



Culture For All.

TO: Key Partners and Donors
FROM: Robert E. Bush, Jr., ASC President
SUBJECT: ASC FY18 Status Report and Audited Financial Statements
DATE: March 29, 2019

I want to take the opportunity to provide an update to key partners and donors 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) along with our FY18 Audited Financial Statements.

The ASC Board and staff have continued the process of re-inventing ASC to better align our organization and goals to the input from the citizens of Charlotte-Mecklenburg. During 2019, ASC has celebrated its 60th Anniversary through continued support of our growing cultural assets and serving as an enthusiastic cultural advocate for the community. I am pleased to report that we have made significant progress in a number of key areas:

Ensuring Access, Excellence and Relevance

ASC's mission is grounded in ensuring that residents and visitors are provided with access to arts, science and history programming that is both excellent and relevant to their lives. We are focused on reaching deep into this community and providing high quality cultural experience close to home as well as those 'mountain top' experiences through major cultural institutions. Most recently:

- ASC funded arts, science and history programs in 803 locations, attended by over 2.9 million participants - 500,000 more than all tickets sold to professional sports events - in Mecklenburg County in FY18.
- ASC released the second year of our annual Dashboard to track the "State of the ASC and the Charlotte-Mecklenburg Cultural Sector" - [Click Here To Learn More](#).
- In partnership with area Science/Technology companies and non-profits, completed a study of how ASC can better champion science and technology experiences as an essential component of building community and social capital. As a result, ASC has:
 - Expanded its grantmaking outreach and opportunities for science/technology organizational capacity building

- Provided operating and project funding to new science/technology-based non-profits
- Increased science and technology themes in our communications.
- With the support of Mecklenburg County, ASC expanded *Culture Blocks* to 9 specific geographic areas with historically low levels of participation with ASC funded programs and organizations. By listening to residents and 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 in partnership with Charlotte Mecklenburg Library and Parks & Recreation.
- Continued to provide capacity building programs for cultural organizations' professional and volunteer leadership and for individual artists providing 3,645 contact hours of instruction.
- Continued regular quarterly meetings 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.
- Completed efforts to document ASC's efforts to support Leading on Opportunity's work in the areas of building social capital, the impact of segregation, early care and education and college and career readiness.

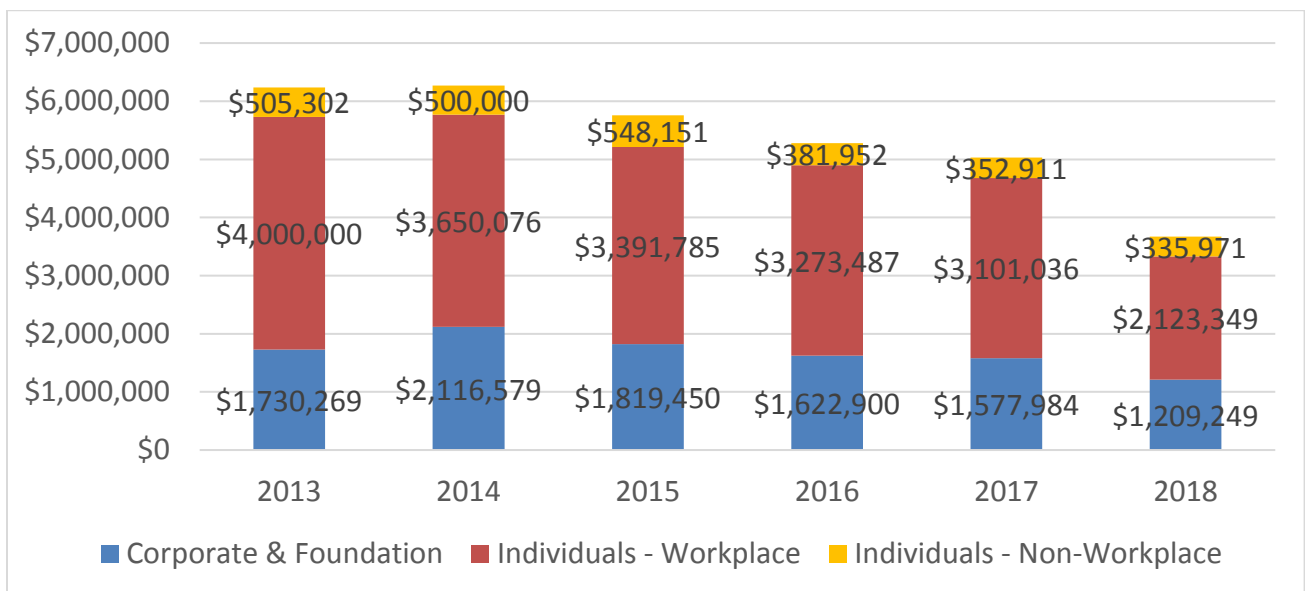
Transforming Private Sector Funding

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's community engagement efforts have 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 through increased emphasis on community engagement. This effort is most evident in three annual events:
 - Culture Bites – in its first year, ASC hosted a 'taste' of Culture Feast in both Davidson and Pineville. These family-oriented events brought diverse cultural programming for free to residents in North and South Mecklenburg along with access to popular Food Trucks and local restaurants that provided 'bites' at a very low cost to participants.
 - Culture Feast – now in its 4rd year, ASC hosted residents for a family style dinner and diverse cultural experiences on September 7th uptown and in Cornelius. Attendance grew from 500 in 2016 to over 800 in 2018.
 - Connect with Culture Day was expanded to two days and held on January 27th and 28th, 2018 providing free cultural experiences and access to

museums, historic sites and performance across Mecklenburg County. Over 11,000 individuals participated in this event.

- Additionally, ASC continues to implement the new Community Engagement Plan that retools all fundraising operations, leveraging our web site and communication tools.
- ASC continues to experience the rapid changes in private sector giving identified by the CLTF, including significant changes in individual giving through the workplace and corporate giving being directed to individual cultural groups rather than for distribution by ASC. This has resulted in private sector giving to ASC continuing to decrease more rapidly than projected by the Cultural Life Task Force.



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.” A long-term goal of that report is consideration of a designated public revenue source to support the cultural sector.

- For FY19, ASC received annual appropriation increases from:
 - Mecklenburg County - \$125,000 to expand the Culture Blocks initiative to a and 8th and 9th area of the community – this is the fourth straight year of increased cultural program funding from the County which had remained flat or down since 2007.
 - Funding for public art projects has also increased from both the City of Charlotte and Mecklenburg County due to increased capital expenditures.

- Early in 2019, ASC released the recommendations of a study committee to find the best path to ensure cultural equity and financially support the sector. The study committee determined that the best path is in the form of designated public funding. The recommendation is a portion of an authorized, but not yet approved by voters, quarter-cent sales tax throughout Mecklenburg County (authorized in 2009 by the N.C. General Assembly) with the cultural sector receiving 1/10th of a penny. The use of the remaining portion of the quarter-cent would be determined by the Mecklenburg Board of County Commissioners. This new funding would entirely replace dollars raised by ASC, including the annual fund drive and annual budget allocations by local governments, to support the cultural sector. To secure designated funding, the Mecklenburg County Commissioners must agree to put the issue before voters for approval - [Click Here To Learn More](#).

Financial Results for FY18

I am pleased to present the ASC's Audited Financial Statements for the year ending June 30, 2018. This report continues the decades' 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 years ended June 30, 2017 and June 30, 2018. 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. Management has also completed, as it has for all other ASC departments, a review and re-organization of the structure, functions and alignment of our Administration & Operations Department to the 'new' ASC. We will begin to see the results of this effort in late FY19 and FY20.

Conclusion

ASC continues 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 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 residents 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.

We appreciate your partnership in this endeavor.

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

FINANCIAL STATEMENTS

***As of and for the Years Ended June 30, 2018
and 2017***

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. (“ASC”), which comprise the statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Charlotte, North Carolina
March 8, 2019

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

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and Cash Equivalents:		
Operating cash	\$ 1,375,614	\$ 1,775,610
Held for Public Art	458,908	459,398
Annual campaign pledges receivable, net	2,163,789	2,770,486
Grants and other receivables	405,451	3,090,605
Prepaid expenses	73,311	91,294
Other pledges receivable	5,000,000	6,371,771
Investments	2,822	17,407
Beneficial interests in trust:		
Endowment investments	34,079,035	32,623,789
Endowment receivable	153,149	19,750
Property and equipment, net	373,911	444,422
Total Assets	\$ 44,085,990	\$ 47,664,532
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 586,121	\$ 744,152
Deferred lease incentives	8,246	15,224
Payable to designated beneficiaries	5,201,435	6,371,771
Deferred support	3,598,965	5,128,513
Total Liabilities	9,394,767	12,259,660
Net Assets:		
Unrestricted	(2,798,601)	(1,939,392)
Temporarily restricted	9,581,459	9,435,899
Permanently restricted	27,908,365	27,908,365
Total Net Assets	34,691,223	35,404,872
Total Liabilities and Net Assets	\$ 44,085,990	\$ 47,664,532

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

YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue:								
Public Support:								
Fund drive and general contributions	\$ 356,296	\$ 3,410,789	\$ -	\$ 3,767,085	\$ 1,430,784	\$ 4,720,475	\$ -	\$ 6,151,259
Government Grants:								
City of Charlotte	3,190,823	-	-	3,190,823	2,940,823	-	-	2,940,823
Mecklenburg County	1,725,718	-	-	1,725,718	1,600,000	-	-	1,600,000
Charlotte Mecklenburg Schools	76,500	-	-	76,500	25,500	-	-	25,500
NC Arts Council	241,144	-	-	241,144	287,947	-	-	287,947
Other municipalities	85,800	-	-	85,800	93,000	-	-	93,000
Public Art Funds	5,206,018	-	-	5,206,018	1,021,899	-	-	1,021,899
Total Public Support	10,882,299	3,410,789	-	14,293,088	7,399,953	4,720,475	-	12,120,428
Investment income (loss)	(962)	-	-	(962)	7,584	-	-	7,584
Allocation of allowable endowment balance for spending	1,623,675	-	-	1,623,675	1,572,525	-	-	1,572,525
Net assets released from restriction	4,720,475	(4,720,475)	-	-	4,535,070	(4,535,070)	-	-
Total Operating Revenue	17,225,487	(1,309,686)	-	15,915,801	13,515,132	185,405	-	13,700,537

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, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Expenses:								
Program Services:								
Grants and allocations	\$ 8,384,817	\$ -	\$ -	\$ 8,384,817	\$ 9,328,886	\$ -	\$ -	\$ 9,328,886
Public Art	5,267,400	-	-	5,267,400	1,447,930	-	-	1,447,930
Grant support and other services	1,796,528	-	-	1,796,528	1,556,136	-	-	1,556,136
General and administrative	1,115,104	-	-	1,115,104	1,085,168	-	-	1,085,168
Fund raising	1,520,847	-	-	1,520,847	1,419,987	-	-	1,419,987
Total Operating Expenses	18,084,696	-	-	18,084,696	14,838,107	-	-	14,838,107
Change in net assets from operations	(859,209)	(1,309,686)	-	(2,168,895)	(1,322,975)	185,405	-	(1,137,570)
Other Changes:								
Change in beneficial interest	-	3,078,921	-	3,078,921	-	2,734,306	30,000	2,764,306
Allocation of allowable endowment balance for spending	-	(1,623,675)	-	(1,623,675)	-	(1,572,525)	-	(1,572,525)
Change in net assets	(859,209)	145,560	-	(713,649)	(1,322,975)	1,347,186	30,000	54,211
Net Assets:								
Beginning of year	(1,939,392)	9,435,899	27,908,365	35,404,872	(616,417)	8,088,713	27,878,365	35,350,661
End of year	\$ (2,798,601)	\$ 9,581,459	\$ 27,908,365	\$ 34,691,223	\$ (1,939,392)	\$ 9,435,899	\$ 27,908,365	\$ 35,404,872

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, 2018

	Program Services			Supporting Services			Total	
	Grants and Allocations	Public Art	Grant Support and Other Services	Total Program Services	General and Administrative	Fund Raising		Total Supporting Services
Grants, allocations, and direct expenses	\$ 7,967,892	\$ -	\$ -	\$ 7,967,892	\$ -	\$ -	\$ -	\$ 7,967,892
Arts and science education	231,496	-	-	231,496	-	-	-	231,496
Payments to organizations	8,875	-	-	8,875	-	-	-	8,875
Indirect and other grant expenses	176,554	-	-	176,554	-	-	-	176,554
Artist contracts	-	4,778,498	-	4,778,498	-	-	-	4,778,498
Salaries	-	264,403	834,886	1,099,289	689,057	684,498	1,373,555	2,472,844
Payroll taxes and benefits	-	70,506	204,304	274,810	154,752	143,991	298,743	573,553
Promotions and public relations	-	1,250	48,335	49,585	10,550	206,321	216,871	266,456
Professional fees and contracted services	-	40,854	216,326	257,180	41,164	91,910	133,074	390,254
Professional development	-	2,565	29,820	32,385	6,733	834	7,567	39,952
Office rent	-	22,577	140,232	162,809	54,562	54,562	109,124	271,933
Depreciation	-	9,488	26,090	35,578	15,417	27,277	42,694	78,272
Technology	-	18,707	52,017	70,724	30,400	142,026	172,426	243,150
Office and meetings	-	8,212	38,521	46,733	38,796	50,015	88,811	135,544
Dues and subscriptions	-	10,579	7,232	17,811	4,069	13,832	17,901	35,712
Telephone	-	1,182	7,427	8,609	1,921	3,398	5,319	13,928
Processing fees	-	10,091	24,765	34,856	17,206	29,011	46,217	81,073
Restoration expenses	-	-	-	-	-	-	-	-
Discretionary	-	8,000	84,981	92,981	-	15,689	15,689	108,670
Other	-	20,488	81,592	102,080	50,477	57,483	107,960	210,040
Total Expenses	\$ 8,384,817	\$ 5,267,400	\$ 1,796,528	\$ 15,448,745	\$ 1,115,104	\$ 1,520,847	\$ 2,635,951	\$ 18,084,696

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

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

YEAR ENDED JUNE 30, 2017

	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	\$ 8,273,028	\$ -	\$ -	\$ 8,273,028	\$ -	\$ -	\$ -	\$ 8,273,028
Arts and science education	247,231	-	-	247,231	-	-	-	247,231
Payments to organizations	35,981	-	-	35,981	-	-	-	35,981
Indirect and other grant expenses	772,646	-	-	772,646	-	-	-	772,646
Artist contracts	-	944,605	-	944,605	-	-	-	944,605
Salaries	-	238,384	787,413	1,025,797	648,555	687,563	1,336,118	2,361,915
Payroll taxes and benefits	-	62,293	195,527	257,820	132,793	171,977	304,770	562,590
Promotions and public relations	-	2,050	8,412	10,462	3,950	122,192	126,142	136,604
Professional fees and contracted services	-	37,499	180,744	218,243	30,094	19,150	49,244	267,487
Professional development	-	7,526	20,889	28,415	5,942	2,091	8,033	36,448
Office rent	-	20,544	132,442	152,986	49,648	49,648	99,296	252,282
Depreciation	-	9,598	26,394	35,992	15,597	27,594	43,191	79,183
Technology	-	5,850	16,322	22,172	9,506	64,171	73,677	95,849
Office and meetings	-	13,875	22,637	36,512	50,974	93,782	144,756	181,268
Dues and subscriptions	-	20,343	31,993	52,336	18,067	43,917	61,984	114,320
Telephone	-	1,194	5,936	7,130	2,289	3,433	5,722	12,852
Processing fees	-	5,717	21,705	27,422	10,222	16,435	26,657	54,079
Restoration expenses	-	54,043	-	54,043	-	-	-	54,043
Discretionary	-	-	26,300	26,300	10,541	17,554	28,095	54,395
Other	-	24,409	79,422	103,831	96,990	100,480	197,470	301,301
Total Expenses	\$ 9,328,886	\$ 1,447,930	\$ 1,556,136	\$ 12,332,952	\$ 1,085,168	\$ 1,419,987	\$ 2,505,155	\$ 14,838,107

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

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

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (713,649)	\$ 54,211
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	78,272	79,183
Contributions restricted for investment in endowment	-	(30,000)
Change in allowance for uncollectible pledges	(69,217)	(162,213)
Realized and unrealized (gains) losses on investments, net	1,061	(7,584)
Change in beneficial interest	(3,078,921)	(2,764,306)
Allocation of allowable endowment balance for spending	1,623,675	1,572,525
Changes in operating assets and liabilities:	-	
Annual campaign pledges receivable	675,914	462,851
Grant and other receivables	2,685,154	(2,477,117)
Prepaid expenses	17,983	(24,662)
Other pledges receivable	1,371,771	981,279
Endowment receivable	(133,399)	(19,750)
Accounts payable and accrued expenses	(158,031)	465,748
Deferred lease incentives	(6,978)	(1,677)
Funds held for others	-	(14,938)
Payable to designated beneficiaries	(1,170,336)	(981,279)
Deferred support	(1,529,548)	3,994,070
Net cash from operating activities	<u>(406,249)</u>	<u>1,126,341</u>
Cash flows from investing activities:		
Proceeds from sales of investments	13,524	2,073
Purchases of property and equipment	(7,761)	(40,990)
Net cash from investing activities	<u>5,763</u>	<u>(38,917)</u>
Cash flows from financing activities:		
Contributions restricted for investment in endowment	-	30,000
Change in cash held for public art	490	1,145
Net cash from financing activities	<u>490</u>	<u>31,145</u>
Net increase (decrease) in cash and cash equivalents	(399,996)	1,118,569
Cash and cash equivalents - operating, beginning of year	1,775,610	657,041
Cash and cash equivalents - operating, end of year	<u>\$ 1,375,614</u>	<u>\$ 1,775,610</u>

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 1—Organization and 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. There were no board designated net assets as of June 30, 2018 and 2017.

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.

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.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 1—Organization and summary of significant accounting policies (continued)

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, 2018 and 2017, ASC received approximately \$53,000 and \$583,000, respectively, of donated assets and services that met the requirements above. Contributions of donated assets and services are included in general unrestricted contributions on the statements of activities.

Grants and other receivables – Grants and other receivables consists primarily of receivables related to public art and other projects managed by ASC. Management has determined that no allowance for doubtful accounts is considered necessary for these receivables.

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, 2018 and 2017, the remaining pledge and amount payable to the other cultural organizations of \$5,000,000 and \$6,371,771, 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, 2018 and 2017, 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).

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 to 5 years. Property and equipment is presented net of accumulated depreciation amounting to \$1,424,288 and \$1,346,015 at June 30, 2018 and 2017, 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.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 1—Organization and summary of significant accounting policies (continued)

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.

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.

Future Pronouncements – In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are a decrease in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requires reporting of expenses by function and nature, as well as enhanced endowment disclosures. This standard is effective for all fiscal years beginning after December 15, 2017.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classifications affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative.

In May 2014, the FASB issued ASU 2014-09. The amendments in this update create (Topic 606): *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in (Topic 605): *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in (Subtopic 605-35): *Revenue Recognition – Construction-Type and Production-Type Contracts*, and create new (Subtopic 340-40): *Other Assets and Deferred Costs – Contracts with Customers*. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of the ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The amendments in this update will be effective for ASC’s fiscal year 2020 with early adoption permitted in certain circumstances.

The FASB has also issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU is effective for annual periods beginning after June 15, 2018.

Management is currently evaluating the impact of these standards on ASC’s financial statements.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 2—Annual campaign pledges receivable, net

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

	<u>2018</u>	<u>2017</u>
Total annual campaign pledges receivable	\$ 2,595,496	\$ 3,271,410
Less allowance for uncollectible pledges	<u>(431,707)</u>	<u>(500,924)</u>
Net annual campaign pledges receivable	<u>\$ 2,163,789</u>	<u>\$ 2,770,486</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 \$3,300,000 and \$4,300,000 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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.

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.

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

JUNE 30, 2018 AND 2017

Note 3—Beneficial interest in trust (continued)

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>2018</u>	<u>2017</u>
Change in beneficial interest	\$ 3,078,921	\$ 2,764,306
Allocation of allowable endowment balance for spending	(1,623,675)	(1,572,525)
Net change in beneficial interest	<u>\$ 1,455,246</u>	<u>\$ 1,191,781</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.

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.

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 following tables summarize the valuation of ASC’s investments measured at fair value on a recurring basis as of June 30, 2018 and 2017, based on the level of input utilized to measure fair value.

<u>June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$ 2,822	\$ -	\$ -	\$ 2,822
Beneficial interest in trust	-	-	34,079,035	34,079,035
	<u>\$ 2,822</u>	<u>\$ -</u>	<u>\$ 34,079,035</u>	<u>\$ 34,081,857</u>
<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$ 17,407	\$ -	\$ -	\$ 17,407
Beneficial interest in trust	-	-	32,623,789	32,623,789
	<u>\$ 17,407</u>	<u>\$ -</u>	<u>\$ 32,623,789</u>	<u>\$ 32,641,196</u>

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

JUNE 30, 2018 AND 2017

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, 2018 and 2017:

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>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 32,623,789	\$ 31,432,008
Change in beneficial interest	3,078,921	2,764,306
Allocation of allowable endowment balance for spending	<u>(1,623,675)</u>	<u>(1,572,525)</u>
Balance, end of year	<u>\$ 34,079,035</u>	<u>\$ 32,623,789</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, 2018 and 2017, is listed below.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2018				
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 6,170,670</u>	<u>\$ 27,908,365</u>	<u>\$ 34,079,035</u>
June 30, 2017				
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 4,715,424</u>	<u>\$ 27,908,365</u>	<u>\$ 32,623,789</u>

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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 endowment 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, 2018 AND 2017

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, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ -	\$ 4,715,424	\$ 27,908,365	\$ 32,623,789
Investment return	-	3,078,921	-	3,078,921
Allocation of allowable endowment balance for spending	-	(1,623,675)	-	(1,623,675)
Endowment net assets, June 30, 2018	<u>\$ -</u>	<u>\$ 6,170,670</u>	<u>\$ 27,908,365</u>	<u>\$ 34,079,035</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2016	\$ -	\$ 3,553,643	\$ 27,878,365	\$ 31,432,008
Contributions	-	-	30,000	30,000
Investment return	-	2,734,306	-	2,734,306
Allocation of allowable endowment balance for spending	-	(1,572,525)	-	(1,572,525)
Endowment net assets, June 30, 2017	<u>\$ -</u>	<u>\$ 4,715,424</u>	<u>\$ 27,908,365</u>	<u>\$ 32,623,789</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, 2018 and 2017.

Note 6—Lease commitments

ASC leases its office facilities under an operating lease with an expiration date of September 30, 2019. The lease provides for monthly lease payments, increasing over the life of the lease, ranging from approximately \$17,500 to \$18,500. Office rent expense amounted to \$195,670 and \$178,048 for the years ended June 30, 2018 and 2017, 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 \$2,461 expiring at various times through October 2021. Total rent expense for these leases were approximately \$10,000 and \$26,000 for the years ended June 30, 2018 and 2017, respectively.

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

JUNE 30, 2018 AND 2017

Note 6—Lease commitments (continued)

Approximate future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	<u>Office Rent</u>	<u>Equipment</u>
2019	\$ 202,561	\$ 8,686
2020	37,026	8,686
2021	-	8,686
2022	-	2,895
	<u>\$ 239,587</u>	<u>\$ 28,953</u>

Note 7—Net assets

Temporarily restricted net assets are comprised of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Accumulated earnings from endowment investments	\$ 6,170,670	\$ 4,715,424
Annual fund drive available for subsequent years operations	3,410,789	4,720,475
	<u>\$ 9,581,459</u>	<u>\$ 9,435,899</u>

Permanently restricted net assets are comprised of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Endowment established without donor-restricted earnings	\$ 22,748,234	\$ 22,748,234
Endowment established with donor-restricted earnings	5,160,131	5,160,131
	<u>\$ 27,908,365</u>	<u>\$ 27,908,365</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 \$59,000 and \$53,000 for the years ended June 30, 2018 and 2017, respectively.

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

JUNE 30, 2018 AND 2017

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 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 39% and 43% for the 2018 and 2017 campaigns, respectively) is derived from three large Charlotte area employers and their employees.

Note 10—Subsequent events

ASC has evaluated subsequent events through March 8, 2019, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.