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CHARLOTTE BALLET

Financial Statements for the
Years Ended June 30, 2021 and 2020
and Independent Auditors' Report



GreerWalker



GreerWalker

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Charlotte Ballet:

We have audited the accompanying financial statements of Charlotte Ballet (the "Ballet") which comprise the statements of financial position as of June 30, 2021 and 2020, and 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charlotte Ballet as of June 30, 2021 and 2020, 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.

GreerWalker LLP

Certified Public Accountants
January 24, 2022
Charlotte, NC

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CHARLOTTE BALLET

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2021 AND 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 923,140	\$ 591,549
Unconditional promises to give, net	341,759	325,250
Other receivables	916,349	156,612
Prepaid expenses	120,797	70,177
Total current assets	<u>2,302,045</u>	<u>1,143,588</u>
PROPERTY, NET	10,961,614	11,411,292
BENEFICIAL INTERESTS IN ENDOWMENTS	<u>6,971,949</u>	<u>5,670,206</u>
TOTAL	<u>\$ 20,235,608</u>	<u>\$ 18,225,086</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 302,130	\$ 328,947
Deferred revenue	478,066	159,796
Total current liabilities	<u>780,196</u>	<u>488,743</u>
PAYCHECK PROTECTION PROGRAM NOTES PAYABLE	<u>615,797</u>	<u>615,797</u>
NET ASSETS:		
Without donor restrictions	11,540,666	11,063,040
With donor restrictions	7,298,949	6,057,506
Total net assets	<u>18,839,615</u>	<u>17,120,546</u>
TOTAL	<u>\$ 20,235,608</u>	<u>\$ 18,225,086</u>

See notes to financial statements.

CHARLOTTE BALLET

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	Year Ended June 30, 2021			Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT AND RECLASSIFICATIONS:						
Contributions	\$ 732,468	\$ 80,246	\$ 812,714	\$ 1,265,848	\$ 465,685	\$ 1,731,533
Grants and tax credits:						
Employee Retention Tax Credit income	826,758	-	826,758	-	-	-
Paycheck Protection Program loan forgiveness income	620,302	-	620,302	-	-	-
State and local grants	83,000	500,000	583,000	83,000	-	83,000
Arts and Science Council grants	444,943	-	444,943	627,883	-	627,883
Other grants	129,250	151,029	280,279	-	528,464	528,464
Ticket and subscription sales	52,733	-	52,733	1,743,772	-	1,743,772
Touring fees	-	-	-	54,034	-	54,034
Charlotte Ballet Academy	692,214	-	692,214	1,110,337	-	1,110,337
Education and community engagement income	62,875	-	62,875	65,533	-	65,533
Contributed materials and services	75,000	-	75,000	69,697	-	69,697
Change in beneficial interests in endowments, net	208,692	1,301,743	1,510,435	270,715	(177,872)	92,843
Special events (net of related expenses of \$0 and \$748,111 as of June 30, 2021 and 2020, respectively)	18,099	-	18,099	648,212	-	648,212
Miscellaneous	59,830	-	59,830	76,293	-	76,293
Reclassifications:						
Contributions released from time restrictions	-	-	-	143,967	(143,967)	-
Contributions released from purpose restrictions	791,575	(791,575)	-	647,599	(647,599)	-
Total revenue, support and reclassifications	<u>4,797,739</u>	<u>1,241,443</u>	<u>6,039,182</u>	<u>6,806,890</u>	<u>24,711</u>	<u>6,831,601</u>
EXPENSES:						
Program services:						
Artistic	1,634,726	-	1,634,726	3,934,272	-	3,934,272
Academy, education and community engagement	1,302,864	-	1,302,864	1,508,473	-	1,508,473
Supporting services:						
Administrative	626,005	-	626,005	750,459	-	750,459
Fundraising	304,048	-	304,048	473,673	-	473,673
Depreciation	452,470	-	452,470	515,635	-	515,635
Total expenses	<u>4,320,113</u>	<u>-</u>	<u>4,320,113</u>	<u>7,182,512</u>	<u>-</u>	<u>7,182,512</u>
CHANGE IN NET ASSETS	477,626	1,241,443	1,719,069	(375,622)	24,711	(350,911)
NET ASSETS, BEGINNING OF YEAR	<u>11,063,040</u>	<u>6,057,506</u>	<u>17,120,546</u>	<u>11,438,662</u>	<u>6,032,795</u>	<u>17,471,457</u>
NET ASSETS, END 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>

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
Miscellaneous expenses	56	-	-	11,050	4,145	-	15,251
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

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2020

	Program Services			Supporting Services			Total
	Artistic	Academy	Education & Community Engagement	Administrative	Fundraising	Depreciation	
Salaries and wages	\$ 1,487,052	\$ 770,804	\$ 204,924	\$ 442,430	\$ 290,037	\$ -	\$ 3,195,247
Payroll taxes	247,708	79,570	22,959	50,528	29,297	-	430,062
Employee benefits	121,599	37,087	11,765	28,878	12,131	-	211,460
Production fees and royalties	1,085,355	5,584	8,974	22,195	-	-	1,122,108
Advertising and marketing	594,250	41,188	6,619	2,499	96,582	-	741,138
Dues and subscriptions	-	210	6,869	13,457	166	-	20,702
Depreciation	-	-	-	-	-	515,635	515,635
Rent, utilities, and maintenance	159,622	74,620	1,686	6,746	1,686	-	244,360
Academy and community engagement	-	121,101	7,497	-	-	-	128,598
Professional services	51,945	623	489	73,163	768	-	126,988
Travel and conferences	60,659	14,905	273	14,127	-	-	89,964
Technology expenses	32,312	52,137	7,517	21,614	12,528	-	126,108
In-kind expenses	39,228	-	-	30,469	-	-	69,697
Bank and credit card processing fees	6,259	16,470	498	8,045	15,656	-	46,928
Office expenses	7,058	4,647	1,640	2,524	2,734	-	18,603
Insurance	19,164	4,473	235	941	235	-	25,048
Retirement plan contributions	6,701	1,700	1,057	7,643	2,253	-	19,354
Interest expense	-	-	-	8,793	-	-	8,793
Miscellaneous expenses	15,360	352	-	16,407	9,600	-	41,719
Total expenses	\$ 3,934,272	\$ 1,225,471	\$ 283,002	\$ 750,459	\$ 473,673	\$ 515,635	\$ 7,182,512

See notes to financial statements.

CHARLOTTE BALLET

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,719,069	\$ (350,911)
Adjustments to reconcile change in net assets to net cash applied to operating activities:		
Change in beneficial interests in endowments	(1,301,743)	177,872
Depreciation	452,470	515,635
Interest accrued on Paycheck Protection Program loan	4,505	-
Paycheck Protection Program loan forgiveness income	(620,302)	-
Changes in operating assets and liabilities:		
Unconditional promises to give	(16,509)	(32,382)
Other receivables	(759,737)	260,147
Prepaid expenses	(50,620)	122,872
Accounts payable and accrued expenses	(26,817)	(22,829)
Deferred revenue	318,270	(869,570)
Net cash applied to operating activities	<u>(281,414)</u>	<u>(199,166)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of and improvements to property	(2,792)	(38,030)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Paycheck Protection Program note payable	<u>615,797</u>	<u>615,797</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	331,591	378,601
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>591,549</u>	<u>212,948</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 923,140</u>	<u>\$ 591,549</u>

See notes to financial statements.

CHARLOTTE BALLET

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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 ("GAAP") 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.

New Accounting Standards - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. The ASU and all subsequently issued clarifying ASUs (collectively, "ASC 606") replaced most existing revenue recognition guidance in GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Ballet adopted the new standard effective July 1, 2020 using the modified retrospective method. Results for reporting periods beginning July 1, 2020 are presented under ASC 606 while prior period amounts continue to be reported in accordance with previous guidance. The adoption of ASC 606 did not change how the Ballet accounts for revenue. Accordingly, the cumulative effect of the initial application of ASC 606 did not result in an adjustment to net assets as of July 1, 2020.

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 \$164,009, \$156,612, and \$416,759 at June 30, 2021, 2020 and 2019, 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

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 once it determined its eligibility to participate in the program, calculated its credit, and filed the required forms. At June 30, 2021, \$752,565 in ERTC refunds were outstanding and included with other receivables in the accompanying statement of financial position.

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 \$478,066, \$159,796, and \$1,029,366 at June 30, 2021, 2020 and 2019, respectively.

Advertising - The Ballet's policy is to expense the cost of advertising as it is incurred. Advertising expense totaled approximately \$22,000 and \$436,000 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020.

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 January 24, 2022, which is the date the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

The table below represents financial assets available for general expenditures within one year at June 30, 2021:

Financial assets at year-end:	
Cash and cash equivalents	\$ 923,140
Unconditional promises to give, net	341,759
Other receivables	916,349
Beneficial interests in endowments	<u>6,971,949</u>
Total financial assets	<u>9,153,197</u>
Less amounts not available to be used for general expenditures within one year:	
Restricted by donors with time restrictions greater than one year	643,719
Restricted by donors with purpose restrictions	2,474,271
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>7,298,449</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,854,748</u>

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 May 2022. (See Note 7.)

3. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give as of June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Promises to give due in less than one year	\$ 344,184	\$ 327,675
Promises to give due in one to five years	<u>-</u>	<u>-</u>
Total promises to give	344,184	327,675
Less: allowance for uncollectible promises to give	<u>2,425</u>	<u>2,425</u>
Promises to give, net	341,759	325,250
Current portion, net	<u>341,759</u>	<u>325,250</u>
Long-term portion, net	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2021 and 2020, approximately \$53,000 and \$60,000, respectively, of the unconditional promises to give are due from members of the Ballet's Board of Directors. Total contributions from the Board of Directors was approximately \$228,000 and \$627,000 for the years ended June 30, 2021 and 2020, respectively.

4. PROPERTY

Property as of June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Sets, props, and costumes	\$ 2,696,914	\$ 2,696,914
Furniture, fixtures, and equipment	975,344	1,043,898
Building	7,952,437	7,952,437
Land	<u>4,380,250</u>	<u>4,380,250</u>
Total	16,004,945	16,073,499
Less accumulated depreciation	<u>(5,043,331)</u>	<u>(4,662,207)</u>
Property, net	<u>\$ 10,961,614</u>	<u>\$ 11,411,292</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.

During the year ended June 30, 2021, 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. 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, 2021 are as follows:

	Time/ Purpose Restrictions	Restricted in Perpetuity	Total
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 fair values of the beneficial interests in endowed assets as of June 30, 2020 are as follows:

	Time/ Purpose Restrictions	Restricted in Perpetuity	Total
Cultural Trust - ASC Fund	\$ 164,263	\$ 964,610	\$ 1,128,873
Joan H. Hanes Fund	141,055	150,000	291,055
Donald H. & Barbara K. Bernstein NCDT Continuity Fund	1,365	70,000	71,365
Cultural Trust - Building Fund	1,158,164	1,795,849	2,954,013
Knight Foundation Fund	18,719	1,000,000	1,018,719
Charlotte Ballet Pre-Professional Fund	<u>6,181</u>	<u>200,000</u>	<u>206,181</u>
Total	<u>\$ 1,489,747</u>	<u>\$ 4,180,459</u>	<u>\$ 5,670,206</u>

The following represents the changes in the beneficial interests in endowment net assets for the years ended June 30, 2021 and 2020:

<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	\$ 1,489,747	\$ 4,180,459	\$ 5,670,206
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>
<u>Year Ended June 30, 2020</u>	<u>Time/ Purpose Restrictions</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,667,619	\$ 4,180,459	\$ 5,848,078
Investment return:			
Distributions	(270,715)	-	(270,715)
Net appreciation	<u>92,843</u>	<u>-</u>	<u>92,843</u>
Endowment net assets, end of year	\$ <u>1,489,747</u>	\$ <u>4,180,459</u>	\$ <u>5,670,206</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, 2021 and 2020.

- 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, 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	<u>\$ _____ -</u>	<u>\$ _____ -</u>	<u>\$ 6,971,949</u>	<u>\$ 6,971,949</u>

The following table sets forth by level, within the fair value hierarchy, the Ballet's assets at fair values as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interests in endowments (see Note 5)	\$ _____ -	\$ _____ -	\$ 5,670,206	\$ 5,670,206
Total assets at fair value	<u>\$ _____ -</u>	<u>\$ _____ -</u>	<u>\$ 5,670,206</u>	<u>\$ 5,670,206</u>

The following table sets forth a summary of changes in the fair value of the pooled assets for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 5,670,206	\$ 5,848,078
Net appreciation	1,510,435	92,843
Distributions	(225,888)	(270,715)
Contributions	<u>17,196</u>	<u>-</u>
Balance, end of year	<u>\$ 6,971,949</u>	<u>\$ 5,670,206</u>

7. LINE OF CREDIT

Following the expiration of the Ballet's former line of credit agreement during the year ended June 30, 2021, the Ballet entered into a new line of credit agreement with a separate 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 (3.25% as of June 30, 2021) plus .5% or the floor rate of 5%. The line of credit is secured by \$500,000 in marketable securities held by the financial institution. (See Note 5.) The line of credit is scheduled to expire in May 2022. As of June 30, 2021 and 2020, there were no borrowings outstanding.

8. PAYCHECK PROTECTION PROGRAM

Under FASB ASC 470, Not-for-Profit Entities are permitted to recognize Paycheck Protection Program (“PPP”) loans as debt. On April 17, 2020, the Ballet received a PPP loan of \$615,797 under the CARES Act. Per 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 to Hard-Hit Small Businesses, Nonprofits and Venues Act, which was enacted on December 27, 2020. 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 will recognize the forgiven \$620,555 as grant and tax credit income in the statement of activities for the year ended June 30, 2022.

9. NET ASSETS

Net assets with donor restrictions as of June 30, 2021 and 2020 include the following:

	<u>2021</u>	<u>2020</u>
Time restrictions:		
Beneficial interests in endowments	\$ 643,719	\$ 305,318
Contributions receivable - annual fund	500	14,800
Purpose restrictions:		
Beneficial interests in endowments	2,147,771	1,184,429
Innovation Capital Fund	300,000	300,000
Contributions receivable - new works, campaign, other	26,500	72,500
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>\$ 7,298,949</u>	<u>\$ 6,057,506</u>

Unrestricted net assets were reduced by \$452,470 and \$515,635 for the years ended June 30, 2021 and 2020, 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 years ended June 30, 2021 and June 30, 2020, the Ballet recognized \$75,000 and \$69,697, respectively, as contributed revenue for health and consulting services, special event expenses, and marketing expenses.

11. BARTER TRANSACTIONS

During the year ended June 30, 2020, the Ballet received services and other benefits as a result of barter transactions. The Ballet did not receive any services or other benefits as a result of barter transactions during the year ended June 30, 2021. Revenue and expenses recorded as a result of barter transactions were as follows for the years ended June 30, 2021 and 2020:

	<u>2021</u>		
	<u>Ticket Revenue</u>	<u>Advertising Revenue</u>	<u>Total</u>
Program expenses:			
Marketing benefits	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>2020</u>	
	<u>Ticket Revenue</u>	<u>Advertising Revenue</u>
		<u>Total</u>
Program expenses:		
Marketing benefits	<u>\$ 12,000</u>	<u>\$ 12,000</u>
		<u>\$ 24,000</u>

12. 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 \$69,000 and \$26,000 for the years ended June 30, 2021 and 2020, respectively.

Approximate future minimum lease payments under the operating leases as of June 30, 2021 are as follows:

Year ending June 30:		
2022		\$ 39,000
2023		6,000
2024		6,000
2025		<u>2,000</u>
Total		<u>\$ 53,000</u>

13. RETIREMENT PLAN

Effective July 1, 2019, the Ballet established 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 \$14,335 and \$19,354 for the years ended June 30, 2021 and 2020.

14. CONTINGENCY

On March 10, 2020, the World Health Organization declared COVID-19 to be a pandemic. In response to government restrictions on public gatherings and the closure of nonessential business, the Ballet temporarily closed its facilities, as well as postponed or cancelled performances. In April 2020, the Ballet launched a fundraising campaign known as the "Resilience Fund" to offset decreased earned revenue from ticket sales and Academy tuition. Additionally, Ballet management reduced operating expenses and began offering Academy classes both outdoors and online. In addition to online classes, the Academy began conducting classes indoors, at reduced capacity in compliance with government mandates. In July 2021, the Charlotte Ballet Academy Summer Intensive program returned, as well as reduced capacity summer classes. The school year session also opened in September 2021 at full capacity. The 2020 government restrictions that closed large performance venues were lifted allowing the 50th Anniversary and Nutcracker performances to occur. The future impact of COVID-19 on the Ballet's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and impact on its programming, students, and employees, all of which are uncertain and cannot be predicted. Therefore, the extent to which COVID-19 may impact the Ballet's financial condition or results of operations is uncertain.

15. SUBSEQUENT EVENT

On July 27, 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. The Small Business Administration oversees this program, which requires funds to be spent under certain parameters on or before December 31, 2021. As the Ballet has concluded that all funds were spent on qualifying expenses during the year ended June 30, 2022, no repayment for unallowable spending is anticipated and the full amount is expected to be reflected as revenue in the statement of activities for the year ended June 30, 2022.