

# **North Carolina Performing Arts Center at Charlotte Foundation (DBA Blumenthal Performing Arts)**

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## **Financial Statements**

**Year ended August 31, 2015 and fourteen month period ended August 31, 2014**

Table of Contents

Independent Auditors' Report ..... 1

Financial Statements:

    Statements of Financial Position ..... 3

    Statements of Activities ..... 4

    Statements of Cash Flows..... 6

    Notes to Financial Statements..... 7

## INDEPENDENT AUDITORS' REPORT

Board of Directors of  
North Carolina Performing Arts Center at Charlotte Foundation  
Charlotte, North Carolina

We have audited the accompanying financial statements of the North Carolina Performing Arts Center at Charlotte Foundation (dba "Blumenthal Performing Arts") (the "BPA") which comprise the statements of financial position as of August 31, 2015 and 2014, and the related statements of activities and cash flows for the year ended August 31, 2015 and for the fourteen month period ended August 31, 2014, and the related notes to the financial statements.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted 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 from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Performing Arts Center at Charlotte Foundation as of August 31, 2015 and 2014, and the results of its operations and its cash flows for the year ended August 31, 2015 and for the fourteen month period ended August 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

*Dixon Hughes Goodman LLP*

**Charlotte, North Carolina  
December 11, 2015**

**North Carolina Performing Arts Center At Charlotte Foundation**  
**Statements of Financial Position**  
**August 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 5,297,125	\$ 4,181,843
Receivables		
Pledges receivable, net	81,475	337,397
Operations accounts receivable, net	3,550,458	3,503,907
Prepaid and other current assets	1,035,208	959,971
Short-term investments	<u>2,680,920</u>	<u>2,668,538</u>
Total current assets	12,645,186	11,651,656
Non-Current Assets:		
Investments in performances	581,461	728,051
Nonqualified deferred compensation plan assets	123,066	126,686
Property and equipment, net	<u>2,982,204</u>	<u>2,237,599</u>
Total non-current assets	3,686,731	3,092,336
Restricted Assets:		
Present value of future lease contributions	6,461,089	7,227,814
Endowment investments	9,780,631	10,018,939
Beneficial interest in assets held in trust	<u>8,666,067</u>	<u>9,526,015</u>
Total restricted assets	<u>24,907,787</u>	<u>26,772,768</u>
Total assets	<u><u>\$ 41,239,704</u></u>	<u><u>\$ 41,516,760</u></u>

See accompanying notes.

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	<u>2015</u>	<u>2014</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 1,344,328	\$ 532,893
Accrued expenses	1,026,791	691,704
Capital lease obligations, current portion	-	828
Deferred revenue	<u>9,358,238</u>	<u>8,600,516</u>
Total current liabilities	11,729,357	9,825,941
Nonqualified deferred compensation liability	<u>123,066</u>	<u>189,803</u>
Total liabilities	11,852,423	10,015,744
Net Assets:		
Unrestricted		
Undesignated	3,834,736	3,820,640
Board designated	235,000	235,000
Temporarily restricted	11,737,343	13,865,174
Permanently restricted	<u>13,580,202</u>	<u>13,580,202</u>
Total net assets	<u>29,387,281</u>	<u>31,501,016</u>
Total liabilities and net assets	<u><u>\$ 41,239,704</u></u>	<u><u>\$ 41,516,760</u></u>

**North Carolina Performing Arts Center at Charlotte**  
**Statements of Activities**  
**Year ended August 31, 2015 and fourteen month period ended August 31, 2014**

	<u>2015</u>	<u>2014</u>
Changes in unrestricted net assets		
Operating Activities		
Operating revenues and other support		
Theater event collections	\$ 23,863,616	\$ 24,390,280
Contributions and grant revenues	1,644,535	2,607,398
Building maintenance support	914,526	1,066,947
Present value adjustments of future lease contributions	643,525	782,197
Return on investments available for operations	23,866	34,491
Other revenues	147,715	224,607
Net assets released from restriction	<u>1,558,639</u>	<u>1,312,952</u>
Total operating revenues and other support	28,796,422	30,418,872
Operating Expenses		
Program expenses:		
Events	16,810,131	17,934,951
Operations	8,856,465	9,218,776
Donated rental expense	1,410,250	1,645,292
Total program expenses	<u>27,076,846</u>	<u>28,799,019</u>
Development	491,932	544,048
Management and general	1,213,548	1,056,954
Total operating expenses	<u>28,782,326</u>	<u>30,400,021</u>
Net results from operations	14,096	18,851
Change in unrestricted net assets	<u>14,096</u>	<u>18,851</u>

**North Carolina Performing Arts Center at Charlotte****Statements of Activities****Year ended August 31, 2015 and fourteen month period ended August 31, 2014****(Continued)**

	<u>2015</u>	<u>2014</u>
Changes in Temporarily Restricted Net Assets		
Contributions	685,897	1,000,790
Return (loss) on investments	(395,141)	1,446,948
Change in beneficial interest of assets held in trust	(859,948)	626,461
Net assets released from restriction	<u>(1,558,639)</u>	<u>(1,312,952)</u>
Changes in temporarily restricted net assets	<u>(2,127,831)</u>	<u>1,761,247</u>
Changes in Permanently Restricted Net Assets	<u>-</u>	<u>-</u>
Change in net assets	(2,113,735)	1,780,098
Net assets, beginning of year	<u>31,501,016</u>	<u>29,720,918</u>
Net assets, end of year	<u><u>\$ 29,387,281</u></u>	<u><u>\$ 31,501,016</u></u>



**North Carolina Performing Arts Center at Charlotte**  
**Statements of Cash Flows**  
**Year ended August 31, 2015 and fourteen month period ended August 31, 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (2,113,735)	\$ 1,780,098
Adjustments to reconcile change in net assets to net cash flows provided (used) by operating activities		
Depreciation	568,798	691,265
Realized and unrealized (gains) losses	362,799	(1,491,400)
Net change in beneficial interest in assets held in trust	859,948	(626,461)
Change in present value of future lease contributions	766,725	863,095
Change in allowance for doubtful accounts	(1,338)	(8,100)
Change in operating assets and liabilities:		
Unconditional promises to give	257,872	(264,664)
Operations accounts receivable	(47,163)	(737,358)
Prepaid and other current assets	(75,237)	13,882
Accounts payable	811,435	(16,221)
Accrued expenses	335,088	(450,965)
Deferred revenues	757,721	(1,629,522)
Net cash provided (used) by operating activities	<u>2,482,913</u>	<u>(1,876,351)</u>
Cash flows from investing activities:		
Purchase of short-term investments, net of sales of short-term investments	(136,873)	-
Purchase of endowment investments	-	(150,000)
Advances for future performances, net of royalties received	146,590	(268,013)
Net change in nonqualified deferred compensation plan assets	3,620	(23,617)
Net change in nonqualified deferred compensation plan liability	(66,737)	(39,500)
Purchases of property and equipment	<u>(1,313,403)</u>	<u>(767,492)</u>
Net cash used by operating activities	<u>(1,366,803)</u>	<u>(1,248,622)</u>
Cash flow from financing activities:		
Principal payments on capital lease obligations	<u>(828)</u>	<u>(31,788)</u>
Net change in cash and cash equivalents	1,115,282	(3,156,761)
Cash and cash equivalents, beginning of period	<u>4,181,843</u>	<u>7,338,604</u>
Cash and cash equivalents, end of period	<u><u>\$ 5,297,125</u></u>	<u><u>\$ 4,181,843</u></u>

See accompanying notes.

## **Notes to Financial Statements**

### **1. Summary Of Significant Accounting Policies**

North Carolina Performing Arts Center at Charlotte Foundation, a nonprofit organization incorporated on May 8, 1987, operates as Blumenthal Performing Arts ("BPA") to present the best in the performing arts, and in partnership with others, share and employ the arts as a major catalyst to strengthen education, build community cohesiveness, and advance economic growth. BPA manages the operation of three performance spaces located in the Blumenthal Performing Arts Center (the "Center"): the 2,097-seat Belk Theater, the 444-seat Booth Playhouse, and the Stage Door Theater which seats 170. A fourth performance space, the 1,193-seat Knight Theater, was completed in the Fall of 2009. BPA also manages the operation of Spirit Square Center for Arts and Education ("Spirit Square"), a community center focusing on arts education and community theater, which includes the 730-seat McGlohon Theater and the Duke Energy Theater which seats 182. BPA presents national touring Broadway productions and a wide range of special attractions. Additionally, BPA's Education Institute and its Community Programs Division develop innovative partnerships with schools and community organizations to bring the performing arts to life for people throughout the region. BPA is home to thirteen resident arts organizations including Charlotte Symphony, Opera Carolina, Charlotte Ballet, Jazz Arts Initiative, Community School of the Arts, Queen City Theater Company, Charlotte Shakespeare, On Q Performing Arts, Starving Artist Productions, Caroline Calouche & Co., Studio 345, Tosco Music Party and Elevation Church. The Center and the Knight Theaters are owned by the City of Charlotte, North Carolina (the "City") and Spirit Square Center is owned by Mecklenburg County, North Carolina (the "County") (see Note 9).

In 2014, the Board of Trustees approved the change of BPA's year end to August 31, 2014. As a result, the 2014 financial statements report a fourteen month period and the 2015 financial statements report a twelve month period.

#### ***Basis of Presentation***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("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:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by specific actions of BPA and/or the passage of time. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by BPA. Generally, the donors of these assets permit BPA to use all or part of the income earned on any related investments for general or specific purposes.

#### ***Cash and Cash Equivalents***

For the Statement of Financial Position and Statement of Cash Flows, BPA considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents unless held by investment managers as part of the investment portfolio.

## **North Carolina Performing Arts Center at Charlotte Foundation**

### **Notes to Financial Statements**

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#### ***Accounts Receivable***

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts of approximately \$3,500 and \$2,200 at August 31, 2015 and 2014, respectively. BPA provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of customers to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is BPA's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

#### ***Investments***

Investments are valued at fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Changes in the fair value of securities are reflected in return on investments in the accompanying Statement of Activities. See Note 3 for discussion of fair value measurements.

#### ***Investments in Performances***

BPA is a limited partner in several limited liability partnerships that invest in theatrical stage productions. BPA's ownership percentage in each limited liability partnership is less than 5%. The investment in these limited liability partnerships is accounted for using the cost method, and income recognized is limited to distributions received from the partnerships in excess of BPA's original investment. Annually, Management reviews the investments and determines, at that time, if a portion of the investment is considered impaired and writes it down to the net realizable value. As of August 31, 2015 and 2014, BPA had an investment of approximately \$3,300 and \$6,300, respectively, in one of the productions of which an officer of BPA also has an investment.

#### ***Property and Equipment***

All acquisitions of property and equipment in excess of \$2,500 and all expenditures for repairs, maintenance, renewals, and betterments in excess of \$2,500 that materially prolong the useful lives of assets are capitalized. Property and equipment is stated at cost when purchased, and at estimated market value when donated. BPA records depreciation of its property and equipment using the straight-line method over the estimated useful life of the asset. The estimated useful lives of BPA's assets are twenty years for the organ façade and building improvements and three to ten years for all other assets.

#### ***Beneficial Interest of Assets Held in Trust***

BPA recognizes contribution revenue from assets donated to a recipient organization for the sole benefit of BPA.

#### ***Donated Services***

BPA records the value of donated services and equipment in its financial statements if a basis is available to measure the value of such services and equipment. Donated services are generally recognized if such services enhance nonfinancial assets and require a specialized skill. The amounts are included in contributions and grant revenues on the accompanying Statement of Activities.

BPA generally pays for services requiring specific expertise. In 2015 and 2014, BPA received \$7,532 and \$6,972 in donated legal services, respectively. Community members volunteer as ushers, tour guides, administrative assistants, and advisors. A dollar valuation of their efforts is not reflected in the financial statements, however, the estimated volunteer hours for the year ended August 31, 2015 and fourteen month period ended August 31, 2014 were approximately 30,000 and 63,000 hours, respectively.

## **North Carolina Performing Arts Center at Charlotte Foundation**

### **Notes to Financial Statements**

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#### ***Revenue Recognition***

In the absence of donor restrictions, contributions are considered to be available for unrestricted use. All income is recognized in the period when the contribution, pledge, or unconditional promise to give is received. Government funding and grants are recorded as unrestricted revenue funds and are reimbursements for expenditures made by BPA.

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the pledges are received. Amortization of the resulting discount is taken into income as a contribution in subsequent years.

Deferred revenue represents cash received from advance ticket sales and season sponsorships. Ticket sale revenue is recorded after the related performances are completed and associated cost settlements are calculated. Sponsorship revenue is recognized in the fiscal year specified in the sponsorship contract.

#### ***Advertising Costs***

Advertising costs related to specific events are deferred and amortized in the period of the event. BPA charges advertising costs to events as incurred on the accompanying Statements of Activities. Advertising expense for the year ended August 31, 2015 and fourteen month period ended August 31, 2014 was approximately \$1,808,000 and \$1,969,000, respectively.

#### ***Tax Status***

In the United States Treasury Department determination letter dated October 15, 1992, BPA was determined to be tax exempt under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there are no income taxes provided for in the accompanying financial statements. BPA has accrued \$10,000 and \$22,700 in estimated federal and state taxes for Unrelated Business Income for the year ended August 31, 2015 and fourteen months ended August 31, 2014, respectively. Fiscal years ending after June 30, 2013 remain subject to examination by federal and state tax authorities.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Subsequent Events***

BPA evaluated the effect subsequent events would have on the financial statements through December 11, 2015, which is the date the financial statements were available to be issued.

## **2. Pledges Receivable**

Pledges receivable represent all outstanding unconditional promises to give commitments for contributions to BPA. Pledges are recorded as a receivable at the time a written pledge is received.

Pledges receivable are as follows:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 83,475	\$ 337,447
Less: Allowance for uncollectible pledges	<u>2,000</u>	<u>50</u>
Total pledges receivable, net	<u>\$ 81,475</u>	<u>\$ 337,397</u>

## **3. Fair Value Measurements**

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable. 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.
- 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 general consists of net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. The inputs used by the investment manager in estimating the value of Level 3 investments include NAV and capital account values provided by the managers for investment fund positions, original transaction price, recent transactions in the same or similar instruments for private equity positions, original transaction price for the common stock position and a single broker quote for the corporate bond position.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Plan's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Following is a description of the valuation methodologies used for the underlying assets measured at fair value. There have been no changes in the methodologies used at August 31, 2015 and 2014.

**North Carolina Performing Arts Center at Charlotte Foundation**  
**Notes to Financial Statements**

The following tables set forth by level, within the fair value hierarchy, BPA investments at fair value as of August 31, 2015 and 2014:

<b>August 31, 2015</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
Short-term investments:				
Cash and cash equivalents	\$ --	\$ 543,684	\$ --	\$ 543,684
Fixed income	--	<u>2,137,236</u>	--	<u>2,137,236</u>
Total short-term investments	<u>\$ --</u>	<u>\$ 2,680,920</u>	<u>\$ --</u>	<u>\$ 2,680,920</u>
Restricted investments:				
Endowment investments	\$ --	\$ --	\$ 9,780,631	\$ 9,780,631
Beneficial interest in assets held in trust	--	--	<u>8,666,067</u>	<u>8,666,067</u>
Total restricted investments	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 18,446,698</u>	<u>\$ 18,446,698</u>
<b>August 31, 2014</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
Short-term investments:				
Cash and cash equivalents	\$ --	\$ 770,070	\$ --	\$ 770,070
Fixed income	--	<u>1,898,468</u>	--	<u>1,898,468</u>
Total short-term investments	<u>\$ --</u>	<u>\$ 2,668,538</u>	<u>\$ --</u>	<u>\$ 2,668,538</u>
Restricted investments:				
Endowment investments	\$ --	\$ --	\$ 10,018,939	\$ 10,018,939
Beneficial interest in assets held in trust	--	--	<u>9,526,015</u>	<u>9,526,015</u>
Total restricted investments	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 19,544,954</u>	<u>\$ 19,544,954</u>

The investment portion of the beneficial interest in assets held in trust and endowment investments are considered by BPA to be Level 3 assets because they represent interests held in pooled investment funds, which include private investment funds. As discussed in Notes 4 and 5, the Foundation for the Carolinas ("FFTC") manages the administration of these investments.

**North Carolina Performing Arts Center at Charlotte Foundation**  
**Notes to Financial Statements**

For the assets measured at fair value on a recurring basis using Level 3 valuations during the period, the following tables provide a reconciliation of beginning and ending balances for the year ended August 31, 2015 and fourteen month period ended August 31, 2014:

	<b>Endowment Investments</b>	<b>Beneficial Interest in Assets Held In Trust</b>
Balance, September 1, 2014	\$ 10,018,939	\$ 9,526,015
Investment return:		
Interest and dividends	154,581	--
Admin fees	(30,489)	--
Investment fees	(15,327)	--
Unrealized losses	(594,514)	--
Realized gains	90,608	--
	<u>(395,141)</u>	<u>--</u>
Contributions	226,833	--
Withdrawals	(70,000)	--
Change in beneficial interest of assets held in trust	<u>--</u>	<u>(859,948)</u>
Balance, August 31, 2015	<u>\$ 9,780,631</u>	<u>\$ 8,666,067</u>
	<b>Endowment Investments</b>	<b>Beneficial Interest in Assets Held In Trust</b>
Balance, July 1, 2013	\$ 8,409,749	\$ 8,899,554
Investment return:		
Interest and dividends	103,580	--
Admin fees	(43,241)	--
Investment fees	(17,884)	--
Unrealized gains	1,061,325	--
Realized gains	343,168	--
Capital gain distributions	--	--
	<u>1,446,948</u>	<u>--</u>
Contributions	312,242	--
Withdrawals	(150,000)	--
Change in beneficial interest of assets held in trust	<u>--</u>	<u>626,461</u>
Balance, August 31, 2014	<u>\$ 10,018,939</u>	<u>\$ 9,526,015</u>

**North Carolina Performing Arts Center at Charlotte Foundation**  
**Notes to Financial Statements**

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**4. Short-Term Investments And Endowment Investments**

Investments are carried at fair value and realized and unrealized gains and losses are reflected in the Statements of Activities. The fair value of investments at August 31, 2015 and 2014 is summarized below:

	<u>2015</u>	<u>2014</u>
Short-term investments		
Cash and cash equivalents	\$ 543,684	\$ 770,070
Bonds	<u>2,137,236</u>	<u>1,898,468</u>
Total short-term investments	<u>\$ 2,680,920</u>	<u>\$ 2,668,538</u>
	<u>2015</u>	<u>2014</u>
Endowment investments		
Cash/fixed income	\$ 1,467,996	\$ 1,497,765
Hedge funds	<u>2,081,074</u>	<u>2,156,467</u>
Alternative investments	<u>1,250,860</u>	<u>1,380,954</u>
Equities	<u>4,980,701</u>	<u>4,983,753</u>
Total endowment	<u>\$ 9,780,631</u>	<u>\$ 10,018,939</u>

BPA's endowment investments are held by the Greater Charlotte Cultural Trust (the "Trust"). The Trust, which is a supporting foundation of the FFTC, is a separate legal entity with its own board of directors which oversees endowment administration, evaluates planned giving opportunities, and makes investment decisions. FFTC, a nonprofit organization that serves donors, communities, and a broad range of charitable purposes in North and South Carolina, provides investment and administrative services for the Trust. The Trust invests in a variety of investments, which are subject to fluctuations in market values and expose the Trust to a certain degree of interest and credit risk.

The Trust has investments with fund managers who invest in private investment funds as part of the Trust's asset allocation. The investment in the private investment funds is an alternative investment strategy with the purpose of increasing the diversity of the Trust's holdings and is consistent with the Trust's overall investment objectives. 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 of the Trust relies on various factors to estimate the fair value of these investments and believes its processes and procedures for valuing investments are effective and that its estimate of value is reasonable. However, the factors used 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 financial statements.

The following summarizes the investment return and classification in the Statements of Activities for the year ended August 31, 2015 and fourteen month period ended August 31, 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 135,713	\$ 103,581
Realized and unrealized gains on investments	<u>(483,946)</u>	<u>1,404,492</u>
Return on investments	<u>(348,233)</u>	<u>1,508,073</u>
Less: Return on investments available for operations	<u>(46,908)</u>	<u>(61,125)</u>
Return (loss) on investments, net of return on investments available for operations	<u>\$ (395,141)</u>	<u>\$ 1,446,948</u>



## **5. Beneficial Interest In The Campaign For Cultural Facilities**

BPA has a beneficial interest in assets held in trust by the Trust. In 2004, the Trust completed the Cultural Organizations Endowment Agreement related to the Campaign for Cultural Facilities. The agreement outlines the approximately \$82.3 million campaign to fund facility endowments to support the operation of new or remodeled facilities as well as other endowment and capital needs in the cultural community. BPA is party to this agreement and is budgeted to be allocated \$8 million because the campaign reached its fundraising goal. In accordance with the agreement, the funds will be used to create an endowment, with the earnings to be distributed annually to fund operating costs of the facilities.

Although BPA has no control over the disbursement of these funds, BPA is a named beneficiary of a portion of these funds. Accordingly, a beneficial interest has been included in the BPA's assets totaling \$8,666,067 and \$9,526,015 as of August 31, 2015 and 2014, respectively, representing BPA's interest in funds raised to date.

## **6. Endowment Funds**

BPA's endowment consists of six individual funds established for a variety of purposes that are invested at the Trust (see Note 4). The endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. GAAP also provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of Uniform Prudent Management Institutional Fund Act ("UPMIFA").

Endowment net asset composition by type of fund for the investment portion of the endowment as of August 31, 2015 and 2014 is listed below:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2015:				
Donor-restricted endowment funds	<u>\$ --</u>	<u>\$ 4,866,496</u>	<u>\$ 13,580,202</u>	<u>\$18,446,698</u>
2014:				
Donor-restricted endowment funds	<u>\$ --</u>	<u>\$ 5,964,752</u>	<u>\$ 13,580,202</u>	<u>\$19,544,954</u>

## North Carolina Performing Arts Center at Charlotte Foundation

### Notes to Financial Statements

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

In accordance with UPMIFA, BPA considered the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

1. The duration and preservation of the fund
2. The purposes of BPA 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 BPA
7. The investment policies of BPA

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

Equities – large cap	40% - 80%
Equities – small cap	10% - 30%
Equities – emerging market	7.5% - 22.5%
Equities – international	2.5% - 7.5%
Bonds	20% - 30%
Alternative investments	8% - 32%

The Trust had a policy of appropriating for distribution each year 5% of the endowment funds' average fair value using the prior 3 years' value at the calendar year-end preceding the fiscal year in which the distribution is planned. For the year ending June 30, 2011, the spending policy was amended to spend up to a maximum of 4.5% of the average fair value over the prior twelve quarters through the calendar year preceding the fiscal year in which the distribution is planned. The amended policy will be evaluated on an annual basis for prudence. In establishing the spending policy, the expected return on the endowment was taken into consideration. Accordingly, the spending policy is expected to allow the endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return. For the year ended August 31, 2015, the spending policy was amended to spend up to a maximum of 5% of the rolling twelve quarter average.

**North Carolina Performing Arts Center at Charlotte Foundation**  
**Notes to Financial Statements**

Changes in the investment portion of the endowment net assets for the year ended August 31, 2015 and the fourteen month period ended August 31, 2014 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 1, 2014	\$ 5,964,752	\$ 13,580,202	\$ 19,544,954
Investment return:			
Investment income, net of expenses	203,064	--	203,064
Realized and unrealized losses	<u>(834,925)</u>	<u>--</u>	<u>(834,925)</u>
Total investment losses	<u>(631,861)</u>	<u>--</u>	<u>(631,861)</u>
Contributions	445,432	--	445,432
Withdrawals	(695,000)	--	(695,000)
Change in beneficial interest of assets held in trust	<u>(216,827)</u>	<u>--</u>	<u>(216,827)</u>
Endowment net assets, August 31, 2015	<u>\$ 4,866,496</u>	<u>\$ 13,580,202</u>	<u>\$ 18,446,698</u>
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2013	\$ 3,729,101	\$ 13,580,202	\$ 17,309,303
Investment return:			
Investment income, net of expenses	(535,880)	--	(535,880)
Realized and unrealized gains	<u>2,332,828</u>	<u>--</u>	<u>2,332,831</u>
Total investment losses	<u>1,796,948</u>	<u>--</u>	<u>1,796,951</u>
Contributions	312,242	--	312,239
Withdrawals	(500,000)	--	(500,000)
Change in beneficial interest of assets held in trust	<u>626,461</u>	<u>--</u>	<u>626,461</u>
Endowment net assets, August 31, 2014	<u>\$ 5,964,752</u>	<u>\$ 13,580,202</u>	<u>\$ 19,544,954</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the amount recorded by BPA as permanently restricted net assets (corpus). At August 31, 2015 and 2014, the fair value of each individual fund exceeded corpus.

**North Carolina Performing Arts Center at Charlotte Foundation**  
**Notes to Financial Statements**

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**7. Property And Equipment**

At August 31, 2015 and 2014 property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 3,778,870	\$ 2,926,796
Computer equipment	2,860,747	2,637,429
Building equipment	1,599,483	1,465,169
Organ façade	182,601	182,601
Furniture and office equipment	1,046,622	848,976
Construction in process	9,776	103,726
Total property and equipment	9,478,099	8,164,697
Less: accumulated depreciation	(6,495,895)	(5,927,098)
Net property and equipment	<u>\$ 2,982,204</u>	<u>\$ 2,237,599</u>

BPA leases its facilities from the City of Charlotte, North Carolina (the "City") and Mecklenburg County, North Carolina and Bank of America, N.A. (the "County"). See Note 9.

**8. Capital Lease**

BPA leases certain office equipment which are recorded as capital leases in accordance with GAAP, with related assets and liabilities recorded. The asset with a cost of \$7,927 is included in property and equipment and is fully depreciated as of August 31, 2015. These lease agreements were paid off as of August 31, 2015.

**9. Facilities Leases**

During the year ended June 30, 2011, BPA entered into an agreement with Bank of America, N.A. to lease office space in one of its buildings. BPA leases this space for \$10 per year. The lease agreement expires on March 31, 2021. During the year ended June 30, 2010, BPA entered into agreements with the City to lease and operate the Center and Knight Theater. BPA also has an agreement with the County to lease and operate Spirit Square. BPA leases each facility for \$1 per year. The agreement to lease the Center expires on October 2, 2019, the agreement to lease the Knight Theater expires on June 30, 2039, and the agreement to lease Spirit Square expired on June 30, 2007 at which time it converted to a month to month agreement.

In accordance with GAAP, BPA records the fair market value of the leases each year. In addition, BPA records the present value of the future leasehold benefits of the City leases for the remaining life of the current lease obligations. The present value of these benefits has been computed using discount rates of 3.2%, 3.5% and 4.3%. BPA recorded the fair value of the leases of \$1,410,250 and \$1,645,292 as donated rental expense and a corresponding release from restricted net assets, net of amortization of the discount, in the accompanying Statements of Activities for the year ended August 31, 2015 and fourteen month period ended August 31, 2014, respectively.

## **10. Deferred Revenues And Prepaid Event Expenses**

BPA recognizes revenues and expenses related to an event at the time of the performance. At August 31, 2015 and 2014, the Center had received approximately \$9.4 million and \$8.6 million, respectively, in advance ticket sales and advertising revenue which have been deferred to the succeeding fiscal year. Related prepaid event expenses were approximately \$334,000 and \$245,000 for the year ended August 31, 2015 and fourteen month period ended August 31, 2014, respectively.

In addition, BPA has deferred advertising revenue of approximately \$202,000 and \$160,000 for the year ended August 31, 2015 and fourteen month period ended August 31, 2014, respectively, related to performances that occur in the succeeding fiscal year.

## **11. Employee Benefit Plans**

BPA sponsors a 403(b) defined contribution pension plan for full-time employees with a minimum of one year of service who are not covered by a collective bargaining agreement. BPA contributes 2% of each participant's compensation to the plan, and matches up to 3% of a participant's compensation. For the year ended August 31, 2015 and fourteen month period ended August 31, 2014, BPA's contribution to the plan was approximately \$163,000 and \$187,000, respectively.

BPA provides separate supplemental employee retirement plans for its president and former president. The former president is covered under an annuity contract which, beginning in fiscal 1998, was partially funded by investing in a trust which BPA is the owner of the trust assets. The current president is covered under a defined contribution plan. BPA recorded no expenses related to the plans for the year ended August 31, 2015 and fourteen month period ended August 31, 2014. The trust assets are recorded as an asset in BPA's financial statements and the corresponding liability has also been recorded.

## **12. Concentration Of Source Of Supply Of Labor**

Some of BPA's employees (representing approximately 20% and 16% of payroll expense for the year ended August 31, 2015 and fourteen month period ended August 31, 2014, respectively) are members of the International Alliance of Theatrical Stage Employees Local #322. BPA's contract with the union expires June 30, 2016. BPA's other employees are not represented by a union.

## **13. Temporarily/Permanently Restricted Net Assets**

BPA's temporarily restricted net assets released from restriction were as follows for the year ended August 31, 2015 and fourteen month period ended August 31, 2014:

	<u>2015</u>	<u>2014</u>
Donated rental expense, net of amortization of discount	\$ 766,725	\$ 863,095
Donor designated gifts released	<u>791,914</u>	<u>449,857</u>
Total Temporarily Restricted Net Assets Released From Restriction	<u>\$ 1,558,639</u>	<u>\$ 1,312,952</u>

**North Carolina Performing Arts Center at Charlotte Foundation**  
**Notes to Financial Statements**

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BPA's temporarily restricted net assets are for the following purposes:

	<u>2015</u>	<u>2014</u>
Gross value of leaseholds with City, County and Bank of America, N.A.	\$ 10,634,833	\$ 10,634,833
Less: net rental expense recognized to date	<u>(4,173,744)</u>	<u>(3,407,019)</u>
Present value of leaseholds with City and County	6,461,089	7,227,814
Booth Playhouse endowment	226,410	226,410
Performing arts scholarship fund	503,435	494,357
Investment gains: Endowment funds	2,718,720	3,093,821
Organ fund	139,152	139,152
Beneficial interest in assets held in trust	1,165,753	2,025,698
Other temporarily restricted net assets	<u>522,784</u>	<u>657,922</u>
Total temporarily restricted net assets	<u><u>\$ 11,737,343</u></u>	<u><u>\$ 13,865,174</u></u>

BPA's permanently restricted net assets are for the following purposes:

	<u>2015</u>	<u>2014</u>
Operating endowment for the Center	\$ 5,564,662	\$ 5,564,662
Beneficial interest in assets held in trust	7,500,317	7,500,317
Education institute endowment	513,966	513,966
Seats endowment	<u>1,257</u>	<u>1,257</u>
Total permanently restricted net assets	<u><u>\$ 13,580,202</u></u>	<u><u>\$ 13,580,202</u></u>