

HENRY & HORNE, LLP
CERTIFIED PUBLIC ACCOUNTANTS



Scottsdale, Arizona

FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011





HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Scottsdale Cultural Council
Scottsdale, Arizona

We have audited the accompanying statements of financial position of Scottsdale Cultural Council (a not-for-profit organization) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Scottsdale Cultural Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scottsdale Cultural Council at June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Henry & Horne, LLP

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October 18, 2012

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SCOTTSDALE CULTURAL COUNCIL
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2012 and 2011

	<u>2012</u>	<u>2011*</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 414,382	\$ 438,845
Money market funds	<u>487,631</u>	<u>389,640</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>902,013</u>	<u>828,485</u>
Accounts receivable	14,702	102,656
Promises to give, current portion, net of allowance for doubtful promises of \$33,000 and \$33,000 as of June 30, 2012 and 2011, respectively	628,600	658,647
Inventories	101,871	102,297
Prepaid expenses	<u>94,536</u>	<u>78,094</u>
TOTAL CURRENT ASSETS	<u>1,741,722</u>	<u>1,770,179</u>
PROMISES TO GIVE, net of current portion	4,500	5,000
INVESTMENTS	5,283,430	5,559,648
ASSETS HELD UNDER SPLIT-INTEREST AGREEMENT	71,646	83,233
PROPERTY AND EQUIPMENT, net	1,255,730	1,423,851
OTHER ASSETS	<u>7,746</u>	<u>25,922</u>
TOTAL ASSETS	<u>\$ 8,364,774</u>	<u>\$ 8,867,833</u>

*Reclassified to conform with current year presentation

	<u>2012</u>	<u>2011*</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 137,057	\$ 238,617
Accrued expenses	49,459	102,334
Deferred revenue	829,770	470,928
Liability under split-interest agreement, current portion	<u>8,600</u>	<u>8,600</u>
TOTAL CURRENT LIABILITIES	1,024,886	820,479
LIABILITY UNDER SPLIT-INTEREST AGREEMENT, net of current portion		
	<u>3,744</u>	<u>3,744</u>
TOTAL LIABILITIES	<u>1,028,630</u>	<u>824,223</u>
NET ASSETS		
Unrestricted:		
Unallocated	358,587	1,158,533
Designated unrestricted net assets:		
Board designated endowments	<u>525,872</u>	<u>567,557</u>
TOTAL UNRESTRICTED NET ASSETS	884,459	1,726,090
Temporarily restricted		
	878,170	856,111
Permanently restricted	<u>5,573,515</u>	<u>5,461,409</u>
TOTAL NET ASSETS	<u>7,336,144</u>	<u>8,043,610</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,364,774</u>	<u>\$ 8,867,833</u>

SCOTTSDALE CULTURAL COUNCIL
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, SUPPORT AND OTHER INCOME				
Earned revenues	\$ 2,728,129	\$ -	\$ -	\$ 2,728,129
Contract - City of Scottsdale	4,415,867	-	-	4,415,867
Contributions	854,860	645,626	112,106	1,612,592
Investment return	(141,576)	-	-	(141,576)
Other income	5,038	-	-	5,038
Net assets released from restrictions	623,567	(623,567)	-	-
	<u>8,485,885</u>	<u>22,059</u>	<u>112,106</u>	<u>8,620,050</u>
Special events income	266,591	-	-	266,591
Direct benefit to donors	(172,710)	-	-	(172,710)
	<u>93,881</u>	<u>-</u>	<u>-</u>	<u>93,881</u>
Retail sales	466,082	-	-	466,082
Cost of sales	(230,050)	-	-	(230,050)
	<u>236,032</u>	<u>-</u>	<u>-</u>	<u>236,032</u>
TOTAL REVENUES, SUPPORT AND OTHER INCOME	<u>8,815,798</u>	<u>22,059</u>	<u>112,106</u>	<u>8,949,963</u>
EXPENSES				
Program and center services	6,975,507	-	-	6,975,507
Support services:				
Administrative	1,917,304	-	-	1,917,304
Special events and development	764,618	-	-	764,618
TOTAL EXPENSES	<u>9,657,429</u>	<u>-</u>	<u>-</u>	<u>9,657,429</u>
CHANGE IN NET ASSETS	<u>(841,631)</u>	<u>22,059</u>	<u>112,106</u>	<u>(707,466)</u>
NET ASSETS, BEGINNING OF YEAR	<u>1,726,090</u>	<u>856,111</u>	<u>5,461,409</u>	<u>8,043,610</u>
NET ASSETS, END OF YEAR	<u>\$ 884,459</u>	<u>\$ 878,170</u>	<u>\$ 5,573,515</u>	<u>\$ 7,336,144</u>

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, SUPPORT AND OTHER INCOME				
Earned revenues	\$ 2,546,039	\$ -	\$ -	\$ 2,546,039
Contract - City of Scottsdale	5,221,037	-	-	5,221,037
Contributions	1,060,620	748,425	27,955	1,837,000
Investment return	950,064	-	-	950,064
Other income	10,437	-	-	10,437
Net assets released from restrictions	559,514	(519,514)	(40,000)	-
	<u>10,347,711</u>	<u>228,911</u>	<u>(12,045)</u>	<u>10,564,577</u>
Special events income	288,716	-	-	288,716
Direct benefit to donors	(186,288)	-	-	(186,288)
	<u>102,428</u>	<u>-</u>	<u>-</u>	<u>102,428</u>
Retail sales	406,571	-	-	406,571
Cost of sales	(200,883)	-	-	(200,883)
	<u>205,688</u>	<u>-</u>	<u>-</u>	<u>205,688</u>
TOTAL REVENUES, SUPPORT AND OTHER INCOME	<u>10,655,827</u>	<u>228,911</u>	<u>(12,045)</u>	<u>10,872,693</u>
EXPENSES				
Program and center services	7,398,462	-	-	7,398,462
Support services:				
Administrative	2,030,441	-	-	2,030,441
Special events and development	865,605	-	-	865,605
TOTAL EXPENSES	<u>10,294,508</u>	<u>-</u>	<u>-</u>	<u>10,294,508</u>
CHANGE IN NET ASSETS	361,319	228,911	(12,045)	578,185
NET ASSETS, BEGINNING OF YEAR	<u>1,364,771</u>	<u>627,200</u>	<u>5,473,454</u>	<u>7,465,425</u>
NET ASSETS, END OF YEAR	<u>\$ 1,726,090</u>	<u>\$ 856,111</u>	<u>\$ 5,461,409</u>	<u>\$ 8,043,610</u>

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (707,466)	\$ 578,185
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	258,385	291,210
Realized and unrealized investment (gains) losses	366,289	(741,174)
Promise to give write-offs	35,166	99,000
Adjustment to discount on promises to give	-	(9,804)
Change in value of split-interest agreements	2,987	1,143
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	87,954	(12,773)
Promises to give	(4,619)	(263,473)
Inventories	426	3,671
Prepaid expenses	(16,442)	(74,348)
Other assets	18,176	4,000
Increase (decrease) in:		
Accounts payable and accrued expenses	(154,435)	23,920
Deferred revenue	358,842	(65,289)
	<u>245,263</u>	<u>(165,732)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of assets held under split-interest agreements	8,600	8,600
Purchases of property and equipment	(90,264)	(171,323)
Proceeds from sales of investments	3,654,844	1,958,182
Purchases of investments	<u>(3,744,915)</u>	<u>(1,883,734)</u>
	<u>(171,735)</u>	<u>(88,275)</u>
NET CASH USED BY INVESTING ACTIVITIES		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	73,528	(254,007)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>828,485</u>	<u>1,082,492</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 902,013</u>	<u>\$ 828,485</u>

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

The Scottsdale Cultural Council (SCC) was incorporated in the state of Arizona on June 2, 1987 as a not-for-profit corporation organized exclusively for charitable, educational and scientific purposes under section 501(c)(3) of the Internal Revenue Code.

The principal purpose of SCC is planning, fostering, encouraging, supporting, creating, establishing, coordinating, presenting, producing, promoting, and managing educational, cultural and arts activities and facilities for the benefit of residents of the City of Scottsdale, Arizona and surrounding vicinity.

SCC operates three major programs:

- Scottsdale Center for the Performing Arts (SCPA) – This 82,500 square foot facility contains a theatre, a cinema, conference room and exhibition space. SCC is responsible for the administering, programming and fundraising to support the programs.
- Scottsdale Museum of Contemporary Arts (SMoCA) – The mission of SMoCA is to affect its community through the collection, preservation, interpretation and exhibition of works of modern and contemporary art, architecture and design. The program also offers education resources through exhibitions, scholarship, publication, education tours, programs, lectures and workshops.
- Public Art – This program invites residents and visitors to explore the City of Scottsdale's Public Art Collection. Located throughout the city, sculpture and integrated artworks can be found in parks, libraries, along roadways, in public buildings and other public places. The program was established in 1985 and is dedicated to enhancing urban spaces by commissioning art that creates a sense of place and improves the built environment.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, SCC considers all highly liquid debt instruments with an original maturity of ninety days or less at date of acquisition to be cash equivalents.

SCOTTSDALE CULTURAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Accounts Receivable

Accounts receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. SCC evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. Accounts are charged off against the allowance when they are deemed to be uncollectible. Accounts receivable as of June 30, 2012 and 2011 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The discounts on those amounts are computed using risk-free interest rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, SCC records a specific reserve to reduce the amounts recorded to what it believes will be collected. Promises are charged off against the allowance when they are deemed to be uncollectible.

Inventories

Inventories consist of museum store and performing arts center store (retail) inventory and is carried at the lower of cost or market determined by the average cost method.

Fair Value Measurements

A framework for measuring fair value has been established by the Accounting Standards Codification and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

SCOTTSDALE CULTURAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Fair Value Measurements (Continued)

The three levels of the fair value hierarchy are as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that SCC has the ability to access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect SCC's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes). |

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

Investments

Investments are recorded at fair value as determined by quoted market prices in active markets or by net asset value as determined by third parties. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in net assets in the accompanying statement of activities, unless the income or loss is restricted by donor or law.

SCOTTSDALE CULTURAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

SCC 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.

Endowment Funds

SCC's endowment funds consist of five individual funds established for a variety of purposes. Its endowment funds include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SCC follows Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds. When a donor's intent is not expressed, MCFA directs SCC to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the fund continue in perpetuity.

SCOTTSDALE CULTURAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Endowment Funds (Continued)

SCC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by SCC in a manner consistent with the standard of prudence prescribed by MCFA.

In accordance with MCFA, SCC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) SCC's other resources, and (7) SCC's investment policies.

As of June 30, 2012 and 2011, the Board of Trustees had designated \$525,872 and \$567,557, respectively, of unrestricted net assets as general endowment funds to support the mission of SCC. Since these amounts resulted from an internal designation and are not donor-restricted, they are classified and reported as unrestricted net assets. The source of the amounts making up these endowment funds were from three significant donations received in prior years. SCC's policy is to segregate these amounts into separate investment accounts and to maintain the board designated net asset balance at the investment account balance until the Board of Trustees approves spending from the funds. As of June 30, 2012, the Board of Trustees plans to maintain these funds as reserves.

Permanently restricted net assets include the original value of gifts donated to the permanent endowments for SCPA and SMOCA.

Investment Return Objectives, Risk Parameters and Strategies. SCC has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible.

SCOTTSDALE CULTURAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Endowment Funds (Continued)

Therefore, SCC expects its endowment assets, over time, to produce an average rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. SCC's policy is to appropriate a certain amount for distribution each year. The amount is calculated at 5% of the three year moving average of quarterly valuations of the endowment funds, equally weighted as of March 31 of the previous year. The estimated value is determined as of the beginning of the fiscal year. In establishing this policy, SCC considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. SCC expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 4% annually, which is consistent with SCC's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Deferred Revenues

Deferred revenues include deferred membership sales, deferred contract revenues and deferred ticket sales. Membership, contract and ticket revenues are recorded as income in the year in which they are earned. Fees collected in advance of services provided are recorded as deferred revenues until such time as SCC has earned the related revenue.

Revenue Recognition

Earned revenues consist primarily of performance ticket sales and sales of merchandise. Revenue related to the current season's ticket sales is recognized in the current year. Proceeds from ticket sales received prior to the fiscal year in which the performance occurs are not recognized as revenue until the performance occurs. Related costs are reported as expenses in the period in which the revenues are recognized. Retail sales revenue is reported net of sales taxes.

SCOTTSDALE CULTURAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Contributions

Contributions, grants and bequests, including promises to give, are received and recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, SCC reports the support as unrestricted.

Contributions of donated non-monetary assets (in-kind donations) are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donated services, are recorded at their fair market values in the period received. SCC utilizes the services of numerous volunteers who support the programs and activities of the organization by performing services such as docents, ushers and assisting with food and beverage concessions and the Museum Store. For the years ended June 30, 2012 and 2011, SCC received the benefit of over 20,000 and 14,100 hours of service from volunteers, respectively. This support has not been recorded in the accompanying financial statements as it does not meet the recognition criteria.

Advertising

SCC uses advertising to promote its programs to the community. Advertising costs are charged to operations as incurred. Advertising expense charged to operations was approximately \$585,000 and \$454,000 for the years ended June 30, 2012 and 2011, respectively. Included in advertising expense for the year ended June 30, 2012 was approximately \$67,000 in donated advertising.

Income Tax Status

SCC qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC), qualifies for the charitable contribution deduction and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be subject to income tax.

SCC has UBTI from labor reimbursement income and as a result, has net operating loss carryforwards related to this UBTI. The deferred income tax benefit from these carryforwards, has not been recorded as of June 30, 2012 because SCC does not expect to recognize the tax benefit in the future. These net operating loss carryforwards may expire in future years.

SCOTTSDALE CULTURAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Income Tax Status (Continued)

SCC follows accounting standards for uncertainty in income taxes, which require that tax positions initially need to be recognized in the financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2012 and 2011, SCC had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Organization's federal and state exempt returns are no longer subject to examination by the Internal Revenue Service and the State of Arizona for fiscal years prior to June 30, 2009 and 2008, respectively, generally three to four years after they were filed.

SCC recognizes interest and penalties associated with income tax in operating expenses. During the years ended June 30, 2012 and 2011, SCC did not have any income tax related interest and penalty expense.

Management's Use of Estimates

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

Risk and Uncertainty

SCC invests in various types of 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 amount reported in the statements of financial position.

Reclassifications

Certain reclassifications have been made to the 2011 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications

SCOTTSDALE CULTURAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Date of Management's Review

In preparing these financial statements, SCC has evaluated events and transactions for potential recognition or disclosure through October 18, 2012, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject SCC to potential concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable, promises to give and revenues. SCC maintains its cash in bank accounts with financial institutions and stock brokerage firms. As of June 30, 2012 and 2011, SCC's bank balances exceeded federally insured limits by approximately \$207,000 and \$109,000, respectively. Balances with stock brokerage firms are insured up to \$500,000 (with a limit of \$250,000 for cash) by the Securities Investor Protection Corporation (SIPC). Balances over \$500,000 are insured by the brokerage firms. SCC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

Accounts receivable as of June 30, 2012 includes approximately \$11,200 due from the City of Scottsdale for project expenses for the Art in Public Places programs. This amount represents 58% of the total accounts receivable as of June 30, 2012. Accounts receivable as of June 30, 2011 includes approximately \$99,000 due from the City of Scottsdale for project expenses for the Art in Public Places programs. This amount represents 97% of the accounts receivable as of June 30, 2011.

Promises to give at June 30, 2011 include \$255,000 due from a foundation, which represents 42% of total net promises to give. Concentrations of credit risk with respect to promises to give and accounts receivable are limited due to the nature of the receivables and the collection history of these types of accounts. SCC requires no collateral on its promises to give and accounts receivable.

SCC receives funding from its contract with the City of Scottsdale for administration of the Scottsdale Center for the Performing Arts (SCPA) and Scottsdale Museum of Contemporary Art (SMoCA). Funding from this contract also includes reimbursements for public art project expenses and expenses relating to management of these projects. Total contract revenue from the City of Scottsdale represented 49% and 51% of total revenues during the years ended June 30, 2012 and 2011, respectively. Contract revenue from the City (excluding public art project and administration funding) represented 37% and 32% of total revenues (excluding public art project and administration funding) during the years ended June 30, 2012 and 2011, respectively. Earned revenues are also dependent on the continuation of the contract with the City of Scottsdale. Management does not expect their relationship with the City of Scottsdale to discontinue anytime in the near future.

SCOTTSDALE CULTURAL COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

NOTE 3 CONTRACT – CITY OF SCOTTSDALE

On May 20, 2008, SCC renewed its contract (Contract No 2008-048-COS) with the City of Scottsdale to provide advisory and management services with regard to the arts and cultural programs and facilities of the city. The term of the renewed agreement is for a 10-year period which began on July 1, 2008, with an automatic renewal of an additional 10-year period, unless it is terminated early when either party gives six months notice of intent not to renew.

By execution of the agreement, the City of Scottsdale acknowledged SCC as the principal organization through which arts and cultural activities will be undertaken and as the official advisory and planning body of arts and culture for the City of Scottsdale. SCC is not a department or operating agency of the City of Scottsdale; however, due to SCC's dependency on the City of Scottsdale for support, material transactions with the City of Scottsdale have been disclosed.

In addition to providing advisory and planning services, SCC is responsible for managing, operating and programming the Scottsdale Center for the Performing Arts (SCPA), Scottsdale Museum of Contemporary Art (SMoCA), Art in Public Places Program and other City of Scottsdale owned facilities as designated in the agreement.

SCC retains all revenue from ticket sales, facilities rentals and concessions, and is responsible for all costs associated with those programs including security, maintenance, utilities and taxes. SCC may undertake structural changes to SCPA, at its expense, with Scottsdale City Council approval, if appropriate.

The City of Scottsdale provided funding to SCC under this contract as follows:

	<u>2012</u>	<u>2011</u>
Administrative funding	\$ 3,343,275	\$ 3,512,190
Art in Public Places Fund	<u>1,072,592</u>	<u>1,708,847</u>
Total contract - City of Scottsdale	<u>\$ 4,415,867</u>	<u>\$ 5,221,037</u>

SCOTTSDALE CULTURAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 4 ART IN PUBLIC PLACES FUND

In accordance with the contract with the City of Scottsdale, SCC shall administer the City of Scottsdale's public art program. SCC shall perform the acts and functions designated in the Scottsdale Revised Code, or amendments thereto. SCC is required to establish guidelines for the administration of the public art program, which shall at all times contain provisions and procedures for the appeal of decisions concerning the public art program to the City Council. SCC shall also be responsible for the accession and deaccession of artworks, the maintenance of the City of Scottsdale's permanent art collection and activities associated with these responsibilities.

Funds obtained by SCC pursuant to this contract are from the City of Scottsdale's Art in Public Places Fund and other City sources and shall only be used for the purposes described in the Scottsdale Revised Code and for associated administrative and programmatic costs. For any specific projects which remain incomplete at the end of the fiscal year, SCC may request, through the contract administrator, to retain unspent funds in the fiscal year in which they were requested up to the amount needed to complete the specific project. Also, any funds received by SCC from the City during the year, but not yet spent as of the end of the year, can be applied to projects in the next fiscal year. As of June 30, 2012 and 2011, \$23,756 and \$3,798, respectively, was included in deferred revenue for this purpose.

Additional funds from the City of Scottsdale's Art in Public Places Fund may be requested by SCC during the fiscal year for the purpose of project cost overruns or unforeseen circumstances if there are funds available within the City of Scottsdale's Art in Public Places Fund and upon written approval of the contract administrator.

SCOTTSDALE CULTURAL COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

NOTE 4 ART IN PUBLIC PLACES FUND (Continued)

SCC had the following activity regarding the City of Scottsdale's Art in Public Places Fund during the years ended June 30:

	<u>2012</u>	<u>2011</u>
Deferred, beginning of year	\$ 3,798	\$ 73,120
Funds received and invoiced during the year:		
Contract program payments received	787,203	828,385
Project payments received	294,192	711,042
Project payments receivable	11,155	99,079
Less expenses (revenue recognized on the contract during the year):		
Contract program expenses	(767,155)	(897,707)
Project expenses and other expenditures	<u>(305,437)</u>	<u>(810,121)</u>
Deferred, end of year	<u>\$ 23,756</u>	<u>\$ 3,798</u>

NOTE 5 PROMISES TO GIVE

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

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 661,600	\$ 691,647
Receivable in two to five years	<u>4,500</u>	<u>5,000</u>
Total promises to give	666,100	696,647
Discount to present value	-	-
Allowance for uncollectible promises	<u>(33,000)</u>	<u>(33,000)</u>
Net promises to give	633,100	663,647
Current portion	<u>(628,600)</u>	<u>(658,647)</u>
Non-current portion	<u>\$ 4,500</u>	<u>\$ 5,000</u>

The estimated cash flows for long-term promises to give were discounted over the collection period using a discount rate of 8% as determined by management.

SCOTTSDALE CULTURAL COUNCIL
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NOTE 6 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued expenses approximates their respective fair values because of the short maturity of these instruments.

Investments with readily determinable fair values are measured at fair value in the statement of financial position as determined by quoted market prices in active markets (Level 1).

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Bond funds	\$ 1,482,388	\$ -	\$ -	\$ 1,482,388
Cash	52,654	-	-	52,654
Mutual funds	1,813,430	-	-	1,813,430
Registered 40 Act funds	1,600,925	-	-	1,600,925
Registered 40 Act fund of funds	<u>334,033</u>	<u>-</u>	<u>-</u>	<u>334,033</u>
Total investments	<u>5,283,430</u>	<u>-</u>	<u>-</u>	<u>5,283,430</u>
Split interest agreement investments:				
Bond funds	50,975	-	-	50,975
Cash	1,195	-	-	1,195
Registered 40 Act funds	<u>19,476</u>	<u>-</u>	<u>-</u>	<u>19,476</u>
Total split interest agreement investments	<u>71,646</u>	<u>-</u>	<u>-</u>	<u>71,646</u>
Total fair value of financial instruments	<u>\$ 5,355,076</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,355,076</u>

SCOTTSDALE CULTURAL COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

NOTE 6 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Bond funds	\$ 1,779,033	\$ -	\$ -	\$ 1,779,033
Cash	56,359	-	-	56,359
Mutual funds	2,175,405	-	-	2,175,405
Registered 40 Act funds	1,210,409	-	-	1,210,409
Registered 40 Act funds of funds	<u>338,442</u>	<u>-</u>	<u>-</u>	<u>338,442</u>
Total investments	<u>5,559,648</u>	<u>-</u>	<u>-</u>	<u>5,559,648</u>
Split interest agreement investments:				
Bond fund	32,986	-	-	32,986
Cash	922	-	-	922
Registered 40 Act fund	<u>49,325</u>	<u>-</u>	<u>-</u>	<u>49,325</u>
Total split interest agreement investments	<u>83,233</u>	<u>-</u>	<u>-</u>	<u>83,233</u>
Total fair value of financial instruments	<u>\$ 5,642,881</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,642,881</u>

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

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 224,713	\$ 208,890
Investment fees	(33,301)	(32,939)
Realized investment gain (loss)	(116,574)	35,817
Unrealized investment gain (loss)	<u>(216,414)</u>	<u>738,296</u>
Investment return	<u>\$ (141,576)</u>	<u>\$ 950,064</u>

SCOTTSDALE CULTURAL COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

NOTE 7 SPLIT-INTEREST AGREEMENT

During 2003, SCC received a charitable gift annuity from a donor in the amount of \$100,000. The annuity agreement requires SCC to pay the donor an amount of \$8,600 each year of his life beginning in December 2003. At the time of receipt, SCC recorded the investment at its fair value at the date of gift and recorded an annuity payment liability of \$63,944, which was the present value of actuarially determined estimated future cash payments to the donor. The difference between the fair value of the charitable gift annuity and the annuity payment liability of \$36,056 was recognized as a permanently restricted contribution during 2003, as the donor specified that the remainder amount is to be retained in SCC's SMOCA endowment. As of both June 30, 2012 and 2011, the present value of the annuity payment liability is \$12,344, with \$8,600 current each year. To calculate the present value of the charitable gift annuity, management used the applicable federal rate of approximately 4% over the estimated donor's life expectancy. SCC maintains the original donated amount in a separate investment account (see Note 6).

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Building improvements	\$ 3,271,618	\$ 3,280,066
Computer equipment	453,795	483,093
Furniture, fixtures and equipment	1,417,508	1,404,667
Software license	218,088	172,269
Gift shop equipment	62,339	62,339
Café equipment	<u>35,951</u>	<u>30,633</u>
	5,459,299	5,433,067
Accumulated depreciation and amortization	<u>(4,203,569)</u>	<u>(4,009,216)</u>
	<u>\$ 1,255,730</u>	<u>\$ 1,423,851</u>

Depreciation and amortization expense was \$258,385 and \$291,210 for the years ended June 30, 2012 and 2011, respectively.

NOTE 9 LINE OF CREDIT

SCC has a line of credit with a bank available in the amount of \$500,000. This line has a maturity date of February 28, 2013 and bears interest at the rate of bank's prime plus 1% with a floor of 5%. There was no balance outstanding on this line as of June 30, 2012 and 2011.

SCOTTSDALE CULTURAL COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

NOTE 10 ENDOWMENT FUNDS

Endowment net asset composition by type of fund as of June 30, 2012 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Donor-restricted endowment funds	\$ (657,709)	\$ 5,573,515	\$ 4,915,806
Board-designated endowment funds	<u>525,872</u>	<u>-</u>	<u>525,872</u>
Total endowment funds	<u>\$ (131,837)</u>	<u>\$ 5,573,515</u>	<u>\$ 5,441,678</u>

Endowment net asset composition by type of fund as of June 30, 2011 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Donor restricted endowment funds	\$ (311,080)	\$ 5,461,409	\$ 5,150,329
Board designated endowment funds	<u>567,557</u>	<u>-</u>	<u>567,557</u>
Total endowment funds	<u>\$ 256,477</u>	<u>\$ 5,461,409</u>	<u>\$ 5,717,886</u>

SCOTTSDALE CULTURAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 10 ENDOWMENT FUNDS (Continued)

Changes in endowment funds for the years ended June 30, 2012 and 2011 are as follows:

	Unrestricted	Permanently Restricted	Total Endowment Funds
Endowment funds, June 30, 2010	\$ (473,774)	\$ 5,473,454	\$ 4,999,680
Contributions	-	27,955	27,955
Investment income	198,679	-	198,679
Unrealized gains	774,113	-	774,113
Realized gains	35,817	-	35,817
Investment fees	(32,939)	-	(32,939)
Amounts appropriated for expenditure	(245,419)	-	(245,419)
Uncollectible promises to give	-	(40,000)	(40,000)
Endowment funds, June 30, 2011	256,477	5,461,409	5,717,886
Contributions	-	112,106	112,106
Investment income	224,713	-	224,713
Unrealized losses	(216,414)	-	(216,414)
Realized losses	(116,574)	-	(116,574)
Investment fees	(33,301)	-	(33,301)
Amounts appropriated for expenditure	(246,738)	-	(246,738)
Endowment funds, June 30, 2012	<u>\$ (131,837)</u>	<u>\$ 5,573,515</u>	<u>\$ 5,441,678</u>

The fair value of assets associated with individual donor-restricted endowments may fall below the level that the donor requires SCC to retain as a fund of perpetual duration at times. Deficiencies of this nature that are reported in unrestricted net assets were approximately \$658,000 and \$311,000 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriations for certain programs that were deemed prudent by the Board of Directors. During the year ended June 30, 2011, a permanently restricted promise to give of \$40,000 was revoked by the donor and written off as uncollectible.

SCOTTSDALE CULTURAL COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

NOTE 11 RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Purpose restrictions:		
Wolf Trap	\$ 173,834	\$ 96,954
Gala	169,225	148,250
Discovery Series	162,778	175,000
Performing Arts Season	160,250	143,250
Museum Exhibitions	70,000	73,875
Virginia G. Piper Piano Series	40,000	40,000
Tessitura Non-Profits Expansion	33,500	33,500
Hispanic Heritage	31,101	24,000
ArtStart - SMOCA	9,500	-
Sunday A'Fair	7,500	10,000
Arts Festival	7,500	5,000
Drinkwater Statue	6,982	6,982
Visions	5,000	10,000
Dine-out with the Chefs	1,000	6,800
Education - SMOCA	-	22,500
SMOCA Lounge	-	20,000
Education - SCPA	-	15,000
Free Museum Days	-	15,000
Cultural Connections	-	10,000
	<u>\$ 878,170</u>	<u>\$ 856,111</u>
Total temporarily restricted net assets	<u>\$ 878,170</u>	<u>\$ 856,111</u>

SCOTTSDALE CULTURAL COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

NOTE 11 RESTRICTED NET ASSETS (Continued)

Permanently restricted net assets consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
SMoCA endowment	\$ 4,019,885	\$ 3,907,779
SCPA endowment	1,116,506	1,116,506
SCPA special endowment	401,068	401,068
SMoCA charitable gift annuity trust	<u>36,056</u>	<u>36,056</u>
Total permanently restricted net assets	<u>\$ 5,573,515</u>	<u>\$ 5,461,409</u>

Board designated net assets consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
English Trust Quasi-endowment	\$ 304,429	\$ 326,270
Herman Bequest Quasi-endowment	102,228	111,874
Miller-Mills Quasi-endowment	<u>119,215</u>	<u>129,413</u>
Total Board designated net assets	<u>\$ 525,872</u>	<u>\$ 567,557</u>

SCOTTSDALE CULTURAL COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

NOTE 12 EARNED REVENUES AND CONTRIBUTIONS

Earned revenues consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Ticket sales	\$ 1,888,530	\$ 1,736,453
Education revenue	83,085	99,794
Exhibition admissions and other museum revenue	27,334	28,157
Student performances	4,750	9,110
Native Trails program	83,000	65,000
Box office service charges	123,644	104,596
Facility and equipment rental and labor reimbursement	299,326	302,763
Earned membership	105,986	108,492
Food and beverage and other operating income	112,474	91,674
	<u>\$ 2,728,129</u>	<u>\$ 2,546,039</u>

Contributions consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Individuals	\$ 564,337	\$ 547,934
Corporations	151,389	299,634
Foundations	270,032	415,750
Donated goods and services	304,925	165,776
Government	58,862	59,471
Special event sponsorship	263,047	348,435
	<u>\$ 1,612,592</u>	<u>\$ 1,837,000</u>

SCOTTSDALE CULTURAL COUNCIL
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NOTE 13 CITY OF SCOTTSDALE COLLECTION OF FINE ART

The City of Scottsdale collection of fine art consists of purchased, commissioned and donated works of art. SCC employs a Director of Public Art to ensure that the collection items are preserved and protected. These collections are not capitalized by SCC and are the property of the City of Scottsdale. There were no purchases of collection items in the years ended June 30, 2012 and 2011. Costs related to commissioned works of art were \$318,134 and \$855,859 for the years ended June 30, 2012 and 2011, respectively. Proceeds from deaccession and insurance recoveries, if any, are included as revenues. There were no deaccessions during the years ended June 30, 2012 and 2011.

NOTE 14 PENSION PLAN

SCC has a 401(k) profit sharing plan for all eligible employees. Employees 21 years of age or older with at least one year and 1,000 hours of service are eligible to participate in the plan effective on the plan entry dates of July 1 and January 1. SCC will make 100% matching contributions to the plan up to the first 3% of employee compensation, and 50% matching contributions up to the next 2% of employee compensation. Retirement benefits under this form of a pension plan are limited to the value of each participant's account at the time of retirement; therefore, vested benefits will not exceed the value of the participant's account at any time. The employer's contribution to the plan was \$66,782 and \$73,606 for the years ended June 30, 2012 and 2011, respectively.

NOTE 15 OPERATING LEASES

SCC leases its office space and certain office equipment under non-cancelable operating leases expiring through July 2014. The minimum future rental commitments under these non-cancelable operating leases are as follows:

Years Ending June 30

2013	\$	198,246
2014		198,634
2015		<u>16,523</u>
	\$	<u>413,403</u>

Certain leases do not contain renewal options; however, in the normal course of business, SCC will either renew the leases or seek new arrangements. Total rental expense under operating leases was approximately \$193,000 and \$195,000 for the years ended June 30, 2012 and 2011, respectively.

SCOTTSDALE CULTURAL COUNCIL
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NOTE 16 COMMUNITY ARTS GRANTING PROGRAM

SCC made the following grants under the Community Arts Granting Program for the years ending June 30:

	<u>2012</u>	<u>2011</u>
Scottsdale Artist School	\$ 13,521	\$ -
The Scottsdale International Film Festival	8,000	10,000
Childsplay, Inc.	6,162	2,300
Jazz in Arizona, Inc.	6,000	9,700
Detour Theatre Company	6,000	8,500
Schemer Art Center & Museum Association	4,000	-
Greasepaint Youth Theatre	4,000	-
Arizona Women's Theatre Company	4,000	7,200
Free Arts of Arizona	1,617	-
Pinnacle Peak Elementary School	1,600	-
Center for Dance	1,600	-
Four Seasons Orchestra	1,500	-
Movement Source Dance Company	1,000	500
Phoenix Conservatory of Music	-	6,400
Black Poet Ventures	-	4,600
Chamber Music PLUS	-	3,900
MusicNova, Inc.	-	3,000
Desert Foothills Theatre	-	2,900
	<u> </u>	<u> </u>
Total grants	<u>\$ 59,000</u>	<u>\$ 59,000</u>

This amount is included in program and center services on the accompanying statement of activities.

SCC also awarded conditional promises for community grants for the next fiscal year in the amount of \$59,000. The payment of these grants is conditional on receipt of grant funding from the City of Scottsdale.

SCOTTSDALE CULTURAL COUNCIL
 NOTES TO FINANCIAL STATEMENTS
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NOTE 16 COMMUNITY ARTS GRANTING PROGRAM (Continued)

SCC provided in-kind subsidies to the following charitable organizations in the form of reduced rent, labor, equipment and other miscellaneous services. The following subsidies are not recorded in the accompanying financial statements:

	<u>2012</u>	<u>2011</u>
Phoenix Symphony	\$ 7,200	\$ 2,000
Musica Nova	4,500	1,200
Movement Source Dance Company	4,225	600
Detour Theatre Company	4,200	1,200
Free Arts of Arizona	3,766	-
American Lung Association Walk	3,200	600
Bengali Cultural Association	2,528	-
Gateway Church	2,400	-
United Blood Services	1,600	-
Desert Mountain High School	1,240	-
Pandora Festival	900	1,200
Scottsdale Festival of Greece	-	2,240
Other in-kind grants	<u>6,401</u>	<u>8,475</u>
Total subsidies	<u>\$ 42,160</u>	<u>\$ 17,515</u>

