Tucson Museum of Art and Historic Block, Inc.

Years Ended June 30, 2026 and 2025

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Tucson Museum of Art and Historic Block, Inc.

Years Ended June 30, 2026 and 2025

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Independent Auditors' Report

Board of Directors and Management
Tucson Museum of Art and Historic Block, Inc.
Tucson, Arizona

Opinion

We have audited the accompanying financial statements of Tucson Museum of Art and Historic Block, Inc., which comprise the statements of financial position as of June 30, 2026 and 2025, and the related statements of activities, functional expenses, and cash flows for the years 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, 2026 and 2025, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the 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 Tucson Museum of Art and Historic Block, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 Tucson Museum of Art and Historic Block, Inc.'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 Tucson Museum of Art and Historic Block, Inc.'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.

Beach Fleischman PLLC

Tucson, Arizona
November 17, 2026

Tucson Museum of Art and Historic Block, Inc.

Statements of Financial Position

June 30, 2026 and 2025

Assets

	2026	2025
Current assets:		
Cash and cash equivalents	$ 2,334,955	$ 1,478,794
Investments	499,222	-
Promises to give, current	217,645	66,783
Other receivables	46,885	28,522
Prepaid expenses and other current assets	168,660	93,460
Total current assets	3,267,367	1,667,559
Promises to give, net of current portion and discount	132,915	-
Property and equipment, net	6,579,086	7,004,952
Finance lease assets, net	52,258	56,217
Operating lease assets, net	-	734
Other assets	-	1,210
Assets whose use is limited:		
Restricted cash and cash equivalents	-	1,029,962
Investments	4,402,145	3,378,368
	$ 14,433,771	$ 13,139,002

Liabilities and Net Assets

Current liabilities:		
Current portion of finance lease obligations	$ 19,098	$ 16,431
Current portion of operating lease obligations	-	754
Accounts payable	88,772	131,161
Accrued payroll	146,742	68,312
Contract liabilities	439,068	217,873
Refundable advances	118,750	168,912
Total current liabilities	812,430	603,443
Finance lease obligations, net of current portion	50,829	60,820
Total liabilities	863,259	664,263
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Undesignated	496,391	(409,488)
Board designated	1,020,075	1,020,075
Net invested in property and equipment	6,579,086	7,004,952
Total net assets without donor restrictions	8,095,552	7,615,539
With donor restrictions	5,474,960	4,859,200
Total net assets	13,570,512	12,474,739
Total liabilities and net assets	$ 14,433,771	$ 13,139,002

See notes to financial statements.

Tucson Museum of Art and Historic Block, Inc.

Statement of Activities

Year Ended June 30, 2026

	Without donor restrictions	With donor restrictions	Total
Public support, revenues and investment income:			
Contributions	$ 1,894,449	$ 432,915	$ 2,327,364
Grants	451,835	-	451,835
Special events, net	316,622	-	316,622
Retail operations	392,324	-	392,324
Support organization income	262,036	-	262,036
Membership	281,736	-	281,736
Lease income	275,852	-	275,852
Education program	260,310	-	260,310
Admissions	197,850	-	197,850
Other	15,020	-	15,020
Investment income, net	120,261	548,039	668,300
In-kind contributions	121,451	-	121,451
Net assets released from restrictions	365,194	(365,194)	-
Total public support, revenues and investment income	4,954,940	615,760	5,570,700
Expenses:			
Program services	3,229,053	-	3,229,053
General and administrative	658,568	-	658,568
Fundraising	587,306	-	587,306
Total expenses	4,474,927	-	4,474,927
Change in net assets	480,013	615,760	1,095,773
Net assets, beginning	7,615,539	4,859,200	12,474,739
Net assets, ending	$ 8,095,552	$ 5,474,960	$ 13,570,512

See notes to financial statements.

Tucson Museum of Art and Historic Block, Inc.

Statement of Activities

Year Ended June 30, 2025

	Without donor restrictions	With donor restrictions	Total
Public support, revenues and investment income:			
Contributions	$ 730,659	$ 892,795	$ 1,623,454
Grants	348,155	33,000	381,155
Special events, net	368,739	-	368,739
Retail operations	362,845	-	362,845
Support organization income	353,023	-	353,023
Membership	270,859	-	270,859
Lease income	265,560	-	265,560
Education program	264,674	-	264,674
Admissions	215,243	-	215,243
Other	83,558	-	83,558
Investment income, net	148,027	346,972	494,999
In-kind contributions	94,334	-	94,334
Net assets released from restrictions	449,022	(449,022)	-
Total public support, revenues and investment income	3,954,698	823,745	4,778,443
Expenses:			
Program services	2,937,601	-	2,937,601
General and administrative	695,915	-	695,915
Fundraising	578,867	-	578,867
Total expenses	4,212,383	-	4,212,383
Change in net assets	(257,685)	823,745	566,060
Net assets, beginning	7,873,224	4,035,455	11,908,679
Net assets, ending	$ 7,615,539	$ 4,859,200	$ 12,474,739

See notes to financial statements.

Tucson Museum of Art and Historic Block, Inc.

Statement of Functional Expenses

Year Ended June 30, 2026

	Program services					Support services			
	Curatorial and exhibitions	Education	Museum shop	Affinity groups	Total program services	General and administration	Fundraising	Total support services	Total expenses
Salaries and benefits	$ 736,303	$ 393,065	$ 222,911	$ 15,362	$ 1,367,641	$ 329,978	$ 307,490	$ 637,468	$ 2,005,109
Contracted services	15,592	288	16,761	-	32,641	2,009	6,671	8,680	41,321
Depreciation and amortization	336,183	51,822	9,486	-	397,491	77,421	-	77,421	474,912
Dues and subscriptions	5,404	1,189	185	-	6,778	19,743	2,864	22,607	29,385
Insurance	63,168	6,772	2,944	-	72,884	15,737	-	15,737	88,621
Licenses and fees	14,294	6,340	21,087	5,293	47,014	9,006	63,408	72,414	119,428
Miscellaneous	9,353	7,117	-	-	16,470	5,841	37,498	43,339	59,809
Occupancy	85,462	1,868	6,941	3,843	98,114	30,421	13,958	44,379	142,493
Printing and advertising	58,126	6,529	5,458	-	70,113	14,753	36,459	51,212	121,325
Professional services	16,561	2,380	444	-	19,385	41,895	9,158	51,053	70,438
Program expenses	194,007	41,855	27	-	235,889	608	60,668	61,276	297,165
Repairs and maintenance	186,018	30,961	5,195	-	222,174	45,393	277	45,670	267,844
Retail operations expenses	-	328	118,159	-	118,487	12,185	-	12,185	130,672
Software	3,451	3,160	9,429	2,357	18,397	2,563	29,649	32,212	50,609
Supplies	20,101	22,982	6,951	1,596	51,630	9,025	12,903	21,928	73,558
Support organization expenses	-	-	-	242,068	242,068	-	-	-	242,068
Travel	14,440	20,684	-	1,977	37,101	11,267	3,353	14,620	51,721
Utilities	141,099	24,135	7,662	1,880	174,776	30,723	2,950	33,673	208,449
	$ 1,899,562	$ 621,475	$ 433,640	$ 274,376	$ 3,229,053	$ 658,568	$ 587,306	$ 1,245,874	$ 4,474,927

See notes to financial statements.

Tucson Museum of Art and Historic Block, Inc.

Statement of Functional Expenses

Year Ended June 30, 2025

	Program services					Support services			
	Curatorial and exhibitions	Education	Museum shop	Affinity groups	Total program services	General and administration	Fundraising	Total support services	Total expenses
Salaries and benefits	$ 676,062	$ 374,565	$ 132,795	$ 21,272	$ 1,204,694	$ 321,619	$ 268,236	$ 589,855	$ 1,794,549
Contracted services	19,066	4,422	16,497	-	39,985	-	1,273	1,273	41,258
Depreciation and amortization	335,571	51,728	9,469	-	396,768	63,154	-	63,154	459,922
Dues and subscriptions	6,517	1,394	201	-	8,112	12,526	1,984	14,510	22,622
Insurance	63,694	6,096	2,820	-	72,610	14,674	-	14,674	87,284
Licenses and fees	10,112	6,046	972	1,647	18,777	74,235	2,094	76,329	95,106
Miscellaneous	4,835	1,225	-	-	6,060	5,655	48,678	54,333	60,393
Occupancy	83,231	5,283	5,538	5,510	99,562	64,016	21,844	85,860	185,422
Printing and advertising	64,713	4,038	10,936	-	79,687	7,280	40,413	47,693	127,380
Professional services	5,295	816	149	-	6,260	22,271	8,148	30,419	36,679
Program expenses	87,166	43,573	380	-	131,119	23	23,448	23,471	154,590
Repairs and maintenance	202,885	40,063	5,978	-	248,926	37,053	836	37,889	286,815
Retail operations expenses	-	11,747	104,587	-	116,334	-	482	482	116,816
Software	3,127	2,954	8,447	2,112	16,640	3,672	25,842	29,514	46,154
Supplies	22,410	14,480	3,469	8	40,367	16,167	65,600	81,767	122,134
Support organization expenses	-	-	-	262,763	262,763	-	-	-	262,763
Travel	1,037	10,544	81	-	11,662	1,589	69,989	71,578	83,240
Utilities	149,932	23,112	4,231	-	177,275	51,981	-	51,981	229,256
	$ 1,735,653	$ 602,086	$ 306,550	$ 293,312	$ 2,937,601	$ 695,915	$ 578,867	$ 1,274,782	$ 4,212,383

See notes to financial statements.

Tucson Museum of Art and Historic Block, Inc.

Statements of Cash Flows

Years Ended June 30, 2026 and 2025

	2026	2025
Cash flows from operating activities:		
Change in net assets	$ 1,095,773	$ 566,060
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	474,912	459,922
Net realized gains on investments	(947)	(84)
Net unrealized gains on investments	(538,160)	(374,234)
Change in operating leases	(20)	20
Changes in operating assets and liabilities:		
Promises to give	(283,777)	104,107
Other receivables	(18,363)	1,099
Prepaid expenses and other current assets	(75,200)	8,448
Other assets	1,210	-
Accounts payable	(42,389)	(21,070)
Accrued payroll	78,430	(1,417)
Contract liabilities	221,195	(15,015)
Refundable advances	(50,162)	58,912
Total adjustments	(233,271)	220,688
Net cash provided by operating activities	862,502	786,748
Cash flows from investing activities:		
Purchases of investments	(1,052,308)	(384,416)
Proceeds from sales of investments	67,503	176,014
Purchases of property and equipment	(33,981)	(288,797)
Net cash used in investing activities	(1,018,786)	(497,199)
Cash flows from financing activities:		
Proceeds from finance lease obligations	-	23,262
Payments on finance lease obligations	(17,517)	(10,877)
Net cash provided by (used in) financing activities	(17,517)	12,385
Net increase (decrease) in cash and equivalents	(173,801)	301,934
Cash and cash equivalents, beginning	2,508,756	2,206,822
Cash and cash equivalents, ending	$ 2,334,955	$ 2,508,756
Summary of cash and cash equivalents:		
Cash and cash equivalents	$ 2,334,955	$ 1,478,794
Restricted cash and cash equivalents	-	1,029,962
	$ 2,334,955	$ 2,508,756

See notes to financial statements.

1. Description of business and summary of significant accounting policies:

Organization:

Tucson Museum of Art and Historic Block, Inc. (Organization or 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 Organization is located in Tucson, Arizona. The Organization 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 (termed during fiscal year 2026), Contemporary Art Society, Latin American Art Patrons, and Western Art Patrons, which are unincorporated affinity groups to the Organization. The purpose of these organizations is to promote and provide support for the Organization's art collections and related activities. The Museum's viability is dependent upon the strength of the national and local economies, and its resource providers.

Net assets:

Net assets, support, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor restrictions.

- Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, support and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and assumptions, including those related to inputs used to recognize revenue over time. Actual results could differ materially from such estimates and assumptions.

1. Description of business and summary of significant accounting policies (continued):

Revenue recognition:

Retail operation sales are recognized at a point in time upon completion of purchase. Membership dues, which are nonrefundable, are recognized over the membership period. Admission sales are recognized at the time of admission. The Organization records special events revenue at a point in time after the special event occurs that is equal to the cost of direct benefits to donors, and contribution revenue for the difference. Education program revenue related to tuition is recorded on a monthly basis over the tuition period. All other education program revenue is recognized at the time of the event. Deferred revenue represents advance payments received for educational classes and other activities offered by the Museum.

Support organization income:

The Museum has four affinity groups which generate operating and fundraising income based on their various activities. In 2026, the Tucson Museum of Art League, an affinity group of the museum sunset after over 50 years of activity. Revenue is recognized at a point in time as activities and events occur.

Contributions:

Contributions are considered non-exchange transactions and are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. 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 substantially met.

Support arising from donated goods and services is considered a non-exchange transaction and is recognized in the financial statements at its fair value. Donated services are recognized when the services received meet one of the following criteria:

(a) create or enhance nonfinancial assets
(b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of all these services may not be reflected in the financial statements because the above criteria are not met.

1. Description of business and summary of significant accounting policies (continued):

Grants:

The Organization receives grants from government agencies, nonprofit entities and private companies for various programs and projects. All grants are nonexchange transactions. Support derived from cost-reimbursable grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses, is recognized when expenditures are incurred in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances.

Lease income:

The Organization accounts for their leases to third-parties as operating leases. Lease income is recognized on a straight-line basis over the term of the lease. The lease terms generally range from 1-6 years, but can be shorter or longer terms as negotiated.

Certain leases provide for variable lease payments, which may be based on factors such as changes in usage, performance-based metrics, or other contingent events. Variable lease income that is not dependent on an index or rate is recognized in the period in which the changes in facts and circumstances on which the variable payments are based occur. Such amounts are included in lease income in the accompanying financial statements.

Cash and cash equivalents:

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

All cash and cash equivalents are placed with various credit institutions. At times, such amounts may be in excess of the FDIC and SIPC insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents.

Restricted cash and cash equivalents consist of amounts received with donor-imposed restrictions. All donor-imposed restrictions on restricted cash and cash equivalents are temporary in nature.

Promises to give:

Unconditional promises to give are recognized as revenues at their estimated net realizable value in the period received and as assets, decreases of liabilities, or expense depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional. Promises to give that are collectible over future periods are discounted to their net present value. The provision for uncollectible pledges is based on management's estimate of current economic factors, applied as a percentage to gross revenues. Promises to give are periodically reviewed for collectibility and written off to the provision at the time of such determination. At June 30, 2026 and 2025, promises to give are considered fully collectible, therefore, no allowance for uncollectible pledges has been provided.

1. Description of business and summary of significant accounting policies (continued):

Investments:

Investments in equity securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Donated investments are recorded at their fair value at the date of gift. Investment gains and losses are included in the change in net assets in the accompanying statements of activities as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor-imposed stipulation or legal requirements net of related investment fees. Realized gains or losses on disposition of investments are recorded on a trade date basis using first-in first-out method. Dividends and interest income are accrued when earned. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary.

Property, equipment, depreciation and amortization:

Property and equipment are stated at cost or, if acquired by gift, at estimated fair market value at the date of the donation. Expenditures for major improvements to property are capitalized and expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization are provided for using the straight-line method over the the estimated useful lives of the assets ranging from 3 to 40 years. Contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. The Museum reports expirations of donor restrictions when the acquired assets are placed in service as instructed by the donor. The Museum reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Assets held for lease:

Assets held for lease are recorded at cost. Depreciation and amortization are provided using the straight-line method over the useful lives of the assets. At June 30, 2026 and 2025, assets held for lease totaled $75,978 and accumulated depreciation and amortization was $39,787 and $33,247. Depreciation and amortization expense for the year ended June 30, 2026 was $6,540 and $6,299.

Leases:

The Organization recognizes and measures its leases in accordance with FASB ASC 842, *Leases*. The Organization determines if an arrangement is a lease at inception and when the terms of an existing contract are changed.

1. Description of business and summary of significant accounting policies (continued):

Leases (continued):

Lease assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Organization uses the implicit rate when it is readily determinable. As most of the Organization's leases do not provide an implicit rate, management uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. Finance lease assets are amortized over the lease term unless there is a transfer of title or purchase option reasonably certain of exercise, in which case the asset life is used. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Operating lease assets also include any lease payments made and exclude lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option.

The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

For certain equipment leases, such as copiers, the Organization has elected to account for the lease and non-lease components as a single lease.

Fair value measurements:

Fair value is defined as the price to sell an asset between market participants as of the measurement date. Fair value measurements assume the asset is exchanged in an orderly manner; the exchange is in the principal market for that asset (or in the most advantageous market when no principal market exists); and that the market participants are independent, knowledgeable, able and willing to transact an exchange. GAAP also clarifies that the reporting entity’s nonperformance risk (credit risk) should be considered in valuing liabilities.

Accounting standards establish a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Considerable judgment is required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Museum applies provisions for fair value measurements and disclosures related to certain alternative investments that permit the use of a qualifying investment’s net asset value per share to estimate fair value as a practical expedient.

1. Description of business and summary of significant accounting policies (continued):

Endowments:

The Organization's endowments consist of funds established under either donor restriction or as designated by the Board of Directors for a variety of purposes. As required by GAAP, net assets associated with endowment funds (including funds designated by the Board of Directors to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

Impairment of long-lived assets:

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 those assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value of the assets. Management does not believe that there were any long-lived asset impairments for 2026 and 2025.

Collections:

The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired, or as decreases in net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from de-accessions or insurance recoveries 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.

1. Description of business and summary of significant accounting policies (continued):

Collections (continued):

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. No significant collection items were deaccessioned during the years ended June 30, 2026 and 2025.

Beneficial interest in assets held by Community Foundation:

The Organization has established an endowment fund that is perpetual in nature with the Community Foundation of Southern Arizona (CFSA) that named the Organization as the beneficiary. The Organization granted variance power to CFSA, which allows CFSA 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 CFSA'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 CFSA for the Organization'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:

Contract liabilities consist of advance payments and deferred revenue. Contract liabilities were all classified as current and amounted to $232,888 as of July 1, 2024.

Advertising:

The Organization follows a policy of charging the costs of advertising to expense as incurred. Total advertising expense for 2026 and 2025 was $121,325 and $127,380.

Functional allocation of expenses:

Expenses that can be identified with a specific program or supporting service are charged directly to the program according to their natural expense classification, including most salaries and wages. Costs incurred that share a common purpose are allocated to the various programs and supporting services benefited. Depreciation, insurance, repairs and maintenance, occupancy and utility related costs are allocated based on square footage. Salaries of specific members of management and software costs are allocated based on time and effort estimates.

1. Description of business and summary of significant accounting policies (continued):

Tax exempt status:

The Museum is exempt from income taxes under both federal (Internal Revenue Code Section 501(c)(3)) and Arizona income tax laws, and is classified as other than a private foundation under Internal Revenue Code Section 509(a)(2). Income from certain activities not directly related to the Museum's tax-exempt purpose, however, may be subject to taxation as unrelated business taxable income (UBTI). The Museum is required to file informational returns for federal and state purposes and, if it has UBTI, federal and state income tax returns.

From time to time, the Museum may be subject to penalties and interest assessed by various taxing authorities, which are classified as administration expenses, if they occur.

Subsequent events:

The Museum's management has evaluated the events that have occurred subsequent to June 30, 2026 through November 17, 2026, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Liquidity and availability of financial assets:

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside for long-term investing in the operating and capital reserves that could be drawn upon if the governing board approves that action.

2. Liquidity and availability of financial assets (continued):

	2026	2025
Cash and cash equivalents	$ 2,334,955	$ 1,478,794
Restricted cash	-	1,029,962
Investments	4,901,367	3,378,368
Promises to give	350,560	66,783
Other receivables	46,885	28,522
Total financial assets	7,633,767	5,982,429
Contractual or donor-imposed restrictions:		
Donor purpose or time restrictions	(1,072,815)	(691,922)
Endowment subject to appropriation	(753,353)	(518,486)
Endowment held in perpetuity	(3,648,792)	(3,648,792)
Board designated funds	(1,020,075)	(1,020,075)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,138,732	$ 103,154

3. Promises to give:

Promises to give consist of pledges from corporations and individual donors. Long-term pledges are discounted to their present value using a rate of 3.36% at June 30, 2026 and 2025. At June 30, 2026 and 2025, pledges receivable are as follows:

	2026	2025
Pledges receivable in less than one year	$ 217,645	$ 66,783
Pledges receivable in one to five years	150,000	-
Less unamortized discount to present value	(17,085)	-
	350,560	66,783
Less current portion	217,645	66,783
Noncurrent portion	$ 132,915	$ -

4. Property and equipment:

	2026	2025
Building and improvements	$ 4,305,276	$ 5,981,283
Construction in progress	111,880	102,912
Furniture and equipment	1,654,378	1,653,532
Leasehold improvements	6,455,461	6,498,632
Land	117,334	117,334
	12,644,329	14,353,693
Less accumulated depreciation and amortization	6,065,243	7,348,741
	$ 6,579,086	$ 7,004,952

5. Leases:

The Organization has operating and finance leases for copy machines and a postage meter with initial noncancelable terms in excess of one year that expire through December 2030.

The components of lease cost are as follows:

	2026	2025
Finance lease cost:		
Amortization of finance lease assets, included in depreciation and amortization	$ 14,151	$ 8,649
Interest, included in interest expense	3,484	2,620
Operating lease cost, included in operating expenses	734	7,146
Total lease cost	$ 18,369	$ 18,415

Cash flow information related to leases is as follows:

	2026	2025
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows - finance leases	$ 3,524	$ 2,311
Financing cash flows - finance leases	17,517	10,876
Operating cash flows - operating leases	755	7,161
Lease assets obtained in exchange for lease liabilities:		
Finance leases	$ 10,192	$ 64,866

5. Leases (continued):

Other information related to leases is as follows:

	2026	2025
Lease term (in years) and discount rate:		
Weighted-average remaining lease term, finance leases	3.5	4.3
Weighted-average remaining lease term, operating leases	-	0.4
Weighted-average discount rate, finance leases	4.7 %	4.8 %
Weighted-average discount rate, operating leases	- %	0.3 %

The maturities of lease liabilities as of June 30, 2026 were as follows:

Year ending June 30,	Finance
2027	$ 21,941
2028	21,941
2029	21,941
2030	8,753
2031	1,260
Total lease payments	75,836
Less interest	5,909
Present value of lease liabilities	$ 69,927

The present value of lease liabilities are reported in the statements of financial positions as follows:

	2026	2025
Current portion of finance lease obligations	$ 19,098	$ 16,431
Finance lease obligations, net of current portion	50,829	60,820
Current portion of operating lease obligations	-	754
	$ 69,927	$ 78,005

6. Investments:

The Organization's investment portfolio is comprised of various mutual funds and equity securities in order to diversify and minimize the risk of loss during unfavorable economic conditions. The portfolio's fair value at June 30, 2026 and 2025 are as follows:

	2026	2025
Investments measured at fair value at June 30	$ 4,901,367	$ 3,378,368
Less investments whose use is limited	4,402,145	3,378,368
Investments whose use is not limited	$ 499,222	$ -

Net investment gain for 2026 and 2025 is as follows:

	2026	2025
Interest and dividends	$ 129,193	$ 120,681
Net realized gains on investments	947	84
Net unrealized gains on investments	538,160	374,234
	$ 668,300	$ 494,999

7. Fair value measurements:

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

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

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets or active markets that the Organization does not have access to;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

7. Fair value measurements (continued):

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

At June 30, 2026, the fair value of assets measured on a recurring basis is as follows:

	Fair value	Quoted prices (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Equity securities	$ 351,911	$ 351,911	$ -	$ -
Mutual funds	4,530,035	4,530,035	-	-
Community Foundation of Southern AZ investment pool	19,421	-	-	19,421
	$ 4,901,367	$ 4,881,946	$ -	$ 19,421

At June 30, 2025, the fair value of assets measured on a recurring basis is as follows:

	Fair value	Quoted prices (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Equity securities	$ 223,108	$ 223,108	$ -	$ -
Mutual funds	3,137,315	3,137,315	-	-
Community Foundation of Southern AZ investment pool	17,945	-	-	17,945
	$ 3,378,368	$ 3,360,423	$ -	$ 17,945

7. Fair value measurements (continued):

A reconciliation of assets measured at fair value on a recurring basis with the use of significant unobservable inputs (level 3) from July 1, 2025 to June 30, 2026 is as follows:

Balance July 1, 2025	$ 17,945
Investment return, net	1,476
Balance at June 30, 2026	$ 19,421

A reconciliation of assets measured at fair value on a recurring basis with the use of significant unobservable inputs (level 3) from July 1, 2024 to June 30, 2025 is as follows:

Balance July 1, 2024	$ 16,950
Investment return, net	995
Balance at June 30, 2025	$ 17,945

8. In-kind contributions:

The Museum received the following in-kind donations during the years ended June 30, 2026 and 2025:

	2026	2025
Silent auction items	$ 45,052	$ 20,519
Rent	76,399	73,815
	$ 121,451	$ 94,334

The Museum recognizes in-kind contributions within support. Unless otherwise noted, these contributions did not have donor-imposed restrictions.

Contributed silent auction items were restricted for sale during the Museum's annual gala. Contributed silent auction items are monetized and recorded at the value sold, a level 1 input.

8. In-kind contributions (continued):

Donated use of facilities and utilities:

The Organization leases land and buildings under lease agreements with the city of Tucson through May 2073. Under the terms of the leases, the Organization pays a nominal amount for use of the facilities, utilities, and related maintenance and landscaping. While the terms of the leases extend beyond one year, the lease agreements include cancellation options and other provisions under which the donor has significant discretion regarding early termination, as well as significant restrictions and conditions related to the use of the facilities. The Organization estimates the fair value of the donated use of the facilities and associated utilities, landscaping and maintenance provided under the leases based upon the location of the facilities, the commercial real estate market in the area, the age and size of the offices and centers and the approximate amount of utilities, landscaping and maintenance received at each location, level 2 inputs.

9. Endowments:

The Museum's endowments consist of individual funds established for a variety of purposes. The endowments include both donor-restricted funds, and as required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in endowments for the year ended June 30, 2026 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowments, July 1, 2025	$ 1,000,000	$ 4,167,278	$ 5,167,278
Investment return:			
Investment income	35,567	79,112	114,679
Net unrealized gains	-	468,926	468,926
	35,567	548,038	583,605
Contributions	-	-	-
Appropriations/released from restriction	(35,567)	(313,171)	(348,738)
Endowments, June 30, 2026	$ 1,000,000	$ 4,402,145	$ 5,402,145

9. Endowments (continued):

Changes in endowments for the year ended June 30, 2025 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowments, July 1, 2024	$ 1,046,636	$ 3,902,849	$ 4,949,485
Investment return:			
Investment income	12,931	40,745	53,676
Net realized gains	74,161	233,679	307,840
Net unrealized gains	23,024	72,549	95,573
	110,116	346,973	457,089
Contributions	-	100,000	100,000
Appropriations/released from restriction	(156,752)	(182,544)	(339,296)
Endowments, June 30, 2025	$ 1,000,000	$ 4,167,278	$ 5,167,278

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires to retain as a fund of perpetual duration. In accordance with GAAP, such deficiencies are to be reported in net assets without donor restrictions. As of June 30, 2026 and 2025, there were no deficiencies of this nature.

Return objectives and risk parameters:

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the appropriate blended investment indexes while assuming a moderate level of investment risk. The Museum expects its endowment funds over time to provide an average real rate of return of approximately 4% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

9. Endowments (continued):

Spending policy and how the investment objectives relate to spending policy:

The Museum has a policy of appropriating for distribution each year up to 4% of its permanently restricted endowments and board designated endowment funds' average fair value over the twelve quarters preceding the fiscal year in which the distribution is planned. In establishing this policy, the Museum considered the long-term expected return on its endowments. Historically, the Museum has spent less than the 4%. This is consistent with the Museum's objective to maintain the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

10. Net assets with donor restrictions:

	2026	2025
Subject to expenditure for specified purpose:		
Collections	$ 551,511	$ 551,566
Docent activities	1,314	1,314
Contemporary photography fund	41,835	41,835
Other	345,240	64,207
	939,900	658,922
Subject to the passage of time:		
Collections	-	33,000
Pledges to give that are not restricted by donors, but which are unavailable for expenditure until due.	132,915	-
	1,072,815	691,922
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Art and care of collections	395,230	317,074
Arts and crafts awards	12,766	10,773
Collections	103,785	92,888
Curator: Latin American Art	241,572	97,751
	753,353	518,486

10. Net assets with donor restrictions (continued):

	2026	2025
Perpetual in nature:		
Restricted by donors for:		
Acquisition of art	$ 641,803	$ 641,803
Acquisition of masks and weaving	50,337	50,337
Art award	10,000	10,000
Casa Cordova	50,000	50,000
Craft award	2,000	2,000
Education	1,157,840	1,157,840
General operations	350,865	350,865
Latin American curator	872,989	872,989
Scholarships	3,075	3,075
Western art curator	509,883	509,883
	3,648,792	3,648,792
	$ 5,474,960	$ 4,859,200

11. Net assets without donor restrictions:

	2026	2025
Undesignated	$ 496,391	$ (409,488)
Investment in property and equipment, net	6,579,086	7,004,952
Board designated:		
Designated quasi-endowment for Western Art	1,000,000	1,000,000
Designated for Contemporary Photography	20,075	20,075
	$ 8,095,552	$ 7,615,539

12. Lease income:

The Organization leases building space used for a cafe and a ceramics studio with initial noncancelable terms in excess of one year that expire through May 2031**.** The leases include renewal terms for 1 - 2 years after the initial term. One of the leases has a variable lease payment which per the lease agreement is equal to 7.4% of the prior month's Gross Sales of the leasee. Future minimum lease income to be received is as follows:

Year ending June 30,	
2027	$ 18,000

Total lease income recorded by the Organization during the years ended June 30, 2026 and 2025 was $275,852 and $265,560, of which $178,560 and $166,128 is related to variable lease payments.

13. Retirement plan:

The Organization has a defined contribution plan for employees who have completed one year of service and earning over $5,000. The Organization contributes up to 3% of gross salaries to the plan for qualified employees. Employees may contribute up to the maximum amount allowed by the Internal Revenue Code. The Organization made contributions of $20,915 and $18,327 to the plan during the years ended June 30, 2026 and 2025.

14. Contingencies:

Legal proceedings:

In the normal course of its business, the Organization is subject to certain contractual guarantees and litigation. It is not possible to predict with certainty whether or not the Organization will ultimately be successful in any of these legal matters or, if not, what the impact might be. However, the Organization's management does not expect that as defendant, any legal proceedings will have a material adverse effect on the Organization's financial position, results of operations or cash flows.

15. Reclassifications:

The 2025 financial statements have been reclassified in order to conform to the 2026 financial statement presentation. The reclassifications had no effect on net assets at June 30, 2025 or the change in net assets for the year then ended.