



Culture For All.

TO: Granting Organizations and Recipients of ASC's Audited Financial Statements  
FROM: Robert Bush, ASC President  
SUBJECT: ASC FY16 Audited Financial Statements  
DATE: February 16, 2017

I want to take the opportunity to provide an update to key partners and donors along with our FY16 Audited Financial Statements regarding the progress that has been made by the Arts & Science Council (ASC) in implementing the recommendations of the Cultural Vision Plan (CVP) and Cultural Life Task Force (CLTF).

The ASC Board and staff have continued the process of re-inventing ASC so as to better align our organization and goals to the input from the citizens of Charlotte-Mecklenburg. I am pleased to report that we have made significant progress in a number of key areas:

### **Re-Inventing ASC**

A key recommendation of the CLTF was to "Redesign the ASC and its mission from the ground up so that it can be more effective in leading the cultural community's adaptation to 21<sup>st</sup>-century trends in philanthropy, demographics and citizen participation." Over the past year, the ASC Board has:

- Completed the effort to 'right-size' our Board by reducing the size to 26 Directors.
- Re-organized our Board committee structure into 5 standing committees aligned with the core areas of our operations:
  - Administration & Operations
  - Community Engagement
  - Governance
  - Programs & Services
  - Strategic Planning
- Implemented the new Advisory Council system to ensure ongoing counsel and input from community partners and key constituents as well as the public. Elected officials, governmental bodies, corporate and foundation leaders, cultural organizations, schools and institutions of higher education made appointments to the Advisory Councils:
  - North & West Advisory Council
  - Central Advisory Council
  - South & East Advisory Council
  - Private Sector Advisory Council

- Cultural Sector Advisory Council

The Advisory Councils met multiple times over between May and September to identify and articulate 3 goals that they felt should be priorities for ASC and the cultural sector at this time. The recommendations were presented to the ASC Board in a joint meeting in October. Key recommendations for ASC include:

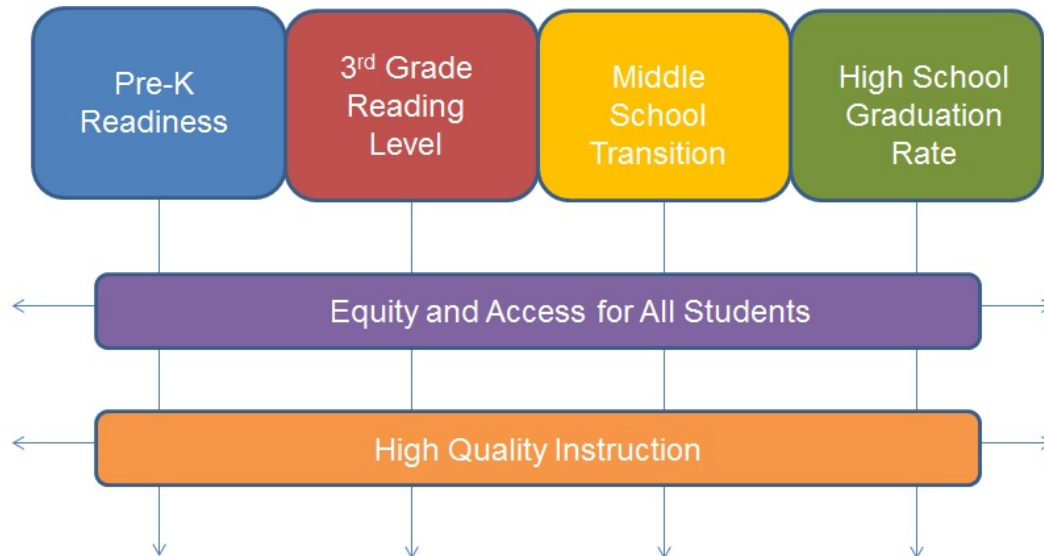
- Communicate ASC role more clearly in the regional community.
- Invest in broadening ASC's communication vehicles.
- ASC as Chief Advocate for arts and culture.
- Focus on increasing access to cultural life for all residents.
- Stimulating increased funding for the non-profit cultural community.
- Finalized a new Dashboard to track the "State of the ASC and the Charlotte-Mecklenburg Cultural Sector". We anticipate the new Dashboard will be reported to the community in spring 2017. Key Performance Outcomes and Key Measures are aligned with the four core elements of ASC's Mission: Access, Excellence, Relevance and Sustainability
- Increased the breadth of our capacity building opportunities for cultural organizations' professional and volunteer leadership and for individual artists providing over 5,500 contact hours of instruction to volunteer and professional leadership of cultural organizations and creative individuals.
- Continued a regular quarterly meeting schedule with representatives, both board and professional leadership, of the arts councils in the 16 County region working to build a regional coalition for arts and culture.
- Expanded our partnership with the Charlotte Regional Partnership to plan the release of the results of a new regional Arts & Economic Prosperity study for the entire 16 County region in 2017 to include Charlotte Center City Partners, City of Charlotte, Creative Mornings, CRVA and Mecklenburg County.
- With the support of Mecklenburg County, expanded – *Culture Blocks*. By working with individual artists, cultural programmers, and by leveraging other resources, ASC is introducing new and existing cultural infrastructure in neighborhoods to address barriers to participation with major institutions in partnership with Charlotte Mecklenburg Library system and Parks & Recreation in 6 specific geographic areas with historically low levels of participation with ASC funded programs. These efforts are grounded in what we have learned from residents about their cultural hopes and aspirations through extensive dialogue and outreach in these targeted areas.

The Board has also made steps to align ASC's education programs to the tenants of the CVP and CLTF. This re-alignment also addresses issues currently being studied by the Charlotte-Mecklenburg Opportunity Task Force, especially in the areas of building social capital and broadening access to economic opportunity. To date we have:

- Completed a review of all ASC education programs and the Board has approved adjustments to ensure that ASC:

- Focuses on how we can best serve the children and youth of Charlotte-Mecklenburg, not solely CMS.
- Aligns arts and cultural education offerings with critical community issues.
- “Delivers within our zone of genius” as part of a united front with other community partners.
  - Prioritizes resources where we can have the most impact.
  - Identifies key achievement moments for children and youth and determine how we can best support these milestones.
  - Clarifies roles and expectations with partners/providers, CMS and other educational entities.
- Emphasizes advocacy, storytelling and impact reporting

ASC’s investment priorities for education will focus on closing the opportunity gap as illustrated below:



### Transforming Private Sector Funding

A key recommendation of the CLTF was to “Restructure Arts & Science Council and private sector giving to increase individual, corporate and foundation donations *directly* to the Cultural Partners and other nonprofit cultural organizations.”

- ASC has re-designed its fundraising efforts to become a pipeline for citizens, both in and outside the workplace, to become engaged, passionate, loyal patrons, donors and advocates for the Cultural Partners and the sector as a whole through increased emphasis on community engagement. This effort is most evident in two annual events:
  - Culture Feast – now in its 2<sup>nd</sup> year, ASC hosted residents for a family style dinner and diverse cultural experiences on September 9<sup>th</sup> on Tryon Street between 6<sup>th</sup> & 7<sup>th</sup>. Attendance grew from 300 in 2015 to over 500 in 2016.

- Connect with Culture Day was held on January 28<sup>th</sup> providing free cultural experiences and access to museums, historic sites and performance across Mecklenburg County. Over 10,000 individuals participated in this event.
- Additionally, ASC's Board has approved a new Community Engagement Plan that retools all fund raising operations, launched a new web site and consolidated of data/information systems into one integrated customer relationship management (CRM) system. The new Plan:
  - Builds a Year-Round Engagement Strategy
  - Strengthens relationships with Top 6 corporations
  - Addresses strong and weak Employee Engagement Campaigns
  - Focuses on lost and prospective companies
  - Pilots regional approaches
  - Increases individual and major donor outreach and cultivation
  - Intensifies advocacy efforts
- ASC continues to experience the changes in private sector giving identified by the CLTF, including changes in workplace giving programs and corporate giving being directed to individual cultural groups rather than for distribution by ASC. This has resulted in private sector giving to ASC remaining relatively flat. However, **private sector support to the entire sector is growing**. Data from our most recent analysis (FY15) of earned and contributed giving to the sector shows:
  - Average gifts from individuals increase 7% over 2014 to cultural organizations to an average gift of \$689, and 6% over 2014 to ASC to an average gift of \$236.
  - Funding to the sector from corporations, foundations and government is up 52% from 2007.
  - Total giving to the sector dropped slightly from \$37,149,000 in 2014 to \$36,205,150 in 2015 or 2.5% – but still well above the level of \$23,000,000 in 2009, erasing all losses incurred by the sector in the recession

## Re-Engaging Government

A key recommendation of the CLTF was to “Engage local and state government to recommit and expand support for the cultural sector to restore the public/private partnership that built and grew the local arts, science and history sector.”

- For FY17, ASC received increases from:
  - Mecklenburg County - \$200,000 to expand the Culture Blocks initiative to a 6<sup>th</sup> area of the community – this is the second year of increased cultural program funding from the County which had remained flat or down since 2007 and represents a 31% increase in funding over the past 2 years which includes support of the operation of Spirit Square and Studio 345.
  - Funding for public art projects has also increased from both the City of Charlotte and Mecklenburg County due to increased capital expenditures.

- ASC continues to work with the leadership of the NC Arts Council and Arts NC to propose a complete review of the newly created Department of Natural and Cultural Resources to better serve all of the citizens of NC as well as provide a more equitable distribution of funding across the state and explore opportunities for local option dedicated revenue streams to support arts, science and history in all 100 NC counties.

## **Financial Results for FY16**

I am pleased to present the ASC's Audited Financial Statements for the year ending June 30, 2016. This report continues the decade's long unqualified opinion of our auditors of our financial statements. However, as our auditors pointed out, many non-profits are facing changes in their business model and ASC is no different. The dramatic changes ASC has been making in response to community recommendations resulted in negative unrestricted net assets for the year ended June 30, 2016. However, the ASC Board and its Administration & Operations Committee along with Management is comfortable that ASC continues to have a strong balance sheet, with healthy cash balances, high collection rates on pledges and no debt. During FY17, ASC has developed a three year financial plan which will replenish reserves and allow for greater financial flexibility as ASC continues to evolve.

## **Conclusion**

I think you can see from this overview that we continue to make strides in addressing the recommendations and goals of the Cultural Vision Plan and Cultural Life Task Force. These successes are the result of a continued strong public/private partnership that has built our cultural sector over the past 40 years.

ASC and the entire cultural community still have much work to do to address all of the recommendations of the two important planning efforts. Working together with our public and private donors, ASC is confident that we will achieve these goals, grow cultural opportunities for all of our citizens and lead the sector to a more stable and long term future.

ASC believes that the arts and culture provide important benefits for all of us who call Charlotte-Mecklenburg home – we all benefit because of the quality of life arts, science and history bring to our community, the economic vitality of our community and the creativity and innovation inspired by creative individuals and our cultural institutions. In the coming year, ASC will more energetically embrace its role as a resource hub and enthusiastic advocate for the cultural community. We appreciate your partnership in this endeavor.

I look forward to continuing the journey.



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

**FINANCIAL STATEMENTS**

*As of and for the Years Ended June 30, 2016  
and 2015*

*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

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, 2016 and 2015, 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, 2016 and 2015, 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, 2017



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

*JUNE 30, 2016 AND 2015*

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and Cash Equivalents:		
Unrestricted	\$ 657,041	\$ 2,342,895
Restricted for Public Art	460,543	463,135
Annual campaign pledges receivable, net (Note 2)	3,071,124	3,436,097
Grant and other receivables	810,351	485,018
Prepaid expenses	66,632	29,740
Other pledges receivable (Note 1)	7,353,050	10,152,480
Investments (Notes 4 and 5)	11,896	26,369
Beneficial Interests in Trust:		
Endowment investments (Notes 3, 4, and 5)	31,432,008	32,095,072
Property and equipment, net	<u>482,615</u>	<u>326,300</u>
<b>Total Assets</b>	<u><u>\$ 44,345,260</u></u>	<u><u>\$ 49,357,106</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 514,853	\$ 458,198
Deferred lease incentives	16,901	56,566
Funds held for others	14,938	200,056
Payable to designated beneficiaries	7,353,050	10,152,480
Deferred support	<u>1,134,443</u>	<u>750,486</u>
<b>Total Liabilities</b>	<u>9,034,185</u>	<u>11,617,786</u>
Net Assets:		
Unrestricted (Note 1)	(656,003)	387,473
Temporarily restricted (Note 7)	8,088,713	9,473,482
Permanently restricted (Note 7)	<u>27,878,365</u>	<u>27,878,365</u>
<b>Total Net Assets</b>	<u>35,311,075</u>	<u>37,739,320</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 44,345,260</u></u>	<u><u>\$ 49,357,106</u></u>

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

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

YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue:								
Public Support:								
Fund drive and general contributions	\$ 1,370,624	\$ 4,535,070	\$ -	\$ 5,905,694	\$ 1,582,020	\$ 5,231,775	\$ -	\$ 6,813,795
Government Grants:								
City of Charlotte	2,940,823	-	-	2,940,823	2,940,823	-	-	2,940,823
Mecklenburg County	1,400,000	-	-	1,400,000	1,100,000	-	-	1,100,000
Charlotte Mecklenburg Schools	57,000	-	-	57,000	58,500	-	-	58,500
NC Arts Council	221,148	-	-	221,148	213,318	-	-	213,318
Other municipalities	98,000	-	-	98,000	72,500	-	-	72,500
Public Art Funds:								
City of Charlotte	257,295	-	-	257,295	418,638	-	-	418,638
Total Public Support	6,344,890	4,535,070	-	10,879,960	6,385,799	5,231,775	-	11,617,574
Investment income (loss)	(784)	-	-	(784)	2,238	-	-	2,238
Allocation of allowable endowment balance for spending (Notes 3, 4, and 5)	1,570,868	-	-	1,570,868	1,328,326	-	-	1,328,326
Net assets released from restriction	5,256,775	(5,256,775)	-	-	7,295,771	(7,295,771)	-	-
Total Operating Revenue	13,171,749	(721,705)	-	12,450,044	15,012,134	(2,063,996)	-	12,948,138

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, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Expenses:								
Program Services:								
Grants and allocations	\$ 9,450,870	\$ -	\$ -	\$ 9,450,870	\$ 9,887,882	\$ -	\$ -	\$ 9,887,882
Public Art	535,613	-	-	535,613	612,458	-	-	612,458
Grant support and other services	1,747,353	-	-	1,747,353	2,471,051	-	-	2,471,051
General and administrative	1,060,355	-	-	1,060,355	1,072,824	-	-	1,072,824
Fund raising	1,421,034	-	-	1,421,034	1,327,140	-	-	1,327,140
Total Operating Expenses	14,215,225	-	-	14,215,225	15,371,355	-	-	15,371,355
Change in net assets from operations	(1,043,476)	(721,705)	-	(1,765,181)	(359,221)	(2,063,996)	-	(2,423,217)
Other Changes:								
Change in beneficial interest (Note 3)	-	907,804	-	907,804	-	7,564	-	7,564
Allocation of allowable endowment balance for spending (Notes 3, 4 and 5)	-	(1,570,868)	-	(1,570,868)	-	(1,328,326)	-	(1,328,326)
Change in net assets	(1,043,476)	(1,384,769)	-	(2,428,245)	(359,221)	(3,384,758)	-	(3,743,979)
Net Assets:								
Beginning of year	387,473	9,473,482	27,878,365	37,739,320	746,694	12,858,240	27,878,365	41,483,299
End of year	\$ (656,003)	\$ 8,088,713	\$ 27,878,365	\$ 35,311,075	\$ 387,473	\$ 9,473,482	\$ 27,878,365	\$ 37,739,320

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

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

YEAR ENDED JUNE 30, 2016

	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	\$ 8,145,577	\$ -	\$ -	\$ 8,145,577	\$ -	\$ -	\$ -	\$ 8,145,577
Arts and science education	222,197	-	-	222,197	-	-	-	222,197
Payments to organizations	387,953	-	-	387,953	-	-	-	387,953
Indirect and other grant expenses	695,143	-	-	695,143	-	-	-	695,143
Artist contracts	-	273,697	-	273,697	-	-	-	273,697
Salaries	-	149,159	696,208	845,367	630,884	725,592	1,356,476	2,201,843
Payroll taxes and benefits	-	36,745	192,419	229,164	125,558	146,665	272,223	501,387
Promotions and public relations	-	554	13,121	13,675	5,015	96,726	101,741	115,416
Professional fees and contracted services	-	5,545	260,322	265,867	66,203	100,702	166,905	432,772
Professional development	-	4,912	56,148	61,060	3,973	7,957	11,930	72,990
Office rent	-	15,453	138,190	153,643	49,791	51,509	101,300	254,943
Depreciation	-	5,775	44,276	50,051	25,025	36,576	61,601	111,652
Technology	-	3,794	78,367	82,161	16,441	87,623	104,064	186,225
Office and meetings	-	13,031	43,186	56,217	37,162	55,992	93,154	149,371
Dues and subscriptions	-	3,530	14,454	17,984	5,230	19,536	24,766	42,750
Telephone	-	470	9,379	9,849	2,038	2,978	5,016	14,865
Processing fees	-	4,917	50,543	55,460	21,467	31,143	52,610	108,070
Discretionary	-	5,000	36,500	41,500	35,000	3,326	38,326	79,826
Other	-	13,031	114,240	127,271	36,568	54,709	91,277	218,548
<b>Total Expenses</b>	<b>\$ 9,450,870</b>	<b>\$ 535,613</b>	<b>\$ 1,747,353</b>	<b>\$ 11,733,836</b>	<b>\$ 1,060,355</b>	<b>\$ 1,421,034</b>	<b>\$ 2,481,389</b>	<b>\$ 14,215,225</b>

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

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**STATEMENT 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
<b>Total Expenses</b>	<b>\$ 9,887,882</b>	<b>\$ 612,458</b>	<b>\$ 2,471,051</b>	<b>\$ 12,971,391</b>	<b>\$ 1,072,824</b>	<b>\$ 1,327,140</b>	<b>\$ 2,399,964</b>	<b>\$ 15,371,355</b>

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (2,428,245)	\$ (3,743,979)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	111,652	155,751
Change in allowance for uncollectible pledges	70,000	161,720
Realized and unrealized (gains) losses on investments, net	784	(1,784)
Change in beneficial interest	(907,804)	(7,564)
Allocation of allowable endowment balance for spending	1,570,868	1,328,326
Changes in operating assets and liabilities:		
Annual campaign pledges receivable	294,973	739,871
Grant and other receivables	(325,333)	1,415,566
Prepaid expenses	(36,892)	124,600
Other pledges receivable	2,799,430	(1,152,480)
Accounts payable and accrued expenses	56,655	(21,895)
Deferred lease incentives	(39,665)	(25,408)
Funds held for others	(185,118)	200,056
Payable to designated beneficiaries	(2,799,430)	1,152,480
Deferred support	383,957	(143,529)
Net cash from operating activities	<u>(1,434,168)</u>	<u>181,731</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	13,689	2,107
Purchases of property and equipment	(267,967)	(74,490)
Net cash from investing activities	<u>(254,278)</u>	<u>(72,383)</u>
<b>Cash flows from financing activities:</b>		
Change in restricted cash and cash equivalents	2,592	2,489
Net cash from financing activities	<u>2,592</u>	<u>2,489</u>
Net (decrease) increase in cash and cash equivalents	(1,685,854)	111,837
Cash and cash equivalents - unrestricted, beginning of year	2,342,895	2,231,058
Cash and cash equivalents - unrestricted, end of year	<u>\$ 657,041</u>	<u>\$ 2,342,895</u>

# ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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### 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, 2016 and 2015, ASC had Board designated net assets of approximately \$0 and \$50,000, 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

JUNE 30, 2016 AND 2015

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### **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, 2016 and 2015, ASC received approximately \$564,000 and \$680,000, 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, 2016 and 2015, the remaining pledge and amount payable to the other cultural organizations of \$7,353,050 and \$10,152,480, 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, 2016 and 2015, 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.

*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.

*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**

JUNE 30, 2016 AND 2015

**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 \$1,266,833 and \$1,155,181 at June 30, 2016 and 2015, 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>2016</u>	<u>2015</u>
Public art	\$ 37,927	\$ 39,824
Grant support and other services	237,551	214,297
Fund raising	193,848	192,601
General and administrative	147,182	147,557
	<u>\$ 616,508</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**

*JUNE 30, 2016 AND 2015*

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**Note 2—Annual campaign pledges receivable, net**

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

	<u>2016</u>	<u>2015</u>
Total annual campaign pledges receivable	\$ 3,734,261	\$ 4,029,234
Less allowance for uncollectible pledges	<u>(663,137)</u>	<u>(593,137)</u>
Net annual campaign pledges receivable	<u>\$ 3,071,124</u>	<u>\$ 3,436,097</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 \$5,000,000 and \$5,700,000 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, 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**

*JUNE 30, 2016 AND 2015*

**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>2016</u>	<u>2015</u>
Change in beneficial interest	\$ 907,804	\$ 7,564
Allocation of allowance endowment balance for spending	<u>(1,570,868)</u>	<u>(1,328,326)</u>
Net change in beneficial interest	<u>\$ (663,064)</u>	<u>\$ (1,320,762)</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 hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value into three levels based on inputs that market participants would use to value an asset or liability. The inputs are summarized in the three levels listed below:

- Level 1: Quoted prices in active markets that are accessible at the measurement date for identical securities. ASC's investments of \$11,896 and \$26,369 in common stock as of June 30, 2016 and 2015, 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. ASC does not have Level 2 assets or liabilities as of June 30, 2016 or 2015.
- 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. ASC's endowment investments of \$31,432,008 and \$32,095,072 as of June 30, 2016 and 2015, respectively, are considered to be Level 3 assets.

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

JUNE 30, 2016 AND 2015

**Note 4—Fair value measurements of assets and liabilities (continued)**

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, 2016 and 2015:

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>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 32,095,072	\$ 33,415,834
Change in beneficial interest	907,804	7,564
Allocation of allowable endowment balance for spending	<u>(1,570,868)</u>	<u>(1,328,326)</u>
Balance, end of year	<u>\$ 31,432,008</u>	<u>\$ 32,095,072</u>

**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, 2016 and 2015 is listed below.

<u>June 30, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 3,553,643</u>	<u>\$ 27,878,365</u>	<u>\$ 31,432,008</u>
 <u>June 30, 2015</u>				
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 4,216,707</u>	<u>\$ 27,878,365</u>	<u>\$ 32,095,072</u>

# ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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### Note 5—Endowment funds (continued)

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.

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 12 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.

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

*JUNE 30, 2016 AND 2015*

**Note 5—Endowment funds (continued)**

Changes in the investment portion of the endowment net assets for the year ended are as follows as of June 30, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ -	\$ 4,216,707	\$ 27,878,365	\$ 32,095,072
Change in beneficial interest	-	907,804	-	907,804
Allocation of allowable endowment balance for spending	-	(1,570,868)	-	(1,570,868)
Endowment net assets, June 30, 2016	<u>\$ -</u>	<u>\$ 3,553,643</u>	<u>\$ 27,878,365</u>	<u>\$ 31,432,008</u>
	<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>

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, 2016 and 2015.

**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 \$176,064 and \$146,671 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, respectively.

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

*JUNE 30, 2016 AND 2015*

**Note 6—Lease commitments (continued)**

Approximate future minimum lease payments are as follows:

Years Ending June 30,	Office Rent	Equipment
2017	\$ 206,472	\$ 4,009
2018	-	1,419
2019	220,532	-
2020	55,539	-
	\$ 482,543	\$ 5,428

**Note 7—Net assets**

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

	2016	2015
Endowment investments	\$ 3,553,643	\$ 4,216,707
Annual fund drive available for subsequent year's operations	4,535,070	5,231,775
Other restricted purposes	-	25,000
	\$ 8,088,713	\$ 9,473,482

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

	2016	2015
Endowment established without donor-restricted earnings	\$ 22,748,234	\$ 22,748,234
Endowment established with donor-restricted earnings	5,130,131	5,130,131
	\$ 27,878,365	\$ 27,878,365

**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 \$53,000 and \$58,300 for the years ended June 30, 2016 and 2015, respectively.

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

*JUNE 30, 2016 AND 2015*

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**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% for the 2016 and 2015 campaigns, respectively) is derived from three large Charlotte area employers and their employees.

**Note 10—Other commitments**

In June 2016, ASC's Board of Directors approved the allocation of grants totaling approximately \$6,620,000 for the year ended June 30, 2017.

**Note 11—Subsequent events**

ASC has evaluated subsequent events through January 11, 2017, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.