

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

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2021**



CPAs | CONSULTANTS | WEALTH ADVISORS

[CLAAconnect.com](http://CLAAconnect.com)

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**TABLE OF CONTENTS**  
**YEAR ENDED JUNE 30, 2021**

|  |           |
|--|-----------|
| <b>INDEPENDENT AUDITORS' REPORT</b>  | <b>1</b>  |
| <b>FINANCIAL STATEMENTS</b>  |           |
| <b>STATEMENT OF FINANCIAL POSITION</b>   | <b>4</b>  |
| <b>STATEMENT OF ACTIVITIES</b>   | <b>5</b>  |
| <b>STATEMENT OF FUNCTIONAL EXPENSES</b>  | <b>6</b>  |
| <b>STATEMENT OF CASH FLOWS</b>   | <b>7</b>  |
| <b>NOTES TO FINANCIAL STATEMENTS</b>   | <b>8</b>  |
| <b>COMPLIANCE SECTION</b>  |           |
| <b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER<br/>    FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS<br/>    BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN<br/>    ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b> | <b>22</b> |
| <b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH<br/>    MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL<br/>    OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</b>   | <b>24</b> |
| <b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>   | <b>26</b> |
| <b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>  | <b>32</b> |
| <b>NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>   | <b>33</b> |



## 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, 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 2021 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, 2021, 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.

***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 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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 \$2,703,355 as of June 30, 2021. 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.

***Other Matters***

***Other Information – Schedule of Expenditures of Federal Awards***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2022, on our consideration of ASC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of ASC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Charlotte, North Carolina  
October 21, 2022

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2021**

**ASSETS**

|   |                                 |
|---|---------------------------------|
| Cash and Cash Equivalents:                    |                                 |
| Operating Cash                                | \$ 904,885                      |
| Held for Public Art                           | 3,258,483                       |
| Annual Campaign Contributions Receivable, Net | 418,513                         |
| Grants and Other Receivables                  | 759,178                         |
| Prepaid Expenses and Other Assets             | 3,960                           |
| Other Contributions Receivable                | 1,999,949                       |
| Beneficial Interests in Trust:                |                                 |
| Endowment Investments                         | 30,731,842                      |
| Endowment Note Receivable                     | 3,000,000                       |
| Property and Equipment, Net                   | <u>1,384,895</u>                |
| <br>Total Assets                              | <br><u><u>\$ 42,461,705</u></u> |

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

|                                       |                  |
|---------------------------------------|------------------|
| Accounts Payable and Accrued Expenses | \$ 1,387,111     |
| Payable to Designated Beneficiaries   | 1,991,422        |
| Note Payable to Endowment             | 3,000,000        |
| Deferred Support                      | 2,292,192        |
| Deferred Lease Payments               | 602,426          |
| Notes Payable                         | <u>610,310</u>   |
| Total Liabilities                     | <u>9,883,461</u> |

**NET ASSETS**

|  |                                 |
|--|---------------------------------|
| Without Donor Restrictions:                                  |                                 |
| Undesignated   | (2,703,355)                     |
| With Donor Restrictions:                                     |                                 |
| Annual Fund Drive Available for Subsequent Years' Operations | 1,549,757                       |
| Restricted Endowments  | <u>33,731,842</u>               |
| Total With Donor Restrictions                                | <u>35,281,599</u>               |
| Total Net Assets   | <u>32,578,244</u>               |
| <br>Total Liabilities and Net Assets                         | <br><u><u>\$ 42,461,705</u></u> |

See accompanying Notes to Financial Statements.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2021**

|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
|---|-------------------------------|----------------------------|----------------------|
| <b>OPERATING REVENUE</b>                                  |                               |                            |                      |
| Public Support:   |                               |                            |                      |
| Fund Drive and General Contributions                      | \$ 409,449                    | \$ 1,549,757               | \$ 1,959,206         |
| Government Grants:  |                               |                            |                      |
| City of Charlotte   | 4,348,823                     | -                          | 4,348,823            |
| Mecklenburg County  | 1,700,000                     | -                          | 1,700,000            |
| NC Arts Council   | 335,236                       | -                          | 335,236              |
| Other Municipalities                                      | 552,500                       | -                          | 552,500              |
| Public Art Funds  | 3,062,752                     | -                          | 3,062,752            |
| Total Public Support                                      | 10,408,760                    | 1,549,757                  | 11,958,517           |
| Allocation of Allowable Endowment Before<br>Spending      | 1,727,710                     | -                          | 1,727,710            |
| Net Assets Released from Restriction                      | 2,877,070                     | (2,877,070)                | -                    |
| Total Operating Revenue                                   | 15,013,540                    | (1,327,313)                | 13,686,227           |
| <b>OPERATING EXPENSES</b>                                 |                               |                            |                      |
| Program Services Expense:                                 |                               |                            |                      |
| Grants and Allocations                                    | 7,663,840                     | -                          | 7,663,840            |
| Public Art  | 4,117,789                     | -                          | 4,117,789            |
| Grant Support and Other Services                          | 1,381,977                     | -                          | 1,381,977            |
| Total Program Services Expenses                           | 13,163,606                    | -                          | 13,163,606           |
| Supporting Services Expense:                              |                               |                            |                      |
| General and Administrative                                | 711,165                       | -                          | 711,165              |
| Fundraising   | 680,942                       | -                          | 680,942              |
| Total Supporting Services Expenses                        | 1,392,107                     | -                          | 1,392,107            |
| Total Operating Expenses                                  | 14,555,713                    | -                          | 14,555,713           |
| <b>CHANGE IN NET ASSETS FROM OPERATIONS</b>               | 457,827                       | (1,327,313)                | (869,486)            |
| <b>OTHER CHANGES</b>                                      |                               |                            |                      |
| Change in Beneficial Interest                             | -                             | 7,434,962                  | 7,434,962            |
| Allocation of Allowable Endowment Balance<br>for Spending | -                             | (1,727,710)                | (1,727,710)          |
| Investment Income   | (3,701)                       | -                          | (3,701)              |
| Total Other Changes                                       | (3,701)                       | 5,707,252                  | 5,703,551            |
| <b>CHANGE IN NET ASSETS</b>                               | 454,126                       | 4,379,939                  | 4,834,065            |
| Net Assets - Beginning of Year                            | (3,157,481)                   | 30,901,660                 | 27,744,179           |
| <b>NET ASSETS - END OF YEAR</b>                           | <u>\$ (2,703,355)</u>         | <u>\$ 35,281,599</u>       | <u>\$ 32,578,244</u> |

See accompanying Notes to Financial Statements.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2021**

|   | Program Services          |                     |  |                              | Supporting Services           |                   |                                 | Total                |
|---|---------------------------|---------------------|--|------------------------------|-------------------------------|-------------------|---------------------------------|----------------------|
|   | Grants and<br>Allocations | Public Art          | Grant Support<br>and Other<br>Services | Total<br>Program<br>Services | General and<br>Administrative | Fundraising       | Total<br>Supporting<br>Services |                      |
| Grants, Allocations, and Direct Expenses  | \$ 7,605,606              | \$ -                | \$ -                                   | \$ 7,605,606                 | \$ -                          | \$ -              | \$ -                            | \$ 7,605,606         |
| Arts and Science Education                | 22,492                    | 800                 | -                                      | 23,292                       | -                             | -                 | -                               | 23,292               |
| Indirect and Other Grant Expenses         | 35,742                    | 4,129               | -                                      | 39,871                       | 493                           | -                 | 493                             | 40,364               |
| Artist Contracts                          | -                         | 3,445,636           | -                                      | 3,445,636                    | -                             | -                 | -                               | 3,445,636            |
| Salaries                                  | -                         | 347,921             | 676,389                                | 1,024,310                    | 353,709                       | 302,159           | 655,868                         | 1,680,178            |
| Payroll Taxes and Benefits                | -                         | 87,053              | 143,406                                | 230,459                      | 96,345                        | 98,783            | 195,128                         | 425,587              |
| Promotions and Public Relations           | -                         | 15,234              | 44,892                                 | 60,126                       | 876                           | 11,355            | 12,231                          | 72,357               |
| Professional Fees and Contracted Services | -                         | 24,639              | 40,362                                 | 65,001                       | 48,885                        | 17,956            | 66,841                          | 131,842              |
| Professional Development                  | -                         | 338                 | 305                                    | 643                          | 3,419                         | 3,724             | 7,143                           | 7,786                |
| Office Rent                               | -                         | 70,277              | 171,541                                | 241,818                      | 71,497                        | 61,033            | 132,530                         | 374,348              |
| Interest Expense                          | -                         | 30,142              | 58,577                                 | 88,719                       | 30,666                        | 26,178            | 56,844                          | 145,563              |
| Depreciation                              | -                         | 46,046              | 89,485                                 | 135,531                      | 46,846                        | 39,990            | 86,836                          | 222,367              |
| Technology                                | -                         | 35,863              | 123,785                                | 159,648                      | 35,496                        | 37,105            | 72,601                          | 232,249              |
| Office and Meetings                       | -                         | 1,322               | 1,913                                  | 3,235                        | 4,551                         | 1,807             | 6,358                           | 9,593                |
| Dues and Subscriptions                    | -                         | 1,479               | 109                                    | 1,588                        | 12,995                        | 7,624             | 20,619                          | 22,207               |
| Telephone                                 | -                         | 2,933               | 5,338                                  | 8,271                        | 2,233                         | 1,906             | 4,139                           | 12,410               |
| Processing Fees                           | -                         | 3,977               | 14,875                                 | 18,852                       | 3,154                         | 71,302            | 74,456                          | 93,308               |
| Discretionary                             | -                         | -                   | 11,000                                 | 11,000                       | -                             | 20                | 20                              | 11,020               |
| <b>Total Expenses by Function</b>         | <b>\$ 7,663,840</b>       | <b>\$ 4,117,789</b> | <b>\$ 1,381,977</b>                    | <b>\$ 13,163,606</b>         | <b>\$ 711,165</b>             | <b>\$ 680,942</b> | <b>\$ 1,392,107</b>             | <b>\$ 14,555,713</b> |

See accompanying Notes to Financial Statements.



**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2021**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|  |                  |
|--|------------------|
| Change in Net Assets   | \$ 4,834,065     |
| Adjustments to Reconcile Change in Net Assets to Net Cash      |                  |
| Provided by Operating Activities:                              |                  |
| Depreciation Expense   | 222,367          |
| Change in Allowance for Uncollectible Contributions Receivable | (19,816)         |
| Change in Operating Reserves Fund                              | -                |
| Change in Beneficial Interest                                  | (7,434,962)      |
| Allocation of Allowable Endowment Balance for Spending         | 1,727,710        |
| Loss on Disposal of Property and Equipment                     | -                |
| Changes in Operating Assets and Liabilities:                   |                  |
| Annual Campaign Pledges Receivable                             | 1,101,783        |
| Grant and Other Receivables                                    | 1,224,974        |
| Prepaid Expenses   | 84,666           |
| Other Pledges Receivable                                       | 1,000,000        |
| Endowment Receivable   | 750,000          |
| Accounts Payable and Accrued Expenses                          | (987,626)        |
| Payable to Designated Beneficiaries                            | (1,086,126)      |
| Payable to Endowment   | (250,000)        |
| Deferred Support   | 35,119           |
| Deferred Lease   | (30,032)         |
| Net Cash Provided by Operating Activities                      | <u>1,172,122</u> |

**NET CHANGE IN CASH AND CASH EQUIVALENTS**

1,172,122

Cash and Cash Equivalents - Beginning of Year

2,991,246

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 4,163,368

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

|                                 |                            |
|---------------------------------|----------------------------|
| Operating Cash                  | \$ 904,885                 |
| Held for Public Art             | <u>3,258,483</u>           |
| Total Cash and Cash Equivalents | <u><u>\$ 4,163,368</u></u> |

See accompanying Notes to Financial Statements.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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, 2021.

*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, 2021, 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, 2021**

**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 received are recorded as net assets with or without donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are released to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Conditional contributions with conditions met in the same reporting period in which they are received are reported as unconditional contributions.

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, 2021. Contributions of donated assets and services are included in general contributions without donor restrictions on the statement of activities.

**Grants and Other Receivables**

Grant awards are evaluated by management and determined to be unconditional contributions, exchange transactions, or conditional contributions. If considered to be an unconditional contribution, revenue from grants is recorded upon notification of the award. If considered to be an exchange transaction, revenue from grants is recorded as expenses are incurred under the terms of the respective grant agreement. If considered to be a conditional contribution, revenue from grants is recorded at the time the conditions on which they depend have been met.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**Grants and Other Receivables (Continued)**

A portion of the Organization's revenue is from fee-for-service arrangements. Management recognizes revenue from fee-for-service arrangements as services are provided at a point in time. Fees collected in advance of the completion of these services are reported as unearned revenue on the statements of financial position. Revenue is recorded at the transaction price, which does not include any price concessions. Sponsorship revenue is recognized when the event is held. Sponsorships are billed when contracts are signed, as a result, the Organization records deferred revenue and accounts receivable for any amounts for which the Organization has a right to invoice for which the events have not been held.

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, 2021, the remaining contributions receivable and amounts payable to the other cultural organizations of approximately \$2,000,000 is shown in the accompanying statement of financial position as both an other 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 year ended June 30, 2021 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.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**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 of approximately \$1,799,000 at June 30, 2021.

**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, 2021, ASC is holding approximately \$3,258,000, in a separate cash account for Public Art.

**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 \$3,000,000 as of June 30, 2021.

**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.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB Accounting Standards Codification (ASC) 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

ASC's financial statements reflect the application of Topic 606 guidance, as ASC 606 was adopted during the fiscal year ended June 30, 2021 using the full retrospective approach. No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact ASC's reported historical revenue.

**Future Pronouncements**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classifications affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 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. Management is currently evaluating the impact of this standard on ASC's financial statements.

**Subsequent Events**

ASC has evaluated subsequent events through October 21, 2022, which is the date the financial statements were available to be issued.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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   | \$ 904,885                 |
| Cash Held for Public Art   | 3,258,483                  |
| Annual Campaign Contributions Receivable, Net  | 418,513                    |
| Grants and Other Receivables   | <u>759,178</u>             |
| Financial Assets Available to Meet Cash Needs<br>for General Expenditures Within One Year                    | 5,341,059                  |
| Less: Amounts not Available to be Used for General<br>Expenditures Within One Year Restricted for Public Art | <u>2,292,192</u>           |
| Financial Assets Available to Meet General<br>Expenditures Within One Year                                   | <u><u>\$ 3,048,867</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 \$2,703,000 at June 30, 2021. 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. As of June 30, 2021, the amount payable on the endowment loan is \$3,000,000.

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 entered into a sublease contract with an organization for the ASC's office space at Packard Place.

**NOTE 3 ANNUAL CAMPAIGN CONTRIBUTIONS RECEIVABLE, NET**

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

|  |                          |
|--|--------------------------|
| Total Annual Campaign Contributions Receivable             | \$ 895,482               |
| Less: Allowance for Uncollectible Contributions Receivable | <u>(476,969)</u>         |
| Net Annual Campaign Contributions Receivable               | <u><u>\$ 418,513</u></u> |

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 3 ANNUAL CAMPAIGN CONTRIBUTIONS RECEIVABLE, NET (CONTINUED)**

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 \$1,550,000 for the year ended June 30, 2021, 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:

|                                |                            |
|--------------------------------|----------------------------|
| Leasehold Improvements         | \$ 1,564,480               |
| Equipment                      | <u>1,619,775</u>           |
| Total Depreciable Assets       | 3,184,255                  |
| Less: Accumulated Depreciation | <u>(1,799,360)</u>         |
| Property and Equipment, Net    | <u><u>\$ 1,384,895</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.

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, 2021, 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.



**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 5 BENEFICIAL INTEREST IN TRUST (CONTINUED)**

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:

|  |                            |
|--|----------------------------|
| Change in Beneficial Interest                          | \$ 7,434,962               |
| Allocation of Allowable Endowment Balance for Spending | <u>(1,727,710)</u>         |
| Net Change in Beneficial Interest                      | <u><u>\$ 5,707,252</u></u> |

**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.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 6 FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (CONTINUED)**

*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, 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 | -               | -           | 30,731,842           | 30,731,842           |
| Total                        | <u>\$ 2,822</u> | <u>\$ -</u> | <u>\$ 30,731,842</u> | <u>\$ 30,734,664</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 FFTC as of June 30:

|         |             |
|---------|-------------|
| Level 1 | 79%         |
| Level 2 | 2%          |
| Level 3 | 19%         |
| 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:

|  |                      |
|--|----------------------|
| Balance - Beginning of Year                            | \$ 24,774,590        |
| Change in Beneficial Interest                          | 7,434,962            |
| Payment on Endowment Note Receivable                   | 250,000              |
| Allocation of Allowable Endowment Balance for Spending | <u>(1,727,710)</u>   |
| Balance - End of Year                                  | <u>\$ 30,731,842</u> |

**NOTE 7 ENDOWMENT FUNDS**

ASC's endowment consists of 20 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.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 7 ENDOWMENT FUNDS (CONTINUED)**

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:

- 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 are listed below.

|                                       | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>         |
|---------------------------------------|---------------------------------------|------------------------------------|----------------------|
| Donor-Restricted Endowment Funds:     |                                       |                                    |                      |
| Original Donor-Restricted Gift Amount |                                       |                                    |                      |
| and Amounts Required to be            |                                       |                                    |                      |
| Maintained in Perpetuity by Donor     | \$ -                                  | \$ 27,929,865                      | \$ 27,929,865        |
| Accumulated Investment Gains          | -                                     | 2,801,977                          | 2,801,977            |
|                                       | <u>-</u>                              | <u>2,801,977</u>                   | <u>2,801,977</u>     |
| Endowment Net Assets - End of Year    | <u>\$ -</u>                           | <u>\$ 30,731,842</u>               | <u>\$ 30,731,842</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.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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, 2021 of \$3,000,000, and a corresponding note payable to endowment as of June 30, 2021 of \$3,000,000. Scheduled payments to the endowment for years subsequent to June 30, 2021 are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u>              |
|-----------------------------|----------------------------|
| 2022                        | \$ 500,000                 |
| 2023                        | 500,000                    |
| 2024                        | 500,000                    |
| 2025                        | 500,000                    |
| 2026                        | 500,000                    |
| Thereafter                  | 500,000                    |
| Total                       | <u><u>\$ 3,000,000</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> |

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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:

|                                      | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
|--------------------------------------|-------------------------------|----------------------------|----------------------|
| Endowment Net Assets - June 30, 2020 | \$ -                          | \$ 24,774,590              | \$ 24,774,590        |
| Investment Return                    | -                             | 7,434,962                  | 7,434,962            |
| Endowment Note Receivable            | -                             | 250,000                    | 250,000              |
| Allocation of Allowable Endowment    |                               |                            |                      |
| Balance for Spending                 | -                             | (1,727,710)                | (1,727,710)          |
| Endowment Net Assets - June 30, 2021 | <u>\$ -</u>                   | <u>\$ 30,731,842</u>       | <u>\$ 30,731,842</u> |

**NOTE 8 LEASE COMMITMENTS**

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, 2021, the deferred lease payments were approximately \$602,000.

Office rent expense was approximately \$374,000 for the year ended June 30, 2021.

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, 2021.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 8 LEASE COMMITMENTS (CONTINUED)**

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

| <u>Year Ending June 30,</u> |                            |
|-----------------------------|----------------------------|
| 2022                        | \$ 362,924                 |
| 2023                        | 369,650                    |
| 2024                        | 379,185                    |
| 2025                        | 387,671                    |
| 2026                        | 396,483                    |
| Thereafter                  | <u>1,357,225</u>           |
| Total                       | <u><u>\$ 3,253,138</u></u> |

As discussed in Note 2, subsequent to June 30, 2021, 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 \$18,000 for the year ended June 30, 2021.

**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.

A substantial portion of the annual campaign revenue (approximately 47.8% for the 2021 campaign) is derived from four large Charlotte area employers and their employees.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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 than 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 UNCERTAINIES**

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.

## **COMPLIANCE SECTION**





**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Arts & Science Council Charlotte/Mecklenburg, Inc (ASC), which comprise the statement of financial position as of June 30, 2021 and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 21, 2022.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the ASC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the ASC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-01, 2021-02, 2021-03, and 2021-04 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-05 to be a significant deficiency.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the ASC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Arts & Science Council Charlotte/Mecklenburg, Inc.'s Response to Findings**

Arts & Science Council Charlotte/Mecklenburg, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Arts & Science Council Charlotte/Mecklenburg, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the ASC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ASC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Charlotte, North Carolina  
October 21, 2022



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited Arts & Science Council Charlotte/Mecklenburg, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Arts & Science Council Charlotte/Mecklenburg, Inc.'s major federal programs for the year ended June 30, 2021. Arts & Science Council Charlotte/Mecklenburg, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Arts & Science Council Charlotte/Mecklenburg, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Arts & Science Council Charlotte/Mecklenburg, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Arts & Science Council Charlotte/Mecklenburg, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Arts & Science Council Charlotte/Mecklenburg, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.


### **Report on Internal Control Over Compliance**

Management of Arts & Science Council Charlotte/Mecklenburg, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Arts & Science Council Charlotte/Mecklenburg, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Arts & Science Council Charlotte/Mecklenburg, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Charlotte, North Carolina  
October 21, 2022

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2021**

---

***Section I – Summary of Auditors' Results***

---

***Financial Statements***

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified?     x     yes          no
  - Significant deficiency(ies) identified?     x     yes          none reported
3. Noncompliance material to financial statements noted?          yes     x     no

***Federal Awards***

1. Internal control over major federal programs:
- Material weakness(es) identified?          yes     x     no
  - Significant deficiency(ies) identified?          yes     x     none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?          yes     x     no

***Identification of Major Federal Programs***

**Assistance Listing Number(s)**

21.019

**Name of Federal Program or Cluster**

Coronavirus Relief Fund

Dollar threshold used to distinguish between Type A programs:

\$750,000

Auditee qualified as low-risk auditee?

         yes     x     no

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**JUNE 30, 2021**

---

***Section II – Financial Relating to the Financial Statement Audit Required to be Reported in  
Accordance with Generally Accepted Government Auditing Standards***

---

**Finding 2021-01: Segregation of Duties**

**Type:** Material Weakness in Internal Controls over Financial Reporting

**Condition:** In performing our procedures, we noted the following areas where segregation of duties can be improved:

- An individual has the ability to create vendors, access blank check stock, process checks, receive/download the bank statements, and prepare bank reconciliations.
- An individual has the ability to receive mail, make and take deposits to the bank, post payments to the general ledger, record journal entries, reconcile cash, and determine if any allowances for uncollectible accounts are necessary.
- An individual can record journal entries, modify the chart of accounts, update budget data, close the general ledger for month end and year end, prepare the budget, adjust a closed period, change budget date, record and review journal entries, and prepare the monthly financial statements.

**Criteria:** In any system of internal accounting control, a primary goal is to attain adequate segregation of duties, whereby one individual does not have the ability to initiate, authorize, and execute an entire transaction. While complete segregation is not always possible with smaller accounting staffs, limited segregation to the extent possible can and should be implemented to reduce the risk of errors and/or fraud.

**Effect:** Errors and/or incorrect journal entries could go undetected during the year. Misappropriation of assets.

**Recommendation:** we recommend the above conflicting duties be segregated to the extent possible. Proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud.

In addition, performing and documenting independent reviews of all transactions posted to the general ledger is an important component of a sound internal control environment to prevent fraud and/or errors in financial reporting. We recommend all manual journal entries be reviewed and approved prior to posting to the general ledger. We recommend all payment request forms be reviewed and approved prior to payment. These reviews should be formally documented.

**Repeat Finding:** Yes

**View of Responsible Officials and Planned Corrective Actions:** ASC agrees with the finding and recognizes that its efforts to maintain lean staffing levels may contribute to less-than-optimal segregation of duties standards. To remedy these instances, ASC will now use, when appropriate, non-accounting management and staff as well as Board and Board Committee members to review and approve certain accounting and financial activities (e.g., journal entries, reconciliations, changes to the chart of accounts, and month-end closings). These additional reviews will be documented and retained

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**JUNE 30, 2021**

---

***Section II – Financial Relating to the Financial Statement Audit Required to be Reported in  
Accordance with Generally Accepted Government Auditing Standards (Continued)***

---

for review by our independent auditors and other constituents as needed. We anticipate these procedures will be fully implemented by January 31, 2023.

**Finding 2021-02: Controls over the Monthly Financial Close Process**

**Type:** Material Weakness in Internal Controls over Financial Reporting

**Condition:** In the current year audit process, we identified numerous adjustments, some of which related to prior periods.

**Criteria:** Accounts should be reconciled monthly to supporting documentation and review of the reconciliations should be maintained.

**Effect:** Errors and/or incorrect journal entries could go undetected during the year.

**Recommendation:** To improve the financial statement close process, we recommend that ASC establish a month-end checklist for its close process to provide timely and accurate completion of financial reporting, as well as document timely review and approval of all general ledger account reconciliations and account balances. In addition, we recommend management implement a process for timely reconciliation for all accounts each month. These reconciliations should be reviewed by someone other than the preparer, and the review should be formally documented. Account reconciliations should be prepared for all accounts each month, including: deferred public art, annual fund drive, other accounts receivable, fixed assets, net assets, due to and from beneficiary, and bank reconciliations. We recommend all manual journal entries and reconciliations be reviewed and approved prior to posting to the general ledger by an individual separate from the preparer. These reviews should be formally documented.

**Repeat Finding:** Yes

**View Of Responsible Officials And Planned Corrective Actions:** ASC agrees with the finding. Due to the entire turnover of its lean accounting staff in early 2021, ASC's monthly financial close process was not performed to the level expected for a period thereafter. In January 2022, ASC hired its current Controller, a licensed Certified Public Accountant with extensive experience in both public accounting and not-for-profit accounting, to review and implement accounting and control measures where needed. ASC has already implemented monthly financial close procedures that will address this finding. As part of those procedures, ASC will perform both i) a preliminary close of critical, sub-account ledgers each month by the 10<sup>th</sup> calendar day following each month as well as ii) more formal closings of all accounts by 15 days thereafter. ASC will further enhance its monthly closing process by adding a complete review and sign-off by ASC's President and, when needed, by an independent Board Member with experience in accounting and auditing. We anticipate this additional process will be fully implemented by January 31, 2023.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
JUNE 30, 2021**

---

***Section II – Financial Relating to the Financial Statement Audit Required to be Reported in  
Accordance with Generally Accepted Government Auditing Standards (Continued)***

---

**Finding 2021-03: Public Art**

**Type:** Material Weakness in Internal Controls over Financial Reporting

**Condition:** During our testing of the public art program, we noted that the supporting schedule was not updated appropriately or timely, resulting in a significant amount of rework and time to update the schedule. We noted that the schedule was maintained based on timing of when invoices were sent to the respective parties, not based on if the revenue was actually earned by meeting the milestones outlined in the contracts. We also noted that received payments were not appropriately tracked or recorded.

**Criteria:** Accounts should be reconciled monthly to supporting documentation and review of the reconciliations should be maintained.

**Effect:** Errors and/or incorrect journal entries could go undetected during the year.

**Recommendation:** We recommend that an improved process for updated accounts associated with public art is implemented, including communicated the results of the Public Art Committee approval of milestones to the finance and accounting department.

**Repeat Finding:** Yes

**View Of Responsible Officials And Planned Corrective Actions:** ASC agrees with the finding. ASC's work in overseeing the artist selection and the art fabrication and installation of Public Art is a significant component of ASC's work to support the communities it serves. Following ASC's 2021 reduction-in-force and the subsequent arrival of its new Controller in early 2022, ASC initiated a thorough review of all Public Art projects on a project-by-project basis. ASC has revised its process for maintaining its extensive database of all Public Arts projects and the achievement of key milestones, both as determined by an independent Public Art Commission as well as by the internal staff leading these projects. ASC has also added an internal communication process by which Public Art staff will review monthly milestone activity with ASC's Controller and President to determine the appropriateness of its revenue recognition regarding Public Art.

**Finding 2021-04: Internal Control over the Preparation of Financial Statements**

**Type:** Material Weakness in Internal Controls over Financial Reporting

**Condition:** ASC management did not have the expertise internally to analyze the more complex transactions and to ensure that all transactions were properly recorded in the financial statements in accordance with U.S. GAAP, including year-end cutoff. As a result, a significant number of audit adjustments were required as part of the audit process, and we prepared the financial statements and related disclosures. Because ASC's controls did not prevent, or detect and correct, material misstatements in the financial statements, this is considered a material weakness in internal control over financial reporting.



**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**JUNE 30, 2021**

---

***Section II – Financial Relating to the Financial Statement Audit Required to be Reported in  
Accordance with Generally Accepted Government Auditing Standards (Continued)***

---

**Criteria:** A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

**Effect:** Errors and/or incorrect journal entries could go undetected during the year.

**Recommendation:** We recommend that management and the board of directors assess the internal control system and implement additional financial reporting controls appropriate to the size and needs of ASC.

**Repeat Finding:** Yes

**View Of Responsible Officials And Planned Corrective Actions:** ASC agrees with the finding. It should be noted that while ASC was undergoing the previously described change in accounting personnel in 2021 and 2022, ASC also transitioned from its long-standing independent auditors to its current independent auditors. Both ASC and our current auditors have established a good working relationship and open line of communication. While ASC's financial transactions do not vary significantly from year to year, ASC commits to working more closely with our current auditors as unique accounting issues arise and where ASC needs accounting guidance prior to each annual audit cycle. ASC will also schedule regular meetings (e.g., quarterly) with its auditors to review any unusual transactions, accounting changes, changes in internal controls, and upcoming pronouncements that may impact its accounting and reporting practices.

**Finding 2021-05: Supporting Documentation and Retention**

**Type:** Significant Deficiency in Internal Controls over Financial Reporting

**Condition:** We noticed that certain accounting records could not be located when needed, such as, contracts/agreements regarding Spirt Square, supporting documentation for pledges, and payment support for payments received related to public art. Some of the items requested were several years old, however, the causes of the problem appeared to be a lack of a clearly specified system for filing records or failure to understand what records should be kept and maintained.

**Criteria:** Even in this age of computerized data, significant volumes of paper documents and records are generated., however, documentation should be maintained to support transactions and balances recorded in the financial records.

**Effect:** employees spent nonproductive time searching for needed documents

**Recommendation:** We recommend that the following steps be taken:

- Decide on a systematic manner of filing documents and a common area to store documents that need to be accessible by different individuals.

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
JUNE 30, 2021**

---

***Section II – Financial Relating to the Financial Statement Audit Required to be Reported in  
Accordance with Generally Accepted Government Auditing Standards (Continued)***

---

- Establish a policy specifying which records should be retained permanently and which records should be kept only for a given period before being destroyed and how long that period should be. (It might differ for different types of documents.)
- Decide on when records should be removed from more accessible files to other storage areas. For example, some companies keep the current and prior year records in the accounting department or in storage rooms on ASC's premises and store older records in off-premises warehouses. Assign personnel the responsibility to periodically clean out the files in accordance with the established policy.

**Repeat Finding:** Yes

**View Of Responsible Officials And Planned Corrective Actions:** ASC agrees with the finding. ASC currently maintains a shared storage infrastructure and encourages all staff to use the organization's file structure for file storage versus their own individual electronic or physical filing system. ASC will review its current physical and electronic filing architecture and will update that architecture and existing file storage policies and procedures to enhance both the adherence to this policy as well as the retention and retrieval of company information. We anticipate the review and implementation of this system to begin by December 2022, and we anticipate its completion by June 30, 2023.

---

***Section III – Findings and Questioned Costs – Major Federal Programs***

---

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2021**

| Federal Grantor/Pass Through<br>Grantor/Program or Cluster Title | Federal<br>Assistance<br>Listing<br>Number | Pass-Through Entity<br>Identifying Number | Passed<br>Through to<br>Subrecipients | Total<br>Federal<br>Expenditures |
|--|--|---|---------------------------------------|----------------------------------|
| <b>U.S. Department of the Treasury:</b>                          |  |   |                                       |                                  |
| Pass-Through Foundation for the Carolinas                        |  |   |                                       |                                  |
| CARES Funding: Art Organizations                                 | 21.019                                     | 2020231588                                | \$ 533,500                            | \$ 533,500                       |
| CARES Funding: Artist  | 21.019                                     | 2020231588                                | <u>616,500</u>                        | <u>616,500</u>                   |
| <br>Total Expenditures of Federal Awards                         |  |   | <br><u><u>\$ 1,150,000</u></u>        | <br><u><u>\$ 1,150,000</u></u>   |

**ARTS & SCIENCE COUNCIL CHARLOTTE/MECKLENBURG, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2021**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of Arts & Science Council Charlotte/Mecklenburg, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

**NOTE 2 CONTINGENCIES**

Arts & Science Council Charlotte/Mecklenburg, Inc. is subject to audit examination by the funding sources of grants to determine its compliance with certain grant provisions. In the event that expenditures could be disallowed through the audit, repayment of such disallowances could be required.

**NOTE 3 SIGNIFICANT ACCOUNTING POLICIES**

Arts & Science Council Charlotte/Mecklenburg, Inc. has elected to use the 10% de minimus indirect cost rate allowable under the Uniform Guidance.