

# **Scottsdale Arts**

Financial Statements

June 30, 2023 and 2022

# Scottsdale Arts

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## Independent Auditors' Report

To the Board of Trustees of  
Scottsdale Arts

### Opinion

We have audited the financial statements of Scottsdale Arts (the Organization), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, 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 (GAAP).

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Organization 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.

### Emphasis of Matter

Change in Accounting Principle

As described in Note 1 to the financial statements, on July 1, 2022, the Organization adopted Accounting Standards Codification Topic 842 as required by Accounting Standards Update 2016-02, Leases (Topic 842) and its related amendments. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, 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 the Organization's 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 auditors' 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 GAAS 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 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 GAAS, 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 the Organization's 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 the Organization's 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.

*Baker Tilly US, LLP*

Tempe, Arizona  
January 30, 2024

## Scottsdale Arts

Statements of Financial Position  
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 606,292	\$ 619,551
Accounts receivable	84,487	22,406
Promises to give, current portion, net of allowance for doubtful promises of \$10,000 as of June 30, 2023	270,328	-
Employee Retention Credit receivable	-	792,388
Inventories	82,092	112,256
Prepaid expenses	85,903	40,178
	<u>1,129,102</u>	<u>1,586,779</u>
<b>Assets Restricted for Long-Term Purposes</b>		
Cash and cash equivalents:		
Cash held for capital projects	260,455	1,500,000
Endowment funds	-	60,000
	<u>260,455</u>	<u>1,560,000</u>
Investments held for capital projects	2,663,131	-
	<u>2,923,586</u>	<u>1,560,000</u>
Promises to give, net current portion	25,000	-
Investments:		
Operating	1,325,211	1,254,757
Endowment funds:		
Endowment investments	6,882,326	6,469,420
Assets held under split interest agreement	12,663	27,533
	<u>6,894,989</u>	<u>6,496,953</u>
	<u>8,220,200</u>	<u>7,751,710</u>
<b>Operating Lease Right-of-Use Assets</b>		
	<u>1,502,747</u>	-
<b>Property and Equipment, Net</b>		
	<u>509,018</u>	<u>617,396</u>
<b>Other Assets</b>		
	<u>7,746</u>	<u>7,746</u>
Total assets	<u>\$ 14,317,399</u>	<u>\$ 11,523,631</u>

See notes to financial statements

## Scottsdale Arts

Statements of Financial Position  
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 142,760	\$ 128,017
Accrued expenses	227,167	254,453
Deferred revenue	822,011	783,113
Deferred rent, current portion	-	108,876
Operating lease liabilities, current portion	240,548	-
Long-term debt, current portion	3,474	3,279
	<u>1,435,960</u>	<u>1,277,738</u>
Total current liabilities		
	<u>1,435,960</u>	<u>1,277,738</u>
<b>Operating Lease Liabilities, Net of Current Portion</b>	<u>1,829,110</u>	<u>-</u>
<b>Deferred Rent, Net of Current Portion</b>	<u>-</u>	<u>420,546</u>
<b>Long-Term Debt, Net of Current Portion</b>	<u>141,939</u>	<u>146,621</u>
Total liabilities	<u>3,407,009</u>	<u>1,844,905</u>
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	529,149	1,387,737
Board designated endowments	668,293	633,126
	<u>1,197,442</u>	<u>2,020,863</u>
With donor restrictions	<u>9,712,948</u>	<u>7,657,863</u>
Total net assets	<u>10,910,390</u>	<u>9,678,726</u>
Total liabilities and net assets	<u>\$ 14,317,399</u>	<u>\$ 11,523,631</u>

See notes to financial statements

## Scottsdale Arts

### Statements of Activities

Years Ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, Support and Other Income</b>						
Earned revenues	\$ 2,507,407	\$ -	\$ 2,507,407	\$ 2,141,503	\$ -	\$ 2,141,503
Contract, City of Scottsdale:						
Art in Public Places	864,349	-	864,349	786,618	-	786,618
Art Education	758,747	-	758,747	-	-	-
Administration and Other	3,851,551	-	3,851,551	4,399,858	-	4,399,858
City of Scottsdale TDC: Canal Convergence	750,000	-	750,000	750,000	-	750,000
City of Scottsdale pass-through: Public art projects	2,025,764	-	2,025,764	524,468	-	524,468
City of Scottsdale special project: Cultural Calendar	60,879	64,121	125,000	-	125,000	125,000
Contributions	1,217,168	1,919,976	3,137,144	1,077,024	1,671,418	2,748,442
Non-cash donations	18,806	-	18,806	112,636	-	112,636
Shuttered Venue Operators grant	-	-	-	1,519,257	-	1,519,257
Paycheck Protection Program grant	-	-	-	939,800	-	939,800
Employee Retention Credit	-	-	-	792,388	-	792,388
Special event contributions	83,701	-	83,701	133,005	-	133,005
Other income	10,558	-	10,558	397	-	397
Net assets released from restrictions	499,241	(499,241)	-	473,375	(473,375)	-
	<u>12,648,171</u>	<u>1,484,856</u>	<u>14,133,027</u>	<u>13,650,329</u>	<u>1,323,043</u>	<u>14,973,372</u>
Special events income	231,576	-	231,576	201,866	-	201,866
Direct benefit to donors	(164,299)	-	(164,299)	(157,515)	-	(157,515)
	<u>67,277</u>	<u>-</u>	<u>67,277</u>	<u>44,351</u>	<u>-</u>	<u>44,351</u>
Retail sales	179,261	-	179,261	220,228	-	220,228
Cost of sales	(84,067)	-	(84,067)	(126,054)	-	(126,054)
	<u>95,194</u>	<u>-</u>	<u>95,194</u>	<u>94,174</u>	<u>-</u>	<u>94,174</u>
Total revenues, support and other income	<u>\$ 12,810,642</u>	<u>\$ 1,484,856</u>	<u>\$ 14,295,498</u>	<u>\$ 13,788,854</u>	<u>\$ 1,323,043</u>	<u>\$ 15,111,897</u>

See notes to financial statements

## Scottsdale Arts

### Statements of Activities

Years Ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Expenses</b>						
Program expenses	\$ 10,394,087	\$ -	\$ 10,394,087	\$ 8,633,238	\$ -	\$ 8,633,238
Support services:						
Management and general	2,614,653	-	2,614,653	2,402,131	-	2,402,131
Fundraising	759,262	-	759,262	815,419	-	815,419
Total expenses	13,768,002	-	13,768,002	11,850,788	-	11,850,788
Change in net assets before depreciation and investment return	(957,360)	1,484,856	527,496	1,938,066	1,323,043	3,261,109
<b>Depreciation Expense</b>	(165,266)	-	(165,266)	(174,361)	-	(174,361)
<b>Investment Return</b>	299,205	570,229	869,434	(291,484)	(960,144)	(1,251,628)
Change in net assets	(823,421)	2,055,085	1,231,664	1,472,221	362,899	1,835,120
<b>Net Assets, Beginning</b>	2,020,863	7,657,863	9,678,726	548,642	7,294,964	7,843,606
<b>Net Assets, Ending</b>	\$ 1,197,442	\$ 9,712,948	\$ 10,910,390	\$ 2,020,863	\$ 7,657,863	\$ 9,678,726

See notes to financial statements



**Scottsdale Arts**

Statement of Functional Expenses  
Year Ended June 30, 2023

	SCPA	SPA	CC	SALI	SMOCA	CCL	Total Program	Management and General	Fundraising	Direct Donor Benefit	Total
<b>Personnel Expenses</b>											
Salaries	\$ 1,121,457	\$ 480,957	\$ 38,478	\$ 382,001	\$ 728,179	\$ 257,949	\$ 3,009,021	\$ 1,473,958	\$ 431,559	\$ -	\$ 4,914,538
Employee benefits	211,512	105,361	4,567	84,084	162,546	45,296	613,366	307,100	72,251	-	992,717
	1,332,969	586,318	43,045	466,085	890,725	303,245	3,622,387	1,781,058	503,810	-	5,907,255
<b>Other Operating Expenses</b>											
Advertising	355,875	-	42,181	2,702	47,820	3,539	452,117	51,768	-	-	503,885
Artist fees	1,019,216	50,850	445,308	107,424	126,450	-	1,749,248	-	-	66,285	1,815,533
Audit and tax services	-	-	-	-	-	-	-	54,957	-	-	54,957
Bank fees	69,239	20	1,106	-	1,914	9,263	81,542	24,786	15,393	-	121,721
Community art grants	90,404	-	-	1,500	22,500	-	114,404	-	-	-	114,404
Community development	2,978	1,496	45	-	2,724	-	7,243	15,744	3,570	-	26,557
Conferences and meetings	11,250	5,241	709	144	1,562	138	19,044	7,477	2,633	-	29,154
Conservation of art	-	104,788	-	-	278	-	105,066	-	-	-	105,066
Depreciation	-	-	-	-	-	-	-	165,266	-	-	165,266
Dues and subscriptions	4,154	49	315	362	9,112	-	13,992	64,567	666	-	79,225
Equipment	100,768	516	126,714	-	17,039	63,349	308,386	41,654	55,904	-	405,944
Exhibition costs	-	1,335	40,025	8,469	51,637	-	101,466	-	-	-	101,466
Food and beverages	31,413	4,836	-	8,094	3,292	956	48,591	732	21,542	84,663	155,528
Insurance	23,683	17,762	-	17,762	17,762	17,762	94,731	17,762	16,921	-	129,414
Internet and website	-	-	-	-	-	-	-	24,147	-	-	24,147
Occupancy	20,088	98,732	-	53,729	13,432	-	185,981	100,819	67,161	-	353,961
Outside services	61,368	12,153	240,514	22,648	73,509	227,823	638,015	75,966	33,479	-	747,460
Postage and shipping	20,237	85	2,516	130	80,276	-	103,244	2,262	3,948	-	109,454
Printing	35,465	1,537	23,207	3,944	93,932	681	158,766	14,698	15,624	-	189,088
Public art projects	-	2,025,764	-	-	-	-	2,025,764	-	-	-	2,025,764
Software expense	2,851	-	-	-	594	240	3,685	261,984	2,140	-	267,809
Supplies	16,117	630	21,358	21,079	10,499	4,127	73,810	29,617	8,799	13,351	125,577
Taxes and licenses	667	-	500	-	305	34,273	35,745	24,517	374	-	60,636
Telephone	-	1,746	-	600	1,800	1,462	5,608	16,097	1,490	-	23,195
Travel and mileage	114,087	3,963	6,696	17,279	26,485	-	168,510	4,041	5,808	-	178,359
Utilities	154,117	-	-	-	122,624	-	276,741	-	-	-	276,741
	3,466,947	2,917,821	994,239	731,951	1,616,271	666,858	10,394,087	2,779,919	759,262	164,299	14,097,567
Amounts not included in expenses on statement of activities:											
Direct donor benefit	-	-	-	-	-	-	-	-	-	(164,299)	(164,299)
Depreciation	-	-	-	-	-	-	-	(165,266)	-	-	(165,266)
<b>Total expenses</b>	<b>\$ 3,466,947</b>	<b>\$ 2,917,821</b>	<b>\$ 994,239</b>	<b>\$ 731,951</b>	<b>\$ 1,616,271</b>	<b>\$ 666,858</b>	<b>\$ 10,394,087</b>	<b>\$ 2,614,653</b>	<b>\$ 759,262</b>	<b>\$ -</b>	<b>\$ 13,768,002</b>

See notes to financial statements

**Scottsdale Arts**

Statement of Functional Expenses  
Year Ended June 30, 2022

	SCPA	SPA	CC	SALI	SMOCA	CCL	Total Program	Management and General	Fundraising	Direct Donor Benefit	Total
<b>Personnel Expenses</b>											
Salaries	\$ 1,006,831	\$ 422,326	\$ 43,632	\$ 373,544	\$ 854,140	\$ 256,356	\$ 2,956,829	\$ 1,395,087	\$ 499,528	\$ -	\$ 4,851,444
Employee benefits	194,190	90,989	6,321	80,472	195,082	44,419	611,473	295,216	81,720	-	988,409
	1,201,021	513,315	49,953	454,016	1,049,222	300,775	3,568,302	1,690,303	581,248	-	5,839,853
<b>Other Operating Expenses</b>											
Advertising	436,545	134	51,661	1,315	63,224	140	553,019	19,911	-	-	572,930
Artist fees	1,150,743	37,500	434,113	85,007	35,300	-	1,742,663	-	(2,366)	48,560	1,788,857
Audit and tax services	-	-	-	-	-	-	-	83,285	-	-	83,285
Bank fees	47,484	-	1,006	-	6,669	5,170	60,329	15,895	7,289	-	83,513
Community art grants	100,600	-	-	7,000	33,400	-	141,000	-	-	-	141,000
Community development	23,966	981	2,000	-	2,789	-	29,736	17,670	6,481	-	53,887
Conferences and meetings	6,047	3,076	504	627	2,085	237	12,576	4,500	260	-	17,336
Conservation of art	-	106,613	-	-	-	-	106,613	-	-	-	106,613
Depreciation	4,308	-	-	-	5,916	-	10,224	164,139	-	-	174,363
Dues and subscriptions	2,276	2,085	600	249	7,167	642	13,019	40,809	507	-	54,335
Equipment	117,026	1,157	216,701	-	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	1,063	32,404	7,494	2,018	1,750	79,661	1,271	10,299	108,955	200,186
Insurance	22,363	7,363	15,000	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	19,444	162,170	25,213	91,447	9,951	361,599	77,795	25,886	-	465,280
Postage and shipping	12,512	71	1,454	1,692	114,601	-	130,330	8,486	7,559	-	146,375
Printing	53,184	750	21,260	6,767	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	857	21,065	16,846	4,984	2,881	55,371	34,849	21,552	-	111,772
Taxes and licenses	667	105	500	-	35	831	2,138	13,661	-	-	15,799
Telephone	600	1,800	1,160	600	1,800	1,200	7,160	14,832	2,419	-	24,411
Travel and mileage	136,527	5,526	78	5,949	25,975	1,630	175,685	3,297	42,446	-	221,428
Utilities	144,444	-	-	-	130,397	-	274,841	317	-	-	275,158
	3,567,218	1,301,539	1,011,629	665,972	1,751,899	345,205	8,643,462	2,566,270	815,419	157,515	12,182,666
Amounts not included in expenses on statement of activities:											
Direct donor benefit	-	-	-	-	-	-	-	-	-	(157,515)	(157,515)
Depreciation	(4,308)	-	-	-	(5,916)	-	(10,224)	(164,139)	-	-	(174,363)
<b>Total expenses</b>	<b>\$ 3,562,910</b>	<b>\$ 1,301,539</b>	<b>\$ 1,011,629</b>	<b>\$ 665,972</b>	<b>\$ 1,745,983</b>	<b>\$ 345,205</b>	<b>\$ 8,633,238</b>	<b>\$ 2,402,131</b>	<b>\$ 815,419</b>	<b>\$ -</b>	<b>\$ 11,850,788</b>

See notes to financial statements

## Scottsdale Arts

### Statements of Cash Flows

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 1,231,664	\$ 1,835,120
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	165,266	174,361
Amortization of operating lease right-of-use assets	265,709	-
Change in deferred rent	-	(103,782)
Realized and unrealized investment losses (gains)	(620,723)	1,426,412
Bad debt write-offs	1,747	-
Change in value of split-interest agreement	14,870	23,295
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(52,081)	38,171
Promises to give	(307,075)	51,273
Employee Retention Credit receivable	792,388	(517,277)
Inventories	30,164	40,871
Prepaid expenses	(45,725)	(459)
Increase (decrease) in:		
Accounts payable and accrued expenses	(12,543)	(61,222)
Deferred revenue	38,898	(232,407)
Deferred conditional contribution - PPP funding	-	(939,800)
Operating lease liabilities	(228,220)	-
Net cash provided by (used in) operating activities	<u>1,274,339</u>	<u>1,734,556</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(56,888)	(158,045)
Proceeds from sales of investments	329,473	301,640
Purchases of investments held for long-term project	(2,600,000)	-
Purchases of investments	(255,241)	(1,579,687)
Net cash provided by (used in) investing activities	<u>(2,582,656)</u>	<u>(1,436,092)</u>
<b>Cash Flows From Financing Activities</b>		
Payments on long-term debt	(4,487)	-
Net cash provided by (used in) financing activities	<u>(4,487)</u>	<u>-</u>
(Decrease) increase in cash and cash equivalents	(1,312,804)	298,464
<b>Cash and Cash Equivalents, Beginning</b>	<u>2,179,551</u>	<u>1,881,087</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 866,747</u>	<u>\$ 2,179,551</u>
Cash and cash equivalents	\$ 606,292	\$ 619,551
Cash and cash equivalents for long-term purposes	<u>260,455</u>	<u>1,560,000</u>
	<u>\$ 866,747</u>	<u>\$ 2,179,551</u>

See notes to financial statements

# Scottsdale Arts

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Notes to Financial Statements  
June 30, 2023 and 2022

## 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 (IRC).

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 occupies a 32-acre campus in the heart of Old Town Scottsdale. The campus includes the Center for Performing Arts, Museum of Contemporary Art and a large, 24-acre greenspace with three major outdoor performance stages. SA also works with public schools in Scottsdale and Paradise Valley through arts education. SA provides multiple annual exhibitions in the Scottsdale Civic Center Library. SA's Public Art department (SPA) curates, commissions, installs and maintains the entirety of Scottsdale's Public Art holdings - currently 167 pieces, ranging from the large-scale to the monumental and including a 3-mile stretch of Freeway art and a pedestrian bridge. The collection is managed by SA and owned by the City of Scottsdale.

SA operates six 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.
- Canal Convergence (CC) - Canal Convergence is a major public art event in the city of Scottsdale lasting 10 days annually in November. It is free to the public, with some ticketed workshops and tours with nominal fees and is now in its 11th year. SA organizes the entire event and presents many large and interactive art installations, live music and performances, creative workshops and immersive experiences to the public. During the year ended June 30, 2023, the estimated attendance, as determined through geofencing software, was approximately 150,000 people over the 10 days of the event. Partial funding of approximately \$750,000 is provided each year by the City of Scottsdale out of bed-tax dollars to fund this Fall Destination Event. SA raises additional funding over \$100,000 per year in private and corporate donations, grants and in-kind services and rentals to support the event.
- Scottsdale Arts Learning and Innovation (SALI) - SA's Learning and Innovation 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, scholarships, publication, education tours, programs, lectures and workshops.

## Scottsdale Arts

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Notes to Financial Statements  
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- Civic Center Live (CCL) - The SA Civic Center Live 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 Sip n' Series and renamed SU & Sounds events.

### 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 90 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, 2023 and 2022 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.

### Fair Value Measurements

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

## Scottsdale Arts

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Notes to Financial Statements  
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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.

### 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.

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.

### 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, 2023, 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

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*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 4%, 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 4.00% of the balance on March 31<sup>st</sup> of the endowment funds. 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 5.00% 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.

### 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>2023</u>	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ 84,487	\$ 22,406	\$ 60,577
Deferred revenue	\$ 822,011	\$ 783,113	\$ 1,015,520



## Scottsdale Arts

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Notes to Financial Statements  
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### 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.

### 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 nonfinancial 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 \$504,000 and \$573,000 for the years ended June 30, 2023 and 2022, 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.

### 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.

## Scottsdale Arts

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Notes to Financial Statements  
June 30, 2023 and 2022

### Income Tax Status

SA qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC. 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, 2023 and 2022, SA incurred income tax expense of approximately \$24,000 and \$14,000, respectively, relating to UBTI. There was no receivable for income taxes as of June 30, 2023 and 2022.

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, 2023 and 2022, 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, 2023 and 2022, 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.

### Adoption of New Accounting Standard

Effective July 1, 2022, SA adopted FASB ASU No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach. SA's 2022 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires organizations to recognize the assets and liabilities that arise from leases on the statement of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-us asset and lease liability measured at the net present value of future lease payments. Operating right-of-use assets are expensed on a straight-line basis as lease expense over the noncancelable lease term. At the date of adoption, SA recorded operating lease right-of-use assets and lease liabilities of \$1,678,809 and \$2,292,473, respectively.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, SA elected:

- The package of practical expedients permitted under the transition guidance which does not require SA to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs;
- The practical expedient to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of SA's right-of-use assets.

## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

The new standard also provides for several accounting policy elections as, as follows:

- SA has elected the policy not to separate lease and nonlease components for all asset classes.
- When the rate implicit in the lease is not determinable, rather than use SA's incremental borrowing rate, SA elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all assets classes.
- SA elected not to apply the recognition requirements to all leases with an original term of 12 months or less, for which SA is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term.

Additional required disclosures for Topic 842 are contained in Note 21.

### Date of Management's Review

In preparing these financial statements, SA has evaluated events and transactions for potential recognition or disclosure through January 30, 2024, the date the financial statements were available to be issued.

## 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>2023</u>	<u>2022</u>
Current assets	\$ 1,129,102	\$ 1,586,779
Inventories	(82,092)	(112,256)
Prepaid expenses	(85,903)	(40,178)
Operating investments	1,325,211	1,254,757
Endowment spending appropriation	<u>256,800</u>	<u>282,100</u>
Total	<u>\$ 2,543,118</u>	<u>\$ 2,971,202</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 4.00%.

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

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Notes to Financial Statements  
June 30, 2023 and 2022

### 3. Concentrations

Financial instruments that potentially subject SA to significant concentrations of credit risk consist principally of cash and promises to give. 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, 2023 include amounts due from four donors that represents 61% of total net promises to give and grants receivable.

Accounts receivable as of June 30, 2023 include amounts due from three funding source that represents 82% of total accounts receivable. Accounts receivable as of June 30, 2022 include amounts due from three funding sources that represents 81% 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.

### 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 \$6,165,500 for the fiscal year ending June 30, 2024.

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.

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 also provided approximately \$125,000 of contributions to SA during each of the years ended June 30, 2023 and 2022. For the years ended June 30, 2023 and 2022, SA provided grants to various arts and cultural organizations totaling approximately \$114,400 and \$141,000, respectively from contributions received from the City of Scottsdale. For the years ended June 30, 2023 and 2022, total revenue from the City of Scottsdale represents 59% and 44% 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.

## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

### 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.

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, 2023, SA did not have any amounts included in deferred revenue for this purpose. At June 30, 2022, approximately \$73,000 was included in deferred revenue to be used for future projects.

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

	<u>2023</u>	<u>2022</u>
Deferred, beginning	\$ 362,874	\$ 392,310
Funds received and invoiced during the year:		
Contract program payments received	806,666	767,815
Project payments received	2,775,764	1,288,470
Less expenses (revenue recognized on the contract during the year):		
Contract program expenses	(889,449)	(768,029)
Project expenses and other expenditures	<u>(2,785,212)</u>	<u>(1,317,692)</u>
Deferred, ending	<u>\$ 270,643</u>	<u>\$ 362,874</u>

Deferred revenue at June 30, 2023 and 2022 also included approximately \$270,000 and \$289,000, respectively, for conditional contributions relating to the Canal Convergence project from the City of Scottsdale.

### 6. Investments and Fair Value of Financial Instruments

Investments with readily determinable fair values are measured at fair value in the statements 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.

## Scottsdale Arts

Notes to Financial Statements  
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The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2023:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments held for capital projects:				
Cash and cash equivalents	\$ 4,229	\$ 4,229	\$ -	\$ -
US treasury bills	2,658,902	2,658,902	-	-
Total investments held for capital projects	<u>2,663,131</u>	<u>2,663,131</u>	<u>-</u>	<u>-</u>
Operating investments:				
Cash and cash equivalents	80,566	80,566	-	-
Equity funds	765,127	765,127	-	-
Fixed income funds	459,540	459,540	-	-
Real estate funds	19,978	19,978	-	-
Total operating investments	<u>1,325,211</u>	<u>1,325,211</u>	<u>-</u>	<u>-</u>
Endowment investments:				
Cash and cash equivalents	402,230	402,230	-	-
Equity funds	3,820,022	3,820,022	-	-
Fixed income funds	2,294,329	2,294,329	-	-
Real estate funds	99,745	99,745	-	-
ACF investment fund	266,000	-	-	266,000
Total endowment investments	<u>6,882,326</u>	<u>6,616,326</u>	<u>-</u>	<u>266,000</u>
Split interest agreement investments:				
Cash and cash equivalents	770	770	-	-
Equity funds	7,311	7,311	-	-
Fixed income funds	4,391	4,391	-	-
Real estate funds	191	191	-	-
Total split interest agreement investments	<u>12,663</u>	<u>12,663</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 10,883,331</u>	<u>\$ 10,617,331</u>	<u>\$ -</u>	<u>\$ 266,000</u>

## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Operating investments:				
Equity funds	\$ 730,053	\$ 730,053	\$ -	\$ -
Fixed income funds	524,704	524,704	-	-
	<u>1,254,757</u>	<u>1,254,757</u>	<u>-</u>	<u>-</u>
Total operating investments				
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>6,469,420</u>	<u>6,210,028</u>	<u>-</u>	<u>259,392</u>
Total endowment investments				
Split interest agreement investments:				
Equity funds	16,057	16,057	-	-
Fixed income funds	11,476	11,476	-	-
	<u>27,533</u>	<u>27,533</u>	<u>-</u>	<u>-</u>
Total split interest agreement investments				
Total investments	<u>\$ 7,751,710</u>	<u>\$ 7,492,318</u>	<u>\$ -</u>	<u>\$ 259,392</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, 2023 and 2022:

Balance, June 30, 2021	\$ 280,339
Interest and dividends	4,478
Realized gains	8,879
Unrealized losses	(31,529)
Investment fees	(2,775)
	<u>259,392</u>
Balance, June 30, 2022	259,392
Interest and dividends	3,902
Realized gains	1,832
Unrealized gains	14,233
Investment fees	(2,459)
Amounts appropriated for expenditure	(10,900)
	<u>266,000</u>
Balance, June 30, 2023	<u>\$ 266,000</u>

## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

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

	<u>2023</u>	<u>2022</u>
Investments and dividends	\$ 276,997	\$ 198,294
Investment fees	(28,286)	(23,510)
Unrealized investment gain	167,916	74,654
Unrealized investment gain (loss)	452,807	(1,501,066)
Total	<u>\$ 869,434</u>	<u>\$ (1,251,628)</u>

### 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.

### 8. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Building improvements	\$ 1,726,505	\$ 4,247,482
Computer equipment and software	367,702	707,654
Furniture, fixtures and software	720,263	1,362,323
	2,814,470	6,317,459
Accumulated depreciation and amortization	<u>(2,305,452)</u>	<u>(5,700,063)</u>
Total	<u>\$ 509,018</u>	<u>\$ 617,396</u>

Depreciation expense was \$165,266 and \$174,361 for the years ended June 30, 2023 and 2022, respectively.

### 9. Conditional Contributions

During the years ended June 30, 2023 and 2022, SA received amounts totaling \$128,000 and \$77,500, 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.



## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

### 10. Endowment Funds

Endowment net asset composition by type of fund as June 30, 2023 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 668,293	\$ -	\$ 668,293
Donor-restricted endowment funds:			
Original donor-restricted amount	-	5,685,540	5,685,540
Accumulated investment earnings	-	541,156	541,156
<b>Total</b>	<u>\$ 668,293</u>	<u>\$ 6,226,696</u>	<u>\$ 6,894,989</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
<b>Total</b>	<u>\$ 633,126</u>	<u>\$ 5,923,827</u>	<u>\$ 6,556,953</u>

Changes in endowment funds for the years ended June 30, 2023 and 2022 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	633,126	5,923,827	6,556,953
Interest and dividends	13,889	127,135	141,024
Realized gains	13,933	125,687	139,620
Unrealized gains	37,113	343,088	380,201
Investment fees	(2,606)	(25,681)	(28,287)
Amounts appropriated for expenditure	(27,162)	(267,360)	(294,522)
Endowment funds, June 30, 2023	<u>\$ 668,293</u>	<u>\$ 6,226,696</u>	<u>\$ 6,894,989</u>

## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

### 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 May 29, 2025. There was no outstanding balance on this line as of June 30, 2023 and 2022.

### 12. Long-Term Debt

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

	<u>2023</u>	<u>2022</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.	\$ 145,413	\$ 149,900
Less current portion	<u>(3,474)</u>	<u>(3,279)</u>
Total	<u>\$ 141,939</u>	<u>\$ 146,621</u>

Annual maturities of long-term debt outstanding as of June 30, 2023 are as follows:

Years ending June 30:	
2024	\$ 3,474
2025	3,576
2026	3,681
2027	3,789
2028	3,901
Thereafter	<u>126,992</u>
Total	<u>\$ 145,413</u>

## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

### 13. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted as follows:

	<u>2023</u>	<u>2022</u>
Purpose restrictions:		
Stage renovation	\$ 2,923,586	\$ 1,500,000
Education	180,553	6,602
Cultural assessment	64,121	125,000
Museum exhibitions	-	63,739
Sponsorships for performances	62,771	29,605
Scottsdale Arts Internships	-	6,090
Other	500	3,000
	<u>3,231,531</u>	<u>1,734,036</u>
Time restrictions:		
Promises to give	140,328	-
Time and purpose restrictions:		
Museum exhibitions	58,393	-
Piper Fellowship	40,000	-
Sponsorships for performances	16,000	-
	<u>114,393</u>	<u>-</u>
Endowment Funds:		
Portion of perpetual endowment funds that are required to be permanently retained	5,685,540	5,685,540
Portion of perpetual endowment funds subject to a restriction under MCFA	541,156	238,287
	<u>6,226,696</u>	<u>5,923,827</u>
Total	<u>\$ 9,712,948</u>	<u>\$ 7,657,863</u>

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

	<u>2023</u>	<u>2022</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	60,000
SMoCA charitable gift annuity trust	36,056	36,056
Total	<u>\$ 5,685,540</u>	<u>\$ 5,685,540</u>

## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

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

	<u>2023</u>	<u>2022</u>
Purpose restrictions:		
Endowment appropriations	\$ 267,360	\$ 288,087
Cultural assessment	125,000	-
Museum exhibitions	63,738	12,762
Sponsorships for performances	31,334	9,662
Scottsdale Arts Internships	6,090	17,379
Education	5,719	23,941
Website and computer hardware	-	48,884
Wolf trap	-	16,285
	<u>499,241</u>	<u>417,000</u>
Time and purpose restrictions:		
Canal Convergence	-	3,875
Museum exhibitions	-	40,000
Sponsorships for performances	-	12,500
	<u>-</u>	<u>56,375</u>
Total	<u>\$ 499,241</u>	<u>\$ 473,375</u>

### 14. Board Designated Net Assets

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

	<u>2023</u>	<u>2022</u>
English Trust Quasi-endowment	\$ 378,532	\$ 358,612
Herman Bequest Quasi-endowment	133,053	126,052
Miller-Mills Quasi-endowment	156,708	148,462
Total	<u>\$ 668,293</u>	<u>\$ 633,126</u>

## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

### 15. Earned Revenues and Contributions

Earned revenues consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Ticket sales	\$ 1,483,294	\$ 1,499,540
Box office service charges	196,126	128,474
Facility and equipment rental and labor reimbursement	433,810	225,389
Food and beverage and other operating income	173,057	102,369
Education revenue	98,947	63,545
Exhibition admissions and other museum revenue	101,599	100,250
Membership	20,574	21,936
	<u>\$ 2,507,407</u>	<u>\$ 2,141,503</u>

Contributions consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Individuals	\$ 2,399,771	\$ 693,062
Non-cash donations	18,806	112,636
Foundations	383,000	1,658,910
Memberships	178,078	195,854
Corporations	125,295	170,091
Government	176,000	3,406,970
Special event contributions	83,702	133,005
	<u>\$ 3,364,652</u>	<u>\$ 6,370,528</u>

### 16. Non-Cash Donations

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

<u>Non-Financial Assets</u>	<u>Revenue Recognized June 30, 2023</u>	<u>Revenue Recognized June 30, 2022</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.

## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

<u>Non-Financial Assets</u>	<u>Revenue Recognized June 30, 2023</u>	<u>Revenue Recognized June 30, 2022</u>	<u>Utilization in Programs / Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques and Inputs</u>
Lodging	\$ 6,487	\$ 2,207	SPCA	None	Current rate of lodging provided by the hotel operating in the greater Phoenix metropolitan area.
Photography	12,319	23,361	SALI, SCPA	None	Current rate 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	-	68,967	Canal Convergence, SMOCA	None	Current rate of production services provided by the production companies operating in the greater Phoenix metropolitan area,
	<u>\$ 18,806</u>	<u>\$ 112,636</u>			

### 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, 2023 and 2022. Costs related to commissioned works of art were approximately \$2,026,000 and \$525,000 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022.

During the year ended June 30, 2023, SA facilitated a private donation of fine art to the City of Scottsdale. After developing a ten-year relationship with a valued donor, SMOCA received two paintings as gifts: The Blue Door and Malta by Robert Motherwell. As an abstract expressionist artist of the New York School that included Willem de Kooning, Jackson Pollock and Mark Rothko, Robert Motherwell is one of the most important American painters of the 20th century. The paintings have significant artistic value to the community and were last appraised in 2007 and 2008 at a combined value of \$700,000. The paintings have now joined the fine art collection owned by the City of Scottsdale and managed by SA. SA considers these to be agency transactions and accordingly has not included this amount as revenue.

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.

## Scottsdale Arts

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Notes to Financial Statements  
June 30, 2023 and 2022

### 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. SA is subject to possible audit or investigation by the SBA to determine whether award funds were used for eligible allowable purposes.

### 19. Employee Retention Credit

During the year ended June 30, 2022, 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 year ended June 30, 2022, SA received a wage credit of \$792,388, which is recorded as contribution income on the statements of activities and as a receivable at June 30, 2022 on the accompanying statements of financial position. During the year ended June 30, 2023, SA received payments of approximately \$792,000, respectively, related to this benefit. SA is subject to possible audit or investigation by the IRS to determine whether the tax credit amounts were used for allowable purposes and whether SA met the eligibility requirements.

### 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 \$146,000 and \$151,000 for the years ended June 30, 2023 and 2022, respectively.

### 21. Leasing Activities

SA leases its office space under a noncancelable operating leases expiring in August 2031, which includes one five-year renewal option which management believes they are reasonably certain to renew. SA also leases various office equipment under operating lease agreements expiring through April 2028. Current monthly lease payments under these leases are approximately \$25,000, plus applicable taxes and other operating costs and escalate through the term of the lease.

## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of SA's leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at SA's sole discretion. SA regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, SA includes such options in the lease term. Additionally, upon adoption of the new standard, SA made judgments regarding lease terms for certain of its real property leases that were in month-to-month status or that contained auto-renewal clauses. SA estimated a lease end date based on the required length of usage of the property and calculated a right-of-use asset and lease liability with the resulting estimated lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, SA uses the rate implicit in the lease, or if not readily available, SA use a risk-free rate based on U.S. Treasury note or bond rates for a similar term.

Right-of-use assets are assessed for impairment in accordance with SA's long-lived asset policy. SA reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

SA made significant assumptions and judgments in applying the requirements of Topic 842. In particular, SA:

- Evaluated whether a contract contains a lease, by considering factors such as whether SA obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights.
- Determined whether contracts contain embedded leases.

SA does not have any material leasing transactions with any related parties.

The following table summarizes the operating lease right-of-use assets and operating lease liabilities as of June 30, 2023:

Operating lease right-of-use assets	<u>\$ 1,502,747</u>
Operating lease liabilities:	
Current	\$ 240,548
Long-term	<u>1,829,110</u>
Total operating lease liabilities	<u>\$ 2,069,658</u>

Below is a summary of expenses incurred pertaining to leases during the year ended June 30, 2023:

Operating lease expense	\$ 235,211
Short-term lease expense	262,950
Variable lease expense	<u>12,614</u>
Total lease expense	<u>\$ 510,775</u>

The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 2.89%. As of June 30, 2023, the operating lease weighted average remaining lease term was 8.01 years.



## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

The table below summarizes SA's scheduled future minimum lease payments for years ending after June 30, 2023:

Years ending December 31:	
2024	\$ 298,932
2025	291,351
2026	278,700
2027	281,244
2028	281,056
Thereafter	<u>887,034</u>
Total lease payments	2,318,317
Less present value discount	<u>(248,659)</u>
Total lease liabilities	<u>2,069,658</u>
Less current portion	<u>(240,548)</u>
Total	<u>\$ 1,829,110</u>

The table below summarizes SA's scheduled future minimum lease payments for years ending after June 30, 2022:

Years ending December 31:	
2023	\$ 263,834
2024	268,247
2025	272,478
2026	277,572
2027	<u>140,058</u>
Total	<u>\$ 1,222,189</u>

Under the FASB Accounting Standards Codification (ASC) 840, *Leases*, SA recorded occupancy expense on a straight-line basis from the inception of the lease. Any difference between the calculated expense and the amounts actually paid was 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. The cumulative difference between the rent paid and rent charged to expense at June 30, 2022 was \$529,422.

Total rental expense under operating leases was approximately \$246,000 on a straight-line bases for the year ended June 30, 2022.

The following table includes supplemental cash flow and non-cash information related to the leases for the year ended June 30, 2023.

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	<u>\$ 293,838</u>
Operating lease right-of-use assets obtained in exchange for lease liabilities	<u>\$ 5,405</u>

## Scottsdale Arts

Notes to Financial Statements  
June 30, 2023 and 2022

### 22. Community Arts Granting Program

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

	<u>2023</u>	<u>2022</u>
Arizona MusicFest	\$ 10,000	\$ 10,000
B3 Theatre Inc.	1,300	-
Central Arizona Flute Ensemble	1,500	-
Childsplay	10,000	10,000
Desert Stages Theatre	6,104	7,500
Detour Company Theatre	10,000	10,000
Don Bluth Theatre	2,000	7,500
Frank Lloyd Wright Foundation	-	10,000
Free Arts for Abused Children of Arizona	1,500	3,000
Greasepaint Youth Theater	10,000	10,000
Grey Box Collective	-	1,000
Kids in Focus	10,000	10,000
Movement Source	10,000	6,000
Musica Nova Inc.	6,000	4,200
Musical Instruments Museum	1,500	7,000
Phoenix Conservatory of Music	-	6,000
Phoenix Youth Theatre	1,000	-
Rising Youth Theatre	1,000	5,000
Scottsdale Artists' School	10,000	10,000
Scottsdale International Film Festival	-	10,000
Scottsdale Neighborhood Arts Place, Inc	1,500	1,000
Scottsdale Philharmonic Inc.	20,000	2,000
The Bridge Initiative	1,000	2,400
The Nash	-	4,200
The Phoenix Symphony	-	4,200
	<hr/>	<hr/>
Total	<u>\$ 114,404</u>	<u>\$ 141,000</u>

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

### 23. Related-Party Transactions

During the year ended June 30, 2023, SA received approximately \$200,000 in contributions from board members. During the year ended June 30, 2022, SA received approximately \$167,000 in contributions from board members.