



Scottsdale, Arizona

FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

SCOTTSDALE CULTURAL COUNCIL DBA SCOTTSDALE ARTS
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Scottsdale Cultural Council
dba Scottsdale Arts
Scottsdale, Arizona

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, 2020 and 2019, and the related statements of activities, functional expenses 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, 2020 and 2019, 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.

Henry + Horne, LLP

Tempe, Arizona
October 28, 2020

SCOTTSDALE CULTURAL COUNCIL DBA SCOTTSDALE ARTS
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2020 and 2019

	<u>2020</u>	<u>2019 *</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 905,924	\$ 56,572
Accounts receivable	56,005	88,537
Income tax receivable	3,431	3,431
Promises to give, current portion, net of allowance for doubtful promises of \$200 and \$19,200 as of June 30, 2020 and 2019, respectively	48,787	100,861
Grants receivable	20,000	2,500
Inventories	187,146	148,266
Prepaid expenses	<u>41,408</u>	<u>33,161</u>
TOTAL CURRENT ASSETS	<u>1,262,701</u>	<u>433,328</u>
PROMISES TO GIVE, net of current portion	-	10,000
INVESTMENTS		
Operating	33,655	31,961
Endowment funds	6,352,198	6,069,077
Assets held under split interest agreement	<u>41,217</u>	<u>39,282</u>
	<u>6,427,070</u>	<u>6,140,320</u>
PROPERTY AND EQUIPMENT, net	827,054	1,017,650
OTHER ASSETS	<u>7,746</u>	<u>7,746</u>
TOTAL ASSETS	<u><u>\$ 8,524,571</u></u>	<u><u>\$ 7,609,044</u></u>

* Reclassified to conform to current year presentation

SCOTTSDALE CULTURAL COUNCIL DBA SCOTTSDALE ARTS
 STATEMENTS OF FINANCIAL POSITION (Continued)
 June 30, 2020 and 2019

	<u>2020</u>	<u>2019 *</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 86,399	\$ 156,616
Accrued expenses	395,549	314,558
Deferred revenue and contribution income	601,028	653,794
Line of credit	-	30,000
Deferred rent, current portion	98,689	102,731
Capital lease obligation, current portion	-	3,481
Liability under split-interest agreement, current portion	-	8,600
Long-term debt, current portion	4,401	-
	<u>1,186,066</u>	<u>1,269,780</u>
DEFERRED RENT, net of current portion	633,204	753,079
LONG-TERM DEBT	<u>155,499</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,974,769</u>	<u>2,022,859</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	(149,598)	(1,171,869)
Board designated endowments	624,238	593,844
	<u>474,640</u>	<u>(578,025)</u>
With donor restrictions	<u>6,075,162</u>	<u>6,164,210</u>
TOTAL NET ASSETS	<u>6,549,802</u>	<u>5,586,185</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,524,571</u>	<u>\$ 7,609,044</u>

* Reclassified to conform to current year presentation

SCOTTSDALE CULTURAL COUNCIL DBA SCOTTSDALE ARTS
 STATEMENTS OF ACTIVITIES
 Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, SUPPORT AND OTHER INCOME						
Earned revenues	\$ 2,112,727	\$ -	\$ 2,112,727	\$ 2,835,467	\$ -	\$ 2,835,467
Contract - City of Scottsdale	6,110,185	-	6,110,185	5,976,734	-	5,976,734
Contributions	1,260,790	223,765	1,484,555	1,325,790	354,200	1,679,990
Payroll Protection Program government grant	899,200	-	899,200	-	-	-
Contributions - special event sponsorships	15,500	-	15,500	140,200	-	140,200
Other income	5,466	-	5,466	58,325	-	58,325
Net assets released from restrictions						
Purpose restriction releases	455,674	(455,674)	-	816,189	(816,189)	-
Time and purpose restriction releases	102,500	(102,500)	-	2,500	(2,500)	-
Time restriction releases	20,000	(20,000)	-	2,500	(2,500)	-
	<u>10,982,042</u>	<u>(354,409)</u>	<u>10,627,633</u>	<u>11,157,705</u>	<u>(466,989)</u>	<u>10,690,716</u>
Special events income	344,087	-	344,087	144,289	-	144,289
Direct benefit to donors	(106,152)	-	(106,152)	(186,369)	-	(186,369)
	<u>237,935</u>	<u>-</u>	<u>237,935</u>	<u>(42,080)</u>	<u>-</u>	<u>(42,080)</u>
Retail sales	328,663	-	328,663	445,719	-	445,719
Cost of sales	(159,307)	-	(159,307)	(218,890)	-	(218,890)
	<u>169,356</u>	<u>-</u>	<u>169,356</u>	<u>226,829</u>	<u>-</u>	<u>226,829</u>
TOTAL REVENUES, SUPPORT AND OTHER INCOME	<u>11,389,333</u>	<u>(354,409)</u>	<u>11,034,924</u>	<u>11,342,454</u>	<u>(466,989)</u>	<u>10,875,465</u>

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL DBA SCOTTSDALE ARTS
 STATEMENT OF ACTIVITIES (Continued)
 Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
EXPENSES						
Program expenses	8,070,114	-	8,070,114	9,369,722	-	9,369,722
Support services:						
Management and general	1,422,466	-	1,422,466	1,817,728	-	1,817,728
Fundraising	637,141	-	637,141	694,569	-	694,569
TOTAL EXPENSES	<u>10,129,721</u>	<u>-</u>	<u>10,129,721</u>	<u>11,882,019</u>	<u>-</u>	<u>11,882,019</u>
CHANGE IN NET ASSETS BEFORE DEPRECIATION AND INVESTMENT RETURN	<u>1,259,612</u>	<u>(354,409)</u>	<u>905,203</u>	<u>(539,565)</u>	<u>(466,989)</u>	<u>(1,006,554)</u>
Depreciation expense	(241,276)	-	(241,276)	(313,174)	-	(313,174)
Investment return	34,329	265,361	299,690	40,080	319,640	359,720
CHANGE IN NET ASSETS	<u>1,052,665</u>	<u>(89,048)</u>	<u>963,617</u>	<u>(812,659)</u>	<u>(147,349)</u>	<u>(960,008)</u>
NET ASSETS AT BEGINNING OF YEAR	<u>(578,025)</u>	<u>6,164,210</u>	<u>5,586,185</u>	<u>234,634</u>	<u>6,311,559</u>	<u>6,546,193</u>
NET ASSETS, END OF YEAR	<u>\$ 474,640</u>	<u>\$ 6,075,162</u>	<u>\$ 6,549,802</u>	<u>\$ (578,025)</u>	<u>\$ 6,164,210</u>	<u>\$ 5,586,185</u>

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL DBA SCOTTSDALE ARTS
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	SCPA	SPA	EDU	SMOCA	Total Program	Management and General	Fundraising	Direct Donor Benefit	Total
Personnel expenses									
Salaries	\$ 1,419,050	\$ 405,824	\$ 638,914	\$ 848,828	\$ 3,312,616	\$ 506,659	\$ 390,009	\$ -	\$ 4,209,284
Employee benefits	284,161	86,535	139,729	195,500	705,925	95,348	71,696	-	872,969
	<u>1,703,211</u>	<u>492,359</u>	<u>778,643</u>	<u>1,044,328</u>	<u>4,018,541</u>	<u>602,007</u>	<u>461,705</u>	<u>-</u>	<u>5,082,253</u>
Other Operating Expenses									
Advertising	48,569	37,530	4,428	45,363	135,890	247,822	820	-	384,532
Artist fees	913,917	484,327	109,453	65,114	1,572,811	-	-	14,300	1,587,111
Audit and tax services	-	-	-	-	-	44,079	-	-	44,079
Bank fees	58,342	578	12	2,056	60,988	11,064	8,351	-	80,403
Community art grants	-	-	132,650	-	132,650	-	-	-	132,650
Community development	225	1,092	-	1,206	2,523	9,154	10,512	24,250	46,439
Conferences and meetings	4,952	589	-	-	5,541	11,239	839	-	17,619
Conservation of art	-	127,393	-	413	127,806	-	-	-	127,806
Consulting	-	-	-	-	-	42,092	-	-	42,092
Depreciation	22,497	7,162	4,628	-	34,287	206,989	-	-	241,276
Dues and subscriptions	4,350	1,090	323	6,570	12,333	21,958	932	-	35,223
Equipment	144,861	127,766	2,309	40,855	315,791	24,332	7,570	-	347,693
Exhibition costs	-	1,155	3,170	120,299	124,624	-	-	-	124,624
Food and beverages	18,124	20,913	6,883	2,504	48,424	3,375	12,279	61,981	126,059
Insurance	7,228	16,611	-	-	23,839	72,968	-	-	96,807
Internet and website	4,331	112	4,109	4,109	12,661	22,488	-	-	35,149
Miscellaneous	8,427	1,234	-	8,620	18,281	4,151	1,108	5,621	29,161
Occupancy	34,344	32,063	49,973	35,255	151,635	30,508	-	-	182,143
Outside services	60,418	116,045	48,855	37,651	262,969	5,920	85,444	-	354,333
Postage and shipping	4,509	1,623	1,997	79,452	87,581	9,447	5,752	-	102,780
Printing	19,958	15,537	6,561	39,409	81,465	51,006	13,192	-	145,663
Program support	273	517,301	1,491	273	519,338	1,187	-	-	520,525
Software expense	4,776	-	1,009	7,663	13,448	156,333	13,000	-	182,781
Supplies	19,967	13,314	22,042	12,439	67,762	15,940	11,532	-	95,234
Taxes and licenses	3,600	770	2,104	2,129	8,603	12,948	25	-	21,576
Telephone	2,437	3,435	882	2,017	8,771	14,805	2,413	-	25,989
Travel and mileage	5,702	3,533	5,226	5,372	19,833	7,643	1,667	-	29,143
Utilities	136,307	3,162	947	95,590	236,006	-	-	-	236,006
	<u>3,231,325</u>	<u>2,026,694</u>	<u>1,187,695</u>	<u>1,658,687</u>	<u>8,104,401</u>	<u>1,629,455</u>	<u>637,141</u>	<u>106,152</u>	<u>10,477,149</u>
Amounts not included in expenses on statement of activity:									
Direct donor benefit	-	-	-	-	-	-	-	(106,152)	(106,152)
Depreciation	(22,497)	(7,162)	(4,628)	-	(34,287)	(206,989)	-	-	(241,276)
TOTAL EXPENSES	<u>\$ 3,208,828</u>	<u>\$ 2,019,532</u>	<u>\$ 1,183,067</u>	<u>\$ 1,658,687</u>	<u>\$ 8,070,114</u>	<u>\$ 1,422,466</u>	<u>\$ 637,141</u>	<u>\$ -</u>	<u>\$ 10,129,721</u>

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL DBA SCOTTSDALE ARTS
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	SCPA	SPA	EDU	SMOCA	Total Program	Management and General	Fundraising	Fundraising	Total
Personnel expenses									
Salaries	\$ 1,754,328	\$ 435,092	\$ 467,338	\$ 820,931	\$ 3,477,689	\$ 659,872	\$ 363,262	\$ -	\$ 4,500,823
Employee benefits	379,581	95,466	108,316	183,037	766,400	124,619	81,437	-	972,456
	<u>2,133,909</u>	<u>530,558</u>	<u>575,654</u>	<u>1,003,968</u>	<u>4,244,089</u>	<u>784,491</u>	<u>444,699</u>	<u>-</u>	<u>5,473,279</u>
Other Operating Expenses									
Advertising	24,064	163,897	21,805	97,183	306,949	329,762	467	-	637,178
Artist fees	1,234,088	659,284	136,511	76,882	2,106,765	-	1,571	57,400	2,165,736
Audit and tax services	-	-	-	-	-	45,550	-	-	45,550
Bad debt expense	7,319	-	-	-	7,319	12,508	22,500	-	42,327
Bank fees	-	40	-	-	40	10,526	-	-	10,566
Community art grants	-	-	150,400	-	150,400	-	-	-	150,400
Community development	7,894	-	-	1,949	9,843	4,488	10,247	-	24,578
Conferences and meetings	8,790	2,711	3,624	1,248	16,373	7,460	883	-	24,716
Conservation of art	-	104,898	-	9,498	114,396	-	-	-	114,396
Credit card deposit fees	78,557	546	-	1,681	80,784	1,038	13,045	-	94,867
Depreciation	26,820	7,114	74,521	-	108,455	204,719	-	-	313,174
Dues and subscriptions	6,088	2,328	307	6,287	15,010	15,594	1,851	-	32,455
Equipment	152,376	128,851	2,172	17,470	300,869	20,786	29,871	-	351,526
Exhibition costs	-	122,473	8,841	269,556	400,870	-	-	-	400,870
Food and beverages	27,580	18,907	7,998	4,079	58,564	12,349	59,273	104,511	234,697
Insurance	8,192	3,976	-	-	12,168	60,631	-	-	72,799
Internet and website	-	6,237	-	-	6,237	73,504	-	-	79,741
Miscellaneous	1,044	1,322	131	4,870	7,367	-	65	20,281	27,713
Occupancy	112,339	11,951	40,633	28,682	193,605	38,244	7,171	-	239,020
Outside services	118,785	149,157	45,606	23,337	336,885	116,389	35,061	4,177	492,512
Postage and shipping	22,120	3	39	5,220	27,382	10,710	16,690	-	54,782
Printing	67,064	134	8,313	22,881	98,392	12,778	12,476	-	123,646
Program support	5,178	279,301	1,047	499	286,025	3,185	5,820	-	295,030
Software expense	4,000	5,198	222	10,832	20,252	155,031	-	-	175,283
Supplies	39,481	34,087	19,288	22,108	114,964	30,969	16,873	-	162,806
Taxes and licenses	21,536	2,659	551	827	25,573	2,733	75	-	28,381
Telephone	4,178	3,242	913	2,593	10,926	16,995	1,397	-	29,318
Travel and mileage	126,899	13,029	10,323	43,308	193,559	7,737	6,233	-	207,529
Utilities	130,043	13,834	47,037	33,202	224,116	44,270	8,301	-	276,687
	<u>4,368,344</u>	<u>2,265,737</u>	<u>1,155,936</u>	<u>1,688,160</u>	<u>9,478,177</u>	<u>2,022,447</u>	<u>694,569</u>	<u>186,369</u>	<u>12,381,562</u>
Amounts not included in expenses on statement of activity:									
Direct donor benefit	-	-	-	-	-	-	-	(186,369)	(186,369)
Depreciation	(26,820)	(7,114)	(74,521)	-	(108,455)	(204,719)	-	-	(313,174)
TOTAL EXPENSES	<u>\$ 4,341,524</u>	<u>\$ 2,258,623</u>	<u>\$ 1,081,415</u>	<u>\$ 1,688,160</u>	<u>\$ 9,369,722</u>	<u>\$ 1,817,728</u>	<u>\$ 694,569</u>	<u>\$ -</u>	<u>\$ 11,882,019</u>

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL DBA SCOTTSDALE ARTS
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 963,617	\$ (960,008)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	241,276	313,174
Change in deferred rent	(123,917)	(97,318)
Realized and unrealized investment (gains) losses	(171,124)	(225,762)
Bad debt write-offs	1,212	42,327
Change in promises to give allowance	(19,000)	-
Change in value of split-interest agreement	(10,535)	(2,082)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	32,532	(23,601)
Income tax receivable	-	32,110
Promises to give	79,862	220,127
Grants receivable	(17,500)	155,000
Inventories	(38,880)	(10,062)
Prepaid expenses	(8,247)	93,692
Increase (decrease) in:		
Accounts payable and accrued expenses	10,774	(42,088)
Deferred revenue	(52,766)	(103,080)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	887,304	(607,571)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of assets held under split-interest agreements	-	8,600
Purchases of property and equipment	(50,680)	(65,239)
Proceeds from sales of investments	675,603	251,345
Purchases of investments	(789,294)	(129,096)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(164,371)	65,610
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	490,000
Payments on line of credit	(30,000)	(460,000)
Principal payments on capital lease obligation	(3,481)	(9,650)
Proceeds from Payroll Protection Program Loan	10,000	-
Proceeds from Economic Injury Disaster Loan	150,000	-
Payments on Economic Injury Disaster Loan	(100)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	126,419	20,350
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	849,352	(521,611)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	56,572	578,183
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 905,924	\$ 56,572

See accompanying notes.

SCOTTSDALE CULTURAL COUNCIL
DBA SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

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.

SCOTTSDALE CULTURAL COUNCIL
DBA SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

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

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 and are excluded from this definition. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are also excluded from this definition.

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, 2020 and 2019 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.

SCOTTSDALE CULTURAL COUNCIL
DBA SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

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

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).

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.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

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 return or loss is included in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses.

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
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NOTES TO FINANCIAL STATEMENTS
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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 net assets with donor restrictions (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 donor-restricted endowment fund also includes accumulated earnings in the fund that are also classified as net assets with donor restrictions 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 net assets without donor restriction 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 net assets without donor restrictions. 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, 2020, the Board of Trustees plans to maintain these funds as reserves.

Net assets with donor restrictions include the original value of gifts donated to the permanent endowments for SCPA and SMOCA.

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Years Ended June 30, 2020 and 2019

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 4.25%, 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 4.25% 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 4.75% 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.

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

Revenue Recognition and Change in Accounting Principles

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an organization should recognize revenue to reflect the transfer of goods and services in an amount equal to the consideration the organization receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018. The Organization adopted ASC 606 with a date of the initial application of July 1, 2019.

The majority of the Organization's revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Based on the Organization's evaluation of its contracts with the City of Scottsdale, members, patrons and donors, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

Earned revenues where performance obligations are satisfied at a point in time with a single performance obligation consist of performance ticket sales, exhibition admissions, box office service charges, facility and equipment rental, labor reimbursement, sales of merchandise and food and beverages, education revenue and Arts Festival ticket revenue. Payment for these services are due in advance of the performance or exhibition, or at the time the goods and services are transferred. Retail sales revenue is reported net of sales tax.

Contract revenue for advisory, planning, managing, operating, and programming is recognized evenly over the course of the annual contract as the services are provided equally over the contract term. The City of Scottsdale makes monthly payments to SCC for these services over the contract term. Other earned revenues where performance obligations are satisfied over time consist primarily of membership dues. Membership dues revenue is recognized over the term of the membership agreement as the membership benefits are relatively equally provided to the members on a monthly basis over the annual membership term. Membership dues are generally due to be paid by the beginning of the membership term.

Contract liabilities (deferred revenue) include proceeds from membership dues and tickets and event revenues received prior to the fiscal year in which the performance occurs, which are presented as deferred revenue.

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

Contributions

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made by clarifying whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional or unconditional. The change in accounting principle was adopted on a modified prospective basis on July 1, 2019. As a result, there was no cumulative-effect adjustment to beginning net assets as of July 1, 2019.

Contributions received are recorded as either support with donor restrictions or as support without donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. It is SCC's policy to classify donor restricted contributions as support without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

Non-Cash Donations

Contributions of donated non-cash tangible 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 \$385,000 and \$639,000 for the years ended June 30, 2020 and 2019, respectively.

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

Net Assets

SCC reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.
- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Functional Allocation of Expenses

The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program services and supporting services. Certain employee positions are allocated based on time and effort. Other expenses, including office supplies, information technology and printing are allocated based on a full-time employee equivalent basis. Occupancy is allocated based on square footage utilized by the function.

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, 2020 and 2019, SCC incurred income tax expense of approximately \$9,100 and \$12,700, respectively, relating to UBTI. SCC has income taxes receivable of approximately \$3,000 at both June 30, 2020 and 2019.

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

Income Tax Status (Continued)

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, 2020 and 2019, 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, 2020 and 2019, 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.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Date of Management's Review

In preparing these financial statements, SCC has evaluated events and transactions for potential recognition or disclosure through October 28, 2020, the date the financial statements were available to be issued.

SCOTTSDALE CULTURAL COUNCIL
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 NOTES TO FINANCIAL STATEMENTS
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NOTE 2 LIQUIDITY AND AVAILABILITY

The following reflects SCC's financial assets as of June 30, reduced by amounts not available for general use within one year because of donor-imposed or other restrictions or internal designations. Amounts available include the Board-approved appropriation from the endowment funds for the following year as well as donor-restricted amounts that are available for expenditure in the following year for program activities. Amounts available also include amounts set aside for operating and other reserves that could be drawn upon if SCC approves that action.

	<u>2020</u>	<u>2019</u>
Current assets	\$ 1,262,701	\$ 443,328
Inventories	(187,146)	(148,266)
Prepaid expenses	(41,408)	(33,161)
Donor-restricted endowment funds held in cash	-	(7,321)
Endowment spending appropriation	<u>260,300</u>	<u>241,700</u>
Financial assets available for expenditures	<u>\$ 1,294,447</u>	<u>\$ 496,280</u>

SCC's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is available for general use. SCC's board-designated endowments and donor-restricted endowments are subject to an annual spending rate of 4.25%.

SCC's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for deferred ticket and membership revenue in the fourth quarter of the fiscal year and a concentration of contributions received near calendar year end. Monthly cash outflows vary each year based on the specific requirements of the productions, exhibits, and projects programmed that season. To manage liquidity SCC maintains a line of credit with availability of \$250,000 with a bank that is drawn upon as needed during the year to manage cash flow.

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NOTE 3 CONCENTRATIONS

Financial instruments that potentially subject SCC to significant concentrations of credit risk consist principally of cash, 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.

Promises to give and grants receivable as of June 30, 2020 include amounts due from four donors that represents 87% of total net promises to give and grants receivable. Promises to give and grants receivable as of June 30, 2019 include amounts due from one donor that represents 57% of total net promises to give and grants receivable.

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 4 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 June 30, 2021 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 \$5,508,000 for the fiscal year ending June 30, 2021.

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.

SCOTTSDALE CULTURAL COUNCIL
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NOTE 4 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>2020</u>	<u>2019</u>
Administrative funding	\$ 4,058,356	\$ 3,987,712
Art in Public Places Fund - administrative fees	593,887	596,792
Art in Public Places Fund - conservation	128,044	111,896
Art in Public Places Fund - project costs	<u>1,329,898</u>	<u>1,280,334</u>
Total contract - City of Scottsdale	<u>\$ 6,110,185</u>	<u>\$ 5,976,734</u>

The City of Scottsdale also provided approximately \$20,000 and \$144,000 of contributions to SCC during the years ended June 30, 2020 and 2019, respectively. Total revenue from the City of Scottsdale represents 55% of total revenues during both of the years ended June 30, 2020 and 2019 and 2019, including reimbursed project costs. 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 5 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 5 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, 2020 and 2019, \$61,738 and \$45,668, 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:

	2020	2019
Deferred, beginning of year	\$ 45,668	\$ 34,357
Funds received and invoiced during the year:		
Contract program payments received	738,000	722,663
Project payments received	1,329,898	1,259,234
Project payments receivable	-	21,100
Less expenses (revenue recognized on the contract during the year):		
Contract program expenses	(721,930)	(728,457)
Project expenses and other expenditures	(1,329,898)	(1,263,229)
Deferred, end of year	\$ 61,738	\$ 45,668

Deferred contribution income at June 30, 2020 and 2019 also included \$250,000 and \$126,438, respectively, for conditional contributions relating to the Canal Convergence project.

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NOTE 6 PROMISES TO GIVE AND GRANTS RECEIVABLE

Promises to give and grants receivable consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 68,987	\$ 122,561
Receivable in two to five years	-	10,000
	<u>68,987</u>	<u>132,561</u>
Total promises to give	68,987	132,561
Allowance for uncollectible promises	<u>(200)</u>	<u>(19,200)</u>
Net promises to give	68,787	113,361
Current portion	<u>(68,787)</u>	<u>(103,361)</u>
Non-current portion	<u>\$ -</u>	<u>\$ 10,000</u>

NOTE 7 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. SCC considers the measurement of its interest in the ACF investment pool to be a level 3 measurement within the fair value hierarchy because even though that measurement is based on the unadjusted fair values of the assets reported by ACF, SCC will never receive those specific assets in the pool. With the assistance of an investment advisor, the Board of Directors reviews and approves SCC's fair value measurement policies and procedures annually to ensure that valuation techniques used in fair value measurements remain appropriate.

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NOTE 7 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a summary of financial instruments measured at fair value and net asset value on a recurring basis at June 30, 2020:

	Level 1	Level 2	Level 3	Total
Operating investments:				
Equity funds	\$ 19,886	\$ -	\$ -	\$ 19,886
Fixed income funds	13,769	-	-	13,769
	<u>33,655</u>	<u>-</u>	<u>-</u>	<u>33,655</u>
Endowment investments:				
Equity funds	\$ 3,617,893	\$ -	\$ -	\$ 3,617,893
Fixed income funds	2,504,971	-	-	2,504,971
ACF investment fund	-	-	229,334	229,334
	<u>6,122,864</u>	<u>-</u>	<u>229,334</u>	<u>6,352,198</u>
Split interest agreement investments:				
Equity funds	24,355	-	-	24,355
Fixed income funds	16,862	-	-	16,862
	<u>41,217</u>	<u>-</u>	<u>-</u>	<u>41,217</u>
Total investments	<u>\$ 6,197,736</u>	<u>\$ -</u>	<u>\$ 229,334</u>	<u>\$ 6,427,070</u>

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NOTE 7 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a summary of financial instruments measured at fair value and net asset value on a recurring basis at June 30, 2019:

	Level 1	Level 2	Level 3	Total
Operating investments:				
Equity funds	\$ 18,913	\$ -	\$ -	\$ 18,913
Fixed income funds	13,048			13,048
	<u>31,961</u>	<u>-</u>	<u>-</u>	<u>31,961</u>
Endowment investments:				
Equity funds	3,488,581	-	-	3,488,581
Fixed income funds	2,335,562			2,335,562
ACF investment fund	-	-	244,935	244,935
	<u>5,824,143</u>	<u>-</u>	<u>244,935</u>	<u>6,069,078</u>
Split interest agreement investments:				
Equity funds	23,763	-	-	23,763
Fixed income funds	15,519	-	-	15,519
	<u>39,282</u>	<u>-</u>	<u>-</u>	<u>39,282</u>
Total investments	<u>\$ 5,895,386</u>	<u>\$ -</u>	<u>\$ 244,935</u>	<u>\$ 6,140,321</u>

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

	2020	2019
Interest and dividends	\$ 149,029	\$ 153,806
Investment fees	(20,463)	(19,848)
Realized investment gain	53,457	8,378
Unrealized investment gain	117,667	217,384
Investment return	<u>\$ 299,690</u>	<u>\$ 359,720</u>

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NOTE 8 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.

NOTE 9 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Building improvements	\$ 4,288,874	\$ 4,288,874
Computer equipment and software	941,588	910,298
Furniture, fixtures and equipment	<u>1,882,609</u>	<u>1,863,219</u>
	7,113,071	7,062,391
Accumulated depreciation and amortization	<u>(6,286,017)</u>	<u>(6,044,741)</u>
	<u>\$ 827,054</u>	<u>\$ 1,017,650</u>

Depreciation expense was \$241,276 and \$313,174 for the years ended June 30, 2020 and 2019, respectively.

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NOTE 10 ENDOWMENT FUNDS

Endowment net asset composition by type of fund as June 30, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	<u>\$ 624,239</u>	<u>\$ -</u>	<u>\$ 624,239</u>
Donor-restricted endowment funds:			
Original donor-restricted amount		5,625,540	5,625,540
Accumulated investment earnings	-	179,108	179,108
Underwater portion of endowments	<u>-</u>	<u>(35,472)</u>	<u>(35,472)</u>
Total endowment funds	<u>\$ 624,239</u>	<u>\$ 5,769,176</u>	<u>\$ 6,393,415</u>

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	<u>\$ 593,844</u>	<u>-</u>	<u>\$ 593,844</u>
Donor-restricted endowment funds:			
Original donor-restricted amount		5,625,540	5,625,540
Accumulated investment earnings	-	68,216	68,216
Underwater portion of endowments	<u>-</u>	<u>(179,240)</u>	<u>(179,240)</u>
Total endowment funds	<u>\$ 593,844</u>	<u>\$ 5,514,516</u>	<u>\$ 6,108,360</u>

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NOTE 10 ENDOWMENT FUNDS (Continued)

Changes in endowment funds for the years ended June 30, 2020 and 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Endowment funds, June 30, 2018	\$ 582,134	\$ 5,431,110	\$ 6,013,244
Contributions	-	-	-
Interest and dividends	14,808	135,443	150,251
Realized gains	431	7,947	8,378
Unrealized gains	21,989	194,196	216,185
Investment fees	(1,807)	(17,946)	(19,753)
Amounts appropriated for expenditure	<u>(23,711)</u>	<u>(236,234)</u>	<u>(259,945)</u>
Endowment funds, June 30, 2019	593,844	5,514,516	6,108,360
Contributions	-	-	-
Interest and dividends	14,282	131,945	146,227
Realized gains	3,782	48,487	52,269
Unrealized gains	14,171	103,550	117,721
Investment fees	(1,840)	(18,622)	(20,462)
Amounts appropriated for expenditure	<u>-</u>	<u>(10,700)</u>	<u>(10,700)</u>
Endowment funds, June 30, 2020	<u>\$ 624,239</u>	<u>\$ 5,769,176</u>	<u>\$ 6,393,415</u>

The fair value of assets associated with individual donor-restricted endowments may have fair values less than the amount required to be maintained by donors or law (underwater endowments). We have interpreted MCFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2020 and 2019, certain endowment funds had fair values less than the original gift values resulting in deficiencies. These deficiencies resulted from unfavorable market fluctuations and continued appropriations in past years for certain programs that were deemed prudent by the Board of Directors. SCC's endowment spending policy provides for an annual withdrawal of 4.25% of an average value of the investments. However, during the year end June 30, 2020, SCC chose to only withdraw a minimal amount, which was less than 1% of investment value.

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NOTE 10 ENDOWMENT FUNDS (Continued)

The original gift amounts, fair values and deficiency (underwater) amounts as of June 30, 2020 were as follows:

	<u>Original Gift Value</u>	<u>Fair Value</u>	<u>Deficiency</u>
SCPA Endowment fund	\$ 1,119,597	\$ 1,084,125	\$ (35,472)
	<u>\$ 1,119,597</u>	<u>\$ 1,084,125</u>	<u>\$ (35,472)</u>

The original gift amounts, fair values and deficiency (underwater) amounts as of June 30, 2019 were as follows:

	<u>Original Gift Value</u>	<u>Fair Value</u>	<u>Deficiency</u>
SCPA Endowment fund	\$ 1,119,597	\$ 1,044,664	\$ (74,933)
SMOCA Endowment fund	4,031,319	3,927,012	(104,307)
	<u>\$ 5,150,916</u>	<u>\$ 4,971,676</u>	<u>\$ (179,240)</u>

NOTE 11 LINE OF CREDIT

SCC has a line of credit with a financial institution which provides for maximum borrowings of \$250,000. This line bears interest at the rate of the bank's prime plus .5% with a floor of 5%. The line of credit is collateralized by certain assets of the organization and matures September 30, 2021. There was no outstanding balance on this line as of June 30, 2020 and a \$30,000 outstanding balance as of June 30, 2019.

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NOTE 12 LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2020:

Note payable, Small Business Administration loan due in monthly installments of \$641, including interest of 2.75%, secured by all tangible property, matures in May 2051.	\$ 149,900
Note payable, unsecured Payroll Protection Program loan, due in monthly installments of approximately \$563 per month including interest at 1% beginning in November 2020, matures in April 2022.	<u>10,000</u>
	159,900
Less current portion	<u>(4,401)</u>
Non-current portion	<u><u>\$ 155,499</u></u>

Annual maturities of long-term debt outstanding as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	
2021	\$ 4,401
2022	8,878
2023	3,375
2024	3,474
2025	3,576
Thereafter	<u>136,196</u>
	<u><u>\$ 159,900</u></u>

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NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
<u>Purpose restrictions:</u>		
Website and computer hardware	\$ 68,089	\$ 176,712
Sponsorships for performances	3,600	63,500
Wolf Trap	52,765	35,000
Scottsdale Arts Presents	-	100,000
Education	-	33,251
Canal Convergence	-	55,200
Museum Exhibitions	-	30,000
Other	13,032	36,031
	<u>137,486</u>	<u>529,694</u>
<u>Time restrictions:</u>		
Promises to give	-	20,000
<u>Time and purpose restrictions:</u>		
Canal Convergence	83,500	75,000
Museum exhibitions	55,000	-
Sponsorships for performances	32,500	22,500
Education	-	5,000
	<u>171,000</u>	<u>102,500</u>
<u>Endowment Funds:</u>		
Portion of perpetual endowment funds that are required to be permanently retained	5,625,540	5,625,540
Portion of perpetual endowment funds subject to a restriction under MCFA	143,636	(111,024)
	<u>5,769,176</u>	<u>5,514,516</u>
Total net assets with donor restriction	<u>\$ 6,077,662</u>	<u>\$ 6,166,710</u>

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NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The original corpus amounts for donor-restricted endowment funds include the following as of June 30:

	<u>2020</u>	<u>2019</u>
SMoCA endowment	\$ 4,031,319	\$ 4,031,319
SCPA endowment	1,119,597	1,119,597
SCPA special endowment	438,568	438,568
SMoCA charitable gift annuity trust	<u>36,056</u>	<u>36,056</u>
Total donor-restricted endowment funds	<u>\$ 5,625,540</u>	<u>\$ 5,625,540</u>

NOTE 14 BOARD DESIGNATED NET ASSETS

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

	<u>2020</u>	<u>2019</u>
English Trust Quasi-endowment	\$ 353,579	\$ 336,363
Herman Bequest Quasi-endowment	124,283	118,231
Miller-Mills Quasi-endowment	<u>146,377</u>	<u>139,250</u>
Total board designated net assets	<u>\$ 624,239</u>	<u>\$ 593,844</u>

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NOTE 15 EARNED REVENUES AND CONTRIBUTIONS

Earned revenues consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Ticket sales	\$ 1,361,402	\$ 1,709,681
Box office service charges	123,852	162,216
Facility and equipment rental and labor reimbursement	303,799	364,386
Arts Festival revenue	20,751	244,394
Food and beverage and other operating income	141,236	164,969
Education revenue	38,275	65,624
Exhibition admissions and other museum revenue	92,894	98,100
Membership	30,518	26,062
Student performances	-	35
	<u> </u>	<u> </u>
Total earned revenues	<u><u>\$ 2,112,727</u></u>	<u><u>\$ 2,835,467</u></u>

Contributions consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Individuals	\$ 592,138	\$ 590,005
Donated goods and services	61,194	172,315
Foundations	394,603	160,596
Memberships	222,390	259,758
Corporations	138,370	139,616
Government	75,860	357,700
	<u> </u>	<u> </u>
Total contributions	<u><u>\$ 1,484,555</u></u>	<u><u>\$ 1,679,990</u></u>

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NOTE 16 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, 2020 and 2019. Costs related to commissioned works of art were \$517,230 and \$279,301 for the years ended June 30, 2020 and 2019, respectively. Proceeds from deaccession and insurance recoveries, if any, are included as revenues. The proceeds from deaccession of collection items may be used for acquisitions of new collection items or the direct care of existing collections. There were no deaccessions during the years ended June 30, 2020 and 2019.

SCC adheres to the ethical principles and definition of direct care established by the American Alliance of Museums and considers direct care to entail actions that enhance the life, usefulness, or quality of the collection items to ensure they will continue to benefit the public. SCC's collection management policy includes conservation services, archival services, collections care investments identified through a conservation assessment and/or plan, and collection care training for staff and volunteers, as activities that are considered direct care of collection items.

NOTE 17 PAYROLL PROTECTION PROGRAM GOVERNEMENT GRANT

During the year ended June 30, 2020, SCC received proceeds in the amount of \$909,200 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, provides for funding to qualifying businesses for amounts up to 2.5 times the average monthly payroll costs incurred during the year prior to the loan date of the qualifying business. The total amount and accrued interest are forgivable after 24 weeks as long as SCC uses the proceeds for eligible purposes, including payroll costs, interest on mortgage obligations, rent and utilities. The amount of the forgiveness will be reduced if SCC reduces the number of employees or reduces salaries by more than 25% during the 24 week period beginning on the loan origination date. Any portion of the amount that is not forgiven will be required to be paid back over a 2-year period at an interest rate of 1%. SCC has determined that the proceeds represent a conditional contribution as they anticipate forgiveness of the majority of the amount received. Conditions to be met for recognition of this contribution include the incurring of eligible expenses as well as maintaining the full-time equivalent employee count. As of June 30, 2020, SCC has met these conditions and has recorded contribution income relating to the PPP funding in the amount of \$899,200. In addition to the PPP, SCC also received a \$10,000 Economic Injury Disaster Loan (EIDL) grant through the Small Business Administration. The dollar amount of the forgivable portion of the PPP funding is reduced dollar for dollar by the EIDL grant assistance received. The balance of the PPP funding that is not eligible for forgiveness as of June 30, 2020 is \$10,000 and is included in long-term debt on the accompanying Statement of Financial Position.

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NOTE 18 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 approximately \$113,000 for both years ended June 30, 2020 and 2019.

NOTE 19 OPERATING LEASES

SCC leases its office space and certain office equipment under a non-cancelable operating lease expiring in August 2026. Current monthly lease payments are approximately \$23,000 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:

<u>Years Ending June 30,</u>	
2021	\$ 252,000
2022	257,000
2023	262,000
2024	267,000
2025	272,000
Thereafter	418,000
	<hr/>
	\$ 1,728,000
	<hr/> <hr/>

Total rental expense under operating leases was approximately \$246,000 on a straight-line basis, for each of the years ended June 30, 2020 and 2019.

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NOTE 20 COMMUNITY ARTS GRANTING PROGRAM

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

	<u>2020</u>	<u>2019</u>
Scottsdale International Film Festival	\$ 40,300	\$ 37,500
Scottsdale Philharmonic	7,900	26,300
Detour Company Theatre	9,650	7,000
Frank Lloyd Wright Foundation	8,000	5,500
Scottsdale Artists' School	9,750	9,500
Scottsdale Training and Rehabilitation Services	10,250	9,500
Arizona MusicFest	5,000	5,000
Phoenix Conservatory of Music	6,900	6,000
Free Arts for Abused Children of Arizona	7,000	7,000
Childsplay	5,000	7,000
The Phoenix Symphony	5,000	5,000
Musical Instruments Museum	5,000	3,500
Greasepaint Youththeatre	7,900	5,000
Kids in Focus	5,000	-
Musica Nova Inc.	-	2,000
Scottsdale Sister Cities Association Inc.	-	1,000
Desert Foothills Theater	-	8,500
Scottsdale Desert Stages Theatre	-	5,100
	<u> </u>	<u> </u>
Total grants	<u>\$ 132,650</u>	<u>\$ 150,400</u>

SCC also awarded conditional promises for community grants for the next fiscal year in the amount of \$93,000. 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.

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NOTE 21 DONATED MATERIALS AND SUPPLIES

Donated materials and services consisted of the following for the years ended June 30, 2020 and 2019:

	2020	2019
Equipment	\$ 21,628	\$ 13,619
Food	11,695	108,433
Hotels	18,221	19,610
Printing	9,650	-
Other	-	30,653
	\$ 61,194	\$ 172,315
Total in-kind expenses		

NOTE 22 RELATED PARTY TRANSACTIONS

During the year ended June 30, 2020, SCC received approximately \$161,000 in contributions from board members. At June 30, 2020, approximately \$32,000 was included in promises to give from board members.

NOTE 23 CONTINGENCY

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on SCC’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, SCC is not able to estimate the effect of the COVID-19 outbreak on its results of operations, financial conditions or liquidity for fiscal year 2021.

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NOTE 24 NEW ACCOUNTING PRONOUNCEMENTS

The FASB has issued ASU No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2021. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.