note payable with ACF requires compliance with a debt service coverage ratio, which is tested quarterly.

Annual principal payments due for the next five years and thereafter are as follows for the years ending June 30:

<u>Years Ending June 30,</u>	
2023	\$ 99,217
2024	102,916
2025	107,109
2026	111,473
2027	116,015
Thereafter	<u>225,300</u>
	<u>\$ 762,030</u>

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 ENDOWMENTS

Endowments consists of 43 funds restricted in perpetuity by the donors which are included in net assets with donor restrictions on the accompanying consolidated statements of financial position. Endowments also include one board-designated endowment fund which is included in net assets without donor restrictions on the accompanying consolidated statements of financial position. Endowment net asset composition as of June 30, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Board-designated	\$ 1,420,508	\$ -	\$ 1,420,508
Original corpus - investments	-	22,554,537	22,554,537
Accumulated investment earnings	(210,712)	4,164,485	3,953,773
	<u>\$ 1,209,796</u>	<u>\$ 26,719,022</u>	<u>\$ 27,928,818</u>

Endowment net asset composition as of June 30, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Original corpus - investments	\$ -	\$ 22,519,990	\$ 22,519,990
Accumulated investment earnings	-	9,784,296	9,784,296
	<u>\$ -</u>	<u>\$ 32,304,286</u>	<u>\$ 32,304,286</u>

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 10 ENDOWMENTS (Continued)

Changes in endowment funds for the years ended June 30 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Balance, June 30, 2020	\$ -	\$ 27,316,846	\$ 27,316,846
Contributions	-	326	326
Interest and dividend income	-	450,701	450,701
Realized gains	-	354,791	354,791
Unrealized gains	-	6,176,053	6,176,053
Fees	-	(122,831)	(122,831)
Amounts appropriated for expenditure	-	(1,871,600)	(1,871,600)
Balance, June 30, 2021	-	32,304,286	32,304,286
Contributions	1,420,508	548	1,421,056
Interest and dividend income	-	562,505	562,505
Realized gains	-	1,828,472	1,828,472
Unrealized loss	(210,712)	(6,155,445)	(6,366,157)
Fees	-	(134,908)	(134,908)
Amounts appropriated for expenditure	-	(1,686,436)	(1,686,436)
Balance, June 30, 2022	<u>\$ 1,209,796</u>	<u>\$ 26,719,022</u>	<u>\$ 27,928,818</u>

The fair value of assets associated with individual donor-restricted endowments may have fair values less than the amount required to be maintained by donors or law (underwater endowments). The Organization has interpreted MCFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2022 and 2021, certain endowment funds had fair values less than the original gift values resulting in deficiencies. These deficiencies resulted from unfavorable market fluctuations and continued appropriations for certain programs that were deemed prudent by the Board of Directors. It is the Organization's policy to continue to apply the spending policy to underwater endowment funds. The underwater funds as of June 30, 2021 included one fund with an original total gift value of \$100,548 and total fair value of \$84,820, with a total deficiency of \$15,728.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 10 ENDOWMENTS (Continued)

The following is a schedule of underwater endowment funds as of June 30, 2022:

	Original Gift Amount	Fair Market Value at June 30, 2022	Deficiency at June 30, 2022
CF- Acquisition	\$ 161,143	\$ 82,250	\$ (78,893)
Bouma	100,548	69,889	(30,659)
Harrington	3,451,831	3,052,704	(399,127)
Lewis	712,451	667,129	(45,322)
Virginia G. Piper Trust	1,250,000	1,173,917	(76,083)
Others	1,303,250	1,284,308	(18,942)
	<u>\$ 6,979,223</u>	<u>\$ 6,330,197</u>	<u>\$ (649,026)</u>

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30 consist of:

	2022	2021
<u>Time restricted:</u>		
Promises to give	\$ 65,000	\$ 408,994
<u>Time and purpose restricted promises to give:</u>		
Exhibits and events	324,500	210,951
Conservation	30,000	-
Library support	-	112,500
Other	-	60,000
	<u>354,500</u>	<u>383,451</u>
<u>Purpose restricted:</u>		
Exhibits and education	643,248	1,677,443
Conservation	1,507,767	1,136,924
Other	13,749	126,350
Beneficial interest in perpetual trust	484,746	559,148
	<u>2,649,510</u>	<u>3,499,865</u>
<u>Endowment funds:</u>		
Portion of perpetual endowment funds that is required to be retained permanently	22,554,537	22,519,990
Investment income subject to a time restriction under MCFA	16,397	1,747,360
Investment income subject to time and purpose restriction under MCFA:		
Exhibits and education	946,965	3,676,693
Conservation	823,008	1,397,717
Art acquisitions	2,316,672	2,870,189
Art awards and scholarships	61,443	92,337
	<u>26,719,022</u>	<u>32,304,286</u>
Total net assets with donor restrictions	<u>\$ 29,788,032</u>	<u>\$ 36,596,596</u>

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 12 GOVERNMENT GRANTS

Paycheck Protection Program:

During the years ended June 30, 2020 and 2021, the Organization received both a first and second draw of Paycheck Protection Program (“PPP”) funding administered by the U.S Small Business Administration (“SBA”) in the amounts of \$1,286,338 for each draw. These amounts were forgivable after 24 weeks as long as the Organization used the proceeds for eligible purposes, including payroll costs, interest on mortgage obligations, rent and utilities. Unless certain safe harbor requirements are met, the amount of the forgiveness will be reduced if the Organization reduced the number of employees or reduced salaries by more than 25% during the 24-week period beginning on the PPP funding origination date. In addition, the Organization was required to demonstrate at least a 25% reduction in gross receipts between comparable quarters in 2019 and 2020.

The Organization determined that the proceeds represented conditional contributions as forgiveness was anticipated for the full of the amounts received. Accordingly, the income was recognized as follows:

	Income in 2022	Income in 2021	Income in 2020	Total
PPP - first draw	\$ -	\$ 608,600	\$ 677,738	\$ 1,286,338
PPP - second draw	445,324	841,014	-	1,286,338
Totals	<u>\$ 445,324</u>	<u>\$ 1,449,614</u>	<u>\$ 677,738</u>	<u>\$ 2,572,676</u>

During the years ended June 30, 2022 and 2021, the Organization received full forgiveness from the lender of the amounts received for the second and first draws, respectively. The Organization is subject to possible audit or investigation by the SBA to determine whether award funds were used for eligible and allowable purposes.

Employee Retention Tax Credit:

On March 27, 2020, in response to the COVID-19 pandemic, the U.S. Congress enacted the Coronavirus Aid, Relief and Economic Security Act, which among other things, contains an employee retention tax credit (“ERTC”). On December 27, 2020, the Consolidated Appropriations Act, 2021 was signed into law, which among other things, provides the retroactive ability for entities that received PPP loans to also obtain the ERTC. The ERTC allows, based on certain eligibility rules, for a credit against certain payroll taxes based on a percentage of wages paid to each employee commencing on March 13, 2020 and through September 30, 2021, to be paid by the Internal Revenue Service (“IRS”).

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 12 GOVERNMENT GRANTS (Continued)

Employee Retention Tax Credit (Continued):

Eligibility and the amount of the credit is determined on a quarter-by-quarter basis throughout 2020 and through the third quarter of 2021 based on various factors including, the number of full-time employees employed during 2019, whether there was a partial or full shutdown of the business due to government orders and/or whether a certain percentage decline of gross receipts occurred during each quarter in 2020 or 2021 versus the same quarter in 2019. The Organization has determined that it has qualified for the credit for certain quarters in the available time period. As a result, the Organization has recognized this wage credit in the amounts of \$475,015 and \$635,708 for the years ended June 30, 2022 and 2021, respectively, as Employee Retention Tax Credit income on the accompanying consolidated statements of activities. This income was determined to meet the definition of a conditional contribution where the income is recognized when the conditions are substantially met. A balance of \$216,392 of ERTC was included in accounts receivable on the accompanying statement of financial position as of June 30, 2021. The Organization is subject to possible audit or investigation by the IRS to determine whether the tax credit amounts were used for allowable purposes and whether the Organization met the eligibility requirements relating to decreased revenue.

Shuttered Venue Operators Grant:

The Shuttered Venue Operators Grant (“SVOG”) program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act. The U.S. Small Business Administration provides SVOG funding for emergency assistance for eligible performing arts businesses affected by COVID-19. Eligible entities include live venue operators, live performing arts organization operators, museum operators, and others. SVOG funds may be used for certain expenses including payroll costs, rent payments, utility payments, and other ordinary and necessary business expenses. This income was determined to meet the definition of a conditional contribution where the income is recognized when the conditions are substantially met which is as eligible costs are incurred. The SVOG income recognized during the year ended June 30, 2022 was \$497,410, which was the full amount received. The Organization will be subject to SBA’s monitoring program to determine whether award funds were used for eligible and allowable purposes.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 13 DONATED FACILITIES, MATERIALS, AND SERVICES

The Organization has an operating agreement with the City of Phoenix (the City) which commenced June 30, 1993 and ends on June 30, 2052, subject to cancellation. The agreement stipulates that the Organization will pay one dollar per year as rent for use of the Organization's facilities. The Organization has estimated the fair value of these donated costs from the City for the years ended June 30 as follows:

	2022	2021
Facility	\$ 3,713,490	\$ 3,713,490
Utilities	277,084	225,028
Maintenance	892,927	499,089
Total from City of Phoenix	4,883,501	4,437,607
Event planning services	30,000	-
Advertising	48,560	-
Food	108,075	-
Supplies and other	60,044	57,682
	246,679	57,682
Total	\$ 5,130,180	\$ 4,495,289

The values for contributed facility, utilities, and maintenance are provided by the City of Phoenix and are based on fair market value which is based on amounts that would be charged for similar space, utilities, and maintenance services under similar terms. The allocation of these amounts between the various programs, management and general, fundraising, and membership are shown as occupancy line item on the accompanying statement of functional expenses.

The value for event planning services is based on market hourly rates for similar services multiplied by the number of hours donated. The values for advertising services, food, and supplies are based on what would have been charged by the vendors if the services had not been provided as a donation and are utilized in the fundraising function.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 14 PENSION PLAN

The Organization has a defined benefit pension plan covering eligible employees. The plan calls for benefits to be paid to employees at retirement based on an actuarial valuation consisting primarily of years of service and compensation. Employees are fully vested after five years employment with the Organization. Effective September 1, 2013, the Organization's defined benefit pension plan was frozen, as such, there are no further entrants to the plan nor benefits accrued after that date.

The plan's funded status was as follows:

	<u>2022</u>	<u>2021</u>
Projected benefit obligation	\$ (1,058,570)	\$ (1,339,483)
Fair value of plan assets	<u>691,126</u>	<u>860,045</u>
Funded status of plan at year-end	<u>\$ (367,444)</u>	<u>\$ (479,438)</u>
Accumulated benefit obligation	<u>\$ 1,058,570</u>	<u>\$ 1,339,483</u>
Employer contributions	<u>\$ -</u>	<u>\$ 10,000</u>
Participant contributions	<u>\$ -</u>	<u>\$ -</u>
Benefits paid	<u>\$ 71,060</u>	<u>\$ 97,363</u>

The employer makes contributions to the plan that are not less than the minimum funding requirement under Internal Revenue Code Section 430 or greater than the maximum deductible amount. The Organization does not expect to make a contribution to the pension plan during the year ending June 30, 2023. Amounts recognized in the consolidated statements of financial position as of June 30, 2022 and 2021 consists of pension liability in the amounts of \$367,444 and \$479,438, respectively.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 14 PENSION PLAN (Continued)

Net periodic benefit costs included in expenses for the years ended June 30 are as follows:

	2022	2021
	<u>\$</u>	<u>\$</u>
Service costs	-	-
Other components of costs:		
Interest costs	\$ 39,373	\$ 40,847
Expected return on plan assets	(54,146)	(61,173)
Recognized actuarial (gain) loss	13,458	12,172
Recognized (gain) or loss due to settlement curtailment	<u>22,823</u>	<u>45,209</u>
Net periodic pension cost	<u>\$ 21,508</u>	<u>\$ 37,055</u>

The following sets forth the amounts recognized in changes in net assets without donor restrictions:

	2022	2021
	<u>\$</u>	<u>\$</u>
Net loss	446,973	580,475
Prior service cost	<u>-</u>	<u>-</u>
Net amount recognized	<u>\$ 446,973</u>	<u>\$ 580,475</u>

The following weighted-average assumptions were used to determine benefit obligations and net periodic pension cost for indicated fiscal years at June 30:

	2022	2021
Discount rate	4.50%	3.00%
Rate of compensation increase	2.00%	2.00%
Compensation and benefit limit increase	3.00%	3.00%
Expected long-term rate of return of plan assets	6.50%	6.50%

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 14 PENSION PLAN (Continued)

The discount rate and expected rate of return on plan assets are critical assumptions which significantly affect pension accounting. Even relatively small changes in these rates would significantly change the recorded pension expense and accrued liability. Management believes the discount rate and expected rate of return on plan assets used in determining its year-end pension accounting are reasonable based on currently available information. However, it is at least reasonably possible that these assumed rates will be revised in the near term, based on future events and changes in circumstances.

The overall expected long-term rate of return on plan assets represents a weighted-average composition rate based on expected rates of return. The Organization's pension plan weighted-average asset allocations by asset are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	7.00%	10.00%
Fixed income	<u>93.00%</u>	<u>90.00%</u>
	<u>100.00%</u>	<u>100.00%</u>

The Organization's overall strategy is to invest in high-grade securities with a minimum amount of market fluctuations. In general, the Organization's objective is to maintain the following allocation ranges:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	9.95%	9.95%
Fixed income	<u>90.05%</u>	<u>90.05%</u>
	<u>100.00%</u>	<u>100.00%</u>

Such rates are estimated by adjusting historical results for each category of investment for anticipated market movement. Under its terms, the plan investments will be limited to marketable securities including common and preferred stocks, convertible securities, government, municipal and corporate bonds, mutual and collective investment funds, and short-term money market instruments. The Organization's investment strategy is to provide a regular and reliable source of income to meet the liquidity needs of the pension plan and minimize reliance on plan sponsor contributions as a source of benefit security.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 14 PENSION PLAN (Continued)

Plan assets with readily determinable fair values are measured at fair value as determined by quoted market prices in active markets (Level 1). The fair values of the Organization's pension plan assets at June 30, 2022 and 2021 by asset category are as follows:

	<u>2022</u>	<u>2021</u>
Cash (Level 1)	\$ 48,379	\$ 86,005
Fixed income (Level 1)	<u>642,747</u>	<u>774,041</u>
	<u>\$ 691,126</u>	<u>\$ 860,045</u>

The following pension benefit payments which reflect expected future service, as appropriate, are expected to be paid as follows:

<u>Years Ending June 30:</u>	<u>Amount</u>
2023	\$ 57,289
2024	58,369
2025	61,746
2026	61,676
2027	61,605
2028-2032	<u>299,746</u>
	<u>\$ 600,431</u>

NOTE 15 EMPLOYEE BENEFIT PLANS

The Organization has a 403(b) defined contribution savings plan. Participation in the plan is voluntary. The Organization does not contribute nor match employee's contributions.

The Organization sponsors a 401(k) plan (the "Plan") for the benefit of its employees who have completed certain service requirements and have attained the age 21. Employees may elect to contribute a percentage of their salary to the Plan up to a maximum allowed under the Internal Revenue Code. Upon eligibility, the Organization contributes 3% of the employee's compensation plus 100% of an employee's salary deferral up to 1% of compensation. The Organization's contributions to the Plan for the years ended June 30, 2022 and 2021 totaled approximately \$138,000 and \$111,000, respectively.

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 16 RELATED PARTY TRANSACTIONS

The Men's Art Council (MAC) is a separate legal entity that is affiliated with the Organization. MAC provides contributions to assist in support of the Organization's operations. MAC donated \$175,000 and \$62,500 in donations without restrictions to the organization during the years ended June 30, 2022 and 2021, respectively. The Organization provides for payment of MAC's salaries, wages, benefits and taxes, which are reimbursed by MAC. Salaries, wages, benefits and taxes reimbursed to the Organization by MAC as of June 30, 2022 and 2021 totaled \$73,026 and \$38,002, respectively.

Artenders, Inc., an entity that is wholly owned by MAC, provides beverage services at many of the Organization's special events. The Organization rents office space to Artenders, Inc. as well as provides for payment of Artenders, Inc.'s salaries, wages, benefits and taxes, which are reimbursed by Artenders, Inc. Total rental income received from Artenders amounted to \$24,000 for each of the years ended June 30, 2022 and 2021, respectively. Salaries, wages, benefits and taxes, and miscellaneous expenses reimbursed to the Organization by Artenders, Inc. during the years ended June 30, 2022 and 2021 amounted to \$101,194 and \$9,647 respectively.

During the years ended June 30, 2022 and 2021, the Organization received contributions from board members that totaled approximately \$1,638,000 and \$1,231,000, respectively.

NOTE 17 NEW ACCOUNTING PRONOUNCEMENT

The FASB has issued ASU No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2021. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

SUPPLEMENTARY INFORMATION

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2022

	Phoenix Art Museum	Phoenix Art Museum Endowment Fund, Inc.	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 7,022,751	\$ -	\$ -	\$ 7,022,751
Accounts receivable	61,366	-	-	61,366
Due from affiliate	1,211,296	220	(1,211,516)	-
Promises to give, current, net	337,372	-	-	337,372
Grants receivable	50,000	-	-	50,000
Prepaid expenses	170,143	-	-	170,143
Inventory	212,281	-	-	212,281
	<u>9,065,209</u>	<u>220</u>	<u>(1,211,516)</u>	<u>7,853,913</u>
OTHER ASSETS				
Promises to give, net of current, discount and allowance	67,373	-	-	67,373
Investments - endowments	-	26,801,685	-	26,801,685
Investments - collateral	-	1,127,133	-	1,127,133
Charitable gift annuities	62,074	-	-	62,074
Property and equipment, net	2,886,777	-	-	2,886,777
Beneficial interest in perpetual trust	484,746	-	-	484,746
	<u>3,500,970</u>	<u>27,928,818</u>	<u>-</u>	<u>31,429,788</u>
TOTAL ASSETS	<u>\$ 12,566,179</u>	<u>\$ 27,929,038</u>	<u>\$ (1,211,516)</u>	<u>\$ 39,283,701</u>

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (Continued)
June 30, 2022

	Phoenix Art Museum	Phoenix Art Museum Endowment Fund, Inc.	Eliminations	Total
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 172,615	\$ -	\$ -	\$ 172,615
Due to affiliate	220	1,211,296	(1,211,516)	-
Accrued expenses	474,773	-	-	474,773
Deferred revenue	595,846	-	-	595,846
Note payable, current	99,217	-	-	99,217
	1,342,671	1,211,296	(1,211,516)	1,342,451
OTHER LIABILITIES				
Accrued pension	367,444	-	-	367,444
Note payable, net of current	662,813	-	-	662,813
Charitable gift annuity liabilities	73,319	-	-	73,319
TOTAL LIABILITIES	2,446,247	1,211,296	(1,211,516)	2,446,027
NET ASSETS				
Without donor restrictions	7,049,592	50	-	7,049,642
With donor restrictions	3,070,340	26,717,692	-	29,788,032
TOTAL NET ASSETS	10,119,932	26,717,742	-	36,837,674
TOTAL LIABILITIES AND NET ASSETS	\$ 12,566,179	\$ 27,929,038	\$ (1,211,516)	\$ 39,283,701

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended June 30, 2022

	Phoenix Art Museum	Phoenix Art Museum Endowment Fund, Inc.	Eliminations	Total
SUPPORT AND REVENUE				
Earned and other revenue:				
Admissions	\$ 1,249,883	\$ -	\$ -	\$ 1,249,883
Membership revenue	1,172,757	-	-	1,172,757
Museum store income	736,959	-	-	736,959
Shared costs reimbursements	384,484	-	-	384,484
Royalties	6,645	-	-	6,645
Facility rentals	464,359	-	-	464,359
Miscellaneous income	50,995	-	-	50,995
Perpetual trust net change	(74,402)	-	-	(74,402)
Investment income, net	(230,245)	(3,893,626)	-	(4,123,871)
Total earned and other revenue	3,761,435	(3,893,626)	-	(132,191)
Support:				
Contributions	6,990,380	718	-	6,991,098
Endowment fund grant	1,686,436	-	(1,686,436)	-
Donated facilities, materials and services	5,130,180	-	-	5,130,180
Paycheck Protection Program grant	445,324	-	-	445,324
Employee Retention Credit	475,015	-	-	475,015
Shuttered Venue Operators grant	497,410	-	-	497,410
Other government grants	432,649	-	-	432,649
Change in value of charitable gift annuity	(115)	-	-	(115)
Total support	15,657,279	718	(1,686,436)	13,971,561
Special event revenue	638,789	-	-	638,789
Cost of direct benefit to donors	(124,400)	-	-	(124,400)
Gross profit on special events	514,389	-	-	514,389
TOTAL SUPPORT AND REVENUE	19,933,103	(3,892,908)	(1,686,436)	14,353,759

PHOENIX ART MUSEUM AND PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES (Continued)
Year Ended June 30, 2022

	Phoenix Art Museum	Phoenix Art Museum Endowment Fund, Inc.	Eliminations	Total
EXPENSES				
Program services expenses	11,771,303	1,686,436	(1,686,436)	11,771,303
Supporting services expenses				
Management and general	1,727,847	7,250	-	1,735,097
Fundraising	1,468,027	-	-	1,468,027
Membership	330,445	-	-	330,445
TOTAL EXPENSES	15,297,622	1,693,686	(1,686,436)	15,304,872
CHANGE IN NET ASSETS	4,635,481	(5,586,594)	-	(951,113)
NET ASSETS, BEGINNING OF YEAR	5,484,451	32,304,336	-	37,788,787
NET ASSETS, END OF YEAR	<u>\$ 10,119,932</u>	<u>\$ 26,717,742</u>	<u>\$ -</u>	<u>\$ 36,837,674</u>

Phoenix Art Museum

UNIFORM GUIDANCE SUPPLEMENTARY REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

To the Board of Directors
Phoenix Art Museum and Phoenix Art Museum Endowment Fund, Inc.
Phoenix, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Phoenix Art Museum which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 9, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Phoenix Art Museum's control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Phoenix Art Museum's internal control. Accordingly, we do not express an opinion on the effectiveness of Phoenix Art Museum's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Phoenix Art Museum's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

Tempe, Arizona
January 9, 2023

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Phoenix Art Museum
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Phoenix Art Museum's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Phoenix Art Museum's major federal programs for the year ended June 30, 2022. Phoenix Art Museum's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Phoenix Art Museum complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Phoenix Art Museum and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Phoenix Art Museum's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Phoenix Art Museum's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Phoenix Art Museum's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Phoenix Art Museum's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Phoenix Art Museum's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Phoenix Art Museum's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Phoenix Art Museum's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly US, LLP

Tempe, Arizona
January 9, 2023

PHOENIX ART MUSEUM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

	Federal Assistance		
Federal Grantor / Pass-Through Grantor / Program	Listing Number	Grantor's Number	Federal Expenditures
U.S. SMALL BUSINESS ADMINISTRATION			
COVID-19 Shuttered Venue Operators Grant Program	59.075	072436520-0001	497,410 *
NATIONAL ENDOWMENT FOR THE HUMANITIES			
Promotion of the Humanities Division of Preservation and Access	45.149	N/A	240,746
DEPARTMENT OF TREASURY			
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	68,096
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 806,252

* Denotes major program

See accompanying notes.

PHOENIX ART MUSEUM
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Phoenix Art Museum under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Phoenix Art Museum, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Phoenix Art Museum.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B) Phoenix Art Museum has not elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

PHOENIX ART MUSUEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2022

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified
Internal control over financial reporting:
 • Material weakness(es) identified? _____ yes X no
 • Significant deficiency(ies) identified that are not
 considered to be a material weakness(es)? _____ yes X none reported
 Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:
 • Material weakness(es) identified? _____ yes X no
 • Significant deficiency(ies) identified that are
 not considered to be a material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for major
program listed below: Unmodified
 Any audit findings disclosed that are required to be reported
in accordance with the Uniform Guidance? _____ yes X no

Identification of major program:

Assistance Listing Numbers	Name of Federal Program or Cluster
59.075	COVID-19 Shuttered Venue Operators Grant Program

Dollar threshold used to distinguish between Type A and
Type B programs: \$750,000

Auditee qualified as low risk auditee? _____ yes x no

PHOENIX ART MUSUEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2022

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

None Noted

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None Noted