

Spoletto Festival USA, Inc.

Report on Financial Statements

For the years ended August 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Spoleto Festival USA, Inc.
Charleston, South Carolina

Opinion

We have audited the accompanying financial statements of Spoleto Festival USA, Inc. (the "Festival"), which comprise the statements of financial position as of August 31, 2022 and 2021, 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 financial statements referred to above present fairly, in all material aspects, the financial position of the Festival as of August 31, 2022 and 2021, 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) and the standards applicable to financial audits contained in *Government Auditing Standards* ("Government Auditing Standards"), issued by the Comptroller of the United States. 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 Festival 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 opinions.

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 the 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 Festival's ability to continue as a going concern within one year after the date of the financial statements are available to be 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 generally accepted auditing standards 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,

Auditor's Responsibilities for the Audit of the Financial Statements, Continued

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 generally accepted auditing standards and *Government Auditing Standards*, 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 Festival'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 Festival'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 audits, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying combining schedules of financial position and schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules of financial position and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also included our report dated February 27, 2023, on our consideration of the Festival's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Festival's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina
February 27, 2023

Spoletto Festival USA, Inc.**Statements of Financial Position****As of August 31, 2022 and 2021**

	2022	2021
Assets		
Cash and cash equivalents	\$ 716,129	\$ 2,186,540
Contributions and grants receivable, net	663,098	984,555
State appropriations grant receivable	-	500,000
Employee retention tax credits receivable	148,141	326,051
Accounts receivable, net	7,177	25,196
Prepaid expenses	132,667	254,119
Inventory	4,000	4,000
Investments	11,541,519	13,810,768
Beneficial interest in charitable remainder trust	349,324	423,875
Property and equipment, net	5,064,832	5,111,481
Total assets	<u>\$ 18,626,887</u>	<u>\$ 23,626,585</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 177,261	\$ 72,483
Accrued expenses	87,964	298,837
Deferred income	277,706	432,168
Line of credit	400,000	-
Capital lease payable	7,617	13,283
Notes payable	1,104,322	1,358,107
Refundable advance	-	1,010,633
Total liabilities	<u>2,054,870</u>	<u>3,185,511</u>
Net assets		
Net assets without donor restrictions		
Operating	269,596	5,575
Cash reserve - board designated	425,000	425,000
Capital assets	2,757,063	3,074,185
Total net assets without donor restrictions	<u>3,451,659</u>	<u>3,504,760</u>
Net assets with donor restrictions	<u>13,120,358</u>	<u>16,936,314</u>
Total net assets	<u>16,572,017</u>	<u>20,441,074</u>
Total liabilities and net assets	<u>\$ 18,626,887</u>	<u>\$ 23,626,585</u>

See Notes to Financial Statements

Spoletto Festival USA, Inc.**Statement of Activities****For the year ended August 31, 2022**

	Without Donor Restrictions			With Donor Restrictions	Total
	Operating	Cash Reserve - Board Designated	Capital Assets		
Revenues and Contributed Support					
Revenues					
Admissions	\$ 2,689,735	\$ -	\$ -	\$ 2,689,735	\$ 2,689,735
Merchandise sales, net of COGS of \$1,693	11,891	-	-	11,891	11,891
Advertising and sponsorships	29,963	-	-	29,963	29,963
Box office handling charges	216,469	-	-	216,469	216,469
Investment return, net of brokerage fees	(440)	-	-	(440)	(2,126,921)
Change in value of split interest agreement	-	-	-	-	(74,551)
Rental and co-production income	101,365	-	397,855	499,220	499,220
Total revenues	3,048,983	-	397,855	(2,201,472)	1,245,366
Contributed support					
Contributions and other grants	3,923,471	-	14,933	265,963	4,204,367
Government grant - shuttered venue operators grant	-	-	-	798,592	798,592
Government grant - refundable advance forgiveness	1,010,633	-	-	-	1,010,633
Donated services	65,425	-	-	-	65,425
Benefit programs and fundraising events, net of special event expense of \$442,605	205,054	-	-	-	205,054
Total contributed support	5,204,583	-	14,933	1,064,555	6,284,071
Net assets released from restrictions					
Net assets released for time and purpose restrictions	2,228,361	-	-	(2,228,361)	-
Net assets released for operating purposes	450,678	-	-	(450,678)	-
Total net assets released from restrictions	2,679,039	-	-	(2,679,039)	-
Total revenues, contributed support, and releases	10,932,605	-	412,788	(3,815,956)	7,529,437
Expenses					
Program and production	6,927,599	-	343,026	-	7,270,625
Marketing, public relations and box office	1,049,020	-	30,142	-	1,079,162
Development and fundraising	874,544	-	50,237	-	924,781
General and administrative	1,414,731	-	133,391	-	1,548,122
Bad debt expense	1,630	-	-	-	1,630
Interest and fees	25,206	-	33,102	-	58,308
Depreciation	-	-	515,866	-	515,866
Total expenses	10,292,730	-	1,105,764	-	11,398,494
Excess (deficiency) of revenues and support over (under) expenses	639,875	-	(692,976)	(3,815,956)	(3,869,057)
Transfers					
Transfers (to) from other funds	(375,854)	-	375,854	-	-
Increase (decrease) in net assets	264,021	-	(317,122)	(3,815,956)	(3,869,057)
Net assets, beginning of year	5,575	425,000	3,074,185	16,936,314	20,441,074
Net assets, end of year	\$ 269,596	\$ 425,000	\$ 2,757,063	\$ 13,120,358	\$ 16,572,017

See Notes to Financial Statements

Spoletto Festival USA, Inc.**Statement of Activities****For the year ended August 31, 2021**

	Without Donor Restrictions			With Donor Restrictions	Total
	Operating	Cash Reserve - Board Designated	Capital Assets		
Revenues and Contributed Support					
Revenues					
Admissions	\$ 813,952	\$ -	\$ -	\$ 813,952	\$ 813,952
Merchandise sales, net of COGS of \$1,173	8,958	-	4,121	13,079	13,079
Advertising and sponsorships	10,871	-	-	10,871	10,871
Box office handling charges	83,000	-	-	83,000	83,000
Investment return, net of brokerage fees	455	-	-	455	2,563,554
Change in value of split interest agreement	-	-	-	50,542	50,542
Employee retention tax credits	714,265	-	-	-	714,265
Rental and co-production income	17,393	-	233,376	-	250,769
Total revenues	1,648,894	-	237,497	2,614,096	4,500,487
Contributed support					
Contributions and grants	2,969,842	-	13,951	1,063,203	4,046,996
Government grant - shuttered venue operators grant	-	-	-	586,550	586,550
Government grant - refundable advance forgiveness	476,007	-	-	-	476,007
State appropriations grant	500,000	-	-	-	500,000
Donated services	67,566	-	-	-	67,566
Benefit programs and fundraising events, net of special event expense of \$86,922	95,837	-	-	3,500	99,337
Total contributed support	4,109,252	-	13,951	1,653,253	5,776,456
Net assets released from restrictions					
Net assets released for time and purpose restrictions	650,918	-	-	(650,918)	-
Net assets released for operating purposes	445,384	-	-	(445,384)	-
Total net assets released from restrictions	1,096,302	-	-	(1,096,302)	-
Total revenues, contributed support, and releases	6,854,448	-	251,448	3,171,047	10,276,943
Expenses					
Program and production	2,907,176	-	288,328	-	3,195,504
Marketing, public relations and box office	701,189	-	32,973	-	734,162
Development and fundraising	766,592	-	54,955	-	821,547
General and administrative	1,294,950	-	127,179	-	1,422,129
Bad debt expense	1,900	-	-	-	1,900
Interest and fees	18,537	-	47,732	-	66,269
Depreciation	-	-	453,073	-	453,073
Total expenses	5,690,344	-	1,004,240	-	6,694,584
Excess (deficiency) of revenues and support over (under) expenses	1,164,104	-	(752,792)	3,171,047	3,582,359
Transfers					
Transfers (to) from other funds	(863,431)	425,000	438,431	-	-
Increase (decrease) in net assets	300,673	425,000	(314,361)	3,171,047	3,582,359
Net assets, beginning of year	(295,098)	-	3,388,546	13,765,267	16,858,715
Net assets, end of year	\$ 5,575	\$ 425,000	\$ 3,074,185	\$ 16,936,314	\$ 20,441,074

See Notes to Financial Statements

Spoletto Festival USA, Inc.**Statements of Cash Flows****For the years ended August 31, 2022 and 2021**

	2022	2021
<i>Cash flows from operating activities</i>		
Cash received from admissions, merchandise and other sales and charges	\$ 4,061,916	\$ 1,627,766
Cash received from contributors for other than long-term purposes	5,886,392	3,775,966
Cash paid to employees and vendors	(11,265,886)	(6,194,873)
Interest and dividends received, net	256,632	212,950
Interest paid	(44,053)	(55,825)
Net cash used for operating activities	<u>(1,104,999)</u>	<u>(634,016)</u>
<i>Cash flows from investing activities</i>		
Acquisition of property and equipment	(469,217)	(77,365)
Proceeds from sale of investments	-	445,384
Purchase of investments	(114,744)	(501,426)
Net cash used for investing activities	<u>(583,961)</u>	<u>(133,407)</u>
<i>Cash flows from financing activities</i>		
Contributions received restricted for endowment	78,000	691,364
Proceeds from line of credit, net	400,000	-
Proceeds from refundable advance	-	1,010,633
Payments on capital lease payable	(5,666)	(37,628)
Proceeds on notes payable	-	200,000
Payments on notes payable	(253,785)	(52,133)
Net cash provided by financing activities	<u>218,549</u>	<u>1,812,236</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,470,411)</u>	<u>1,044,813</u>
<i>Cash and cash equivalents, beginning of year</i>	<u>2,186,540</u>	<u>1,141,727</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 716,129</u>	<u>\$ 2,186,540</u>

See Notes to Financial Statements

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2022 and 2021

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Operations:

Spoletto Festival USA, Inc. (the "Festival") is a not-for-profit cultural organization, incorporated on September 16, 1977, whose purpose is to create a comprehensive and innovative arts festival in Charleston, South Carolina. The Festival produces and presents events featuring an international mix of distinguished artists and emerging talent. The Festival seeks excellence in all of its endeavors as it strives to provide excitement, enjoyment and education for artists and audiences alike. The Festival depends on earned income and contributed support to fund its activities and to meet its obligations. Management believes the Festival will continue to rely on these sources of income and endowment earnings to meet operating and production costs in future years.

Basis of accounting:

The financial statements of the Festival have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Basis of presentation:

The Festival's net assets are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Festival. These net assets may be used at the discretion of the Festival's management and the board of directors. Net assets without donor restrictions include board designated net assets. The classification of net assets without donor restrictions includes:

Operating Fund - This fund is utilized to account for all unrestricted activities of producing the Festival, fundraising and administrative support, excluding interest expense on financing of property and depreciation of property and equipment. The fund also includes certain releases of restricted net assets and discretionary transfers into and out of the capital asset fund.

Cash Reserve - Board Designated Fund - The Board of Directors established this fund to account for net assets retained for the purposes of providing short-term working capital for the Festival.

Capital Assets Fund - The Board of Directors established this fund in 2003 to account for unrestricted property and equipment, including related depreciation, repairs and direct debt and interest expense related to financing obtained for the property and equipment acquisitions and improvements.

Net assets with donor restrictions: Net assets that are subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Festival or by the passage of time (that is, when stipulated time restriction ends or purpose restriction is accomplished). Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2022 and 2021**

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued*Cash and cash equivalents:*

For the purpose of the Statements of Cash Flows, the Festival considers all investment instruments purchased with a maturity of three months or less to be cash equivalents. Mutual funds and other temporary and permanent investments are excluded from cash and cash equivalents.

Availability of funds for general expenditures:

The Festival has certain net assets that are available for general expenditures within one year of August 31, 2022 and 2021 based on conducting the normal activities of its programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year (See Note 2).

Revenue recognition:

Revenue is recognized upon the transfer of control of promised goods or services to customers in an amount that reflects the consideration the Festival expects to receive in exchange for those products or services. Contracts are analyzed with the following steps: (i) identify the contract with the customer; (ii) determine whether the promised goods or services are separate performance obligations in the contract; (iii) determine the transaction price, including considering the constraint on variable consideration; (iv) allocate the transaction price to the performance obligations in the contract based on the standalone selling price or estimated standalone selling price of the good or service; and (v) recognize revenue when (or as) each performance obligation is satisfied.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account. Revenue is allocated to each performance obligation as the related performance obligation is satisfied, if applicable, as noted below.

Contributions/Grants: Contributions and grants that are with or without donor restrictions are earned and recognized when the donation is received or unconditionally pledged, as long as there is no performance requirement attached to the contribution or grant. In the instance where there is a performance obligation attached to the contribution or grant, the portion that is attached to a performance requirement is recorded as deferred revenue until it is earned when the performance requirement is met, while the portion that is considered to be a contribution or grant is recorded as revenue when received or unconditionally pledged.

Contributions and grants received are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions. 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 Statements of Activities as net assets released from restrictions.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2022 and 2021

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Revenue recognition, continued:

Bequests represent conditional pledges which are subject to change. Accordingly, bequests are not recognized as contributions until after the will is probated, without challenge, by the court.

Admissions, Advertising and sponsorships, Box office handling charges: Ticket and sponsorship revenue for future events is recorded as deferred revenue and recognized as revenue at a point in time when the scheduled event occurs.

Special events revenue: Special events revenue is recorded and recognized on the day of the event. While some benefit is received by attendees, it is considered immaterial relative to the amount paid. Any payment received before the event (tickets and sponsorship) is recorded as deferred revenue and released at a point in time, when the event occurs.

Merchandise revenue: Merchandise revenue is recorded as goods are delivered to customers, generally immediately, since performance obligations are met simultaneously to funds being received.

Rental and co-production income: Revenue is recognized as deferred revenue and recognized as revenue at a point in time when the scheduled event occurs. Rental income from parking is considered earned over time per the rental agreement.

Contributions, grants, accounts receivable and allowances for doubtful accounts:

Unconditional promises to give are recorded as contributions receivable in the year pledges are made. Contributions receivable for support of current operations are included in the Statements of Activities as net assets without donor restrictions, while pledges for support of future purposes are reported as increases in net assets with donor restrictions based on their purpose and/or implied time restrictions. Contributions are released from restriction as the nature of the restriction changes, or restrictions are satisfied, including time restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. A discount rate of approximately 1.50% was applied to new contributions in the fiscal years ended August 31, 2022 and 2021 that are due after one year.

All receivables are stated at unpaid balances, less an appropriate discount, where applicable, and less an allowance for doubtful accounts. The Festival provides for losses on contributions, grants, and accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of donors, grantors, or customers to meet their obligations. Receivables are considered impaired if payments are not received in accordance with stated terms. It is the Festival's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

Allowance for doubtful accounts for contributions and grants receivable as of August 31, 2022 and 2021 totaled \$20,000. Bad debt expense for the years ended August 31, 2022 and 2021 was \$1,630 and \$1,900, respectively.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2022 and 2021

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Inventory valuation:

Inventories, consisting primarily of posters, are stated at the lower of cost (first-in, first-out method) or net realizable value.

Investments:

The Festival's investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statements of Financial Position. Unrealized gains and losses are included in the changes in net assets. Donor restricted interest and dividend income are reported as increases in net assets with donor restrictions and released to net assets without donor restrictions in the reporting period when the restrictions are met or use is approved by the Board.

Beneficial interest in charitable remainder trust:

Beneficial interest in charitable remainder trust includes the estimated fair value of the remainder interest of an irrevocable charitable trust held by third parties in which the Festival is the secondary beneficiary. The fair value of the Festival's remainder interest is determined using investment returns consistent with the composition of the asset portfolios.

Fair value measurements:

The Financial Accounting Standards Board's ("FASB") Fair Value Measurements defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. It also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under this standard, fair value measurements are disclosed by level within that hierarchy. The Festival utilizes a three-tier fair value hierarchy that clarifies fair value as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Property and equipment:

Property and equipment are carried at cost and are depreciated over the estimated useful lives of the respective property items using the straight-line method. Leasehold improvements are depreciated over the term of the lease. Maintenance and repairs are expensed as incurred. Expenditures which result in substantial betterment of assets are capitalized at cost. When it is determined that the carrying value of a long-lived asset will not be fully recovered, an asset is considered impaired and a loss is recognized as it is written down to its fair value. Production sets and costumes are generally expensed, except for those for which future use, rental or sale is highly probable, in which case they are included in prepaid and other assets.

The Festival capitalizes all expenditures in excess of \$500 for property and equipment. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support, when placed in service.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2022 and 2021

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Interfund transfers, receivables and payables:

Receivables and payables among funds represent temporary borrowings, which are expected to be repaid. These receivables and payables are eliminated for presentation of the combined totals of all funds of the Festival. Transfers between funds are not expected to be repaid.

Contributed nonfinancial assets:

Contributed nonfinancial assets are recognized as revenue with or without donor restrictions. Nonfinancial assets can include fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, material and supplies, intangibles, and services. The Festival measures and reports contributions of nonfinancial assets at the estimated fair value in the financial statements. The Festival had donated services for the year ended June 30, 2022 and 2021 of \$65,425 and \$67,566, respectively, for various professional services, including consulting, primarily benefiting the Festivals' operations.

The Festival records various types of in-kind support mainly related to donated professional services. These services are used for the support of the Festival and its operations. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value is determined using a standard rate per hour of service comparable to similar services purchased.

A substantial number of volunteers have donated significant amounts of time to the Festival's program services and its fundraising activities. The value of these amounts has not been recorded.

Use of estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Areas requiring significant estimates include the allowance for doubtful accounts, the discount on unconditional promises to give, the economic useful lives of fixed assets for depreciation purposes, and the functional allocation of expenses. It is at least reasonably possible that the significant estimates used will change within the next year.

Income tax status:

The Festival is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code as a charitable organization whereby only unrelated business income, if any, as defined by the Code, is subject to federal income tax. The Festival is classified by the Internal Revenue Service as other than a private foundation.

GAAP prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. GAAP also provides guidance on derecognition of tax benefits, classification on the statements of financial position, interest and penalties, accounting in interim periods, and disclosure.

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2022 and 2021**

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued*Income tax status, continued:*

Management has evaluated the Festival's tax positions and concluded that the Festival has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance for the years ended August 31, 2022 or 2021. With few exceptions, the Festival is no longer subject to income tax examinations by the U.S. Federal, state, or local tax authorities for years before 2019.

Expense allocation:

The costs of providing various programs and activities have been summarized on a functional basis (See Note 15). Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses of the Festival include:

Program expenses - Program expenses include the costs associated with the production of the Festival and its performances.

General and administrative - Management and general expenses include the general, administrative, and supporting costs of the Festival.

Development and fundraising - These expenses include direct and indirect activities undertaken to solicit contributions from donors.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated and the method of allocation include:

<u>Expense Type</u>	<u>Method of Allocation</u>
Personnel costs	Based on time and effort
Travel, housing, and per diem	Direct costs by department function
Production expenses	Direct costs by department function
Publications, website, and advertising	Direct costs by department function
Facilities and depreciation	Direct costs by department function
Office expense and postage	Direct costs by department function
Professional and consulting	Direct costs by department function

New accounting pronouncements:

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which is effective for fiscal years ending December 31, 2022 and after. The ASU establishes a dual approach for classifying leases as either financing or operating leases and requires recognition of an asset and liability on the Statements of Financial Position for both types of leases. The Festival is currently assessing the impact of this new guidance on existing leases.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2022 and 2021

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

New accounting pronouncements, continued:

In September 2020, the FASB issued Accounting Standards Update ("ASU") No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, an update to increase the transparency of the measurement of contributed nonfinancial assets through enhancements to presentation and disclosure. The Festival adopted this new standard on September 1, 2021, and it was applied retroactively to the financial statements as of and for the year ended August 31, 2021. The presentation and disclosures of contributions of nonfinancial assets have been enhanced in accordance with the standard.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Festival's net assets or changes in net assets.

Subsequent events:

In preparing these financial statements, the Festival has evaluated events and transactions for potential recognition or disclosure through February 27, 2023, the date the financial statements were available to be issued.

Note 2. Availability and Liquidity

Assets available for general expenditure, that are without donor or other restrictions limiting their use within one year of the Statements of Financial Position dates of August 31, 2022 and 2021, are comprised of the following:

	<u>2022</u>	<u>2021</u>
Assets at year-end	\$ 18,626,887	\$ 23,626,585
Less amounts not available to be used within one year due to illiquidity:		
Contributions and grants receivable – due after one year, net	(207,102)	(502,102)
Prepaid assets	(132,667)	(254,119)
Property and equipment, net	(5,064,832)	(5,111,481)
Less amounts not available to be used within one year due to:		
Contractual or donor imposed restrictions:		
Beneficial interest in charitable remainder trust	(349,324)	(423,875)
Board or donor designations/restrictions:		
Future expendable donor-restricted amounts, net of spendable amounts	(1,263,016)	(3,905,615)
Portion of donor-restricted endowment to be retained in perpetuity	<u>(10,297,552)</u>	<u>(10,219,552)</u>
Assets available to meet cash needs for general expenditures within one year	<u>\$ 1,312,394</u>	<u>\$ 3,209,841</u>

As part of its liquidity plan, the Festival has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. The Festival invests excess cash in short-term investments, including money market accounts, and has the ability to redeem certain investments as necessary to meet its obligations. The Festival also has available for use a line of credit with a limit of \$2,500,000 (see Note 9).

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2022 and 2021

Note 3. Concentration of Credit Risk

The Festival maintains its cash at four local financial institutions in Charleston. Cash accounts are guaranteed in aggregate by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per bank. From time to time, cash balances may exceed FDIC insured limits.

The Festival's investments in securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in value of the investments, it is at least reasonably possible that changes in risks in the near term would materially affect the Festival's investment balance. Securities and cash accounts maintained by the Festival's investment firms are insured by the Securities Investors Protection Corporation ("SIPC") up to \$500,000 (\$250,000 for cash balances). SIPC insurance does not cover changes in value attributed to market valuation changes.

Note 4. Contributions and Grants Receivable, Net

Contributions and grants receivable, net, as of August 31 consist of the following:

	<u>2022</u>	<u>2021</u>
Contributions and grants receivable	\$ 704,996	\$ 1,026,453
Less: unamortized discount	(21,898)	(21,898)
Less: allowances for uncollectible accounts	(20,000)	(20,000)
Contributions and grants receivable, net	<u>\$ 663,098</u>	<u>\$ 984,555</u>
Amounts due in:		
Less than one year	\$ 475,996	\$ 502,453
Two to five years	<u>229,000</u>	<u>524,000</u>
Contributions and grants receivable	<u>\$ 704,996</u>	<u>\$ 1,026,453</u>

Note 5. Investments

Investments as of August 31, 2022 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gains/(Losses)</u>
Cash and money market funds	\$ 3,412	\$ 3,412	\$ -
Equities	798,588	1,122,984	324,396
Mutual funds - equities	7,525,063	8,113,749	588,686
Mutual funds - bonds	<u>2,561,523</u>	<u>2,301,374</u>	<u>(260,149)</u>
	<u>\$ 10,888,586</u>	<u>\$ 11,541,519</u>	<u>\$ 652,933</u>

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2022 and 2021

Note 5. Investments, Continued

Investments as of August 31, 2021 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gains</u>
Cash and money market funds	\$ 4,266	\$ 4,266	\$ -
Equities	811,432	1,332,872	521,440
Mutual funds - equities	6,396,992	8,991,786	2,594,794
Mutual funds - bonds	<u>3,376,601</u>	<u>3,481,844</u>	<u>105,243</u>
	<u>\$ 10,589,291</u>	<u>\$ 13,810,768</u>	<u>\$ 3,221,477</u>

The following summarizes the net investment return and classification in the Statements of Activities and changes in net assets for the years ended August 31:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 285,698	\$ 240,471
Net realized gains	186,352	229,952
Net unrealized gains/(losses)	(2,569,348)	2,121,107
Brokerage fees	<u>(30,063)</u>	<u>(27,521)</u>
	<u>\$ (2,127,361)</u>	<u>\$ 2,564,009</u>

Note 6. Fair Value Measurements

Accounting standards define fair value as the exchange price that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting standards also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2022 and 2021

Note 6. Fair Value Measurements, Continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2022 or 2021.

Equity securities - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value ("NAV") of shares held by the Festival at year end using closing prices reported in the active market.

Beneficial interest in charitable remainder trust - Valued at the fair market value ("FMV") in the underlying assets of the charitable remainder unitrust ("CRUT") at year end using closing prices reported in the active market.

The following is a summary of assets measured at fair value as of August 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 1,122,984	\$ -	\$ -	\$ 1,122,984
Mutual funds - equities	8,113,749	-	-	8,113,749
Mutual funds - bonds	2,301,374	-	-	2,301,374
Beneficial interest in charitable remainder trust assets	349,324	-	-	349,324
	<u>\$ 11,890,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,890,843</u>

The following is a summary of assets measured at fair value as of August 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 1,332,872	\$ -	\$ -	\$ 1,332,872
Mutual funds - equities	8,991,786	-	-	8,991,789
Mutual funds - bonds	3,481,844	-	-	3,481,844
Beneficial interest in charitable remainder trust assets	423,875	-	-	423,875
	<u>\$ 14,230,377</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,230,377</u>

Note 7. Related Party Transactions

The following is a summary of transactions and balances with related parties, including employees, directors and officers:

Various employees, board members, their families, and companies contributed a total of \$1,070,805 and \$1,425,244 in cash and stock donations during the years ended August 31, 2022 and 2021, respectively.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2022 and 2021

Note 7. Related Party Transactions, Continued

Contributions receivable from related parties as of August 31, 2022 and 2021 totaled \$603,000 and \$985,000, respectively.

Three board members or spouses of board members are executives/shareholders of banks where the Festival maintains several bank accounts and two notes.

Note 8. Property and Equipment, Net

Property and equipment, net, at August 31 is as follows:

	<u>2022</u>	<u>2021</u>
Building and related improvements:		
George Street building renovations	\$ 2,992,374	\$ 2,987,637
George Street garden, landscaping and paving	412,733	412,733
Scene shop	1,174,963	1,087,014
Leasehold improvements - theaters and stages	7,037,334	6,930,939
Equipment:		
Lighting and technical theater equipment	457,821	282,184
Computer and office equipment	373,210	283,337
Musical instruments	195,698	195,698
Website	35,000	35,000
Furniture	203,587	198,961
Vehicles	<u>40,278</u>	<u>40,278</u>
Total depreciable property and equipment	12,922,998	12,453,780
Less: accumulated depreciation	<u>(7,858,166)</u>	<u>(7,342,299)</u>
Property and equipment, net	<u>\$ 5,064,832</u>	<u>\$ 5,111,481</u>

Depreciation expense totaled \$515,866 and \$453,073 for the years ended August 31, 2022 and 2021, respectively.

Note 9. Line of Credit

The Festival has a line of credit at Wells Fargo Bank, N.A. with a maximum borrowing amount of \$2,500,000. The line bears interest at a floating rate equal to the Index (Daily Simple SOFR) plus 2.50% (4.78% as of August 31, 2022). Payments of interest only are due monthly and the line matures on May 15, 2024. The line is secured by all personal property including contributions receivable and other assets. At August 31, 2022, the balance was \$400,000. There was no balance on the line of credit as of August 31, 2021.

Interest expense of approximately \$2,500 on the line of credit was incurred for the year ended August 31, 2022.

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2022 and 2021**

Note 10. Capital Leases

In December 2018, the Festival acquired five office machines for \$27,561 through a capital lease agreement. Under the terms of the agreement, the Festival committed to pay 60 monthly installments of \$486, including interest. Amortization expense on the equipment has been included in depreciation expense for the year ended August 31, 2021 and 2022. The net book value of the equipment was \$7,809 at August 31, 2022.

Future minimum lease payments under this agreement as of August 31 are as follows:

2023	\$ 5,836
2024	<u>1,979</u>
Total minimum lease payments	7,815
Less: amounts representing interest	<u>(198)</u>
	<u>\$ 7,617</u>

Note 11. Notes Payable

The Festival has a term loan with First Citizens Bank & Trust Company for \$1,300,000. Interest is at 2.87% with monthly payments of \$7,231 maturing on October 21, 2028. The term loan is secured by the scene shop. At August 31, 2022 and 2021, the balance of this term loan was \$1,104,322 and \$1,158,107, respectively.

This term loan contains a financial covenant requiring the Festival to maintain a certain debt service coverage ratio. For the year ended August 31, 2022, the Festival did not achieve the required debt to service coverage ratio of 1.25:1.0 and has therefore, obtained a waiver from the bank.

The Festival entered into a loan agreement with the Nonprofit Finance Fund for \$200,000 on September 28, 2020. The loan did not bear any interest. The Festival was expected to repay the loan in six installments with the last payment due on July 31, 2021. On April 12, 2021, the loan payments were deferred so that the six installments were due by July 31, 2022. The loan was paid in full during 2022.

Future scheduled principal payments for the notes payable due at August 31 are as follows:

2023	\$ 55,820
2024	57,443
2025	59,113
2026	60,832
2027	62,601
Thereafter	<u>808,513</u>
	<u>\$ 1,104,322</u>

For the years ended August 31, 2022 and 2021, interest expense on the term loan totaled \$32,986 and \$47,562, respectively.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2022 and 2021

Note 12. Refundable Advance

In April 2020, the Festival applied for a Paycheck Protection Program Loan ("PPP loan") of \$470,647 that is administered by the U.S. Small Business Administration under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The Festival applied for and was notified that the full amount of the loan was forgiven as of August 31, 2021. This amount, plus interest, is reflected as refundable advance forgiveness in the accompanying 2021 Statement of Activities.

In March 2021, the Festival applied for a second Paycheck Protection Program Loan ("PPP loan") of \$1,010,633. On March 21, 2021, the PPP loan was approved and the Festival received the PPP loan proceeds. The second PPP loan bore interest of 1.0% per annum and had a two-year term that matured on March 20, 2023. The Festival applied for and was notified that the full amount of the loan was forgiven as of August 31, 2022. Amount forgiven is reflected as refundable advance forgiveness in the accompanying 2022 Statement of Activities.

Note 13. Endowments

The Festival's endowments consist of several funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, the net assets associated with the endowments are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of relevant law - The Festival has interpreted the State of South Carolina's enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), also known as the State Prudent Management of Institutional Funds Act ("SPMIFA"), as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Festival classifies net assets with donor restrictions subject to perpetual restrictions as the original value of the gifts donated to the endowment and the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted fund that is not classified as net assets restricted in perpetuity is classified as net assets with temporary restrictions until those amounts are appropriated for expenditure by the Festival in a manner consistent with the standards of prudence prescribed by SPMIFA.

Interpretation of relevant law - In accordance with SPMIFA, the Festival considered the following factors in making their determination to appropriate or accumulate endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Festival 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 Festival
- 7) The investment policies of the Festival

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2022 and 2021

Note 13. Endowments, Continued

Spending policy and how the investment objectives relate to spending policy - The Festival has a policy of appropriating for distribution each year, as determined by the investment committee and approved by the Board of Directors, 4 to 5% of its endowment funds' average fair value over the prior 36 months as of June 30th (measurement date) each year. In establishing these policies, the Festival considered the expected return on its endowment. Accordingly, the Festival expects the current spending policy to allow its 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 excess investment return.

Strategies employed for achieving investment objectives - The Festival follows an investment policy with long-term growth as the main objective. The Festival 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). The Festival utilizes a diversified asset allocation, with greater emphasis on equity-based investments, to achieve its long-term return objectives within prudent risk constraints.

Funds with deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Festival to retain as a fund of perpetual duration. There were no deficiencies of this nature at August 31, 2022 or 2021.

Endowment net asset composition by type of fund:

	At August 31, 2022		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds:			
Perpetual in nature	\$ -	\$ 10,297,552	\$ 10,297,552
Temporary in nature	-	<u>1,723,016</u>	<u>1,723,016</u>
Total funds	<u>\$ -</u>	<u>\$ 12,020,568</u>	<u>\$ 12,020,568</u>
	At August 31, 2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds:			
Perpetual in nature	\$ -	\$ 10,219,552	\$ 10,219,552
Temporary in nature	-	<u>4,300,615</u>	<u>4,300,615</u>
Total funds	<u>\$ -</u>	<u>\$ 14,520,167</u>	<u>\$ 14,520,167</u>

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2022 and 2021**

Note 13. Endowments, Continued

Changes in endowment net assets for the year ended August 31, 2022 are as follows:

	<u>Net Assets With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 14,520,167
Investment return:	
Net dividends and interest income	255,449
Net depreciation (realized and unrealized)	<u>(2,382,370)</u>
Total investment income (loss)	(2,126,921)
Contributions	78,000
Appropriation of endowment assets for expenditure	<u>(450,678)</u>
Endowment net assets, end of year	<u>\$ 12,020,568</u>

Changes in endowment net assets for the year ended August 31, 2021 are as follows:

	<u>Net Assets With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 11,710,634
Investment return:	
Net dividends and interest income	212,950
Net appreciation (realized and unrealized)	<u>2,350,603</u>
Total investment income	2,563,553
Contributions	691,364
Appropriation of endowment assets for expenditure	<u>(445,384)</u>
Endowment net assets, end of year	<u>\$ 14,520,167</u>

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2022 and 2021**

Note 13. Endowments, Continued

Other endowments - In February 1998, the Spoletto Festival USA Fund was established at the Coastal Community Foundation of South Carolina (the "Community Foundation") for the purpose of providing annual distributions to the Festival. These funds are excluded from the financial statements as a result of the Community Foundation's variance power over the funds. The original donor who established the fund and the Community Foundation intend for this fund to be available to receive additional property from the Festival and other donors. The Community Foundation determines annual distributions. Annual distributions are currently calculated at five percent (5%) of the average fair value over the prior 20 quarters as of June 30th of each year.

The balance of the fund at June 30, 2022 and 2021 was \$6,297,063 and \$7,088,826, respectively. The Festival received \$303,306 and \$291,645 from this endowment during the years ended August 31, 2022 and 2021, respectively.

During 2004, the Wayland H. Cato, Jr. & Marion Rivers Cato Spoletto Garden Endowment fund was established at the Community Foundation for the purpose of maintaining the garden at the Festival's 14 George Street office. The balance of the fund as of June 30, 2022 and 2021 was \$388,247 and \$433,268, respectively. Contributions from this fund to the Festival were \$14,764 and \$13,949 during the years ended August 31, 2022 and 2021, respectively.

In January 2001, the Donald H. and Barbara K. Bernstein Spoletto Festival USA Continuity Fund was established at the Foundation for the Charlotte Jewish Community for the purpose of providing annual distributions to the Festival. These funds are excluded from the financial statements as a result of the foundation's variance power over the funds. The foundation determines annual distributions. The balance of the fund at August 31, 2022 and 2021 was \$95,461 and \$117,617, respectively. The Festival received \$14,616 and \$4,090 from this endowment during the years ended August 31, 2022 and 2021, respectively.

Note 14. Net Assets with Donor Restrictions

The Festival has net assets with donor restrictions comprised of the following at August 31:

	<u>2022</u>	<u>2021</u>
Subject to expenditures for specific purposes and/or passage of time:		
Earnings on endowment for programmatic purposes	\$ 1,723,016	\$ 4,300,616
Beneficial interest in charitable remainder trust	349,324	423,875
Time and purpose restricted funds	188,241	1,430,046
Cash reserve	562,225	562,225
Subject to perpetual restrictions:		
Endowment for artistic leadership and programming	9,447,552	9,369,552
Endowment for operations (The Julia Fund)	<u>850,000</u>	<u>850,000</u>
	<u>\$ 13,120,358</u>	<u>\$ 16,936,314</u>

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2022 and 2021**

Note 15. Expense Allocation

For the year ended August 31, 2022, expenses were allocated as follows:

	<u>Program</u>	<u>General and administrative</u>	<u>Development and fundraising</u>	<u>Total</u>
Personnel costs	\$ 2,334,060	\$ 861,873	\$ 826,07	\$ 4,002,010
Performance fees	2,190,365	-	-	2,190,365
Production expenses	1,892,308	33,072	-	1,925,380
Travel, housing and per diem	1,116,800	119,416	18,152	1,254,368
Facilities and depreciation	426,526	345,370	50,237	822,133
Office expense and postage	94,023	602,360	21,531	717,914
Publications, website and advertising	256,526	401	8,784	265,711
Professional and Consulting	21,832	140,577	-	162,409
Auditions, workshops and rehearsals	38,204	-	-	38,204
	<u>\$ 8,370,644</u>	<u>\$ 2,103,069</u>	<u>\$ 924,781</u>	<u>\$ 11,398,494</u>

Statement of Activities reconciliation:

Program and production	\$ 7,270,625	\$ -	\$ -	\$ 7,270,625
Marketing, public relations and box office	1,079,162	-	-	1,079,162
Development and fundraising	-	-	924,781	924,781
General and administrative	-	1,548,122	-	1,548,122
Bad debt expense	-	1,630	-	1,630
Interest and bank fees	-	58,308	-	58,308
Depreciation	-	515,866	-	515,866
Net facility allocation adjustment	20,857	(20,857)	-	-
	<u>\$ 8,370,644</u>	<u>\$ 2,103,069</u>	<u>\$ 924,781</u>	<u>\$ 11,398,494</u>

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2022 and 2021****Note 15. Expense Allocation, Continued**

For the year ended August 31, 2021, expenses were allocated as follows:

	<u>Program</u>	<u>General and administrative</u>	<u>Development and fundraising</u>	<u>Total</u>
Personnel costs	\$ 1,480,542	\$ 713,357	\$ 737,153	\$ 2,931,052
Performance fees	914,676	-	-	914,676
Production expenses	667,480	66,899	54,955	798,334
Facilities and depreciation	119,631	589,997	-	709,628
Office expense and postage	117,253	415,049	18,178	550,480
Travel, housing and per diem	313,598	52,249	2,705	368,552
Publications, website and advertising	139,298	-	8,556	147,854
Professional and Consulting	14,253	265,397	-	121,854
Auditions, workshops and rehearsals	3,358	-	-	3,298
	<u>\$ 3,770,089</u>	<u>\$ 2,102,948</u>	<u>\$ 821,547</u>	<u>\$ 6,694,584</u>

Statement of Activities reconciliation:

Program and production	\$ 3,195,504	\$ -	\$ -	\$ 3,195,504
Marketing, public relations and box office	734,162	-	-	734,162
Development and fundraising	-	-	821,547	821,547
General and administrative	-	1,422,129	-	1,422,129
Bad debt expense	-	1,900	-	1,900
Interest and bank fees	-	66,269	-	66,269
Depreciation	-	453,073	-	453,073
Net facility allocation adjustment	(159,577)	159,577	-	-
	<u>\$ 3,770,089</u>	<u>\$ 2,102,948</u>	<u>\$ 821,547</u>	<u>\$ 6,694,584</u>

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2022 and 2021**

Note 16. Retirement Plan

On January 1, 2006, the Festival implemented the Spoletto USA 401(k) Plan for the purpose of providing retirement benefits for participating employees. Effective January 1, 2018, the plan was amended so that an eligible employee is immediately eligible for participation upon employment and is auto-enrolled at deferral rate of 1% of salary. The employee may make changes regarding participation at any time. The deferral rate automatically increases by 1% each year until the maximum deferral matching rate of 6% is reached.

The Festival provides a discretionary match of 100% on 6% of salary. Employees continue to fully vest in the discretionary match upon eligibility and participation.

The Festival paid \$94,028 and \$92,064 for retirement benefits during the years ended August 31, 2022 and 2021, respectively. The Festival paid \$1,434 and \$1,550, respectively, in administrative expenses; and \$11,062 and \$13,690, respectively, in advisor and plan fees for the years ended August 31, 2022 and 2021. As of January 1, 2020, plan participants pay no fees.

Note 17. Employee Retention Tax Credits

The Employee Retention Credit ("ERC") program was created under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and was significantly modified, expanded and extended into the first two quarters of calendar year 2021 by the Consolidated Appropriations Act, 2021 (the "Act"). The goal of the ERC program is to encourage employers to retain and continue paying employees during periods of pandemic-related reductions in business volume even if those employees are not actually working, and therefore, are not providing a service to the employer. Under the Act, eligible employers could take credits up to 50% of qualified wages with a limit of \$10,000 per employee per quarter for calendar year 2020 and 70% of qualified wages with a limit of \$10,000 per employee per quarter for the first two quarters of calendar year 2021. In order to qualify for the ERC, organizations have to experience at least a 50% or 20% drop in gross receipts, in the 2020 or 2021 quarter, respectively, compared to the same quarter in calendar year 2019.

The Festival applied for the ERC in the amount of \$714,265 for the second and third quarters of calendar year 2020 and for the first two quarters of calendar year 2021. As of August 31, 2021, the Festival had received \$388,214 of these tax credits and \$326,051 was still receivable as of August 31, 2021. As of August 31, 2022, the Festival has \$148,141 still outstanding.

Note 18. State Appropriations Grant

As part of the State of South Carolina's (the "State") budgeting process, the State approved an allocation of \$500,000 to the Festival for the fiscal year 2021-2022. This bill was approved but was not received prior to August 31, 2021. As a result, the grant is shown on the Statements of Financial Position as state appropriations grant receivable as of August 31, 2021. The grant was received in full during the year ended August 31, 2022.

Spoletto Festival USA, Inc.***Notes to Financial Statements******August 31, 2022 and 2021***

Note 19. Shuttered Venue Operators Grant

The Shuttered Venue Operators Grant (“SVOG”) program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act on December 31, 2020. Eligible applicants may qualify for grants equal to 45% of their gross earned revenue, net of any second round Payroll Protection Program refundable advances, with the maximum amount available depending on the size of the organization. The grant funds were to be spent on normal operations of the organization that were in effect as of February 15, 2020 such as payroll, rent, utilities, mortgage payments, etc. The Festival used the SVOG grant for refunds of Festival tickets for the 2020 Festival cancelled due to COVID as allowable under the grant. The Festival applied for and was awarded \$586,550 from this grant which management believes was used on allowable costs. This amount was recorded as revenue in fiscal year ended August 31, 2021.

In October 2021, the Festival amended their SVOG which increased their awarded amount to \$1,385,142. With the amendment, the Festival received an additional \$798,592 which was used on allowable costs. This amount was recorded as revenue in fiscal year ended August 31, 2022.

Note 20. Commitments

The Festival entered into a management agreement with the City of Charleston on February 2, 2007. In exchange for the right to occupy, possess, enjoy and use Festival Hall, the Festival has paid for renovation and construction costs for existing and new buildings, and will provide certain management services for Festival Hall. The term of the agreement is 50 years with the right to renew the agreement for an additional 25 years on the same terms.

On June 6, 2019, the Festival signed an agreement with The University of North Carolina at Chapel Hill (“University”) on behalf of its Carolina Performing Arts department agreeing to co-produce performances of the Omar ibn Said Project. The opera was scheduled to be performed at the Festival in May and June of 2020 with performances at Carolina Performing Arts in February 2021 during their 2020-2021 season. The performance dates for Carolina were moved to February 2023 in light of the cancellation of both the Festival’s 2020 season, the deferral of the Festival’s 2021 presentation of Omar, and the deferral of performing seasons of Carolina Performing Arts. The agreement provides for the Festival to construct and deliver sets, costumes and props (the “Physical Production”); to negotiate fees, terms, and rights with all members of the creative team; and to rehearse and present the production, with certain specific expenses paid by each partner as outlined. The Festival recognized \$100,000 of revenue related to this agreement in the year ended August 31, 2019. The agreement is in force until December 31, 2023.

Supplementary Information

Spoletto Festival USA, Inc.
Combining Schedule of Financial Position
As of August 31, 2022

	Without Donor Restrictions				With Donor Restrictions	Interfund Eliminations	Total
	Operating	Cash reserve - Board Designated	Capital Assets	Total			
Assets							
Cash and cash equivalents	\$ 711,632	\$ -	\$ 4,497	\$ 716,129	\$ -	\$ -	\$ 716,129
Contributions and grants receivable, net	111,667	-	-	111,667	551,431	-	663,098
Employee retention tax credits receivable	148,141	-	-	148,141	-	-	148,141
Accounts receivable, net	7,177	-	-	7,177	-	-	7,177
Prepaid expenses	46,312	-	86,355	132,667	-	-	132,667
Inventory	4,000	-	-	4,000	-	-	4,000
Due from other funds	2,398,762	425,000	1,112,080	3,935,842	678,084	(4,613,926)	-
Investments	-	-	-	-	11,541,519	-	11,541,519
Beneficial interest in charitable remainder trust	-	-	-	-	349,324	-	349,324
Property and equipment, net	-	-	5,064,832	5,064,832	-	-	5,064,832
Total assets	<u>\$ 3,427,691</u>	<u>\$ 425,000</u>	<u>\$ 6,267,764</u>	<u>\$ 10,120,455</u>	<u>\$ 13,120,358</u>	<u>\$ (4,613,926)</u>	<u>\$ 18,626,887</u>
Liabilities							
Accounts payable	\$ 177,261	\$ -	\$ -	\$ 177,261	\$ -	\$ -	\$ 177,261
Accrued expenses	87,964	-	-	87,964	-	-	87,964
Deferred income	277,706	-	-	277,706	-	-	277,706
Line of credit	-	-	400,000	400,000	-	-	400,000
Capital lease payable	-	-	7,617	7,617	-	-	7,617
Due to other funds	2,215,164	-	2,398,762	4,613,926	-	(4,613,926)	-
Notes payable	400,000	-	704,322	1,104,322	-	-	1,104,322
Total liabilities	<u>3,158,095</u>	<u>-</u>	<u>3,510,701</u>	<u>6,668,796</u>	<u>-</u>	<u>(4,613,926)</u>	<u>2,054,870</u>
Net Assets							
Without donor restrictions	269,596	425,000	2,757,063	3,451,659	-	-	3,451,659
With donor restrictions	-	-	-	-	13,120,358	-	13,120,358
Total net assets	<u>269,596</u>	<u>425,000</u>	<u>2,757,063</u>	<u>3,451,659</u>	<u>13,120,358</u>	<u>-</u>	<u>16,572,017</u>
Total liabilities and net assets	<u>\$ 3,427,691</u>	<u>\$ 425,000</u>	<u>\$ 6,267,764</u>	<u>\$ 10,120,455</u>	<u>\$ 13,120,358</u>	<u>\$ (4,613,926)</u>	<u>\$ 18,626,887</u>

Spoleto Festival USA, Inc.
Combining Schedule of Financial Position
As of August 31, 2021

	Without Donor Restrictions				With Donor Restrictions	Interfund Eliminations	Total
	Operating	Cash reserve - Board Designated	Capital Assets	Total			
Assets							
Cash and cash equivalents	\$ 2,167,649	\$ -	\$ 18,891	\$ 2,186,540	\$ -	\$ -	\$ 2,186,540
Contributions and grants receivable, net	86,500	-	-	86,500	898,055	-	984,555
State appropriations grant receivable	500,000	-	-	500,000	-	-	500,000
Employee retention tax credits receivable	326,051	-	-	326,051	-	-	326,051
Accounts receivable, net	15,015	-	10,181	25,196	-	-	25,196
Prepaid expenses	181,107	-	73,012	254,119	-	-	254,119
Inventory	4,000	-	-	4,000	-	-	4,000
Due from other funds	1,669,119	425,000	713,729	2,807,848	1,803,616	(4,611,464)	-
Investments	-	-	-	-	13,810,768	-	13,810,768
Beneficial interest in charitable remainder trust	-	-	-	-	423,875	-	423,875
Property and equipment, net	-	-	5,111,481	5,111,481	-	-	5,111,481
Total assets	<u>\$ 4,949,441</u>	<u>\$ 425,000</u>	<u>\$ 5,927,294</u>	<u>\$ 11,301,735</u>	<u>\$ 16,936,314</u>	<u>\$ (4,611,464)</u>	<u>\$ 23,626,585</u>
Liabilities							
Accounts payable	\$ 72,483	\$ -	\$ -	\$ 72,483	\$ -	\$ -	\$ 72,483
Accrued expenses	286,237	-	12,600	298,837	-	-	298,837
Deferred income	432,168	-	-	432,168	-	-	432,168
Capital lease payable	-	-	13,283	13,283	-	-	13,283
Due to other funds	2,942,345	-	1,669,119	4,611,464	-	(4,611,464)	-
Notes payable	200,000	-	1,158,107	1,358,107	-	-	1,358,107
Refundable advance	1,010,633	-	-	1,010,633	-	-	1,010,633
Total liabilities	<u>4,943,866</u>	<u>-</u>	<u>2,853,109</u>	<u>7,796,975</u>	<u>-</u>	<u>(4,611,464)</u>	<u>3,185,511</u>
Net Assets							
Without donor restrictions	5,575	425,000	3,074,185	3,504,760	-	-	3,504,760
With donor restrictions	-	-	-	-	16,936,314	-	16,936,314
Total net assets	<u>5,575</u>	<u>425,000</u>	<u>3,074,185</u>	<u>3,504,760</u>	<u>16,936,314</u>	<u>-</u>	<u>20,441,074</u>
Total liabilities and net assets	<u>\$ 4,949,441</u>	<u>\$ 425,000</u>	<u>\$ 5,927,294</u>	<u>\$ 11,301,735</u>	<u>\$ 16,936,314</u>	<u>\$ (4,611,464)</u>	<u>\$ 23,626,585</u>

Reporting Under *Government Auditing Standards*



**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards**

Board of Directors
Spoleto Festival USA, Inc.
Charleston, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Spoleto Festival USA, Inc.'s (the "Festival"), which comprise the Statement of Financial Position as of August 31, 2022 and the related Statements of Activities and Cash Flows for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the Festival's basic financial statements, and have issued our report thereon dated February 27, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Festival's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Festival's internal control. Accordingly, we do not express an opinion on the effectiveness of the Festival's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Festival's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Festival's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina
February 27, 2023

Reporting Under the *Uniform Guidance*

**Independent Auditor's Report on Compliance for Each Major
Federal Program and on Internal Control Over Compliance
Required by the *Uniform Guidance***

Board of Directors
Spoleto Festival USA, Inc.
Charleston, South Carolina

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Spoleto Festival USA, Inc.'s (the "Festival") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Festival's major federal programs for the year ended August 31, 2022. The Festival's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Festival complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (*Uniform Guidance*). Our responsibilities under those standards and the *Uniform Guidance* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Festival and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Festival's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Festival's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Festival's compliance based on our audit. 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, *Government Auditing Standards*, and the *Uniform Guidance* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Festival's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *Uniform Guidance*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Festival's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Festival's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of the Festival's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Report on Internal Control Over Compliance, Continued

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina
February 27, 2023

Spoletto Festival USA, Inc.
Schedule of Expenditures of Federal Awards
For the year ended August 31, 2022

Federal Grantor/ Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. Small Business Administration			
Shuttered Venue Operators Grant	59.075	SBAHQ21SV000314.2	\$ 798,592
Total U. S. Small Business Administration			<u>798,592</u>
Total Federal Expenditures			<u><u>\$ 798,592</u></u>

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the Federal contracts and grant activity of Spoletto Festival USA, Inc. (the "Festival") and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Note 2. Indirect Cost Rate

The Festival does not utilize an indirect cost rate with respect to its federal program.

Spoletto Festival USA, Inc.***Schedule of Findings and Questioned Costs******For the year ended August 31, 2022***

Section I - Summary of Auditor's Results

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? None noted

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? None noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR
Section 200.516(a)? No

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster
59.075	Shuttered Venue Operators Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? No

Section II - Financial Statements Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Summary Schedule of Prior Audit Findings

None