

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2016

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
JUNE 30, 2016**

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INDEPENDENT AUDITORS' REPORT

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

Report on The Financial Statements

We have audited the accompanying consolidated financial statements of Phoenix Art Museum and Phoenix Art Museum Endowment Fund, Inc., which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phoenix Art Museum and Phoenix Art Museum Endowment Fund, Inc. as of June 30, 2016, and changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position, and consolidating statement of activities and changes in net assets, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Phoenix Art Museum's and Phoenix Art Museum Endowment Fund, Inc.'s 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



CliftonLarsonAllen LLP

Phoenix, Arizona
January 30, 2017

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AT JUNE 30, 2015)**

	Totals	
	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,007,159	\$ 2,504,603
Accounts Receivable	145,626	174,449
Pledges Receivable	1,926,834	356,754
Grants Receivable	68,000	-
Assets Restricted to Long-Term Investment Purposes, Current Portion	1,437,075	945,834
Museum Store Inventories	364,009	378,912
Prepaid Expenses	166,064	299,819
Total Current Assets	7,114,767	4,660,371
CHARITABLE GIFT ANNUITIES	433,018	489,380
PROPERTY AND EQUIPMENT, NET	4,524,839	4,970,626
ASSETS RESTRICTED TO LONG-TERM INVESTMENT PURPOSES, NET	3,072,782	2,956,017
LAND HELD FOR SALE	-	-
INVESTMENTS	20,630,458	21,386,318
Total Assets	\$ 35,775,864	\$ 34,462,712
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,103,166	\$ 1,807,857
Deferred Revenue	524,414	405,061
Line of Credit	2,114,230	1,064,230
Total Current Liabilities	3,741,810	3,277,148
CHARITABLE GIFT ANNUITIES LIABILITY	355,793	368,668
ACCRUED LIABILITIES	1,590,976	795,090
Total Liabilities	5,688,579	4,440,906
NET ASSETS		
Unrestricted	(2,523,723)	(430,263)
Temporarily Restricted	5,827,924	5,117,915
Permanently Restricted	26,783,084	25,334,154
Total Net Assets	30,087,285	30,021,806
Total Liabilities and Net Assets	\$ 35,775,864	\$ 34,462,712

See accompanying Notes to Consolidated Financial Statements.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2016	2015
OPERATING ACTIVITIES					
Revenues:					
Admissions	\$ 1,085,734	\$ -	\$ -	\$ 1,085,734	\$ 1,118,632
Museum Store Income	718,151	-	-	718,151	712,120
Membership Income	1,123,121	-	-	1,123,121	1,123,588
Projects and Fundraising Activities	772,854	-	-	772,854	1,039,538
Less Cost of Direct Donor Benefits	(309,455)	-	-	(309,455)	(847,432)
Dividend and Interest Income	6,543	772,241	-	778,784	871,644
Other	553,401	-	-	553,401	655,386
Total Revenues	<u>3,950,349</u>	<u>772,241</u>	<u>-</u>	<u>4,722,590</u>	<u>4,673,476</u>
Public Support:					
Contributions:					
Private	2,630,725	4,009,019	1,592,609	8,232,353	8,484,009
Less Cost of Direct Donor Benefits	(86,123)	-	-	(86,123)	(163,908)
Change in Charitable Gift Annuities	-	-	-	-	-
Governmental	70,006	-	-	70,006	92,560
Donated Facilities, Materials, and Services:					
Governmental	4,636,913	-	-	4,636,913	4,712,695
Private	297,458	-	-	297,458	668,221
Total Public Support	<u>7,548,979</u>	<u>4,009,019</u>	<u>1,592,609</u>	<u>13,150,607</u>	<u>13,793,577</u>
Net Assets Released from Restrictions:					
Endowments Released from Restrictions	364,417	(220,738)	(143,679)	-	-
Purpose Restrictions Met	2,981,794	(2,981,794)	-	-	-
Total Revenues and Public Support	<u>14,845,539</u>	<u>1,578,728</u>	<u>1,448,930</u>	<u>17,873,197</u>	<u>18,467,053</u>
Expenses:					
Programs Services	11,845,700	-	-	11,845,700	12,723,982
Management and General	3,157,072	-	-	3,157,072	2,542,334
Fundraising	1,270,229	-	-	1,270,229	1,442,859
Total Expenses	<u>16,273,001</u>	<u>-</u>	<u>-</u>	<u>16,273,001</u>	<u>16,709,175</u>
OPERATING PROFIT (LOSS)	<u>(1,427,462)</u>	<u>1,578,728</u>	<u>1,448,930</u>	<u>1,600,196</u>	<u>1,757,878</u>
NON-OPERATING ACTIVITIES					
Net Realized/Unrealized Investment					
Gain (Loss)	(414,754)	(868,719)	-	(1,283,473)	(494,698)
Supplemental Retirement Expense	-	-	-	-	(375,000)
Loss on Sale of Land	-	-	-	-	(345,405)
Acquisitions of Fine Art	(251,244)	-	-	(251,244)	(283,919)
TOTAL NON-OPERATING ACTIVITIES	<u>(665,998)</u>	<u>(868,719)</u>	<u>-</u>	<u>(1,534,717)</u>	<u>(1,499,022)</u>
CHANGES IN NET ASSETS	<u>(2,093,460)</u>	<u>710,009</u>	<u>1,448,930</u>	<u>65,479</u>	<u>258,856</u>
Net Assets - Beginning of Year	<u>(430,263)</u>	<u>5,117,915</u>	<u>25,334,154</u>	<u>30,021,806</u>	<u>29,762,950</u>
NET ASSETS - END OF YEAR	<u>\$ (2,523,723)</u>	<u>\$ 5,827,924</u>	<u>\$ 26,783,084</u>	<u>\$ 30,087,285</u>	<u>\$ 30,021,806</u>

See accompanying Notes to Consolidated Financial Statements.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	Program Services				Supporting Services			Total		
	Collections and Exhibits	Education and Community Services	Museum Store	Membership	Total Program Services	Management and General	Fund-Raising	Total Supporting Services	2016	2015
	Salaries and Employee Benefits:									
Salaries and Wages	\$ 2,077,171	\$ 283,836	\$ 135,822	\$ 121,928	\$ 2,618,757	\$ 1,320,916	\$ 404,760	\$ 1,725,676	\$ 4,344,433	\$ 4,158,257
Employee Benefits	581,814	78,091	49,191	44,495	753,591	336,819	53,933	390,752	1,144,343	1,470,202
Total Salaries, Wages, and Employee Benefits	2,658,985	361,927	185,013	166,423	3,372,348	1,657,735	458,693	2,116,428	5,488,776	5,628,459
Advertising and Marketing	230,756	909	226	6,363	238,254	10,598	264	10,862	249,116	336,061
Exhibition Fees	648,367	-	-	-	648,367	-	-	-	648,367	518,040
Audit Fees	6,800	-	-	-	6,800	36,211	-	36,211	43,011	38,839
Bad Debt Expense	-	-	-	328	328	580	201,501	202,081	202,409	257,213
Bank Fees	223	-	-	3	226	102,593	15,248	117,841	118,067	95,372
Catering and Hospitality	12,864	14,901	215	23,634	51,614	3,446	73,102	76,548	128,162	120,999
Collections Conservation	25,112	-	-	-	25,112	-	-	-	25,112	58,665
Collections Management	3,611	-	-	-	3,611	-	-	-	3,611	12,186
Conferences and Meetings	2,584	1,474	593	-	4,651	998	2,179	3,177	7,828	12,956
Cost of Sales	-	-	391,454	-	391,454	-	-	-	391,454	391,861
Depreciation and Amortization	413,849	61,518	27,963	16,778	520,108	16,778	22,370	39,148	559,256	558,897
Dues and Subscription	45,200	29,589	1,210	1,950	77,949	21,659	4,470	26,129	104,078	117,630
Equipment Rental	9,945	26,222	-	-	36,167	6,887	22,605	29,492	65,659	64,495
Facilities - Other	273,518	37,829	9,207	3,289	323,843	84,932	4,932	89,864	413,707	369,412
Fundraising Expenses - Other	1,286	7,700	308	358	9,652	4,847	13,753	18,600	28,252	22,170
Fundraising Professionals	-	-	-	-	-	-	4,810	4,810	4,810	32,650
Honoraria	5,100	17,061	-	-	22,161	-	1,358	1,358	23,519	24,558
In-Kind Contributions	3,565,310	431,823	118,053	42,161	4,157,347	482,748	294,276	777,024	4,934,371	5,380,916
Insurance	104,621	3,647	1,016	363	109,647	26,413	544	26,957	136,604	116,545
Interest Expense	-	-	-	-	-	18,575	-	18,575	18,575	26,767
Internet and Website	3,415	-	-	-	3,415	31,496	-	31,496	34,911	43,507
Legal Fees	-	-	-	-	-	29,420	-	29,420	29,420	17,109
Lodging and Meals	4,654	399	60	268	5,381	3,245	3,740	6,985	12,366	30,641
Office Expense - Other	23,814	14,225	2,046	3,206	43,291	78,818	3,924	82,742	126,033	159,521
Other	6,139	-	920	-	7,059	5,911	31,676	37,587	44,646	5,687
Postage and Shipping	231,253	549	17,569	28,725	278,096	2,315	15,582	17,897	295,993	293,346
Printing	83,320	4,843	803	87,523	176,489	5,891	24,176	30,067	206,556	219,300
Production and Exhibition Costs	259,040	24,373	105	-	283,518	2,668	252	2,920	286,438	321,581
Professional Development	1,120	-	-	-	1,120	7,238	75	7,313	8,433	5,262
Professional and Search Fees	87,247	173,147	1,208	1,854	263,456	376,333	52,971	429,304	692,760	396,331
Repairs and Maintenance	48,992	5,658	1,525	-	56,175	57,958	-	57,958	114,133	113,245
Supplies	9,086	16,052	299	1,087	26,524	19,658	3,348	23,006	49,530	37,265
Support Organizations	342,184	-	-	-	342,184	-	-	-	342,184	403,854
Telephone	3,495	360	-	-	3,855	13,247	-	13,247	17,102	23,666
Travel	68,490	15,565	3,704	5	87,764	16,410	10,241	26,651	114,415	136,362
Utilities	229,517	27,731	7,727	2,759	267,734	31,464	4,139	35,603	303,337	317,807
TOTAL FUNCTIONAL EXPENSES	\$ 9,409,897	\$ 1,277,502	\$ 771,224	\$ 387,077	\$ 11,845,700	\$ 3,157,072	\$ 1,270,229	\$ 4,427,301	\$ 16,273,001	\$ 16,709,175

See accompanying Notes to Consolidated Financial Statements.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 65,479	\$ 258,856
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	559,256	558,897
Change in Discount on Assets Restricted	56,994	56,994
Provision for Doubtful Pledges	202,409	257,213
Net Realized/Unrealized Investment Loss	1,283,473	494,698
Change in Charitable Gift Annuities, Net	43,487	24,365
Loss on Sale of Land	-	345,405
Change in Operating Assets and Liabilities:		
Decrease (Increase) in:		
Accounts Receivable	28,823	(63,283)
Pledges Receivable	(1,570,080)	160,916
Grants Receivable	(68,000)	47,500
Museum Store Inventories	14,903	46,931
Prepaid Expenses	133,755	(196,240)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(704,691)	219,861
Deferred Revenue	119,353	27,761
Accrued Liabilities	795,886	265,857
Net Cash Provided by Operating Activities	961,047	2,505,731
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(5,785,857)	(9,273,682)
Proceeds from the Sale of Investments	5,258,244	12,815,232
Purchases of Property and Equipment	(113,469)	(144,866)
Proceeds from Sale of Land	-	758,595
Increases in Assets Restricted to Long-Term Investment Purposes	(867,409)	(3,659,082)
Net Cash Provided (Used) by Investing Activities	(1,508,491)	496,197
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (Repayment of) Line of Credit	1,050,000	(2,400,780)
Net Cash Provided (Used) by Financing Activities	1,050,000	(2,400,780)
NET INCREASE IN CASH AND CASH EQUIVALENTS	502,556	601,148
Cash and Cash Equivalents - Beginning of Year	2,504,603	1,903,455
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,007,159	\$ 2,504,603
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 18,575	\$ 26,767

See accompanying Notes to Consolidated Financial Statements.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Museum and Endowment Fund Operations

Phoenix Art Museum (the Museum) is a nonprofit museum incorporated in May 1949 as an Arizona nonprofit corporation. The purpose of the Museum is to educate and expose the broadest segment of the population to the historical and aesthetic attributes of the visual arts.

Phoenix Art Museum Endowment Fund, Inc. (Endowment Fund) was incorporated in January 1994 as an Arizona nonprofit corporation. The purpose of the Endowment Fund is to receive and accept title of donated assets, to hold such assets as an endowment, to invest said assets, and to distribute income and gains from these assets for the benefit of the Museum.

The significant accounting policies followed by the Museum and the Endowment Fund are as follows:

Consolidated Financial Statements

The Phoenix Art Museum has an economic interest and control over the Phoenix Art Museum Endowment Fund, Inc. The consolidated financial statements include both the accounts of the Phoenix Art Museum and the Phoenix Art Museum Endowment Fund, Inc. (collectively referred to as the "Museum"). In addition, the Museum is supported by 11 volunteer organizations as follows:

- Phoenix Art Museum League
- Docent Committee of the Phoenix Art Museum
- Western Art Associates
- Arizona Costume Institute
- Contemporary Forum
- Asian Arts Council
- Friends of European Art
- Latin America Art Alliance
- Women's Metropolitan Arts Council
- In Focus
- Collectors Study Club

All of the financial activities and balances of these organizations are included in these consolidated financial statements. All significant interorganization accounts and transactions have been eliminated.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The three classes of net assets are as follows:

Unrestricted Net Assets

Unrestricted net assets are not subject to donor imposed stipulations and are those currently available at the discretion of the Board of Directors for use in the Museum's operations, in accordance with its bylaws.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those which are subject to donor-imposed stipulations that will be met by the Museum and/or the passage of time.

Permanently Restricted Net Assets

Permanently restricted net assets (Endowment restricted) are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, as per the endowment agreements.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted explicitly by donor stipulation or by law. Expirations of temporary restrictions on net assets, i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications to unrestricted net assets.

Funds with Deficiencies

At June 30, 2016 and 2015, as a result of investment losses and Board authorized distributions, the fair value of certain endowment assets was less than the related donor-restricted amounts. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets and totaled \$1,864,294 and \$628,633, respectively. In addition, the Museum's temporarily restricted net assets exceeded available resources to fulfill the restrictions by \$659,429 and \$-0- at June 30, 2016 and 2015, respectively. The reporting of such deficiencies as a reduction of Museum-controlled unrestricted net assets does not legally create an affirmative obligation, of the Museum to restore the fair value of those funds from unrestricted assets.

Prior Year Summarized Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the consolidated financial statements as of and for the year ended June 30, 2015, from which the summarized information was derived.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash consists of cash and at times cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Cash and cash equivalents on the consolidated statements of cash flows are reflected net of cash due to internal funds. The Museum maintains all of its cash and temporary investments in several commercial banks.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and an increase to a valuation allowance based upon its assessment of the current status of individual balances. Account balances with invoices over 90 days old are considered delinquent. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction of accounts receivable. Accounts receivable as of June 30, 2016 and 2015 are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts has not been provided.

Pledges Receivable and Assets Restricted for Long-Term Investment Purposes

The Museum Pledges Receivable consist primarily of amounts due for general purposes (pledges receivables) and amounts due from a capital campaign conducted to raise funds for the expansion of facilities and endowment fund. (Assets restricted for long-term investment purposes). Unconditional promises to give (pledges receivable and assets restricted for long term investment purposes) are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Monies received pursuant to conditional promises are reflected as deferred revenue. Unconditional promises to give that are to be collected within one year are recorded at their net realizable value.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates as determined by management, applicable to the years in which the promises are received. Amortization of the discounts is included in contribution support. The carrying amount of pledges receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Pledges Receivable and Assets Restricted for Long-Term Investment Purposes
(Continued)**

Grants receivable consist primarily of amounts due from various foundations for funding specific purposes. Grants receivable are stated at the amount management expects to collect. Management believes that all grants receivable at June 30, 2016 and 2015 were collectible.

Investments

Investments, consisting primarily of equity mutual funds (domestic and international) and U.S. government securities, with readily determinable market values are measured at fair value as of year-end in the consolidated statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) are recognized in the consolidated statement of activities and changes in net assets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are presented at fair value in the consolidated statement of financial position as determined by available market prices. Limited marketability investments, representing amounts in hedge funds are valued at the quoted market price for securities for which market quotations are readily available or an estimate of value (fair value) as determined in good faith by the general partner. Changes in the values of limited marketability investments that occur between the time audited net asset values are last communicated by the general partner and the close of the Museum's fiscal year are reflected in the fair value recorded in the Museum's consolidated financial statements.

Spending Policy

The board of trustees of the Museum, on a yearly basis, decided the draw percentage. In establishing this policy, the Museum considered the long-term expected return on its endowment. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Museum Store Inventories

Museum store inventories consist of books, gift items, and art related objects held for resale and are carried at average cost.

Property and Equipment

Purchased property and equipment are initially recorded at cost and donated property and equipment is recorded at the fair value at the date of gift to the Museum. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$1,500 are capitalized. When property and equipment is sold or otherwise disposed of, the assets and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation and amortization of property and equipment is computed on a straight-line basis over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Buildings and Improvements	5 to 50 Years
Furniture, Fixtures, and Equipment	5 to 50 Years

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets 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 temporarily restricted contributions 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 as instructed by the donor. The Museum reclassifies temporarily restricted net assets to unrestricted net assets at that time.

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 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.

Deferred Revenue

Deferred revenue consists of prepaid membership dues and money received in advance for fiscal 2017 dues and events.

Admissions

Admissions revenue consists of ticket sales and is recognized when the tickets are sold.

Membership Dues

The Museum defers revenue from membership dues collected in advance. Deferred revenue is amortized into revenue over the membership period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished or a donor removes a restriction), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Special Events Revenue

The Museum conducts special events in which a portion of the gross proceeds paid by the participant represents payments for the direct cost of the benefits received by the participant at the event. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Museum. The direct costs of the special events which ultimately benefit the donor rather than the Museum are included in special events revenues and then expensed as costs of direct donor benefits.

Non-Operating Activities

Changes in unrestricted net assets, which are excluded from operating profit (loss), include net realized and unrealized investment gains and losses and acquisition of fine art, which is consistent with industry practice.

Donated Services and Materials

Donated services and materials are recorded at their estimated fair value if they enhance the Museum's nonfinancial assets or require specialized skills that the Museum would normally purchase if not provided by donation. The Museum recognized \$4,934,371 and \$5,380,916 of in-kind contributions during the years ended June 30, 2016 and 2015, respectively. The majority of the contributions were due to donated facilities, utilities, and maintenance as disclosed in Note 15. The remaining \$297,458 and \$668,221 were contributed materials and services related to specialized skills during the years ended June 30, 2016 and 2015, respectively. No amounts have been reflected in the consolidated financial statements for certain donated volunteer services because they did not qualify for recording under the generally accepted accounting principle guidelines; however, a substantial number of volunteers have donated significant amounts of their time to the Museum's program services and fund raising campaigns.

Advertising

The Museum uses advertising to promote its programs to the various groups it serves. Advertising costs are charged to operations as incurred. Advertising expense charged to operations was \$228,065 and \$328,810 during the years ended June 30, 2016 and 2015, respectively.

**PHOENIX ART MUSEUM AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets and detailed in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of the Museum.

Income Taxes

The Phoenix Art Museum and the Phoenix Art Museum Endowment Fund, Inc. qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, there is no provision for corporate income taxes. In addition, they qualify for the charitable contribution deduction under Section 170 of the Code and have been classified as organizations that are not private foundations. Income determined to be unrelated business taxable income (UBTI) would be taxable.

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable consist of unconditional promises to give. Pledges receivable are considered collectible in one year or less; balances are \$1,926,834 and \$356,754 at June 30, 2016 and 2015, respectively.

Four donors make up 58% of the pledges receivable balance at June 30, 2016 and three donors make up 38% of the pledges receivable balance at June 30, 2015.

NOTE 3 ENDOWMENT RESTRICTED INVESTMENTS

Endowment restricted investments consist of the following:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Equity Mutual Funds – Domestic	\$ 4,929,580	\$ 4,086,616	\$ 4,777,462	\$ 4,086,616
Equity Mutual Funds – International	4,491,402	4,318,731	4,892,656	4,318,731
Corporate Bonds – Domestic	4,473,898	4,265,687	4,195,357	4,265,687
Alternative Investments	5,785,403	5,649,736	6,298,436	5,649,736
Money Market	950,175	950,175	1,222,407	1,222,407
Total Investments	<u>\$ 20,630,458</u>	<u>\$ 19,270,945</u>	<u>\$ 21,386,318</u>	<u>\$ 19,543,177</u>

**PHOENIX ART MUSEUM AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 ENDOWMENT RESTRICTED INVESTMENTS (CONTINUED)

Investment return on the long-term investments, which includes net realized and unrealized gains and losses that are included as part of the change in unrestricted and temporarily restricted net assets, consist of the following:

	2016	2015
Dividend and Interest Income	\$ 778,784	\$ 871,644
Net Realized/Unrealized Investment Loss	(1,283,473)	(494,698)
Investment Return	\$ (504,689)	\$ 376,946

The Museum maintains three types of endowment funds within the investment portfolio, as follows:

Permanent Endowment – General Purpose – Funds within the endowment for which investment returns are unrestricted for general use of the Museum.

Permanent Endowment – Donor Restricted to Specific Purpose – Funds gifted to the endowment by various donors with restrictions placed on usage of investment returns, such as for specific exhibit or education related expenses.

Funds Functioning as Endowment – Funds gifted by the Museum’s affiliated organizations with restrictions place on usage of investment returns for initiatives specified by the affiliated organization to further the mission of the Museum.

The endowment restricted investment portfolio balance consists of the following:

	2016	2015
Permanent Endowment - General Purpose	\$ 7,212,370	\$ 7,576,201
Permanent Endowment - Donor Restricted to Specific Purpose	10,053,180	10,244,095
Funds Functioning as Endowment	3,364,908	3,566,022
Total Investment Portfolio	\$ 20,630,458	\$ 21,386,318

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, the Museum uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

Fair value measurements framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements define levels within the hierarchy based on the reliability of inputs as follows:

- Level 1* – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2* – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

Following is a description of the nature and risks of the categories of assets by major security type.

Endowment Restricted Investments

Equity securities, corporate bonds, government issued securities, money market funds, and other funds listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

Debt securities consisting of government agency debt obligations are generally valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality, and type. There are no directly held debt securities in the investment portfolio. Debt securities are generally classified within Level 2 of the valuation hierarchy.

Hedge funds, private equity, venture capital, and other investments for which there is not an active market are valued at the quoted market price for underlying marketable securities or an estimate of underlying asset fair values as determined in good faith by the general partner. These alternative investments are classified within Level 3 of the valuation hierarchy.

Temporarily Restricted Investments

Temporarily restricted investments are common stocks with readily available quoted market prices. These securities are classified within Level 1 of the valuation hierarchy.

Charitable Gift Annuities

The charitable gift annuity assets are carried at fair value and are invested in funds listed on the national market or exchange. These annuities are classified within Level 1 of the valuation hierarchy.

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NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30, 2016:

	Fair Value Measurements Using			Total
	(Level 1)	(Level 2)	(Level 3)	
Endowment Restricted Investments:				
Measured at Fair Value:				
Equities:				
U.S. Large Cap	\$ 3,692,732	\$ -	\$ -	\$ 3,692,732
U.S. Mid-Cap/Small-Cap	1,236,848	-	-	1,236,848
Non U.S. Equity	4,491,402	-	-	4,491,402
Debt securities:				
U.S. Corporate Bonds	4,473,898	-	-	4,473,898
Alternative Assets:				
Commodities	214,176	-	-	214,176
Equity Market	392,164	-	-	392,164
Real Estate	664,072	-	-	664,072
Money Market	950,175	-	-	950,175
Measured at Net Asset Value:				
Alternative Assets:				
Hedge Funds	-	-	-	3,663,078
Private Equity	-	-	-	851,913
Total Endowment Restricted Investments	<u>\$ 16,115,467</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,630,458</u>
Charitable Gift Annuities:				
Cash and Cash Equivalents	\$ 17,528	\$ -	\$ -	\$ 17,528
Equities:				
U.S. Mid-Cap/Small-Cap	130,017	-	-	130,017
Non U.S. Equity	55,484	-	-	55,484
Debt Securities:				
U.S. Corporate Bonds	114,785	-	-	114,785
Non U.S. Corporate Bonds	17,325	-	-	17,325
Real Estate	52,911	-	-	52,911
Other	44,968	-	-	44,968
Total Charitable Gift Annuities	<u>\$ 433,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 433,018</u>

The Museum uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their consolidated financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

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NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table lists investments in other investment companies (in partnership format) by major category at June 30, 2016:

<u>Strategy</u>	<u>NAV in Funds</u>	<u>Redemption Frequency and Restrictions</u>
Hedge Funds:		
Blackstone Partners Offshore Fund	\$ 616,880	No Lock up, Semi-Annual Redemption with 100 Days Notice, no Holdback
Global Access Hedge Fund Strategies	2,554,824	12-month Lock up, Quarterly Redemption with 95 Days, 5% Holdback
Real Estate:		
Blackstone Real Estate	491,374	No Lock up, Semi-Annual Redemption with 95 Days Notice, no Holdback
Private Equity: *		
Diversified Across General Partners, Industries, Stages of Business Development and Geographies	851,913	N/A
Total	<u>\$ 4,514,991</u>	

*Unfunded commitment totals \$536,884 term to draw down is 9 years.

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JUNE 30, 2016 AND 2015**

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30, 2015:

	Fair Value Measurements Using			Total
	(Level 1)	(Level 2)	(Level 3)	
Endowment Restricted Investments:				
Measured at Fair Value:				
Equities:				
U.S. Large Cap	\$ 3,365,668	\$ -	\$ -	\$ 3,365,668
U.S. Mid-cap/Small-Cap	1,411,794	-	-	1,411,794
Non U.S. Equity	4,892,656	-	-	4,892,656
Debt Securities:				
U.S. Corporate Bonds	4,195,357	-	-	4,195,357
Non U.S. Corporate Bonds	-	-	-	-
Alternative Assets:				
Commodities	388,284	-	-	388,284
Real Estate	185,351	-	-	185,351
Money Market	1,222,407	-	-	1,222,407
Measured at Net Asset Value				
Alternative Assets:				
Hedge Funds	-	-	-	4,416,557
Private Equity	-	-	-	782,850
Real Estate	-	-	-	525,394
Total Endowment Restricted Investments	<u>\$ 15,661,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,386,318</u>
Charitable Gift Annuities:				
Cash and Cash Equivalents	\$ 13,897	\$ -	\$ -	\$ 13,897
Equities:				
U.S. Mid-Cap/Small-Cap	148,548	-	-	148,548
Non U.S. Equity	89,188	-	-	89,188
Debt Securities:				
U.S. Corporate Bonds	108,933	-	-	108,933
Non U.S. Corporate Bonds	22,296	-	-	22,296
Complementary Strategies	53,236	-	-	53,236
Real Estate	53,282	-	-	53,282
Total Charitable Gift Annuities	<u>\$ 489,380</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 489,380</u>

The Museum uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their consolidated financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

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NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table lists investments in other investment companies (in partnership format) by major category at June 30, 2015:

Strategy	NAV in Funds	Redemption Frequency and Restrictions
Hedge Funds:		
Blackstone Partners Offshore Fund	\$ 1,319,912	No Lock up, Semi-Annual Redemption with 100 Days Notice, no Holdback
Global Access Hedge Fund Strategies	3,096,644	12-month Lock up, Quarterly Redemption with 95 Days, 5% Holdback
Real Estate:		
Blackstone Real Estate	525,394	No Lock up, Semi-Annual Redemption with 95 Days Notice, no Holdback
Private Equity: *		
Diversified Across General Partners, Industries, Stages of Business Development and Geographies	782,851	N/A
Total	<u>\$ 5,724,801</u>	

*Unfunded commitment totals \$689,611 term to draw down is 10 years.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consists of:

	2016	2015
Cost and Donated Value:		
Land	\$ 699,253	\$ 699,253
Building and Improvements	10,772,652	10,769,933
Furniture, Fixtures and Equipment	3,812,791	3,702,041
Total Cost and Donated Value	<u>15,284,696</u>	<u>15,171,227</u>
Less: Accumulated Depreciation and Amortization	<u>(10,759,857)</u>	<u>(10,200,601)</u>
Property and Equipment, Net of Accumulated Depreciation and Amortization	<u>\$ 4,524,839</u>	<u>\$ 4,970,626</u>

Depreciation and amortization expense charged to operations was \$559,256 and \$558,897 for the years ended June 30, 2016 and 2015, respectively.

**PHOENIX ART MUSEUM AND
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NOTE 6 ASSETS RESTRICTED TO LONG-TERM INVESTMENT PURPOSES

The Museum had conducted a capital campaign to raise funds for expansion of the facility and endowment funds. Assets attributable to long-term investment purposes consist of:

	<u>2016</u>	<u>2015</u>
Pledges Receivable	<u>\$ 4,509,857</u>	<u>\$ 3,901,851</u>

Pledges receivable consist of unconditional promises to give as follows:

	<u>2016</u>	<u>2015</u>
Due in Less than One Year	\$ 1,437,075	\$ 945,834
Due in One to Five Years	<u>3,566,000</u>	<u>3,908,000</u>
Total Pledges Receivable	5,003,075	4,853,834
Less: Discount to Present Value	(489,183)	(432,948)
Less: Allowance for Uncollectible Pledges	<u>(4,035)</u>	<u>(519,035)</u>
Net Pledges Receivable Attributable to Long-Term Investment Purpose	<u>\$ 4,509,857</u>	<u>\$ 3,901,851</u>

Three donors make up 84% and 95% of the long-term pledges receivable balance at June 30, 2016 and 2015, respectively.

The estimated cash flows for pledges receivable are discounted over a five-year collection period using a management determined discount rate of 3.9%.

NOTE 7 LINE OF CREDIT

The Museum has a line of credit with JP Morgan Chase Bank, N.A. with an available limit of \$4,000,000; collateralized by marketable securities with a variable interest rate payable at a floating rate equal to an adjusted LIBOR rate plus 1.00% or a rate equal to the money market rate (1.5% as of June 30, 2016). The outstanding balance on the line of credit was \$2,114,230 and \$1,064,230 at June 30, 2016 and 2015, respectively. The line of credit expires on April 11, 2018.

**PHOENIX ART MUSEUM AND
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NOTE 8 CHARITABLE GIFT ANNUITIES

The Museum administers 13 charitable gift annuities. The assets contributed under the charitable gift annuities are carried at fair value. Contribution support is recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. Present values are calculated using a risk-free discount rate determined at the time the annuities are established, and actuarial table and guidelines are used for calculating the available deduction for income tax purposes. The liabilities are adjusted for the accretion of the discount and other changes in the estimates of future benefits. The present value of the estimated annuity payments associated with the charitable gift annuities was \$355,793 and \$368,668 at June 30, 2016 and 2015, respectively. See Note 4 for assets held under charitable gift annuities.

NOTE 9 PENSION PLAN

The Museum has a defined benefit pension plan covering eligible employees. The plan calls for benefits to be paid to employees at retirement based on an actuarial valuation consisting primarily of years of service and compensation. Employees are 100% vested after five years employment with the Museum.

**PHOENIX ART MUSEUM AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 PENSION PLAN (CONTINUED)

The following sets forth the funded status, change in plan assets, and net periodic benefit costs of the plan at June 30:

	<u>2016</u>	<u>2015</u>
Projected Benefit Obligation	<u>\$ 3,763,117</u>	<u>\$ 3,745,607</u>
Fair Value of Plan Assets	<u>\$ 3,097,140</u>	<u>\$ 3,325,517</u>
Funded Status of Plan at Year-End	<u>\$ (665,977)</u>	<u>\$ (420,090)</u>
Accumulated Benefit Obligation	<u>\$ 3,763,117</u>	<u>\$ 3,745,607</u>
Assumptions Used to Determine Benefit Obligation:		
Discount Rate	4.00%	4.25%
Rate of Compensation Increase	2.00%	2.00%
	<u>2016</u>	<u>2015</u>
Employer Contributions	<u>\$ -</u>	<u>\$ -</u>
Plan Participants' Contributions	<u>\$ -</u>	<u>\$ -</u>
Benefits Paid	<u>\$ (216,783)</u>	<u>\$ (59,609)</u>
Net Pension Cost	<u>\$ (54,656)</u>	<u>\$ (58,321)</u>
Assumptions Used to Develop Net Pension Cost Were:		
Discount Rate	4.25%	4.00%
Expected Long-Term Rate of Return on Plan Assets	6.50%	6.50%
Rate of Compensation Increase	2.00%	2.00%

The following sets forth the amounts reported in accrued expenses and recognized in the consolidated statements of financial position at June 30:

	<u>2016</u>	<u>2015</u>
Noncurrent Liability	<u>\$ 665,977</u>	<u>\$ 420,090</u>

**PHOENIX ART MUSEUM AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 PENSION PLAN (CONTINUED)

The following sets forth the amounts recognized in operations for the year ended June 30:

	<u>2016</u>	<u>2015</u>
Net Loss	\$ 446,827	\$ 146,288
Prior Service Cost	-	-
Net Amount Recognized	<u>\$ 446,827</u>	<u>\$ 146,288</u>

The discount rate and expected rate of return on plan assets are critical assumptions which significantly affect pension accounting. Even relatively small changes in these rates would significantly change the recorded pension expense and accrued liability. Management believes the discount rate and expected rate of return on plan assets used in determining its year-end pension accounting are reasonable based on currently available information. However, it is at least reasonably possible that these assumed rates will be revised in the near term, based on future events and changes in circumstances.

The overall expected long-term rate of return on plan assets represents a weighted average composition rate based on expected rates of return. The Museum's pension plan weighted average asset allocations by asset category are as follows:

	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	3.09%	3.27%
Fixed Income	32.60%	35.33%
Equity Securities	64.31%	68.78%

The Museum's overall strategy is to invest in high-grade securities with a minimum amount of market fluctuation. In general, the Museum's objective is to maintain the following allocation ranges:

	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	3.00%	3.00%
Fixed Income	37.00%	37.00%
Equity Securities	60.00%	60.00%

Such rates are estimated by adjusting historical results for each category of investment for anticipated market movement. Under its terms, the plan investments will be limited to marketable securities including common and preferred stocks, convertible securities, government, municipal and corporate bonds, mutual and collective investment funds, and short-term money market instruments.

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NOTE 9 PENSION PLAN (CONTINUED)

The fair value of the Museum's pension plan assets, by asset category, at June 30, 2016, are as follows:

	Fair Value Measurements Using			Total
	(Level 1)	(Level 2)	(Level 3)	
Money Market Fund	\$ 827,961	\$ -	\$ -	\$ 827,961
Equities:				
U.S. Large Cap	813,131	-	-	813,131
U.S. Small-Cap	299,025	-	-	299,025
Non U.S. Equity	351,195	-	-	351,195
Debt Securities	805,828	-	-	805,828
Total Assets at Fair Value	<u>\$ 3,097,140</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,097,140</u>

The fair value of the Museum's pension plan assets, by asset category, at June 30, 2015, are as follows:

	Fair Value Measurements Using			Total
	(Level 1)	(Level 2)	(Level 3)	
Money market fund	\$ 101,207	\$ -	\$ -	\$ 101,207
Equities:				
U.S. Large Cap	1,149,549	-	-	1,149,549
U.S. Small-Cap	441,028	-	-	441,028
Non U.S. Equity	539,529	-	-	539,529
Debt Securities	1,094,204	-	-	1,094,204
Total Assets at Fair Value	<u>\$ 3,325,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,325,517</u>

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 2,263,526
2018	64,579
2019	63,874
2020	71,403
2021	73,282
2022-2026	377,736

Per an Employee Agreement dated April 17, 2014, between the Museum and a Director, the Museum must maintain at least 110% funding level for the plan upon the Director's termination of his active full time employment on June 30, 2016. As of June 30, 2016, the funding level for the frozen defined benefit plan was approximately 93%. A contribution was made by the Museum in July 2016, resulting in 110% funding, subsequent to year end.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 SUPPLEMENTAL RETIREMENT PLAN

The Museum entered into an employment agreement with a key employee. Under the terms of the agreement, the employee is entitled to \$375,000 that is payable beginning July 1, 2016, if certain conditions are met. The Museum had \$375,000 accrued under this employment agreement as of June 30, 2016.

NOTE 11 LEASE COMMITMENTS

The Museum leases equipment and a vehicle under non-cancelable operating leases expiring at various dates through May 2020. Rent expense under these leases was \$82,933 and \$56,333 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 45,132
2018	16,203
2019	4,703
2020	3,949
Total	<u>\$ 69,987</u>

NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of:

	<u>2016</u>	<u>2015</u>
Purpose Restrictions for:		
Deaccessed Art	\$ 991,114	\$ 1,281,114
Building Construction	300,000	917,810
Art Acquisition	1,090,448	1,002,662
Exhibits and Education	800,946	848,026
Program Restricted Interest	-	317,216
Other	2,530,117	592,301
Total Purpose Restrictions	<u>5,712,625</u>	<u>4,959,129</u>
Timing Restrictions		
Time Restricted Gifts	38,074	38,074
Charitable Gift Annuities, Net	77,225	120,712
Total Temporarily Restricted Net Assets	<u>\$ 5,827,924</u>	<u>\$ 5,117,915</u>

During the years ended June 30, 2016 and 2015, donors released their restrictions on \$2,928,705 and \$2,497,810, respectively, of temporarily restricted funds which related to building, art acquisition, exhibits and education and time restricted restrictions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

During the years ended June 30, 2016 and 2015, the Museum had \$1,929,928 and \$1,896,430, respectively, outstanding from the temporarily restricted funds used for operations. This amount has been classified in the accompanying consolidated statement of financial position as cash due to internal funds.

NOTE 13 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of funds for which the donors stipulate the principal is to be maintained in perpetuity. The earnings and net appreciation on these funds are unrestricted and temporarily restricted and are allocated for specific purposes by the Museum's Board of Directors or in accordance with the donor agreement. During fiscal 2010, the Museum was donated land in a residential area that is recorded as held for sale on the accompanying consolidated statement of financial position. A portion of the proceeds from the sale of the land is permanently restricted and is to be used as an endowment. During 2015, the Museum sold the land for \$758,595, resulting in a \$345,405 loss.

The Museum's endowments consist of several funds established to support a variety of charitable efforts of the Museum. Its endowments consist of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Museum has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the Museum classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment
- The original value of subsequent gifts to the permanent endowment

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum's Board. In accordance with SPMIFA, 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 fund
2. The purpose of the Museum and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Museum
7. The investment policies of the Museum

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 13 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

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 the 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). Under this policy, as approved by the Board of Trustees, the endowment assets are invested to seek income and capital growth as well as preservation of principal. It is intended to have an average level of risk and may experience moderate levels of volatility.

2016 Endowment Net Asset Composition by Type of Fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Donor Permanently Restricted	Total
Donor Restricted Endowment Funds	\$ -	\$ -	\$26,783,084	\$26,783,084
Undesignated Endowment Funds	(1,864,294)	-	-	(1,864,294)
Total Endowment Funds	<u>\$ (1,864,294)</u>	<u>\$ -</u>	<u>\$26,783,084</u>	<u>\$24,918,790</u>

Changes in endowment net assets for the year ended June 30, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets -				
Beginning of Year	\$ (628,633)	\$ 317,216	\$ 25,334,154	\$ 25,022,737
Interest and Dividend Income	-	772,241	-	772,241
Net Realized/Unrealized Gain (Loss)	(414,754)	(868,719)	-	(1,283,473)
Contributions	-	-	1,592,609	1,592,609
Endowment Releases	364,417	(220,738)	(143,679)	-
Grants and Expenses	(1,185,324)	-	-	(1,185,324)
Endowment Net Assets	<u>\$ (1,864,294)</u>	<u>\$ -</u>	<u>\$ 26,783,084</u>	<u>\$ 24,918,790</u>

Endowment Releases

The Museum obtained documentation from donors changing their gift restriction from permanently and temporarily restricted to unrestricted in the amount of \$364,417 and \$3,502,737 for the years ended June 30, 2016 and 2015, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 13 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Endowment Releases (Continued)

2015 Endowment Net Asset Composition by Type of Fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Donor Permanently Restricted	Total
Donor Restricted Endowment Funds	\$ -	\$ 317,216	\$ 25,334,154	\$ 25,651,370
Undesignated Endowment Funds	(628,633)	-	-	(628,633)
Total Endowment Funds	<u>\$ (628,633)</u>	<u>\$ 317,216</u>	<u>\$ 25,334,154</u>	<u>\$ 25,022,737</u>

Changes in endowment net assets for the year ended June 30, 2015, are as follows:

	Unrestricted	Temporarily Restricted	Donor Permanently Restricted	Total
Endowment Net Assets -				
Beginning of Year	\$ 1,041,158	\$ 458,672	\$ 25,042,876	\$ 26,542,706
Interest and Dividend Income	871,644	-	-	871,644
Net Realized/Unrealized Loss	(511,993)	17,295	-	(494,698)
Loss on Sale of Land	-	-	(345,405)	(345,405)
Contributions	-	-	4,139,420	4,139,420
Endowment Releases	(738,820)	-	(3,502,737)	(4,241,557)
Grants and Expenses	(1,290,622)	(158,751)	-	(1,449,373)
Endowment Net Assets	<u>\$ (628,633)</u>	<u>\$ 317,216</u>	<u>\$ 25,334,154</u>	<u>\$ 25,022,737</u>

NOTE 14 FINE ARTS COLLECTION

Fine arts collection consists of purchased and donated works of art. The collection is on display to the general public. The Museum employs professional staff to ensure that the collection items are preserved and protected. The collection items are not capitalized by the Museum. Costs of purchasing collection items, deaccessions of collection items, and proceeds from insurance recoveries are included as a change in the appropriate category of net assets. Proceeds from the deaccession of collection items are restricted for purchases of additional collection items. Acquisitions of fine art, included as a decrease in unrestricted net assets, totaled \$251,244 and \$283,919 for the years ended June 30, 2016 and 2015, respectively.

The American Alliance of Museums (AAM) which is the national accreditation organization for museums has a policy related to museum collections. Their policy is that museums do not have to list their collection as an asset on their financial statements. If a museum does elect to list its collection on its financial statements, it must be based on a recent appraisal of the collection. The Museum has elected to expense contributions when obtained, and has not capitalized the collection.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 15 DONATED FACILITIES, UTILITIES, AND MAINTENANCE – GOVERNMENTAL

The Museum has an operating agreement with the City of Phoenix (the City) which commenced on June 30, 1993, and ends on June 30, 2052, which is subject to cancellation. This agreement stipulates that the Museum will pay one dollar per year as rent for the current Museum facilities. The agreement also stipulates that the City will pay certain security, utilities, and pay certain maintenance and landscaping for the benefit of the Museum. The utilities paid by the City are based upon actual utilities billings for the year ended June 30, 1993, adjusted by the Consumer Price Index for all Urban Areas – U.S. City Average.

The Museum has estimated the fair value of facilities rent donated by the City at \$3,375,900 the years ended June 30, 2016 and 2015. Utilities paid and ground maintenance and landscaping performed by the City for the benefit of the Museum have a fair value of \$1,261,014 and \$1,336,795 for the years ended June 30, 2016 and 2015, respectively. The income related to these amounts is included in public support in the accompanying consolidated statement of activities and changes in net assets.

NOTE 16 RELATED PARTY TRANSACTIONS

The Men's Arts Council (the MAC) is a separate legal entity that is affiliated with the Museum that provides contributions to assist in the support of the Museum's operations. The Museum had accounts receivable from the MAC of \$5,469 and \$5,419 at June 30, 2016 and 2015, respectively. The MAC provided \$126,800 and \$134,375 of unrestricted contributions in 2016, and in 2015, respectively.

The Museum provides for payment of salaries and wages, which are reimbursed to the Museum. Salaries paid on behalf of the MAC and reimbursed to the Museum were \$65,934 and \$66,157 for the years ended June 30, 2016 and 2015, respectively.

Artenders is a separate legal entity that provides for beverage services at many of the Museum's special events. The Museum had accounts receivable from Artenders of \$5,714 and \$7,511 at June 30, 2016 and 2015, respectively. Included in accounts payable and accrued expenses is a payable to Artenders of \$-0- and \$6,498 at June 30, 2016 and 2015, respectively. The Museum rents office space to Artenders and provides for payment of salaries and wages, which are reimbursed to the Museum. Rental income from Artenders was \$47,000 and \$47,600 for the years ended June 30, 2016 and 2015, respectively. Salaries paid on behalf of Artenders and reimbursed to the Museum were \$119,271 and \$112,093, for the years ended June 30, 2016 and 2015, respectively.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 17 CONCENTRATION OF CREDIT RISKS

The Museum maintains all of its cash with banks on deposits which are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. The Museum, in the normal course of business, periodically maintains account balances in excess of the FDIC's insurance coverage limit.

NOTE 18 COMMITMENTS AND CONTINGENCIES

From time to time, the Museum is contingently liable in respect to claims incidental to the ordinary course of its operations. In the opinion of management, the effect of such matters will not have a material adverse effect on the Museum's financial position, results of operations, or liquidity. Therefore, no provision has been made in the accompanying consolidated financial statements for losses, if any, that might result from the ultimate outcome of these matters.

The Museum entered into an Exhibition Agreement (Agreement) to display works of art between January and March 2016. The total cost under the Agreement is \$500,000 of which \$125,000 was paid as of June 30, 2015 and is presented as a prepaid expense.

NOTE 19 RISKS AND UNCERTAINTIES

The Museum invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

NOTE 20 SUBSEQUENT EVENTS

Management evaluated subsequent events through January 30, 2017, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2016, but prior to January 30, 2017, that provided additional evidence about conditions that existed at June 30, 2016, have been recognized in the consolidated financial statements for the year ended June 30, 2016. Events or transactions that provided evidence about conditions that did not exist at June 30, 2016, but arose before the consolidated financial statements were available to be issued.

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AT JUNE 30, 2015)
(SEE INDEPENDENT AUDITORS' REPORT)**

	Phoenix Art Museum	Support Groups	Phoenix Art Museum Endowment Fund, Inc.	Eliminations	Total	
					2016	2015
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 1,990,803	\$ 1,016,356	\$ -	\$ -	\$ 3,007,159	\$ 2,504,603
Accounts Receivable	145,626	-	-	-	145,626	174,449
Interfund Receivable	50,684	14,640	-	(65,324)	-	-
Pledges Receivable	1,926,834	-	-	-	1,926,834	356,754
Grants Receivable	68,000	-	-	-	68,000	-
Assets Restricted to Long-Term Investment Purposes, Current Portion	40,000	-	1,397,075	-	1,437,075	945,834
Museum Store Inventories	364,009	-	-	-	364,009	378,912
Prepaid Expenses	157,232	8,832	-	-	166,064	299,819
Total Current Assets	4,743,188	1,039,828	1,397,075	(65,324)	7,114,767	4,660,371
CASH DUE FROM INTERNAL FUNDS	1,929,928	-	-	-	1,929,928	1,896,430
CHARITABLE GIFT ANNUITIES	433,018	-	-	-	433,018	489,380
PROPERTY AND EQUIPMENT, NET	4,524,839	-	-	-	4,524,839	4,970,626
ASSETS RESTRICTED TO LONG-TERM INVESTMENT PURPOSES, NET	167,921	-	2,904,861	-	3,072,782	2,956,017
INVESTMENTS	-	-	20,630,458	-	20,630,458	21,386,318
Total Assets	<u>\$ 11,798,894</u>	<u>\$ 1,039,828</u>	<u>\$ 24,932,394</u>	<u>\$ (65,324)</u>	<u>\$ 37,705,792</u>	<u>\$ 36,359,142</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts Payable and Accrued Expenses	\$ 1,080,778	\$ 8,784	\$ 13,604	\$ -	\$ 1,103,166	\$ 1,807,857
Interfund Payable	-	-	65,324	(65,324)	-	-
Deferred Revenue	524,414	-	-	-	524,414	405,061
Line of Credit	2,114,230	-	-	-	2,114,230	1,064,230
Total Current Liabilities	3,719,422	8,784	78,928	(65,324)	3,741,810	3,277,148
CASH DUE TO INTERNAL FUNDS	1,929,928	-	-	-	1,929,928	1,896,430
CHARITABLE GIFT ANNUITIES LIABILITY	355,793	-	-	-	355,793	368,668
ACCRUED LIABILITIES	1,590,976	-	-	-	1,590,976	795,090
Total Liabilities	<u>7,596,119</u>	<u>8,784</u>	<u>78,928</u>	<u>(65,324)</u>	<u>7,618,507</u>	<u>6,337,336</u>
NET ASSETS						
Unrestricted	(1,625,149)	1,031,044	(1,864,294)	-	(2,458,399)	(430,263)
Donor Restricted:						
Temporarily Restricted	5,827,924	-	-	-	5,827,924	5,117,915
Donor Restricted	-	-	26,717,760	-	26,717,760	25,334,154
Total Donor Restricted	5,827,924	-	26,717,760	-	32,545,684	30,452,069
Total Net Assets	4,202,775	1,031,044	24,853,466	-	30,087,285	30,021,806
Total Liabilities and Net Assets	<u>\$ 11,798,894</u>	<u>\$ 1,039,828</u>	<u>\$ 24,932,394</u>	<u>\$ (65,324)</u>	<u>\$ 37,705,792</u>	<u>\$ 36,359,142</u>

**PHOENIX ART MUSEUM AND
PHOENIX ART MUSEUM ENDOWMENT FUND, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)
(SEE INDEPENDENT AUDITORS' REPORT)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2016	2015
OPERATING ACTIVITIES					
Revenues:					
Admissions	\$ 1,085,734	\$ -	\$ -	\$ 1,085,734	\$ 1,118,632
Museum Store Income	718,151	-	-	718,151	712,120
Membership Income	1,123,121	-	-	1,123,121	1,123,588
Projects and Fundraising Activities	772,854	-	-	772,854	1,039,538
Less Cost of Direct Donor Benefits	(309,455)	-	-	(309,455)	(847,432)
Dividend and Interest Income	6,543	772,241	-	778,784	871,644
Other	553,401	-	-	553,401	655,386
Total Revenues	3,950,349	772,241	-	4,722,590	4,673,476
Public Support:					
Contributions:					
Private	2,630,725	4,009,019	1,592,609	8,232,353	8,484,009
Less Cost of Direct Donor Benefits	(86,123)	-	-	(86,123)	(163,908)
Change in Charitable Gift Annuities	-	-	-	-	-
Governmental	70,006	-	-	70,006	92,560
Donated Facilities, Materials, and Services:					
Governmental	4,636,913	-	-	4,636,913	4,712,695
Private	297,458	-	-	297,458	668,221
Total Public Support	7,548,979	4,009,019	1,592,609	13,150,607	13,793,577
Net Assets Released from Restrictions:					
Endowments Released from Restrictions	364,417	(220,738)	(143,679)	-	-
Purpose Restrictions Met	2,981,794	(2,981,794)	-	-	-
Total Revenues and Public Support	14,845,539	1,578,728	1,448,930	17,873,197	18,467,053
Expenses:					
Programs Services	11,845,700	-	-	11,845,700	12,723,982
Management and General	3,157,072	-	-	3,157,072	2,542,334
Fundraising	1,270,229	-	-	1,270,229	1,442,859
Total Expenses	16,273,001	-	-	16,273,001	16,709,175
OPERATING PROFIT (LOSS)	(1,427,462)	1,578,728	1,448,930	1,600,196	1,757,878
NON-OPERATING ACTIVITIES					
Net Realized/Unrealized Investment Gain (Loss)	(414,754)	(868,719)	-	(1,283,473)	(494,698)
Supplemental Retirement Expense	-	-	-	-	(375,000)
Loss on Sale of Land	-	-	-	-	(345,405)
Acquisitions of Fine Art	(251,244)	-	-	(251,244)	(283,919)
TOTAL NON-OPERATING ACTIVITIES	(665,998)	(868,719)	-	(1,534,717)	(1,499,022)
CHANGES IN NET ASSETS	(2,093,460)	710,009	1,448,930	65,479	258,856
Net Assets - Beginning of Year	(430,263)	5,117,915	25,334,154	30,021,806	29,762,950
NET ASSETS - END OF YEAR	\$ (2,523,723)	\$ 5,827,924	\$ 26,783,084	\$ 30,087,285	\$ 30,021,806