

Spoletto Festival USA, Inc.

Report on Financial Statements

For the years ended August 31, 2021 and 2020

Spoletto Festival USA, Inc.

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2021 and 2020, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Spoleto Festival USA, Inc. as of August 31, 2021 and 2020, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Charleston, South Carolina
December 14, 2021

Spoletto Festival USA, Inc.**Statements of Financial Position****As of August 31, 2021 and 2020**

	2021	2020
Assets		
Cash and cash equivalents	\$ 2,186,540	\$ 1,141,727
Contributions and grants receivable, net	984,555	795,955
State appropriations grant receivable	500,000	-
Employee retention tax credits receivable	326,051	-
Accounts receivable, net	25,196	-
Prepaid expenses	254,119	210,659
Inventory	4,000	4,000
Investments	13,810,768	11,403,667
Beneficial interest in charitable remainder trust	423,875	373,333
Property and equipment, net	5,111,481	5,487,189
Total assets	<u>\$ 23,626,585</u>	<u>\$ 19,416,530</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 72,483	\$ 46,341
Accrued expenses	298,837	204,511
Deferred income	432,168	575,165
Capital lease payable	13,283	50,911
Notes payable	1,358,107	1,210,240
Refundable advance	1,010,633	470,647
Total liabilities	<u>3,185,511</u>	<u>2,557,815</u>
Net assets		
Net assets without donor restrictions		
Operating	5,575	(295,098)
Cash reserve - board designated	425,000	-
Capital assets	3,074,185	3,388,546
Total net assets without donor restrictions	<u>3,504,760</u>	<u>3,093,448</u>
Net assets with donor restrictions	<u>16,936,314</u>	<u>13,765,267</u>
Total net assets	<u>20,441,074</u>	<u>16,858,715</u>
Total liabilities and net assets	<u>\$ 23,626,585</u>	<u>\$ 19,416,530</u>

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	Total		
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	2,564,009
Change in value of split interest agreement	-	-	-	-	50,542	50,542
Employee retention tax credits	714,265	-	-	714,265	-	714,265
Rental and co-production income	17,393	-	233,376	250,769	-	250,769
Total revenues	1,648,894	-	237,497	1,886,391	2,614,096	4,500,487
Contributed support						
Contributions and other grants	3,037,408	-	13,951	3,051,359	1,063,203	4,114,562
Government grant - shuttered venue operators grant	-	-	-	-	586,550	586,550
Government grant - refundable advance forgiveness	476,007	-	-	476,007	-	476,007
State appropriations grant	500,000	-	-	500,000	-	500,000
Benefit programs and fundraising events, net of special event expense of \$86,922	95,837	-	-	95,837	3,500	99,337
Total contributed support	4,109,252	-	13,951	4,123,203	1,653,253	5,776,456
Net assets released from restrictions						
Net assets released for time and purpose restrictions	650,918	-	-	650,918	(650,918)	-
Net assets released for operating purposes	445,384	-	-	445,384	(445,384)	-
Total net assets released from restrictions	1,096,302	-	-	1,096,302	(1,096,302)	-
Total revenues, contributed support, and releases	6,854,448	-	251,448	7,105,896	3,171,047	10,276,943
Expenses						
Program and production	2,907,176	-	288,328	3,195,504	-	3,195,504
Marketing, public relations and box office	701,189	-	32,973	734,162	-	734,162
Development and fundraising	766,592	-	54,955	821,547	-	821,547
General and administrative	1,294,950	-	127,179	1,422,129	-	1,422,129
Bad debt expense	1,900	-	-	1,900	-	1,900
Interest and fees	18,537	-	47,732	66,269	-	66,269
Depreciation	-	-	453,073	453,073	-	453,073
Total expenses	5,690,344	-	1,004,240	6,694,584	-	6,694,584
Excess (deficiency) of revenues and support over (under) expenses	1,164,104	-	(752,792)	411,312	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)	411,312	3,171,047	3,582,359
Net assets, beginning of year	(295,098)	-	3,388,546	3,093,448	13,765,267	16,858,715
Net assets, end of year	\$ 5,575	\$ 425,000	\$ 3,074,185	\$ 3,504,760	\$ 16,936,314	\$ 20,441,074

See Notes to Financial Statements

Spoletto Festival USA, Inc.
Statement of Activities
For the year ended August 31, 2020

	Without Donor Restrictions				With Donor Restrictions	Total
	Operating	Cash Reserve - Board Designated	Capital Assets	Total		
Revenues and Contributed Support						
Revenues						
Admissions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Merchandise sales, net of COGS of \$2,180	4,894	-	-	4,894	-	4,894
Advertising and sponsorships	7,550	-	-	7,550	-	7,550
Box office handling charges	-	-	-	-	-	-
Investment return, net of brokerage fees	503	-	-	503	1,330,056	1,330,559
Change in value of split interest agreement	-	-	-	-	26,239	26,239
Rental and co-production income	42,117	-	205,496	247,613	-	247,613
Total revenues	55,064	-	205,496	260,560	1,356,295	1,616,855
Contributed support						
Contributions and grants	3,077,129	-	93,328	3,170,457	1,568,805	4,739,262
Benefit programs and fundraising events, net of special event expense of \$110,341	218,814	-	-	218,814	32,805	251,619
Total contributed support	3,295,943	-	93,328	3,389,271	1,601,610	4,990,881
Net assets released from restrictions						
Net assets released for time and purpose restrictions	393,096	-	-	393,096	(393,096)	-
Net assets released for operating purposes	330,000	-	-	330,000	(330,000)	-
Total net assets released from restrictions	723,096	-	-	723,096	(723,096)	-
Total revenues, contributed support, and releases	4,074,103	-	298,824	4,372,927	2,234,809	6,607,736
Expenses						
Program and production	1,475,774	-	185,428	1,661,202	-	1,661,202
Marketing, public relations and box office	705,403	-	32,290	737,693	-	737,693
Development and fundraising	765,806	-	53,817	819,623	-	819,623
General and administrative	878,416	-	120,211	998,627	-	998,627
Bad debt expense	92	-	-	92	-	92
Interest and fees	28,037	-	52,680	80,717	-	80,717
Depreciation	-	-	457,204	457,204	-	457,204
Total expenses	3,853,528	-	901,630	4,755,158	-	4,755,158
Excess (deficiency) of revenues and support over (under) expenses	220,575	-	(602,806)	(382,231)	2,234,809	1,852,578
Transfers						
Transfers (to) from other funds	(289,254)	-	289,254	-	-	-
Increase (decrease) in net assets	(68,679)	-	(313,552)	(382,231)	2,234,809	1,852,578
Net assets, beginning of year	(226,419)	-	3,702,098	3,475,679	11,530,458	15,006,137
Net assets, end of year	\$ (295,098)	\$ -	\$ 3,388,546	\$ 3,093,448	\$ 13,765,267	\$ 16,858,715

See Notes to Financial Statements

Spoletto Festival USA, Inc.**Statements of Cash Flows****For the years ended August 31, 2021 and 2020**

	2021	2020
<i>Cash flows from operating activities</i>		
Cash received from admissions, merchandise and other sales and charges	\$ 1,627,766	\$ 1,101,872
Cash received from contributors for other than long-term purposes	3,775,966	4,330,887
Cash paid to employees and vendors	(6,194,873)	(4,378,442)
Interest and dividends received, net	212,950	226,503
Interest paid	(55,825)	(69,823)
Net cash (used for) provided by operating activities	<u>(634,016)</u>	<u>1,210,997</u>
<i>Cash flows from investing activities</i>		
Acquisition of property and equipment	(77,365)	(68,156)
Proceeds from sale of investments	445,384	330,000
Purchase of investments	(501,426)	(403,403)
Net cash used for investing activities	<u>(133,407)</u>	<u>(141,559)</u>
<i>Cash flows from financing activities</i>		
Contributions received restricted for endowment	691,364	338,940
Payments from line of credit, net	-	(1,145,000)
Proceeds from refundable advance	1,010,633	470,647
Payments on capital lease payable	(37,628)	(5,315)
Proceeds on notes payable	200,000	-
Payments on notes payable	(52,133)	(44,061)
Net cash provided by (used for) financing activities	<u>1,812,236</u>	<u>(384,789)</u>
Net increase in cash and cash equivalents	1,044,813	684,649
<i>Cash and cash equivalents, beginning of year</i>	<u>1,141,727</u>	<u>457,078</u>
<i>Cash and cash equivalents, end of year</i>	<u><u>\$ 2,186,540</u></u>	<u><u>\$ 1,141,727</u></u>

See Notes to Financial Statements

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020 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, 2021 and 2020

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 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, 2021 and 2020 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, 2021 and 2020 totaled \$20,000 and \$30,000, respectively. Bad debt expense for the years ended August 31, 2021 and 2020 was \$1,900 and \$92, respectively.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2021 and 2020

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, life expectancy of the primary beneficiary, and relevant discount rates.

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.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2021 and 2020

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.

Donated services and use of facilities:

The Festival records various types of in-kind support including donated professional services and facilities. 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. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or assets, if capitalizable. In-kind contributions of \$67,566 and \$40,706 were received for various services, including consulting, during the years ended August 31, 2021 and 2020, respectively, and primarily benefited the Festival's operations.

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.

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, 2021 or 2020. 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 2018.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2021 and 2020

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

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
Facility, equipment, and instrument rental	Direct costs by department function
Publications, website, and advertising	Direct costs by department function
Repairs and maintenance	Direct costs by department function
Office expense and postage	Direct costs by department function
Insurance	Direct costs of insured facility or by department
Professional and consulting fees	Direct costs by department function
Utilities	Direct costs by department function
Supplies	Direct costs by department function
Professional development	Direct costs by department function
Dues and subscriptions	Direct costs by department function
Miscellaneous	Direct costs by department function

New accounting pronouncements:

In February 2016, the FASB issued new guidance to change accounting for leases and that will generally require most leases to be recognized on the statements of financial position. Under this approach, a lessee will account for most existing capital/finance leases as Type A leases and most existing operating leases as Type B leases. Type A and Type B leases have unique accounting and disclosure requirements. The new guidance will be effective for annual periods beginning after December 15, 2021. Early adoption is permitted for all organizations. The Festival is currently evaluating the impact of this new guidance on its financial statement presentation.

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2021 and 2020**

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued*New accounting pronouncements, continued:*

ASB Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, requires not-for-profits (NFPs) to present contributed nonfinancial assets as a separate line item in the statement of activities and provide additional disclosures about contributions of nonfinancial assets. Contributed nonfinancial assets, commonly referred to as gifts-in-kind, include fixed assets (such as land, buildings, and equipment), used of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The ASU is effective for annual periods beginning after June 15, 2021 and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The Festival is currently evaluating the impact of this new guidance on its financial statement presentation.

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.

Risks and uncertainties:

The 2019 novel coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the Festival, its operations, its contributors and its grantors. The extent of the adverse impact of the COVID-19 outbreak on the Festival cannot be predicted at this time.

Subsequent events:

In preparing these financial statements, the Festival has evaluated events and transactions for potential recognition or disclosure through December 14, 2021, the date the financial statements were available to be issued.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2021 and 2020

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 Statement of Financial Position date of August 31, 2021 and 2020, are comprised of the following:

	<u>2021</u>	<u>2020</u>
Assets at year end	\$ 23,626,585	\$ 19,416,530
Less amounts not available to be used within one year due to illiquidity:		
Contributions and grants receivable – due after one year, net	(502,102)	(227,078)
Prepaid assets	(254,119)	(210,659)
Property and equipment, net	(5,111,481)	(5,487,189)
Less amounts not available to be used within one year due to:		
Contractual or donor imposed restrictions:		
Beneficial interest in charitable remainder trust	(423,875)	(373,333)
Board or donor designations/restrictions:		
Future expendable donor-restricted amounts, net of spendable amounts	(3,905,615)	(1,820,772)
Portion of donor-restricted endowment to be retained in perpetuity	<u>(10,219,552)</u>	<u>(9,528,188)</u>
Assets available to meet cash needs for general expenditures within one year	<u>\$ 3,209,841</u>	<u>\$ 1,719,311</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).

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.

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2021 and 2020****Note 4. Contributions and Grants Receivable, Net**

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

	<u>2021</u>	<u>2020</u>
Contributions and grants receivable	\$ 1,026,453	\$ 838,377
Less: unamortized discount	(21,898)	(12,422)
Less: allowances for uncollectible accounts	(20,000)	(30,000)
Contributions and grants receivable, net	<u>\$ 984,555</u>	<u>\$ 795,955</u>
Amounts due in:		
Less than one year	\$ 502,453	\$ 548,877
Two to five years	<u>524,000</u>	<u>289,000</u>
Contributions and grants receivable	<u>\$ 1,026,453</u>	<u>\$ 838,377</u>

Note 5. Investments

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>

Investments as of August 31, 2020 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gains (Losses)</u>
Cash	\$ 47,182	\$ 47,182	\$ -
Equities	817,697	928,848	111,151
Mutual funds - equities	6,381,190	7,153,106	771,916
Mutual funds - bonds	<u>3,057,228</u>	<u>3,274,531</u>	<u>217,303</u>
	<u>\$ 10,302,894</u>	<u>\$ 11,403,667</u>	<u>\$ 1,100,370</u>

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2021 and 2020

Note 5. Investments, Continued

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>2021</u>	<u>2020</u>
Interest and dividends	\$ 240,471	\$ 251,815
Net realized gains	229,952	97,378
Net unrealized gains	2,121,107	1,006,678
Brokerage fees	<u>(27,521)</u>	<u>(24,312)</u>
	<u>\$ 2,564,009</u>	<u>\$ 1,330,559</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.

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, 2021 or 2020.

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.

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2021 and 2020**

Note 6. Fair Value Measurements, Continued

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>\$ 14,234,644</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,234,644</u>

The following is a summary of assets measured at fair value as of August 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 928,848	\$ -	\$ -	\$ 928,848
Mutual funds - equities	7,153,106	-	-	7,153,106
Mutual funds - bonds	3,274,531	-	-	3,274,531
Beneficial interest in charitable remainder trust assets	373,333	-	-	373,333
	<u>\$ 11,729,818</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,729,818</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 \$1,425,244 and \$1,351,876 in cash and stock donations during the years ended August 31, 2021 and 2020, respectively.

Contributions receivable from related parties as of August 31, 2021 and 2020 totaled \$985,000 and \$757,370, respectively.

Two board members are executives/shareholders of banks where the Festival maintains several bank accounts, a note and a line of credit.

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2021 and 2020**

Note 8. Property and Equipment, Net

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

	<u>2021</u>	<u>2020</u>
Building and related improvements:		
George Street building renovations	\$ 2,987,637	\$ 2,987,637
George Street garden, landscaping and paving	412,733	412,733
Scene shop	1,087,014	1,046,905
Leasehold improvements - theaters and stages	6,930,939	6,907,923
Equipment:		
Lighting and technical theater equipment	282,184	281,564
Computer and office equipment	283,337	304,717
Musical instruments	195,698	195,698
Website	35,000	-
Furniture	198,961	198,961
Vehicles	<u>40,278</u>	<u>40,278</u>
Total depreciable property and equipment	12,453,780	12,376,416
Less: accumulated depreciation	<u>(7,342,299)</u>	<u>(6,889,227)</u>
Property and equipment, net	<u>\$ 5,111,481</u>	<u>\$ 5,487,189</u>

Depreciation expense totaled \$453,073 and \$457,204 for the years ended August 31, 2021 and 2020, 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 LIBOR plus 2.50%. Payments of interest only are due monthly and the line matures on May 15, 2022. The line is secured by all personal property including contributions receivable and other assets. At August 31, 2021, the Festival had no outstanding balance on the line of credit.

There was no interest expense on the line of credit for the year ended August 31, 2021. Interest expense was \$16,774 for the year ended August 31, 2020.

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. The net book value of the equipment was \$18,719 at August 31, 2021.

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2021 and 2020**

Note 10. Capital Leases, Continued

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

2022	\$	5,836
2023		5,836
2024		<u>1,979</u>
Total minimum lease payments		13,651
Less: amounts representing interest		<u>(368)</u>
	\$	<u>13,283</u>

Note 11. Notes Payable

The Festival has a term loan with First Citizens Bank & Trust Company for \$1,300,000. Interest was at 4.19% with monthly payments of \$8,052 maturing on July 27, 2028. The term loan is secured by the scene shop. The term loan was amended on September 27, 2020 to decrease the interest rate to 2.87% and the monthly payments to \$7,231. The term loan was also amended to extend the term of the loan to October 2028. At August 31, 2021 and 2020, the balance of this term loan was \$1,158,107 and \$1,210,240, 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, 2021, management believes the Festival is in compliance with their covenant.

The Festival entered into a loan agreement with the Nonprofit Finance Fund for \$200,000 on September 28, 2020. The loan does 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 are now due by July 31, 2022. At August 31, 2021, the balance of this term loan was \$200,000.

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

2022	\$	254,242
2023		55,820
2024		57,443
2025		59,113
2026		60,832
Thereafter		<u>870,657</u>
	\$	<u>1,358,107</u>

For the years ended August 31, 2021 and 2020, interest expense on the term loan totaled \$47,562 and \$52,558, respectively.

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2021 and 2020

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 has been notified that the full amount of the loan has been forgiven because the funds were used for eligible expenditures for payroll and other expenses described in the CARES Act. Amounts forgiven, which include interest, are reflected as refundable advance forgiveness in the accompanying Statements 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 bears interest of 1.0% per annum and has a two-year term that matures on March 20, 2023. Monthly principal and interest payment will commence on October 27, 2021. The second PPP loan may be forgiven partially or fully if the second PPP loan proceeds are used for payroll costs, rent and utility payments and interest payments on the Festival's mortgage. As of the report date, the Festival has not applied for forgiveness of the second PPP loan. The second PPP loan proceeds of \$1,010,633 were recorded as a refundable advance in the Festival's balance sheet as of August 31, 2021.

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, 2021 and 2020

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 March 31st (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, 2021 or 2020.

Endowment net asset composition by type of fund:

	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>
	At August 31, 2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds:			
Perpetual in nature	\$ -	\$ 9,528,188	\$ 9,528,188
Temporary in nature	-	<u>2,182,446</u>	<u>2,182,446</u>
Total funds	<u>\$ -</u>	<u>\$ 11,710,634</u>	<u>\$ 11,710,634</u>

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2021 and 2020****Note 13. Endowments, Continued**

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

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 11,710,634	\$ 11,710,634
Investment return:			
Net dividends and interest income	-	212,950	212,950
Net appreciation (realized and unrealized)	-	<u>2,350,603</u>	<u>2,350,603</u>
Total investment income	-	2,563,553	2,563,553
Contributions	-	691,364	691,364
Appropriation of endowment assets for expenditure	445,384	(445,384)	-
Expenditures of endowment assets	<u>(445,384)</u>	<u>-</u>	<u>(445,384)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 14,520,167</u>	<u>\$ 14,520,167</u>

Changes in endowment net assets for the year ended August 31, 2020 are as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 10,371,637	\$ 10,371,637
Investment return:			
Net dividends and interest income	-	226,503	226,503
Net appreciation (realized and unrealized)	-	<u>1,103,554</u>	<u>1,103,554</u>
Total investment income	-	1,330,057	1,330,057
Contributions	-	338,940	338,940
Appropriation of endowment assets for expenditure	330,000	(330,000)	-
Expenditures of endowment assets	<u>(330,000)</u>	<u>-</u>	<u>(330,000)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 11,710,634</u>	<u>\$ 11,710,634</u>

Spoletto Festival USA, Inc.

Notes to Financial Statements

August 31, 2021 and 2020

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, 2021 and 2020 was \$7,088,826 and \$5,596,535, respectively. The Festival received \$291,645 and \$285,684 from this endowment during the years ended August 31, 2021 and 2020, 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, 2021 and 2020 was \$433,268 and \$338,321, respectively. Contributions from this fund to the Festival were \$13,949 and \$13,328 during the years ended August 31, 2021 and 2020, 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, 2021 and 2020 was \$117,617 and \$101,396 respectively. The Festival received \$4,090 and \$4,500 from this endowment during the years ended August 31, 2021 and 2020, respectively.

Note 14. Net Assets with Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Subject to expenditures for specific purposes and/or passage of time:		
Earnings on endowment for programmatic purposes	\$ 4,300,616	\$ 2,182,446
Beneficial interest in charitable remainder trust	423,875	373,333
Time and purpose restricted funds	1,430,046	1,284,467
Cash reserve	562,225	396,833
Subject to perpetual restrictions:		
Endowment for artistic programming	4,881,824	4,190,460
Endowment for artistic leadership and specific programming	4,437,728	4,437,728
Endowment for operations (The Julia Fund)	850,000	850,000
Endowment for apprenticeship program	50,000	50,000
	<u>\$ 16,936,314</u>	<u>\$ 13,765,267</u>

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2021 and 2020****Note 15. Expense Allocation**

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
Depreciation	-	453,073	-	453,073
Travel, housing and per diem	313,598	52,249	2,705	368,552
Production design and setup	304,160	-	-	304,160
Professional and consulting fees	14,253	265,397	-	279,650
Insurance	18,384	182,288	-	200,672
Repairs and maintenance	65,107	112,143	-	177,250
Office expense and postage	18,160	136,823	6,451	161,434
Publications, website and advertising	139,298	-	8,556	147,854
Lighting, sound, and video	143,512	-	-	143,512
Facility, equipment and instrument rental	-	66,899	54,955	121,854
Security	116,623	-	-	116,623
Utilities	54,524	24,781	-	79,305
Sets	67,834	-	-	67,834
Interest and bank fees	-	66,270	-	66,270
Merchant processing fees	41,014	-	-	41,014
Supplies	28,718	7,296	4,440	40,448
Dues and subscriptions	8,460	14,553	6,749	29,762
Rents and royalties	28,110	-	-	28,110
Miscellaneous	443	7,394	-	7,843
Props and wardrobe	6,781	-	-	6,781
Auditions, workshops and rehearsals	3,358	-	-	3,358
Professional development	2,074	425	538	3,037
Immigration	460	-	-	460
	<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, 2021 and 2020****Note 15. Expense Allocation, Continued**

For the year ended August 31, 2020, expenses were allocated as follows:

	<u>Program</u>	<u>General and administrative</u>	<u>Development and fundraising</u>	<u>Total</u>
Personnel costs	\$ 977,940	\$ 574,943	\$ 739,459	\$ 2,292,342
Performance fees	599,648	-	-	599,648
Depreciation	-	457,204	-	457,204
Office expense and postage	21,515	145,757	6,812	174,084
Auditions, workshops and rehearsals	176,047	-	-	176,047
Repairs and maintenance	61,697	98,580	-	160,277
Publications, website and advertising	141,426	210	7,220	148,856
Insurance	-	115,985	-	115,985
Professional and consulting fees	15,552	79,973	-	95,525
Merchant processing fees	95,147	-	-	95,147
Utilities	57,207	24,655	-	81,862
Interest and bank fees	-	80,717	-	80,717
Travel, housing and per diem	49,498	13,056	5,545	68,099
Sets	37,263	-	-	37,263
Facility, equipment and instrument rental	2	6,042	25,676	31,720
Dues and subscriptions	5,706	19,753	5,466	30,925
Security	30,291	-	-	30,291
Props and wardrobe	25,127	-	-	25,127
Supplies	3,813	9,888	918	14,619
Immigration	13,364	-	-	13,364
Professional development	3,600	8,123	385	12,108
Rents and royalties	6,824	-	-	6,824
Lighting, sound, and video	4,545	-	-	4,545
Miscellaneous	201	2,287	-	2,488
Production design and setup	91	-	-	91
	<u>\$ 2,326,504</u>	<u>\$ 1,637,173</u>	<u>\$ 791,481</u>	<u>\$ 4,755,158</u>

Statement of activities reconciliation:

Program and production	\$ 1,661,202	\$ -	\$ -	\$ 1,661,202
Marketing, public relations and box office	737,693	-	-	737,693
Development and fundraising	-	-	819,623	819,623
General and administrative	-	998,627	-	998,627
Bad debt expense	-	92	-	92
Interest and bank fees	-	80,717	-	80,717
Depreciation	-	457,204	-	457,204
Net facility allocation adjustment	(72,391)	100,533	(28,142)	-
	<u>\$ 2,326,504</u>	<u>\$ 1,637,173</u>	<u>\$ 791,481</u>	<u>\$ 4,755,158</u>

Spoletto Festival USA, Inc.**Notes to Financial Statements****August 31, 2021 and 2020**

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 \$92,064 and \$85,603 for retirement benefits during the years ended August 31, 2021 and 2020, respectively.

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 has received \$388,214 of these tax credits and \$326,051 is still receivable as of August 31, 2021.

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 prior to August 31, 2021 but was not received prior to year end. As a result, the grant is shown on the Statements of Financial Position as state appropriations grant receivable as of August 31, 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 applied for and was awarded \$586,550 from this grant which management believes will be used on allowable costs.

Spoletto Festival USA, Inc.***Notes to Financial Statements******August 31, 2021 and 2020***

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 *Omar*. 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 Performing Arts have been 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 the winter season 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, 2021

	Without Donor Restrictions						
	Operating	Cash reserve - Board Designated	Capital Assets	Total	With Donor Restrictions	Interfund Eliminations	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 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)	-
Note 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>

Spoletto Festival USA, Inc.
Combining Schedule of Financial Position
As of August 31, 2020

	Without Donor Restrictions					
	Operating	Capital Assets	Total	With Donor Restrictions	Interfund Eliminations	Total
Assets						
Cash and cash equivalents	\$ 1,140,421	\$ 1,306	\$ 1,141,727	\$ -	\$ -	\$ 1,141,727
Contributions and grants receivable, net	24,770	-	24,770	771,185	-	795,955
Accounts receivable, net	-	-	-	-	-	-
Prepaid expenses	145,659	65,000	210,659	-	-	210,659
Inventory	4,000	-	4,000	-	-	4,000
Due from other funds	1,437,316	571,321	2,008,637	1,217,485	(3,226,122)	-
Investments	403	-	403	11,403,264	-	11,403,667
Beneficial interest in charitable remainder trust	-	-	-	373,333	-	373,333
Property and equipment, net	-	5,487,189	5,487,189	-	-	5,487,189
Total assets	<u>\$ 2,752,569</u>	<u>\$ 6,124,816</u>	<u>\$ 8,877,385</u>	<u>\$ 13,765,267</u>	<u>\$ (3,226,122)</u>	<u>\$ 19,416,530</u>
Liabilities						
Accounts payable	\$ 8,538	\$ 37,803	\$ 46,341	\$ -	\$ -	\$ 46,341
Accrued expenses	204,511	-	204,511	-	-	204,511
Deferred income	575,165	-	575,165	-	-	575,165
Line of credit	-	-	-	-	-	-
Capital lease payable	-	50,911	50,911	-	-	50,911
Due to other funds	1,788,806	1,437,316	3,226,122	-	(3,226,122)	-
Note payable	-	1,210,240	1,210,240	-	-	1,210,240
Refundable advance	470,647	-	470,647	-	-	470,647
Total liabilities	<u>3,047,667</u>	<u>2,736,270</u>	<u>5,783,937</u>	<u>-</u>	<u>(3,226,122)</u>	<u>2,557,815</u>
Net Assets						
Without donor restrictions	(295,098)	3,388,546	3,093,448	-	-	3,093,448
With donor restrictions	-	-	-	13,765,267	-	13,765,267
Total net assets	<u>(295,098)</u>	<u>3,388,546</u>	<u>3,093,448</u>	<u>13,765,267</u>	<u>-</u>	<u>16,858,715</u>
Total liabilities and net assets	<u>\$ 2,752,569</u>	<u>\$ 6,124,816</u>	<u>\$ 8,877,385</u>	<u>\$ 13,765,267</u>	<u>\$ (3,226,122)</u>	<u>\$ 19,416,530</u>