



Scottsdale, Arizona

FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Scottsdale Cultural Council
dba Scottsdale Arts

We have audited the accompanying financial statements of Scottsdale Cultural Council dba Scottsdale Arts (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scottsdale Cultural Council dba Scottsdale Arts as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule (Statement of Functional Expenses) is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Henry + Horne, LLP

Tempe, Arizona
November 12, 2018

SCOTTSDALE CULTURAL COUNCIL
 DBA SCOTTSDALE ARTS
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 578,183	\$ 430,450
Accounts receivable	107,263	72,113
Income tax receivable	35,541	102,591
Promises to give, current portion, net of allowance for doubtful promises of \$19,200 and \$38,181 as of June 30, 2018 and 2017	318,488	650,169
Grants receivable	155,000	-
Inventories	138,204	129,012
Prepaid expenses	<u>126,853</u>	<u>101,329</u>
TOTAL CURRENT ASSETS	1,459,532	1,485,664
PROMISES TO GIVE, net of current portion	15,000	50,000
INVESTMENTS		
Endowment funds	5,967,444	5,932,043
Unrestricted reserve	30,081	-
ASSETS HELD UNDER SPLIT-INTEREST AGREEMENT (Endowment)	45,800	50,870
PROPERTY AND EQUIPMENT, net	1,265,585	1,507,704
OTHER ASSETS	<u>7,746</u>	<u>7,746</u>
TOTAL ASSETS	<u>\$ 8,791,188</u>	<u>\$ 9,034,027</u>

SCOTTSDALE CULTURAL COUNCIL
 DBA SCOTTSDALE ARTS
 STATEMENTS OF FINANCIAL POSITION (Continued)
 June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 210,941	\$ 138,386
Accrued expenses	302,321	175,625
Deferred revenue	756,874	701,820
Deferred rent, current portion	97,317	94,610
Capital lease obligation, current portion	10,037	8,879
Liability under split-interest agreement, current portion	8,600	12,344
	<u>1,386,090</u>	<u>1,131,664</u>
DEFERRED RENT, net of current portion	855,811	953,127
CAPITAL LEASE OBLIGATION, net of current portion	<u>3,094</u>	<u>14,676</u>
	<u>2,244,995</u>	<u>2,099,467</u>
NET ASSETS		
Unrestricted:		
Undesignated	(606,769)	51,424
Board designated endowments	<u>582,134</u>	<u>571,994</u>
	<u>(24,635)</u>	<u>623,418</u>
Temporarily restricted	945,288	688,878
Permanently restricted	<u>5,625,540</u>	<u>5,622,264</u>
	<u>6,546,193</u>	<u>6,934,560</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,791,188</u>	<u>\$ 9,034,027</u>

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL
 DBA SCOTTSDALE ARTS
 STATEMENT OF ACTIVITIES
 Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, SUPPORT AND OTHER INCOME				
Earned revenues	\$ 3,530,305	\$ -	\$ -	\$ 3,530,305
Contract - City of Scottsdale	5,291,885	-	-	5,291,885
Contributions	1,490,771	672,125	3,276	2,166,172
Contributions- special event sponsorships	46,600	-	-	46,600
Other income	18,117	-	-	18,117
Endowment draw	296,518	-	-	296,518
Net assets released from restrictions	704,355	(704,355)	-	-
	<u>11,378,551</u>	<u>(32,230)</u>	<u>3,276</u>	<u>11,349,597</u>
Special events income	340,480	-	-	340,480
Direct benefit to donors	(166,899)	-	-	(166,899)
	<u>173,581</u>	<u>-</u>	<u>-</u>	<u>173,581</u>
Retail sales	484,502	-	-	484,502
Cost of sales	(236,230)	-	-	(236,230)
	<u>248,272</u>	<u>-</u>	<u>-</u>	<u>248,272</u>
TOTAL REVENUES, SUPPORT AND OTHER INCOME	<u>11,800,404</u>	<u>(32,230)</u>	<u>3,276</u>	<u>11,771,450</u>
EXPENSES				
Program expenses	8,816,249	-	-	8,816,249
Support services:				
Management and general	2,251,956	-	-	2,251,956
Fundraising	797,654	-	-	797,654
TOTAL EXPENSES	<u>11,865,859</u>	<u>-</u>	<u>-</u>	<u>11,865,859</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(65,455)	(32,230)	3,276	(94,409)
Depreciation expense	(340,185)	-	-	(340,185)
Endowment draw	(296,518)	-	-	(296,518)
Investment return	54,105	288,640	-	342,745
CHANGE IN NET ASSETS	(648,053)	256,410	3,276	(388,367)
NET ASSETS, BEGINNING OF YEAR	<u>623,418</u>	<u>688,878</u>	<u>5,622,264</u>	<u>6,934,560</u>
NET ASSETS, END OF YEAR	<u>\$ (24,635)</u>	<u>\$ 945,288</u>	<u>\$ 5,625,540</u>	<u>\$ 6,546,193</u>

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL
DBA SCOTTSDALE ARTS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, SUPPORT AND OTHER INCOME				
Earned revenues	\$ 3,429,898	\$ -	\$ -	\$ 3,429,898
Contract - City of Scottsdale	4,884,014	-	-	4,884,014
Contributions	1,698,975	436,744	11,249	2,146,968
Contributions- special event sponsorships	46,600	-	-	46,600
Other income	23,680	-	-	23,680
Endowment draw	298,414	-	-	298,414
Net assets released from restrictions	484,600	(484,600)	-	-
	<u>10,866,181</u>	<u>(47,856)</u>	<u>11,249</u>	<u>10,829,574</u>
Special events income	282,674	-	-	282,674
Direct benefit to donors	(217,854)	-	-	(217,854)
	<u>64,820</u>	<u>-</u>	<u>-</u>	<u>64,820</u>
Retail sales	460,974	-	-	460,974
Cost of sales	(229,002)	-	-	(229,002)
	<u>231,972</u>	<u>-</u>	<u>-</u>	<u>231,972</u>
TOTAL REVENUES, SUPPORT AND OTHER INCOME	<u>11,162,973</u>	<u>(47,856)</u>	<u>11,249</u>	<u>11,126,366</u>
EXPENSES				
Program expenses	8,424,386	-	-	8,424,386
Support services:				
Management and general	2,070,299	-	-	2,070,299
Fundraising	732,859	-	-	732,859
TOTAL EXPENSES	<u>11,227,544</u>	<u>-</u>	<u>-</u>	<u>11,227,544</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(64,571)	(47,856)	11,249	(101,178)
Depreciation expense	(355,207)	-	-	(355,207)
Endowment draw	(298,414)	-	-	(298,414)
Charitable trust beneficiary expense	-	(8,600)	-	(8,600)
Investment return	619,826	51,971	-	671,797
CHANGE IN NET ASSETS	(98,366)	(4,485)	11,249	(91,602)
NET ASSETS, BEGINNING OF YEAR	<u>721,784</u>	<u>693,363</u>	<u>5,611,015</u>	<u>7,026,162</u>
NET ASSETS, END OF YEAR	<u>\$ 623,418</u>	<u>\$ 688,878</u>	<u>\$ 5,622,264</u>	<u>\$ 6,934,560</u>

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL
 DBA SCOTTSDALE ARTS
 STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (388,367)	\$ (91,602)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	340,185	355,207
Change in deferred rent	(94,609)	(30,983)
Realized and unrealized investment (gains) losses	(106,087)	(481,360)
Bad debt write-offs	53,712	86,434
Change in value of split-interest agreement	(8,891)	(5,147)
Loss on disposal of property and equipment	-	-
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(88,862)	(467)
Income tax receivable	67,050	(12,305)
Promises to give	366,681	(318,944)
Grants receivable	(155,000)	-
Inventories	(9,192)	10,178
Prepaid expenses	(25,524)	(77,638)
Other assets	-	-
Increase (decrease) in:		
Accounts payable and accrued expenses	199,251	(89,387)
Deferred revenue	55,054	23,375
	<u>205,401</u>	<u>(632,639)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
	<u>205,401</u>	<u>(632,639)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of assets held under split-interest agreements	8,600	8,600
Purchases of property and equipment	(98,066)	(120,206)
Proceeds from sales of investments	5,921,690	733,148
Purchases of investments	(5,879,854)	(580,933)
	<u>(47,630)</u>	<u>40,609</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
	<u>(47,630)</u>	<u>40,609</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligation	(10,038)	(10,038)
	<u>(10,038)</u>	<u>(10,038)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	147,733	(602,068)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>430,450</u>	<u>1,032,518</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 578,183</u>	<u>\$ 430,450</u>

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL
DBA SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Scottsdale Cultural Council (SCC) dba Scottsdale Arts 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 four 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.
- Public Art (SPA) – 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.
- Education (EDU) – SCC’s Education and Outreach initiatives build a strong, vibrant community through the arts. The high-quality exhibitions, programs and events foster dialogue, promote tolerance, invoke wonder and build connections to each other. Matinee performances, guided museum tours, hands-on workshops, artist residencies and creative aging programs serve more than 50,000 students and adults annually.
- 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.

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. Cash held in accounts with stock brokerage firms are reported as investments as they represent accounts used for the purchases and sales of investments.

SCOTTSDALE CULTURAL COUNCIL
DBA SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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, 2018 and 2017 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. Unconditional promises to give that are to be collected within one year are recorded at 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 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. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

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
DBA SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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:

- 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.

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

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
DBA SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

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.

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.

Landlord-paid tenant improvements are recorded as building improvements and are included in property and equipment and the deferred rent liability. The asset is amortized over the shorter of the life of the building improvements or the life of the lease and recorded as part of rent expense. The liability is amortized over the life of the lease as a reduction of occupancy expense.

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.

SCOTTSDALE CULTURAL COUNCIL
DBA SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

Endowment Funds

SCC's endowment funds consist of seven 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 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.

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.

The Board of Trustees had designated certain 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, 2018, 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.

SCOTTSDALE CULTURAL COUNCIL
DBA SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

Endowment Funds (Continued)

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.

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 Rent

SCC records occupancy expense on a straight-line basis from the inception of the lease. Any difference between the calculated expense and the amounts actually paid are included in the deferred rent liability in the accompanying statements of financial position. Deferred rent relates to a rent holiday at the beginning of the lease term, as well as landlord-paid tenant improvements.

SCOTTSDALE CULTURAL COUNCIL
DBA SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

Revenue Recognition

Earned revenues consist primarily of performance ticket sales, membership dues 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 recorded as deferred revenue. Membership dues revenue is recognized over the term of the membership agreement. Contract revenue is recognized in the period the services are provided. Retail sales revenue is reported net of sales taxes.

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. 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 \$570,000 and \$584,000 for the years ended June 30, 2018 and 2017, respectively. Included in advertising expense was approximately \$20,000 and \$23,000 in donated advertising for the years ended June 30, 2018 and 2017, respectively.

SCOTTSDALE CULTURAL COUNCIL
DBA SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

Income Tax Status

SCC qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, SCC has been classified as an organization that is not a private foundation under Section 509(a)(3). However, income determined to be unrelated business taxable income (UBTI) is subject to income tax. During the years ended June 30, 2018 and 2017, SCC incurred income tax expense of approximately \$10,000 and \$2,000 respectively, relating to UBTI. SCC has income taxes receivable of approximately \$36,000 and \$103,000 at June 30, 2018 and 2017, respectively.

SCC recognizes uncertain tax positions 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, 2018 and 2017, SCC had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

SCC recognizes interest and penalties associated with income tax in operating expenses. During the years ended June 30, 2018 and 2017, SCC did not have any income tax related interest and penalty expense.

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.

Date of Management's Review

In preparing these financial statements, SCC has evaluated events and transactions for potential recognition or disclosure through November 12, 2018, the date the financial statements were available to be issued.

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NOTE 2 CONCENTRATIONS

Financial instruments that potentially subject SCC to significant concentrations of credit risk consist principally of cash, accounts receivable, promises to give and grants receivable. SCC maintains its cash in bank accounts with financial institutions, which at times may exceed federally insured limits, and with stock brokerage firms. 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). 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, 2018 and 2017 includes approximately \$28,000 and 22,000, respectively, due from the City of Scottsdale for project expenses for the Art in Public Places programs. In addition, accounts receivable as of June 30, 2018 includes approximately \$28,000 due from a nonprofit organization. These amounts represent 51% and 30% of the total net accounts receivable balance as of June 30, 2018 and 2017, respectively.

Promises to give and grants receivable include amounts due from one foundation in each of the years ended June 30, 2018 and 2017 that represents 18% and 14% of total net promises to give and grants receivable, respectively.

Concentrations of credit risk with respect to these receivables are limited due to the nature of the receivables and the collection history of these types of accounts. SCC requires no collateral on its accounts receivable.

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 was 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. As of the date of issuance of these financial statements, this agreement has been extended through December 31, 2018 and is expected to be further extended an additional 10 years. Also, the City of Scottsdale has agreed to provide funding in the amount of approximately \$4,700,000 for the fiscal year ending June 30, 2019.

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.

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NOTE 3 CONTRACT – CITY OF SCOTTSDALE (Continued)

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 (SPA) 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>2018</u>	<u>2017</u>
Administrative funding	3,946,213	\$ 3,750,814
Art in Public Places Fund - administrative fees	572,474	779,552
Art in Public Places Fund - project costs	<u>783,172</u>	<u>353,648</u>
Total contract - City of Scottsdale	<u>\$ 5,301,859</u>	<u>\$ 4,884,014</u>

The City of Scottsdale also provided \$212,500 and \$162,000 of contributions to SCC during the years ended June 30, 2018 and 2017, respectively. Total revenue from the City of Scottsdale represents 47% and 45% of total revenues during the years ended June 30, 2018 and 2017, 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.

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.

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NOTE 4 ART IN PUBLIC PLACES FUND (Continued)

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.

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, 2018 and 2017, \$34,357 and \$5,723, 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. SCC had the following activity regarding the City of Scottsdale's Art in Public Places Fund during the years ended June 30:

	<u>2018</u>	<u>2017</u>
Deferred, beginning of year	\$ 5,723	\$ 81,487
Funds received and invoiced during the year:		
Contract program payments received	702,474	702,474
Project payments received	756,342	333,540
Project payments receivable	26,830	20,108
Less expenses (revenue recognized on the contract during the year):		
Contract program expenses	(700,356)	(778,238)
Project expenses and other expenditures	<u>(756,656)</u>	<u>(353,648)</u>
Deferred, end of year	<u>\$ 34,357</u>	<u>\$ 5,723</u>

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NOTE 5 PROMISES TO GIVE

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

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 337,688	\$ 688,350
Receivable in two to five years	<u>15,000</u>	<u>50,000</u>
Total promises to give	352,688	738,350
Allowance for uncollectible promises	<u>(19,200)</u>	<u>(38,181)</u>
Net promises to give	333,488	700,169
Current portion	<u>(318,488)</u>	<u>(650,169)</u>
Non-current portion	<u>\$ 15,000</u>	<u>\$ 50,000</u>

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NOTE 6 INVESTMENTS AND FAIR VALUE OF FINANCIAL 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). Investments held at Arizona Community Foundation (ACF) are included in an ACF investment pool. The value of the ACF investments is based on the underlying investments in the pool and SCC's portion of the total pool. These ACF investments are determined to be Level 3 because SCC will never receive those specific assets in the pool. Alternative investments include investments in private debt, which are valued at net asset value based on information provided by the investment fund manager.

The following is a summary of financial instruments measured at fair value and net asset value on a recurring basis at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Investments:				
Equity funds	\$3,443,353	\$ -	\$ -	\$3,443,353
Fixed income funds	2,302,936	-	-	2,302,936
ACF investment fund	-	-	251,236	251,236
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total investments measured at fair value	<u>\$5,746,289</u>	<u>\$ -</u>	<u>\$ 251,236</u>	<u>\$5,997,525</u>
Split interest agreement investments:				
Equity funds	\$ 27,243	-	-	\$ 27,243
Fixed income funds	18,557	-	-	18,557
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total split interest agreement investments measured at fair value	<u>\$ 45,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>45,800</u>
Total investments				<u>\$6,043,325</u>

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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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash	\$ 287,246	\$ -	\$ -	\$ 287,246
Bond funds	785,481	-	-	785,481
Mutual funds	4,106,737	-	-	4,106,737
Exchange traded funds	<u>272,675</u>	<u>-</u>	<u>-</u>	<u>272,675</u>
 Total investments measured at fair value	 <u>\$5,452,139</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>5,452,139</u>
 Alternative investments measured at net asset value				 <u>479,904</u>
 Total investments				 <u>\$5,932,043</u>
 Split interest agreement investments:				
Cash	\$ 498	-	-	\$ 498
Bond fund	15,816	-	-	15,816
Mutual funds	<u>34,556</u>	<u>-</u>	<u>-</u>	<u>34,556</u>
 Total split interest agreement investments	 <u>\$ 50,870</u>	 <u>-</u>	 <u>-</u>	 <u>\$ 50,870</u>
 Total investments				 <u>\$5,982,913</u>

In accordance with Accounting Standards, certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The net asset value amounts presented above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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

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

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 266,680	\$ 225,615
Investment fees	(30,022)	(35,178)
Realized investment gain	15,252	43,158
Unrealized investment gain	<u>90,835</u>	<u>438,202</u>
Investment return	<u>\$ 342,745</u>	<u>\$ 671,797</u>

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. To calculate the present value of the charitable gift annuity, management uses 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).

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NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Building improvements	\$ 4,288,874	\$ 4,288,874
Computer equipment and software	857,122	764,619
Furniture, fixtures and equipment	<u>1,851,157</u>	<u>1,845,594</u>
	6,997,153	6,899,087
Accumulated depreciation and amortization	<u>(5,731,568)</u>	<u>(5,391,383)</u>
	<u>\$ 1,265,585</u>	<u>\$ 1,507,704</u>

Depreciation expense was \$340,185 and \$355,207 for the years ended June 30, 2018 and 2017, 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 September 30, 2018 and bears interest at the rate of the bank's prime plus .5% with a floor of 5%. There was no balance outstanding on this line as of June 30, 2018 and 2017. As of the date of issuance of these financial statements, SCC is in negotiations with the bank to extend this line of credit through October 31, 2019.

NOTE 10 ENDOWMENT FUNDS

Endowment net asset composition by type of fund as June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Donor-restricted endowment funds	\$ (259,269)	\$ 64,839	\$ 5,625,540	\$ 5,431,110
Board-designated endowment funds	<u>582,134</u>	<u>-</u>	<u>-</u>	<u>582,134</u>
Total endowment funds	<u>\$ 322,865</u>	<u>\$ 64,839</u>	<u>\$ 5,625,540</u>	<u>\$ 6,013,244</u>

SCOTTSDALE CULTURAL COUNCIL
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 NOTES TO FINANCIAL STATEMENTS
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NOTE 10 ENDOWMENT FUNDS (Continued)

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Donor restricted endowment funds	\$ (264,688)	\$ 63,343	\$ 5,622,264	\$ 5,420,919
Board designated endowment funds	571,994	-	-	571,994
Total endowment funds	<u>\$ 307,306</u>	<u>\$ 63,343</u>	<u>\$ 5,622,264</u>	<u>\$ 5,992,913</u>

Changes in endowment funds for the years ended June 30, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Endowment funds, June 30, 2016	\$ 2,402	\$ 43,804	\$ 5,611,015	\$ 5,657,221
Contributions	79	-	11,249	11,328
Interest and dividends	21,573	204,042	-	225,615
Realized gains	4,724	38,434	-	43,158
Unrealized gains	32,375	365,408	-	397,783
Investment fees	(3,377)	(31,801)	-	(35,178)
Recovery of underwater portion	278,679	(278,679)	-	-
Amounts appropriated for expenditure	<u>(29,149)</u>	<u>(277,865)</u>	<u>-</u>	<u>(307,014)</u>
Endowment funds, June 30, 2017	307,306	63,343	5,622,264	5,992,913
Contributions	-	-	3,276	3,276
Interest and dividends	23,968	241,530	-	265,498
Realized gains	15,232	(74,218)	-	(58,986)
Unrealized gains	11,346	148,308	-	159,654
Investment fees	(3,290)	(26,980)	-	(30,270)
Recovery of underwater portion	5,419	-	-	5,419
Amounts appropriated for expenditure	<u>(37,116)</u>	<u>(287,144)</u>	<u>-</u>	<u>(324,260)</u>
Endowment funds, June 30, 2018	<u>\$ 322,865</u>	<u>\$ 64,839</u>	<u>\$ 5,625,540</u>	<u>\$ 6,013,244</u>

SCOTTSDALE CULTURAL COUNCIL
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 June 30, 2018 and 2017

NOTE 10 ENDOWMENT FUNDS (Continued)

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 \$259,000 and \$265,000 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriations for certain programs that were deemed prudent by the Board of Directors.

NOTE 11 RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
The portion of perpetual endowment funds subject to a restriction under MCFA	\$ 64,839	\$ 63,343
Purpose restrictions:		
Website and computer hardware	265,752	-
Sponsorships for performances	221,500	-
Wolf Trap	136,570	168,790
Scottsdale Arts Presents	100,000	100,000
Performing Arts Season	-	125,000
Education	58,595	-
Virginia G. Piper Piano Series	40,000	40,000
Canal Convergence	35,000	80,000
Soleri Catalogue	-	65,000
Museum Exhibitions	-	22,541
Other	<u>23,032</u>	<u>24,204</u>
Total temporarily restricted net assets	<u>\$ 945,288</u>	<u>\$ 688,878</u>

Included in the above purpose restrictions are approximately \$376,000 and \$354,000 of promises to give as of June 30, 2018 and 2017, respectively.

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NOTE 11 RESTRICTED NET ASSETS (Continued)

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

	<u>2018</u>	<u>2017</u>
SMoCA endowment	\$ 4,031,319	\$ 4,020,868
SCPA endowment	1,119,597	1,116,772
SCPA special endowment	438,568	448,568
SMoCA charitable gift annuity trust	<u>36,056</u>	<u>36,056</u>
Total permanently restricted net assets	<u>\$ 5,625,540</u>	<u>\$ 5,622,264</u>

NOTE 12 BOARD DESIGNATED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
English Trust Quasi-endowment	\$ 329,783	\$ 324,865
Herman Bequest Quasi-endowment	115,883	113,478
Miller-Mills Quasi-endowment	<u>136,468</u>	<u>133,651</u>
Total board designated net assets	<u>\$ 582,134</u>	<u>\$ 571,994</u>

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NOTE 13 EARNED REVENUES AND CONTRIBUTIONS

Earned revenues consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Ticket sales	\$ 2,223,836	\$ 2,204,943
Box office service charges	125,119	137,568
Facility and equipment rental and labor reimbursement	517,787	375,456
Arts Festival revenue	260,275	247,267
Food and beverage and other operating income	177,677	214,106
Education revenue	40,459	56,089
Native Trails program	-	70,000
Exhibition admissions and other museum revenue	155,494	96,255
Membership	27,198	26,614
Student performances	2,460	1,600
	<u>2,460</u>	<u>1,600</u>
Total earned revenues	<u>\$ 3,530,305</u>	<u>\$ 3,429,898</u>

Contributions consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Individuals	\$ 566,970	\$ 816,182
Donated goods and services	98,584	260,707
Foundations	784,592	408,990
Memberships	251,614	215,818
Corporations	385,945	299,471
Government	78,467	145,800
	<u>78,467</u>	<u>145,800</u>
	<u>\$ 2,166,172</u>	<u>\$ 2,146,968</u>

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June 30, 2018 and 2017

NOTE 14 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, 2018 and 2017. Costs related to commissioned works of art were \$210,596 and \$336,925 for the years ended June 30, 2018 and 2017, respectively. Proceeds from deaccession and insurance recoveries, if any, are included as revenues. There were no deaccessions during the years ended June 30, 2018 and 2017.

NOTE 15 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 \$80,663 and \$78,401 for the years ended June 30, 2018 and 2017, respectively.

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June 30, 2018 and 2017

NOTE 16 OPERATING LEASES

SCC leases its office space and certain office equipment under a non-cancelable operating lease expiring in July 2026. Current monthly lease payments are approximately \$21,200 plus applicable taxes and other operating costs, and escalate through the term of the lease. Any difference between the calculated expense and the amount actually paid is recorded as a deferred rent liability in the accompanying statements of financial position.

The approximate future minimum rental commitments under this non-cancelable operating lease are as follows:

Years Ending June 30

2019	\$	257,000
2020		263,000
2021		268,000
2022		273,000
2023		279,000
Thereafter		<u>919,000</u>
	\$	<u>2,259,000</u>

Total rental expense under operating leases was approximately \$256,000 on a straight line basis, for each of the years ended June 30, 2018 and 2017.

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 NOTES TO FINANCIAL STATEMENTS
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NOTE 17 COMMUNITY ARTS GRANTING PROGRAM

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

	<u>2018</u>	<u>2017</u>
Scottsdale International Film Festival	\$ 37,500	\$ -
Scottsdale Philharmonic	20,000	15,000
Detour Company Theatre	20,000	17,000
Frank Lloyd Wright Foundation	10,000	
Scottsdale Artists' School	10,000	7,300
Scottsdale Training and Rehabilitation Services	10,000	-
Desert Foothills Theater	9,000	6,750
Arizona MusicFest	5,000	3,000
Scottsdale Desert St.	4,000	-
Phoenix Conservatory of Music	3,500	5,000
Free Arts for Abused Children of Arizona	2,500	6,000
Childsplay	2,500	9,000
The Phoenix Symphony	2,500	6,500
Cultural Coalition	2,500	-
Arizona Theatre Company	2,500	6,500
Scottsdale Ballet	1,000	-
Grand Canyon Music Festival	-	4,500
Act One	-	2,250
Jazz in Arizona, Inc.	-	1,250
Movement Source Dance Company	-	1,000
Other	1,800	810
	<u>1,800</u>	<u>810</u>
Total grants	<u>\$ 144,300</u>	<u>\$ 91,860</u>

SCC also awarded conditional promises for community grants for the next fiscal year in the amount of \$80,000. The payment of these grants is conditional on receipt of grant funding from the City of Scottsdale. SCC also provided in-kind subsidies to various charitable organizations in the form of reduced rent, labor, equipment and other miscellaneous services.

SUPPLEMENTAL INFORMATION

SCOTTSDALE CULTURAL COUNCIL
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STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	SCPA	SPA	EDU	SMOCA	Total Program	Management and General	Fundraising	Total
Personnel expenses								
Salaries	\$ 1,595,331	\$ 405,748	\$ 419,342	\$ 831,906	\$ 3,252,327	\$ 936,510	\$ 426,086	\$ 4,614,923
Employee benefits	320,335	85,946	83,483	196,673	686,437	170,693	90,312	947,442
	1,915,666	491,694	502,825	1,028,579	3,938,764	1,107,203	516,398	5,562,365
Other Operating Expenses								
Advertising	39,906	35,455	1,415	60,386	137,162	431,113	1,525	569,800
Artist fees	1,484,157	690,306	108,702	60,684	2,343,849	-	-	2,343,849
Audit and tax services	-	-	-	-	-	50,548	-	50,548
Bad debt expense	53	-	39	39	131	-	53,326	53,457
Bank fees	-	10	-	-	10	7,089	-	7,099
Community art grants	-	-	144,300	-	144,300	-	-	144,300
Community development	14	1,083	-	3,539	4,636	5,555	15,293	25,484
Conferences and meetings	15,022	1,031	7,453	8,782	32,288	5,255	1,313	38,856
Conservation of art	-	91,323	-	19,900	111,223	-	-	111,223
Credit card deposit fees	90,488	132	438	7,798	98,856	8,145	9,382	116,383
Depreciation	-	-	-	52,019	52,019	279,264	8,902	340,185
Dues and subscriptions	9,814	1,262	270	6,529	17,875	7,876	15,667	41,418
Equipment	140,528	68,469	9,376	55,081	273,454	24,323	32,365	330,142
Exhibition costs	-	2,906	-	158,170	161,076	-	-	161,076
Food and beverages	24,093	16,067	6,789	2,333	49,282	8,095	-	57,377
Insurance	8,192	31	-	-	8,223	62,634	-	70,857
Internet and website	23,258	5,597	22,459	22,459	73,773	21,692	-	95,465
Miscellaneous	(7,500)	6,930	-	(95)	(665)	168,212	1,087	168,634
Occupancy	58,402	5,797	76,499	60,076	200,775	2,231	-	203,006
Outside services	32,320	84,667	23,208	41,472	181,667	127,575	68,930	378,172
Postage and shipping	13,681	28	383	70,721	84,813	7,841	6,325	98,979
Printing	121,682	22,631	7,391	20,453	172,157	9,045	25,988	207,190
Program support	159,135	11,431	26,699	6,008	203,273	16,996	7,249	227,518
Software expense	764	378	742	1,188	3,072	110,487	-	113,559
Supplies	24,935	14,115	25,656	28,673	93,379	36,032	25,666	155,077
Taxes and Licenses	4,634	-	1,969	1,969	8,572	10,529	50	19,151
Telephone	3,088	2,268	1,593	2,762	9,711	15,745	1,031	26,487
Travel and mileage	126,985	3,940	14,664	32,215	177,804	7,735	16,059	201,598
Utilities	177,876	558	-	108,355	286,789	-	-	286,789
	4,467,193	1,558,109	982,870	1,860,095	8,868,268	2,531,220	806,556	12,206,044
Amounts not included in expenses on statement of activity:								
Depreciation	-	-	-	(52,019)	(52,019)	(279,264)	(8,902)	(340,185)
TOTAL EXPENSES	\$ 4,467,193	\$ 1,558,109	\$ 982,870	\$ 1,808,076	\$ 8,816,249	\$ 2,251,956	\$ 797,654	\$ 11,865,859