# MCCOLL CENTER FOR ART + INNOVATION

## FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2019 AND 2018

**MCCOLL CENTER FOR ART + INNOVATION**
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CliftonLarsonAllen LLP
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# INDEPENDENT AUDITORS' REPORT

Board of Directors
McColl Center for Art + Innovation
Charlotte, North Carolina

We have audited the accompanying financial statements of McColl Center for Art + Innovation (the Center), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
McColl Center for Art + Innovation

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McColl Center for Art + Innovation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

The 2018 financial statements of McColl Center for Art + Innovation were audited by other auditors, whose report dated September 25, 2018, expressed an unmodified opinion on those statements.

***Effect of Adopting New Accounting Standard***

As described in Note 2, the Center adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. Our opinion is not modified with respect to that matter.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Charlotte, North Carolina
October 29, 2019

# MCCOLL CENTER FOR ART + INNOVATION
## STATEMENTS OF FINANCIAL POSITION
## JUNE 30, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash and Cash Equivalents | $ 242,126 | $ 29,941 |
| Pledges Receivable, Current Portion, Net | 23,833 | 49,196 |
| Grants and Sponsorship Receivable | - | 31,769 |
| Other Receivables | 8,987 | 5,520 |
| Prepaid Expenses and Other Assets | 10,297 | 18,552 |
| Total Current Assets | 285,243 | 134,978 |
| Pledge Receivable, Noncurrent Portion, Net | 58,963 | 33,530 |
| Beneficial Interests in Charitable Trust | 6,925,800 | 7,137,082 |
| Property and Equipment, Net | 5,732,924 | 5,840,527 |
| Total Assets | $ 13,002,930 | $ 13,146,117 |
| **LIABILITIES AND NET ASSETS** | | |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Current Portion of Capital Lease | $ 16,117 | $ - |
| Accounts Payable | 26,826 | 24,315 |
| Accrued Expenses | 27,632 | 51,585 |
| Line of Credit | 100,000 | 50,045 |
| Deferred Revenue | - | 104,778 |
| Total Current Liabilities | 170,575 | 230,723 |
| Capital Lease Obligation, Net of Current Portion | 63,286 | - |
| Total Liabilities | 233,861 | 230,723 |
| **NET ASSETS** | | |
| Without Donor Restrictions: | | |
| Undesignated | 5,455,847 | 5,595,586 |
| Designated by the Board for Operating Reserve | 182,959 | - |
| Total Without Donor Restrictions | 5,638,806 | 5,595,586 |
| With Donor Restrictions: | | |
| Perpetual in Nature | 6,490,325 | 6,490,325 |
| Purpose Restrictions | 121,666 | 100,000 |
| Time-Restricted for Future Periods | 518,272 | 729,483 |
| Total With Donor Restrictions | 7,130,263 | 7,319,808 |
| Total Net Assets | 12,769,069 | 12,915,394 |
| Total Liabilities and Net Assets | $ 13,002,930 | $ 13,146,117 |

*See accompanying Notes to Financial Statements.*

**MCCOLL CENTER FOR ART + INNOVATION**
**STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2019**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **REVENUE AND SUPPORT** | | | |
| Contributed Revenue: | | | |
| Grants and Sponsorships | $ 287,383 | $ 100,000 | $ 387,383 |
| Contributions | 156,131 | 61,667 | 217,798 |
| Arts & Science Council BOG | 281,600 | - | 281,600 |
| Special Events, Net of Expenses of $57,778 | 100,848 | - | 100,848 |
| Donated Facilities and Services | 17,927 | - | 17,927 |
| Earned Revenue: | | | |
| Tuition and Fees | 39,872 | - | 39,872 |
| Rental Income | 119,832 | - | 119,832 |
| Other Revenue | 13,540 | - | 13,540 |
| | 1,017,133 | 161,667 | 1,178,800 |
| Net Assets Released from Restrictions: | | | - |
| Satisfaction of Time Restrictions | 110,168 | (110,168) | - |
| Uncollectible Pledges | 29,762 | (29,762) | - |
| Total Revenue and Support | 1,157,063 | 21,737 | 1,178,800 |
| **EXPENSES AND LOSSES** | | | |
| Program Services Expenses: | | | |
| Artist Residency | 261,131 | - | 261,131 |
| Education | 104,711 | - | 104,711 |
| Exhibitions | 98,266 | - | 98,266 |
| Innovation Institute | 10,653 | - | 10,653 |
| Facility | 450,534 | - | 450,534 |
| Total Program Services | 925,295 | - | 925,295 |
| Supporting Services Expenses: | | | |
| Development and Marketing | 404,995 | - | 404,995 |
| Management and General | 299,175 | - | 299,175 |
| Total Supporting Services Expenses | 704,170 | - | 704,170 |
| Total Expenses and Losses | 1,629,465 | - | 1,629,465 |
| Change in Net Assets from Operations | (472,402) | 21,737 | (450,665) |
| Other Changes | | | |
| Investment Income | 1,073 | - | 1,073 |
| Gain on Disposal of Fixed Asset | 20 | - | 20 |
| Allocation of Allowable Endowment Balance for Spending | 514,529 | (514,529) | - |
| Change in Beneficial Interests in Trust | - | 303,247 | 303,247 |
| **CHANGE IN NET ASSETS** | 43,220 | (189,545) | (146,325) |
| Net Assets - Beginning of Year | 5,595,586 | 7,319,808 | 12,915,394 |
| **NET ASSETS - END OF YEAR** | $ 5,638,806 | $ 7,130,263 | $ 12,769,069 |

*See accompanying Notes to Financial Statements.*

**MCCOLL CENTER FOR ART + INNOVATION**
**STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2018**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **REVENUE and SUPPORT** | | | |
| Contributed Revenue: | | | |
| Grants and Sponsorships | $ 634,754 | $ 100,000 | $ 734,754 |
| Contributions | 254,524 | 33,232 | 287,756 |
| Arts & Science Council BOG | 281,600 | - | 281,600 |
| Special Events, Net of Expenses of $71,160 | 41,760 | - | 41,760 |
| Donated Facilities and Services | 3,666 | - | 3,666 |
| Earned Revenue: | | | |
| Tuition and Fees | 103,038 | - | 103,038 |
| Rental Income | 63,509 | - | 63,509 |
| Other Revenue | 9,025 | - | 9,025 |
| | 1,391,876 | 133,232 | 1,525,108 |
| Net Assets Released from Restrictions: | | | - |
| Satisfaction of Time Restrictions | 59,033 | (59,033) | - |
| Uncollectible Pledges | 23,685 | (23,685) | - |
| Total Revenue and Support | 1,474,594 | 50,514 | 1,525,108 |
| **EXPENSES AND LOSSES** | | | |
| Program Services Expenses: | | | |
| Artist Residency | 428,012 | - | 428,012 |
| Education | 75,203 | - | 75,203 |
| Exhibitions | 134,939 | - | 134,939 |
| Innovation Institute | 183,832 | - | 183,832 |
| Facility | 424,394 | - | 424,394 |
| Total Program Services | 1,246,380 | - | 1,246,380 |
| Supporting Services Expenses: | | | |
| Development and Marketing | 331,444 | - | 331,444 |
| Management and General | 355,351 | - | 355,351 |
| Total Supporting Services Expenses | 686,795 | - | 686,795 |
| Total Expenses and Losses | 1,933,175 | - | 1,933,175 |
| Change in Net Assets from Operations | (458,581) | 50,514 | (408,067) |
| Other Changes | | | |
| Allocation of Allowable Endowment Balance for Spending | 413,397 | (413,397) | - |
| Change in Beneficial Interests in Trust | - | 554,713 | 554,713 |
| **CHANGE IN NET ASSETS** | (45,184) | 191,830 | 146,646 |
| Net Assets - Beginning of Year | 5,640,770 | 7,127,978 | 12,768,748 |
| **NET ASSETS - END OF YEAR** | $ 5,595,586 | $ 7,319,808 | $ 12,915,394 |

*See accompanying Notes to Financial Statements.*

# MCCOLL CENTER FOR ART + INNOVATION
## STATEMENT OF FUNCTIONAL EXPENSES
## YEAR ENDED JUNE 30, 2019

| | Program Services | | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Artist Residency | Education | Exhibitions | Innovation Institute | Facility | Subtotal | Development and Marketing | Management and General | Fundraising | Total |
| Salaries and Benefits | $ 90,789 | $ 57,665 | $ 60,556 | $ 746 | $ 78,189 | $ 287,945 | $ 267,585 | $ 97,428 | $ - | $ 652,958 |
| Contracted Services | 20,067 | 16,685 | 9,680 | 5,975 | 8,458 | 60,865 | 9,877 | 158,896 | - | 229,638 |
| Artists Stipends | 72,400 | 9,740 | - | 1,200 | - | 83,340 | - | - | - | 83,340 |
| Community Reach | - | 685 | - | 78 | - | 763 | - | 992 | - | 1,755 |
| Travel, Entertainment, Receptions, and Catering | 5,873 | 2,211 | 993 | 1,014 | 276 | 10,367 | 9,794 | 1,400 | - | 21,561 |
| Supplies | 2,876 | 10,306 | 4,914 | 1,295 | 5,251 | 24,642 | 716 | 3,612 | - | 28,970 |
| Postage/Shipping | 371 | 439 | 5,765 | - | - | 6,575 | 2,797 | 2,366 | - | 11,738 |
| Printing/Design | 48 | 1,272 | 1,248 | - | - | 2,568 | 18,005 | - | - | 20,573 |
| Marketing and Advertising | 73 | 16 | 99 | - | 4,578 | 4,766 | 18,519 | 362 | - | 23,647 |
| Telephone and Utilities | 3,855 | - | - | - | 61,249 | 65,104 | - | - | - | 65,104 |
| Repairs and Maintenance | 4,848 | - | 19 | - | 59,732 | 64,599 | - | - | - | 64,599 |
| Depreciation and Amortization | 35,319 | - | - | - | 185,915 | 221,234 | - | - | - | 221,234 |
| Service Charges | - | 667 | 332 | - | 1,269 | 2,268 | 3,303 | 14,297 | - | 19,868 |
| Meetings | 390 | - | 13 | 286 | - | 689 | 407 | 1,797 | - | 2,893 |
| Professional Development/ Dues/Subscriptions | 18,272 | - | - | - | 9,925 | 28,197 | 10,441 | 4,947 | - | 43,585 |
| Insurance | - | - | - | - | 17,948 | 17,948 | - | 1,324 | - | 19,272 |
| Rental Expenses and Allocation of Facility Costs | - | - | - | - | 6,261 | 6,261 | - | 57 | - | 6,318 |
| Curatorial/Honorariums | 5,714 | 5,025 | 14,507 | - | - | 25,246 | - | - | - | 25,246 |
| Property Taxes | - | - | - | - | 8,676 | 8,676 | - | - | - | 8,676 |
| Software Fees | 214 | - | 140 | 59 | - | 413 | 33,386 | 8,170 | - | 41,969 |
| Bad Debt Expense | - | - | - | - | - | - | 29,763 | - | - | 29,763 |
| Special Events | - | - | - | - | - | - | - | - | 57,778 | 57,778 |
| Other | 22 | - | - | - | 2,807 | 2,829 | 402 | 3,527 | - | 6,758 |
| Total Expenses by Function | 261,131 | 104,711 | 98,266 | 10,653 | 450,534 | 925,295 | 404,995 | 299,175 | 57,778 | 1,687,243 |
| Less - Direct Special Event Costs Deducted from Revenue | - | - | - | - | - | - | - | - | (57,778) | (57,778) |
| Net Expenses | $ 261,131 | $ 104,711 | $ 98,266 | $ 10,653 | $ 450,534 | $ 925,295 | $ 404,995 | $ 299,175 | $ - | $ 1,629,465 |

*See accompanying Notes to Financial Statements.*

# MCCOLL CENTER FOR ART + INNOVATION
# STATEMENT OF FUNCTIONAL EXPENSES
# YEAR ENDED JUNE 30, 2018

| | Program Services | | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Artist Residency | Education | Exhibitions | Innovation Institute | Facility | Subtotal | Development and Marketing | Management and General | Fundraising | Total |
| Salaries and Benefits | $ 207,856 | $ 27,651 | $ 87,642 | $ 86,441 | $ 93,454 | $ 503,044 | $ 150,498 | $ 135,132 | $ - | $ 788,674 |
| Contracted Services | 45,596 | 401 | 6,728 | 4,030 | 53,758 | 110,513 | 36,888 | 127,718 | - | 275,119 |
| Artists Stipends | 81,699 | 24,905 | - | 16,050 | - | 122,654 | - | - | - | 122,654 |
| Travel, Entertainment, Receptions, and Catering | 9,501 | 2,976 | 3,575 | 58,626 | - | 74,678 | 8,843 | 1,051 | | 84,572 |
| Supplies | 6,136 | 4,380 | 9,954 | 14,115 | 6,525 | 41,110 | 1,598 | 3,033 | - | 45,741 |
| Postage/Shipping | 945 | - | 18,476 | - | - | 19,421 | 4,084 | 2,627 | - | 26,132 |
| Printing/Design | 64 | 5,000 | 1,078 | - | - | 6,142 | 10,559 | - | - | 16,701 |
| Marketing and Advertising | - | - | - | 3,323 | - | 3,323 | 33,875 | - | - | 37,198 |
| Telephone and Utilities | - | - | - | - | 65,847 | 65,847 | 7,808 | - | - | 73,655 |
| Repairs and Maintenance | 494 | - | - | - | 24,704 | 25,198 | - | 17,654 | - | 42,852 |
| Depreciation | - | - | - | - | 200,452 | 200,452 | - | - | - | 200,452 |
| Service Charges | - | - | 73 | - | 101 | 174 | 4,632 | 3,935 | - | 8,741 |
| Meetings | 1,116 | - | - | 860 | - | 1,976 | 865 | 3,865 | - | 6,706 |
| Professional Development/ Dues/Subscriptions | 9,170 | - | - | 80 | 26,244 | 35,494 | 1,348 | 8,165 | | 45,007 |
| Insurance | - | - | - | - | - | - | - | 23,216 | - | 23,216 |
| Rental Expenses and Allocation of Facility Costs | 61,662 | 4,000 | - | - | (58,477) | - 7,185 | - | 20,446 | | 27,631 |
| Curatorial/Honorariums | - | 5,158 | 5,929 | - | - | 11,087 | - | - | - | 11,087 |
| Property Taxes | - | - | - | - | 8,361 | 8,361 | - | - | - | 8,361 |
| Software Fees | - | - | - | - | - | - | 30,550 | 10,457 | - | 41,007 |
| Bad Debt Expense | - | - | - | - | - | - | 28,685 | - | - | 28,685 |
| Special Events | - | - | - | - | - | - | - | - | 71,160 | 71,160 |
| Other | 3,773 | 732 | 1,484 | 307 | 3,425 | 9,721 | 11,211 | (1,948) | - | 18,984 |
| Total Expenses by Function | 428,012 | 75,203 | 134,939 | 183,832 | 424,394 | 1,246,380 | 331,444 | 355,351 | 71,160 | 2,004,335 |
| Less - Direct Special Event Costs Deducted from Revenue | - | - | - | - | - | - | - | - | (71,160) | (71,160) |
| Net Expenses | $ 428,012 | $ 75,203 | $ 134,939 | $ 183,832 | $ 424,394 | $ 1,246,380 | $ 331,444 | $ 355,351 | $ - | $ 1,933,175 |

*See accompanying Notes to Financial Statements.*

**MCCOLL CENTER FOR ART + INNOVATION**
**STATEMENTS OF CASH FLOWS**
**YEARS ENDED JUNE 30, 2019 AND 2018**

| | 2019 | 2018 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in Net Assets | $ (146,325) | $ 146,646 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation | 221,234 | 200,452 |
| Change in Beneficial Interests in Trust | (303,247) | (554,713) |
| Bad Debt Expense | (29,763) | (28,685) |
| Changes in Operating Assets and Liabilities: | | |
| Pledges, Grants and Sponsorships, and Other Receivables | 57,995 | 78,930 |
| Prepaid Expenses and Other Current Assets | 8,255 | (3,554) |
| Accounts Payable and Accrued Liabilities | (21,441) | 40,731 |
| Deferred Revenue | (104,778) | (396,464) |
| Net Cash Used by Operating Activities | (318,070) | (516,657) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Withdrawals from Beneficial Interest in Trust | 514,529 | 413,397 |
| Purchases of Property and Equipment | (21,547) | (106,798) |
| Net Cash Provided by Investing Activities | 492,982 | 306,599 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net Borrowings under Line of Credit | 49,955 | 50,045 |
| Principal Payments on Capital Leases | (12,682) | - |
| Net Cash Provided by Financing Activities | 37,273 | 50,045 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | 212,185 | (160,013) |
| Cash and Cash Equivalents - Beginning of Year | 29,941 | 189,954 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 242,126 | $ 29,941 |

| | 2019 | 2018 |
|---|---|---|
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Cash Paid During the Year for: | | |
| Interest | $ 11,738 | $ 224 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY** | | |
| Equipment Financed through Capital Lease Arrangement | $ 92,805 | $ - |

*See accompanying Notes to Financial Statements.*

## NOTE 1 ORGANIZATION

McColl Center for Art + Innovation (the Center) is a service Center formed to nurture the visual arts in Mecklenburg County and build the Charlotte Region into a significant visual arts center in the Southeast. The Center is a cultural partner of the Arts & Science Council of Charlotte/Mecklenburg, Inc. ("ASC"), which is responsible for a significant portion of the Center's annual support.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

*Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as Net Assets Released from Restrictions.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Adoption of New Accounting Principle

The Center adopted the provisions of ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended June 30, 2019. The implementation of this standard resulted in certain changes to the financial statement presentation including the presentation of only two classes of net assets, rather than three classes historically presented, and additional disclosures surrounding net assets, liquidity, and availability. The adoption of this accounting standard did not have an impact on the Center's financial position or changes in its net assets and has been applied retrospectively to all periods presented.

### Revenue and Support

Unconditional promises to give ("pledges receivable") are recorded as received. 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 credit adjusted, risk-free interest rates applicable to the years in which the pledges are received. Amortization of the resulting discount is taken into net assets as a contribution in subsequent years. Pledges receivable are written-off when, in the opinion of management, such receivables are deemed to be uncollectible.

Endowment contributions are permanently restricted by the donor. Endowment investment earnings in excess of original corpus are recorded as net assets with donor restrictions until the earnings are appropriated for expenditure or until certain purpose-related restrictions are met. As the earnings are appropriated for expenditure or after purpose related restrictions are met, the earnings are released into net assets without donor restrictions through allocation of allowable endowment balance for spending on the accompanying statements of activities.

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. Total donated services were $35,854 and $3,666 during the years ended June 30, 2019 and 2018, respectively.

### Cash and Cash Equivalents

The Center considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, except for those short-term investments managed as part of investment management strategies.

### Grants and Sponsorships Receivable

Grants and sponsorships receivable include receivables from foundations and corporations and are presented net of an allowance for doubtful accounts. Management's determination of the allowance for doubtful accounts is based on an analysis of historical collection trends, current relations with grantors and sponsors, and current and anticipated economic conditions. Grants and sponsorships receivable are written-off when, in the opinion of management, such receivables are deemed to be uncollectible.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Grants and Sponsorships Receivable (Continued)

At June 30, 2019 and 2018, management determined that no allowance for doubtful accounts was considered necessary. While management uses the best information available to make such evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations.

### Property and Equipment, Net

Property and equipment are stated at cost for purchased items and at estimated fair value at the date received for donated items. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 15 years for furniture, fixtures and equipment and 28 to 40 years for buildings and condominium units. Long-lived assets held and used by the Center are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

### Deferred Revenue

Income from grants and sponsorships is deferred and recognized over the periods to which the grants and sponsorship expenses relate.

### Income Taxes

The Center is a North Carolina nonprofit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Center is not classified as a private foundation.

The Center follows the income tax standard for uncertain tax provisions. As a result of this standard, the Center has evaluated its tax position and has determined it has no uncertain tax positions as of June 30, 2019 or 2018.

### Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

### Subsequent Events

We have evaluated subsequent events through October 29, 2019, the date the financial statements were available to be issued.

## NOTE 3 PLEDGES RECEIVABLE, NET

The Center has the following outstanding unconditional pledges receivable as of June 30:

| | 2019 | 2018 |
|---|---|---|
| Within One Year | $ 23,833 | $ 49,196 |
| In One to Five Years | 51,418 | 44,166 |
| In More than Five Years | 15,000 | - |
| Pledges Receivable | 90,251 | 93,362 |
| Less: Allowance for Uncollectible Pledges | (3,518) | (4,101) |
| Less: Discount to Present Value | (3,937) | (6,535) |
| Pledges Receivable, Net | 82,796 | 82,726 |
| Less: Pledges Receivable, Current Portion | (23,833) | (49,196) |
| Pledges Receivable, Noncurrent Portion, Net | $ 58,963 | $ 33,530 |

Management periodically reviews pledges receivable for collectability and records an allowance for potential uncollectible amounts. Pledges receivable are recorded at their present value of future cash flows using credit adjusted risk-free rates of 1.71% and 2.63% for the years ended June 30, 2019 and 2018, respectively. Included in pledges receivable above are balances due from members of the Board of Directors totaling approximately $1,000 and $20,000 at June 30, 2019 and 2018, respectively.

## NOTE 4 BENEFICIAL INTEREST IN TRUSTS

The Center has three beneficial interests in the Greater Charlotte Cultural Trust (the “Trust”), a supporting Center of the Foundation for the Carolinas (“FFTC”) under section 509(a)(3) of the IRC. The Trust is a separate legal entity with its own Board of Directors which oversees endowment administration, evaluates planned giving opportunities, and makes investment decisions. FFTC, a nonprofit Center that serves donors, communities, and a broad range of charitable purposes in North and South Carolina, provides investment and administrative services for the Trust. The Center and other cultural partners with beneficial interests in the Trust receive distributions from the Trust in accordance with the spending policies described in Note 6.

The Trust is administered by FFTC, which maintains the Trust’s investments with various fund managers. The Trust invests in a variety of investments, which are subject to fluctuations in market values and expose the Trust to a certain degree of interest and credit risk.

As noted previously, 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 investment funds, equity or debt securities, which may or may not have readily available fair values, and foreign exchange or commodity forward contracts.

## NOTE 4 BENEFICIAL INTEREST IN TRUSTS (CONTINUED)

Management of the Trust receives the estimate of fair value of these investments from managers and relies on various factors, processes, and procedures to determine if the estimate of value is reasonable. However, information used by the Trust and by management is subject to change in the near term, and, accordingly, investment values and performance can be affected. The effect of these changes could be material to the financial statements.

## NOTE 5 FAIR VALUE MEASUREMENT 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 the Center 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 a three-tier hierarchy to distinguish between 1) inputs that reflect the assumptions that market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs), and 2) inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the fair value of the Center's financial instruments. The inputs are summarized in the three broad levels listed below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical securities.

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

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 Center's beneficial interests in trust are considered a Level 3 financial instrument as of June 30, 2019 and 2018 because it represents a receivable to be paid from various pooled investments managed by FFTC. The Center 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 Center.

## NOTE 5 FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES (CONTINUED)

The following table presents the assets and liabilities carried at fair value on a recurring basis as of June 30, 2019 and 2018, by fair value hierarchy level, as described above:

| | 2019 | | | |
|---|---|---|---|---|
| | Level1 | Level 2 | Level 3 | Total |
| Beneficial Interest in Trust | $ - | $ - | $ 6,925,800 | $ 6,925,800 |

| | 2018 | | | |
|---|---|---|---|---|
| | Level1 | Level 2 | Level 3 | Total |
| Beneficial Interest in Trust | $ - | $ - | $ 7,137,082 | $ 7,137,082 |

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The beneficial interest in trust is valued using the fair value of the assets in the trust as a practical expedient unless facts and circumstances indicate the fair value of the assets in the trust differs from the fair value of the beneficial interests. There have been no changes in the methodologies used at June 30, 2019 and 2018.

The changes in net assets without donor restrictions, board-designated net assets in Note 6 presents a reconciliation of the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2019 and 2018.

## NOTE 6 ENDOWMENT FUNDS

The Center's endowment consists of the beneficial interests in the Greater Charlotte Cultural Trust (see Note 4). The endowment consists of three individual donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Center has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring, absent explicit donor stipulations to the contrary, that the following amounts included in the endowment be classified as permanently restricted: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund be classified as permanently restricted. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA or spent in accordance with the purpose restrictions established by the donor.

## NOTE 6 ENDOWMENT FUNDS (CONTINUED)

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

1. The duration and preservation of the fund
2. The purposes of the Center and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Center
7. The investment policies of the Center

FFTC administers the endowed funds of the Trust. The Board of Directors of the Trust and ultimately the Center have adopted investment and spending policies for endowment assets that attempt to provide for a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results that provide an average annual real rate of return, net of fees, equal to or greater than spending, administrative fees, and inflation (Consumer Price Index). Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Trust relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Trust has a policy of appropriating for distribution each year up to a maximum of 5% 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.

The Center's Board of Directors determines on an annual basis how much, if any, of the amount available for distribution will be withdrawn from the Trust. Once an amount is actually appropriated by the Center's Board of Directors for distribution, the funds to be distributed are reclassified from net assets with donor restrictions to net assets without donor restrictions.

At June 30, 2019, the Board of Directors appropriated all funds available for expenditure under the spending policy. At June 30, 2018, the Center has $197,125 of funds available to be spent, under the spending policy, but not yet appropriated for expenditure by the Board of Directors.

## NOTE 6 ENDOWMENT FUNDS (CONTINUED)

Changes in the endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

| June 30, 2019 | Without Donor Restriction | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment Net Assets - Beginning of Year | $ - | $ 7,137,082 | $ 7,137,082 |
| Change in Beneficial Interests (see Note 4) | - | 303,247 | 303,247 |
| Allocation of Allowable Endowment for Spending | - | (514,529) | (514,529) |
| Endowment Net Assets - End of Year | $ - | $ 6,925,800 | $ 6,925,800 |

| June 30, 2018 | Without Donor Restriction | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment Net Assets - Beginning of Year | $ - | $ 6,995,766 | $ 6,995,766 |
| Change in Beneficial Interests (see Note 4) | - | 554,713 | 554,713 |
| Allocation of Allowable Endowment for Spending | - | (413,397) | (413,397) |
| Endowment Net Assets - End of Year | $ - | $ 7,137,082 | $ 7,137,082 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the amount recorded by the Center perpetual in nature net assets (corpus). At June 30, 2019 and 2018, the fair value of all individual funds exceeded corpus.

## NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

### Balance at Year-End

Net assets with donor restrictions consist of the following as of June 30:

| | 2019 | 2018 |
|---|---|---|
| Restricted for Purpose: | | |
| Windgate Foundation | $ 100,000 | $ 100,000 |
| Reimprise FY20 | 15,000 | - |
| Blumenthal Foundation | 6,666 | - |
| Restricted for Time: | | |
| Endowment Investment Earnings | 435,475 | 646,757 |
| Pledge Receivables | 82,797 | 82,726 |
| Restricted in Perpetuity: | | |
| Corpus of Beneficial Interests | 6,490,325 | 6,490,325 |
| Total Net Assets | $ 7,130,263 | $ 7,319,808 |

## NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets released from restrictions by incurring expenses satisfying the restricted purposes, by occurrence of events specified by donors, or the passage of time during the years ended June 30 were as follows:

| | 2019 | 2018 |
|---|---|---|
| Restricted for Purpose: | | |
| Windgate Foundation Receivable | $ 100,000 | $ 59,033 |
| Restricted for Time: | | |
| Endowment Spending Allocation | 514,529 | 413,397 |
| Pledge Receivables | 39,930 | 23,685 |
| Total Net Assets | $ 654,459 | $ 496,115 |

## NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Buildings | $ 5,468,817 | $ 5,461,736 |
| Furniture, Fixtures, and Equipment | 724,368 | 1,398,160 |
| Condominium Units | 1,516,319 | 1,504,900 |
| Total Depreciable Assets | 7,709,504 | 8,364,796 |
| Less: Accumulated Depreciation | (4,185,019) | (4,732,708) |
| Depreciable Assets, Net | 3,524,485 | 3,632,088 |
| Land | 2,208,439 | 2,208,439 |
| Property and Equipment, Net | $ 5,732,924 | $ 5,840,527 |

The condominium units included above were received by the Center as the result of a donation made in December 2000. There are certain limited restrictions on the condominium to ensure its use is consistent with the objectives of the Center.

## NOTE 9 LINE OF CREDIT

The Center has a $250,000 secured line of credit at an interest rate of 6.5%. The outstanding line of credit balance was $100,000 and $50,045 as of June 30, 2019 and 2018, respectively. The line is secured by certain fixed assets of the Center and expires in September 2019.

## NOTE 10 CAPITAL LEASE PAYABLE

The Corporation leases equipment under long-term lease agreements. A schedule of leased equipment under capital leases are as follows:

| | 2019 |
|---|---|
| Moveable Equipment | $ 92,085 |
| Less: Accumulated Depreciation | (18,417) |
| | $ 73,668 |

Amortization costs associated with capital leases is included in depreciation and amortization expense. For the year ended June 30, 2019, amortization costs were approximately $18,417.

Future minimum lease payments and present values of the net minimum lease payments are as follows:

| Year Ending June 30, | Capital Leases |
|---|---|
| 2020 | $ 20,638 |
| 2021 | 20,638 |
| 2022 | 20,638 |
| 2023 | 20,638 |
| 2024 | 8,552 |
| Total Minimum Lease Payments | 91,104 |
| Less: Amount Representing Interest | (11,701) |
| Capital Lease Obligation | $ 79,403 |

## NOTE 11 EMPLOYEE BENEFITS PLANS

The Center has a defined contribution retirement savings plan (the Plan) under Section 403(b) of the IRC. The Center makes a 50% match of the employee's contribution up to 5% of an employee's salary. An employee becomes eligible to participate in the Plan after one year of service, and the employer match vests 25% per year, fully vesting after the fifth year of service. During the years ended June 30, 2019 and 2018, the Center contributed a total of $2,614 and $27,017, respectively, to the Plan.

## NOTE 12 MANAGEMENT SERVICES AGREEMENT

During the year ended June 30, 2018, the Center entered into a services agreement with an unrelated third-party, who performs the finance and human resources functions for the Center. This agreement, which initially extends to December 31, 2022, provides that the monthly payments are to be determined annually. The amount of the monthly totals were $9,054 and $7,661 for the years ended June 30, 2019 and 2018, respectively. In addition, the Center is responsible for the implementation costs of $5,833 and $9,167 which is included in accrued liabilities in the accompanying statements of financial position at June 30, 2019 and 2018, respectively.

## NOTE 13 OPERATING LEASES

The Center leases the Center's condominium units not being used by resident artists. Total lease income for the years ended June 30, 2019 and 2018 was $119,832 and $63,509, respectively. The leases typically do not extend beyond one-year terms.

## NOTE 14 SPECIAL EVENTS

Special events revenue and expenses consist of the following at June 30:

| | 2019 | 2018 |
|---|---|---|
| Revenue | $ 158,626 | $ 112,920 |
| Expense | 57,778 | 71,160 |
| Net Revenue | $ 100,848 | $ 41,760 |

## NOTE 15 CONCENTRATION OF CREDIT RISK

The Center places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers $250,000 for substantially all depository accounts. The Center from time to time may have had amounts on deposit in excess of the insured limits.

The Center has recognized unconditional promises to give from donors in future years. Ultimately, realization of these amounts is influenced by economic conditions in areas which these donors reside, as well as other events/conditions which may affect the donors' intention or ability to give.

## NOTE 16 LIQUIDITY

The Center strives to maintain liquid assets sufficient to cover 30 days of general expenditures. The Center receives significant grants and contributions for services that are ongoing and central to its annual operations to be available to meet cash needs. Additionally, the Center relies on allocation of allowable endowment balance for spending to meet operating expenses. Occasionally, the Center receives contributions and grants restricted by donors and subject to expenditures for specific purposes or within a specific timeframe. Those contributions are considered to be available to meet cash needs for general operations if the restrictions are anticipated to be met within one year.

The following table reflects the Center's financial assets available within one year of the statements of financial position for general expenditures as of June 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Cash and Cash Equivalents | $ 242,126 | $ 29,941 |
| Pledges Receivable, Current Portion, Net | 23,833 | 49,196 |
| Grants and Sponsorship Receivable | - | 31,769 |
| Other Receivables | 8,987 | 5,520 |
| Total | $ 274,946 | $ 116,426 |

The Center also has a line of credit available to meet short-term needs. See Note 9 for information about the arrangement.