

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020



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ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
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INDEPENDENT AUDITORS' REPORT

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 statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditors' 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2020 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, 2020, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustment to Beginning of Year Net Assets

As discussed in Note 13, ASC has restated its beginning of year net assets during the current year to correct errors associated with their public art program in accordance with accounting principles generally accepted in the United States of America. As part of our audit of the 2020 financial statements, we audited adjustments described in Note 13 that were applied to restate the beginning of year net assets. In our opinion, such adjustments are appropriate and have been properly applied.

Emphasis of Matter

As discussed in Note 1 to the financial statements, ASC has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update 2018-08, *Not-For-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605). Our opinion is not modified with respect to that 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 \$3,157,481 as of June 30, 2020. 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
December 10, 2021

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

Cash and Cash Equivalents:	
Operating Cash	\$ 1,491,145
Held for Public Art	1,500,101
Annual Campaign Contributions Receivable, Net	1,500,480
Grants and Other Receivables	1,984,152
Prepaid Expenses and Other Assets	88,626
Other Contributions Receivable	2,999,949
Beneficial Interests in Trust:	
Endowment Investments	24,774,590
Endowment Receivable	750,000
Endowment Note Receivable	3,250,000
Property and Equipment, Net	<u>1,607,262</u>
 Total Assets	 <u><u>\$ 39,946,305</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable and Accrued Expenses	\$ 2,374,737
Payable to Designated Beneficiaries	3,077,548
Note Payable to Endowment	3,250,000
Deferred Support	2,257,073
Deferred Lease Payments	632,458
Notes Payable	<u>610,310</u>
Total Liabilities	<u>12,202,126</u>

NET ASSETS

Without Donor Restrictions:	
Undesignated	(3,157,481)
With Donor Restrictions:	
Annual Fund Drive Available for Subsequent Years' Operations	2,877,070
Restricted Endowments	<u>28,024,590</u>
Total With Donor Restrictions	<u>30,901,660</u>
Total Net Assets	<u>27,744,179</u>
 Total Liabilities and Net Assets	 <u><u>\$ 39,946,305</u></u>

See accompanying Notes to Financial Statements.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
Public Support:			
Fund Drive and General Contributions	\$ 421,012	\$ 2,877,070	\$ 3,298,082
Government Grants:			
City of Charlotte	3,242,535	-	3,242,535
Mecklenburg County	1,994,763	-	1,994,763
Charlotte Mecklenburg Schools	6,200	-	6,200
NC Arts Council	255,855	-	255,855
Other Municipalities	68,000	-	68,000
Public Art Funds	2,961,323	-	2,961,323
Total Public Support	8,949,688	2,877,070	11,826,758
Allocation of Allowable Endowment Before Spending	3,297,777	-	3,297,777
Net Assets Released from Restriction	3,304,010	(3,304,010)	-
Total Operating Revenue	15,551,475	(426,940)	15,124,535
OPERATING EXPENSES			
Program Services Expense:			
Grants and Allocations	8,536,237	-	8,536,237
Public Art	3,197,517	-	3,197,517
Grant Support and Other Services	2,125,112	-	2,125,112
Total Program Services Expenses	13,858,866	-	13,858,866
Supporting Services Expense:			
General and Administrative	1,428,695	-	1,428,695
Fundraising	1,220,943	-	1,220,943
Total Supporting Services Expenses	2,649,638	-	2,649,638
Total Operating Expenses	16,508,504	-	16,508,504
CHANGE IN NET ASSETS FROM OPERATIONS	\$ (957,029)	\$ (426,940)	\$ (1,383,969)
OTHER CHANGES			
Change in Beneficial Interest	-	691,797	691,797
Allocation of Allowable Endowment Balance for Spending	-	(3,297,777)	(3,297,777)
Investment Income	4,092	-	4,092
Loss on Disposal of Fixed Asset	(100,002)	-	(100,002)
Total Other Changes	(95,910)	(2,605,980)	(2,701,890)
CHANGE IN NET ASSETS	(1,052,939)	(3,032,920)	(4,085,859)
Net Assets - Beginning of Year (As Restated)	(2,104,542)	33,934,580	31,830,038
NET ASSETS - END OF YEAR	<u>\$ (3,157,481)</u>	<u>\$ 30,901,660</u>	<u>\$ 27,744,179</u>

See accompanying Notes to Financial Statements.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	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	\$ 8,134,344	\$ -	\$ -	\$ 8,134,344	\$ -	\$ -	\$ -	\$ 8,134,344
Arts and Science Education	281,220	-	-	281,220	-	-	-	281,220
Indirect and Other Grant Expenses	120,673	-	-	120,673	-	-	-	120,673
Artist Contracts	-	2,556,639	-	2,556,639	-	-	-	2,556,639
Salaries	-	347,837	1,156,724	1,504,561	619,832	402,960	1,022,792	2,527,353
Payroll Taxes and Benefits	-	96,697	287,080	383,777	175,084	102,360	277,444	661,221
Promotions and Public Relations	-	3,894	32,433	36,327	4,274	39,755	44,029	80,356
Professional Fees and Contracted Services	-	21,441	117,210	138,651	288,480	178,649	467,129	605,780
Professional Development	-	915	6,201	7,116	3,699	3,590	7,289	14,405
Office Rent	-	39,617	192,600	232,217	85,836	141,959	227,795	460,012
Interest Expense	-	4,891	14,672	19,563	12,206	15,176	27,382	46,945
Depreciation	-	17,529	46,982	64,511	39,825	70,114	109,939	174,450
Technology	-	14,922	39,851	54,773	34,819	170,035	204,854	259,627
Office and Meetings	-	27,381	79,213	106,594	37,488	19,337	56,825	163,419
Dues and Subscriptions	-	7,464	3,319	10,783	15,921	3,846	19,767	30,550
Telephone	-	1,179	11,136	12,315	1,130	1,936	3,066	15,381
Processing Fees	-	1,394	8,524	9,918	15,082	34,088	49,170	59,088
Discretionary	-	1,059	34,077	35,136	2,602	11,162	13,764	48,900
Other	-	54,658	95,090	149,748	92,417	25,976	118,393	268,141
Total Expenses by Function	<u>\$ 8,536,237</u>	<u>\$ 3,197,517</u>	<u>\$ 2,125,112</u>	<u>\$ 13,858,866</u>	<u>\$ 1,428,695</u>	<u>\$ 1,220,943</u>	<u>\$ 2,649,638</u>	<u>\$ 16,508,504</u>

See accompanying Notes to Financial Statements.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (4,085,859)
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation Expense	174,450
Change in Allowance for Uncollectible Contributions Receivable	65,078
Change in Operating Reserves Fund	622,704
Change in Beneficial Interest	(691,797)
Allocation of Allowable Endowment Balance for Spending	3,297,777
Loss on Disposal of Property and Equipment	100,002
Changes in Operating Assets and Liabilities:	
Annual Campaign Pledges Receivable	456,013
Grant and Other Receivables	(1,523,390)
Prepaid Expenses	(66,849)
Other Pledges Receivable	1,500,051
Endowment Receivable	(750,000)
Accounts Payable and Accrued Expenses	1,700,806
Payable to Designated Beneficiaries	(1,768,651)
Payable to Endowment	3,250,000
Deferred Support	(207,629)
Deferred Lease	632,458
Net Cash Provided by Operating Activities	<u>2,705,164</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Property and Equipment	(1,339,912)
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CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Note Payable	<u>610,310</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS

1,975,562

Cash and Cash Equivalents - Beginning of Year

1,015,684

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 2,991,246

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Operating Cash	\$ 1,491,145
Held for Public Art	1,500,101
Total Cash and Cash Equivalents	<u><u>\$ 2,991,246</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Purchase of Construction in Progress Included in Accounts Payable	<u><u>\$ 247,365</u></u>
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See accompanying Notes to Financial Statements.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020.

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, 2020, 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 exist, 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. Donor-restricted contributions whose restrictions are met in the same reporting period in which they are received as reported as net assets without donor restrictions.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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.

Contributions of donated assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. There were no contributions of donated assets and services during the year ended June 30, 2020. Contributions of donated assets and services are included in general contributions without donor restrictions on the statement of activities.

Grants and Other Receivables

Grants and other receivables consist 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, 2020, the remaining contributions receivable and amount payable to the other cultural organizations of approximately \$3,000,000 is shown in the accompanying statement 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 statement of activities for the year ended June 30, 2020 and, therefore, are not recorded at the present value of the future cash flows.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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 statement 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 statement 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 5).

Property and Equipment, Net

Property and equipment primarily include leasehold improvements, 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 and over the lease term for leasehold improvements. Property and equipment is presented net of accumulated depreciation amounting to approximately \$1,577,000 at June 30, 2020.

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, 2020, ASC is holding approximately \$1,500,000 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 \$757,000 at June 30, 2020.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Payable to Endowment

As discussed in Note 7, 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. In addition to the appropriation, the board of the ASC approved a loan from the endowment in an amount not to exceed \$3,500,000 that is to be repaid with interest at 4.5% over a seven-year period beginning December 31, 2020. Accordingly, the amount payable on the endowment loan is \$3,250,000 as of June 30, 2020.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the accompanying statement 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

ASC adopted the provisions of Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605), during the year ended June 30, 2020 as management believes the standard improves the usefulness and understandability of ASC's financial reporting. ASC's financial statements reflect the application of ASU 2018-08 beginning July 1, 2019. The accounting standard was applied on a modified perspective basis. The adoption of this standard had no significant impact on ASC's financial statements.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Future Pronouncements

In February 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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.

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

Subsequent Events

ASC has evaluated subsequent events through December 10, 2021, which is the date the financial statements were available to be issued.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 LIQUIDITY AND AVAILABILITY OF RESOURCES

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

Operating Cash	\$ 1,491,145
Cash Held for Public Art	1,500,101
Annual Campaign Contributions Receivable, Net	1,500,480
Grants and Other Receivables	<u>1,984,152</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	6,475,878
Less: Amounts not Available to be Used for General Expenditures Within One Year Restricted for Public Art	<u>2,257,073</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u><u>\$ 4,218,805</u></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 approximately \$3,157,000 at June 30, 2020. As discussed in Note 7, 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, the board of ASC approved an additional spend of \$1.5 million from the endowment reserves and accumulated gains that is reflected as operating revenue for the year ending June 30, 2020. As discussed in Note 7, the ASC received a loan from the endowment in an amount not to exceed \$3,500,000 that is to be repaid with interest at 4.5% over a seven-year period beginning December 31, 2020.

Subsequent to year end, the city of Charlotte approved their budget allocating \$800,000 for ASC's operations and \$500,000 for ASC's grants and allocations program, which represents a decrease in funding levels previously provided by the city of Charlotte. In addition, Mecklenburg county intends to increase their funding to the ASC by approximately \$723,000 to support artists, cultural vision grants and operating support for small-to-mid-size organizations.

In an effort to reduce the decrease in net assets, ASC is pursuing new and additional funding from private organizations. Subsequent to year end, the ASC reduced staff and entered into a sublease contract with an organization for the ASC's office space at Packard Place.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 ANNUAL CAMPAIGN CONTRIBUTIONS RECEIVABLE, NET

Annual campaign contributions receivable are summarized as follows as of June 30, 2020:

Total Annual Campaign Contributions Receivable	\$ 1,997,265
Less: Allowance for Uncollectible Contributions Receivable	<u>(496,785)</u>
Net Annual Campaign Contributions Receivable	<u><u>\$ 1,500,480</u></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 \$2,877,000 for the year ended June 30, 2020 is recorded as with donor restrictions within fund drive and general contributions on the accompanying statement of activities in the year the campaign is conducted since the revenues are restricted for the next fiscal year's operations.

NOTE 4 PROPERTY AND EQUIPMENT, NET

Major classes of property and equipment consist of the following as of June 30, 2020:

Leasehold Improvements	\$ 1,564,480
Equipment	<u>1,619,775</u>
Total Depreciable Assets	3,184,255
Less: Accumulated Depreciation	<u>(1,576,993)</u>
Depreciable Assets, Net	1,607,262
Construction in Progress	<u>-</u>
Property and Equipment, Net	<u><u>\$ 1,607,262</u></u>

NOTE 5 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 7.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 BENEFICIAL INTEREST IN TRUST (CONTINUED)

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, 2020, representing ASC's interests in the Trust, are reflected in the accompanying statement 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 5 and 6.

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.

The following schedule summarizes the change in beneficial interest and its classification in the accompanying statement of activities for the year ended June 30, 2020:

Change in Beneficial Interest	\$ 691,797
Allocation of Allowable Endowment Balance for Spending	<u>(3,297,777)</u>
Net Change in Beneficial Interest	<u><u>\$ (2,605,980)</u></u>

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
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NOTE 6 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, 2020, based on the level of input utilized to measure fair value.

	Level 1	Level 2	Level 3	Total
Common Stock	\$ 2,822	\$ -	\$ -	\$ 2,822
Beneficial Interest in Trust	-	-	24,774,590	24,774,590
Total	<u>\$ 2,822</u>	<u>\$ -</u>	<u>\$ 24,774,590</u>	<u>\$ 24,777,412</u>

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NOTE 6 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, 2020:

Level 1	76%
Level 2	2%
Level 3	22%
Total	<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 year ended June 30, 2020:

Balance - Beginning of Year	\$ 31,253,274
Change in Beneficial Interest	691,797
Change in Operating Reserves Fund	(622,704)
Endowment Note Receivable	(3,250,000)
Allocation of Allowable Endowment Balance for Spending	<u>(3,297,777)</u>
Balance - End of Year	<u>\$ 24,774,590</u>

NOTE 7 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.

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.

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NOTE 7 ENDOWMENT FUNDS (CONTINUED)

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

- The duration and preservation of the fund
- The purposes of ASC and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of ASC
- The investment policies of ASC

Endowment net asset composition by type of fund for the endowment investments as of June 30, 2020 are listed below.

	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 Losses	-	(3,133,775)	(3,133,775)
Endowment Net Assets - End of Year	<u>\$ -</u>	<u>\$ 24,774,590</u>	<u>\$ 24,774,590</u>

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.

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NOTE 7 ENDOWMENT FUNDS (CONTINUED)

Endowment Note Receivable

In December 2019, ASC entered into a promissory note with FFTC for an amount up to \$3,500,000 from the endowment funds to be repaid over a seven-year period from December 2020 through December 2026 at an interest rate of 4.5%. As the amounts received were from ASC's endowment there is an endowment note receivable as of June 30, 2020 of \$3,250,000 and a corresponding note payable to endowment as of June 30, 2020 of \$3,250,000. Scheduled payments to the endowment for year subsequent to June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 500,000
2022	500,000
2023	500,000
2024	500,000
2025	500,000
Thereafter	750,000
Total	<u><u>\$ 3,250,000</u></u>

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
Total	<u><u>100.0 %</u></u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 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 during the year ended June 30, 2020.

Changes in the investment portion of the endowment net assets for the year ended are as follows as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - June 30, 2019	\$ -	\$ 30,630,570	\$ 30,630,570
Investment Return	-	691,797	691,797
Endowment Note Receivable		(3,250,000)	(3,250,000)
Allocation of Allowable Endowment			
Balance for Spending	-	(3,297,777)	(3,297,777)
Endowment Net Assets - June 30, 2020	<u>\$ -</u>	<u>\$ 24,774,590</u>	<u>\$ 24,774,590</u>

NOTE 8 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.

On October 1, 2019, ASC entered into a new office facility operating lease with an expiration date of September 30, 2029. Under the lease agreement lease payments are offset by the application of a rent credit amount for improvements made to the building by lessee. These amounts are recorded by ASC as leasehold improvements. The lease agreement contains escalating lease payments ranging from approximately \$28,600 to \$35,800. ASC recognizes lease expense, net of the rent credit amounts, on a straight-line basis over the life of the lease. The straight-lining of the lease payments create a deferred lease payments liability. At June 30, 2020, the deferred lease payments was approximately \$632,000.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
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NOTE 8 LEASE COMMITMENTS (CONTINUED)

Office rent expense amounted to \$460,012 for the year ended June 30, 2020.

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 was approximately \$9,000 for the year ended June 30, 2020.

Approximate future minimum lease payments, including the lease entered into are as follows:

<u>Year Ending June 30,</u>	<u>Office Rent</u>	<u>Equipment</u>
2021	\$ 350,374	\$ 8,686
2022	359,148	2,895
2023	368,188	-
2024	377,424	-
2025	386,790	-
Thereafter	1,753,708	-
Total	<u>\$ 3,595,632</u>	<u>\$ 11,581</u>

As discussed in Note 2, subsequent to June 30, 2020, ASC entered into a lease agreement with an organization to sublease the office facility operating lease.

NOTE 9 RETIREMENT SAVINGS PLAN

ASC has established a 401(k) plan account as part of a multiemployer 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 \$35,022 for the year ended June 30, 2020.

NOTE 10 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.

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NOTE 10 CONCENTRATIONS OF CREDIT RISK (CONTINUED)

A substantial portion of the annual campaign revenue (approximately 61.5% for the 2020 campaign) is derived from four large Charlotte area employers and their employees.

NOTE 11 NOTES PAYABLE

In May 2020, ASC entered into a new unsecured promissory note, (PPP Loan) with a lender in the amount of \$610,310 under the Paycheck Protection Program (PPP) established by section 1102 of the CARES Act and as implemented and administered by the SBA. Under the terms of the agreement, the PPP Loan will bear an interest rate of 1.0% and will be repaid in 18 monthly installments. In June 2020, the SBA modified the terms of the PPP Loan to extend the maturity date to February 2023.

Under the PPP, all or a portion of the loan may be forgiven. The actual amount of the loan forgiveness will depend, in part, on the total amount of payroll costs, rent payments, and utility payments paid by the ASC during the twenty-four week period following the PPP Loan. The SBA may review funding eligibility and usage of funds in compliance with the program based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty, however, management is in of the opinion that any review will not have a material adverse impact on ASC's financial position. Subsequent to year end, ASC received notification from its bank that the PPP Loan forgiveness application was approved by the SBA and the full loan amount was forgiven. The amount forgiven will be recognized as revenue by ASC in the year ending June 30, 2022.

NOTE 12 RISK AND UNCERTAINTIES

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national, and global economies. The extent to which COVID-19 impacts ASC's results are dependent on the breadth and duration of the pandemic and could be affected by other factors currently unable to be predicted. These impacts may include, but are not limited to additional costs for emergency preparedness or loss of revenue due to reductions in certain revenue streams. Management believes ASC is taking appropriate actions to mitigate the negative impact. However, the full impact is unknown and cannot be reasonably estimated at this time.

ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.
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NOTE 13 PRIOR PERIOD ADJUSTMENT

During the performance of the 2020 audit, it was identified that there was a material error related to the public art program that effects accounts receivable, accounts payable, and deferred revenue. Accounts receivable included amounts that had not been earned by year end. Accounts payable excluded amounts that were incurred by year end. Deferred revenue included amounts that had been earned by year end. The error resulted in net assets being understated by approximately \$954,000 at June 30, 2019. See effect on net assets as previously reported below:

	2019 Previously Reported	Correction	2019 As Restated
Net Assets Without Donor Restrictions	<u>\$ (3,058,880)</u>	<u>\$ 954,338</u>	<u>\$ (2,104,542)</u>