Tucson Museum of Art and Historic Block, Inc. Financial Statements

For the Year Ended June 30, 2023

Tucson Museum of Art and Historic Block, Inc.

Financial Statements Year Ended June 30, 2023

Tucson Museum of Art and Historic Block, Inc. Year Ended June 30, 2023 Table of Contents

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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, 2023, 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, 2023, 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.

Change in Accounting Principle

As described in Note 1, the Museum implemented the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-02, *Leases* (Topic 842), for the year ended June 30, 2023, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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 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., P.C.

Heinfeld Meach & Co. PC

Tucson, Arizona May 8, 2024

Tucson Museum of Art and Historic Block, Inc. Statement of Financial Position June 30, 2023

Assets		
Cash and cash equivalents	\$	46,425
Cash and cash equivalents - with donor restrictions	,	586,790
Accounts receivable		38,714
Pledges receivable		161,556
Pledges receivable - with donor restrictions		48,333
Investments - with donor restrictions		2,652,981
Inventory		29,929
Donated auction items		82,521
Prepaid expenses		100,200
Property and equipment, net		7,114,111
Intangible assets, net		14,000
Operating lease right to use asset		45,680
Collections (Note 1)		43,000
Total assets	\$	10,921,240
Total assets	۶ =	10,921,240
Liabilities		
Accounts payable	\$	35,008
Accrued payroll	Y	86,737
Contract liabilities		432,671
Operating lease liability		45,680
Total liabilities	-	600,096
Total liabilities	-	000,090
Net assets		
Without donor restrictions:		
Undesignated		6,216,605
Designated by the Board		20,075
Total net assets without donor restrictions	-	6,236,680
		, ,
With donor restrictions:		
Purpose restricted		535,672
Perpetual in nature		3,548,792
Total net assets with donor restrictions	-	4,084,464
		· · ·
Total net assets		10,321,144
	-	
Total liabilities and net assets	\$_	10,921,240

Tucson Museum of Art and Historic Block, Inc. Statement of Activities For the Year Ended June 30, 2023

	Without Donor		With Donor		
Revenue, support, and gains:	Restrictions		Restrictions		Total
Admissions	\$ 161,928	\$		\$	161,928
Contributions and bequests	903,026		178,880		1,081,906
In kind contributions	129,826				129,826
Exhibition revenues	339,366				339,366
Fundraising revenues	476,815				476,815
Grant revenues	190,831		43,681		234,512
Membership dues	280,143				280,143
Retail operations revenues	223,759				223,759
Other income	145,223				145,223
Rental income	255,035				255,035
Support organization income	259,646				259,646
Tuition	127,128				127,128
Net investment income			240,417		240,417
Net assets released from restrictions	315,958	_	(315,958)	_	
Total revenue, support, and gains	3,808,684		147,020		3,955,704
Expenses: Program services					
Curatorial and exhibitions	1,880,515				1,880,515
Education	485,556				485,556
Museum shop	196,615				196,615
Support organizations	207,750				207,750
Total program expenses	2,770,436	_		-	2,770,436
Supporting services		_		· -	
Management and general	755,077				755,077
Fundraising	267.762				267 762
Special events	267,763				267,763
Direct	286,368	_		_	286,368
Total supporting convices	554,131 1,309,208	-		_	554,131 1,309,208
Total supporting services	1,509,206	_		_	1,309,208
Total expenses	4,079,644				4,079,644
Change in net assets	(270,960)		147,020		(123,940)
Net assets, beginning of year	6,507,640	_	3,937,444	_	10,445,084
Net assets, end of year	\$ 6,236,680	\$	4,084,464	\$_	10,321,144

Tucson Museum of Art and Historic Block, Inc. Statement of Functional Expenses For the Year Ended June 30, 2023

			Program Services			Supporting		
	uratorial and			Support	Total Program	Management		
	 Exhibitions	Education	Museum Shop	Organizations	Services	and General	Fundraising	Total
Salaries and benefits	\$ 747,326	311,849	78,499	908	1,138,582	355,893	248,983 \$	1,743,458
Catering		1,614			1,614	2,443	11,532	15,589
Information technology	45,159	6,991	1,306		53,456	7,708	5,300	66,464
Lectures, performers, and honoraium	58,118	22,150			80,268		1,500	81,768
Transportation/moving	70,711				70,711		29,441	100,152
Other purchased/contracted services	165,515	18,874	2,502	2,827	189,718	56,098	7,031	252,847
Equipment repair and maintenance	49,383	7,463	1,366		58,212	9,238		67,450
Building repair and maintenance	28,466	4,210	771		33,447	5,140		38,587
Utilities	162,819	25,099	4,594		192,512	30,642		223,154
Insurance	61,240	5,179	1,004		67,423	15,303	1,543	84,269
Advertising and publicity	45,185	2,862	1,526		49,573	1,053	17,468	68,094
Art acquisition	42,147				42,147		3,214	45,361
Printing	6,421	2,738	229		9,388	2,734	34,809	46,931
Rental equipment	1	765		6,505	7,271	48,088	297	55,656
Software	2,844	3,304	7,318	1,829	15,295	4,081	22,786	42,162
Travel	597	1,365			1,962	3,440	3,507	8,909
Other general expenses	35,553	6,560	17		42,130	49,368	113,661	205,159
Supplies	21,569	12,519	4,667		38,755	44,109	51,127	133,991
Museum shop			83,053		83,053		1,904	84,957
Bank/credit card charges			240		240	56,206	12	56,458
Miscellaneous expenses	508	73	15	195,681	196,277	119	16	196,412
Depreciation and amortization	336,953	51,941	9,508		398,402	63,414		461,816
Total functional expenses	\$ 1,880,515 \$	485,556	\$ 196,615	207,750	\$ 2,770,436	\$ 755,077	554,131 \$	4,079,644

Tucson Museum of Art and Historic Block, Inc. Statement of Cash Flows For the Year Ended June 30, 2023

Cash flows from operating activities: Change in net assets	\$	(123,940)
Adjustments to reconcile change in net assets to net cash		
provided by (used for) operating activities:		
Depreciation/amortization		461,816
Net (gain) loss on investments		(240,417)
Non-cash contributions received		(129,826)
Changes in assets and liabilities:		
Accounts receivable		(865)
Pledges receivable		28,399
Inventory		131
Donated auction items		(82,521)
Prepaid expenses		(14,043)
Accounts payable		(7,046)
Accrued payroll		16,261
Contract liabilities	_	94,667
Net cash provided by (used for) operating activities	_	2,616
Cash flows from investing activities:		
Purchases of capital assets		(98,432)
Proceeds from sale of investments		105,858
Purchases of investments		(598,248)
Dividends and interest		785
Net cash provided by (used for) investing activities	_	(590,037)
Net increase (decrease) in cash, cash equivalents, and restricted cash		(587,421)
Cash, cash equivalents, and restricted cash, beginning of year	_	1,220,636
Cash, cash equivalents, and restricted cash, end of year	\$_	633,215
Reconciliation to Statement of Financial Position:		
Cash and cash equivalents	\$	46,425
Cash and cash equivalents - with donor restrictions		586,790
Total cash, cash equivalents, and restricted cash	\$	633,215
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$	1,610

Note 1 – Summary of Significant Accounting Policies

Nature of Activities

Tucson Museum of Art and Historic Block, Inc. (Museum), who's history traces back to the Tucson Fine Arts Association in 1924, 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.

Note 1 – Summary of Significant Accounting Policies

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.

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.

<u>Investments</u>

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 \$633,215 and the bank balance was \$683,341. At year end, \$133,692 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, 2023.

Note 1 – Summary of Significant Accounting Policies

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.

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.

Note 1 – Summary of Significant Accounting Policies

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.

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 \$462,484.

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.

Note 1 – Summary of Significant Accounting Policies

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 \$331,100 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.

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.

Note 1 – Summary of Significant Accounting Policies

Leases

The Museum determines if an arrangement is or contains a lease at inception. All leases are recorded on the statement of financial position except for leases with an initial term less than 12 months. Lease assets and obligations are recognized based on the present value of future lease payments over the lease terms. The Museum has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments when the implicit rate is not readily determinable.

Operating lease right-of-use assets (ROU) include adjustments related to lease payments made and lease incentives received at or before the commencement date. The assets resulting from operating leases are included in right-of-use assets and the related liabilities are included in operating leases payable on the Statement of Financial Position. Finance lease assets are included in property and equipment, net, and the related liabilities are included in finance leases payable on the Statement of Financial Position.

Operating lease expense is recognized on a straight-line basis over the lease term. Lease and non-lease components of lease agreements are accounted for separately. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Museum will exercise that option.

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

Contributed goods are recorded 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 6,000 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.

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:

Expense	Method of Allocation
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
Other general expenses	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 \$68,094.

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.

Note 1 – Summary of Significant Accounting Policies

New Accounting Pronouncement

During the fiscal year, the Museum adopted Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). This update requires entities to recognize assets and liabilities for both capital and operating leases on the statement of financial position, and disclose key information about leasing arrangements. In adopting Topic 842, the Museum elects the practical expedient transition package to not reassess (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. It also elects not to report assets or liabilities for leases with terms of one year or less.

Upon adoption, the Museum recognized operating lease ROU assets of \$60,390 and related lease liabilities of \$60,390 in the statement of financial position. The adoption did not result in a significant effect on amounts reported in the statement of activities.

Note 2 – Liquidity and Availability

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

Cash and cash equivalents Cash and cash equivalents – with donor restrictions Accounts receivable Pledges receivable Pledges receivable – with donor restrictions Investments – with donor restrictions Total financial assets \$ 46,425 \$ 586,790 \$ 38,714 \$ 161,556 \$ 48,333 \$ 2,652,981 \$ 3,534,799	
Accounts receivable38,714Pledges receivable161,556Pledges receivable – with donor restrictions48,333Investments – with donor restrictions2,652,981	,
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Pledges receivable – with donor restrictions 48,333 Investments – with donor restrictions 2,652,981	
Investments – with donor restrictions 2,652,981)
	,
Total financial assets 3,534,799	_
	_
Less amounts not available to be used within one year:	
Net assets with donor restrictions 4,084,464	
Less: Net assets with purpose restrictions to be met in	
less than a year (535,672)
Financial assets available to meet general	_
expenditures over the next twelve months \$ (13,993))

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, 2023, the Museum had borrowed \$309,021 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.

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	\$ 224,796
Mutual funds – publicly traded	Level 1	2,326,777
Direct stock ownership	Level 1	85,177
Community Foundation of Southern AZ		
investment pool	Level 3	16,231
Total assets		\$ 2,652,981

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:

	Α	ssets Held by
		Community
		Foundation
Beginning of year	\$	15,519
Investment return, net		712
End of year	\$	16,231

Note 4 – Pledges Receivable

Unconditional pledges receivable consist of the following:

Amounts due in:

Less than one year	\$ 110,047
More than one year	99,842
Total	\$ 209,889

Note 5 – Revenue from Contracts with Customers

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

	Contract
	Liabilities
Beginning of year	\$ 338,004
End of year	432,671

Note 6 – Property and Equipment

Property and equipment consist of the following.

\$ 5,981,833
404,951
1,530,691
 7,066,373
14,983,848
 (7,869,737)
\$ 7,114,111
\$

Note 7 – Intangible Assets

Intangible assets consist of the following.

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

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.

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:

	With Donor	
	F	Restriction
Endowment net assets, beginning of year	\$	3,795,219
Investment return, net		240,417
Amounts appropriated for expenditure		(193,488)
Endowment net assets, end of year	\$	3,842,148

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, 2023, there were no deficiencies of this nature.

Note 8 – Endowments

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

	V	/ith Donor
	R	Restriction
Donor-restricted endowment funds		
Original donor-restricted gift amount and amounts		
required to be maintained in perpetuity by donor	\$	3,548,792
Accumulated investment gains		293,356
Total funds	\$	3,842,148

Note 9 – In-Kind Contributions

The Museum received \$129,826 of donated auction items during the fiscal year to be utilized for fundraising purposes, including the Museum's annual gala auction. Unsold auction items are maintained as assets for subsequent year fundraising events and are recorded as donated items in the financial statements. Contributed auction items are valued at the sale price received during the auction on the day of event. 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:	
Centennial	\$ 21,563
Collections	11,093
IMLS	43,981
Naming Opportunities	8,333
Other	37,500
Endowments	193,488
Total	\$ 315,958

Note 10 – Net Assets

Net assets with donor restrictions were as follows:

Specific Purpose:	
Centennial	\$ 103,438
Collections	28,183
Docent Activities	1,314
Contemporary Photography Fund	40,835
Naming Opportunities	16,666
Other	51,880
Specific purpose total	242,316
Endowments, subject to appropriation:	
Art and Care of Collections	207,255
Arts & Crafts Awards	10,077
Collections	76,024
Endowments, subject to appropriation total	293,356
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	3,548,792
Total	\$ 4,084,464

Note 11 – Leases

The Museum leases copy machines and a postage meter at various terms under long-term noncancelable operating leases. The leases expire at various dates through 2026. All leases had terms of greater than one year at the inception of the lease and payments are due on a monthly basis. Total operating lease expense for the fiscal year was \$16,320 recognized straight-line over the term of the leases.

The Museum has determined that there were no nonlease components to be allocated to the leases. In determining the value of the right-of-use asset and lease liabilities, future lease payments were discounted applying the discount rate of 3%. The Museum considers the discount rate to be an appropriate measure of the interest cost.

Note 11 – Leases

Right-of-use assets at year end and the related amortization expense for operating leases for the year are as follows.

Leased equipment	\$ 60,390
Less: Accumulated amortization	(14,710)
Leased assets, net	\$ 45,680

Amortization of assets held under operating leases for the current fiscal year of \$14,710 is included with depreciation expense. Interest cost on operating lease liabilities was \$1,610.

The following table provides a schedule of future lease payments and other supplemental information for the Museum's operating leases as of year end:

Year End:	Operating	
2024	\$ 16,321	
2025	16,322	
2026	15,130	
Total minimum lease payments	47,773	
Less: Discount to present value	(2,093	
Present value of lease liabilities	45,680	
Weighted average remaining lease term	36 months	
Weighted average discount rate	3.00%	

There were no noncash investing and financing transactions related to leasing other than the transition entry described in Note 1.

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

Note 12 - Rental Income

The Museum subleases one of its buildings to a restaurant under a lease through January 31, 2024. The lease provides for rent based upon a percentage of gross sales. Contingent rental revenue earned for the year was \$136,899.

The Museum subleases another building under an operating lease. The lease requires monthly payments of \$1,500 through June 2024. Rental income for the year was \$18,000. Future minimum rental income under the lease is \$18,000 per year.

The Museum also subleased office space under an operating lease. The lease required monthly payments of \$2,250 through October 2022. Rental income for the year was \$7,258.

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 \$17,897 for the fiscal year.

Note 14 – Related Party Transactions

During the year, the Museum received approximately \$604,590 in contributions and pledges from members of its Board of Trustees, including in-kind contributions of \$13,067.

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.

Note 16 – Subsequent Event

Subsequent events have been evaluated through May 8, 2024, which is the date the financial statements were available to be issued.

In February 2024, the Museum received a \$1.0 million bequest from a donor-advised fund that was donor restricted to support of the Western Art Curator.