



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

Independent Auditor's Report and Financial Statements

August 31, 2024 and 2023



**North Carolina Performing Arts Center at Charlotte Foundation
(DBA Blumenthal Arts)
Contents
August 31, 2024 and 2023**

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Independent Auditor's Report

Audit Committee of the Board of Trustees
North Carolina Performing Arts Center at Charlotte Foundation
Charlotte, NC

Opinion

We have audited the financial statements of the North Carolina Performing Arts Center at Charlotte Foundation (dba "Blumenthal Arts") (the "BA"), which comprise the statements of financial position as of August 31, 2024 and 2023, and the related statements of activities 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 BA as of August 31, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the BA, 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 accounting principles generally accepted in the United States of America, and for 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 BA's ability to continue as a going concern within one year after the date that these financial statements are available to be issued or within one year after the date that these financial statements are issued.

Auditor's 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 auditor's 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 BA'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 BA'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.

Forvis Mazars, LLP

**Greenville, South Carolina
December 6, 2024**

North Carolina Performing Arts Center at Charlotte Foundation
(DBA Blumenthal Arts)
Statements of Financial Position
August 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,263,007	\$ 18,515,705
Receivables:		
Pledges receivable, net	113,266	111,818
Operations accounts receivable, net	3,242,330	4,292,263
Prepaid and other current assets	2,601,538	2,263,501
Short-term investments	<u>107,638</u>	<u>1,900,060</u>
Total current assets	24,327,779	27,083,347
Non-current assets:		
Investments in performances	2,204,621	1,460,696
Nonqualified deferred compensation plan assets	1,028,117	994,019
Property and equipment, net	4,788,098	2,273,851
Right-of-use operating lease assets	1,923,321	2,355,991
Present value of future lease contributions	3,726,247	3,953,352
Beneficial interest in assets held in trust	<u>28,440,759</u>	<u>25,513,532</u>
Total non-current assets	<u>42,111,163</u>	<u>36,551,441</u>
Total assets	<u>\$ 66,438,942</u>	<u>\$ 63,634,788</u>

(continued)

**North Carolina Performing Arts Center at Charlotte Foundation
(DBA Blumenthal Arts)
Statements of Financial Position
August 31, 2024 and 2023**

(continued)

	<u>2024</u>	<u>2023</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 1,996,716	\$ 1,025,410
Accrued expenses	3,207,165	2,945,219
Deferred revenue	13,955,690	15,527,038
Current portion of operating lease liabilities	<u>375,601</u>	<u>413,188</u>
Total current liabilities	19,535,172	19,910,855
Operating lease liabilities, less current portion	1,599,569	1,975,170
Nonqualified deferred compensation liability	<u>1,028,117</u>	<u>994,019</u>
Total non-current liabilities	2,627,686	2,969,189
Total liabilities	22,162,858	22,880,044
NET ASSETS		
Without donor restrictions	27,304,919	25,337,464
With donor restrictions	<u>16,971,165</u>	<u>15,417,280</u>
Total net assets	<u>44,276,084</u>	<u>40,754,744</u>
Total liabilities and net assets	<u>\$ 66,438,942</u>	<u>\$ 63,634,788</u>

**North Carolina Performing Arts Center at Charlotte Foundation
(DBA Blumenthal Arts)
Statements of Activities
Years Ended August 31, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
Changes in net assets without donor restrictions		
Operating revenues and other support		
Theater event collections	\$ 44,711,515	\$ 41,649,773
Contributions and grant revenues	2,445,501	2,007,634
Employee retention credit	-	1,209,631
Building maintenance support	150,000	150,000
Present value adjustments of future lease contributions	1,194,145	1,629,139
Return on investments available for operations	832,274	543,145
Change in beneficial interest of assets held in trust, net	1,975,353	886,617
Other revenues	1,164,637	520,864
Net assets released from restriction	1,363,430	1,428,088
Total revenues and other support without donor restrictions	<u>53,836,855</u>	<u>50,024,891</u>
Operating expenses		
Program expenses:		
Events	35,373,934	31,860,593
Operations	12,685,486	11,993,486
Donated rental expense	1,421,250	1,847,250
Development	741,648	907,796
Management and general	1,647,082	1,427,125
Total operating expenses	<u>51,869,400</u>	<u>48,036,250</u>
Change in net assets without donor restrictions	<u>1,967,455</u>	<u>1,988,641</u>
Changes in net assets with donor restrictions		
Contributions	836,073	572,285
Change in beneficial interest of assets held in trust, net	2,081,242	888,823
Net assets released from restriction	<u>(1,363,430)</u>	<u>(1,428,088)</u>
Change in net assets with donor restrictions	<u>1,553,885</u>	<u>33,020</u>
Change in net assets	3,521,340	2,021,661
Net assets, beginning of year	<u>40,754,744</u>	<u>38,733,083</u>
Net assets, end of year	<u>\$ 44,276,084</u>	<u>\$ 40,754,744</u>

**North Carolina Performing Arts Center at Charlotte Foundation
(DBA Blumenthal Arts)
Statements of Cash Flows
Years Ended August 31, 2024 and 2023**

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 3,521,340	\$ 2,021,661
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	494,806	543,576
Noncash operating lease expense	432,670	412,230
Net change in beneficial interest in assets held in trust	(4,056,593)	(1,775,440)
Change in present value of future lease contributions	227,105	218,111
Change in allowance for credit losses	-	7,454
Change in operating assets and liabilities:		
Pledges receivable	(1,448)	259,275
Operations accounts receivable	1,049,933	(610,782)
Prepaid and other current assets	(338,037)	(97,343)
Accounts payable	(325,408)	204,266
Accrued expenses	261,946	1,116,618
Deferred revenues	(1,571,348)	(228,016)
Repayment of operating lease liabilities	(413,188)	(379,863)
Net cash provided (used) by operating activities	<u>(718,222)</u>	<u>1,691,747</u>
Cash flows from investing activities:		
Sales (purchases) of short-term investments	2,921,788	(1,225,451)
Advances for future performances, net of royalties received	(743,925)	(146,900)
Net change in nonqualified deferred compensation plan assets	(34,098)	3,978
Net change in nonqualified deferred compensation plan liability	34,098	(3,978)
Purchases of property and equipment	(1,712,339)	(615,240)
Net cash provided (used) by investing activities	<u>465,524</u>	<u>(1,987,591)</u>
Net decrease in cash and cash equivalents	(252,698)	(295,844)
Cash and cash equivalents, beginning of year	<u>18,515,705</u>	<u>18,811,549</u>
Cash and cash equivalents, end of year	<u>\$ 18,263,007</u>	<u>\$ 18,515,705</u>
Supplemental Cash Flows Information		
Property and equipment additions included in accounts payable as of year end	<u>\$ 1,296,714</u>	<u>\$ -</u>

**North Carolina Performing Arts Center at Charlotte Foundation
(DBA Blumenthal Arts)
Notes to Financial Statements
August 31, 2024 and 2023**

Note 1. Summary Of Significant Accounting Policies and Organizational Policy

North Carolina Performing Arts Center at Charlotte Foundation (“Blumenthal Arts” or “Blumenthal”) incorporated on May 8, 1987, is exclusively charitable, literary and educational within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986. More specifically, the purpose of Blumenthal Arts (“BA”), headquartered in Charlotte, North Carolina, is 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 in Charlotte, Mecklenburg County, North Carolina, for the benefit of the greater Charlotte metro region including all surrounding/neighborhood counties in which its facilities are located. BA designs, develops, and operates facilities in the Charlotte region that in collaboration with city and county government, businesses, philanthropists, and the arts community expand the impact of the arts for our citizens. It also develops and hosts activities, events, and festivals, either alone or in collaboration with other entities to inspire arts in the region.

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:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. BA recognizes as without donor restricted revenue any donor-restricted contributions whose restrictions are met in the same reporting period as received.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events that are specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with 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.

Cash and Cash Equivalents

BA considers all liquid investments with original maturities of three months or less to be cash equivalents. BA considers uninvested cash held in investment accounts as cash or cash equivalents. At August 31, 2024 and 2023, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit, with a maturity date of three months or less. BA places its cash on deposit with one financial institution which is insured by the Federal Deposit Insurance Corporation (“FDIC”). At times, the balance may exceed the federally insured limits.

Receivables

Receivables are stated at unpaid balances, less an allowance for credit losses of approximately \$0 and \$8,000 at August 31, 2024 and 2023. BA provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of customers to meet their obligations.

**North Carolina Performing Arts Center at Charlotte Foundation
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Notes to Financial Statements
August 31, 2024 and 2023**

BA believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses and adjusts for current economic conditions and reasonable and supportable forecasts. It is BA's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Pledges Receivable

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.

Short-Term Investments

Investments with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using 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 on the accompanying Statements of Activities.

Investments in Performances

BA is a limited partner in several limited liability partnerships that invest in theatrical stage productions. BA'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 the BA'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.

Property and Equipment

All acquisitions of property and equipment in excess of \$25,000 and all expenditures for repairs, maintenance, renewals, and betterments in excess of \$25,000 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. BA 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 the BA'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

BA recognizes contribution revenue from assets donated to a recipient organization for the sole benefit of the BA and its mission.

Donated Services

BA 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 Statements of Activities.

BA generally pays for services requiring specific expertise. 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 years ended August 31, 2024 and 2023 were 35,589 and 37,056, respectively.

**North Carolina Performing Arts Center at Charlotte Foundation
(DBA Blumenthal Arts)
Notes to Financial Statements
August 31, 2024 and 2023**

Revenue Recognition

Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. BA's customer contracts generally require BA to present theater performances and provide space for performance venue rentals.

BA has the following main sources of revenue:

Theater event collections

BA provides various performances throughout the year for the public and also manages the operation of several performance venues which are available to be rented for events. The majority of the BA's revenues from contracts with customers are generated from theater admissions, ticket handling fees, concession revenues, and venue rentals which are considered to be single performance obligations. Revenues for performance obligations satisfied at a point in time are recognized when the services are provided, which is generally when the related theater performances are presented, or event has been held. Ticket handling fees are recognized at time of ticket sale. Tickets for theater performances are generally made available for purchase at the time the theater performance is advertised and are refundable.

Payments received for advance ticket sales and venue rental deposits are reported as a liability until the theater performance is presented or event has been held. The aggregate amount of the BA's contract performance obligation includes advance ticket sales and venue rental deposits which are reported as deferred revenue on the statements of financial position. The liability for advance ticket sales and venue rental deposits totaled approximately \$14,000,000 and \$15,500,000 at August 31, 2024 and 2023, respectively. Because the performance obligation for advance ticket sales and venue rental deposits relate to contracts with a duration of less than one year, the BA has elected to apply the Accounting Standard Update ("ASU") practical expedients to not restate completed contracts that begin and end in the same reporting period, not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied at the end of the reporting period, and not capitalize the incremental cost of obtaining contracts. The performance obligation for advance ticket sales will generally be completed in the following fiscal year when the theater performance is presented and the performance obligation for venue rental deposits will generally be completed in the following fiscal year when the event is presented.

Contributions and grant revenues

BA receives contributions from donors throughout the year which include gifts from individuals as well as corporate donors. As noted previously, contributions, including unconditional promises to give, are recognized when cash, securities or other assets are received while the conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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 without donor restricted revenue funds and are reimbursements for expenditures made by the BA.

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. BA charges advertising costs to events as incurred on the accompanying Statements of Activities. Advertising expense for the years ended August 31, 2024 and 2023 was approximately \$3,612,000 and \$3,267,000, respectively.

**North Carolina Performing Arts Center at Charlotte Foundation
(DBA Blumenthal Arts)
Notes to Financial Statements
August 31, 2024 and 2023**

Functional Allocation of Expenses

The costs of providing services have been summarized on a functional basis in Note 3. Certain costs have been allocated, based on estimates by management, among program services, management and general, and fundraising. Such allocations are determined by management based on department and labor.

Employee Retention Credit

In response to the economic impact of the COVID-19 pandemic, Congress introduced the Employee Retention Credit (“ERC”). The ERC is a refundable payroll tax credit available to taxpayers who experienced either a full or partial suspension of business operations due to government orders or had a significant drop in gross receipts during 2021.

BA qualifies for the ERC based on a reduction in gross receipts of 20 percent or greater in certain quarters of 2021 and has elected to account for the ERC as a government grant by analogy to ASC 958-605. Under ASC 958-605, the ERC may be recognized once the conditions attached to the grant have been substantially met. BA incurred qualifying wages in 2021 and has recognized \$1,209,631 for the year ended August 31, 2023 as operating income on the statements of activities.

Tax Status

In the Internal Revenue Service determination letter dated October 15, 1992, the BA 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. For the years ended August 31, 2024 and 2023, the BA accrued \$10,500 and \$22,500, respectively, in estimated federal and state taxes for Unrelated Business Income in accrued expenses on the statements of financial position.

Leases

The BA determines whether an arrangement is or contains a lease at the inception of the arrangement. Right-of-use (“ROU”) assets represent the BA’s right to use leased assets over the term of the lease. Lease liabilities represent the BA’s contractual obligation to make lease payments over the lease term.

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. The BA uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the BA uses the risk-free rate as the discount rate. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to the BA if the option were not exercised. Leases with an initial term of 12 months or less are not recorded on the statements of financial position. Lease expense is recognized on a straight-line basis over the lease term. To the extent that a lease arrangement includes both lease and non-lease components, the components are not accounted for separately.

Subsequent Events

BA evaluated the effect subsequent events would have on the financial statements through December 6, 2024, which is the date the financial statements were available to be issued.

**North Carolina Performing Arts Center at Charlotte Foundation
(DBA Blumenthal Arts)
Notes to Financial Statements
August 31, 2024 and 2023**

Note 2. Pledges Receivable

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

Pledges receivable are as follows as of August 31:

	<u>2024</u>	<u>2023</u>
Receivable in less than one year	\$ 113,266	\$ 119,272
Less: allowance for doubtful pledges	<u>-</u>	<u>(7,454)</u>
Total pledges receivable, net	<u>\$ 113,266</u>	<u>\$ 111,818</u>

Note 3. Analysis of Expense by Functional and Natural Categories

Expenses by natural classification for the year ended August 31, 2024, are as follows:

	<u>Program service expenses</u>	<u>Management and general expenses</u>	<u>Fundraising expenses</u>	<u>Total</u>
Production costs	\$ 26,954,960	\$ -	\$ 5,768	\$ 26,960,728
Advertising and promotion	3,555,924	-	56,228	3,612,152
Box office	2,399,923	-	-	2,399,923
Concessions and parking	2,017,905	-	-	2,017,905
Salaries and wages	6,416,969	701,253	393,048	7,511,270
Benefits	1,543,000	88,479	68,481	1,699,960
Contract services	941,099	69,371	1,344	1,011,814
Office expenses	855,196	120,835	18,742	994,773
Donated rental expense	1,421,250	-	-	1,421,250
Utilities	448,936	-	-	448,936
Insurance	406,226	-	-	406,226
Equipment/building repairs	360,516	-	-	360,516
Travel	833,906	89,249	29,394	952,549
Production investment losses	-	176,500	-	176,500
Scholarships and grants	10,282	-	-	10,282
Miscellaneous	819,772	401,395	168,643	1,389,810
Depreciation expense	<u>494,806</u>	<u>-</u>	<u>-</u>	<u>494,806</u>
	<u>\$ 49,480,670</u>	<u>\$ 1,647,082</u>	<u>\$ 741,648</u>	<u>\$ 51,869,400</u>

**North Carolina Performing Arts Center at Charlotte Foundation
(DBA Blumenthal Arts)
Notes to Financial Statements
August 31, 2024 and 2023**

Expenses by natural classification for the year ended August 31, 2023, are as follows:

	<u>Program service expenses</u>	<u>Management and general expenses</u>	<u>Fundraising expenses</u>	<u>Total</u>
Production costs	\$ 24,781,264	\$ -	\$ -	\$ 24,781,264
Advertising and promotion	3,203,932	-	62,892	3,266,824
Box office	2,022,718	-	-	2,022,718
Concessions and parking	1,852,679	-	-	1,852,679
Salaries and wages	5,855,774	417,349	457,050	6,730,173
Benefits	1,455,018	55,593	57,209	1,567,820
Contract services	797,124	24,000	500	821,624
Office expenses	772,132	119,283	22,807	914,222
Donated rental expense	1,847,250	-	-	1,847,250
Utilities	351,092	-	-	351,092
Insurance	271,590	-	-	271,590
Equipment/building repairs	196,221	-	-	196,221
Travel	721,049	122,458	245,369	1,088,876
Production investment losses	-	249,684	-	249,684
Scholarships and grants	58,063	-	-	58,063
Miscellaneous	971,847	438,758	61,969	1,472,574
Depreciation expense	<u>543,576</u>	<u>-</u>	<u>-</u>	<u>543,576</u>
	<u>\$ 45,701,329</u>	<u>\$ 1,427,125</u>	<u>\$ 907,796</u>	<u>\$ 48,036,250</u>

Note 4. 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 generally consists of net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The BA'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.

**North Carolina Performing Arts Center at Charlotte Foundation
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Notes to Financial Statements
August 31, 2024 and 2023**

There have been no changes in the methodologies used at August 31, 2024 and 2023.

The following tables set forth by level, within the fair value hierarchy, the BA investments at fair value as of August 31, 2024 and 2023:

	August 31, 2024			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Deferred compensation assets	\$ -	\$ 1,028,117	\$ -	\$ 1,028,117
Beneficial interest in assets held in trust	\$ -	\$ -	\$ 28,440,759	\$ 28,440,759
	August 31, 2023			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Deferred compensation assets	\$ -	\$ 994,019	\$ -	\$ 994,019
Beneficial interest in assets held in trust	\$ -	\$ -	\$ 25,513,532	\$ 25,513,532

The BA had approximately \$108,000 and \$1,900,000 of certificate of deposits included in short-term investments as of August 31, 2024 and 2023, respectively, which were not classified in the fair value hierarchy because they are held at cost.

The investment portion of the beneficial interest in assets held in trust are considered by BA to be Level 3 assets because they represent interests held in pooled investment funds, which include private investment funds. As discussed in Notes 5 and 6, the Foundation for the Carolinas (“FFTC”) manages the administration of these investments.

Note 5. 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 endowment investments are invested at the FFTC which qualify as beneficial interest in assets held in trust (Note 6).

BA’s endowment investments of \$16,399,735 and \$15,163,566 are held by the Greater Charlotte Cultural Trust (the “Trust”) as of August 31, 2024 and 2023, respectively. 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.

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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 investment gains on endowments investments was \$2,365,539 and \$1,062,066 for the year ended August 31, 2024 and 2023 respectively, and is included in change in beneficial interest of assets held in trust, net on the statement of activities.

Note 6. Beneficial Interest In The Campaign For Cultural Facilities

BA 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. BA 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 the BA has no control over the calculation of the annual spendable portion of these funds as of August 31, 2024, BA is a named beneficiary of a portion of these funds. Accordingly, a beneficial interest has been included in the BA's assets totaling \$12,041,024 and \$10,349,966 as of August 31, 2024 and 2023, respectively, representing the BA's interest in funds raised to date.

Note 7. Endowment Funds

BA's endowment consists of nine individual funds established for a variety of purposes that are invested at the Trust as of August 31, 2024 and 2023. 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").

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Endowment net asset composition by type of fund for the investment portion of the endowment as of August 31, 2024 and 2023 is listed below:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
2024:			
Endowment funds	\$ <u>16,961,689</u>	\$ <u>11,479,070</u>	\$ <u>28,440,759</u>
2023:			
Endowment funds	\$ <u>15,494,650</u>	\$ <u>10,018,882</u>	\$ <u>25,513,532</u>

The Board of Trustees of the BA has interpreted UPMIFA as requiring, absent explicit donor stipulations to the contrary, that the following amounts included in the endowment be classified as donor 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.

In accordance with UPMIFA, BA 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 the BA 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 BA
7. The investment policies of the BA

The FFTC administers the endowed funds of the Trust. The Board of Directors of the Trust and ultimately the BA 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	17% - 26%
Equities – small cap	6% - 11%
Equities – emerging market	5% - 8%
Equities – international	10% - 25%
Bonds	10% - 60%
Alternative investments	5% - 15%

The Trust establishes its spendable income policy to balance near-term spending requirements against the long-term preservation goals for the funds. Each year the Trust approves a spendable income rate to be applied to the average daily balance of the funds over the previous three calendar years. In compliance with North Carolina law and leveraging the financial expertise of its Board of Directors, the Trust considers current and forecasted economic and market conditions to determine the annual spendable income rate. Accordingly, the spending policy is expected to allow the endowment to maintain its purchasing power by growing at a rate in excess of planned payouts. The spendable income rate was 4.25% for the years ending August 31, 2024 and 2023.

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Changes in the investment portion of the endowment net assets for the years ended August 31, 2024 and 2023 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, September 1, 2023	\$ 15,494,650	\$ 10,018,882	\$ 25,513,532
Net investment return	1,990,338	2,066,255	4,056,593
Contributions	-	14,987	14,987
Transfers in	-	2,323	2,323
Withdrawals	(1,066,853)	(77,500)	(1,144,353)
Released from donor restriction	543,554	(543,554)	-
Change in Greater Charlotte Cultural Trust	-	(2,323)	(2,323)
Endowment net assets, August 31, 2024	<u>\$ 16,961,689</u>	<u>\$ 11,479,070</u>	<u>\$ 28,440,759</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, September 1, 2022	\$ 14,634,625	\$ 9,748,411	\$ 24,383,036
Net investment return	886,617	881,846	1,768,463
Contributions	-	7,449	7,449
Transfers in	-	172,860	172,860
Withdrawals	(499,997)	(152,396)	(652,393)
Released from donor restriction	473,405	(473,405)	-
Change in Greater Charlotte Cultural Trust	-	(165,883)	(165,883)
Endowment net assets, August 31, 2023	<u>\$ 15,494,650</u>	<u>\$ 10,018,882</u>	<u>\$ 25,513,532</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the amount recorded by the BA as donor restricted net assets (corpus). At August 31, 2024 and 2023, the fair value of each individual fund exceeded corpus.

Note 8. Property And Equipment

At August 31, 2024 and 2023, property and equipment consisted of the following:

	<u>2024</u>	<u>2023</u>
Leasehold improvements	\$ 3,069,865	\$ 3,069,865
Computer equipment	347,414	347,414
Building equipment	903,846	903,846
Furniture and office equipment	227,947	28,355
Construction in process	<u>3,134,524</u>	<u>325,063</u>
Total property and equipment	7,683,596	4,674,543
Less: accumulated depreciation	<u>(2,895,498)</u>	<u>(2,400,692)</u>
Net property and equipment	<u>\$ 4,788,098</u>	<u>\$ 2,273,851</u>

BA leases its facilities from the City and the County. See Note 9. Depreciation expense was \$494,806 and \$543,576 as of August 31, 2024 and 2023, respectively.

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As of August 31, 2024, BA has an outstanding construction commitment related to Blume Studios for approximately \$593,000. The total project, related to the construction of the newly purchased studio space, is estimated to cost approximately \$2,397,000 with \$1,804,000 being completed as of August 31, 2024. The project is estimated to be completed in September 2024.

Note 9. Facilities Leases

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

In accordance with GAAP, the BA records the fair market value of the leases each year. In addition, the BA 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 3.5% and 4.3% for Bank of America and Knight Theater, respectively. BA recorded the fair value of the leases of \$1,421,250 and \$1,847,250 as donated rental expense, net of amortization of the discount, on the accompanying Statements of Activities for the years ended August 31, 2024 and 2023, respectively.

Note 10. Leases

The BA leases certain equipment and property under the terms of non-cancellable operating leases. For leases with terms greater than 12 months, the related right-of-use assets and right-of-use obligations are recorded at the present value of lease payments over the term. Many of the leases include rental escalation clauses and renewal options that are factored into the determination of lease payments when appropriate.

The components of lease expense (and related classification in the accompanying statements of activities) were as follows during the years ended August 31:

	<u>2024</u>	<u>2023</u>
Operating lease cost (Operations)	\$ 488,562	\$ 499,897

Cash paid for amounts included in the measurement of lease liabilities for the year ended August 31, is as follows:

	<u>2024</u>	<u>2023</u>
Operating cash flows for operating leases	\$ 413,188	\$ 379,863

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The following table presents lease-related assets and liabilities at August 31:

	<u>2024</u>	<u>2023</u>
Operating leases:		
Right-of-use operating lease assets	\$ 1,923,321	\$ 2,355,991
Current operating lease liabilities	\$ 375,601	\$ 413,188
Noncurrent operating lease liabilities	<u>1,599,569</u>	<u>1,975,170</u>
Total operating lease liabilities	<u>\$ 1,975,170</u>	<u>\$ 2,388,358</u>

Other information:

	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term – operating leases	4.89 years	5.73 years
Weighted-average discount rate – operating leases	3.42%	3.43%

The following schedule summarizes the BA's future minimum payments under contractual obligations for operating liabilities:

2025	\$ 436,950
2026	426,344
2027	436,766
2028	406,708
2029	409,504
Thereafter	<u>34,201</u>
Total	2,150,473
Less: present value discount	<u>(175,303)</u>
Total lease liability	<u>\$ 1,975,170</u>

Note 11. Receivables and Prepaid Event Expenses

BA recognizes revenues and expenses related to an event at the time of the performance. Related box office receivables were approximately \$2,600,000 and \$3,400,000 for the years ended August 31, 2024 and 2023, respectively. Related prepaid event expenses were approximately \$1,639,000 and \$1,274,000 for the years ended August 31, 2024 and 2023, respectively.

Note 12. Employee Benefit Plans

BA 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. BA contributes 2% of each participant's compensation to the plan and matches up to 3% of a participant's compensation. For the years ended August 31, 2024 and 2023, the BA's contribution to the plan was approximately \$333,000 and \$270,000, respectively.

BA provides separate supplemental employee retirement plans for its president and vice presidents. The former president is covered under an annuity contract which, beginning in fiscal 1998, was partially funded by investing in

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a trust which BA is the owner of the trust assets. The current president is covered under a defined contribution plan. BA recorded no expenses related to the plans for the years ended August 31, 2024 or 2023. The trust assets of \$1,028,117 and \$994,019 as of August 31, 2024 and 2023, respectively, are recorded as an asset in the BA's financial statements and the corresponding liability has also been recorded.

Note 13. Restrictions and Limitations on Net Asset Balances

BA's net assets with donor restrictions were released as follows for the years ended August 31:

	<u>2024</u>	<u>2023</u>
Donated rental expense, net of amortization of discount	\$ 227,105	\$ 218,111
Donor designated gifts released	592,771	636,572
Campaign for Cultural Facilities donations released from restriction	543,554	473,405
Education Endowment released for distribution	-	100,000
Total net assets released from donor restrictions	<u>\$ 1,363,430</u>	<u>\$ 1,428,088</u>

BA's net assets with donor restrictions are for the following purposes:

Gross value of leaseholds with City, County and Bank of America, N.A.	\$ 3,953,352	\$ 4,171,463
Less: net rental expense recognized to date	<u>(227,105)</u>	<u>(218,111)</u>
Present value of leaseholds with City and County	3,726,247	3,953,352
Booth Playhouse endowment	521,590	448,339
Performing arts scholarship fund	603,394	598,344
Other restricted donor contributions	1,765,848	1,445,046
Beneficial interest in The Campaign for Cultural Facilities	8,668,883	7,521,378
Education institute endowment	1,163,529	987,362
Other scholarship funds	<u>521,674</u>	<u>463,459</u>
Total net assets with donor restrictions	<u>\$ 16,971,165</u>	<u>\$ 15,417,280</u>

Note 14. Concentrations

During the years ended August 31, 2024 and 2023, BA had ticket sales from a single theater production within that year that comprised of 17% and 10%, respectively, of total theater event collections revenue.

Some of BA's employees (representing approximately 25% and 23% of payroll expense for the years ended August 31, 2024 and 2023, respectively) are members of the International Alliance of Theatrical Stage Employees Local #322. BA's contract with the union expires June 30, 2026. BA's other employees are not represented by a union.

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Note 15. Availability and Liquidity

The following represents BA's financial assets at August 31:

	<u>2024</u>	<u>2023</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 18,263,007	\$ 18,515,705
Operations accounts receivable	3,242,330	4,292,263
Short-term investments	<u>107,638</u>	<u>1,900,060</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 21,612,975</u>	<u>\$ 24,708,028</u>