

Phoenix Art Museum and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

June 30, 2025 and 2024

Phoenix Art Museum and Subsidiaries

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June 30, 2025 and 2024

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Independent Auditors' Report

To the Board of Directors of
Phoenix Art Museum and Subsidiaries

Opinion

We have audited the consolidated financial statements of Phoenix Art Museum and Subsidiaries (the Organization), which comprise the consolidated statements of financial position as of June 30, 2025 and 2024, 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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 GAAP, 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 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the 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 audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information, including the consolidating statement of financial position and the consolidating statement of activities, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual organizations, and it 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 consolidating 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly US, LLP

Tempe, Arizona
June 12, 2026

Phoenix Art Museum and Subsidiaries

Consolidated Statements of Financial Position

June 30, 2025 and 2024*

	2025	2024
Assets		
Current Assets		
Cash and cash equivalents	\$ 965,125	\$ 1,890,695
Accounts receivable	165,840	193,501
Promises to give and grants receivable, current	713,750	1,192,300
Prepaid expenses	131,711	245,788
Inventory	357,797	335,676
Total current assets	2,334,223	3,857,960
Other Assets		
Operating lease right-of-use asset	23,013	35,019
Promises to give, net of current portion and discount	1,154,427	1,353,520
Assets held for sale	2,000,000	-
Investments, other	390,180	-
Investments, charitable gift annuities	22,642	36,399
Notes receivable	5,186,100	-
Property and equipment, net	5,213,614	3,075,125
Beneficial interest in perpetual trust	702,391	536,189
Assets held for long-term purposes:		
Promises to give, endowments	1,516,667	1,050,000
Investments, endowments	31,009,970	31,157,648
Total assets	<u>\$ 49,553,227</u>	<u>\$ 41,101,860</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 856,923	\$ 875,423
Accrued expenses	838,074	530,812
Deferred revenue and facility rental deposits	694,964	939,930
Deferred conditional contributions	131,641	147,691
Operating lease liability	12,653	12,026
Note payable, current	111,473	107,109
Total current liabilities	2,645,728	2,612,991
Other Liabilities		
Accrued pension	160,885	163,830
Line of credit	1,600,000	-
Operating lease liability, net of current	12,177	24,830
Note payable, net of current	341,643	453,116
Charitable gift annuity liabilities	52,514	54,494
Total liabilities	<u>4,812,947</u>	<u>3,309,261</u>
Net Assets		
Without donor restrictions, undesignated	5,377,849	(233,263)
Without donor restrictions, board-designated	1,175,343	1,175,343
	6,553,192	942,080
With donor restrictions	38,187,088	36,850,519
Total net assets	<u>44,740,280</u>	<u>37,792,599</u>
Total liabilities and net assets	<u>\$ 49,553,227</u>	<u>\$ 41,101,860</u>

* Certain amounts have been reclassified to conform to current year presentation

See notes to consolidated financial statements

Phoenix Art Museum and Subsidiaries

Consolidated Statements of Activities
Years Ended June 30, 2025 and 2024

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenue						
Earned and other revenue:						
Admissions	\$ 1,736,118	\$ -	\$ 1,736,118	\$ 2,125,109	\$ -	\$ 2,125,109
Membership revenue	1,452,723	-	1,452,723	1,283,623	-	1,283,623
Museum store income	899,838	-	899,838	1,126,135	-	1,126,135
Shared costs reimbursements	693,184	-	693,184	367,599	-	367,599
Facility rentals	278,916	-	278,916	576,976	-	576,976
Miscellaneous income	48,041	-	48,041	109,986	-	109,986
Gain on sale of assets	160,460	-	160,460	-	-	-
Interest income	-	23,230	23,230	-	-	-
Investment income, net	12,237	3,007,844	3,020,081	213,201	3,580,969	3,794,170
Total earned and other revenue	5,281,517	3,031,074	8,312,591	5,802,629	3,580,969	9,383,598
Support:						
Contributions	2,146,744	4,122,091	6,268,835	670,750	6,372,611	7,043,361
Donated facilities, utilities and maintenance	4,738,087	-	4,738,087	4,776,870	-	4,776,870
Other non-cash donations	7,294,357	-	7,294,357	212,024	-	212,024
Other government grants	56,400	-	56,400	102,400	-	102,400
Change in beneficial interest in perpetual trust	-	166,202	166,202	-	65,231	65,231
Change in value of charitable gift annuity	(11,777)	-	(11,777)	(6,202)	-	(6,202)
Net assets released from time and purpose restrictions	3,048,144	(3,048,144)	-	2,785,266	(2,785,266)	-
Net assets released from endowments	2,934,654	(2,934,654)	-	1,709,757	(1,709,757)	-
Total support	20,206,609	(1,694,505)	18,512,104	10,250,865	1,942,819	12,193,684
Special event income	752,198	-	752,198	463,780	-	463,780
Special event contribution income	1,192,383	-	1,192,383	696,800	-	696,800
Direct benefit to donors	(417,685)	-	(417,685)	(126,652)	-	(126,652)
Special events, net	1,526,896	-	1,526,896	1,033,928	-	1,033,928
Total support and revenue	27,015,022	1,336,569	28,351,591	17,087,422	5,523,788	22,611,210
Expenses						
Program services expenses	16,416,970	-	16,416,970	16,455,820	-	16,455,820
Supporting services expenses:						
Management and general	3,308,653	-	3,308,653	3,011,471	-	3,011,471
Fundraising	1,265,334	-	1,265,334	1,496,616	-	1,496,616
Membership	412,953	-	412,953	392,558	-	392,558
Total expenses	21,403,910	-	21,403,910	21,356,465	-	21,356,465
Change in net assets	5,611,112	1,336,569	6,947,681	(4,269,043)	5,523,788	1,254,745
Net Assets, Beginning	942,080	36,850,519	37,792,599	5,211,123	31,326,731	36,537,854
Net Assets, Ending	\$ 6,553,192	\$ 38,187,088	\$ 44,740,280	\$ 942,080	\$ 36,850,519	\$ 37,792,599

See notes to consolidated financial statements

Phoenix Art Museum and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended June 30, 2025

	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	\$ 4,000,455	\$ 419,002	\$ 299,674	\$ 4,719,131	\$ 1,362,284	\$ 821,971	\$ 165,017	\$ -	\$ 7,068,403
Payroll taxes	257,489	28,962	21,498	307,949	127,891	49,371	11,706	-	496,917
Employee benefits	620,372	51,388	38,111	709,871	340,833	135,231	19,761	-	1,205,696
	4,878,316	499,352	359,283	5,736,951	1,831,008	1,006,573	196,484	-	8,771,016
Advertising and marketing	401,100	-	6,216	407,316	4,070	3,379	26	-	414,791
Art acquisitions	1,092,719	-	-	1,092,719	-	-	-	-	1,092,719
Bank and merchant fees	81,432	-	19,962	101,394	39,950	37,590	-	-	178,934
Cost of sales	-	-	429,619	429,619	-	1,083	20,653	-	451,355
Curatorial expense	89,568	41	129	89,738	47	6	4	-	89,795
Depreciation and amortization expense	195,629	22,436	10,015	228,080	39,667	10,435	8,374	-	286,556
Dues and subscriptions	30,539	15,195	294	46,028	11,292	87,101	2,532	-	146,953
Equipment	10,760	5,696	301	16,757	12,262	1,656	143	-	30,818
Equipment rental	20,201	23,963	51	44,215	8,130	-	28	75,823	128,196
Equipment maintenance and repairs	69,274	2,242	692	72,208	3,301	566	268	-	76,343
Exhibition expense	1,106,363	57,565	-	1,163,928	1,942	-	-	-	1,165,870
Insurance expense	79,838	-	-	79,838	97,959	-	-	-	177,797
Interest expense	803	87	64	954	41,991	151	36	-	43,132
Occupancy	592,330	39,459	12,219	644,008	57,245	-	4,751	10,230	716,234
Postage and shipping	7,302	236	6,597	14,135	1,702	5,398	46,102	-	67,337
Printing	85,149	5,606	386	91,141	3,250	-	62,696	26,808	183,895
Professional fees	984,199	144,234	9,632	1,138,065	345,390	11,441	13,281	184,516	1,692,693
Supplies	36,278	17,987	20,940	75,205	21,921	-	388	7,751	105,265
Technology	165,332	11,770	8,082	185,184	87,367	14,224	11,108	-	297,883
Travel expenses	72,637	7,480	4,353	84,470	11,839	16,585	3	-	112,897
Utilities	247,562	29,911	8,333	285,806	34,078	4,464	2,976	-	327,324
In-kind expenses:									
Services and goods	166,662	591	25	167,278	55,134	20	9	22,446	244,887
Occupancy	3,583,506	432,968	120,628	4,137,102	518,251	64,662	43,081	-	4,763,096
Miscellaneous	50,546	32,540	1,745	84,831	80,857	-	10	90,111	255,809
	14,048,045	1,349,359	1,019,566	16,416,970	3,308,653	1,265,334	412,953	417,685	21,821,595
Less amounts reported in revenue and support on the consolidated statement of activities	-	-	-	-	-	-	-	(417,685)	(417,685)
Total expenses	\$ 14,048,045	\$ 1,349,359	\$ 1,019,566	\$ 16,416,970	\$ 3,308,653	\$ 1,265,334	\$ 412,953	\$ -	\$ 21,403,910

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, 2024

	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	\$ 3,733,083	\$ 515,844	\$ 281,188	\$ 4,530,115	\$ 1,384,250	\$ 872,861	\$ 149,935	\$ - \$ 6,937,161
Payroll taxes	266,425	36,646	19,809	322,880	99,043	62,397	10,895	- 495,215
Employee benefits	603,244	44,250	38,769	686,263	265,800	129,931	18,493	- 1,100,487
	4,602,752	596,740	339,766	5,539,258	1,749,093	1,065,189	179,323	- 8,532,863
Advertising and marketing	514,350	4,154	5,273	523,777	3,165	-	-	- 526,942
Art acquisitions	1,154,891	-	-	1,154,891	-	-	-	- 1,154,891
Bank and merchant fees	121,767	-	25,414	147,181	30,938	26,785	-	- 204,904
Cost of sales	1,473	-	405,118	406,591	-	2,361	23,447	- 432,399
Curatorial expense	60,737	-	352	61,089	-	-	-	- 61,089
Depreciation and amortization expense	183,209	21,157	9,718	214,084	38,555	10,381	10,462	- 273,482
Dues and subscriptions	29,920	12,588	365	42,873	9,546	69,619	1,574	- 123,612
Equipment	10,707	4,742	(191)	15,258	187	(219)	(123)	- 15,103
Equipment rental	18,691	5,017	61	23,769	10,344	29,763	37	- 63,913
Equipment maintenance and repairs	88,272	2,328	649	91,249	3,194	348	232	- 95,023
Exhibition expense	1,599,977	3,500	-	1,603,477	-	-	-	- 1,603,477
Insurance expense	83,250	-	-	83,250	91,522	-	-	- 174,772
Interest expense	1,226	113	115	1,454	25,137	184	70	- 26,845
Occupancy	355,205	34,186	9,587	398,978	44,960	5,194	3,445	- 452,577
Postage and shipping	8,016	237	7,608	15,861	1,321	2,185	36,898	- 56,265
Printing	102,670	7,086	337	110,093	6,703	37,562	72,125	- 226,483
Professional fees	763,271	191,043	8,761	963,075	324,477	63,545	11,599	101,739 1,464,435
Supplies	12,936	32,966	5,503	51,405	22,064	5,591	1,812	24,913 105,785
Technology	178,114	27,426	13,611	219,151	76,231	18,708	4,537	- 318,627
Travel expenses	60,856	7,016	4,671	72,543	7,497	10,782	853	- 91,675
Utilities	231,141	27,927	7,781	266,849	31,817	4,168	2,779	- 305,613
In-kind expenses:								
Services and goods	176,848	13,970	89	190,907	362	20,723	32	- 212,024
Occupancy	3,612,839	436,512	121,615	4,170,966	497,319	65,151	43,434	- 4,776,870
Miscellaneous	60,224	25,974	1,593	87,791	37,039	58,596	22	- 183,448
	14,033,342	1,454,682	967,796	16,455,820	3,011,471	1,496,616	392,558	126,652 21,483,117
Less amounts reported in revenue and support on the consolidated statement of activities	-	-	-	-	-	-	-	(126,652) (126,652)
Total expenses	<u>\$ 14,033,342</u>	<u>\$ 1,454,682</u>	<u>\$ 967,796</u>	<u>\$ 16,455,820</u>	<u>\$ 3,011,471</u>	<u>\$ 1,496,616</u>	<u>\$ 392,558</u>	<u>\$ - \$ 21,356,465</u>

See notes to consolidated financial statements

Phoenix Art Museum and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2025 and 2024*

	<u>2025</u>	<u>2024</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 6,947,681	\$ 1,254,745
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	286,556	273,482
Amortization of operating lease right-of-use asset	12,006	12,006
Gain on sale of property and equipment	(160,460)	-
In-kind contribution of artwork	(7,025,000)	-
Change in discount and allowance on promises to give	460	(18,587)
Net realized/unrealized gain on investments	(2,201,929)	(2,902,410)
Change in charitable gift annuity	11,777	6,202
Change in value of perpetual trust	(166,202)	(65,231)
(Increase) decrease:		
Accounts receivable	27,661	(4,039)
Promises to give	10,516	(2,422,173)
Prepaid expenses	114,077	(52,909)
Inventory	(22,121)	(88,050)
Increase (decrease):		
Accounts payable	(18,500)	781,616
Accrued expenses	304,317	(94,512)
Deferred revenue	(244,966)	238,795
Deferred conditional contributions	(16,050)	145,500
Operating lease liability	(12,026)	(11,430)
Net cash provided by (used in) operating activities	<u>(2,152,203)</u>	<u>(2,946,995)</u>
Cash Flows From Investing Activities		
Purchases of investments	(1,931,862)	(1,308,061)
Collection of promises to give for restricted for endowment	200,000	-
Proceeds from sales of investments	3,891,289	3,558,993
Purchases of property, equipment and construction	<u>(2,425,685)</u>	<u>(793,090)</u>
Net cash provided by (used in) investing activities	<u>(266,258)</u>	<u>1,457,842</u>
Cash Flows From Financing Activities		
Proceeds from line of credit borrowings	1,600,000	-
Principal payments on note payable	<u>(107,109)</u>	<u>(102,917)</u>
Net cash provided by (used in) financing activities	<u>1,492,891</u>	<u>(102,917)</u>
Net increase (decrease) in cash and cash equivalents	(925,570)	(1,592,070)
Cash and Cash Equivalents, Beginning	<u>1,890,695</u>	<u>3,482,765</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 965,125</u></u>	<u><u>\$ 1,890,695</u></u>
Supplemental Disclosures		
Cash paid for interest	<u><u>\$ 43,132</u></u>	<u><u>\$ 41,534</u></u>
Supplemental Disclosure of Noncash Investing and Financing Activity		
Notes receivable issued in exchange for the sale of donated artwork	<u><u>\$ 5,186,100</u></u>	<u><u>\$ -</u></u>

* Certain amounts have been reclassified to conform to current year presentation

See notes to consolidated financial statements

Phoenix Art Museum and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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 which 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 and Allowance for Credit Losses

Accounts receivable are carried at the outstanding balances less an allowance for credit losses, if applicable. The Organization recognizes an allowance for credit losses for accounts receivable to present the net amount expected to be collected as of the financial statement position date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and future events based on the expectation as of the consolidated statements of financial position date. Accounts receivable are written off when the Organization determines that such receivables are deemed uncollectible. As of June 30, 2025 and 2024, management has determined that accounts receivable is fully collectible and therefore has not recorded an allowance for credit losses.

Phoenix Art Museum and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Promises to Give

Unconditional promises to give include promises for general purposes or program activities and for endowment funds. Promises to give 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.

Conditional promises to give are recognized as income in the period that the conditions are substantially met and include \$132,000 and \$148,000 as of June 30, 2025 and 2024, respectively. The conditions to be met for these amounts relate to free student admission, quarterly family days and an event.

Notes Receivable

Notes receivable consists of amounts due from a board member under formal promissory agreements. Notes receivable are recorded at the principal amount outstanding plus accrued interest, less an allowance for expected credit losses. Interest income is recognized using the effective interest method and is included in the accompanying consolidated statements of operations. Management evaluates the collectability of notes receivable on a periodic basis and establishes an allowance for credit losses based on historical experience, current economic conditions, collateralization, and specific customer credit risk factors. Management has determined that no allowance is necessary, and no impairment has occurred as of December 31, 2025 and 2024.

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.

Assets Held for Sale

Non-current assets are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Assets classified as held for sale are measured at the lower of their carrying value and fair value less costs to sell.

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).

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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.

Estimated useful lives, by asset category, are as follows:

	<u>Years</u>
Building and improvements	5 - 39
Equipment	5 - 15
Furniture and fixtures	5 - 7
Website	5

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 47 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.

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Spending Policy

The Phoenix Museum Endowment Fund, Inc.'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

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, 2025 and 2024 totaled \$1,092,719 and \$1,154,891, respectively. Contributions of collection items are not recognized in the consolidated statements of activities.

Leasing Activities

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. 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 over the lease term. In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization uses the rate implicit in the lease or if not readily available, the Organization uses a risk-free rate based on U.S. Treasury note or bond rates for a similar term. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the noncancelable lease term.

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The Organization does not separate lease and nonlease components for all asset classes. For 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; these short-term leases are recorded on a straight-line basis over the lease term.

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.

Revenue Recognition

The Organization's earned revenue includes the following:

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 fiscal year-end relating to the months in the membership terms that occur subsequent to fiscal 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).

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Deferred Revenue

The activity in the contract liability accounts (deferred revenue) relating to membership revenue and facility rental revenue included the following at June 30, 2025 and 2024:

	Deferred Membership Revenue	Deferred Facility Rental Revenue
Balance, June 30, 2023	\$ 543,736	\$ 102,365
Amounts received in fiscal year 2024	1,439,792	714,636
Revenue recognized in fiscal year 2024	(1,283,623)	(576,976)
Balance, June 30, 2024	699,905	240,025
Amounts received in fiscal year 2025	1,380,239	106,434
Revenue recognized in fiscal year 2025	(1,452,723)	(278,916)
Balance, June 30, 2025	<u>\$ 627,421</u>	<u>\$ 67,543</u>

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

Donated materials, facilities and utilities 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 two board designated endowment funds.

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 released from restrictions when the assets are placed in service.

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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 \$415,000 and \$527,000 for the years ended June 30, 2025 and 2024, 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, 2025 and 2024, 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, 2025 and 2024, 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. The value of alternative investments is a significant estimate and is estimated based on reported net asset values and the Organization's ownership percentage.

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 12, 2026, the date the consolidated financial statements were available to be issued.

Phoenix Art Museum and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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. Amounts restricted for purposes that are related to ongoing program activities are determined to be available.

As of June 30, 2025 and 2024, the following table shows the total financial assets held by the Organization that are available for expenditures in the following year:

	2025	2024
Cash and cash equivalents	\$ 965,125	\$ 1,890,695
Accounts receivable	165,840	193,501
Promises to give and grants receivable, current, non-endowment	713,750	1,192,300
Investments, other	390,180	477,782
Endowment funds for distribution	1,460,144	1,563,063
Purpose-restricted amounts not relating to ongoing programs	(700,000)	-
Financial assets available to be used within one year	<u>\$ 2,995,039</u>	<u>\$ 5,317,341</u>

While the Organization's other investments are classified as long-term on the consolidated statements of financial position based on management's intent, the investments could be readily liquidated without significant penalty to fund operating cash flow needs and are therefore included in the calculation above.

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 and promises to give. 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.

Promises to give include amounts due from four donors totaling 60% of total gross promises as of June 30, 2025 and amounts due from three donors totaling 59% of total gross promises to give as of June 30, 2024. Concentrations of credit risk with respect to promises to give are limited due to the relationship and history with these donors.

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Notes to Consolidated Financial Statements

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4. Promises to Give and Grants Receivable

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

	2025	2024
Promises to give due in less than one year	\$ 1,297,083	\$ 1,592,300
Promises to give due in one to five years	2,184,853	1,914,000
Promises to give due in more than five years	-	187,495
Total promises to give	3,481,936	3,693,795
Discount to present value	(97,092)	(97,975)
Allowance for uncollectible promise to give	-	-
Net promises to give	3,384,844	3,595,820
Promises to give, current portion	(1,297,083)	(1,592,300)
Promises to give, net of current	\$ 2,087,761	\$ 2,003,520

As of June 30, 2025, \$583,333 of the current portion of promises to give total of \$1,297,083 as shown above, and \$933,334 of the long-term portion of promises to give total of \$2,087,761 as shown above are restricted to the donor-restricted endowment funds. As of June 30, 2024, \$200,000 of the current portion of promises to give total of \$1,592,300 as shown above, and \$850,000 of the long-term portion of promises to give total of \$2,003,520 as shown above are restricted to the donor-restricted endowment funds. The estimated cash flows for promises to give were discounted over the collection period using a discount rate of 3.8%.

5. Assets Held for Sale

During the year ended June 30, 2025, the Organization received donated art work with a fair value of approximately \$2,000,000. The Organization has the art work listed for sale with an art dealer and the proceeds from the sale are restricted for the endowment fund.

6. 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 Subsidiaries

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The following is a summary of investments measured at fair value and net asset value on a recurring basis at June 30, 2025:

2025				
	Level 1	Level 2	Level 3	Total
Investments measured at fair value:				
Cash and money market funds	\$ 372,771	\$ -	\$ -	\$ 372,771
Fixed income funds	4,106,751	-	-	4,106,751
Equity funds	18,467,220			18,467,220
Domestic common stocks	1,592,828	-	-	1,592,828
Foreign stocks	194,403	-	-	194,403
Total investments measured at fair value	<u>\$ 24,733,973</u>	<u>\$ -</u>	<u>\$ -</u>	24,733,973
Investments measured at net assets value:				
Private equity funds				6,688,819
Total investments				<u>\$ 31,422,792</u>

The following is a summary of investments measured at fair value and net asset value on a recurring basis at June 30, 2024:

2024				
	Level 1	Level 2	Level 3	Total
Investments measured at fair value:				
Cash and money market funds	\$ 350,714	\$ -	\$ -	\$ 350,714
Fixed income funds	4,578,979	-	-	4,578,979
Equity funds	17,671,806	-	-	17,671,806
Domestic common stocks	1,684,225			1,684,225
Foreign stocks	181,742	-	-	181,742
Total investments measured at fair value	<u>\$ 24,467,466</u>	<u>\$ -</u>	<u>\$ -</u>	24,467,466
Investments measured at net assets value:				
Private equity funds				6,726,581
Total investments				<u>\$ 31,194,047</u>

Private equity funds (alternative investments) are measured using the net asset value per share (or its equivalent) as a practical expedient and have not been classified within the fair value hierarchy. The net asset value amounts presented above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

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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 \$519,000 and \$757,000 as of June 30, 2025 and 2024, respectively.

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

	2025	2024
Interest and dividend income	\$ 938,968	\$ 1,103,429
Realized gains (losses)	1,377,804	1,392,794
Unrealized gains (losses)	824,125	1,419,429
Investment fees	(97,586)	(121,482)
	3,043,311	3,794,170
Gain (loss) on perpetual trust	166,202	65,231
Total	\$ 3,209,513	\$ 3,859,401

7. 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, 2025 and 2024, 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, 2025 and 2024, 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.

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 (Level 3 investments).

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, 2025 and 2024:

Balance, June 30, 2023	\$ 470,958
Change in fair value	65,231
Balance, June 30, 2024	536,189
Change in fair value	166,202
Balance, June 30, 2025	\$ 702,391

Phoenix Art Museum and Subsidiaries

Notes to Consolidated Financial Statements

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8. Notes Receivable

Notes receivable consists of the following at June 30:

	2025	2024
Note receivable due from a board member, due in full at maturity in September 2033, with annual interest payments at 3.70%. The note is unsecured.	\$ 2,976,100	\$ -
Note receivable due from a board member, due in full at maturity in April 2034, with annual interest payments at 4.21%. The note is unsecured.	2,210,000	-
Total notes receivable	5,186,100	-
Current portion	-	-
Long-term portion	\$ 5,186,100	\$ -

9. Property and Equipment

Property and equipment consisted of the following at June 30:

	2025	2024
Land	\$ 699,253	\$ 699,253
Building and improvements	9,141,088	8,962,939
Equipment	827,716	803,721
Furniture and fixtures	160,217	84,402
Website	374,058	341,100
	11,202,332	10,891,415
Less accumulated depreciation	(8,658,383)	(8,383,833)
Construction in progress	2,669,665	567,543
Property and equipment, net	\$ 5,213,614	\$ 3,075,125

Depreciation expense for the years ended June 30, 2025 and 2024 was approximately \$287,000 and \$273,000, respectively. Construction in progress amounts relate to renovations for the on-site restaurant.

10. 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 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.

The Organization does not have any leasing transactions with related parties.

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The Organization made significant assumptions and judgments in recording leases. 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 had a balance of \$23,013 and \$35,019 as of June 30, 2025 and 2024, respectively, and the operating lease liability had a balance of \$24,830 and \$36,856 as of June 30, 2025 and 2024, respectively. Operating lease expense was approximately \$12,000 and \$14,000 for the years ended June 30, 2025 and 2024, respectively. The right-of-use assets and lease liabilities were calculated using a weighted-average discount rate of 5.06% for both years and the weighted-average remaining lease term is two years as of June 30, 2025, and was three years as of June 30, 2024.

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

Years ending June 30:	
2026	\$ 13,620
2027	<u>12,489</u>
Total lease payments	26,109
Less discount to present value	<u>(1,279)</u>
Total lease liabilities	24,830
Less current portion	<u>(12,653)</u>
Total	<u><u>\$ 12,177</u></u>

The following table includes supplemental cash flow and noncash information related to the leases for the years ended June 30:

	<u>2025</u>	<u>2024</u>
Cash paid for amount included in the measurement of lease liabilities:		
Operating cash flow for operating leases	\$ 13,624	\$ 13,624

11. Line of Credit

The Organization has a revolving line of credit with a financial institution that provides for maximum borrowings of \$3,000,000 and matures in February 2027. The line of credit bears interest at the lender's one-month Secured Overnight Financing Rate (SOFR) plus 2.00% with a minimum interest rate of 3.25%. The line of credit is collateralized by all of the Organization's all assets of the organization. The Organization is required to comply with certain nonfinancial covenants. The outstanding balance on the line of credit as of June 30, 2025 is \$1,600,000. Subsequent to June 30, 2025, the Organization drew an additional \$1,100,000 on the line of credit. There was no outstanding balance on the line of credit as of June 30, 2024.

Phoenix Art Museum and Subsidiaries

Notes to Consolidated Financial Statements

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12. Long-Term Debt

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

	<u>2025</u>	<u>2024</u>
Note payable with Arizona Community Foundation (ACF) due in monthly installments of \$10,631, including interest payable at a fixed rate of 4% and matures in April 2029.	\$ 453,116	\$ 560,225
Current portion	<u>(111,473)</u>	<u>(107,109)</u>
Total long-term debt	<u>\$ 341,643</u>	<u>\$ 453,116</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:

Years ending June 30:	
2026	\$ 111,473
2027	116,015
2028	120,741
2029	<u>104,887</u>
Total	<u>\$ 453,116</u>

13. Endowment Funds

Endowment funds consists of 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, 2025 and 2024 is as follows:

	<u>2025</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Funds</u>
Board-designated	\$ 893	\$ -	\$ 893
Original corpus, investments	-	23,466,140	23,466,140
Original corpus, promises to give	-	1,516,667	1,516,667
Accumulated investment earnings (losses)	<u>-</u>	<u>7,542,937</u>	<u>7,542,937</u>
Total	<u>\$ 893</u>	<u>\$ 32,525,744</u>	<u>\$ 32,526,637</u>

Phoenix Art Museum and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Board-designated	\$ 1,420,508	\$ -	\$ 1,420,508
Original corpus, investments	-	22,570,607	22,570,607
Original corpus, promises to give	-	1,050,000	1,050,000
Accumulated investment earnings (losses)	(245,165)	7,411,698	7,166,533
Total	\$ 1,175,343	\$ 31,032,305	\$ 32,207,648

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, 2023	\$ 1,331,034	\$ 27,819,968	\$ 29,151,002
Contributions/designations	3,693	1,341,124	1,344,817
Interest and dividend income	38,088	975,154	1,013,242
Realized gains (losses)	52,356	1,340,438	1,392,794
Unrealized gains (losses)	53,990	1,382,293	1,436,283
Fees	(4,567)	(116,916)	(121,483)
Amounts appropriated for expenditure	(299,251)	(1,709,756)	(2,009,007)
Balance, June 30, 2024	1,175,343	31,032,305	32,207,648
Contributions	-	1,434,417	1,434,417
Interest and dividend income	30,449	889,333	919,782
Realized gains (losses)	-	1,377,804	1,377,804
Unrealized gains (losses)	-	824,125	824,125
Fees	-	(97,586)	(97,586)
Amounts appropriated for expenditure	(1,204,899)	(2,934,654)	(4,139,553)
Balance, June 30, 2025	\$ 893	\$ 32,525,744	\$ 32,526,637

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, 2025 and 2024, 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, 2025:

	Original Gift Amount	Fair Market Value at June 30, 2025	Deficiency at June 30, 2025
Bouma	\$ 100,548	\$ 80,313	\$ (20,235)
CF- Acquisition/Conservation	161,143	94,518	(66,625)
Total	\$ 261,691	\$ 174,831	\$ (86,860)

Phoenix Art Museum and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

The following is a schedule of underwater endowment funds as of June 30, 2024:

	Original Gift Amount	Fair Market Value at June 30, 2024	Deficiency at June 30, 2024
Excellence funds – cash for future use	\$ 550,000	\$ 477,782	\$ (72,218)
Bouma	100,548	79,438	(21,110)
CF – Acquisition/Conservation	161,143	93,488	(67,655)
Total	<u>\$ 811,691</u>	<u>\$ 650,708</u>	<u>\$ (160,983)</u>

14. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30 consist of:

	2025	2024
Time restricted:		
Promises to give	\$ 65,750	\$ 177,300
Time and purpose restricted promises to give:		
Exhibits and events	826,854	1,602,000
Curator support	150,000	300,000
Conservation/art acquisitions	-	150,000
Fashion internship	165,428	177,025
Fashion gallery collection manager	320,000	-
Building improvements	240,000	-
Public Art projects and other	40,000	10,000
	<u>1,742,282</u>	<u>2,239,025</u>
Purpose restricted:		
Exhibits and education	451,543	455,935
Conservation/art acquisitions	1,808,828	1,968,828
Building improvements	460,000	-
Fashion department	250,000	200,000
Fashion gallery infrastructure renovations	-	75,000
Curator	75,000	-
Other	105,550	165,937
Beneficial interest in perpetual trust	702,391	536,189
	<u>3,853,312</u>	<u>3,401,889</u>
Endowment funds:		
Portion of perpetual endowment funds that is required to be retained permanently	24,982,807	23,620,607
Investment income subject to time restriction under MCFA	1,654,126	1,286,782
Investment income subject to time and purpose restriction under MCFA:		
Exhibits and education	2,477,475	1,894,801
Conservation	3,302,990	1,641,782
Art acquisitions	45,712	2,350,622
Admission	62,634	-
American art	-	144,925
Art awards and scholarships	-	92,786
	<u>32,525,744</u>	<u>31,032,305</u>
Total net assets with donor restrictions	<u>\$ 38,187,088</u>	<u>\$ 36,850,519</u>

Phoenix Art Museum and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

15. 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:

	2025	2024
Facility	\$ 3,510,936	\$ 3,510,936
Utilities	347,109	332,353
Maintenance	880,042	933,581
Total from City of Phoenix	4,738,087	4,776,870
Art work	7,025,000	-
Advertising	55,132	81,134
Food	80,000	10,400
Supplies and other	45,713	37,724
Raffle gifts	88,512	82,766
	7,294,357	212,024
Total	\$ 12,032,444	\$ 4,988,894

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 values for art work are based on the fair value obtained from a certified art appraiser. The art work is utilized in the fundraising function and is restricted for the endowment fund. 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. The value of raffle gifts is based on the amounts the raffle items are sold for in the local market and are utilized in the fundraising function.

16. 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.

Phoenix Art Museum and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2025 and 2024

The plan's funded status was as follows:

	2025	2024
Projected benefit obligation	\$ (802,707)	\$ (779,437)
Fair value of plan assets	641,822	615,607
Funded status of plan at year-end	<u>\$ (160,885)</u>	<u>\$ (163,830)</u>
Accumulated benefit obligation	<u>\$ 802,707</u>	<u>\$ 779,437</u>
Employer contributions	<u>\$ 30,000</u>	<u>\$ 17,000</u>
Participant contributions	<u>\$ -</u>	<u>\$ -</u>
Benefits paid	<u>\$ 29,468</u>	<u>\$ 29,468</u>

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, 2025. Amounts recognized in the consolidated statements of financial position as of June 30, 2025 and 2024 consists of pension liability in the amounts of \$160,885 and \$163,830, respectively.

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

	2025	2024
Service costs	<u>\$ -</u>	<u>\$ -</u>
Other components of costs:		
Interest costs	\$ 41,380	\$ 39,225
Expected return on plan assets	(38,254)	(38,396)
Recognized actuarial (gain) loss	6,024	7,526
Recognized (gain) or loss due to settlement curtailment	<u>-</u>	<u>-</u>
Net periodic pension cost	<u>\$ 9,150</u>	<u>\$ 8,355</u>

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

	2025	2024
Net loss	\$ 282,099	\$ 264,194
Prior service cost	<u>-</u>	<u>-</u>
Net amount recognized	<u>\$ 282,099</u>	<u>\$ 264,194</u>

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

	2025	2024
Discount rate	5.50 %	4.75 %
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 Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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:

	2025	2024
Cash and cash equivalents	10.13 %	10.08 %
Fixed income common/collective funds	89.87	89.92
	<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:

	2025	2024
Cash and cash equivalents	9.95 %	9.95 %
Fixed income	90.05	90.05
	<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.

Plan assets with readily determinable fair values are measured at fair value as determined by quoted market prices in active markets (Level 1). Other plan assets are measured at fair value based on quoted prices for similar assets or liabilities in active markets (Level 2).

The fair values of the Organization's pension plan assets at June 30, 2025 and 2024 by asset category are as follows:

	2025	2024
Cash (Level 1)	\$ 65,017	\$ 62,053
Fixed income Common/Collective Funds (Level 2)	576,805	553,554
	<u>\$ 641,822</u>	<u>\$ 615,607</u>

Phoenix Art Museum and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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

Years ending June 30:	
2026	\$ 57,581
2027	55,859
2028	54,004
2029	52,013
2030	49,884
2031-2035	<u>220,658</u>
Total	<u>\$ 489,999</u>

17. 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, 2025 and 2024 totaled approximately \$300,000 and \$191,000, respectively.

18. Related-Party Transactions

The Men's Art Council (MAC) is a separate legal entity that is affiliated with the Organization and Artenders, Inc. is wholly owned by MAC. MAC provides contributions to assist in support of the Organization's operations. MAC donated \$689,000 and \$690,000 to the organization during the years ended June 30, 2025 and 2024, respectively.

The Organization provides for payment of MAC's and Artenders, Inc.'s salaries, wages, benefits and taxes, which are reimbursed by MAC and Artenders, Inc. to the Organization. The total amounts reimbursed for the years ended June 30, 2025 and 2024 totaled \$407,000 and \$404,000, respectively.

During the years ended June 30, 2025 and 2024, the Organization received contributions from board members that totaled approximately \$2,895,000 and \$2,732,500, respectively.

During the year ended June 30, 2025, the Organization received donated artwork with a value of \$7,025,000 from a donor-advised fund that is advised by a board member of the Organization. Also, during the year ended June 30, 2025, that same board member purchased some of this artwork through a note receivable held by the Organization in the amount of \$5,186,100.

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

Consolidating Statement of Financial Position

June 30, 2025

	Phoenix Art Museum	Phoenix Art Museum Endowment Fund, Inc.	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 965,125	\$ -	\$ -	\$ 965,125
Accounts receivable	165,840	-	-	165,840
Due from affiliate	109,232	-	(109,232)	-
Promises to give, current, net	345,750	368,000	-	713,750
Prepaid expenses	131,711	-	-	131,711
Inventory	357,797	-	-	357,797
Total current assets	2,075,455	368,000	(109,232)	2,334,223
Other Assets				
Operating lease right-of-use asset	23,013	-	-	23,013
Promises to give, net of current portion and discount	614,428	539,999	-	1,154,427
Assets held for sale	-	2,000,000	-	2,000,000
Investments, other	-	390,180	-	390,180
Investments, charitable gift annuities	22,642	-	-	22,642
Notes receivable	-	5,186,100	-	5,186,100
Property and equipment, net	5,213,614	-	-	5,213,614
Beneficial interest in perpetual trust	702,391	-	-	702,391
Assets held for long-term purposes:				
Promises to give, endowments	-	1,516,667	-	1,516,667
Investments, endowments	250,000	31,009,970	(250,000)	31,009,970
Total assets	<u>\$ 8,901,543</u>	<u>\$ 41,010,916</u>	<u>\$ (359,232)</u>	<u>\$ 49,553,227</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 856,923	\$ -	\$ -	\$ 856,923
Due to affiliate	219,827	139,405	(359,232)	-
Accrued expenses	838,074	-	-	838,074
Deferred revenue and facility rental deposits	694,964	-	-	694,964
Deferred conditional contributions	131,641	-	-	131,641
Operating lease liability	12,653	-	-	12,653
Note payable, current	111,473	-	-	111,473
Total current liabilities	2,865,555	139,405	(359,232)	2,645,728
Other Liabilities				
Accrued pension	160,885	-	-	160,885
Line of credit	1,600,000	-	-	1,600,000
Operating lease liability, net of current	12,177	-	-	12,177
Note payable, net of current	341,643	-	-	341,643
Charitable gift annuity liabilities	52,514	-	-	52,514
Total liabilities	<u>5,032,774</u>	<u>139,405</u>	<u>(359,232)</u>	<u>4,812,947</u>
Net Assets				
Without donor restrictions	(747,224)	7,300,416	-	6,553,192
With donor restrictions	4,615,993	33,571,095	-	38,187,088
Total net assets	<u>3,868,769</u>	<u>40,871,511</u>	<u>-</u>	<u>44,740,280</u>
Total liabilities and net assets	<u>\$ 8,901,543</u>	<u>\$ 41,010,916</u>	<u>\$ (359,232)</u>	<u>\$ 49,553,227</u>

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

Consolidating Statement of Activities

Year Ended June 30, 2025

	Phoenix Art Museum	Phoenix Art Museum Endowment Fund, Inc.	Eliminations	Total
Support and Revenue				
Earned and other revenue:				
Admissions	\$ 1,736,118	\$ -	\$ -	\$ 1,736,118
Membership revenue	1,452,723	-	-	1,452,723
Museum store income	899,838	-	-	899,838
Shared costs reimbursements	693,184	-	-	693,184
Facility rentals	278,916	-	-	278,916
Miscellaneous income	48,041	-	-	48,041
Gain (loss) on sale of assets	(640)	161,100	-	160,460
Interest income	-	23,230	-	23,230
Investment income, net	62,745	2,957,336	-	3,020,081
Total earned and other revenue	5,170,925	3,141,666	-	8,312,591
Support:				
Contributions	4,057,618	2,522,117	(310,900)	6,268,835
Endowment fund grant	3,828,654	-	(3,828,654)	-
Donated facilities, utilities & maintenance	4,738,087	-	-	4,738,087
Other non-cash donations	269,357	7,025,000	-	7,294,357
Government grants	56,400	-	-	56,400
Change in interest in perpetual trust	166,202	-	-	166,202
Change in value of charitable gift annuity	(11,777)	-	-	(11,777)
Total support	13,104,541	9,547,117	(4,139,554)	18,512,104
Special event revenue	752,198	-	-	752,198
Special event contribution income	1,192,383	-	-	1,192,383
Cost of direct benefit to donors	(417,685)	-	-	(417,685)
Special events, net	1,526,896	-	-	1,526,896
Total support and revenue	19,802,362	12,688,783	(4,139,554)	28,351,591
Expenses				
Program services expenses	16,416,970	4,139,554	(4,139,554)	16,416,970
Supporting services expenses:				
Management and general	3,255,224	53,429	-	3,308,653
Fundraising	1,265,334	-	-	1,265,334
Membership	412,953	-	-	412,953
Total expenses	21,350,481	4,192,983	(4,139,554)	21,403,910
Change in net assets	(1,548,119)	8,495,800	-	6,947,681
Net Assets, Beginning	5,416,888	32,375,711	-	37,792,599
Net Assets, Ending	\$ 3,868,769	\$ 40,871,511	\$ -	\$ 44,740,280