



Tucson Museum of Art and Historic Block, Inc.
Financial Statements
For the Year Ended June 30, 2022

Tucson Museum of Art and Historic Block, Inc.

Financial Statements
Year Ended June 30, 2022

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
YEAR ENDED JUNE 30, 2022
TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows.....	6
Notes to Financial Statements	7

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Tucson Museum of Art and Historic Block, Inc.

Report on Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of Tucson Museum of Art and Historic Block, Inc. (Museum) which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tucson Museum of Art and Historic Block, Inc. as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Museum's ability to continue as a going concern for a reasonable period of time.

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

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
April 13, 2023

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

Assets

Cash and cash equivalents	\$ 46,425
Cash and cash equivalents - with donor restrictions	1,174,211
Accounts receivable	37,849
Pledges receivable	201,622
Pledges receivable - with donor restrictions	36,666
Investments - with donor restrictions	1,791,133
Inventory	30,060
Prepaid expenses	86,157
Property and equipment, net	7,477,495
Intangible assets, net	14,000
Collections (Note 1)	-
Total assets	<u>\$ 10,895,618</u>

Liabilities

Accounts payable	\$ 42,054
Accrued payroll	70,476
Contract liabilities	338,004
Total liabilities	<u>450,534</u>

Net assets

Without donor restrictions:	
Undesignated	6,489,565
Designated by the Board	18,075
Total net assets without donor restrictions	<u>6,507,640</u>
With donor restrictions:	
Purpose restricted	388,652
Perpetual in nature	3,548,792
Total net assets with donor restrictions	<u>3,937,444</u>
Total net assets	<u>10,445,084</u>
Total liabilities and net assets	<u>\$ 10,895,618</u>

See accompanying notes to financial statements.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support, and gains:			
Admissions	\$ 157,033	\$	\$ 157,033
Contributions and bequests	1,465,347	94,797	1,560,144
In kind contributions	157,721		157,721
Exhibition revenues	293,963		293,963
Fundraising revenues	442,676		442,676
Grant revenues	88,908	50,675	139,583
Membership dues	270,454		270,454
Retail operations revenues	204,858		204,858
Other income	94,099		94,099
Rental income	196,273		196,273
Support organization income	199,289		199,289
Tuition	117,457		117,457
Net investment income		(295,172)	(295,172)
Net assets released from restrictions	79,481	(79,481)	
Total revenue, support, and gains	<u>3,767,559</u>	<u>(229,181)</u>	<u>3,538,378</u>
Expenses:			
Program services			
Curatorial and exhibitions	1,426,836		1,426,836
Education	533,591		533,591
Museum shop	223,541		223,541
Support organizations	119,072		119,072
Total program expenses	<u>2,303,040</u>		<u>2,303,040</u>
Supporting services			
Management and general	1,072,684		1,072,684
Fundraising			
Special events	343,024		343,024
Direct	256,529		256,529
Total fundraising	<u>599,553</u>		<u>599,553</u>
Total supporting services	<u>1,672,237</u>		<u>1,672,237</u>
Total expenses	3,975,277		3,975,277
Change in net assets	(207,718)	(229,181)	(436,899)
Net assets, beginning of year, as restated	<u>6,715,358</u>	<u>4,166,625</u>	<u>10,881,983</u>
Net assets, end of year	<u>\$ 6,507,640</u>	<u>\$ 3,937,444</u>	<u>\$ 10,445,084</u>

See accompanying notes to financial statements.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services					Supporting Services		
	Curatorial and Exhibitions	Education	Museum Shop	Support Organizations	Total Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 548,699	278,389	92,193	1,685	920,966	354,381	207,365	\$ 1,482,712
Catering		2,472			2,472	2,461	45,531	50,464
Information technology		520			520	61,522		62,042
Lectures, performers, and honorarium	21,694	23,410	1,148		46,252	8,685	10,325	65,262
Transportation/moving	121,989				121,989		65	122,054
Other purchased/contracted services	135,424	26,419	5,276	455	167,574	88,639	53,812	310,025
Equipment repair and maintenance	37,564	14,867	2,739		55,170	21,232	1,895	78,297
Building repair and maintenance	2,066	982	180		3,228	1,360		4,588
Utilities	91,951	43,718	8,003		143,672	77,233		220,905
Insurance	47,829	9,705	3,427		60,961	20,750		81,711
Advertising and publicity	36,635	4,813	1,084	927	43,459	147	15,534	59,140
Art acquisition	105,770				105,770			105,770
Printing	10,921	157	157	535	11,770	3,536	15,903	31,209
Rental equipment	2,314	2,417	175	6,850	11,756	49,300	21,272	82,328
Software	1,015	1,206			2,221	30,883	995	34,099
Travel	626	66	60		752	3,035	21,391	25,178
Other general expenses	37,457	12,368		127	49,952	94,214	24,422	168,588
Supplies	17,672	13,562	2,060	21	33,315	25,019	177,732	236,066
Museum shop			88,592		88,592			88,592
Bank/credit card charges	23	12	240		275	44,635	3,311	48,221
Miscellaneous expenses	301	143	202	108,471	109,117	48,967		158,084
Depreciation and amortization	206,887	98,364	18,006		323,257	136,685		459,942
Total expenses	\$ 1,426,837	\$ 533,590	\$ 223,542	\$ 119,071	\$ 2,303,040	\$ 1,072,684	\$ 599,553	\$ 3,975,277

See accompanying notes to financial statements.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

Cash flows from operating activities:	
Change in net assets	\$ (436,899)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation	459,942
Net (gain) loss on investments	295,172
Non-cash contributions received	(157,721)
Changes in assets and liabilities:	
Accounts receivable	108,522
Pledges receivable	(96,836)
Inventory	772
Prepaid expenses	(2,787)
Accounts payable	(58,161)
Accrued payroll	(10,386)
Contract liabilities	(34,687)
	<u>66,931</u>
Net cash provided by (used for) operating activities	<u>66,931</u>
Cash flows from investing activities:	
Purchases of capital assets	(34,063)
Proceeds from sale of investments	191,244
Purchases of investments	(269,141)
Dividends and interest	641
	<u>(111,319)</u>
Net cash provided by (used for) investing activities	<u>(111,319)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(44,388)
Cash, cash equivalents, and restricted cash, beginning of year	<u>1,265,024</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 1,220,636</u>
Reconciliation to Statement of Financial Position:	
Cash and cash equivalents	\$ 46,425
Cash and cash equivalents - with donor restrictions	1,174,211
Total cash, cash equivalents, and restricted cash	<u>\$ 1,220,636</u>

See accompanying notes to financial statements.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Tucson Museum of Art and Historic Block, Inc. (Museum) was incorporated in Arizona in November 1936 as a nonprofit organization. The Museum is located in Tucson, Arizona. The Museum connects art to life, inspiring discovery, creativity, and cultural understanding through meaningful, engaging experiences. These financial statements also include the activities of the Tucson Museum of Art League, Contemporary Art Society, Latin American Art Patrons, and Western Art Patrons, which are unincorporated support organizations to the Museum. The purpose of these organizations is to promote and provide support for the Museum's art collections and related activities.

Basis of Accounting

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

Basis of Presentation

The financial statements of the Museum have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing not-for-profit accounting and financial reporting principles. The Museum is required to report information regarding its financial position and activities according to two classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the Museum and/or the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds must be maintained in perpetuity.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Museum considers all highly liquid investments with an initial maturity of one year or less to be cash equivalents. The Museum places its cash and cash equivalents with various credit institutions.

Investments

The Museum reports investments at fair value. Net investment income return is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment expense. Net investment income restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Museum to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Museum maintains its cash and cash equivalents in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. At year end, the carrying amount of the Museum's deposits was \$1,220,636 and the bank balance was \$1,223,389. At year end, \$507,236 of the Museum's deposits were uninsured and uncollateralized. To minimize risk, cash accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution. The Museum's investments do not represent significant concentrations of market risk inasmuch as the Museum's investment portfolio is adequately diversified among issuers.

Revenue Recognition

Contributions and bequests. Contributions represent nonexchange transactions and the Museum recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. The Museum did not have any conditional promises to give at June 30, 2022.

Grants. The Museum conducts several programs that are funded by local organizations, government agencies, foundations and other businesses. The vast majority of the grants are awarded in a fixed amount. Grants determined to be contributions are recognized as revenue when an unconditional grant award is received, or when the conditions of a conditional contribution have been met.

Exhibition revenues. Exhibition underwriting revenues are recognized when the designated exhibitions or collections are put on display and the contribution has been received.

Memberships and Admissions. The Museum recognizes revenue from ticket sales at the time of admission. The Museum recognizes revenue from membership dues using the output method over the membership period, which is generally one year. Revenues are recognized ratably on a monthly basis as services are simultaneously received and consumed by the members. Due to the nature and timing of the performance obligations, substantially all contract liabilities of each year is recognized in the following year.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fundraising. Fundraising revenue include sponsorship of events, event sales, and auctions. Fundraising transactions often include both exchange and contribution components. Event sales that result in substantially commensurate value for the participant are considered exchange transactions and recognized at a point in time, when the event takes place. Amounts in excess of commensurate value are recognized as conditional contributions when the relevant barriers are met, generally coinciding with when the event takes place.

Retail Operations. Revenues derived from Museum shop and bar sales are recognized as goods are delivered to the buyer.

Rental Income. The Museum recognizes monthly rent revenue from subleased buildings in accordance with rental agreement and as performance obligations are met. Facility rentals are recognized when the performance obligation of providing space for the event is satisfied. Amounts collected in advance for facilities rentals are reflected in the statement of financial position as contract liabilities.

Support Organization Income. The Museum has four supporting organizations which generate operating and fundraising income based on their various activities. Revenue is recognized after activities and events occur.

Pledges Receivable

Unconditional promises to give that are expected to be collected in less than one year are reported at net realizable value. Unconditional promises to give that are expected to be collected in periods greater than one year are recorded at net present value of expected cash flows. As the difference between the present value and net present value is insignificant, promises to give that are collectible over future periods will be reported at present value. Management does not believe an allowance for uncollectible amounts is necessary based on historical experience with donors, and accordingly has made no allowance for doubtful accounts.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

Inventories

Museum shop inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. When evidence exists that the net realizable value of inventory is lower than its cost, the difference is recognized as a loss in the statement of activities in the period in which it occurs.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property and Equipment

Acquisitions of property and equipment with a cost in excess of \$500 are capitalized. All expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. In addition, all expenses for computers and related software and infrastructure are always capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from five to 50 years. Depreciation expense for the current fiscal year was \$459,942.

The Museum reviews long-lived assets 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. Management does not believe impairment indicators are present.

The City of Tucson owns the land and permanent structures on which the Museum is located. The Museum has a lease with the City of Tucson, which entitles the Museum to exclusive right and use of the land and to operate the properties as a museum. The lease expires in September 2072. As a matter of policy, the fair value of the leased premises has not been reported in the financial statements of the Museum.

Collections

The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Contributed collection items and reference books are not reflected in the financial statements. During the year, the Museum received \$4.1 million of contributed art (unaudited) not recorded in the statement of financial position, in accordance with its policy. Proceeds from de-accessions or insurance recoveries, if any, are reflected as increases in the appropriate net asset classes.

Collections include: 1) Latin American Art; 2) Art of the American West; 3) Modern and Contemporary Art; 4) Indigenous Arts; 5) European Art; 6) Asian Art; and 5) Historical Properties.

The Collections Committee of the Board formally approves acquisitions for the collection. Deaccessions and the loan of objects into and from the collections are approved by the Board's Collections Committee with notice to, and in accordance with criteria established by, the Board. Accepted items are accessioned and cared for in accordance with a written "Collections Management Policy" following generally accepted museum procedures. Funds realized through the sale of any deaccessioned art are only used to replenish the collections.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Beneficial Interest in Assets Held by Community Foundation

The Museum has established an endowment fund that is perpetual in nature with the Arizona Community Foundation (ACF) and named the Museum as the beneficiary. The Museum granted variance power to ACF, which allows ACF to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if in the sole judgment of ACF's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The fund is held and invested by ACF for the Museum's benefit and is reported at fair value in the statements of financial position, with distributions and changes in fair value recognized in the statements of activities.

Contract Liabilities

The Museum recognizes contract liabilities for membership dues in the applicable annual membership period, tuition receipts in the applicable annual tuition period, and facility rentals when events occur.

Compensated Absences

Employees are entitled to personal time off (PTO), depending on job classification, length of service, and other factors. It is the Museum's policy to recognize the cost of compensated absence when leave is earned by employees.

In-Kind Contributions

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Museum reclassifies net assets with donor restrictions to net assets without restrictions at that time.

The Museum receives donated services from a variety of unpaid volunteers assisting the Museum in the operation of its programs. Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Museum. During the current year, the Museum received donated services from unpaid volunteers, totaling approximately 5,412 hours. As the receipt of these services did not meet the requirement for recognition, their value has not been recognized in the statement of activities.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Information technology	Time and effort
Transportation/moving	Direct usage
Other purchased/contracted services	Direct usage
Equipment repair and maintenance	Time and effort
Utilities	Square footage
Insurance	Square footage
Advertising and publicity	Direct usage
Rental equipment	Direct usage
Supplies	Direct usage
Travel	Direct usage
Miscellaneous expenses	Direct usage
Depreciation and amortization	Square footage

Advertising

The Museum uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the current fiscal year, advertising costs totaled \$59,140.

Income Tax Status

The Museum is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State of Arizona tax provisions. However, income from certain activities not directly related to the Museum’s tax-exempt purpose is subject to taxation as unrelated business income. The Museum’s Form 990, *Return of Organization Exempt from Income Taxes* and Form 990T, *Exempt Organization Business Income Tax Return*, are generally subject to examination by the Internal Revenue Service for three years after the date filed. There are no current or pending IRS examinations.

The Museum has adopted the provisions of the FASB standard on Accounting for Uncertainty in Income Taxes (ASC 740-10-25). Management has evaluated the tax positions taken or expected to be taken, if any, on its exempt organization filings, and the likelihood that upon examination those positions would be sustained. Based on the results of this evaluation, management believes there are no uncertain tax positions.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncement

During the fiscal year, the Museum adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). The update increases transparency of contributed nonfinancial assets through enhancements to presentation and disclosures. The adoption did not have a significant impact on the Museum’s financial statements.

Recent Accounting Pronouncements Issued Not Yet Effective

In February 2016, the FASB issued ASU Update 2016-02, *Leases* (Topic 842). The ASU will require entities to recognize assets and liabilities for both capital and operating leases with lease terms of more than 12 months on the statement of financial position. This ASU is effective for fiscal years beginning after December 15, 2021. The Museum is currently evaluating the effect that this pronouncement will have on its consolidated financial statements and related disclosures.

Date of Management’s Review

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through April 13, 2023, which is the date the financial statements were available to be issued.

NOTE 2 – LIQUIDITY AND AVAILABILITY

The following represents the Museum’s financial assets at fiscal year end:

Financial assets at year end:	
Cash and cash equivalents	\$ 46,425
Cash and cash equivalents – with donor restrictions	1,174,211
Accounts receivable	37,849
Pledges receivable	201,622
Pledges receivable – with donor restrictions	36,666
Investments – with donor restrictions	1,791,133
Total financial assets	<u>3,287,906</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	3,937,444
Less: Net assets with purpose restrictions to be met in less than a year	<u>(388,652)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ (260,886)</u>

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 – LIQUIDITY AND AVAILABILITY

The Museum regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Museum does not have a formal policy or goal regarding operating reserves. However, as part of its liquidity plan, the Museum's investment policy requires a minimum of two percent of the endowment assets to be maintained in cash or cash equivalents, including money market funds and short-term U.S. Treasury bills. At June 30, 2022, the Museum had borrowed \$583,448 against net assets with donor restrictions (perpetual in nature) to cover operating cash flows and capital improvements. Additionally, the Museum has a quasi-endowment that was established according to Board policy. Although the Museum does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available within one year if necessary.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the price that the Museum would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounting standards establish a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques. Inputs refer broadly to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Observable inputs are those that reflect the assumptions that market participants would use in pricing the asset and are based on market data obtained from independent sources. Unobservable inputs reflect the Museum's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1: Quoted prices in active markets for identical investments.
- Level 2: 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.
- Level 3: Unobservable inputs for the asset or liability.

The level of fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair Values Measured on Recurring Basis

Fair values of assets measured on a recurring basis at year end are as follows:

	Hierarchy Level	Fair Value
Investments		
Equities	Level 1	\$ 72,699
Mutual funds – publicly traded	Level 1	1,628,146
Direct stock ownership	Level 1	74,769
Community Foundation of Southern AZ investment pool	Level 3	15,519
Total assets		<u>\$ 1,791,133</u>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value.

Investments – Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Investment pools classified in Level 3 are valued at the beneficial interest in assets held at the fair value of the Museum's share of the investment pool as of the measurement date. The investment pool is based on quoted net asset values of underlying investments held by the investment pool adjusted by an asset charge. The underlying investments held in the investment pool are composed primarily of equity securities.

The Museum recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels during the current fiscal year.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

	Assets Held by Community Foundation
Beginning of year	\$ 17,210
Investment return, net	(1,691)
End of year	<u>\$ 15,519</u>

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 – PLEDGES RECEIVABLE

Unconditional pledges receivable consist of the following:

Amounts due in:	
Less than one year	\$ 78,333
More than one year	<u>159,955</u>
Total	<u>\$ 238,288</u>

NOTE 5 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Changes in contract liabilities for the fiscal year are as follows:

	<u>Contract Liabilities</u>
Beginning of year	\$ 372,691
End of year	\$ 338,004

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following.

Buildings	\$ 5,981,833
Courtyard and plaza	404,951
Furniture and equipment	1,438,509
Leasehold improvements	<u>7,060,123</u>
Total property and equipment	14,885,416
Less: Accumulated depreciation and amortization	<u>(7,407,921)</u>
Net property and equipment	<u>\$ 7,477,495</u>

NOTE 7 – INTANGIBLE ASSETS

Intangible assets consist of the following.

Intangibles, not being amortized	\$ 14,000
Intangibles, being amortized	11,500
Less: Accumulated amortization	<u>(11,500)</u>
Net intangible assets	<u>\$ 14,000</u>

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 8 – ENDOWMENTS

The Museum's endowment consists of two individual funds established for a variety of purposes. Its endowment includes donor-restricted funds for income and collection purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law and Spending Policy

The Museum's Investment and Spending Policy, approved by the Board of Trustees, is consistent with the Arizona' version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Arizona's law, the Management of Charitable Funds Act, (MCFA) provides that, unless otherwise stated in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure. Pursuant to the MCFA and subject to the specific terms of the gift agreement, the Museum may spend or accumulate so much of the fund assets as it deems prudent for the uses, benefits, purposes and duration for which the fund was established. As a result of this interpretation, the Museum maintains such gifts as restricted assets. Also, consistent with the MCFA, the Museum exercises good faith and prudence when determining whether to appropriate for expenditure or accumulate endowment fund assets.

MCFA provides that to limit the authority to appropriate these assets for expenditure, the gift instrument must specifically state the restriction. Terms in a gift instrument directing that only income and interest may be spent or that the original principal amount must be preserved intact, for example, create an endowment of permanent duration (unless otherwise provided) but do not otherwise limit the Museum's authority to spend the assets. The Museum complies with the specific restrictions, if any, in written gift agreements.

For accounting purposes, endowment gifts are recorded at their original amount. Assets restricted by the donor in the gift instrument to be held in perpetuity are retained at their original amount and the amount of any accumulations, if required by the gift instrument, are added.

Investment and Spending Policy

In accordance with UPMIFA and the MCFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund.
2. The purposes of the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected return from income and appreciation of investments.
6. Other resources available to the Museum.
7. The Museum's investment and spending policy.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 8 – ENDOWMENTS

In accordance with the prudential factors in UPMIFA and the MCFA, the policy provides that distributions from endowment funds may be taken quarterly or annually and generally shall not exceed an annual amount of 5 percent of the trailing 12 quarters weighted average market value of the fund. In establishing this policy, the Museum considered the long-term expected return on investment assets, the nature, duration, and preservation of the fund, other resources, and the possible effects of inflation or deflation, and other factors listed above.

Investment Return Objectives, Risk Parameters and Strategies

The Museum’s investment and spending policy is intended to provide a predictable stream of funding to the Museum while maintaining the purchasing power of 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. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of five percent, while growing the funds if possible.

Therefore, the Museum expects its endowment assets, over time, to produce an average rate of return of approximately six percent annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Changes in Endowment Net Assets as of year end:

	<u>With Donor Restriction</u>
Endowment net assets, beginning of year	\$ 3,995,991
Contributions	35,067
Investment return, net	(295,171)
Amounts appropriated for expenditure	<u>59,332</u>
Endowment net assets, end of year	<u>\$ 3,795,219</u>

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 8 – ENDOWMENTS

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the aggregate of the original gift amounts or the amounts required to be maintained by donors or by law (underwater endowments). As noted above, UPMIFA and the MCFA, the Museum’s investment and spending policy permits spending from underwater endowments. As of June 30, 2022, there were no deficiencies of this nature.

Endowment Net Asset Composition by Type of Fund as of year end:

	With Donor Restriction
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 3,548,792
Accumulated investment gains	<u>246,427</u>
Total funds	<u>\$ 3,795,219</u>

NOTE 9 – CONTRIBUTED NONFINANCIAL ASSETS

The Museum received \$157,721 of donated auction items during the fiscal year to be utilized for fundraising purposes, including the Museum’s annual gala auction. All items received during the current year were sold in the current year auction. Contributed auction items are valued at the gross selling price received. There were no donor-imposed restrictions associated with the donated auction items.

NOTE 10 – NET ASSETS

Net assets released from donor restrictions are as follows:

Satisfaction of purpose restrictions:	
Contemporary Photography Fund	\$ 905
IMLS	50,375
Naming Opportunities	75,033
Other	12,500
Endowments	<u>(59,332)</u>
Total	<u>\$ 79,481</u>

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 10 – NET ASSETS

Net assets with donor restrictions were as follows:

Specific Purpose:	
Collections	\$ 39,276
Docent Activities	1,314
Contemporary Photography Fund	38,835
IMLS	300
First Thursday	20,000
Naming Opportunities	25,000
Other	17,500
Specific purpose total	<u>142,225</u>
Endowments, subject to appropriation:	
Art and Care of Collections	166,202
Arts & Crafts Awards	10,506
Collections	69,719
Endowments, subject to appropriation total	<u>246,427</u>
Endowments, perpetual in nature:	
Acquisition of Art	641,803
Acquisition of Masks and Weaving	50,337
Art Award	10,000
Casa Cordova	50,000
Craft Award	2,000
Education	1,157,840
General Operations	250,865
Latin American Curator	872,989
Scholarships	3,075
Western Art Curator	509,883
Endowments, perpetual in nature total	<u>3,548,792</u>
Total	<u>\$ 3,937,444</u>

NOTE 11 – OPERATING LEASE COMMITMENTS

The Museum leases land from the City of Tucson for \$1 a year under an operating lease through 2072 and an education center from the City of Tucson for \$1 a year under an operating lease that expires in 2073.

The Museum leases office equipment, equipment maintenance, and professional services under noncancelable operating leases with terms of one to five years. Total rent expense incurred under operating leases totaled \$32,776 during the fiscal year.

TUCSON MUSEUM OF ART AND HISTORIC BLOCK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 11 – OPERATING LEASE COMMITMENTS

The future minimum rental payments under the leases are as follows:

Year Ending June 30:		
	2023	\$ 22,799
	2024	14,651
	2025	14,651
	2026	13,581
	2027	906
Total minimum payments required		<u>\$ 66,588</u>

NOTE 12 – RENTAL INCOME

The Museum subleases one of its buildings to a restaurant under a lease through January 31, 2023. The lease provides for rent based upon a percentage of gross sales. Contingent rental revenue earned for the year was \$107,181.

The Museum subleases another building under an operating lease. The lease requires monthly payments of \$1,500 through June 2023. Rental income for the year was \$18,000. Future minimum rental income under the lease is \$18,000 per year.

The Museum also subleases office space under an operating lease. The lease requires monthly payments of \$2,250 through October 2022. Rental income for the year was \$27,000. Future minimum rental income under the lease is \$9,000.

NOTE 13 – EMPLOYEE BENEFIT PLANS

The Museum has a defined contribution plan covering all employees with at least one year of service who agree to make contributions to the plan. The Museum contributes up to three percent of gross salaries to the plan for qualified employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Plan expenses were \$22,415 for the fiscal year.

NOTE 14 – RELATED PARTY TRANSACTIONS

During the year, the Museum received approximately \$562,416 in contributions and pledges from members of its Board of Trustees. The Museum also received in-kind contributions totaling \$25,080 from members of the Board of Trustees during the year.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Museum is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its activities. In the opinion of management, the liability, if any, for such contingencies will not have a material effect on the Museum's financial position.