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CHARLOTTE BALLET

Financial Statements for the
Years Ended June 30, 2022 and 2021
and Independent Auditors' Report



GreerWalker



GreerWalker

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Charlotte Ballet:

Opinion

We have audited the financial statements of Charlotte Ballet (the "Ballet"), which comprise the statements of financial position as of June 30, 2022 and 2021, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Ballet as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America ("GAAP").

Basis for Opinion

We conducted our audits in accordance with generally accepted auditing standards in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Ballet and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP; 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Ballet's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Ballet's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Ballet's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Certified Public Accountants
March 28, 2023
Charlotte, North Carolina

CHARLOTTE BALLET

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2022 AND 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,220,547	\$ 923,140
Unconditional promises to give, net	610,660	341,759
Other receivables	930,586	916,349
Prepaid expenses	132,863	120,797
Total current assets	<u>2,894,656</u>	<u>2,302,045</u>
PROPERTY, NET	<u>10,558,927</u>	<u>10,961,614</u>
OTHER ASSETS:		
Unconditional promises to give, net	235,741	-
Beneficial interests in endowments	6,085,685	6,971,949
Total other assets	<u>6,321,426</u>	<u>6,971,949</u>
TOTAL	<u>\$ 19,775,009</u>	<u>\$ 20,235,608</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 280,346	\$ 302,130
Deferred revenue	667,519	478,066
Total current liabilities	<u>947,865</u>	<u>780,196</u>
PAYCHECK PROTECTION PROGRAM NOTE PAYABLE	<u>-</u>	<u>615,797</u>
NET ASSETS:		
Without donor restrictions	11,829,474	11,540,666
With donor restrictions	6,997,670	7,298,949
Total net assets	<u>18,827,144</u>	<u>18,839,615</u>
TOTAL	<u>\$ 19,775,009</u>	<u>\$ 20,235,608</u>

See notes to financial statements.

CHARLOTTE BALLET

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	Year Ended June 30, 2022			Year Ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT AND RECLASSIFICATIONS:						
Contributions	\$ 638,405	\$ 1,039,874	\$ 1,678,279	\$ 732,468	\$ 80,246	\$ 812,714
Grants and tax credits:						
Employee Retention Tax Credit income	-	-	-	826,758	-	826,758
Paycheck Protection Program loan forgiveness income	620,555	-	620,555	620,302	-	620,302
Shuttered Venue Operators Grant income	-	1,121,878	1,121,878	-	-	-
State and local grants	83,000	-	83,000	83,000	500,000	583,000
Arts and Science Council grants	15,000	24,750	39,750	444,943	-	444,943
Other grants	957,473	-	957,473	129,250	151,029	280,279
Ticket and subscription sales	1,980,879	-	1,980,879	52,733	-	52,733
Touring fees	12,500	-	12,500	-	-	-
Charlotte Ballet Academy	1,412,898	-	1,412,898	692,214	-	692,214
Education and community engagement income	32,183	-	32,183	62,875	-	62,875
Contributed materials and services	-	-	-	75,000	-	75,000
Change in beneficial interests in endowments, net	223,267	(886,264)	(662,997)	208,692	1,301,743	1,510,435
Special events (net of related expenses of \$748,111 and \$0 as of June 30, 2022 and 2021, respectively)	528,735	-	528,735	18,099	-	18,099
Miscellaneous	25,480	-	25,480	59,830	-	59,830
Reclassifications:						
Contributions released from time restrictions	180,843	(180,843)	-	-	-	-
Contributions released from purpose restrictions	1,420,674	(1,420,674)	-	791,575	(791,575)	-
Total revenue, support and reclassifications	<u>8,131,892</u>	<u>(301,279)</u>	<u>7,830,613</u>	<u>4,797,739</u>	<u>1,241,443</u>	<u>6,039,182</u>
EXPENSES:						
Program services:						
Artistic	4,284,283	-	4,284,283	1,634,726	-	1,634,726
Academy, education and community engagement	1,788,943	-	1,788,943	1,302,864	-	1,302,864
Supporting services:						
Administrative	858,859	-	858,859	626,005	-	626,005
Fundraising	471,274	-	471,274	304,048	-	304,048
Depreciation	439,725	-	439,725	452,470	-	452,470
Total expenses	<u>7,843,084</u>	<u>-</u>	<u>7,843,084</u>	<u>4,320,113</u>	<u>-</u>	<u>4,320,113</u>
CHANGE IN NET ASSETS	288,808	(301,279)	(12,471)	477,626	1,241,443	1,719,069
NET ASSETS, BEGINNING OF YEAR	<u>11,540,666</u>	<u>7,298,949</u>	<u>18,839,615</u>	<u>11,063,040</u>	<u>6,057,506</u>	<u>17,120,546</u>
NET ASSETS, END OF YEAR	<u>\$ 11,829,474</u>	<u>\$ 6,997,670</u>	<u>\$ 18,827,144</u>	<u>\$ 11,540,666</u>	<u>\$ 7,298,949</u>	<u>\$ 18,839,615</u>

See notes to financial statements.

CHARLOTTE BALLET

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2022

	Program Services			Supporting Services			Total
	Artistic	Academy	Education & Community Engagement	Administrative	Fundraising	Depreciation	
Salaries and wages	\$ 1,691,246	\$ 944,818	\$ 222,552	\$ 528,343	\$ 328,200	\$ -	\$ 3,715,159
Payroll taxes	215,800	98,622	21,605	28,598	35,377	-	400,002
Employee benefits	120,724	30,922	7,840	38,695	15,172	-	213,353
Production fees and royalties	1,230,933	75,594	158	278	-	-	1,306,963
Advertising and marketing	478,784	49,641	11,090	1,712	45,554	-	586,781
Dues and subscriptions	474	88	507	31,989	1,365	-	34,423
Depreciation	-	-	-	-	-	439,725	439,725
Rent, utilities, and maintenance	399,304	97,714	3,686	16,408	3,686	-	520,798
Academy and community engagement	-	93,738	6,470	-	-	-	100,208
Professional services	20,066	6,727	152	97,015	5,635	-	129,595
Travel and conferences	46,757	8,758	6,527	22,862	741	-	85,645
Technology expenses	24,340	53,833	4,828	19,312	12,070	-	114,383
Bank and credit card processing fees	4,454	25,154	247	10,364	5,484	-	45,703
Office expenses	9,626	3,810	953	5,481	2,498	-	22,368
Insurance	33,821	8,389	385	1,540	385	-	44,520
Retirement plan contributions	7,715	2,945	865	2,370	2,041	-	15,936
Interest expense	-	-	-	4,758	-	-	4,758
Bad debt expense	-	-	325	-	13,066	-	13,391
Miscellaneous expenses	239	-	-	49,134	-	-	49,373
Total expenses	\$ 4,284,283	\$ 1,500,753	\$ 288,190	\$ 858,859	\$ 471,274	\$ 439,725	\$ 7,843,084

See notes to financial statements.

CHARLOTTE BALLET

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2021

	Program Services			Supporting Services			Total
	Artistic	Academy	Education & Community Engagement	Administrative	Fundraising	Depreciation	
Salaries and wages	\$ 844,734	\$ 766,578	\$ 183,429	\$ 381,756	\$ 191,944	\$ -	\$ 2,368,441
Payroll taxes	136,563	82,701	18,184	10,112	20,356	-	267,916
Employee benefits	115,260	42,269	7,195	33,148	12,659	-	210,531
Production fees and royalties	104,422	23,319	-	4,234	-	-	131,975
Advertising and marketing	74,661	29,809	7,123	1,270	52,002	-	164,865
Dues and subscriptions	-	-	4,220	3,789	200	-	8,209
Depreciation	-	-	-	-	-	452,470	452,470
Rent, utilities, and maintenance	222,493	43,537	2,127	8,506	2,127	-	278,790
Academy and community engagement	-	6,039	4,540	-	-	-	10,579
Professional services	5,904	35	-	131,480	2,512	-	139,931
Travel and conferences	120	943	30	3,504	-	-	4,597
Technology expenses	23,397	39,374	4,373	13,119	5,466	-	85,729
In-kind expenses	75,000	-	-	-	-	-	75,000
Bank and credit card processing fees	97	22,970	55	11,589	9,300	-	44,011
Office expenses	5,729	3,274	1,091	3,697	1,364	-	15,155
Insurance	20,540	5,757	254	1,018	254	-	27,823
Retirement plan contributions	5,750	2,838	800	3,228	1,719	-	14,335
Interest expense	-	-	-	4,505	-	-	4,505
Bad debt expense	-	-	-	-	4,145	-	4,145
Miscellaneous expenses	56	-	-	11,050	-	-	11,106
Total expenses	\$ 1,634,726	\$ 1,069,443	\$ 233,421	\$ 626,005	\$ 304,048	\$ 452,470	\$ 4,320,113

See notes to financial statements.

CHARLOTTE BALLET

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (12,471)	\$ 1,719,069
Adjustments to reconcile change in net assets to net cash applied to operating activities:		
Change in beneficial interests in endowments	886,264	(1,301,743)
Depreciation	439,725	452,470
Interest accrued on Paycheck Protection Program loan	4,758	4,505
Paycheck Protection Program loan forgiveness income	(620,555)	(620,302)
Changes in operating assets and liabilities:		
Unconditional promises to give	(504,642)	(16,509)
Other receivables	(14,237)	(759,737)
Prepaid expenses	(12,066)	(50,620)
Accounts payable and accrued expenses	(21,784)	(26,817)
Deferred revenue	189,453	318,270
Net cash provided by (applied to) operating activities	<u>334,445</u>	<u>(281,414)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of and improvements to property	(37,038)	(2,792)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Paycheck Protection Program note payable	<u>-</u>	<u>615,797</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	297,407	331,591
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>923,140</u>	<u>591,549</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,220,547</u>	<u>\$ 923,140</u>

See notes to financial statements.

CHARLOTTE BALLET

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Operations - Charlotte Ballet (the "Ballet") is a nonprofit organization, incorporated in North Carolina, whose mission is to provide artistically excellent programming to diverse audiences in its home city of Charlotte, the Southeast region, and to the varied communities it serves while on tour across the nation. The Ballet has received critical recognition nationally for excellence in programming, education, community engagement, and dance training.

Financial Statement Presentation - The Ballet reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions - Net assets that are not restricted by donors or for which donor-imposed restrictions have expired.

Net assets with donor restrictions - Net assets that contain donor-imposed time or purpose restrictions that have not currently been met and restrictions stipulating that the amounts be maintained by the Ballet in perpetuity. For net assets held in perpetuity, the Ballet may expend part or all of the income earned according to donor stipulations.

Use of Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

Cash and Cash Equivalents - The Ballet considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Ballet maintains cash deposits with financial institutions that at times may exceed federally insured limits.

Unconditional Promises to Give - Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their net realizable value. The discounts on those amounts are computed using a discount rate applicable to the year in which the promise is received. Subsequent amortization of the discount is included in contribution revenue.

Investments - Investments are recorded at fair value with realized and unrealized gains and losses included in the statements of activities.

Property - Property is recorded at cost, if purchased, or at an estimated fair value on the date of receipt, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Donated property is reported as support without donor restrictions unless the donor restricts the donated asset to a specific purpose. (See Note 4.) The Ballet has determined that items purchased with a value exceeding \$2,500, and a lifetime of more than 1 year, are to be treated as capitalized assets.

Donated Services and Materials - A number of volunteers, including members of the Board of Directors and its committees as well as various volunteer assistants, contribute significant amounts of time to the Ballet. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected as support in the accompanying financial statements. Donated services that do meet the criteria for recognition, along with donated materials, are recorded at the estimated fair value as revenue and expense. (See Note 10.)

Revenue Recognition

Earned Revenues

The Ballet recognizes earned revenues at amounts that reflect the consideration the Ballet expects to receive in exchange for its programming and educational services. Revenues from ticket sales for programming are recognized on the date of the performance at the ticket price or, in the case of ticket subscriptions, at the amount of the subscription price allocated to that performance. Tuition for the Charlotte Ballet Academy is due at published rates in advance of each academic period and is recognized ratably over the course of an academic period. Revenues for other educational and training services are recognized as those services are provided.

Receivables for earned revenues included in the accompanying statements of financial position as other receivables were \$414,512, \$163,784, and \$156,612 at June 30, 2022, 2021 and 2020, respectively.

Contributions and Pledges

The Ballet recognizes contributions that are given unconditionally in the period the contributions are received or promised, whichever is earlier. Promises to give are recorded net of estimated uncollectible amounts. Conditional promises to give and sponsorship agreements are not included as support until such time as the conditions or requirements are substantially met. (See Note 3.)

Contributions containing donor-imposed restrictions are reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a time or purpose restriction is satisfied, net asset with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the period in which the support is recognized.

Other Revenues

During the year ended June 30, 2021, the Ballet determined that it met the requirements to apply for Employer Retention Tax Credits ("ERTC") under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which was enacted to provide financial relief to certain businesses impacted by the coronavirus pandemic ("COVID-19"). The Ballet recognized ERTC income of \$826,758 in the accompanying statement of activities for the year ended June 30, 2021 once it determined its eligibility to participate in the program, calculated its credit, and filed the required forms. At June 30, 2022 and 2021, ERTC refunds of \$516,074 and \$752,565, respectively, were outstanding and included with other receivables in the accompanying statements of financial position.

In July 2021, the Ballet received payment of \$1,121,878 for its Shuttered Venue Operators Grant ("SVOG") award under the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act ("Economic Aid Act"). The Small Business Administration oversees this program, which requires funds to be spent under certain parameters on or before December 31, 2021. The Ballet determined that all funds were spent on qualifying expenses before December 31, 2021 and, accordingly, recognized the full amount as grant and tax credit income in the accompanying statement of activities for the year ended June 30, 2022.

Loan forgiveness income is recognized at the amount forgiven on the date of forgiveness. (See Note 8.)

Deferred Revenue

Deferred revenue represents prepayments for tickets and sponsorships to shows that have not been performed and tuition for summer and fall classes. Deferred revenue included in the accompanying statements of financial position was \$667,519, \$478,066, and \$159,796 at June 30, 2022, 2021 and 2020, respectively.

Advertising - The Ballet's policy is to expense the cost of advertising as it is incurred. Advertising expense totaled approximately \$414,000 and \$22,000 for the years ended June 30, 2022 and 2021, respectively.

Income Taxes - The Ballet is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for income taxes has been made in the accompanying financial statements.

The Ballet records liabilities for income tax positions taken or expected to be taken when those positions are deemed uncertain to be upheld in an examination by taxing authorities. No liabilities for uncertain income tax positions were recorded as of June 30, 2022 and 2021.

Functional Expense Classification - The Ballet's functional expense classification and allocation policy is based on a review of the current organizational structure, and the identification, reclassification and allocation of certain employee, facility, and departmental expenses, which serve multiple functional areas.

Subsequent Events - In preparing its financial statements, the Ballet has evaluated subsequent events through March 28, 2023, which is the date the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year of June 30, 2022 are as follows:

Financial assets at year-end:	
Cash and cash equivalents	\$ 1,220,547
Unconditional promises to give, net	846,401
Other receivables	930,586
Beneficial interests in endowments	<u>6,085,685</u>
Total financial assets	<u>9,083,219</u>

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

Restricted by donors with time restrictions greater than one year	637,387
Restricted by donors with purpose restrictions	1,930,081
Portion of donor-restricted endowment to be retained in perpetuity	<u>4,180,459</u>
Financial assets not available to be used within one year	<u>6,747,927</u>

Financial assets available to meet general expenditures within one year \$ 2,335,292

As part of the Ballet's liquidity management, it invests excess cash in short-term investments, such as money market funds, which can be drawn upon for current expenditures. In addition, the Ballet has access to available liquidity of \$500,000 under a line of credit until it expires in March 2024. (See Note 7.)

3. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give as of June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Promises to give due in less than one year	\$ 613,085	\$ 344,184
Promises to give due in one to five years	<u>235,741</u>	<u>-</u>
Total promises to give	848,826	344,184
Less allowance for uncollectible promises to give	<u>2,425</u>	<u>2,425</u>
Promises to give, net	846,401	341,759
Current portion, net	<u>610,660</u>	<u>341,759</u>
Long-term portion, net	<u>\$ 235,741</u>	<u>\$ -</u>

As of June 30, 2022 and 2021, approximately \$279,000 and \$53,000, respectively, of unconditional promises to give are due from members of the Ballet's Board of Directors. Total contributions from the Board of Directors were approximately \$999,000 and \$228,000 for the years ended June 30, 2022 and 2021, respectively.

4. PROPERTY

Property as of June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Sets, props, and costumes	\$ 2,696,914	\$ 2,696,914
Furniture, fixtures, and equipment	1,012,382	975,344
Building	7,952,437	7,952,437
Land	<u>4,380,250</u>	<u>4,380,250</u>
Total	16,041,983	16,004,945
Less accumulated depreciation	<u>(5,483,056)</u>	<u>(5,043,331)</u>
Property, net	<u>\$ 10,558,927</u>	<u>\$ 10,961,614</u>

Continued ownership of the land and building is conditional on use for not-for-profit purposes.

5. BENEFICIAL INTERESTS IN ENDOWMENTS

Beneficial interests in endowments are valued at the fair value of the underlying assets. Changes in the fair value of the endowed assets are reflected in revenue with donor restrictions in accordance with donor stipulations. Reclassifications into net assets without donor restrictions are made as distributable income is released from restriction.

As a result of a community wide cultural fund drive, various donors designated the Ballet as the beneficiary of gifts to a cultural endowment established by the Charlotte Mecklenburg Arts and Science Council (the "ASC"). The ASC has contracted with The Greater Charlotte Cultural Trust (the "Cultural Trust"), an unrelated organization, to manage the endowment. Under the terms of the endowment, the endowed principal is restricted in perpetuity. The Ballet annually receives 5% of the average daily market value of the endowment for the prior twelve quarters, but only so long as the Ballet continues to operate. There are no restrictions on the usage of income or appreciation.

The Joan H. Hanes Fund Endowment was established for the benefit of the Ballet by Mrs. Hanes upon her death and is being administered by the Winston-Salem Foundation. Under the terms of the endowment, the endowed principal is restricted in perpetuity. The Ballet annually receives 4% of the average daily market value of the endowment for the prior twelve quarters. There are no restrictions on the usage of income or appreciation.

The Donald H. and Barbara K. Bernstein NCDT Continuity Fund Endowment (Bernstein Endowment) is managed by the Foundation for the Charlotte Jewish Community. Under the terms of the endowment, the endowed principal is restricted in perpetuity. The Ballet annually receives 5% of the average daily market value of the endowment for the prior twelve quarters. This endowment was established to support and offset the operations and long-term needs of facilities. Distributions are restricted for this purpose.

In connection with the construction of new administrative offices, dance studios, and theatre (the "Facility"), the Ballet established Building Funds, each managed by the Cultural Trust with the purpose of funding the operations and maintenance of and capital expenditures related to the Facility. The principal amount of the endowment fund is invested in perpetuity and related income and appreciation is restricted for use on the Facility. There is no restriction on the amount of income or appreciation that may be distributed for the intended purpose.

The Knight Foundation established an endowment which is managed by the Miami Foundation for the benefit of the Ballet. While the endowed principal is invested in perpetuity, each year the Knight Foundation will instruct the Miami Foundation to make grants, net of all its administrative costs, that equal no less than 5% of the total value of the fund, subject to cumulative income limitations. Funds will support increased audience engagement through the creation and acquisition of contemporary dance works.

The Bretscher Family Foundation established the Charlotte Ballet Pre-Professional Fund endowment for the benefit of the Ballet. The endowment is managed by the Cultural Trust. Under the terms of the endowment, the endowed principal is restricted in perpetuity. The Foundation's Board of Directors establishes the annual spendable amount which is available for distribution from the endowment each year. Currently, the spendable amount is 5% of the average daily market value of the endowment for the prior twelve quarters, subject to cumulative income limitations. Funds are restricted by the donor to support recruitment efforts by offering partial scholarships, recruitment expenses, and enabling the Academy to be more competitive with offers of non-tuition financial assistance.

The Charles William Lowrance Scholarship Fund was established to fund scholarships for male students of the Ballet's academy. The original gift is purpose-restricted; however, the Board of Directors established a quasi-endowment managed by Cultural Trust to preserve the corpus of the gift. The Ballet annually receives 5% of the average daily market value of the quasi-endowment for the prior twelve quarters. Distributions are designated for the support of male scholarships.

The Ballet transferred \$500,000 from the Cultural Trust to a financial institution to serve as collateral for the Ballet's line of credit agreement with that financial institution. This collateral requirement was removed in March 2023 as a result of a March 2023 amendment with the financial institution. (See Note 7.) The investment methodology of the transferred funds held by the financial institution mirrors that of the Cultural Trust, and it is the intent of the Ballet to return those funds to the Cultural Trust upon expiration of the related collateral requirements. As such, the Ballet continues to present these funds within its beneficial interests in endowed assets as seen on the "Cultural Trust - PNFP Fund" row in the table below.

The fair values of the beneficial interests in endowed assets as of June 30, 2022 are as follows:

	Time/ Purpose <u>Restrictions</u>	Restricted in <u>Perpetuity</u>	<u>Total</u>
Cultural Trust - ASC Fund	\$ 259,252	\$ 964,610	\$ 1,223,862
Joan H. Hanes Fund	142,393	150,000	292,393
Donald H. & Barbara K. Bernstein NCDT Continuity Fund	5,740	70,000	75,740
Cultural Trust - Building Fund	895,722	1,795,849	2,691,571
Cultural Trust - PNFP Fund	457,826	-	457,826
Knight Foundation Fund	106,008	1,000,000	1,106,008
Charlotte Ballet Pre-Professional Fund	23,540	200,000	223,540
Charles William Lowrance Scholarship Fund	<u>14,745</u>	<u>-</u>	<u>14,745</u>
Total	<u>\$ 1,905,226</u>	<u>\$ 4,180,459</u>	<u>\$ 6,085,685</u>

The fair values of the beneficial interests in endowed assets as of June 30, 2021 are as follows:

	Time/ Purpose <u>Restrictions</u>	Restricted in <u>Perpetuity</u>	<u>Total</u>
Cultural Trust - ASC Fund	\$ 445,566	\$ 964,610	\$ 1,410,176
Joan H. Hanes Fund	198,153	150,000	348,153
Donald H. & Barbara K. Bernstein NCDT Continuity Fund	18,931	70,000	88,931
Cultural Trust - Building Fund	1,281,093	1,795,849	3,076,942
Cultural Trust - PNFP Fund	501,669	-	501,669
Knight Foundation Fund	271,321	1,000,000	1,271,321
Charlotte Ballet Pre-Professional Fund	57,561	200,000	257,561

Charles William Lowrance Scholarship Fund	<u>17,196</u>	<u>-</u>	<u>17,196</u>
Total	<u>\$ 2,791,490</u>	<u>\$ 4,180,459</u>	<u>\$ 6,971,949</u>

The following represents the changes in the beneficial interests in endowment net assets for the years ended June 30, 2022 and 2021:

<u>Year Ended June 30, 2022</u>	<u>Time/ Purpose Restrictions</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 2,791,490</u>	<u>\$ 4,180,459</u>	<u>\$ 6,971,949</u>
Investment return:			
Distributions	(223,267)	-	(223,267)
Net depreciation	<u>(662,997)</u>	<u>-</u>	<u>(662,997)</u>
Endowment net assets, end of year	<u>\$ 1,905,226</u>	<u>\$ 4,180,459</u>	<u>\$ 6,085,685</u>
<u>Year Ended June 30, 2021</u>	<u>Time/ Purpose Restrictions</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 1,489,747</u>	<u>\$ 4,180,459</u>	<u>\$ 5,670,206</u>
Investment return:			
Contributions	17,196	-	17,196
Distributions	(225,888)	-	(225,888)
Net appreciation	<u>1,510,435</u>	<u>-</u>	<u>1,510,435</u>
Endowment net assets, end of year	<u>\$ 2,791,490</u>	<u>\$ 4,180,459</u>	<u>\$ 6,971,949</u>

6. INVESTMENTS

The Board of Directors of the Ballet has interpreted the Uniform Prudent Management of Institutional Funds Act (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 stipulations to the contrary. As a result of this interpretation, the Ballet classifies as net assets with donor restrictions (a) the original value of subsequent gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment held in perpetuity, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Ballet in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Ballet 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 Ballet 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 Ballet
- 7) The investment policy of the Ballet

The Ballet has beneficial interests in endowments that are reported at fair value in the accompanying statements of financial position. (See Note 5.)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The inputs used for valuing the Ballet's investments are summarized in the three broad levels listed below:

- Level 1 - quoted prices in active markets for identical assets
- Level 2 - other significant observable inputs either directly or indirectly (including quoted prices for similar securities, interest rates, yield curves, credit risk, etc.)
- Level 3 - significant unobservable inputs

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022 and 2021.

- Beneficial Interests in Endowments: Valued at the fair value of the underlying assets using unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Investment Pool Managers believe valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Ballet's assets at fair values as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interests in endowments (see Note 5)	\$ _____ -	\$ _____ -	\$ 6,085,685	\$ 6,085,685
Total assets at fair value	\$ _____ -	\$ _____ -	\$ 6,085,685	\$ 6,085,685

The following table sets forth by level, within the fair value hierarchy, the Ballet's assets at fair values as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interests in endowments (see Note 5)	\$ _____ -	\$ _____ -	\$ 6,971,949	\$ 6,971,949
Total assets at fair value	\$ _____ -	\$ _____ -	\$ 6,971,949	\$ 6,971,949

The following table sets forth a summary of changes in the fair value of the pooled assets for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 6,971,949	\$ 5,670,206
Net appreciation (depreciation)	(662,997)	1,510,435
Distributions	(223,267)	(225,888)
Contributions	_____ -	_____ 17,196
Balance, end of year	\$ 6,085,685	\$ 6,971,949

7. LINE OF CREDIT

Including the effects of a March 2023 amendment, the Ballet has a line of credit agreement with a financial institution that provides for maximum borrowings of \$500,000. Interest on outstanding advances is payable monthly and accrues at the greater of the bank's variable interest rate (4.75% as of June 30, 2022) plus .5% or the floor rate of 5%. The line of credit was secured by \$500,000 in marketable securities held by the financial institution through March 2023. This security requirement was removed effective March 2023. (See Note 5.) The line of credit is scheduled to expire in March 2024. The Ballet did not draw on the line of credit during the years ended June 30, 2022 and 2021.

8. PAYCHECK PROTECTION PROGRAM

Under Financial Accounting Standards Board Accounting Standards Codification 470, not-for-profit organizations are permitted to recognize Paycheck Protection Program ("PPP") loans as debt. In April 2020, the Ballet received a PPP loan of \$615,797 under the CARES Act. Per the terms of the agreement, if the Ballet utilizes the funds under certain parameters, it may apply for loan forgiveness up the entire amount owed plus any interest accrued on the loan. The Ballet applied for full forgiveness of the loan after it met the related requirements. The bank provided notification of forgiveness of the loan plus its accrued interest of \$4,505 on January 12, 2021. Accordingly, the Ballet recognized the forgiven \$620,302 as grant and tax credit income in the accompanying statement of activities for the year ended June 30, 2021.

On January 31, 2021, the Ballet received a second PPP loan for \$615,797 under the Economic Aid Act. The terms are similar to those previously outlined under the CARES Act. On November 9, 2021, the Ballet received notification of forgiveness of this second PPP loan plus its accrued interest of \$4,758. Accordingly, the Ballet recognized the forgiven \$620,555 as grant and tax credit income in the accompanying statement of activities for the year ended June 30, 2022.

9. NET ASSETS

Net assets with donor restrictions as of June 30, 2022 and 2021 include the following:

	<u>2022</u>	<u>2021</u>
Time restrictions:		
Beneficial interests in endowments	\$ 401,645	\$ 643,719
Unconditional promises to give	485,485	500
Purpose restrictions:		
Beneficial interests in endowments	1,503,581	2,147,771
Innovation Capital Fund	300,000	300,000
Unconditional promises to give	126,500	26,500
Restricted in perpetuity:		
Beneficial interests in endowments - principal	<u>4,180,459</u>	<u>4,180,459</u>
Total net assets with donor restrictions	<u>\$ 6,997,670</u>	<u>\$ 7,298,949</u>

Unrestricted net assets were reduced by \$439,725 and \$452,470 for the years ended June 30, 2022 and 2021, respectively, related to the depreciation of property.

10. DONATED SERVICES AND MATERIALS

The Ballet records the estimated fair value of contributed materials and services provided as revenue and expense. During the year ended June 30, 2022, the Ballet did not recognize any revenue for contributed services or materials. During the year ended June 30, 2021, the Ballet recognized \$75,000 as contributed revenue for health and consulting services, special event expenses, and marketing expenses.

11. LEASE COMMITMENTS

The Ballet rents warehouse space and office equipment from unrelated third parties under agreements classified as operating leases. Rent expense under these agreements totaled approximately \$123,000 and \$69,000 for the years ended June 30, 2022 and 2021, respectively.

Approximate future minimum lease payments under the operating leases as of June 30, 2022 are as follows:

Year ending June 30:		
2023		\$ 75,000
2024		46,000
2025		<u>2,000</u>
Total		<u>\$ 123,000</u>

12. RETIREMENT PLAN

The Ballet has a 403(b) retirement plan (the "Plan"), which covers all employees of the Ballet who normally work more than 20 hours per week and have been employed for at least 90 days. The Ballet made discretionary matching contributions to the Plan of \$15,936 and \$14,335 for the years ended June 30, 2022 and 2021, respectively.

13. SUBSEQUENT EVENT

In August 2022, the Ballet accepted a special warranty deed to real property with an appraised value of approximately \$3,700,000 under a donation agreement with an unrelated party. The Ballet accepted this property, which is adjacent to the Ballet's existing location, with the intent to expand its operations. In order to retain its rights to the property, the Ballet must comply with certain development requirements related to the property or make a payment equal to the appraised value of the property within a seven-year timeframe. If the Ballet opts not to execute either of these options, the Ballet relinquishes its rights to the property.
