

**ARTS & SCIENCE COUNCIL
CHARLOTTE/MECKLENBURG, INC.**

FINANCIAL STATEMENTS

*As of and for the Years Ended June 30, 2015
and 2014*

And Report of Independent Auditor

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

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Report of Independent Auditor

Board of Directors
Arts & Science Council Charlotte/Mecklenburg, Inc.
Charlotte, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Arts & Science Council Charlotte/Mecklenburg, Inc., which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arts & Science Council Charlotte/Mecklenburg, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Charlotte, North Carolina
January 11, 2016

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents:		
Unrestricted	\$ 2,342,895	\$ 2,231,058
Restricted for Public Art	463,135	465,624
Annual campaign pledges receivable, net (Note 2)	3,436,097	4,337,688
Grant and other receivables	485,018	1,900,584
Prepaid expenses	29,740	154,340
Other pledges receivable (Note 1)	10,152,480	9,000,000
Investments (Notes 4 and 5)	26,369	26,692
Beneficial interests in trust:		
Endowment investments (Notes 3, 4, and 5)	32,095,072	33,415,834
Property and equipment, net	<u>326,300</u>	<u>407,561</u>
Total Assets	<u><u>\$ 49,357,106</u></u>	<u><u>\$ 51,939,381</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 458,198	\$ 480,093
Deferred lease incentives	56,566	81,974
Funds held for others	200,056	-
Payable to designated beneficiaries	10,152,480	9,000,000
Deferred support	<u>750,486</u>	<u>894,015</u>
Total Liabilities	<u>11,617,786</u>	<u>10,456,082</u>
Net assets:		
Unrestricted (Note 1)	387,473	746,694
Temporarily restricted (Note 7)	9,473,482	12,858,240
Permanently restricted (Note 7)	<u>27,878,365</u>	<u>27,878,365</u>
Total Net Assets	<u>37,739,320</u>	<u>41,483,299</u>
Total Liabilities and Net Assets	<u><u>\$ 49,357,106</u></u>	<u><u>\$ 51,939,381</u></u>

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue:								
Public Support:								
Fund drive and general contributions	\$ 1,582,020	\$ 5,231,775	\$ -	\$ 6,813,795	\$ 1,848,887	\$ 7,295,771	\$ -	\$ 9,144,658
Government grants:								
City of Charlotte	2,940,823	-	-	2,940,823	2,940,823	-	-	2,940,823
Mecklenburg County	1,100,000	-	-	1,100,000	1,100,000	-	-	1,100,000
Charlotte Mecklenburg Schools	58,500	-	-	58,500	55,500	-	-	55,500
NC Arts Council	213,318	-	-	213,318	216,085	-	-	216,085
Other municipalities	72,500	-	-	72,500	70,000	-	-	70,000
Public Art funds:								
City of Charlotte	418,638	-	-	418,638	216,675	-	-	216,675
Mecklenburg County	-	-	-	-	14,475	-	-	14,475
Other	-	-	-	-	4,400	-	-	4,400
Total Public Support	6,385,799	5,231,775	-	11,617,574	6,466,845	7,295,771	-	13,762,616
Investment income (loss)	2,238	-	-	2,238	(163)	-	-	(163)
Allocation of allowable endowment balance for spending (Notes 3, 4 and 5)	1,328,326	-	-	1,328,326	1,492,662	-	-	1,492,662
Net assets released from restriction	7,295,771	(7,295,771)	-	-	7,377,068	(7,377,068)	-	-
Total Operating Revenue	\$ 15,012,134	\$ (2,063,996)	\$ -	\$ 12,948,138	\$ 15,336,412	\$ (81,297)	\$ -	\$ 15,255,115

The accompanying notes to the financial statements are an integral part of these statements.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
STATEMENTS OF ACTIVITIES (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Expenses:								
Program Services:								
Grants and allocations	\$ 9,887,882	\$ -	\$ -	\$ 9,887,882	\$ 10,510,959	\$ -	\$ -	\$ 10,510,959
Public Art	612,458	-	-	612,458	326,140	-	-	326,140
Grant support and other services	2,471,051	-	-	2,471,051	2,854,808	-	-	2,854,808
General and administrative	1,072,824	-	-	1,072,824	931,522	-	-	931,522
Fund raising	1,327,140	-	-	1,327,140	1,292,948	-	-	1,292,948
Total Operating Expenses	<u>15,371,355</u>	<u>-</u>	<u>-</u>	<u>15,371,355</u>	<u>15,916,377</u>	<u>-</u>	<u>-</u>	<u>15,916,377</u>
Change in net assets from operations	(359,221)	(2,063,996)	-	(2,423,217)	(579,965)	(81,297)	-	(661,262)
Other Changes:								
Change in beneficial interest (Note 3)	-	7,564	-	7,564	-	4,252,998	(25,000)	4,227,998
Allocation of allowable endowment balance for spending (Notes 3, 4 and 5)	-	(1,328,326)	-	(1,328,326)	-	(1,492,662)	-	(1,492,662)
Change in net assets	(359,221)	(3,384,758)	-	(3,743,979)	(579,965)	2,679,039	(25,000)	2,074,074
Net assets:								
Beginning of year	746,694	12,858,240	27,878,365	41,483,299	1,326,659	10,179,201	27,903,365	39,409,225
End of year	<u>\$ 387,473</u>	<u>\$ 9,473,482</u>	<u>\$ 27,878,365</u>	<u>\$ 37,739,320</u>	<u>\$ 746,694</u>	<u>\$ 12,858,240</u>	<u>\$ 27,878,365</u>	<u>\$ 41,483,299</u>

The accompanying notes to the financial statements are an integral part of these statements.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015

	Program Services				Supporting Services			
	Grants and Allocations	Public Art	Grant Support and Other Services	Total Program Services	General and Administrative	Fund Raising	Total Supporting Services	Total
Grants, allocations and direct expenses	\$ 8,371,942	\$ -	\$ -	\$ 8,371,942	\$ -	\$ -	\$ -	\$ 8,371,942
Arts and science education	274,256	-	-	274,256	-	-	-	274,256
Payments to organizations	398,956	-	-	398,956	-	-	-	398,956
Indirect and other grant expenses	842,728	-	-	842,728	-	-	-	842,728
Artist contracts	-	375,182	-	375,182	-	-	-	375,182
Salaries	-	136,605	689,695	826,300	656,829	716,830	1,373,659	2,199,959
Payroll taxes and benefits	-	31,479	161,811	193,290	118,379	148,485	266,864	460,154
Promotions and public relations	-	1,822	111,080	112,902	8,114	28,707	36,821	149,723
Professional fees and contracted services	-	17,459	815,841	833,300	8,847	18,793	27,640	860,940
Professional development	-	1,465	7,077	8,542	11,622	1,217	12,839	21,381
Office rent	-	11,070	113,463	124,533	51,196	44,278	95,474	220,007
Depreciation	-	9,889	61,806	71,695	32,139	51,917	84,056	155,751
Technology	-	4,607	88,903	93,510	14,972	79,061	94,033	187,543
Office and meetings	-	1,970	73,239	75,209	32,502	95,841	128,343	203,552
Dues and subscriptions	-	3,261	16,789	20,050	3,823	23,699	27,522	47,572
Telephone	-	516	6,558	7,074	1,678	2,711	4,389	11,463
Processing fees	-	6,423	56,176	62,599	23,412	33,716	57,128	119,727
Discretionary	-	-	33,367	33,367	15,745	844	16,589	49,956
Other	-	10,710	235,246	245,956	93,566	81,041	174,607	420,563
Total Expenses	\$ 9,887,882	\$ 612,458	\$ 2,471,051	\$ 12,971,391	\$ 1,072,824	\$ 1,327,140	\$ 2,399,964	\$ 15,371,355

The accompanying notes to the financial statements are an integral part of these statements.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

YEAR ENDED JUNE 30, 2014

	Program Services				Supporting Services			
	Grants and Allocations	Public Art	Grant Support and Other Services	Total Program Services	General and Administrative	Fund Raising	Total Supporting Services	Total
Grants, allocations and direct expenses	\$ 8,510,464	\$ -	\$ -	\$ 8,510,464	\$ -	\$ -	\$ -	\$ 8,510,464
Arts and science education	300,310	-	-	300,310	-	-	-	300,310
Payments to organizations	915,888	-	-	915,888	-	-	-	915,888
Indirect and other grant expenses	784,297	-	-	784,297	-	-	-	784,297
Artist contracts	-	160,885	-	160,885	-	-	-	160,885
Salaries	-	74,852	793,935	868,787	473,416	533,561	1,006,977	1,875,764
Payroll taxes and benefits	-	12,568	180,675	193,243	104,923	124,580	229,503	422,746
Promotions and public relations	-	4,042	10,736	14,778	8,507	43,594	52,101	66,879
Professional fees and contracted services	-	20,406	1,096,397	1,116,803	93,126	60,718	153,844	1,270,647
Professional development	-	-	11,558	11,558	14,179	40	14,219	25,777
Office rent	-	13,185	109,047	122,232	60,979	52,739	113,718	235,950
Depreciation	-	11,287	70,546	81,833	36,684	59,259	95,943	177,776
Technology	-	3,669	194,928	198,597	8,674	105,915	114,589	313,186
Office and meetings	-	10,985	149,384	160,369	38,186	142,615	180,801	341,170
Dues and subscriptions	-	1,266	9,859	11,125	3,483	14,048	17,531	28,656
Telephone	-	841	8,611	9,452	2,734	4,417	7,151	16,603
Processing fees	-	4,414	54,085	58,499	16,363	23,175	39,538	98,037
Discretionary	-	60	5,411	5,471	38,500	173	38,673	44,144
Other	-	7,680	159,636	167,316	31,768	128,114	159,882	327,198
Total Expenses	\$ 10,510,959	\$ 326,140	\$ 2,854,808	\$ 13,691,907	\$ 931,522	\$ 1,292,948	\$ 2,224,470	\$ 15,916,377

The accompanying notes to the financial statements are an integral part of these statements.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,743,979)	\$ 2,074,074
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	155,751	177,776
Change in allowance for uncollectible pledges	161,720	(140,120)
Realized and unrealized gains on investments, net	(1,784)	916
Non-cash contributions of investments	-	(269,492)
Change in beneficial interest	(7,564)	(4,227,998)
Allocation of allowable endowment balance for spending	1,328,326	1,492,662
Write-off of endowment pledge receivable	-	25,000
Changes in operating assets and liabilities:		
Annual campaign pledges receivable	739,871	441,866
Grant and other receivables	1,415,566	(109,217)
Prepaid expenses	124,600	(120,225)
Accounts payable and accrued expenses	(21,895)	(308,689)
Deferred lease incentives	(25,408)	(31,286)
Funds held for others	200,056	-
Deferred support	(143,529)	81,601
Net cash used in operating activities	<u>181,731</u>	<u>(913,132)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	2,107	251,729
Purchases of property and equipment	(74,490)	(88,011)
Net cash (used in) provided by investing activities	<u>(72,383)</u>	<u>163,718</u>
Cash flows from financing activities:		
Change in restricted cash and cash equivalents	<u>2,489</u>	<u>147,811</u>
Net cash provided by financing activities	<u>2,489</u>	<u>147,811</u>
Net decrease in cash and cash equivalents	111,837	(601,603)
Cash and cash equivalents - unrestricted, beginning of year	<u>2,231,058</u>	<u>2,832,661</u>
Cash and cash equivalents - unrestricted, end of year	<u>\$ 2,342,895</u>	<u>\$ 2,231,058</u>

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

Note 1—Summary of significant accounting policies

Organization and Nature of Activities - Arts & Science Council Charlotte/Mecklenburg, Inc. ("ASC") is a nonprofit umbrella grants, services, and fund-raising organization incorporated under the laws of North Carolina for the purpose of building appreciation, participation, and support for the arts, sciences, history, and heritage throughout the City of Charlotte and Mecklenburg County. ASC receives its support through contributions from the general public and government grants. Primary support for Public Art, a separate department within ASC's operations, comes from the City of Charlotte, Mecklenburg County, and the private sector. The majority of these funds are then distributed to organizations and artists for support of their programs.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are both undesignated and designated in nature. Undesignated, unrestricted net assets are those currently available for use in the day-to-day operations of ASC and those resources invested in property and equipment. From time to time, the Board of Directors may designate certain amounts to be utilized or invested to meet specific objectives of ASC. As of June 30, 2015 and 2014, ASC had Board designated net assets of approximately \$50,000 and \$100,000, respectively, for future cultural projects which are included in unrestricted net assets in the accompanying statements of financial position.

Temporarily Restricted Net Assets - Net assets that are contributions or endowment investment earnings subject to restrictions by explicit donor stipulations or by law which may or will be met, either by actions of ASC and/or the passage of time. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by ASC. Generally, the donors of these assets permit ASC to use all or part of the income earned on any related investments for general or specific purposes.

Public Support and Revenue - Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor. Unconditional promises to give are recorded when the pledge is made. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-adjusted interest rates applicable to the years in which the pledges are received. Amortization of the resulting discount is taken into revenue as a contribution in subsequent years.

The majority of the promises to give are received from a broad base of contributors from the City of Charlotte and Mecklenburg County as a result of the campaigns. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges receivable at year-end.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are recorded as temporarily restricted net assets until the earnings are appropriated for expenditure or until certain purpose-related restrictions are met. As the earnings are appropriated for expenditure or after purpose-related restrictions are met, the earnings are released into unrestricted net assets. Investment losses that result in accumulated losses for specific funds reduce unrestricted net assets until future earnings offset those losses.

Contributions of donated assets 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 donation, are recorded at their fair values in the period received. During the years ended June 30, 2015 and 2014, ASC received \$679,868 and \$504,548, respectively, of donated assets and services that met the requirements above.

Other Pledges Receivable and Payable to Designated Beneficiaries - During the year ended June 30, 2011, ASC received \$15,000,000 in pledges that were designated for other cultural organizations. During the year ended June 30, 2015, ASC received \$1,152,480 in pledges that were designated for other cultural organizations. ASC considers these agency transactions. Accordingly, as of June 30, 2015 and 2014, the remaining pledge and amount payable to the other cultural organizations of \$10,152,480 and \$9,000,000, respectively, are shown in the accompanying statements of financial position as both a pledge receivable and payable to designated beneficiaries. These transactions have no effect on changes in net assets in the accompanying statements of activities for the years ended June 30, 2015 and 2014, and therefore, are not recorded at the present value of the future cash flows.

Income Taxes - ASC is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code ("IRC"). In accordance with IRC regulations, ASC is taxed on unrelated business income, which consists of earnings from activities not related to the exempt purpose of ASC. ASC accounts for tax uncertainties based on a more likely than not recognition threshold whereby tax benefits are only recognized when ASC believes that they have a greater than 50% likelihood of being sustained upon examination by taxing authorities. ASC has evaluated all its tax positions and determined that it had no uncertain income tax positions as of June 30, 2015 and 2014.

Cash and Cash Equivalents - Highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents except those cash equivalents maintained as part of the investment and endowment portfolio.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued in the accompanying statements of financial position at their fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Changes in the fair value of securities are reflected as investment income in the accompanying statements of activities.

Investments are comprised of common stocks that were donated and not yet liquidated as of June, 2015 and 2014, totaling \$26,369 and \$26,692, respectively.

Beneficial Interest in Trust - ASC recognizes contribution revenue from assets held by a recipient organization for the sole benefit of ASC (see Note 3).

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

Property and Equipment, Net - Property and equipment primarily includes office furniture, technology equipment, and software, which are stated at cost for purchased items and at estimated fair value at the date received for donated items. ASC capitalizes expenditures in excess of \$500 with useful lives of one year or more. Depreciation expense is based on a straight-line method over the estimated life of the respective asset, ranging from 2 - 5 years. Property and equipment is presented net of accumulated depreciation amounting to \$1,155,181 and \$999,430 at June 30, 2015 and 2014, respectively.

Deferred Lease Incentives - ASC recognizes rent expense ratably over the term of the lease. Deferred lease incentives represent the amount of expense incurred for which no monthly payments were required under the lease and incentives received for leasehold improvements. The liability will be amortized over the term of the lease.

Funds Held For Others - ASC receives and distributes assets under intermediary arrangement which is reflected as a liability, funds held for others, on the accompanying statements of financial position.

Deferred Support - Certain grants and public art payments received or billed are not considered earned until expended for their stated purposes and, accordingly, are recorded as deferred income until such time. Consequently, cash and cash equivalents and certain receivables are considered restricted for use in satisfying the conditions of the grants.

Functional Allocation of Expenses - The costs of providing the various programs and activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs such as payroll, rent, depreciation, and utilities have been allocated among the program and supporting services as follows:

	<u>2015</u>	<u>2014</u>
Public art	\$ 40,605	\$ 39,824
Grant support and other services	224,718	214,297
Fund raising	199,333	192,601
General and administrative	<u>146,898</u>	<u>147,557</u>
	<u>\$ 611,554</u>	<u>\$ 594,279</u>

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

Note 2—Annual campaign pledges receivable, net

Annual campaign pledges receivable are summarized as follows as of June 30:

	<u>2015</u>	<u>2014</u>
Total annual campaign pledges receivable	\$ 4,029,234	\$ 4,769,105
Less allowance for uncollectible pledges	<u>(593,137)</u>	<u>(431,417)</u>
Net annual campaign pledges receivable	<u>\$ 3,436,097</u>	<u>\$ 4,337,688</u>

All annual campaign pledges receivable are current; consequently, such pledges are not discounted to present value. Revenues from the annual campaign pledges of approximately \$5,700,000 and \$6,100,000 for the years ended June 30, 2015 and 2014, respectively, are recorded as temporarily restricted within fund drive and general contributions on the accompanying statements of activities in the year the campaign is conducted since the revenues are restricted for the next fiscal year's operations.

Note 3—Beneficial interest in trust

The Greater Charlotte Cultural Trust (the "Trust") is a supporting organization of ASC and Foundation for the Carolinas ("FFTC") under Section 509(a)(3) of the IRC. The Trust is a separate legal entity with its own board of directors which oversees endowment administration, evaluates planned giving opportunities, and makes investment decisions. FFTC, a nonprofit organization that serves donors, communities, and a broad range of charitable purposes in North and South Carolina, provides investment and administrative services for the Trust. ASC and other cultural partners with beneficial interests in the endowment held at the Trust receive distributions from the Trust in accordance with the spending policies described in Note 5.

ASC has coordinated endowment campaigns to support the local arts community. Under agreement with ASC, endowment contributors could restrict pledges directly to ASC or cultural partners. As a result, the Trust maintains and manages endowment assets, including pledges receivable and investments, for the benefit of ASC and its cultural partners. Beneficial interest assets as of June 30, 2015 and 2014, representing ASC's interests in the Trust, are reflected in the accompanying statements of financial position as endowment investments.

The Trust is administered by FFTC, which maintains the Trust's investments with various broker-dealers. The Trust invests in a variety of investments, which are subject to fluctuations in values and expose the Trust to a certain degree of interest and credit risk. The underlying pooled investments held by the Trust are summarized in Notes 4 and 5.

The pooled funds include investments in fund managers that invest in private investment funds and alternative investments as part of the asset allocation, as an alternative investment strategy with the purpose of increasing the diversity of the holdings and being consistent with the overall investment objectives. These investments are not traded on an exchange, and accordingly, may not be as liquid as investments in marketable equity or debt securities. These investment funds may invest in other private investment funds, equity or debt securities, which may or may not have readily available fair values, and foreign exchange or commodity forward contracts.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

Note 3—Beneficial interest in trust (continued)

Management of the Trust receives the estimate of fair value of these investments from managers and relies on various factors, processes, and procedures to determine if the estimate of value is reasonable. However, information used by the Trust and by management is subject to change in the near term, and, accordingly, investment values and performance can be affected. The effect of these changes could be material to the accompanying financial statements.

The following schedule summarizes the change in beneficial interest and its classification in the accompanying statements of activities for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Change in beneficial interest	\$ 7,564	\$ 4,227,998
Allocation of allowance endowment balance for spending	<u>(1,328,326)</u>	<u>(1,492,662)</u>
Net change in beneficial interest	<u>\$ (1,320,762)</u>	<u>\$ 2,735,336</u>

Note 4—Fair value measurements of assets and liabilities

In accordance with guidance on fair value measurements for financial instruments measured at fair value, fair value is defined as the price that ASC would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. The fair value guidance establishes a three-tier hierarchy to distinguish between 1) inputs that reflect the assumptions that market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs), and 2) inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the fair value of ASC's financial instruments. The inputs are summarized in the three broad levels listed below:

- Level 1: Quoted prices in active markets that are accessible at the measurement date for identical securities. ASC's investments of \$26,369 and \$26,692 in common stock as of June 30, 2015 and 2014, respectively, are considered to be Level 1 assets.
- Level 2: Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active markets, inputs that are derived from investment manager reporting or corroborated by an independent investment advisor, and inputs obtained from comparison with benchmarks for similar assets for substantially the full term of the financial instrument. If market quotations are not readily available for valuations, assets may be valued by a method the trustee of the fund believes accurately reflects fair value. ASC does not have Level 2 assets or liabilities as of June 30, 2015 or 2014

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

Note 4—Fair value measurements of assets and liabilities

Level 3: Prices or valuations that require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation by the investment manager. The investment manager uses either the market approach, which generally consists of using comparable market transactions, or the income approach which generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. The inputs used by the investment manager in estimating the value of Level 3 investments include the NAV and capital account values provided by the managers for investment fund positions, original transaction price, recent transactions in the same or similar instruments for private equity positions, original transaction price for the common stock position and a single broker quote for the corporate bond position. ASC's endowment investments of \$32,095,072 and \$33,415,834 as of June 30, 2015 and 2014, respectively, are considered to be Level 3 assets.

ASC's endowment investment held at FFTC is considered by ASC to be a Level 3 asset because it represents a receivable to be paid from various pooled investments managed by FFTC. ASC has no ownership interest in those underlying investments. However, the fair value of those investments is used by management of FFTC to determine the fair value of the payable to the ASC. The following is an approximated allocation of the underlying investments that comprise the interest in pooled investments held at FFTC as of June 30, 2015 and 2014:

Level 1	62%
Level 2	22%
Level 3	16%
	<u>100%</u>

For the asset measured at fair value on a recurring basis using Level 3 valuations during the period, the following table provides a reconciliation of beginning and ending balances for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 33,415,834	\$ 30,680,498
Change in beneficial interest	7,564	4,227,998
Allocation of allowable endowment balance for spending	<u>(1,328,326)</u>	<u>(1,492,662)</u>
Balance, end of year	<u>\$ 32,095,072</u>	<u>\$ 33,415,834</u>

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NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

Note 5—Endowment funds

ASC's endowment consists of 19 individual funds established for a variety of purposes that are invested at the Trust. The endowment consists only of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of fund for the endowment investments as of June 30, 2015 and 2014 is listed below.

June 30, 2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 4,216,707</u>	<u>\$ 27,878,365</u>	<u>\$ 32,095,072</u>
June 30, 2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 5,537,469</u>	<u>\$ 27,878,365</u>	<u>\$ 33,415,834</u>

The Board of Directors of ASC has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring, absent explicit donor stipulations to the contrary, that the following amounts included in the endowment be classified as permanently restricted: (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 be classified as permanently restricted. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ASC in a manner consistent with the standard of prudence prescribed by UPMIFA or spent in accordance with the purpose restrictions established by the donor.

In accordance with UPMIFA, ASC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

1. The duration and preservation of the fund
2. The purposes of ASC and the donor-restricted endowment fund
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. Other resources of ASC
7. The investment policies of ASC

FFTC administers the endowed funds of the Trust. The Board of Directors of the Trust and ultimately ASC have adopted investment and spending policies for endowment assets that attempt to provide for a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results that provide an average annual real rate of return, net of fees, equal to or greater than spending, administrative fees, and inflation (Consumer Price Index). Actual returns in any given year may vary from this amount.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

Note 5—Endowment funds (continued)

To satisfy its long-term rate-of-return objectives, the Trust relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Accordingly, the Trust has adopted the following investment allocation guidelines:

Equities - Large cap	32.5%
Small cap	5.0%
International	20.0%
Fixed income	17.5%
Real assets	5.0%
Private investment funds	20.0%

The Trust has a policy of appropriating for distribution each year up to a maximum of 4% of the average fair value over the prior twelve quarters through the calendar year preceding the fiscal year in which the distribution is planned. The policy will be evaluated on an annual basis for prudence. In establishing the spending policy, the expected return on the endowment was taken into consideration. Accordingly, the spending policy is expected to allow the endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

Changes in the investment portion of the endowment net assets for the year ended are as follows as of June 30, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2014	\$ -	\$ 5,537,469	\$ 27,878,365	\$ 33,415,834
Change in beneficial interest	-	7,564	-	7,564
Allocation of allowable endowment balance for spending	-	(1,328,326)	-	(1,328,326)
Endowment net assets, June 30, 2015	<u>\$ -</u>	<u>\$ 4,216,707</u>	<u>\$ 27,878,365</u>	<u>\$ 32,095,072</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ -	\$ 2,802,133	\$ 27,878,365	\$ 30,680,498
Change in beneficial interest	-	4,227,998	-	4,227,998
Allocation of allowable endowment balance for spending	-	(1,492,662)	-	(1,492,662)
Endowment net assets, June 30, 2014	<u>\$ -</u>	<u>\$ 5,537,469</u>	<u>\$ 27,878,365</u>	<u>\$ 33,415,834</u>

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YEARS ENDED JUNE 30, 2015 AND 2014

Note 5—Endowment funds (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the amount recorded by ASC as permanently restricted net assets (corpus). Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. There were no individual funds below corpus as of June 30, 2015 and 2014.

Note 6—Lease commitments

ASC leases its office facilities under an operating lease with an expiration date of September 30, 2016. The lease provides for monthly lease payments, increasing over the life of the lease, ranging from approximately \$13,800 to \$16,500. Office rent expense amounted to \$146,671 and \$174,697 for the years ended June 30, 2015 and 2014, respectively. Office rent expense is net of amortization of the incentives referred to in Note 1.

ASC leases certain equipment under operating lease agreements providing for monthly payments between \$129 through \$2,381 expiring at various times through May 2018. Total rent expense for these leases were approximately \$31,000 for the years ended June 30, 2015 and 2014, respectively.

Approximate future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Rent</u>	<u>Equipment</u>
2016	\$ 195,157	\$ 31,080
2017	49,869	1,548
2018	-	1,419
	<u>\$ 245,026</u>	<u>\$ 34,047</u>

Note 7—Net assets

Temporarily restricted net assets are available for the following purposes as of June 30:

	<u>2015</u>	<u>2014</u>
Endowment investments	\$ 4,216,707	\$ 5,537,469
Annual fund drive available for subsequent year's operations	5,204,275	6,286,771
Other restricted purposes	52,500	1,034,000
	<u>\$ 9,473,482</u>	<u>\$ 12,858,240</u>

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
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Note 7—Net assets

Net assets are permanently restricted for the following purposes at June 30:

	<u>2015</u>	<u>2014</u>
Endowment established without donor-restricted earnings	\$ 22,748,234	\$ 22,748,234
Endowment established with donor-restricted earnings	<u>5,130,131</u>	<u>5,130,131</u>
	<u>\$ 27,878,365</u>	<u>\$ 27,878,365</u>

Note 8—Retirement savings plan

ASC has established a 401(k) plan account as part of a multi-employer plan through ADP Total Source. A safe harbor contribution of 3% of eligible participants' compensation is made along with an employer match of \$.50 for every \$1 contributed by the employee up to 3% of employee compensation. ASC's contributions to the 401(k) plan were approximately \$58,300 and \$75,200 for the years ended June 30, 2015 and 2014, respectively.

Note 9—Concentrations of credit risk

ASC places its cash and cash equivalents on deposit with financial institutions in the United States of America. The Federal Deposit Insurance Corporation ("FDIC") provides insurance up to \$250,000 on substantially all depository accounts. ASC from time to time may have had amounts on deposit in excess of the insured limits.

Donor contributions allow ASC to fulfill its mission to build appreciation, participation, and support for the arts, sciences, history, and heritage throughout Charlotte/Mecklenburg. ASC has recognized unconditional promises to give from donors in future years. Ultimately, realization of these amounts is influenced by economic conditions of the areas in which these residents reside.

A substantial portion of the annual campaign revenue (approximately 43% and 46% for the 2015 and 2014 campaigns, respectively) is derived from three large Charlotte area employers and their employees.

Note 10—Other commitments

In June 2015, ASC's Board of Directors approved the allocation of grants totaling approximately \$6,671,670 for the year ended June 30, 2016.

Note 11—Subsequent events

On September 16, 2015, ASC's Board of Directors authorized ASC staff to enter into a contract with Blackbaud for the purchase and implementation of a new constituent relationship management system, new website, and new online engagement tools. The contract specifies a three year period of subscription services as well as up front implementation costs totaling \$353,668. ASC staff expects all components of the new system to be functional in May 2016. ASC is undertaking the system conversion in order to facilitate best practice engagement methods with current constituents and current and potential donors.

ASC has evaluated subsequent events through January 11, 2016, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.