



Scottsdale, Arizona

FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

SCOTTSDALE ARTS
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Scottsdale Arts
Scottsdale, Arizona

Opinion

We have audited the accompanying financial statements of Scottsdale Arts (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scottsdale Arts as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Scottsdale Arts and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Scottsdale Arts' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Scottsdale Arts' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Scottsdale Arts' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reported dated November 1, 2022, on our consideration of Scottsdale Arts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the test results of that testing, and not to provide an opinion on the effectiveness of Scottsdale Arts' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Scottsdale Arts' internal control over financial reporting and compliance.

Henry + Horne, LLP

Tempe, Arizona
November 1, 2022

SCOTTSDALE ARTS
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 619,551	\$ 1,881,087
Accounts receivable	22,406	60,577
Promises to give, current portion, net of allowance for doubtful promises of \$10,000 as of June 30, 2022 and 2021	-	51,273
Employee Retention Credit receivable	792,388	275,111
Inventories	112,256	153,127
Prepaid expenses	40,178	39,719
	<u>1,586,779</u>	<u>2,460,894</u>
TOTAL CURRENT ASSETS		
ASSETS RESTRICTED FOR LONG-TERM PURPOSES		
Cash and cash equivalents:		
Cash held for property and equipment	1,500,000	-
Endowment funds	60,000	-
	<u>1,560,000</u>	<u>-</u>
Investments		
Operating	1,254,757	41,504
Endowment funds:		
Endowment investments	6,469,420	7,831,038
Assets held under split interest agreement	27,533	50,828
	<u>6,496,953</u>	<u>7,881,866</u>
TOTAL INVESTMENTS	<u>7,751,710</u>	<u>7,923,370</u>
PROPERTY AND EQUIPMENT, net	617,396	633,712
OTHER ASSETS	<u>7,746</u>	<u>7,746</u>
TOTAL ASSETS	<u>\$ 11,523,631</u>	<u>\$ 11,025,722</u>

See accompanying notes.

SCOTTSDALE ARTS
STATEMENTS OF FINANCIAL POSITION (Continued)
June 30, 2022 and 2021

	<u>2022</u>	<u>2021*</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 128,017	\$ 118,190
Accrued expenses	254,453	325,502
Deferred revenue	783,113	1,015,520
Deferred conditional contribution - PPP funding	-	939,800
Deferred rent, current portion	108,876	104,104
Long-term debt, current portion	3,279	-
	<u>1,277,738</u>	<u>2,503,116</u>
TOTAL CURRENT LIABILITIES	1,277,738	2,503,116
DEFERRED RENT, net of current portion	420,546	529,100
LONG-TERM DEBT, net of current portion	<u>146,621</u>	<u>149,900</u>
TOTAL LIABILITIES	<u>1,844,905</u>	<u>3,182,116</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	1,387,737	(221,167)
Board designated endowments	<u>633,126</u>	<u>769,809</u>
	2,020,863	548,642
With donor restrictions	<u>7,657,863</u>	<u>7,294,964</u>
TOTAL NET ASSETS	<u>9,678,726</u>	<u>7,843,606</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,523,631</u>	<u>\$ 11,025,722</u>

* Reclassified to conform to current year presentation

SCOTTSDALE ARTS
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2022 and 2021

	2022			2021*		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, SUPPORT AND OTHER INCOME						
Earned revenues	\$ 2,141,503	\$ -	\$ 2,141,503	\$ 432,379	\$ -	\$ 432,379
Contract - City of Scottsdale	6,460,944	-	6,460,944	5,727,648	-	5,727,648
Contributions - City of Scottsdale	-	125,000	125,000	1,054,633	-	1,054,633
Contributions	1,077,024	1,671,418	2,748,442	1,020,221	150,125	1,170,346
Non-cash donations	112,636	-	112,636	37,294	-	37,294
Shuttered Venue Operators grant	1,519,257	-	1,519,257	-	-	-
Paycheck Protection Program grant	939,800	-	939,800	10,000	-	10,000
Employee Retention Credit	792,388	-	792,388	632,482	-	632,482
Special event contributions	133,005	-	133,005	100,699	-	100,699
Other income	397	-	397	23,699	-	23,699
Net assets released from restrictions	473,375	(473,375)	-	283,704	(283,704)	-
	<u>13,650,329</u>	<u>1,323,043</u>	<u>14,973,372</u>	<u>9,322,759</u>	<u>(133,579)</u>	<u>9,189,180</u>
Special events income	201,866	-	201,866	22,503	-	22,503
Direct benefit to donors	(157,515)	-	(157,515)	(24,005)	-	(24,005)
	<u>44,351</u>	<u>-</u>	<u>44,351</u>	<u>(1,502)</u>	<u>-</u>	<u>(1,502)</u>
Retail sales	220,228	-	220,228	107,650	-	107,650
Cost of sales	(126,054)	-	(126,054)	(48,601)	-	(48,601)
	<u>94,174</u>	<u>-</u>	<u>94,174</u>	<u>59,049</u>	<u>-</u>	<u>59,049</u>
TOTAL REVENUES, SUPPORT AND OTHER INCOME	<u>13,788,854</u>	<u>1,323,043</u>	<u>15,111,897</u>	<u>9,380,306</u>	<u>(133,579)</u>	<u>9,246,727</u>

*Reclassified to conform to current year presentation

SCOTTSDALE ARTS
STATEMENT OF ACTIVITIES (Continued)
Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
EXPENSES						
Program expenses	8,605,502	-	8,605,502	7,255,688	-	7,255,688
Support services:						
Management and general	2,402,223	-	2,402,223	1,354,478	-	1,354,478
Fundraising	843,063	-	843,063	644,682	-	644,682
TOTAL EXPENSES	<u>11,850,788</u>	<u>-</u>	<u>11,850,788</u>	<u>9,254,848</u>	<u>-</u>	<u>9,254,848</u>
CHANGE IN NET ASSETS BEFORE DEPRECIATION AND INVESTMENT RETURN	<u>1,938,066</u>	<u>1,323,043</u>	<u>3,261,109</u>	<u>125,458</u>	<u>(133,579)</u>	<u>(8,121)</u>
Depreciation expense	(174,361)	-	(174,361)	(205,782)	-	(205,782)
Investment return	<u>(291,484)</u>	<u>(960,144)</u>	<u>(1,251,628)</u>	<u>154,326</u>	<u>1,353,381</u>	<u>1,507,707</u>
CHANGE IN NET ASSETS	1,472,221	362,899	1,835,120	74,002	1,219,802	1,293,804
NET ASSETS AT BEGINNING OF YEAR	<u>548,642</u>	<u>7,294,964</u>	<u>7,843,606</u>	<u>474,640</u>	<u>6,075,162</u>	<u>6,549,802</u>
NET ASSETS, END OF YEAR	<u>\$ 2,020,863</u>	<u>\$ 7,657,863</u>	<u>\$ 9,678,726</u>	<u>\$ 548,642</u>	<u>\$ 7,294,964</u>	<u>\$ 7,843,606</u>

See accompanying notes.

SCOTTSDALE ARTS
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	SCPA	SPA	EDU	SMOCA	SAE	Total Program	Management and General	Fundraising	Direct Donor Benefit	Total
Personnel expenses										
Salaries	\$ 1,013,945	\$ 453,369	\$ 375,609	\$ 854,179	\$ 259,727	\$ 2,956,829	\$ 1,395,087	\$ 499,528	\$ -	\$ 4,851,444
Employee benefits	194,777	96,042	80,720	195,087	44,754	611,380	295,308	81,720	-	988,408
	1,208,722	549,411	456,329	1,049,266	304,481	3,568,209	1,690,395	581,248	-	5,839,852
Other Operating Expenses										
Advertising	436,545	51,795	1,315	63,224	140	553,019	19,911	-	-	572,930
Artist fees	1,150,743	452,334	101,522	35,300	-	1,739,899	-	400	48,560	1,788,859
Audit and tax services	-	-	-	-	-	-	83,285	-	-	83,285
Bank fees	47,484	717	4	6,953	5,170	60,328	15,895	7,289	-	83,512
Community art grants	100,600	-	7,000	33,400	-	141,000	-	-	-	141,000
Community development	23,966	981	-	2,789	-	27,736	17,670	8,481	-	53,887
Conferences and meetings	6,047	3,374	627	2,085	237	12,370	4,500	466	-	17,336
Conservation of art	-	106,613	-	-	-	106,613	-	-	-	106,613
Depreciation	4,306	-	-	5,916	-	10,222	164,139	-	-	174,361
Dues and subscriptions	2,276	2,685	249	7,167	642	13,019	40,809	507	-	54,335
Equipment	117,026	217,858	-	14,655	984	350,523	66,099	42,055	-	458,677
Exhibition costs	-	1,882	4,585	62,815	-	69,282	-	-	-	69,282
Food and beverages	34,932	11,378	7,494	2,018	1,750	57,572	1,271	32,388	108,955	200,186
Insurance	22,363	22,363	16,772	16,772	16,772	95,042	11,181	5,591	-	111,814
Internet and website	-	-	-	-	-	-	24,235	-	-	24,235
Occupancy	7,960	67,134	31,840	7,960	-	114,894	45,710	39,801	-	200,405
Outside services	53,374	176,802	25,713	91,447	14,263	361,599	77,795	25,886	-	465,280
Postage and shipping	12,512	1,525	1,692	114,601	-	130,330	8,486	7,559	-	146,375
Printing	53,184	21,815	6,962	62,791	1,597	146,349	5,114	24,392	-	175,855
Public art projects	-	524,558	-	-	-	524,558	-	-	-	524,558
Software expense	1,901	6,125	-	9,877	645	18,548	222,911	-	-	241,459
Supplies	8,738	12,117	26,068	4,984	2,881	54,788	34,849	22,135	-	111,772
Taxes and licenses	667	605	-	35	831	2,138	13,661	-	-	15,799
Telephone	600	2,960	600	1,800	1,200	7,160	14,832	2,419	-	24,411
Travel and mileage	136,527	5,604	5,949	25,975	1,630	175,685	3,297	42,446	-	221,428
Utilities	144,444	-	-	130,397	-	274,841	317	-	-	275,158
	3,574,917	2,240,636	694,721	1,752,227	353,223	8,615,724	2,566,362	843,063	157,515	12,182,664
Amounts not included in expenses on statement of activities:										
Direct donor benefit	-	-	-	-	-	-	-	-	(157,515)	(157,515)
Depreciation	(4,306)	-	-	(5,916)	-	(10,222)	(164,139)	-	-	(174,361)
TOTAL EXPENSES	\$ 3,570,611	\$ 2,240,636	\$ 694,721	\$ 1,746,311	\$ 353,223	\$ 8,605,502	\$ 2,402,223	\$ 843,063	\$ -	\$ 11,850,788

See accompanying notes.

SCOTTSDALE ARTS
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	SCPA	SPA	EDU	SMOCA	SAE	Total Program	Management and General	Fundraising	Direct Donor Benefit	Total
Personnel expenses										
Salaries	\$ 1,146,841	\$ 413,462	\$ 534,293	\$ 824,330	\$ 199,400	\$ 3,118,326	\$ 639,495	\$ 452,988	\$ -	\$ 4,210,809
Employee benefits	255,580	91,053	116,606	204,629	36,684	704,552	114,683	84,760	-	903,995
	1,402,421	504,515	650,899	1,028,959	236,084	3,822,878	754,178	537,748	-	5,114,804
Other Operating Expenses										
Advertising	136,516	39,146	6,995	20,603	427	203,687	-	964	-	204,651
Artist fees	266,365	308,114	70,853	34,025	-	679,357	-	-	2,250	681,607
Audit and tax services	-	-	-	-	-	-	46,788	-	-	46,788
Bank fees	20,431	-	-	636	743	21,810	9,804	5,470	-	37,084
Community art grants	-	-	884,633	-	-	884,633	-	-	-	884,633
Community development	-	-	122,730	-	-	122,730	-	-	-	122,730
Conferences and meetings	837	769	-	762	-	2,368	3,560	25,278	-	31,206
Conservation of art	640	422	411	595	279	2,347	3,117	252	-	5,716
Consulting	-	117,350	-	542	-	117,892	-	-	-	117,892
Depreciation	14,006	-	-	4,672	-	18,678	187,104	-	-	205,782
Dues and subscriptions	2,496	2,937	452	7,477	650	14,012	27,642	1,794	-	43,448
Equipment	43,645	84,335	529	17,921	27,802	174,232	16,400	-	-	190,632
Exhibition costs	-	879	3,836	87,789	-	92,504	-	-	-	92,504
Food and beverages	4,890	1,824	442	120	411	7,687	202	730	14,789	23,408
Insurance	-	-	-	-	-	-	80,064	-	-	80,064
Internet and website	-	6	-	-	250	256	21,788	-	-	22,044
Miscellaneous	14,224	-	-	4,616	21	18,861	5,667	7,381	6,966	38,875
Occupancy	24,644	24,777	33,563	26,733	161	109,878	40,113	13,555	-	163,546
Outside services	48,494	100,904	47,473	58,632	2,995	258,498	53,427	21,488	-	333,413
Postage and shipping	5,873	1,557	1,916	49,117	36	58,499	1,661	8,426	-	68,586
Printing	18,314	14,512	10,064	58,820	842	102,552	817	16,700	-	120,069
Program support	-	227,054	-	-	-	227,054	-	-	-	227,054
Software expense	4,253	5,565	-	12,307	355	22,480	233,925	-	-	256,405
Supplies	20,809	8,607	16,352	4,539	1,141	51,448	9,408	2,280	-	63,136
Taxes and licenses	4,656	766	451	676	845	7,394	29,207	100	-	36,701
Telephone	600	2,443	600	1,800	1,200	6,643	15,350	2,516	-	24,509
Travel and mileage	27,905	-	53	8,567	-	36,525	1,360	-	-	37,885
Utilities	103,715	-	-	105,748	-	209,463	-	-	-	209,463
	2,165,734	1,446,482	1,852,252	1,535,656	274,242	7,274,366	1,541,582	644,682	24,005	9,484,635
Amounts not included in expenses on statement of activities:										
Direct donor benefit	-	-	-	-	-	-	-	-	(24,005)	(24,005)
Depreciation	(14,006)	-	-	(4,672)	-	(18,678)	(187,104)	-	-	(205,782)
TOTAL EXPENSES	\$ 2,151,728	\$ 1,446,482	\$ 1,852,252	\$ 1,530,984	\$ 274,242	\$ 7,255,688	\$ 1,354,478	\$ 644,682	\$ -	\$ 9,254,848

See accompanying notes.

SCOTTSDALE ARTS
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,835,120	\$ 1,293,804
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	174,361	205,782
Change in deferred rent	(103,782)	(98,689)
Realized and unrealized investment losses (gains)	1,426,412	(1,391,606)
Bad debt write-offs	-	20,000
Change in allowance for doubtful promises to give	-	9,800
Change in value of split-interest agreement	23,295	(9,611)
Forgiveness of Paycheck Protection Program Loan	-	(10,000)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	38,171	(4,572)
Income tax receivable	-	3,431
Promises to give	51,273	(12,286)
Employee Retention Credit receivable	(517,277)	(275,111)
Inventories	40,871	34,019
Prepaid expenses	(459)	1,689
Increase (decrease) in:		
Accounts payable and accrued expenses	(61,222)	(38,256)
Deferred revenue	(232,407)	414,492
Deferred conditional contribution - PPP funding	(939,800)	939,800
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,734,556</u>	<u>1,082,686</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(158,045)	(12,440)
Proceeds from sales of investments	301,640	409,767
Purchases of investments	(1,579,687)	(504,850)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(1,436,092)</u>	<u>(107,523)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	298,464	975,163
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,881,087</u>	<u>905,924</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,179,551</u>	<u>\$ 1,881,087</u>
Cash and cash equivalents	\$ 619,551	\$ 1,881,087
Cash and cash equivalents for long-term purposes	<u>1,560,000</u>	<u>-</u>
	<u>\$ 2,179,551</u>	<u>\$ 1,881,087</u>

See accompanying notes.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Scottsdale Arts (SA) 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 SA 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.

SA operates five 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. SA 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) – SA’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 Arts Events (SAE) – The SA Events branch covers our own presented events and rentals on our Civic Centers Campus and inside the Center for Performing Arts. This branch included third party rental events we facilitate as well as in-house produced events such as art festivals, a culinary event, a maker & music festival, the established Sipn’ Series and renamed SU & Sounds events.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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, SA 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. SA 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, 2022 and 2021 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, SA 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 ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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 SA 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 SA'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.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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. 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

SA 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

SA 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 ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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

Endowment Funds

SA's endowment funds consist of eight 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.

SA 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 SA 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.

SA 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 SA in a manner consistent with the standard of prudence prescribed by MCFA.

In accordance with MCFA, SA 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) SA's other resources, and (7) SA's investment policies.

The Board of Trustees had designated certain net assets without donor restriction as general endowment funds to support the mission of SA. 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. SA'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, 2022, 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, SMOCA and student matinee performances.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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

Endowment Funds (Continued)

Investment Return Objectives, Risk Parameters and Strategies. SA 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, SA 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. SA'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, SA 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. SA 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 SA's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Deferred Rent

SA 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 ARTS
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

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

Revenue Recognition

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 is 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 SA 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.

The beginning and ending contract balances for assets and liabilities for the year ended June 30 are as follow:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ 28,448	\$ 60,577	\$ 56,005
Deferred revenue	\$ 783,113	\$ 1,015,520	\$ 601,028

Contributions

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 SA'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.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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

Non-Cash Donations and Change in Accounting Principle

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires SA to present contributed nonfinancial assets in a separate line item in the statement of activities and to disclose certain information about the contributed nonfinancial assets, including whether the assets were monetized or utilized by SA. In addition, SA is required to disclose a description of how these assets are valued.

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. SA 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

SA uses advertising to promote its programs to the community. Advertising costs are charged to operations as incurred. Advertising expense charged to operations was approximately \$573,000 and \$204,000 for the years ended June 30, 2022 and 2021, respectively.

Net Assets

SA 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.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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

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

SA qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, SA 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, 2022 and 2021, SA incurred income tax expense of approximately \$14,000 and \$2,900, respectively, relating to UBTI. There was no receivable for income taxes as of June 30, 2022 and 2021.

SA 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, 2022 and 2021, SA had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

SA recognizes interest and penalties associated with income tax in operating expenses. During the years ended June 30, 2022 and 2021, SA 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.

SCOTTSDALE ARTS
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

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

Date of Management's Review

In preparing these financial statements, SA has evaluated events and transactions for potential recognition or disclosure through November 1, 2022, the date the financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

The following reflects SA'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 SA approves that action.

	<u>2022</u>	<u>2021</u>
Current assets	\$ 1,586,779	\$ 2,460,894
Inventories	(112,256)	(153,127)
Prepaid expenses	(40,178)	(39,719)
Endowment spending appropriation	<u>282,100</u>	<u>275,900</u>
Financial assets available for expenditures	<u>\$ 1,716,445</u>	<u>\$ 2,543,948</u>

SA'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. SA's board-designated endowments and donor-restricted endowments are subject to an annual spending rate of 4.25%.

SA'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 SA 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.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 3 CONCENTRATIONS

Financial instruments that potentially subject SA to significant concentrations of credit risk consist principally of cash, promises to give and grants receivable. SA 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). SA 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 as of June 30, 2021 include amounts due from two donors that represents 93% of total net promises to give and grants receivable.

Accounts receivable as of June 30, 2022 include amounts due from three funding sources that represents 81% of total accounts receivable. Accounts receivable as of June 30, 2021 include amounts due from three funding sources that represents 86% of total accounts 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. SA requires no collateral on its accounts receivable.

NOTE 4 CONTRACT – CITY OF SCOTTSDALE

On May 20, 2008, SA 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, 2025 and may be extended for an additional term of five years. Also, the City of Scottsdale has agreed to provide funding in the amount of approximately \$6,060,000 for the fiscal year ending June 30, 2023.

By execution of the agreement, the City of Scottsdale acknowledged SA 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. SA is not a department or operating agency of the City of Scottsdale; however, due to SA's dependency on the City of Scottsdale for support, material transactions with the City of Scottsdale have been disclosed.

SCOTTSDALE ARTS
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 4 CONTRACT – CITY OF SCOTTSDALE (Continued)

In addition to providing advisory and planning services, SA 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. SA 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. SA may undertake structural changes to SCPA, at its expense, with Scottsdale City Council approval, if appropriate.

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

	<u>2022</u>	<u>2021</u>
Administrative funding	\$ 4,375,223	\$ 4,277,535
Art in Public Places Fund - administrative fees	635,221	598,093
Art in Public Places Fund - conservation	132,808	122,131
Art in Public Places Fund - project costs	<u>1,317,692</u>	<u>729,889</u>
Total contract - City of Scottsdale	<u>\$ 6,460,944</u>	<u>\$ 5,727,648</u>

The City of Scottsdale also provided approximately \$125,000 and \$1,055,000 of contributions to SA during the years ended June 30, 2022 and 2021, respectively. For the year ended June 30, 2021, SA provided grants to various arts and cultural organizations totaling approximately \$885,000 from contributions received from the City of Scottsdale. For the years ended June 30, 2022 and 2021, total revenue from the City of Scottsdale represents 44% and 74% of total revenues, respectively, 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, SA shall administer the City of Scottsdale’s public art program. SA shall perform the acts and functions designated in the Scottsdale Revised Code, or amendments thereto. SA 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. SA 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.

SCOTTSDALE ARTS
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 5 ART IN PUBLIC PLACES FUND (Continued)

Funds obtained by SA 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, SA 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 SA 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, 2022 and 2021, approximately \$73,000 and \$92,000, 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 SA 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. SA had the following activity regarding the City of Scottsdale's Art in Public Places Fund during the years ended June 30:

	<u>2022</u>	<u>2021</u>
Deferred, beginning of year	\$ 392,310	\$ 311,738
Funds received and invoiced during the year:		
Contract program payments received	767,815	752,760
Project payments received	1,288,470	777,925
Less expenses (revenue recognized on the contract during the year):		
Contract program expenses	(768,029)	(720,224)
Project expenses and other expenditures	<u>(1,317,692)</u>	<u>(729,889)</u>
Deferred, end of year	<u>\$ 362,874</u>	<u>\$ 392,310</u>

Deferred revenue at June 30, 2022 and 2021 also included approximately \$289,000 and \$300,000, respectively, for conditional contributions relating to the Canal Convergence project from the City of Scottsdale.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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 SA's portion of the total pool. SA 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, SA will never receive those specific assets in the pool. With the assistance of an investment advisor, the Board of Directors reviews and approves SA's fair value measurement policies and procedures annually to ensure that valuation techniques used in fair value measurements remain appropriate.

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2022:

	Level 1	Level 2	Level 3	Total
Operating investments:				
Equity funds	\$ 730,053	\$ -	\$ -	\$ 730,053
Fixed income funds	524,704	-	-	524,704
	<u>1,254,757</u>	<u>-</u>	<u>-</u>	<u>1,254,757</u>
Endowment investments:				
Equity funds	3,680,242	-	-	3,680,242
Fixed income funds	2,529,786	-	-	2,529,786
ACF investment fund	-	-	259,392	259,392
	<u>6,210,028</u>	<u>-</u>	<u>259,392</u>	<u>6,469,420</u>
Split interest agreement investments:				
Equity funds	16,057	-	-	16,057
Fixed income funds	11,476	-	-	11,476
	<u>27,533</u>	<u>-</u>	<u>-</u>	<u>27,533</u>
Total investments	<u>\$ 7,492,318</u>	<u>\$ -</u>	<u>\$ 259,392</u>	<u>\$ 7,751,710</u>

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 6 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, 2021:

	Level 1	Level 2	Level 3	Total
Operating investments:				
Equity funds	\$ 25,884	\$ -	\$ -	\$ 25,884
Fixed income funds	15,620	-	-	15,620
	<u>41,504</u>	<u>-</u>	<u>-</u>	<u>41,504</u>
Endowment investments:				
Equity funds	4,708,855	-	-	4,708,855
Fixed income funds	2,841,844	-	-	2,841,844
ACF investment fund	-	-	280,339	280,339
	<u>7,550,699</u>	<u>-</u>	<u>280,339</u>	<u>7,831,038</u>
Split interest agreement investments:				
Equity funds	31,696	-	-	31,696
Fixed income funds	19,132	-	-	19,132
	<u>50,828</u>	<u>-</u>	<u>-</u>	<u>50,828</u>
Total investments	<u>\$ 7,643,031</u>	<u>\$ -</u>	<u>\$ 280,339</u>	<u>\$ 7,923,370</u>

The following is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30, 2022 and 2021:

Balance at June 30, 2020	\$ 229,334
Interest and dividends	4,643
Realized gains	23,452
Unrealized gains	35,789
Investment fees	(2,379)
Amounts appropriated for expenditure	<u>(10,500)</u>
Balance at June 30, 2021	280,339
Interest and dividends	4,478
Realized gains	8,879
Unrealized losses	(31,529)
Investment fees	<u>(2,775)</u>
Balance at June 30, 2022	<u>\$ 259,392</u>

SCOTTSDALE ARTS
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

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

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

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 198,294	\$ 138,137
Investment fees	(23,510)	(22,036)
Realized investment gain	74,654	111,173
Unrealized investment (loss) gain	<u>(1,501,066)</u>	<u>1,280,433</u>
Investment return	<u>\$ (1,251,628)</u>	<u>\$ 1,507,707</u>

NOTE 7 SPLIT-INTEREST-AGREEMENT

During 2003, SA received a charitable gift annuity from a donor in the amount of \$100,000. The annuity agreement requires SA to pay the donor an amount of \$8,600 each year of his life beginning in December 2003. At the time of receipt, SA 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 SA'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. SA maintains the original donated amount in a separate investment account.

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Building improvements	\$ 4,247,482	\$ 4,276,845
Computer equipment and software	707,654	652,025
Furniture, fixtures and equipment	<u>1,362,323</u>	<u>1,771,740</u>
	6,317,459	6,700,610
Accumulated depreciation and amortization	<u>(5,700,063)</u>	<u>(6,066,898)</u>
	<u>\$ 617,396</u>	<u>\$ 633,712</u>

Depreciation expense was \$174,361 and \$205,782 for the years ended June 30, 2022 and 2021, respectively.

SCOTTSDALE ARTS
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 9 CONDITIONAL CONTRIBUTIONS

During the years ended June 30, 2022 and 2021, SA received amounts totaling \$77,500 \$90,000, respectively, for private sponsorships for future events. These amounts are included in deferred revenue on the accompanying statements of financial position and will be recognized as contributions in the period the events occur.

NOTE 10 ENDOWMENT FUNDS

Endowment net asset composition by type of fund as June 30, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 633,126	\$ -	\$ 633,126
Donor-restricted endowment funds:			
Original donor-restricted amount	-	5,685,540	5,685,540
Accumulated investment earnings	-	238,287	238,287
Total endowment funds	<u>\$ 633,126</u>	<u>\$ 5,923,827</u>	<u>\$ 6,556,953</u>

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 769,809	\$ -	\$ 769,809
Donor-restricted endowment funds:			
Original donor-restricted amount	-	5,625,540	5,625,540
Accumulated investment earnings	-	1,486,517	1,486,517
Total endowment funds	<u>\$ 769,809</u>	<u>\$ 7,112,057</u>	<u>\$ 7,881,866</u>

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 10 ENDOWMENT FUNDS (Continued)

Changes in endowment funds for the years ended June 30, 2022 and 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Endowment funds, June 30, 2020	\$ 624,239	\$ 5,769,176	\$ 6,393,415
Interest and dividends	13,403	123,593	136,996
Realized gains	8,716	101,995	110,711
Unrealized gains	125,442	1,147,809	1,273,251
Investment fees	(1,991)	(20,016)	(22,007)
Amounts appropriated for expenditure	-	(10,500)	(10,500)
Endowment funds, June 30, 2021	769,809	7,112,057	7,881,866
Contributions	-	60,000	60,000
Interest and dividends	16,951	154,829	171,780
Realized gains	6,227	68,748	74,975
Unrealized losses	(126,977)	(1,162,031)	(1,289,008)
Investment fees	(2,131)	(21,689)	(23,820)
Amounts appropriated for expenditure	(30,753)	(288,087)	(318,840)
Endowment funds, June 30, 2022	<u>\$ 633,126</u>	<u>\$ 5,923,827</u>	<u>\$ 6,556,953</u>

NOTE 11 LINE OF CREDIT

SA 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 November 29, 2023. There was no outstanding balance on this line as of June 30, 2022 and 2021.

SCOTTSDALE ARTS
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 12 LONG-TERM DEBT

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

	<u>2022</u>	<u>2021</u>
Note payable, Small Business Administration loan due in monthly installments of \$641 including interest of 2.75%, starting in July 2022, secured by all tangible property, matures in May 2051.	\$ 149,900	\$ 149,900
Less current portion	<u>(3,279)</u>	<u>-</u>
Non-current portion	<u>\$ 146,621</u>	<u>\$ 149,900</u>

Annual maturities of long-term debt outstanding as of June 30, 2022 are as follows:

<u>Year Ending June 30,</u>	
2023	\$ 3,279
2024	3,375
2025	3,474
2026	3,576
2027	4,011
Thereafter	<u>132,185</u>
	<u>\$ 149,900</u>

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2022</u>	<u>2021</u>
<u>Purpose restrictions:</u>		
Stage renovation	\$ 1,500,000	\$ -
Cultural assessment	125,000	-
Website and computer hardware	-	48,884
Sponsorships for performances	29,605	11,350
Wolf Trap	-	16,285
Scottsdale Arts Internships	6,090	23,469
Education	6,602	25,044
Museum exhibitions	63,739	1,500
Other	3,000	-
	<u>1,734,036</u>	<u>126,532</u>
<u>Time and purpose restrictions:</u>		
Canal Convergence	-	3,875
Museum exhibitions	-	40,000
Sponsorships for performances	-	12,500
	<u>-</u>	<u>56,375</u>
<u>Endowment Funds:</u>		
Portion of perpetual endowment funds that are required to be permanently retained	5,685,540	5,625,540
Portion of perpetual endowment funds subject to a restriction under MCFA	238,287	1,486,517
	<u>5,923,827</u>	<u>7,112,057</u>
Total net assets with donor restriction	<u>\$ 7,657,863</u>	<u>\$ 7,294,964</u>

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net asset releases for the years ended June 30 are as follows:

	<u>2022</u>	<u>2021</u>
Purpose restrictions:		
Website and computer hardware	\$ 48,884	\$ 19,205
Sponsorships for performances	9,662	26,957
Wolf Trap	16,285	36,480
Endowment appropriations	288,087	10,500
Scottsdale Arts Internships	17,379	6,530
Museum exhibitions	12,762	-
Education	23,941	-
Other	-	13,032
	<u>417,000</u>	<u>112,704</u>
Time and purpose restrictions:		
Canal Convergence	3,875	83,500
Museum exhibitions	40,000	55,000
Sponsorships for performances	12,500	32,500
	<u>56,375</u>	<u>171,000</u>
Total net asset releases	<u>\$ 473,375</u>	<u>\$ 283,704</u>

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

	<u>2022</u>	<u>2021</u>
SMoCA endowment	\$ 4,031,319	\$ 4,031,319
SCPA endowment	1,119,597	1,119,597
SCPA special endowment	438,568	438,568
Student matinee endowment	60,000	-
SMoCA charitable gift annuity trust	36,056	36,056
Total donor-restricted endowment funds	<u>\$ 5,685,540</u>	<u>\$ 5,625,540</u>

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 14 BOARD DESIGNATED NET ASSETS

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

	<u>2022</u>	<u>2021</u>
English Trust Quasi-endowment	\$ 358,612	\$ 436,032
Herman Bequest Quasi-endowment	126,052	153,266
Miller-Mills Quasi-endowment	<u>148,462</u>	<u>180,511</u>
Total board designated net assets	<u>\$ 633,126</u>	<u>\$ 769,809</u>

NOTE 15 EARNED REVENUES AND CONTRIBUTIONS

Earned revenues consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Ticket sales	\$ 1,499,540	\$ 172,305
Box office service charges	128,474	55,039
Facility and equipment rental and labor reimbursement	225,389	91,911
Food and beverage and other operating income	102,369	22,077
Education revenue	63,545	38,023
Exhibition admissions and other museum revenue	100,250	31,165
Membership	<u>21,936</u>	<u>21,859</u>
Total earned revenues	<u>\$ 2,141,503</u>	<u>\$ 432,379</u>

Contributions consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Individuals	\$ 693,062	\$ 282,932
Non-cash donations	112,636	37,294
Foundations	1,658,910	602,702
Memberships	195,854	196,582
Corporations	170,091	57,075
Government	3,406,970	1,728,170
Special event contributions	<u>133,005</u>	<u>100,669</u>
Total contributions	<u>\$ 6,370,528</u>	<u>\$ 3,005,424</u>

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 16 NON-CASH DONATIONS

Donated materials and services consisted of the following for the year ended June 30, 2022:

<u>Non-Financial Asset</u>	<u>Revenue Recognized</u>	<u>Utilization in Programs / Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques and Inputs</u>
Advertising	\$ 6,400	Canal Convergence, SMOCA	None	Current rate of advertising services provided by the advertising companies operating in the greater Phoenix metropolitan area
Artist services	763	Canal Convergence	None	Current rate of artist services provided by the artists operating in the greater Phoenix metropolitan area
Gifts	1,553	Fundraising	None	Current cost of the gifts provided by the vendor operating in the greater Phoenix metropolitan area
Catering	7,000	Canal Convergence, SMOCA	None	Current cost of the products and services provided by the catering company operating in the greater Phoenix metropolitan area
Lodging	2,207	SPCA	None	Current rate of lodging provided by the hotel operating in the greater Phoenix metropolitan area
Photography	23,361	SALI, SCPA	None	Current rates of photography services provided by the photographer operating in the greater Phoenix metropolitan area
Printing	2,385	Fundraising	None	Current rates of printing services provided by the vendor operating in the greater Phoenix metropolitan area
Production services	<u>68,967</u>	Canal Convergence, SMOCA	None	Current rate of production services provided by the production companies operating in the greater Phoenix metropolitan area
	<u>\$ 112,636</u>			

SCOTTSDALE ARTS
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 16 NON-CASH DONATIONS (Continued)

Donated materials and services consisted of the following for the year ended June 30, 2021:

Non-Financial Asset	Revenue Recognized	Utilization in Programs / Activities	Donor Restrictions	Valuation Techniques and Inputs
Gift cards	\$ 17,000	Fundraising	None	Current rate of advertising services provided by the advertising companies operating in the greater Phoenix metropolitan area
Lodging	16,254	SPCA	None	Current rate of lodging provided by the hotel operating in the greater Phoenix metropolitan area
Photography	2,220	SALI, SCPA	None	Current rates of photography services provided by the photographer operating in the greater Phoenix metropolitan area
Printing	<u>1,820</u>	Fundraising	None	Current rates of printing services provided by the vendor operating in the greater Phoenix metropolitan area
	<u>\$ 37,294</u>			

NOTE 17 CITY OF SCOTTSDALE COLLECTION OF FINE ART

The City of Scottsdale collection of fine art consists of purchased, commissioned and donated works of art. SA employs a Director of Public Art to ensure that the collection items are preserved and protected. These collections are not capitalized by SA and are the property of the City of Scottsdale. There were no purchases of collection items in the years ended June 30, 2022 and 2021. Costs related to commissioned works of art were approximately \$525,000 and \$228,000 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 17 CITY OF SCOTTSDALE COLLECTION OF FINE ART (Continued)

SA 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. SA'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 18 PAYCHECK PROTECTION PROGRAM GOVERNMENT GRANT

During the year ended June 30, 2021, SA received proceeds in the amount of \$939,800 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 SA uses the proceeds for eligible purposes, including payroll costs, interest on mortgage obligations, rent and utilities. SA has determined that the proceeds represent a conditional contribution. 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, 2022, SA had met these conditions for the second draw of PPP funding and has recorded contribution revenue in the amount of \$939,800 in the accompanying statement of activities.

As of the year ended June 30, 2021, SA received forgiveness for the remaining \$10,000 from the first draw of PPP funding which was recognized as contribution income which was received during the year ended June 30, 2020.

NOTE 19 EMPLOYEE RETENTION CREDIT

During the years ended June 30, 2022 and June 30, 2021, SA applied for the Employee Retention Credit, which is a refundable credit to be applied against certain employment taxes for qualified wages. The Employee Retention Credit is available for organizations that fully or partially suspend operations during any calendar quarter in 2020 and 2021 due to orders from an appropriate authority limiting commerce due to COVID-19 or experience a significant decline in gross receipts during the calendar quarter. For the years ended June 30, 2022 and June 30, 2021, SA received a wage credit of \$792,388 and \$632,482, respectively, which is recorded as contribution income on the statements of activities. During the years ended June 30, 2022 and June 30, 2021, SA received payments of approximately \$275,000 and \$357,000, respectively, related to this benefit. The remaining amount of approximately \$792,000 and \$275,000 is recorded as a receivable at June 30, 2022 and 2021, respectively, on the accompanying statements of financial position.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 20 PENSION PLAN

SA 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. SA 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 \$137,000 and \$128,000 for the years ended June 30, 2022 and 2021, respectively.

NOTE 21 OPERATING LEASES

SA leases its office space and certain office equipment under a non-cancelable operating lease expiring in August 2026. Current monthly lease payments are approximately \$21,000, 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>	
2023	\$ 264,000
2024	268,000
2025	272,000
2026	278,000
2027	140,000
	<hr/>
	\$ 1,222,000
	<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, 2022 and 2021.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 22 COMMUNITY ARTS GRANTING PROGRAM

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

	<u>2022</u>	<u>2021</u>
Scottsdale International Film Festival	\$ 10,000	\$ 10,000
Detour Company Theatre	10,000	10,000
Scottsdale Artists' School	10,000	10,000
Arizona MusicFest	10,000	10,000
Greasepaint Youtheatre	10,000	10,000
Childsplay	10,000	8,500
Kids in Focus	10,000	8,000
Frank Lloyd Wright Foundation	10,000	-
Don Bluth Theatre	7,500	7,500
Desert Stages Theater	7,500	7,500
Musical Instruments Museum	7,000	7,000
Phoenix Conservatory of Music	6,000	5,000
Movement Source	6,000	-
Rising Youth Theatre	5,000	2,500
The Nash	4,200	5,000
The Phoenix Symphony	4,200	2,500
Musica Nova Inc.	4,200	2,500
Free Arts for Abused Children of Arizona	3,000	5,730
The Bridge Initiative	2,400	-
Scottsdale Philharmonic	2,000	10,000
Scottsdale Neighborhood Arts Place, Inc	1,000	-
Grey Box Collective	1,000	-
Phoenix Girls Chorus	-	1,000
	<u> </u>	<u> </u>
Total grants	<u>\$ 141,000</u>	<u>\$ 122,730</u>

SA also provided in-kind subsidies to various charitable organizations in the form of reduced rent, labor, equipment, and other miscellaneous services.

NOTE 23 RELATED PARTY TRANSACTIONS

During the year ended June 30, 2022, SA received approximately \$167,000 in contributions from board members. During the year ended June 30, 2021, SA received approximately \$80,000 in contributions from board members.

SCOTTSDALE ARTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 24 NEW ACCOUNTING PRONOUNCEMENT

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (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.

SCOTTSDALE ARTS
UNIFORM GUIDANCE SUPPLEMENTARY REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Scottsdale Arts
Scottsdale, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Scottsdale Arts (a nonprofit organization) which comprise the statement of financial position as of June 30, 2022 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Scottsdale Arts' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Scottsdale Arts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Scottsdale Arts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Henry + Horne, LLP

Tempe, Arizona
November 1, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees
Scottsdale Arts
Scottsdale, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Scottsdale Arts' compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Scottsdale Arts' major federal programs for the year ended June 30, 2022. Scottsdale Arts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Scottsdale Arts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Scottsdale Arts and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Scottsdale Arts' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Scottsdale Arts' federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Scottsdale Arts' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Scottsdale Arts' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Scottsdale Arts' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Scottsdale Arts' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Scottsdale Arts' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Henry + Horne, LLP

Tempe, Arizona
November 1, 2022

SCOTTSDALE ARTS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2022

<u>Federal Grantor / Pass-Through Grantor / Program</u>	<u>Federal Assistance Listing Number</u>	<u>Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Small Business Administration			
COVID-19 Shuttered Venue Operators Grant Program	59.075	SBAHQ21SV002742.2	\$ 1,519,257 *
Total U.S. Small Business Administration			<u>\$ 1,519,257</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,519,257</u></u>

* Denotes major program

SCOTTSDALE ARTS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Scottsdale Arts under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule of Expenditures of Federal Awards presents only a portion of the operations of Scottsdale Arts, it is not intended to and does not present the financial position, changes in net position, or cash flows of the organization.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B) Scottsdale Arts has not elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

SCOTTSDALE ARTS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2022

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not
 considered to be a material weakness(es)? yes X no

Noncompliance material to financial statements noted? yes X none reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are
 not considered to be a material weakness(es)? yes X none reported

Type of auditors' report issued on compliance for major
 program listed below:

Unmodified

Any audit findings disclosed that are required to be reported
 in accordance with the Uniform Guidance? yes X no

Identification of major program:

Assistance

Listing Number	Name of Federal Program or Cluster
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59.075	COVID-19 Shuttered Venue Operators Grant Program
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Dollar threshold used to distinguish between Type A and
 Type B programs:

\$750,000

Auditee qualified as low risk auditee? yes X no

SCOTTSDALE ARTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended June 30, 2022

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

None Noted

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None Noted