

# **FOUNDATION FOR THE CAROLINAS**

## **CONSOLIDATED FINANCIAL STATEMENTS**

*As of and for the Years Ended December 31, 2020 and 2019*

*And Report of Independent Auditor*

**FOUNDATION FOR THE CAROLINAS**  
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## Report of Independent Auditor

To the Board of Directors  
Foundation For The Carolinas  
Charlotte, North Carolina

We have audited the accompanying consolidated financial statements of Foundation For The Carolinas and its supporting organizations (collectively referred to as the “Foundation”), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management’s Responsibility for the Consolidated Financial Statements

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

### Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

### Opinion

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2021 on our consideration of the Foundation'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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 Foundation's internal control over financial reporting and compliance.

**Other Matter**

As discussed in Note 10, the consolidated financial statements include certain alternative investments valued at \$1,344,808,085 and \$1,100,406,271 (43.3% and 40.3% of total assets) at December 31, 2020 and 2019, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the external fund managers or the general partners of the entities in which investments are made.

*Cherry Bekart LLP*

Charlotte, North Carolina  
July 16, 2021

**FOUNDATION FOR THE CAROLINAS**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 49,821,321	\$ 82,825,077
Short-term investments	257,378,742	128,036,709
Accounts receivable	11,767,516	9,086,115
Contributions receivable, net	26,437,052	31,724,067
Prepaid expenses and inventory	81,756	89,156
Notes receivable	10,750,007	3,581,566
Contributed securities held for sale	137,817,554	12,806,107
Long-term investments	2,523,386,307	2,384,963,322
Other investments	35,389,550	36,925,876
Cash surrender value of life insurance	9,281,690	9,135,765
Beneficial interest in trust	1,752,857	728,100
Property and equipment, net	39,097,929	32,302,014
<b>Total Assets</b>	<u><u>\$ 3,102,962,281</u></u>	<u><u>\$ 2,732,203,874</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Fund obligations	\$ 3,595,711	\$ 2,329,232
Deferred revenue	1,177,730	482,401
Grants payable	70,349,152	61,632,616
Amounts held on behalf of others	623,687,630	571,372,714
Annuity obligations	9,675,479	9,368,191
<b>Total Liabilities</b>	<u>708,485,702</u>	<u>645,185,154</u>
Net Assets:		
Without Donor Restrictions:		
Designated for donor-advised grants	1,687,240,479	1,521,587,001
Designated for operating reserves	30,931,212	19,125,847
Designated for discretionary grants	2,301,942	1,206,444
Designated for endowment	46,424,969	44,011,076
Invested in property and equipment	39,097,929	32,302,014
<b>Total Without Donor Restrictions</b>	<u>1,805,996,531</u>	<u>1,618,232,382</u>
With Donor Restrictions:		
Restricted for Specified Purpose:		
Scholarships	13,266,975	5,603,471
Disaster and hardship	119,756,994	23,407,405
Designated organizations	149,671,551	151,850,593
Restricted to the passage of time	17,872,322	22,912,665
Restricted in perpetuity - endowment	225,596,286	220,736,159
Restricted subject to the Foundation's spending policy	64,126,044	46,590,472
Underwater endowments	(1,810,124)	(2,314,427)
<b>Total With Donor Restrictions</b>	<u>588,480,048</u>	<u>468,786,338</u>
<b>Total Net Assets</b>	<u>2,394,476,579</u>	<u>2,087,018,720</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 3,102,962,281</u></u>	<u><u>\$ 2,732,203,874</u></u>

**FOUNDATION FOR THE CAROLINAS**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support:			
Contributions	\$ 289,361,111	\$ 240,356,381	\$ 529,717,492
Less contributions received on behalf of others	<u>(23,345,984)</u>	<u>-</u>	<u>(23,345,984)</u>
Net Contributions	266,015,127	240,356,381	506,371,508
Net investment income	352,306	3,065,113	3,417,419
Net investment gains	207,725,076	35,058,515	242,783,591
Administrative fees received	42,434,822	4,647	42,439,469
Change in beneficial interest in trust	-	1,098,398	1,098,398
Net assets released from restrictions	<u>159,889,344</u>	<u>(159,889,344)</u>	<u>-</u>
Total Revenues, Gains, and Other Support	<u>676,416,675</u>	<u>119,693,710</u>	<u>796,110,385</u>
Expenses:			
Grant disbursements	459,845,208	-	459,845,208
Less grants disbursed on behalf of others	<u>(31,115,515)</u>	<u>-</u>	<u>(31,115,515)</u>
Net Grant Disbursements	428,729,693	-	428,729,693
Other program expenses	26,779,514	-	26,779,514
Management and general	30,800,336	-	30,800,336
Fundraising and development	<u>2,342,983</u>	<u>-</u>	<u>2,342,983</u>
Total Expenses	<u>488,652,526</u>	<u>-</u>	<u>488,652,526</u>
Change in net assets	187,764,149	119,693,710	307,457,859
Net assets, beginning of year	<u>1,618,232,382</u>	<u>468,786,338</u>	<u>2,087,018,720</u>
Net assets, end of year	<u>\$ 1,805,996,531</u>	<u>\$ 588,480,048</u>	<u>\$ 2,394,476,579</u>

**FOUNDATION FOR THE CAROLINAS**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**

*YEAR ENDED DECEMBER 31, 2019*

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, Gains, and Other Support:</b>			
Contributions	\$ 241,337,359	\$ 57,555,318	\$ 298,892,677
Less contributions received on behalf of others	(51,571,679)	-	(51,571,679)
Net Contributions	189,765,680	57,555,318	247,320,998
Net investment income	1,937,119	1,753,463	3,690,582
Net investment gains	288,899,819	48,279,447	337,179,266
Administrative fees received	19,987,254	-	19,987,254
Change in beneficial interest in trust	(251,063)	283,362	32,299
Net assets released from restrictions	66,507,206	(66,507,206)	-
<b>Total Revenues, Gains, and Other Support</b>	<b>566,846,015</b>	<b>41,364,384</b>	<b>608,210,399</b>
<b>Expenses:</b>			
Grant disbursements	336,220,554	-	336,220,554
Less grants disbursed on behalf of others	(30,940,558)	-	(30,940,558)
Net Grant Disbursements	305,279,996	-	305,279,996
Other program expenses	18,986,217	-	18,986,217
Management and general	21,834,570	-	21,834,570
Fundraising and development	1,662,440	-	1,662,440
<b>Total Expenses</b>	<b>347,763,223</b>	<b>-</b>	<b>347,763,223</b>
Change in net assets	219,082,792	41,364,384	260,447,176
Net assets, beginning of year	1,399,149,590	427,421,954	1,826,571,544
Net assets, end of year	<b>\$ 1,618,232,382</b>	<b>\$ 468,786,338</b>	<b>\$ 2,087,018,720</b>

**FOUNDATION FOR THE CAROLINAS**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

*YEAR ENDED DECEMBER 31, 2020*

	Program Services		Management and General	Fundraising and Development	Total
	Grants	Other			
Grants Disbursed:					
Environment	\$ 93,400,494	\$ -	\$ -	\$ -	\$ 93,400,494
Education	100,165,321	-	-	-	100,165,321
Health and human services	147,386,776	-	-	-	147,386,776
Community improvement and public benefit	50,715,459	-	-	-	50,715,459
Arts, culture, and humanities	23,434,783	-	-	-	23,434,783
Religion	9,727,140	-	-	-	9,727,140
Other	3,899,720	-	-	-	3,899,720
Administrative fees	-	10,931,676	12,573,019	956,430	24,461,125
Salaries and wages	-	5,657,577	6,507,036	494,990	12,659,603
Employee benefits	-	1,283,578	1,476,301	112,302	2,872,181
Payroll taxes	-	368,481	423,807	32,239	824,527
Fees for services	-	3,407,449	3,919,062	298,123	7,624,634
Advertising and promotion	-	367,304	422,454	32,136	821,894
Office expenses	-	274,706	315,952	24,034	614,692
Information technology	-	831,360	956,184	72,737	1,860,281
Occupancy	-	479,313	551,279	41,936	1,072,528
Travel	-	11,814	13,588	1,034	26,435
Conferences, conventions, and meetings	-	15,936	18,328	1,394	35,658
Depreciation	-	190,267	218,834	16,647	425,748
Insurance	-	111,734	128,511	9,776	250,021
Theatre restoration	-	795,935	915,441	69,638	1,781,014
Education/literacy	-	447,468	514,653	39,150	1,001,271
Community engagement	-	728,325	837,679	63,722	1,629,726
Other expenses	-	876,591	1,008,207	76,695	1,961,493
<b>Total Functional Expenses</b>	<b>\$ 428,729,693</b>	<b>\$ 26,779,514</b>	<b>\$ 30,800,336</b>	<b>\$ 2,342,983</b>	<b>\$ 488,652,526</b>



**FOUNDATION FOR THE CAROLINAS**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

*YEAR ENDED DECEMBER 31, 2019*

	<u>Program Services</u>		<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
	<u>Grants</u>	<u>Other</u>			
Grants Disbursed:					
Environment	\$ 99,632,708	\$ -	\$ -	\$ -	\$ 99,632,708
Education	79,442,639	-	-	-	79,442,639
Health and human services	62,008,425	-	-	-	62,008,425
Community improvement and public benefit	35,938,885	-	-	-	35,938,885
Arts, culture, and humanities	13,224,030	-	-	-	13,224,030
Religion	11,444,967	-	-	-	11,444,967
Other	3,588,342	-	-	-	3,588,342
Administrative fees	-	5,473,094	6,294,179	479,226	12,246,499
Salaries and wages	-	4,995,689	5,745,153	437,424	11,178,266
Employee benefits	-	1,097,104	1,261,694	96,063	2,454,861
Payroll taxes	-	336,666	387,173	29,479	753,318
Fees for services	-	1,696,822	1,951,383	148,574	3,796,779
Advertising and promotion	-	337,553	388,193	29,556	755,302
Office expenses	-	232,213	267,050	20,333	519,596
Information technology	-	759,824	873,815	66,531	1,700,170
Occupancy	-	338,890	389,731	29,673	758,294
Travel	-	61,221	70,406	5,361	136,988
Conferences, conventions, and meetings	-	69,110	79,478	6,051	154,639
Depreciation	-	189,627	218,075	16,604	424,306
Insurance	-	107,703	123,861	9,431	240,995
Theatre restoration	-	393,585	452,631	34,462	880,678
Education/literacy	-	1,198,704	1,378,537	104,959	2,682,200
Community engagement	-	1,340,254	1,541,321	117,353	2,998,928
Other expenses	-	358,158	411,890	31,360	801,408
Total Functional Expenses	<u>\$ 305,279,996</u>	<u>\$ 18,986,217</u>	<u>\$ 21,834,570</u>	<u>\$ 1,662,440</u>	<u>\$ 347,763,223</u>

**FOUNDATION FOR THE CAROLINAS**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 307,457,859	\$ 260,447,176
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	425,748	424,306
Realized and unrealized gains on investments	(242,783,591)	(337,179,266)
Contributions and income restricted for investments in endowments	(3,501,268)	(13,126,914)
Noncash contributions - investments	(203,129,083)	(138,975,634)
Noncash contributions - property and equipment	(39,500)	(228,600)
Changes in operating assets and liabilities:		
Accounts receivable	(2,681,401)	(3,162,758)
Contributions receivable, net	5,287,015	20,792,163
Prepaid expenses and inventory	7,400	41,882
Beneficial interest in trust	(1,024,757)	(32,299)
Contributed securities held for sale	(125,011,447)	(4,985,863)
Cash surrender value of life insurance	(145,925)	(205,939)
Fund obligations	1,266,479	(57,489)
Deferred revenue	695,329	(12,979)
Grants payable	8,716,536	(2,837,550)
Amounts held on behalf of others	52,314,916	75,720,199
Annuity obligations	307,288	(536,414)
Net cash flows from operating activities	<u>(201,838,402)</u>	<u>(143,915,979)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(7,182,163)	(8,673,537)
Net sales of investments	179,683,982	89,552,212
Issuance of notes receivable	(7,500,000)	-
Collections of notes receivable	331,559	1,231,388
Net cash flows from investing activities	<u>165,333,378</u>	<u>82,110,063</u>
<b>Cash flows from financing activities:</b>		
Contributions restricted for investment in endowment	3,501,268	13,126,914
Net change in cash and cash equivalents	(33,003,756)	(48,679,002)
Cash and cash equivalents, beginning of year	<u>82,825,077</u>	<u>131,504,079</u>
Cash and cash equivalents, end of year	<u>\$ 49,821,321</u>	<u>\$ 82,825,077</u>

# FOUNDATION FOR THE CAROLINAS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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### Note 1—Nature of the Foundation

Foundation For The Carolinas (the “Foundation”) was established in 1958 as a North Carolina nonprofit corporation. The Foundation, headquartered in Charlotte, North Carolina, inspires philanthropy and empowers individuals to create a better community by receiving gifts, grants, and bequests for the purpose of making charitable donations to eligible organizations.

The accompanying consolidated financial statements include supporting organizations, which are separate legal entities established under Section 509(a)(3) of the Internal Revenue Code (“IRC”) to operate solely for supporting the activities of the Foundation. They have their own Board of Directors or trustees and use the Foundation to administer and invest their assets. These supporting organizations include the Foundation for the Charlotte Jewish Community, Inc. (effective April 22, 1998); the Crosland Foundation Trust (effective May 1, 2000); the Turner Family Foundation (effective June 20, 2000); the Carolina Thread Trail (effective February 17, 2009); the Family Impact Fund (effective July 1, 2011, terminated June 30, 2020); Community Investments Foundation (effective May 4, 2012); Community Real Property Holdings (effective May 4, 2012); and the Seymour Family Foundation (effective December 21, 2015). The Foundation effectively controls, either directly or indirectly, all operating aspects of these organizations and the organizations are financially interrelated to the Foundation. Accordingly, their financial activity has been included in the accompanying consolidated financial statements. With the exception of administrative fees, all significant intercompany transactions have been eliminated in the consolidation.

E4E Relief LLC (“LLC”) is an affiliate of the Foundation (effective April 4, 2014). The Foundation effectively controls, either directly or indirectly, all operating aspects of the LLC as its sole member. The LLC is also financially interrelated to the Foundation. Accordingly, the LLC’s financial activity has been included in the accompanying consolidated financial statements and all significant intercompany transactions and balances have been eliminated in the consolidation.

The United Way Legacy Foundation (effective July 24, 2001), The Greater Charlotte Cultural Trust (effective December 31, 2002), Foundation for the Mint Museum (effective October 27, 2006); Charlotte-Mecklenburg Library Foundation (effective September 17, 2012); Queens University of Charlotte Endowment (effective November 7, 2014); and CMS Foundation (effective August 11, 2016); also operate in connection with the Foundation as supporting organizations under Section 509(a)(3) of the IRC. These organizations are not controlled, directly or indirectly, by the Foundation. Therefore, financial activity of these organizations is not included in the accompanying consolidated financial statements, except as noted below and as discussed in Note 2 under fiduciary agent.

A small number of funds exist which were originally established at the Foundation and were transferred to United Way Legacy Foundation, The Greater Charlotte Cultural Trust, Foundation for the Mint Museum, Charlotte-Mecklenburg Library Foundation, Queens University of Charlotte Endowment, and CMS Foundation for reporting purposes. However, if any of these organizations ceased to operate as a supporting organization of the Foundation, these funds would be transferred back to the Foundation. As such, the financial activity related to these funds is included in the accompanying consolidated financial statements.

# FOUNDATION FOR THE CAROLINAS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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### Note 2—Summary of significant accounting policies

*Basis of Accounting* – The accompanying consolidated 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”). The Financial Accounting Standards Board (“FASB”) has established the Accounting Standards Codification (“ASC”) as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with 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 Restriction* – Net assets available for general use and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Foundation’s policy is to designate donor gifts without restriction at the discretion of the Board of Directors. The Board of Directors has designated net assets without donor restrictions for the following uses:

*Designated for Donor Advised Grants* – Funds designated for donor-advised grants are available for distribution upon recommendation by the donor.

*Designated for Operating Reserves* – Cash reserves designated for future needs such as technology, capital purchases, art acquisitions, and other operating needs.

*Designated for Discretionary Grants* – Amounts remaining from annual spendable income of board-designated endowments are designated for discretionary grants.

*Designated for Endowment* – Gifts without donor restrictions designated by the Board of Directors to provide perpetual support for community grant-making and the Foundation’s operations.

*Net Assets With Donor Restrictions* – Net assets resulting from contributions and endowment investment earnings subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of the Foundation and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. As of December 31, 2020 and 2019, the Foundation’s net assets with donor restrictions are restricted for funding various community educational and philanthropic programs specified by the donors and funding renovations to the Carolina Theatre property as well as the endowment corpus and unspent endowment investment earnings.

Revenues are 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 without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

The Foundation reports gifts of land, buildings, and equipment as revenues without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as revenue with donor restrictions. The Foundation reports expirations of donor’s restrictions when the donated or acquired long-lived assets are placed in service.

# FOUNDATION FOR THE CAROLINAS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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### Note 2—Summary of significant accounting policies (continued)

Contributions are recognized when cash, other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or right of release, are not recognized until the conditions on which they depend have been substantially met. Contributions of assets other than cash, which are primarily donated investment securities, are recorded at their estimated fair value at the date of donation.

*Administrative Fees Received* – The Foundation administers various funds contributed by individuals and organizations. These funds are managed through pools of assets and are charged an annual administrative fee, assessed on a monthly basis, based on a percentage of the fair value of the assets of the fund. Administrative fees are recognized in the fiscal year in which they occur. In accordance with practices that are common among community foundations, the Foundation presents administrative fees received from consolidated entities on a gross basis. Administrative fees received for the years ended December 31, 2020 and 2019, included \$24,461,125 and \$12,246,499, respectively, of fees from organizations that are consolidated in the Foundation's consolidated financial statements.

*Donated Services* – The Foundation records contributed services if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A number of unpaid volunteers, who serve in the capacity of board members and various volunteer assistants, have made significant contributions of their time in the furtherance of the Foundation's programs. The value of this contributed time is not reflected in these consolidated financial statements since it does not meet the above recognition criteria.

*Income Taxes* – The Foundation and its supporting organizations are exempt from federal income tax under the provisions of Section 501(c)(3) of the IRC. In accordance with IRC regulations, the Foundation is taxed on unrelated business income, which consists of earnings from activities not related to the exempt purpose of the Foundation. The Foundation accounts for tax uncertainties based on a more likely than not recognition threshold whereby tax benefits are only recognized when the Foundation believes they have a greater than 50% likelihood of being sustained upon examination by taxing authorities. The Foundation has evaluated all its tax positions and determined that it had no uncertain income tax positions as of December 31, 2020 and 2019.

*Cash and Cash Equivalents* – The Foundation considers short-term investments with original maturities of three months or less to be cash equivalents, except for those short-term investments managed as part of investment management strategies.

*Contributions Receivable, Net* – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted rates. Amortization of the discounts is included in contributions revenue. An allowance for doubtful accounts is based on specific identification of possible, uncollectible accounts and the Foundation's historical collection experience. The Foundation has elected to apply the fair value option for valuing all contributions receivable to improve the clarity and consistency of the valuation of these contributions receivable.

*Notes Receivable* – Notes receivable represent funds advanced to other organizations and are stated at unpaid principal balances, less an allowance for loan losses. The amount of the allowance is based on management's evaluation of the collectability of the receivables, including past experience, adverse situations that may affect the borrower's ability to repay, and current economic conditions. Management has determined that an allowance for loan losses is not necessary as of December 31, 2020 and 2019.

*Contributed Securities Held for Sale* – Contributed securities held for sale include equity and marketable securities that are scheduled to be liquidated by the Foundation in less than one year and are carried at fair value.

# FOUNDATION FOR THE CAROLINAS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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### Note 2—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 consolidated statements of financial position at their fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Diversified venture capital holdings and certain other limited partnership interests are carried at fair values based upon financial information provided by external investment partners. Because the venture capital holdings and other limited partnership interests are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for the investments existed. The amount of investment gain associated with these investments represents 1.32% and 1.39% of the total return on investment for the years ended December 31, 2020 and 2019, respectively. Changes in the fair market value of investments carried at fair value are reflected as investment gains or losses in the accompanying consolidated statements of activities.

*Property and Equipment, Net* – Property and equipment in excess of \$1,500 are recorded at cost for purchased items and estimated fair market value for donated items, and are depreciated on a straight-line basis over the estimated life of the respective asset, ranging from 5-39 years for buildings and building improvements, and 5-10 years for furniture and fixtures. The costs of maintenance and repairs, which do not improve or extend the life of the respective asset, are expensed when incurred. The cost and any accumulated depreciation are removed from the accounts for items sold or retired, and any resulting gain or loss is included in the determination of the change in net assets. Long-lived assets held and used by the Foundation are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

*Amounts Held on Behalf of Others* – The Foundation recognizes a liability for funds received and held for the sole benefit of other organizations.

*Fiduciary Agent* – The Foundation acts as fiduciary agent for all its supporting organizations (see Note 1). The Foundation's responsibilities as fiduciary agent include, but are not limited to, safeguarding assets, recording transactions, managing investments, and ensuring appropriate distributions. As part of its fiduciary responsibility, the Foundation manages the assets of United Way Legacy Foundation ("UWLF"), The Greater Charlotte Cultural Trust ("GCCT"), Foundation for the Mint Museum ("FFMM"), the Charlotte-Mecklenburg Library Foundation ("CMLF"), the Queens University of Charlotte Endowment ("QUCE"), and the CMS Foundation ("CMSF").

UWLF was organized for the benefit of, to perform the endowment functions of, and to carry out the purposes of the Foundation with respect to United Way of Central Carolinas, Inc. At December 31, 2020 and 2019, The Foundation, as fiduciary agent for UWLF, has recorded \$1,893,774 and \$1,705,602, respectively, as both assets and as amounts held on behalf of others.

GCCT was organized for the benefit of, to perform the endowment functions of, and to carry out the purposes of the Foundation with respect to the Charlotte-Mecklenburg cultural community, the Arts & Science Council-Charlotte/Mecklenburg, Inc. (the "ASC"), and cultural partners of the ASC. At December 31, 2020 and 2019, the Foundation, as fiduciary agent for GCCT, has recorded \$198,539,754 and \$184,844,360, respectively, as both assets and as amounts held on behalf of others.

FFMM was organized for the benefit of, to perform the endowment functions of, and to carry out the purposes of the Foundation with respect to the Mint Museum of Art (the "Museum"). At December 31, 2020 and 2019, the Foundation, as fiduciary agent for FFMM, has recorded \$16,245,528 and \$14,836,365, respectively, as both assets and as amounts held on behalf of others.

# FOUNDATION FOR THE CAROLINAS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### **Note 2—Summary of significant accounting policies (continued)**

CMLF was organized for the benefit of, to perform the endowment functions of, and to carry out the purposes of the Foundation with respect to the Charlotte-Mecklenburg Library (the “Library”). At December 31, 2020 and 2019, the Foundation, as fiduciary agent for CMLF, has recorded \$19,406,707 and \$14,305,728, respectively, as both assets and as amounts held on behalf of others.

QUCE was organized for the benefit of, to perform the endowment functions of, and to carry out the purposes of the Foundation with respect to Queen University of Charlotte (“Queens”). At December 31, 2020 and 2019, the Foundation, as fiduciary agent for QUCE, has recorded \$162,917,494 and \$146,832,675, respectively, as both assets and as amounts held on behalf of others.

CMSF was organized for the benefit of, to perform the endowment functions of, and to carry out the purposes of the Foundation with respect to Charlotte-Mecklenburg Schools (“Schools”). At December 31, 2020 and 2019, the Foundation, as fiduciary agent for CMSF, has recorded \$3,581,591 and \$505,891, respectively, as both assets and as amounts held on behalf of others.

*Annuity Obligations* – The Foundation receives gifts of future interest through charitable remainder unitrusts and gift annuities. Charitable remainder unitrusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to a non-charitable beneficiary, usually the donor, over a specified period of time not to exceed the lives of the beneficiaries. The distributions to the beneficiaries are for a specified percentage of the trust’s fair value as determined annually. The annual distribution is limited to the lesser of the stated percentage or the actual income earned. Upon termination of the trust, a donor-specified not-for-profit organization, in addition to the Foundation, receives the assets remaining in the trust. Charitable gift annuities are similar to the charitable remainder unitrusts except that no trust exists and the annual distribution to the non-charitable beneficiary is a fixed amount.

The present value of the liability resulting from these gifts, determined based on mortality tables using annual Internal Revenue Service discount rates, is recorded as an annuity obligation. The amount equal to the portion of the current fair value of the gift over the amount payable is recorded as permanently restricted net assets if the Foundation is the beneficiary or annuity obligations if the Foundation is acting as the agent. The Foundation has voluntarily elected the fair value option for valuing all liabilities associated with the irrevocable trust agreements and annuity agreements to improve the clarity and consistency of the valuation of these liabilities.

*Functional Allocation of Expenses* – The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function.

The consolidated financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding grant disbursements, are allocated on the basis of estimates of time and effort.

*Use of Estimates* – The preparation of accompanying consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of any contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could significantly differ from these estimates.

**FOUNDATION FOR THE CAROLINAS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 3—Liquidity and availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 38,378,531	\$ 26,917,367
Accounts receivable	7,998,823	8,330,751
Contributed securities held for sale	137,618,029	12,591,165
Short-term investments	<u>79,897,706</u>	<u>67,185,645</u>
	<u>\$ 263,893,089</u>	<u>\$ 115,024,928</u>

The assets above include \$252,131,562 and \$107,206,542 in donor-advised funds as of December 31, 2020 and 2019, respectively. The Foundation generally uses these assets for grantmaking based on donor recommendations.

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments that is restricted for specific purposes is not available for general expenditure. As described in Note 12, the Foundation's board-designated endowments are subject to an annual spending rate. For the year ended December 31, 2021, this rate is 4.50% and \$1,924,528 of appropriation from the board-designated endowments will be available within the next 12 months. For the year ended December 31, 2020, the rate was 4.50% and \$1,932,634 of appropriation from the board-designated endowments were available for expenditure during the year ended December 31, 2020. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated per the board's annual spending rate approval), these amounts could be made available if necessary.

As part the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds. Occasionally, the Board of Directors will designate a portion of any operating surplus to its operating reserve, which was \$30,931,212 and \$19,125,847 as of December 31, 2020 and 2019, respectively.

**Note 4—Contributions receivable, net**

Contributions receivable as of December 31 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 11,402,689	\$ 16,967,210
Receivable in one to five years	16,068,855	16,215,207
Receivable thereafter	<u>134,000</u>	<u>250,000</u>
	27,605,544	33,432,417
Less allowance for doubtful accounts	(828,166)	(1,003,872)
Less discount for present value	<u>(340,326)</u>	<u>(704,478)</u>
Contributions receivable, net	<u>\$ 26,437,052</u>	<u>\$ 31,724,067</u>

Future pledge receipts are discounted using an average risk-adjusted discount rate of 1.46% and 2.31% at December 31, 2020 and 2019, respectively.



**FOUNDATION FOR THE CAROLINAS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5—Investments**

The Foundation primarily classifies investments as either short-term or long-term. Short-term investments include marketable securities with maturity dates less than one year, as well as all investments other than marketable securities intended to be liquidated within a year. Long-term investments include marketable securities with maturity dates greater than one year and any cash equivalents managed as part of the long-term investment strategies. Other investments include real estate holdings and interests in partnerships. Investments as of December 31 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Short-term investments:		
Money market funds	\$ 256,753,839	\$ 127,351,797
Bonds and fixed income securities	624,903	684,912
Total short-term investments	<u>\$ 257,378,742</u>	<u>\$ 128,036,709</u>
Long-term investments:		
Money market funds	\$ 8,471,312	\$ 7,676,407
Equity and marketable securities	957,118,141	1,081,661,780
Closely-held securities	29,944,658	20,264,234
Bonds and fixed income securities	183,044,111	174,954,630
Hedge funds and other private investment funds	1,344,808,085	1,100,406,271
Total long-term investments	<u>\$ 2,523,386,307</u>	<u>\$ 2,384,963,322</u>
Other investments:		
Real estate	\$ 2,037,000	\$ 2,037,000
Partnerships	33,352,550	34,888,876
Total other investments	<u>\$ 35,389,550</u>	<u>\$ 36,925,876</u>

Total investments include assets for annuity obligations and other liabilities of \$9,675,479 and \$9,368,191 for December 31, 2020 and 2019, respectively. The Foundation maintains its investments with various broker-dealers. The Foundation invests in a variety of investments, which are subject to fluctuations in market values and expose the Foundation to a certain degree of interest and credit risk.

Net investment income for the years ended December 31, 2020 and 2019 consists of interest and dividends and is presented net of related expenses. Net investment gains for the years ended December 31 consists of net realized and unrealized gains and are comprised as follows:

	<u>2020</u>	<u>2019</u>
Net investment gains	\$ 311,964,904	\$ 422,322,269
Less agency funds reclassified to amounts held on behalf of others	(69,181,313)	(85,143,003)
	<u>\$ 242,783,591</u>	<u>\$ 337,179,266</u>

The Foundation has investments with 56-fund managers, which invest in private investment funds as part of the Foundation's asset allocation. The investment in the private investment funds is an alternative investment strategy with the purpose of increasing the diversity of the Foundation's holdings and is consistent with the Foundation's overall investment objectives.

**FOUNDATION FOR THE CAROLINAS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5—Investments (continued)**

The private investment funds are not traded on an exchange and, accordingly, investments in such funds may not be as liquid as investments in marketable equity or debt securities. The private 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 relies on various factors to estimate the fair value of these investments.

Management believes its processes and procedures for valuing investments are effective and that its estimate of value is reasonable. However, the factors used by management are 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 consolidated financial statements.

**Note 6—Property and equipment, net**

The following is a summary of property and equipment as of December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 3,732,800	\$ 3,732,800
Building and improvements	14,356,659	14,356,659
Furniture and fixtures	3,690,208	3,616,999
Artwork	4,918,979	4,877,879
Construction-in-progress	<u>19,238,352</u>	<u>12,130,998</u>
	45,936,998	38,715,335
Less accumulated depreciation	<u>(6,839,069)</u>	<u>(6,413,321)</u>
	<u>\$ 39,097,929</u>	<u>32,302,014</u>

In June 2013, the Foundation purchased the Carolina Theatre property and entered into a contract to renovate and restore the property. Under the terms of the agreement, renovations must start by December 31, 2018 and be substantially complete by December 31, 2023. The renovation costs will be substantially funded by contributions which totaled approximately \$47.6 million and \$46.7 million as of December 31, 2020 and 2019, respectively.

**FOUNDATION FOR THE CAROLINAS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 7—Notes receivable**

The Foundation holds various promissory notes receivable as of December 31:

	<u>2020</u>	<u>2019</u>
No interest, with principal balance due on demand at sole discretion of Foundation	\$ 100,000	\$ 200,000
2.00% interest payable annually, with principal balance due in November 2024	250,000	250,000
No interest, with principal balance due in June 2020	250,000	250,000
4.00% interest payable annually, with principal balance due in June 2021	361,000	361,000
0.89% interest payable annually, with principal balance due in November 2021	106,593	106,593
1.72% interest payable annually, with principal balance due in December 2023	410,551	410,551
2.74% interest payable annually, with principal balance due in December 2024	522,121	643,388
2.74% interest payable annually, with principal balance due in December 2024	1,249,742	1,360,034
4.75% interest payable annually, with principal balance due in February 2028	2,500,000	-
1.50% interest payable annually, with principal balance due in November 2028	5,000,000	-
	<u>\$ 10,750,007</u>	<u>\$ 3,581,566</u>

**Note 8—Grants payable**

The following summarizes grants approved and paid and those committed for future payments:

	<u>2020</u>	<u>2019</u>
Grants payable, beginning of year	\$ 61,632,616	\$ 64,470,166
Unconditional grants expensed	428,729,693	305,279,996
Payments made	(420,013,157)	(308,117,546)
Grants payable, end of year	<u>\$ 70,349,152</u>	<u>\$ 61,632,616</u>

Grants are approved and made by the board in accordance with the Foundation's bylaws. Grants and distributions are recorded in the accompanying consolidated financial statements when approved and all conditions have been met. All grants are payable within one year of being approved.

**FOUNDATION FOR THE CAROLINAS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 9—Net assets released from restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Purpose or other restriction accomplished	\$ 141,542,891	\$ 50,534,183
Time restriction expired	8,534,151	5,842,468
Release of appropriated endowment amounts	<u>9,812,302</u>	<u>10,130,555</u>
	<u>\$ 159,889,344</u>	<u>\$ 66,507,206</u>

**Note 10—Fair value measurements of asset and liabilities**

Fair value is defined as the price the Foundation 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 Foundation'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. Money market funds are valued using \$1 for the unit value using the market approach. Fixed income securities are valued on the basis of valuations provided by pricing services, which determines valuations using methods based upon market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. If market quotations are not readily available for valuations, assets may be valued by a method the trustee of the fund believes accurately reflects fair value.

*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 inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

**FOUNDATION FOR THE CAROLINAS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 10—Fair value measurements of asset and liabilities (continued)**

The following table summarizes the valuation of the Foundation's financial assets and liabilities measured at fair value as of December 31, 2020 based on the level of input utilized to measure fair value:

Description	Fair Value Measurements at December 31, 2020			
	Total	Level 1	Level 2	Level 3
<i>Measurement at fair value on a recurring basis:</i>				
Investments:				
Money market funds	\$ 265,225,151	\$ 265,225,151	\$ -	\$ -
Equity and marketable securities:				
U.S. large-cap	822,899,461	822,899,461	-	-
U.S. mid-cap	32,979,458	32,979,458	-	-
U.S. small-cap	17,421,966	17,421,966	-	-
International developed	24,776,830	24,776,830	-	-
Emerging markets	28,922,289	28,922,289	-	-
Diversifying assets	1,449,086	1,449,086	-	-
Real asset funds	28,669,051	28,669,051	-	-
Closely-held securities	29,944,658	-	29,944,658	-
Bonds and fixed income securities:				
Government and agency	9,406,601	624,903	55,134,155	-
Mortgage backed securities	2,152,520	-	8,585,504	-
Corporate obligations	10,538,783	-	3,934,240	-
Mutual funds	161,571,110	161,571,110	-	-
	1,435,956,964	1,384,539,305	97,598,557	-
Hedge funds (*)	182,915,732	-	-	-
Other private investment funds (*)	1,161,892,353	-	-	-
Total investments	<u>\$ 2,780,765,049</u>	<u>\$ 1,384,539,305</u>	<u>\$ 97,598,557</u>	<u>\$ -</u>
Contributions receivable, net	<u>\$ 26,437,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,437,052</u>
Contributed securities held for sale	<u>\$ 137,817,554</u>	<u>\$ 137,817,554</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interest in trust	<u>\$ 1,752,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,752,857</u>
Annuity obligations	<u>\$ 9,675,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,675,479</u>
<i>Measurement at fair value on a nonrecurring basis:</i>				
Other investments:				
Real estate	\$ 2,037,000	\$ -	\$ -	\$ 2,037,000
Partnerships	33,352,550	-	-	33,352,550
Total other investments	<u>\$ 35,389,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,389,550</u>

(\*) In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

**FOUNDATION FOR THE CAROLINAS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 10—Fair value measurements of asset and liabilities (continued)**

The following table summarizes the valuation of the Foundation's financial assets and liabilities measured at fair value as of December 31, 2019 based on the level of input utilized to measure fair value:

Description	Fair Value Measurements at December 31, 2019			
	Total	Level 1	Level 2	Level 3
<i>Measurement at fair value on a recurring basis:</i>				
Investments:				
Money market funds	\$ 135,028,204	\$ 135,028,204	\$ -	\$ -
Equity and marketable securities:				
U.S. large-cap	948,302,408	948,302,408	-	-
U.S. mid-cap	31,240,487	31,240,487	-	-
U.S. small-cap	14,277,754	14,277,754	-	-
International developed	26,416,981	26,416,981	-	-
Emerging markets	25,761,422	25,761,422	-	-
Diversifying assets	1,408,774	1,408,774	-	-
Real asset funds	34,253,954	34,253,954	-	-
Closely-held securities	20,264,234	-	20,264,234	-
Bonds and fixed income securities:				
Government and agency	52,707,103	1,065,237	51,641,866	-
Mortgage backed securities	15,333,306	3,584,836	11,748,470	-
Corporate obligations	36,713,870	12,617,877	24,095,993	-
Mutual funds	70,885,263	70,885,263	-	-
	1,412,593,760	1,304,843,197	107,750,563	-
Hedge funds (*)	150,928,217	-	-	-
Other private investment funds (*)	949,478,054	-	-	-
Total investments	<u>\$ 2,513,000,031</u>	<u>\$ 1,304,843,197</u>	<u>\$ 107,750,563</u>	<u>\$ -</u>
Contributions receivable, net	\$ 31,724,067	\$ -	\$ -	\$ 31,724,067
Contributed securities held for sale	\$ 12,806,107	\$ 12,806,107	\$ -	\$ -
Beneficial interest in trust	\$ 728,100	\$ -	\$ -	\$ 728,100
Annuity obligations	\$ 9,368,191	\$ -	\$ -	\$ 9,368,191
<b>Description</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<i>Measurement at fair value on a nonrecurring basis:</i>				
Other investments:				
Real estate	\$ 2,037,000	\$ -	\$ -	\$ 2,037,000
Partnerships	34,888,876	-	-	34,888,876
Total other investments	<u>\$ 36,925,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,925,876</u>

(\*) In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

**FOUNDATION FOR THE CAROLINAS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 10—Fair value measurements of asset and liabilities (continued)**

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, the following tables provide a reconciliation of beginning and ending balances for the years ended December 31, 2020 and 2019, respectively:

<b>Fair Value Measurements at December 31, 2020</b>	<b>Beneficial Interest in Trust</b>	<b>Contributions Receivable</b>	<b>Annuity Obligations</b>
Beginning balance	\$ 728,100	\$ 31,724,067	\$ 9,368,191
Investment return, net	1,024,757	-	2,356,051
Expenses	-	-	(138,500)
Contributions	-	5,120,000	-
Payments on promises to give	-	(10,946,872)	-
Payments to beneficiaries	-	-	(962,778)
Actuarial adjustments	-	-	(947,485)
Allowance and net present value adjustments	-	539,857	-
Ending balance	<u>\$ 1,752,857</u>	<u>\$ 26,437,052</u>	<u>\$ 9,675,479</u>
<b>Fair Value Measurements at December 31, 2019</b>			
Beginning balance	\$ 695,801	\$ 52,516,230	\$ 9,903,643
Investment return, net	32,299	-	2,787,515
Expenses	-	-	(160,262)
Contributions	-	-	-
Payments on promises to give	-	9,214,500	-
Payments to beneficiaries	-	(31,005,869)	-
Actuarial adjustments	-	-	(2,496,158)
Allowance and net present value adjustments	-	999,206	(666,547)
Ending balance	<u>\$ 728,100</u>	<u>\$ 31,724,067</u>	<u>\$ 9,368,191</u>

For assets and liabilities measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3) during the period, the following table provides a reconciliation of beginning and ending balances for the years ended December 31, 2020 and 2019, respectively:

	<b>Real Estate</b>	<b>Partnerships</b>
Year Ended December 31, 2020:		
Beginning of year	\$ 2,037,000	\$ 34,888,876
Contributions	-	10,184,871
Valuation adjustments	-	(4,102,263)
Sales of investments	-	(7,618,934)
End of year	<u>\$ 2,037,000</u>	<u>\$ 33,352,550</u>
Year Ended December 31, 2019:		
Beginning of year	\$ 1,158,950	\$ 32,764,583
Contributions	1,350,000	2,465,861
Sales of investments	(471,950)	(341,568)
End of year	<u>\$ 2,037,000</u>	<u>\$ 34,888,876</u>

**FOUNDATION FOR THE CAROLINAS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 10—Fair value measurements of asset and liabilities (continued)**

For entities that calculate the net asset value per share (or its equivalent), the following table provides information about the probability of investments being sold at amounts different from the net asset value per share for the year ended December 31, 2020:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Asset allocator <sup>(a)</sup>	\$ 1,120,253,565	\$ -	daily, annually	daily - 180 days
Multi-strategy hedge funds <sup>(b)</sup>	126,749,278	-	quarterly	30-65 days
Equity long/short hedge funds <sup>(c)</sup>	53,042,202	-	qtrly, annually	30-90 days
Credit long/short hedge funds <sup>(d)</sup>	3,124,252	-	annually	100 days
Private equity <sup>(e)</sup>	31,286,247	18,385,847	none	none
Real estate funds <sup>(f)</sup>	10,069,824	8,255,745	none	none
Energy/natural resources <sup>(g)</sup>	282,717	8,865,000	none	none
	<u>\$ 1,344,808,085</u>	<u>\$ 35,506,592</u>		

<sup>(a)</sup> This category manages funds structured as private investment partnerships. Funds are invested with a long-term time horizon, utilizing allocations to global equity, fixed income, commodities, long/short equity hedge funds, credit/special situations, absolute return hedge funds, and hedged/opportunistic funds. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

<sup>(b)</sup> This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. Funds incorporate a multi-strategy approach within the credit space, as well as utilizing convertible arbitrage, risk arbitrage, equity long/short (fundamental and quantitative), distressed debt, pairs trading, private placements, global macro, commodities, real estate, reinsurance, and capital structure arbitrage. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

<sup>(c)</sup> This category includes investments in hedge funds that invest both long and short, with a substantial bias toward long-equity exposure, utilizing domestic, global, European, and Asian-focused strategies. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

<sup>(d)</sup> This category includes investment in credit strategies, both long and short across the global markets, and that occur across the quality spectrum with a focus on below investment-grade and distressed credit. This category will invest across primarily liquid investments, but will take advantage of less liquid situations when presented with an appropriate return and risk tradeoff. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

<sup>(e)</sup> This category includes funds that invest in venture capital, buyout, and emerging market funds. Funds invested in this category are very long-term in nature, and are considered illiquid until distributions are achieved, with limited secondary market for interests. Additionally, this category includes funds managed by tenured distressed managers, representing the full spectrum of distressed investment approaches, including short-term and medium-term trading strategies.

<sup>(f)</sup> This category includes several real estate funds that invest across strategies such as debt origination, secondary debt, or securities mispriced relative to underlying real estate values, income oriented equity, and value-added equity, as well as office properties in major metropolitan areas of the United States. Distributions from the funds will be received as the underlying investments of the funds are liquidated. The category also includes funds that invest primarily in oil and natural gas exploration and production companies; however, the funds may also invest in companies servicing these businesses, such as energy infrastructure companies.

<sup>(g)</sup> This category invests in various types of private debt instruments, defined in part as direct lending to non-public businesses and private equity firms, distressed credit trading and restructuring, mezzanine financing, and special situations. The strategy invests globally, with diversification across investment deals and companies of varying sizes and credit quality, as well as varying seniority in the capital structure. This strategy is considered generally illiquid until distributions are achieved, with a limited secondary market for interests.



# FOUNDATION FOR THE CAROLINAS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### **Note 11—Retirement plans**

The Foundation provides an age-graded 403(b) plan that covers all eligible employees, as defined. The Foundation makes contributions on behalf of each employee based on age. The Foundation also provides a supplemental 403(b) plan that covers all employees and employees may make elective deferrals out of salary. The Foundation also maintains a non-qualified 457(b) plan for employees who are unable to maximize employer contributions to the qualified 403(b) plan due to annual contribution limits under Section 415.

Foundation contributions to these plans were \$1,365,465 and \$1,074,042 during 2020 and 2019, respectively.

### **Note 12—Endowment assets**

The Foundation's endowment consists of approximately 800 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law* – The Board of Directors of the Foundation 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 this interpretation, the Foundation retains in perpetuity (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. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation 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 the institution and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and appreciation of investments
- Other resources of the institution
- The investment policies of the institution

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**Note 12—Endowment assets (continued)**

Endowment net assets consist of the following:

<b>December 31, 2020</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board-designated endowment funds	\$ 46,424,969	\$ -	\$ 46,424,969
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	225,596,286	225,596,286
Accumulated investment gains	-	62,315,920	62,315,920
	<u>\$ 46,424,969</u>	<u>\$ 287,912,206</u>	<u>\$ 334,337,175</u>
<b>December 31, 2019</b>			
Board-designated endowment funds	\$ 44,011,076	\$ -	\$ 44,011,076
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	220,736,159	220,736,159
Accumulated investment gains	-	44,276,045	44,276,045
	<u>\$ 44,011,076</u>	<u>\$ 265,012,204</u>	<u>\$ 309,023,280</u>

Changes in endowment net assets are as follows:

<b>Year Ended December 31, 2020</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Beginning endowment net assets	\$ 44,011,076	\$ 265,012,204	\$ 309,023,280
Investment return, net	4,813,386	29,225,051	34,038,437
Contributions	-	3,487,253	3,487,253
Appropriation of endowment assets for expenditure	-	(7,403,921)	(7,403,921)
Other changes:			
Administrative fees and expenses	(415,027)	(2,408,381)	(2,823,408)
Distributions per spending policy	(1,984,466)	-	(1,984,466)
Ending endowment net assets	<u>\$ 46,424,969</u>	<u>\$ 287,912,206</u>	<u>\$ 334,337,175</u>
<b>Year Ended December 31, 2019</b>			
Beginning endowment net assets	\$ 43,092,368	\$ 226,884,329	\$ 269,976,697
Investment return, net	3,195,572	36,141,988	39,337,560
Contributions	-	12,116,441	12,116,441
Appropriation of endowment assets for expenditure	-	(7,417,617)	(7,417,617)
Other changes:			
Administrative fees and expenses	(426,216)	(2,712,937)	(3,139,153)
Distributions per spending policy	(1,850,648)	-	(1,850,648)
Ending endowment net assets	<u>\$ 44,011,076</u>	<u>\$ 265,012,204</u>	<u>\$ 309,023,280</u>

**FOUNDATION FOR THE CAROLINAS**  
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**Note 12—Endowment assets (continued)**

*Funds with Deficiencies* – From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (“underwater endowments”). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

At December 31, 2020 and 2019, funds with deficiencies of \$1,810,124 and \$2,314,427, respectively, were reported in net assets with donor restrictions.

	<u>2020</u>	<u>2019</u>
Fair value of underwater endowment funds	\$ 14,939,396	\$ 17,113,113
Original endowment gift amount	<u>16,749,520</u>	<u>19,427,540</u>
Deficiencies of underwater endowment funds	<u>\$ (1,810,124)</u>	<u>\$ (2,314,427)</u>

*Return Objectives and Risk Parameters* – The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a weighted benchmark composed of 16.5% of the S&P 500 Index, 5.0% of the Russell 2000 Index, 12.5% of the MSCE EAFE Index; 9.5% of the MSCE Emerging Markets Index; 11.5% of the Barclays U.S. Aggregate Bond Index; 4.0% of the ML 1-3Yr Govt/Corp Bond Index; 1.5% of the NCREIF Property Index; 11.0% HFRI Equity Hedge Index; 7.0% of the HFRI Fund-of-Funds Index; 2.5% of the Alerian MLP Index; 3.0% of the CPI + 8% Index; 1.5% of the DB Liquid Commodity Index, OY Div.; 3.0% of the DJ/CS HFI Multi-Strategy Index; 2.5% of the Thomson One All Private Equity Index; and 9.0% of the S&P 100 Index; while assuming a moderate level of investment risk.

The Foundation expects its endowment funds, over a full market cycle (five years), to provide an average annual real rate of return, net of fees, equal to or greater than spending, administrative fees, and inflation (Consumer Price Index + 6%). 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 Foundation 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 Foundation targets a diversified asset allocation that places emphasis on investment in global equities, global fixed income, real assets, and diversifying strategies in a 63-14-8-15 percent ratio to achieve its long-term objectives within prudent risk constraints.

*Spending Policy and How the Investment Objectives Relate to Spending Policy* – For the years ended December 31, 2020 and 2019, the Foundation and its supporting organizations’ policy for the endowment funds, including board-designated endowments, is to spend up to a maximum of 4.50% and 4.75%, respectively, of the average daily fair value over the prior three years through the calendar year preceding the fiscal year in which the distribution is planned.

In establishing these policies, the Foundation considered the expected return on its endowment. Accordingly, the Foundation expects the current spending policy to allow its 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*DECEMBER 31, 2020 AND 2019*

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**Note 13—Concentration of credit risk and other concentrations**

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

A substantial amount of the Foundation's support is generated through contributions and pledges from other organizations or individuals, primarily in Charlotte, North Carolina, and the surrounding area. Changes in economic conditions can directly affect a donor's ability and willingness to make future contributions to the Foundation. Also the limited geographic area in which the Foundation's contributors reside, increases the Foundation's exposure to certain business concentrations. Approximately 42% and 51% of outstanding pledges receivable as of December 31, 2020 and 2019, respectively, are from four donors.

**Note 14—Commitments**

The Foundation has entered into a construction contract related to the renovation of the Carolina Theatre property. The estimated construction costs of the project are approximately \$45,704,000 of which \$24,325,000 has been paid as of December 31, 2020.

**Note 15—Subsequent events**

The Foundation has evaluated subsequent events through July 16, 2021, in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.