

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

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2019 and 2018

And Report of Independent Auditor

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

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Report of Independent Auditor

To the 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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

We draw attention to the fact that as a result of net losses without donor restrictions for several years, ASC has a deficit in net assets without donor restrictions of \$2,875,150 and \$1,186,223 as of June 30, 2019 and 2018, respectively. As discussed more fully in Note 2, ASC has taken action designed to reduce the deficit in net assets with donor restrictions and to improve its cash flow and liquidity. Our opinion is not modified with respect to that matter.

As discussed in Note 10 to the financial statements, as a result of the spread of COVID-19 in early 2020, economic uncertainties have arisen which are likely to negatively impact the operating results of ASC. Given the uncertainty of the situation, the duration of any business disruption and related financial impact cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Changes in Financial Statement Presentation

As discussed in Note 1, ASC adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the disclosure of liquidity and availability of resources, which has been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

Handwritten signature in cursive script that reads "Cheryl Bekacit LLP".

Charlotte, North Carolina
June 25, 2020

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

JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents:		
Operating cash	\$ 556,810	\$ 1,375,614
Held for Public Art	458,874	458,908
Annual campaign contributions receivable, net	2,021,571	2,163,789
Grants and other receivables	811,398	405,451
Prepaid expenses and other assets	21,777	73,311
Other contributions receivable	4,500,000	5,000,000
Investments	-	2,822
Operating reserves fund	622,704	1,612,378
Beneficial Interests in Trust:		
Endowment investments	30,630,570	32,466,657
Endowment receivable	-	153,149
Property and equipment, net	294,437	373,911
Total Assets	\$ 39,918,141	\$ 44,085,990
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 209,447	\$ 594,367
Payable to designated beneficiaries	4,846,199	5,201,435
Deferred support	3,986,795	3,598,965
Total Liabilities	9,042,441	9,394,767
Net Assets:		
Without Donor Restrictions:		
Undesignated	(3,058,880)	(1,186,223)
With Donor Restrictions:		
Annual fund drive available for subsequent years' operations	3,304,010	3,410,789
Restricted endowments	30,630,570	32,466,657
Total With Donor Restrictions	33,934,580	35,877,446
Total Net Assets	30,875,700	34,691,223
Total Liabilities and Net Assets	\$ 39,918,141	\$ 44,085,990

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

YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
Public Support:						
Fund drive and general contributions	\$ 348,410	\$ 3,304,010	\$ 3,652,420	\$ 356,296	\$ 3,410,789	\$ 3,767,085
Government Grants:						
City of Charlotte	3,310,341	-	3,310,341	3,190,823	-	3,190,823
Mecklenburg County	2,008,151	-	2,008,151	1,725,718	-	1,725,718
Charlotte Mecklenburg Schools	24,000	-	24,000	76,500	-	76,500
NC Arts Council	268,962	-	268,962	241,144	-	241,144
Other municipalities	89,150	-	89,150	85,800	-	85,800
Public Art Funds	2,997,808	-	2,997,808	5,206,018	-	5,206,018
Total Public Support	9,046,822	3,304,010	12,350,832	10,882,299	3,410,789	14,293,088
Investment loss	-	-	-	(962)	-	(962)
Allocation of allowable endowment before spending	1,450,356	-	1,450,356	1,623,675	-	1,623,675
Net assets released from restriction	3,410,789	(3,410,789)	-	4,720,475	(4,720,475)	-
Total Operating Revenue	13,907,967	(106,779)	13,801,188	17,225,487	(1,309,686)	15,915,801

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, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Expenses:						
Program Services:						
Grants and allocations	\$ 8,435,730	\$ -	\$ 8,435,730	\$ 8,384,817	\$ -	\$ 8,384,817
Public Art	2,550,417	-	2,550,417	5,267,400	-	5,267,400
Grant support and other services	1,722,996	-	1,722,996	1,796,528	-	1,796,528
Total Program Services	12,709,143	-	12,709,143	15,448,745	-	15,448,745
Supporting Services:						
General and administrative	1,339,175	-	1,339,175	1,115,104	-	1,115,104
Fundraising	1,742,632	-	1,742,632	1,520,847	-	1,520,847
Total Supporting Services	3,081,807	-	3,081,807	2,635,951	-	2,635,951
Total Operating Expenses	15,790,950	-	15,790,950	18,084,696	-	18,084,696
Change in net assets from operations	(1,882,983)	(106,779)	(1,989,762)	(859,209)	(1,309,686)	(2,168,895)
Other Changes:						
Investment return from operating reserves fund	10,326	-	10,326	12,378	-	12,378
Transfer from beneficial interest in trust to operating reserves fund	-	-	-	1,000,000	(1,000,000)	-
Change in beneficial interest	-	(385,731)	(385,731)	-	3,066,543	3,066,543
Allocation of allowable endowment balance for spending	-	(1,450,356)	(1,450,356)	-	(1,623,675)	(1,623,675)
Change in net assets	(1,872,657)	(1,942,866)	(3,815,523)	153,169	(866,818)	(713,649)
Net assets, beginning of year	(1,186,223)	35,877,446	34,691,223	(1,339,392)	36,744,264	35,404,872
Net assets, end of year	\$ (3,058,880)	\$ 33,934,580	\$ 30,875,700	\$ (1,186,223)	\$ 35,877,446	\$ 34,691,223

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, 2019

	Program Services			Supporting Services				Total
	Grants and Allocations	Public Art	Grant Support and Other Services	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Grants, allocations, and direct expenses	\$ 7,878,897	\$ -	\$ -	\$ 7,878,897	\$ -	\$ -	\$ -	\$ 7,878,897
Arts and science education	250,493	-	-	250,493	-	-	-	250,493
Payments to organizations	1,995	-	-	1,995	-	-	-	1,995
Indirect and other grant expenses	304,345	-	-	304,345	-	-	-	304,345
Artist contracts	-	1,958,046	-	1,958,046	-	-	-	1,958,046
Salaries	-	264,217	1,047,456	1,311,673	723,123	770,795	1,493,918	2,805,591
Payroll taxes and benefits	-	57,295	201,245	258,540	133,239	144,279	277,518	536,058
Promotions and public relations	-	200	13,713	13,913	7,120	48,135	55,255	69,168
Professional fees and contracted services	-	133,385	70,664	204,049	127,294	158,277	285,571	489,620
Professional development	-	1,938	1,852	3,790	11,271	4,364	15,635	19,425
Office rent	-	22,964	111,641	134,605	49,755	82,287	132,042	266,647
Depreciation	-	12,592	33,750	46,342	29,381	50,367	79,748	126,090
Technology	-	16,180	43,210	59,390	37,754	184,366	222,120	281,510
Office and meetings	-	15,323	34,124	49,447	68,602	85,059	153,661	203,108
Dues and subscriptions	-	19,083	9,788	28,871	22,009	17,082	39,091	67,962
Telephone	-	952	12,556	13,508	2,221	3,807	6,028	19,536
Processing fees	-	3,841	22,700	26,541	9,665	97,429	107,094	133,635
Discretionary	-	1,044	38,853	39,897	7,500	5,227	12,727	52,624
Other	-	43,357	81,444	124,801	110,241	91,158	201,399	326,200
Total Expenses	\$ 8,435,730	\$ 2,550,417	\$ 1,722,996	\$ 12,709,143	\$ 1,339,175	\$ 1,742,632	\$ 3,081,807	\$ 15,790,950

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

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

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	Fundraising	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
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 these statements.

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

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,815,523)	\$ (713,649)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation expense	126,090	78,272
Change in allowance for uncollectible contributions receivable	-	(69,217)
Realized and unrealized losses on investments, net	-	1,061
Change in operating reserves fund	989,674	(1,012,378)
Change in beneficial interest	385,731	(3,066,543)
Allocation of allowable endowment balance for spending	1,450,356	2,623,675
Changes in operating assets and liabilities:		
Annual campaign pledges receivable	142,218	675,914
Grant and other receivables	(405,947)	2,685,154
Prepaid expenses	51,534	17,983
Other pledges receivable	500,000	1,371,771
Endowment receivable	153,149	(133,399)
Accounts payable and accrued expenses	(384,920)	(158,031)
Deferred lease incentives	-	(6,978)
Payable to designated beneficiaries	(355,236)	(1,170,336)
Deferred support	387,830	(1,529,548)
Net cash flows from operating activities	<u>(775,044)</u>	<u>(406,249)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	2,822	13,524
Purchases of property and equipment	(46,616)	(7,761)
Net cash flows from investing activities	<u>(43,794)</u>	<u>5,763</u>
Net change in cash and cash equivalents	(818,838)	(400,486)
Cash and cash equivalents, beginning of year	1,834,522	2,235,008
Cash and cash equivalents, end of year	<u>\$ 1,015,684</u>	<u>\$ 1,834,522</u>

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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 fundraising 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 (“U.S. 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:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and are 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, 2019 and 2018.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of ASC or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2019 and 2018, ASC’s net assets with donor restrictions include contributions to the annual fund drive that are available for subsequent years’ operations and the endowment corpus and unspent endowment investment earnings.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets with donor restrictions based on explicit donor stipulation or by law, or if no such restrictions exists, as net assets without donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as released from net assets with donor restrictions to net assets without donor restrictions.

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 promise 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 contributions 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 contributions receivable is provided based on management’s evaluation of potential uncollectible contributions receivable at year-end.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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, 2019 and 2018, ASC received approximately \$1,000 and \$53,000, respectively, of donated assets and services that met the requirements above. Contributions of donated assets and services are included in general contributions without donor restrictions 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 Contributions Receivable and Payable to Designated Beneficiaries – During the year ended June 30, 2011, ASC received \$15,000,000 in promises to give that were designated for other cultural organizations. Accordingly, as of June 30, 2019 and 2018, the remaining contributions receivable and amount payable to the other cultural organizations of \$4,500,000 and \$5,000,000, respectively, are shown in the accompanying statements of financial position as both a contributions 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, 2019 and 2018 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 4).

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 \$1,550,203 and \$1,424,288 at June 30, 2019 and 2018, respectively.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

Deferred Support and Restricted Cash – 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. At June 30, 2019 and 2018, ASC is holding \$458,874 and \$458,908 in a separate cash account for Public Art; however, the additional amount of restricted cash for Public Art, representing amounts in deferred revenue that have funds received but not spent, amounts to approximately \$2.5 million and \$2.8 million at June 30, 2019 and 2018, respectively.

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 have been allocated among program services and supporting services benefited. Expenses are allocated based on time and effort with the exception of grants, allocations, and directed expenses, arts and science education, payments to organizations, and artist contracts, which are allocated directly, and rent, which is allocated based on square footage.

Use of Estimates – The preparation of financial statements in conformity with U.S. 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.

New Accounting 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*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASC has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all period presented with the exception of the disclosure of liquidity and availability of resources, which has been implemented prospectively as allowed under the provisions of ASU 2016-14.

Future Pronouncements – In February 2016, 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, 2021. This update will be effective for ASC’s fiscal year 2023. 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, 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, 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, 2019. The amendments in this update will be effective for ASC’s fiscal year 2021 with early adoption permitted in certain circumstances.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments should be applied on a modified prospective basis. Under a modified prospective basis, in the first set of financial statements following the effective date, the amendments should be applied to agreements that are either not completed as of the effective date or entered into after the effective date. Retrospective application is permitted. This ASU is effective for the year ending June 30, 2020.

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

Note 2—Liquidity and availability of resources

The table below represents financial assets available for general expenditures within one year at June 30:

Financial assets at year-end:

Operating cash	\$ 556,810
Annual campaign contributions receivable, net	2,021,571
Grants and other receivables	811,398
Investments	-
Operating reserve fund held at Foundation For The Carolinas	<u>622,705</u>
Financial assets available to meet cash needs for general expenditures within one year	4,012,484

Less amounts not available to be used for general expenditures within one year

Restricted for public art	<u>3,870,425</u>
Financial assets available to meet general expenditures within one year	<u>\$ 142,059</u>

As part of ASC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, including the subsequent year's operating grants, liabilities, and other obligations become due. The operating reserve fund referred to in the above table consists of short-term investments and money market funds held at Foundation for the Carolinas ("FFTC").

Due to operating losses in several prior years, ASC experienced decreases in its net assets without donor restrictions. Consequently, ASC has a deficit in net assets without donor restrictions of \$2,875,033 and \$1,186,223 at June 30, 2019 and 2018, respectively. As discussed in Note 6, endowment funds are subject to appropriation using a board approved annual spending rate of 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 appropriation is planned. To help offset the liquidity impact of the operating losses and deficit in net assets without restrictions referred to above, subsequent to June 30, 2019, the board of ASC approved an additional spend of \$1.5 million from the endowment reserves and accumulated gains that will be reflected as operating revenue for the year ending June 30, 2020. In addition, the board of ASC approved a loan from the endowment in an amount not to exceed \$3.5 million that is to be repaid with interest at 4.5% over a seven-year period beginning December 31, 2020. As of the date of this report, ASC has borrowed \$2.5 million from the endowment.

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Note 3—Annual campaign contributions receivable, net

ASC has also requested additional funding from the City of Charlotte and Mecklenburg County and has been notified that the county is considering an increase funding of \$900,000 for the fiscal year ending 2021 to support artists, cultural vision grants and operating support for small-to-mid-size organizations. ASC has also reduced operating expenses and, beginning in fiscal year ending 2021, will align grant expense in accordance with funding already received or committed in order to operate with a balanced budget going forward.

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

	<u>2019</u>	<u>2018</u>
Total annual campaign contributions receivable	\$ 2,453,278	\$ 2,595,496
Less allowance for uncollectible contributions receivable	<u>(431,707)</u>	<u>(431,707)</u>
Net annual campaign contributions receivable	<u>\$ 2,021,571</u>	<u>\$ 2,163,789</u>

All annual campaign contributions receivable are current; consequently, such receivables are not discounted to present value. Revenues from the annual campaign promises to give of approximately \$3,300,000 and \$3,400,000 for the years ended June 30, 2019 and 2018, respectively, are recorded as with donor restrictions 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 4—Beneficial interest in trust

The Greater Charlotte Cultural Trust (the "Trust") is a supporting organization of ASC and 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 6.

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, 2019 and 2018, 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.

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Note 4—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>2019</u>	<u>2018</u>
Change in beneficial interest	\$ (385,731)	\$ 3,066,543
Allocation of allowable endowment balance for spending	<u>(1,450,356)</u>	<u>(2,623,675)</u>
Net change in beneficial interest	<u>\$ (1,836,087)</u>	<u>\$ 442,868</u>

Note 5—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.

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Note 5—Fair value measurements of assets and liabilities (continued)

The following tables summarize the valuation of ASC’s investments measured at fair value on a recurring basis as of June 30, 2019 and 2018, based on the level of input utilized to measure fair value.

June 30, 2019	Level 1	Level 2	Level 3	Total
Common stocks	\$ 2,822	\$ -	\$ -	\$ 2,822
Operating reserves fund	-	-	622,704	622,704
Beneficial interest in trust	-	-	30,630,570	30,630,570
	<u>\$ 2,822</u>	<u>\$ -</u>	<u>\$ 31,253,274</u>	<u>\$ 31,256,096</u>

June 30, 2018	Level 1	Level 2	Level 3	Total
Common stocks	\$ 2,822	\$ -	\$ -	\$ 2,822
Operating reserves fund	-	-	1,612,378	1,612,378
Beneficial interest in trust	-	-	32,466,657	32,466,657
	<u>\$ 2,822</u>	<u>\$ -</u>	<u>\$ 34,079,035</u>	<u>\$ 34,081,857</u>

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 FTTC as of June 30, 2019 and 2018:

Level 1	81%
Level 2	8%
Level 3	11%
	<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:

	2019	2018
Balance, beginning of year	\$ 34,079,035	\$ 32,623,789
Change in beneficial interest	(385,731)	3,066,543
Change in operating reserves fund	(989,674)	1,012,378
Allocation of allowable endowment balance for spending	<u>(1,450,356)</u>	<u>(2,623,675)</u>
Balance, end of year	<u>\$ 31,253,274</u>	<u>\$ 34,079,035</u>

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Note 6—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 U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Board of Directors of ASC has interpreted current law, Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of the interpretation, ASC classifies as donor-restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by ASC in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

Endowment net asset composition by type of fund for the endowment investments as of June 30, 2019 and 2018 is listed below.

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 27,908,365	\$ 27,908,365
Accumulated investment gains	-	2,722,205	2,722,205
Endowment net assets, June 30, 2019	<u>\$ -</u>	<u>\$ 30,630,570</u>	<u>\$ 30,630,570</u>
	June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 27,908,365	\$ 27,908,365
Accumulated investment gains	-	4,558,292	4,558,292
Endowment net assets, June 30, 2018	<u>\$ -</u>	<u>\$ 32,466,657</u>	<u>\$ 32,466,657</u>

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Note 6—Endowment funds (continued)

Funds with Deficiencies – 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 net assets with donor restrictions. There were no individual funds below corpus as of June 30, 2019 and 2018.

Return Objectives and Risk Parameters – 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.

Strategies Employed for Achieving Objectives – 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%

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Note 6—Endowment funds (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy – 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. As discussed in Note 2, amounts above the spending policy were withdrawn subsequent to June 30, 2019.

Changes in the investment portion of the endowment net assets for the year ended are as follows as of June 30, 2019 and 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets as of June 30, 2017	\$ -	\$ 32,023,789	\$ 32,023,789
Investment return	-	3,066,543	3,066,543
Allocation of allowable endowment balance for spending	-	<u>(2,623,675)</u>	<u>(2,623,675)</u>
Endowment net assets as of June 30, 2018	-	32,466,657	32,466,657
Investment return	-	(385,731)	(385,731)
Allocation of allowable endowment balance for spending	-	<u>(1,450,356)</u>	<u>(1,450,356)</u>
Endowment net assets as of June 30, 2019	<u>\$ -</u>	<u>\$ 30,630,570</u>	<u>\$ 30,630,570</u>

Note 7—Lease commitments

ASC leased its office facilities under an operating lease with an expiration date of September 30, 2019. The lease provided for monthly lease payments, increasing over the life of the lease, ranging from approximately \$17,500 to \$18,500. Office rent expense is net of amortization of the incentives referred to in Note 1. Office rent expense amounted to \$204,760 and \$195,670 for the years ended June 30, 2019 and 2018, respectively.

On October 1, 2019, ASC entered into a new office facility operating lease with an expiration date of September 30, 2029. The lease provides for monthly lease payments, increasing over the life of the lease, ranging from approximately \$28,600 to \$35,800.

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, 2019 and 2018, respectively.

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Note 7—Lease commitments (continued)

Approximate future minimum lease payments, including the lease entered into subsequent to June 30, 2019 are as follows:

<u>Years Ending June 30,</u>	<u>Office Rent</u>	<u>Equipment</u>
2020	\$ 442,277	\$ 8,686
2021	350,374	8,686
2022	359,148	2,895
2023	368,188	-
2024	377,424	-
Thereafter	2,140,498	-
	<u>\$ 4,037,909</u>	<u>\$ 20,267</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, 2019 and 2018, respectively.

Note 9—Concentrations of credit risk

ASC places its cash and cash equivalents on deposit with financial institutions in the United States of America. The Federal Deposit Insurance Corporation 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 28% and 39% for the 2019 and 2018 campaigns, respectively) is derived from three large Charlotte area employers and their employees.

Note 10—Subsequent events

As a result of the spread of COVID-19 in early 2020, economic uncertainties have arisen, which are likely to negatively impact operating results of ASC. Other financial impacts could occur though such potential impact is unknown at this time.

In accordance with Section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), ASC received a \$610,310 Paycheck Protection Program loan in April 2020. The terms of the loan provide forgiveness of principal and any interest to the extent ASC incurs certain qualifying expenses and maintains a certain level of average full-time equivalent employees during the measurement period following closing of the loan, all as defined in the CARES Act.

ASC has evaluated subsequent events through June 25, 2020, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued. See Note 2 for a discussion of endowment fund withdrawals that occurred subsequent to June 30, 2019.