

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

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**Financial Statements**

**Years ended August 31, 2016 and 2015**



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## **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, 2016 and 2015, and the related statements of activities and cash flows for the years ended August 31, 2016 and 2015, 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, 2016 and 2015, and the results of its operations and its cash flows for the years ended August 31, 2016 and 2015 in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 14 to the financial statements, the 2015 financial statements were adjusted to retrospectively apply a change in accounting principle regarding the accounting of endowments as beneficial interests in assets. Our opinion is not modified with respect to this matter.

*Dixon Hughes Goodman LLP*

**Charlotte, North Carolina  
November 16, 2016**

**North Carolina Performing Arts Center At Charlotte Foundation**  
**Statements of Financial Position**  
**August 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 4,113,140	\$ 5,297,125
Receivables		
Pledges receivable, net	518,664	81,475
Operations accounts receivable, net	3,943,972	3,550,458
Prepaid and other current assets	1,158,673	1,035,208
Short-term investments	<u>2,724,237</u>	<u>2,680,920</u>
Total current assets	<b>12,458,686</b>	12,645,186
Non-Current Assets:		
Pledges receivable - long term, net	40,000	-
Investments in performances	574,516	581,461
Nonqualified deferred compensation plan assets	125,560	123,066
Property and equipment, net	<u>3,109,904</u>	<u>2,982,204</u>
Total non-current assets	<b>3,849,980</b>	3,686,731
Restricted Assets:		
Present value of future lease contributions	5,668,596	6,461,089
Beneficial interest in assets held in trust	<u>19,553,528</u>	<u>18,446,698</u>
Total restricted assets	<b>25,222,124</b>	24,907,787
Total assets	<b><u>\$ 41,530,790</u></b>	<b><u>\$ 41,239,704</u></b>

See accompanying notes.

	<u>2016</u>	<u>2015</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 570,001	\$ 1,344,328
Accrued expenses	1,117,707	1,026,791
Deferred revenue	<u>9,562,989</u>	<u>9,358,238</u>
Total current liabilities	11,250,697	11,729,357
Nonqualified deferred compensation liability	<u>125,560</u>	<u>123,066</u>
Total liabilities	11,376,257	11,852,423
Net Assets:		
Unrestricted		
Undesignated	3,922,190	3,834,736
Board designated	235,000	235,000
Temporarily restricted	12,392,141	11,737,343
Permanently restricted	<u>13,605,202</u>	<u>13,580,202</u>
Total net assets	<u>30,154,533</u>	<u>29,387,281</u>
Total liabilities and net assets	<u>\$ 41,530,790</u>	<u>\$ 41,239,704</u>

**North Carolina Performing Arts Center at Charlotte**  
**Statements of Activities**  
**Years ended August 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Changes in Unrestricted Net Assets		
Operating Activities		
Operating revenues and other support		
Theater event collections	\$ 30,774,130	\$ 23,863,616
Contributions and grant revenues	1,736,450	1,644,535
Building maintenance support	914,526	914,526
Present value adjustments of future lease contributions	617,757	643,525
Return on investments available for operations	57,848	23,866
Other revenues	161,335	147,715
Net assets released from restriction	<u>1,546,086</u>	<u>1,558,639</u>
Total operating revenues and other support	<b>35,808,132</b>	28,796,422
Operating Expenses		
Program expenses:		
Events	22,766,269	16,810,131
Operations	9,967,467	8,856,465
Donated rental expense	1,410,250	1,410,250
Total program expenses	<u>34,143,986</u>	<u>27,076,846</u>
Development	510,234	491,932
Management and general	<u>1,066,458</u>	<u>1,213,548</u>
Total operating expenses	<u>35,720,678</u>	<u>28,782,326</u>
Change in unrestricted net assets	<u>87,454</u>	<u>14,096</u>

**North Carolina Performing Arts Center at Charlotte  
Statements of Activities  
Years ended August 31, 2016 and 2015**

**(Continued)**

	<u>2016</u>	<u>2015</u>
Changes in Temporarily Restricted Net Assets		
Contributions	1,148,576	685,897
Change in beneficial interest of assets held in trust	1,052,308	(1,255,089)
Net assets released from restriction	<u>(1,546,086)</u>	<u>(1,558,639)</u>
Changes in temporarily restricted net assets	<u>654,798</u>	<u>(2,127,831)</u>
Changes in Permanently Restricted Net Assets		
Contributions	<u>25,000</u>	<u>-</u>
Change in net assets	767,252	(2,113,735)
Net assets, beginning of year	<u>29,387,281</u>	<u>31,501,016</u>
Net assets, end of year	<u><u>\$ 30,154,533</u></u>	<u><u>\$ 29,387,281</u></u>

**North Carolina Performing Arts Center at Charlotte**  
**Statements of Cash Flows**  
**Years ended August 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 767,252	\$ (2,113,735)
Adjustments to reconcile change in net assets to net cash flows provided (used) by operating activities		
Depreciation	623,603	568,798
Realized and unrealized (gains) losses	(43,317)	(12,382)
Net change in beneficial interest in assets held in trust	(1,052,308)	1,255,089
Change in present value of future lease contributions	792,493	766,725
Change in allowance for doubtful accounts	1,390	(1,338)
Change in operating assets and liabilities:		
Pledges receivable	(479,189)	257,872
Operations accounts receivable	(392,904)	(47,163)
Prepaid and other current assets	(123,465)	(75,237)
Accounts payable	(774,327)	811,435
Accrued expenses	90,916	335,088
Deferred revenues	204,751	757,721
	<u>(385,105)</u>	<u>2,502,873</u>
Cash flows from investing activities:		
Purchase of short-term investments, net of sales of short-term investments	(54,522)	(156,833)
Advances for future performances, net of royalties received	6,945	146,590
Net change in nonqualified deferred compensation plan assets	(2,494)	3,620
Net change in nonqualified deferred compensation plan liability	2,494	(66,737)
Purchases of property and equipment	(751,303)	(1,313,403)
	<u>(798,880)</u>	<u>(1,386,763)</u>
Cash flow from financing activities:		
Principal payments on capital lease obligations	-	(828)
	<u>(1,183,985)</u>	<u>1,115,282</u>
Net change in cash and cash equivalents		
Cash and cash equivalents, beginning of year	5,297,125	4,181,843
	<u>\$ 4,113,140</u>	<u>\$ 5,297,125</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. BPA also manages a fourth performance space, the 1,193-seat Knight Theater and the 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 twelve 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, 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).

#### ***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***

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. BPA 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.

## **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 \$2,100 and \$3,500 at August 31, 2016 and 2015, 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, 2016, BPA had no investments in any of the productions of which an officer of BPA also had as an investment. As of August 31, 2015, BPA had an investment of approximately \$3,300 in one of the productions of which an officer of BPA also had 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. Effective August 1, 2016, BPA changed the capitalization of property and equipment to \$25,000. 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 2016, BPA did not receive any donated legal services. In 2015, BPA received \$7,532 in donated legal services. 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, 2016 and 2015 were approximately 43,000 and 30,000 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 years ended August 31, 2016 and 2015 was approximately \$2,543,000 and \$1,842,000, 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 \$9,600 and \$10,000 in estimated federal and state taxes for Unrelated Business Income for the years ended August 31, 2016 and 2015, respectively.

### ***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 November 16, 2016, which is the date the financial statements were available to be issued.

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

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### 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>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 518,664	\$ 83,475
Receivable in two to five years	40,000	-
Less: Allowance for uncollectible pledges	-	(2,000)
Total pledges receivable, net	<u>\$ 558,664</u>	<u>\$ 81,475</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 generally 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, 2016 and 2015.

**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, 2016 and 2015:

	<b>August 31, 2016</b>			<b>Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Short-term investments:				
Cash and cash equivalents	\$ -	\$ 547,180	\$ -	\$ 547,180
Fixed income	-	<u>2,177,057</u>	-	<u>2,177,057</u>
Total short-term investments	<u>\$ -</u>	<u>\$ 2,724,237</u>	<u>\$ -</u>	<u>\$ 2,724,237</u>

	<b>August 31, 2015</b>			<b>Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</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>

The investment portion of the beneficial interest in assets held in trust 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.

**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 endowment investments are invested at the FFTC which qualify as beneficial interest in assets held in trust (Note 14). The fair value of short-term investments at August 31, 2016 and 2015 is summarized below:

	<b>2016</b>	<b>2015</b>
Short-term investments		
Cash and cash equivalents	\$ 547,180	\$ 543,684
Bonds	<u>2,177,057</u>	<u>2,137,236</u>
Total short-term investments	<u>\$ 2,724,237</u>	<u>\$ 2,680,920</u>

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

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BPA's endowment investments of \$10,583,783 and \$9,780,628 are held by the Greater Charlotte Cultural Trust (the "Trust") as of August 31, 2016 and August 31, 2015, 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.

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 return (loss) on endowments investments was \$748,632 and (\$395,141) for the years ended August 31, 2016 and 2015.

### **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 \$8,969,745 and \$8,666,070 as of August 31, 2016 and 2015, respectively, representing BPA's interest in funds raised to date.

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

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**6. Endowment Funds**

BPA's endowment consists of six and seven individual funds established for a variety of purposes that are invested at the Trust as of August 31, 2016 and August 31, 2015, respectively (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, 2016 and 2015 is listed below:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2016:				
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 5,948,326</u>	<u>\$ 13,605,202</u>	<u>\$19,553,528</u>
2015:				
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 4,866,496</u>	<u>\$ 13,580,202</u>	<u>\$18,446,698</u>

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

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

The 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.

Changes in the investment portion of the endowment net assets for the years ended August 31, 2016 and 2015 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 1, 2015	\$ 4,866,496	\$ 13,580,202	\$ 18,446,698
Investment return	1,415,491	-	1,415,491
Contributions	135,121	25,000	160,121
Withdrawals	(260,000)	-	(260,000)
Change in Greater Charlotte Cultural Trust	<u>(208,782)</u>	<u>-</u>	<u>(208,782)</u>
Endowment net assets, August 31, 2016	<u>\$ 5,948,326</u>	<u>\$ 13,605,202</u>	<u>\$ 19,553,528</u>

**North Carolina Performing Arts Center at Charlotte Foundation**  
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	<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 losses	(631,861)	-	(631,861)
Contributions	445,432	-	445,432
Withdrawals	(695,000)	-	(695,000)
Change in Greater Charlotte Cultural Trust	<u>(216,827)</u>	<u>-</u>	<u>(216,827)</u>
Endowment net assets, August 31, 2015	<u>\$ 4,886,496</u>	<u>\$ 13,580,202</u>	<u>\$ 18,446,698</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, 2016 and 2015, the fair value of each individual fund exceeded corpus.

**7. Property And Equipment**

At August 31, 2016 and 2015 property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 3,854,862	\$ 3,778,870
Computer equipment	2,895,976	2,860,747
Building equipment	2,172,219	1,599,483
Organ façade	182,601	182,601
Furniture and office equipment	1,112,302	1,046,622
Construction in process	<u>11,443</u>	<u>9,776</u>
Total property and equipment	<u>10,229,403</u>	9,478,099
Less: accumulated depreciation	<u>(7,119,499)</u>	<u>(6,495,895)</u>
Net property and equipment	<u>\$ 3,109,904</u>	<u>\$ 2,982,204</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 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, 2016 and August 31, 2015.

## **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, 2016 and 2015, the Center had received approximately \$9.6 million and \$9.4 million, respectively, in advance ticket sales and advertising revenue which have been deferred to the succeeding fiscal year. Related box office receivables were approximately \$3,300,000 and \$2,900,000 for the year ended August 31, 2016 and August 31, 2015 respectively. Related prepaid event expenses were approximately \$489,000 and \$334,000 for the year ended August 31, 2016 and August 31, 2015, respectively.

In addition, BPA has deferred advertising revenue of approximately \$144,000 and \$202,000 for the year ended August 31, 2016 and August 31, 2015, 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 years ended August 31, 2016 and 2015, BPA's contribution to the plan was approximately \$159,000 and \$163,000, 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 years ended August 31, 2016 and 2015. The trust assets are recorded as an asset in BPA's financial statements and the corresponding liability has also been recorded.

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

Some of BPA's employees (representing approximately 26% and 20% of payroll expense for the years ended August 31, 2016 and 2015, respectively) are members of the International Alliance of Theatrical Stage Employees Local #322. BPA's contract with the union expires June 30, 2019. 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 years ended August 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Donated rental expense, net of amortization of discount	\$ 792,493	\$ 766,725
Donor designated gifts released	<u>753,593</u>	<u>791,914</u>
Total Temporarily Restricted Net Assets Released From Restriction	<u>\$ 1,546,086</u>	<u>\$ 1,558,639</u>

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

	<u>2016</u>	<u>2015</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>(4,966,237)</u>	<u>(4,173,744)</u>
Present value of leaseholds with City and County	5,668,596	6,461,089
Booth Playhouse endowment	226,410	226,410
Performing arts scholarship fund	509,081	503,435
Investment gains: Endowment funds	3,467,353	2,718,720
Organ fund	-	139,152
Beneficial interest in The Campaign for Cultural Facilities	1,469,428	1,165,753
Other temporarily restricted net assets	<u>1,051,273</u>	<u>522,784</u>
Total temporarily restricted net assets	<u>\$ 12,392,141</u>	<u>\$ 11,737,343</u>

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

	<u>2016</u>	<u>2015</u>
Operating endowment for the Center	\$ 5,589,662	\$ 5,564,662
Beneficial interest in The Campaign for Cultural Facilities	7,500,317	7,500,317
Education institute endowment	513,966	513,966
Seats endowment	1,257	1,257
Total permanently restricted net assets	<u>\$ 13,605,202</u>	<u>\$ 13,580,202</u>

**14. Change in Accounting Principle**

BPA determined during 2016 that the endowments described in Note 6 should be treated as beneficial interest in assets held in trust instead of investments, as previously reported. The endowment investments are invested at the FFTC which qualify as beneficial interest in assets held in trust. BPA has restated the disclosures related to this change.

Investments held at the Foundation for the Carolina's consist of various debt and equity securities. All investments are recorded at fair value and are considered to be beneficial interest in assets held in trust. The statement of financial position as of August 31, 2015 has been adjusted to reflect retrospective application as follows:

	<u>As Previously Reported</u>	<u>Retrospective Adjustments</u>	<u>As Adjusted</u>
Restricted Assets:			
Endowment investments	\$ 9,780,631	\$ (9,780,631)	\$ -
Beneficial interest in assets held in trust	\$ 8,666,067	\$ 9,780,631	\$ 18,446,698

The statement of activities for the year ended August 31, 2015 has been adjusted to reflect retrospective application as follows:

	<u>As Previously Reported</u>	<u>Retrospective Adjustments</u>	<u>As Adjusted</u>
Changes in Temporarily Restricted Net Assets:			
Loss on investments	\$ (395,141)	\$ 395,141	\$ -
Change in beneficial interest of assets held in trust	\$ (859,948)	\$ (395,141)	\$ (1,255,089)

The cash flow for the year ended August 31, 2015 has been adjusted to reflect retrospective application as follows:

	<u>As Previously Reported</u>	<u>Retrospective Adjustments</u>	<u>As Adjusted</u>
Cash flow from operating activities:			
Realized and unrealized (gains) losses	\$ 362,799	\$ (375,181)	\$ (12,382)
Net change in beneficial interest in assets held in trust	\$ 859,948	\$ 395,141	\$ 1,255,089
Cash flow from investing activities:			
Purchase of short-term investments, net of sales of short-term investments	\$ (136,873)	\$ (19,960)	\$ (156,833)