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

Consolidated Financial Statements
and Supplementary Information

June 30, 2023 and 2022

Independent Auditors' Report

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

Opinion

We have audited the accompanying consolidated financial statements of Phoenix Art Museum and Phoenix Art Museum Endowment Fund, Inc. (Arizona not-for-profit corporations) (collectively, the Organization), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the 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, 2023 and 2022, 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 (GAAS). 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.

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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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with *GAAS*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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. 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.

Baker Tilly US, LLP

Tempe, Arizona
December 14, 2023

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

Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	$ 3,482,765	$ 7,022,751
Accounts receivable	189,462	61,366
Promises to give	585,500	337,372
Grants receivable	-	50,000
Prepaid expenses	192,879	170,143
Inventory	247,626	212,281
Total current assets	4,698,232	7,853,913
Other Assets		
Promises to give	569,560	67,373
Investments, unrestricted	1,355,168	-
Investments, endowments	28,087,108	26,801,685
Investments, collateral	1,063,894	1,127,133
Charitable gift annuities	48,976	62,074
Property and equipment, net	2,555,516	2,886,777
Operating right-of-use asset	47,025	-
Beneficial interest in perpetual trust	470,959	484,746
Total assets	$ 38,896,438	$ 39,283,701
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 93,807	$ 172,615
Accrued expenses	554,073	474,773
Deferred revenue	703,326	595,846
Operating lease liability	48,286	-
Note payable, current	102,916	99,217
Total current liabilities	1,502,408	1,342,451
Other Liabilities		
Accrued pension	235,081	367,444
Note payable, net of current	560,226	662,813
Charitable gift annuity liabilities	60,869	73,319
Total liabilities	2,358,584	2,446,027
Net Assets		
Without donor restrictions, undesignated	3,880,089	5,839,846
Without donor restrictions, Board-designated	1,331,034	1,209,796
	5,211,123	7,049,642
With donor restrictions	31,326,731	29,788,032
Total net assets	36,537,854	36,837,674
Total liabilities and net assets	$ 38,896,438	$ 39,283,701

See notes to consolidated financial statements

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

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

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenue						
Earned and other revenue:						
Admissions	$ 1,403,350	$ -	$ 1,403,350	$ 1,249,883	$ -	$ 1,249,883
Membership revenue	1,142,793	-	1,142,793	1,172,757	-	1,172,757
Museum store income	1,034,856	-	1,034,856	736,959	-	736,959
Shared costs reimbursements	326,811	-	326,811	384,484	-	384,484
Royalties	3,898	-	3,898	6,645	-	6,645
Facility rentals	708,079	-	708,079	464,359	-	464,359
Miscellaneous income	67,237	-	67,237	50,995	-	50,995
Perpetual trust net change	-	(13,787)	(13,787)	-	(74,402)	(74,402)
Investment income, net	255,251	2,649,211	2,904,462	(224,495)	(3,899,376)	(4,123,871)
Total earned and other revenue	4,942,275	2,635,424	7,577,699	3,841,587	(3,973,778)	(132,191)
Support:						
Contributions	1,163,435	2,500,490	3,663,925	5,698,194	1,292,904	6,991,098
Donated facilities, utilities and maintenance	4,607,931	-	4,607,931	4,860,893	-	4,860,893
Other non-cash donations	236,997	-	236,997	269,287	-	269,287
Paycheck Protection Program grant	-	-	-	445,324	-	445,324
Employee Retention Tax Credit	-	-	-	475,015	-	475,015
Shuttered Venue Operators grant	-	-	-	497,410	-	497,410
Other government grants	91,000	-	91,000	432,649	-	432,649
Change in value of charitable gift annuity	(647)	-	(647)	(115)	-	(115)
Net assets released from time and purpose restrictions	2,041,620	(2,041,620)	-	2,441,254	(2,441,254)	-
Net assets released from endowments	1,555,595	(1,555,595)	-	1,686,436	(1,686,436)	-
Total support	9,695,931	(1,096,725)	8,599,206	16,806,347	(2,834,786)	13,971,561
Special event revenue	656,588	-	656,588	638,789	-	638,789
Direct benefit to donors	(73,348)	-	(73,348)	(124,400)	-	(124,400)
Special events, net	583,240	-	583,240	514,389	-	514,389
Total support and revenue	15,221,446	1,538,699	16,760,145	21,162,323	(6,808,564)	14,353,759
Expenses						
Program services expenses	12,367,389	-	12,367,389	11,771,303	-	11,771,303
Supporting services expenses:						
Management and general	2,688,164	-	2,688,164	1,735,097	-	1,735,097
Fundraising	1,685,647	-	1,685,647	1,468,027	-	1,468,027
Membership	318,765	-	318,765	330,445	-	330,445
Total expenses	17,059,965	-	17,059,965	15,304,872	-	15,304,872
Change in net assets	(1,838,519)	1,538,699	(299,820)	5,857,451	(6,808,564)	(951,113)
Net Assets, Beginning	7,049,642	29,788,032	36,837,674	1,192,191	36,596,596	37,788,787
Net Assets, Ending	$ 5,211,123	$ 31,326,731	$ 36,537,854	$ 7,049,642	$ 29,788,032	$ 36,837,674

See notes to consolidated financial statements

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

Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services				Supporting Services				
	Collections and Exhibits	Education and Community Services	Museum Store	Total Program Services	Management and General	Fundraising	Membership	Cost of Direct Benefit to Donors	Totals
Personnel expenses:									
Salaries and wages	$ 2,817,614	$ 436,826	$ 235,374	$ 3,489,814	$ 1,182,304	$ 932,007	$ 103,338	$ -	$ 5,707,463
Payroll taxes	205,382	31,841	17,157	254,380	86,181	67,936	7,533	-	416,030
Employee benefits	427,689	63,637	29,729	521,055	171,093	100,669	14,973	-	807,790
	3,450,685	532,304	282,260	4,265,249	1,439,578	1,100,612	125,844	-	6,931,283
Advertising and marketing	321,361	867	140	322,368	3,769	4,151	125	-	330,413
Art acquisitions	283,600	-	-	283,600	-	-	-	-	283,600
Bank and merchant fees	75	-	23,336	23,411	23,742	-	-	-	47,153
Cost of sales	749	-	445,177	445,926	-	1,799	23,854	-	471,579
Curatorial expense	117,488	-	8,096	125,584	-	123	123	-	125,830
Depreciation expense	271,020	30,902	11,989	313,911	55,749	12,130	5,854	-	387,644
Dues and subscriptions	28,586	5,590	516	34,692	10,528	60,677	1,436	-	107,333
Equipment	(9,432)	1,184	118	(8,130)	3,407	595	49	-	(4,079)
Equipment rental	10,680	660	(214)	11,126	3,258	44,533	(145)	-	58,772
Equipment maintenance and repairs	62,356	1,586	519	64,461	4,584	412	217	-	69,674
Exhibition expense	604,702	1,430	-	606,132	-	-	-	-	606,132
Insurance expense	78,197	-	-	78,197	90,181	-	-	-	168,378
Interest expense	1,685	156	158	1,999	29,388	253	96	-	31,736
Occupancy	313,455	34,165	13,447	361,067	44,662	5,818	3,409	-	414,956
Postage and shipping	2,202	414	10,451	13,067	1,455	8,365	47,336	-	70,223
Printing	55,533	7,851	27	63,411	12,700	27,884	52,463	-	156,458
Professional fees	512,423	100,116	8,507	621,046	329,681	178,694	9,096	-	1,138,517
Supplies	13,114	15,990	4,489	33,593	17,281	20,352	1,338	-	72,564
Technology	178,477	14,590	8,690	201,757	56,820	13,233	2,943	-	274,753
Travel expenses	56,800	4,865	6,627	68,292	1,931	6,535	-	-	76,758
Utilities	227,702	27,511	7,665	262,878	31,379	4,106	2,737	-	301,100
In-kind expenses:									
Services and goods	108,619	1,796	13	110,428	52	126,513	5	-	236,998
Occupancy	3,485,067	421,074	117,314	4,023,455	479,731	62,847	41,898	73,348	4,681,279
Miscellaneous	22,527	16,084	1,258	39,869	48,288	6,015	87	-	94,259
	10,197,671	1,219,135	950,583	12,367,389	2,688,164	1,685,647	318,765	73,348	17,133,313
Less amounts reported in revenue and support on the consolidated statement of activities	-	-	-	-	-	-	-	(73,348)	(73,348)
Total expenses	$ 10,197,671	$ 1,219,135	$ 950,583	$ 12,367,389	$ 2,688,164	$ 1,685,647	$ 318,765	$ -	$ 17,059,965

See notes to consolidated financial statements

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

Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services				Supporting Services				
	Collections and Exhibits	Education and Community Services	Museum Store	Total Program Services	Management and General	Fundraising	Membership	Cost of Direct Benefit to Donors	Totals
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 note to consolidated financial statements

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

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

	2023	2022
Cash Flows From Operating Activities		
Change in net assets	$ (299,820)	$ (951,113)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	387,644	501,871
Amortization of operating lease right-of-use asset	12,975	-
Change in discount and allowance on promises to give	96,313	(5,987)
Paycheck Protection Program loan forgiveness	-	(445,324)
Net realized/unrealized (gain) loss on investments	(1,930,294)	4,571,754
Change in charitable gift annuity	647	115
Change in value of perpetual trust	13,787	74,402
(Increase) decrease:		
Accounts receivable	(128,096)	246,077
Promises to give	(846,628)	405,869
Grants receivable	50,000	25,000
Prepaid expenses	(22,736)	(76,040)
Inventory	(35,345)	(8,333)
Operating lease right of use asset	-	-
Increase (decrease):		
Accounts payable	(78,808)	11,049
Accrued expenses	(53,063)	(272,468)
Deferred revenue	107,480	(229,595)
Operating lease liability	(11,714)	-
Net cash provided by (used in) operating activities	(2,737,658)	3,847,277
Cash Flows From Investing Activities		
Purchases of investments	(2,732,100)	(1,998,096)
Proceeds from sales of investments	2,085,042	1,801,810
Purchases of property and equipment	(56,382)	(7,181)
Net cash provided by (used in) investing activities	(703,440)	(203,467)
Cash Flows From Financing Activities		
Principal payments on note payable	(98,888)	(95,016)
Net cash provided by (used in) financing activities	(98,888)	(95,016)
Net increase (decrease) in cash and cash equivalents	(3,539,986)	3,548,794
Cash and Cash Equivalents, Beginning	7,022,751	3,473,957
Cash and Cash Equivalents, Ending	$ 3,482,765	$ 7,022,751

See notes to consolidated financial statements

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 not-for-profit 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 not-for-profit 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 consolidated 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.

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, 2023 and 2022 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.

Level 2 - Inputs to the valuation methodology include:

- 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.

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.

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.

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 44 donor restricted funds established for a variety of purposes and two board-designated endowment funds. 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.

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 has established an annual draw percentage in the amount of 4% of the total endowment funds' trailing 12-quarter average market value. 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 seven 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 restrictions 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 to net assets with donor restrictions.

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, 2023 and 2022 totaled $283,600 and $145,110, 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 30.

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 at June 30, 2023 and 2022:

	Deferred Membership Revenue	Deferred Facility Rental Revenue
Balance, 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, June 30, 2022	458,958	67,650
Amounts received in fiscal year 2023	1,227,571	742,794
Revenue recognized in fiscal year 2023	(1,142,793)	(708,079)
Balance, June 30, 2023	$ 543,736	$ 102,365

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.

Noncash Donations

Noncash donations are recorded in accordance with Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Donated materials and rent are recorded at their estimated fair value in the period received. Contributions of donated services that create or enhance nonfinancial 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.

Net Assets With Donor Restrictions - Net assets whose use is limited by donor-imposed time and/or purpose restrictions or required to be held in perpetuity. 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.

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 $330,000 and $252,000 for the years ended June 30, 2023 and 2022, 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 (IRC), and therefore, there is no provision for income taxes. In addition, they qualify for the charitable contribution deduction under Section 170 of the IRC 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.

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, 2023 and 2022, 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, 2023 and 2022, 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.

Adoption of New Accounting Standard

Effective July 1, 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach. The Organization's 2022 consolidated financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the consolidated statement of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the noncancelable lease term. At the date of adoption, the Organization recorded an operating lease right-of-use asset and lease liability in the amount of approximately $60,000.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Organization elected:

- The package of practical expedients permitted under the transition guidance which does not require the Organization to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs.

- The practical expedient to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of the Organization's right-of-use assets.

The new standard also provides for several accounting policy elections, as follows:

- The Organization has elected the policy not to separate lease and nonlease components for all asset classes.
- The Organization elected not to apply the recognition requirements to all leases with an original term of 12 months or less, for which the Organization is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term.

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 14, 2023, the date the consolidated financial statements were available to be issued.

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.

As of June 30, 2023 and 2022, the following table shows the total financial assets held by the Organization that are available for expenditures in the following year:

	2023	2022
Cash and cash equivalents	$ 3,482,765	$ 7,022,751
Accounts receivable	189,462	61,366
Current promises to give	585,500	337,372
Grants receivable	-	50,000
Unrestricted investments	1,355,168	-
Endowment funds for distribution	1,181,357	1,156,107
Financial assets available to be used within one year	$ 6,794,252	$ 8,627,596

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 three donors totaling 66% of total gross promises as of June 30, 2023 and amount due from five donors totaling 66% of total gross promises to give as of June 30, 2022. Grants receivable include amounts due from two donors for the year ended June 30, 2022. Concentrations of credit risk with respect to promises to give and grants receivable are limited due to the relationship and history with these donors.

4. Promises to Give and Grants Receivable

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

	2023	2022
Grants receivable due in less than one year	$ -	$ 50,000
Promises to give due in less than one year	585,500	337,372
Promises to give due in one to five years	459,500	67,500
Promises to give due in more than five years	224,500	18,000
Total promises to give and grants receivable	1,269,500	472,872
Discount to present value	(114,440)	(18,127)
Allowance for uncollectible promise to give	-	-
Net promise to give and grants receivable	1,155,060	454,745
Grants receivable, current portion	-	(50,000)
Promises to give, current portion	(585,500)	(337,372)
Promise to give and grants receivable	$ 569,560	$ 67,373

The estimated cash flows for promises to give were discounted over the collection period using a discount rate of 3.8%.

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.

The following is a summary of investments measured at fair value and net asset value on a recurring basis at June 30, 2023:

	2023			
	Level 1	Level 2	Level 3	Total
Investments measured at fair value:				
Cash and money market funds	$ 596,578	$ -	$ -	$ 596,578
Fixed income funds	5,849,852	-	-	5,849,852
Mutual funds	551,984	-	-	551,984
Equity funds	21,326,582	-	-	21,326,582
Total investments measured at fair value	$ 28,324,996	$ -	$ -	28,324,996
Investments measured at net assets value:				
Private equity funds				2,181,174
Total investments				$ 30,506,170

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

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments measured at fair value:				
Cash and money market funds	$ 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	$ 25,275,512	$ -	$ -	25,275,512
Investments measured at net assets value:				
Private equity funds				2,653,306
Total investments				$ 27,928,818

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 statements 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 $924,000 and $1,243,000 as of June 30, 2023 and 2022, respectively.

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

	2023	**2022**
Interest and dividend income	$ 1,036,831	$ 577,040
Realized gains (losses)	(932,029)	1,828,472
Unrealized gains (losses)	2,912,776	(6,400,226)
Investment fees	(113,116)	(129,157)
	2,904,462	(4,123,871)
Gain (loss) on perpetual trust	(13,787)	(74,402)
Total	$ 2,890,675	$ (4,198,273)

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 years ended June 30, 2023 and 2022:

	2023			
	Level 1	Level 2	Level 3	Total
Charitable gift annuities:				
Cash and money market	$ 1,514	$ -	$ -	$ 1,514
Fixed income mutual funds	23,059	-	-	23,059
Equity mutual funds	22,502	-	-	22,502
Real asset funds	1,901	-	-	1,901
Total charitable gift annuities	48,976	-	-	48,976
Beneficial interest in perpetual trust	-	-	470,959	470,959
Total	$ 48,976	$ -	$ 470,959	$ 519,935

	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
Total	$ 62,074	$ -	$ 484,746	$ 546,820

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, 2023 and 2022:

Balance, June 30, 2021	$ 559,148
Change in fair value	(74,402)
Balance, June 30, 2022	484,746
Change in fair value	(13,787)
Balance, June 30, 2023	$ 470,959

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, 2023 and 2022, 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 years ended June 30, 2023 and 2022, there were no distributions 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.

7. Property and Equipment

Property and equipment consisted of the following at June 30:

	2023	2022
Land	$ 699,253	$ 699,253
Building and improvements	8,750,181	8,750,179
Equipment	797,250	797,250
Furniture and fixtures	75,446	75,446
Website	341,100	298,000
	10,663,230	10,620,128
Less accumulated depreciation	(8,122,356)	(7,747,719)
Construction in progress	14,642	14,368
Property and equipment, net	$ 2,555,516	$ 2,886,777

Depreciation expense for the years ended June 30, 2023 and 2022 was approximately $388,000 and $502,000, respectively.

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, 2023 and 2022.

9. Leasing Activities

The Organization leases office equipment under an operating lease agreement which expires in November 2026. In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization uses their incremental borrowing rate.

Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease upon certain other events that require reassessment in accordance with Topic 842.

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term. The Organization does not have any leasing transactions with related parties.

The Organization made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Organization:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Organization obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights.

- Determined whether contracts contain embedded leases.

The operating lease right-of-use asset has a balance of $47,025 and the operating lease liability had a balance of $48,286 as of June 30, 2023. Operating lease expense for the year ended June 30, 2023 was approximately $14,000. The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 5.06%; the weighted average remaining lease term is 3.9 years.

Scheduled future minimum lease payments for the years ending June 30:

Years ending June 30:	
2024	$ 13,620
2025	13,620
2026	5,675
Total	$ 32,915

10. Long-Term Debt

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

	2023	2022
Note payable with Arizona Community Foundation (ACF) due in monthly installments of $10,631, including interest payable at a fixed rate of 4%. This loan is collateralized by securities under a pledge agreement.	$ 663,142	$ 762,030
Current portion	(102,916)	(99,217)
Total long-term debt	$ 560,226	$ 662,813

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:

Years ending June 30:	
2024	$ 102,916
2025	107,109
2026	111,473
2027	116,015
2028	120,741
Thereafter	104,888
Total	$ 663,142

11. Endowments

Endowments consists of 44 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 two board-designated endowment funds which are included in net assets without donor restrictions on the accompanying consolidated statements of financial position.

Endowment net asset composition as of June 30, 2023 and 2022 is as follows:

	2023		
	Without Donor Restrictions	**With Donor Restrictions**	**Total Endowment Funds**
Board-designated	$ 1,420,508	$ -	$ 1,420,508
Original corpus, investments	-	22,561,867	22,561,867
Accumulated investment earnings (losses)	(89,474)	5,258,101	5,168,627
Total	$ 1,331,034	$ 27,819,968	$ 29,151,002

	2022		
	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 (losses)	(210,712)	4,164,485	3,953,773
Total	$ 1,209,796	$ 26,719,022	$ 27,928,818

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, 2021	$ -	$ 32,304,286	$ 32,304,286
Contributions/designations	1,420,508	548	1,421,056
Interest and dividend income	-	562,505	562,505
Realized gains	-	1,828,472	1,828,472
Unrealized losses	(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	1,209,796	26,719,022	27,928,818
Contributions	-	7,330	7,330
Interest and dividend income	41,704	921,063	962,767
Realized losses	(39,143)	(892,886)	(932,029)
Unrealized gains	123,577	2,729,250	2,852,827
Fees	(4,900)	(108,216)	(113,116)
Amounts appropriated for expenditure	-	(1,555,595)	(1,555,595)
Balance, June 30, 2023	$ 1,331,034	$ 27,819,968	$ 29,151,002

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, 2023, 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 following is a schedule of underwater endowment funds as of June 30, 2023:

	Original Gift Amount	Fair Market Value at June 30, 2023	Deficiency at June 30, 2023
CF, Acquisition	$ 161,143	$ 86,454	$ (74,689)
Bouma	100,548	72,286	(28,262)
Harrington	3,451,831	3,157,406	(294,425)
Lewis	712,451	690,010	(22,441)
Virginia G. Piper Trust	1,250,000	1,214,180	(35,820)
Papp	100,000	91,992	(8,008)
Total	$ 5,775,973	$ 5,312,328	$ (463,645)

12. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30 consist of:

	2023	2022
Time restricted:		
Promises to give	$ 171,697	$ 65,000
Time and purpose restricted promises to give:		
Exhibits and events	354,676	324,500
Conservation	-	30,000
Curator support	375,000	-
Public Art projects	20,000	-
	749,676	354,500
Purpose restricted:		
Exhibits and education	326,597	643,248
Conservation	1,570,070	1,507,767
Fashion internship	189,065	-
Other	28,699	13,749
Beneficial interest in perpetual trust	470,959	484,746
	2,585,390	2,649,510
Endowment funds:		
Portion of perpetual endowment funds that is required to be retained permanently	22,561,867	22,554,537
Investment income subject to time restriction under MCFA	400,315	16,397
Investment income subject to time and purpose restriction under MCFA:		
Exhibits and education	1,630,766	946,965
Conservation	920,800	823,008
Art acquisitions	2,232,993	2,316,672
Art awards and scholarships	73,227	61,443
	27,819,968	26,719,022
Total net assets with donor restrictions	$ 31,326,731	$ 29,788,032

13. 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. During the year ended June 30, 2022, $445,324 was recognized as income.

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).

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 recognized this wage credit in the amount of $475,015 for the year ended June 30, 2022, 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. 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 recognized income during the year ended June 30, 2022 in the amount of $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.

14. Donated Facilities, Materials and Maintenance and Other Noncash Donations

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. In addition, the City agrees to pay half of all utility costs as well as a portion of maintenance costs. The Organization also receives donations from other sources of various types of tangible items and services. The Organization has estimated the fair value of these donated costs from the City and other noncash donations for the years ended June 30 as follows:

	2023	2022
Facility	$ 3,510,936	$ 3,713,490
Utilities	290,095	277,084
Maintenance	806,900	870,319
Total from City of Phoenix	4,607,931	4,860,893
Event planning services	-	30,000
Advertising	30,000	48,560
Food	91,603	108,075
Supplies and other	47,975	82,652
Raffle gift	67,419	-
	236,997	269,287
Total	$ 4,844,928	$ 5,130,180

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 in-kind expenses: occupancy on the accompanying consolidated statements 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.

15. 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:

	2023	2022
Projected benefit obligation	$ (851,443)	$ (1,058,570)
Fair value of plan assets	616,362	691,126
Funded status of plan at year-end	$ (235,081)	$ (367,444)
Accumulated benefit obligation	$ 851,443	$ 1,058,570
Employer contributions	$ 26,000	$ -
Participant contributions	$ -	$ -
Benefits paid	$ 96,278	$ 71,060

The employer makes contributions to the plan that are not less than the minimum funding requirement under the IRC 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, 2024. Amounts recognized in the consolidated statements of financial position as of June 30, 2023 and 2022 consists of pension liability in the amounts of $235,081 and $367,444, respectively.

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

	2023	2022
Service costs	$ -	$ -
Other components of costs:		
Interest costs	$ 46,347	$ 39,373
Expected return on plan assets	(43,061)	(54,146)
Recognized actuarial (gain) loss	10,524	13,458
Recognized (gain) or loss due to settlement curtailment	-	22,823
Net periodic pension cost	$ 13,810	$ 21,508

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

	2023	2022
Net loss	$ 326,801	$ 446,973
Prior service cost	-	-
Net amount recognized	$ 326,801	$ 446,973

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

	2023	2022
Discount rate	4.75 %	4.50 %
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

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:

	2023	2022
Cash and cash equivalents	0.31 %	6.89 %
Fixed income Common/Collective Funds	99.69	93.11
	100.00 %	100.00 %

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:

	2023	2022
Cash and cash equivalents	9.95 %	9.95 %
Fixed income	90.05	90.05
	100.00 %	100.00 %

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.

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, 2023 and 2022 by asset category are as follows:

	2023	2022
Cash (Level 1)	$ 1,911	$ 48,379
Fixed income Common/Collective Funds (Level 2)	614,451	642,747
	$ 616,362	$ 691,126

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

Years ending June 30:		
2024	$	51,321
2025		51,371
2026		51,250
2027		52,234
2028		53,054
2029-2033		235,081
Total	$	494,311

16. 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 IRC. 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, 2023 and 2022 totaled approximately $130,000 and $138,000, respectively.

17. 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 $671,500 and $175,000 in donations to the organization during the years ended June 30, 2023 and 2022, respectively. In addition, during the year ended June 30, 2023, MAC made a conditional promise to give in the amount of $328,500 which will be paid as certain events occur in future years through 2025.

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, 2023 and 2022 totaled $95,495 and $73,026, 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, 2023 and 2022, respectively. Salaries, wages, benefits and taxes, and miscellaneous expenses reimbursed to the Organization by Artenders, Inc. during the years ended June 30, 2023 and 2022 amounted to $237,490 and $101,194 respectively.

During the years ended June 30, 2023 and 2022, the Organization received contributions from board members that totaled approximately $1,636,000 and $1,638,000, respectively.

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

Consolidating Statement of Financial Position
June 30, 2023

	Phoenix Art Museum	Phoenix Art Museum Endowment Fund, Inc.	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 3,482,765	$ -	$ -	$ 3,482,765
Accounts receivable	189,462	-	-	189,462
Due from affiliate	1,372,101	-	(1,372,101)	-
Promises to give, current, net	585,500	-	-	585,500
Prepaid expenses	192,879	-	-	192,879
Inventory	247,626	-	-	247,626
Total current assets	6,070,333	-	(1,372,101)	4,698,232
Other Assets				
Promises to give, net of current, discount and allowance	569,560	-	-	569,560
Investments, unrestricted	1,355,168	-	-	1,355,168
Investments, endowments	-	28,087,108	-	28,087,108
Investments, collateral	-	1,063,894	-	1,063,894
Charitable gift annuities	48,976	-	-	48,976
Property and equipment, net	2,555,516	-	-	2,555,516
Operating lease right-of-use asset	47,025	-	-	47,025
Beneficial interest in perpetual trust	470,959	-	-	470,959
Total assets	$ 11,117,537	$ 29,151,002	$ (1,372,101)	$ 38,896,438
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 93,807	$ -	$ -	$ 93,807
Due to affiliate	-	1,372,101	(1,372,101)	-
Accrued expenses	554,073	-	-	554,073
Deferred revenue	703,326	-	-	703,326
Operating lease liability	48,286	-	-	48,286
Note payable, current	102,916	-	-	102,916
Total current liabilities	1,502,408	1,372,101	(1,372,101)	1,502,408
Other Liabilities				
Accrued pension	235,081	-	-	235,081
Note payable, net of current	560,226	-	-	560,226
Charitable gift annuity liabilities	60,869	-	-	60,869
Total liabilities	2,358,584	1,372,101	(1,372,101)	2,358,584
Net Assets				
Without donor restrictions	5,211,123		-	5,211,123
With donor restrictions	3,547,830	27,778,901	-	31,326,731
Total net assets	8,758,953	27,778,901	-	36,537,854
Total liabilities and net assets	$ 11,117,537	$ 29,151,002	$ (1,372,101)	$ 38,896,438

Consolidating Statement of Activities
Year Ended June 30, 2023

	Phoenix Art Museum	Phoenix Art Museum Endowment Fund, Inc.	Eliminations	Total
Support and Revenue				
Earned and other revenue:				
Admissions	$ 1,403,350	$ -	$ -	$ 1,403,350
Membership revenue	1,142,793	-	-	1,142,793
Museum store income	1,034,856	-	-	1,034,856
Shared costs reimbursements	326,811	-	-	326,811
Royalties	3,898	-	-	3,898
Facility rentals	708,079	-	-	708,079
Miscellaneous income	67,237	-	-	67,237
Perpetual trust net change	(13,787)	-	-	(13,787)
Investment income, net	258,943	2,645,519	-	2,904,462
Total earned and other revenue	4,932,180	2,645,519	-	7,577,699
Support:				
Contributions	4,073,580	8,220	(417,875)	3,663,925
Endowment fund grant	1,166,157	-	(1,166,157)	-
Donated facilities, utilities & maintenance	4,607,931	-	-	4,607,931
Other non-cash donations	236,997	-	-	236,997
Government grants	91,000	-	-	91,000
Change in value of charitable gift annuity	(647)	-	-	(647)
Total support	10,175,018	8,220	(1,584,032)	8,599,206
Special event revenue	656,588	-	-	656,588
Cost of direct benefit to donors	(73,348)	-	-	(73,348)
Gross profit on special events	583,240	-	-	583,240
Total support and revenue	15,690,438	2,653,739	(1,584,032)	16,760,145
Expenses				
Program services expenses	12,367,389	1,584,032	(1,584,032)	12,367,389
Supporting services expenses:				
Management and general	2,679,616	8,548	-	2,688,164
Fundraising	1,685,647	-	-	1,685,647
Membership	318,765	-	-	318,765
Total expenses	17,051,417	1,592,580	(1,584,032)	17,059,965
Change in net assets	(1,360,979)	1,061,159	-	(299,820)
Net Assets, Beginning	10,119,932	26,717,742	-	36,837,674
Net Assets, Ending	$ 8,758,953	$ 27,778,901	$ -	$ 36,537,854