

**AMERICAN DANCE FESTIVAL, INC.**  
**Durham, North Carolina**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**



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## **INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
American Dance Festival, Inc.  
Durham, North Carolina

### ***Report on Financial Statements***

We have audited the accompanying financial statements of American Dance Festival, Inc. (a North Carolina nonprofit corporation), which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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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 American Dance Festival, Inc., as of September 30, 2020 and 2019, 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.

*Blackman & Sloop*

Chapel Hill, North Carolina  
March 12, 2021

## AMERICAN DANCE FESTIVAL, INC.

## STATEMENTS OF FINANCIAL POSITION

## EXHIBIT A

September 30, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 625,123	\$ 251,802
Investments	1,329,609	1,409,602
Promises to give	410,865	566,618
Accounts receivable	11,028	16,009
Inventory, net	29,514	29,514
Prepaid expenses and other current assets	24,184	55,037
<b>TOTAL CURRENT ASSETS</b>	<u>2,430,323</u>	<u>2,328,582</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Building and improvements	1,279,390	1,279,390
Furniture and equipment	141,598	141,598
Vehicles	14,752	14,752
	<u>1,435,740</u>	<u>1,435,740</u>
Less: accumulated depreciation	<u>(413,135)</u>	<u>(366,364)</u>
<b>NET PROPERTY AND EQUIPMENT</b>	<u>1,022,605</u>	<u>1,069,376</u>
<b>OTHER ASSETS:</b>		
Restricted cash and cash equivalents	436,710	562,442
Investments	9,198,248	8,559,343
Promises to give	4,550	29,550
<b>TOTAL OTHER ASSETS</b>	<u>9,639,508</u>	<u>9,151,335</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 13,092,436</u></u>	<u><u>\$ 12,549,293</u></u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 120,891	\$ 318,042
Deferred revenue	6,370	19,571
Accrued payroll and related liabilities	25,046	47,021
<b>TOTAL CURRENT LIABILITIES</b>	<u>152,307</u>	<u>384,634</u>
Note payable	<u>172,400</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>324,707</u>	<u>384,634</u>
<b>NET ASSETS:</b>		
Without donor restrictions	2,763,189	2,872,992
With donor restrictions	10,004,540	9,291,667
<b>TOTAL NET ASSETS</b>	<u>12,767,729</u>	<u>12,164,659</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 13,092,436</u></u>	<u><u>\$ 12,549,293</u></u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## AMERICAN DANCE FESTIVAL, INC.

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended September 30, 2020 and 2019

EXHIBIT B

Page 1 of 2

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Totals
<b>PUBLIC SUPPORT AND REVENUE:</b>				
Public support:				
Federal	\$ 115,000	\$ -	\$ 115,000	\$ 60,000
State	82,000	-	82,000	82,000
City	70,000	-	70,000	55,000
Foundations	467,744	148,568	616,312	1,262,215
Corporations	2,779	1,500	4,279	21,500
Individuals	230,886	11,700	242,586	256,310
Donated facilities, services, and materials	-	-	-	117,789
	<u>968,409</u>	<u>161,768</u>	<u>1,130,177</u>	<u>1,854,814</u>
Net assets released from restrictions	<u>225,370</u>	<u>(225,370)</u>	<u>-</u>	<u>-</u>
Total public support	<u>1,193,779</u>	<u>(63,602)</u>	<u>1,130,177</u>	<u>1,854,814</u>
Revenue:				
Performance programs	4,103	-	4,103	365,229
Education programs tuition	132,037	-	132,037	694,408
Housing/meals/fees	-	-	-	180,704
Merchandise/program ads	2,097	-	2,097	62,101
Contractual service revenues	85,050	-	85,050	107,300
Special event revenue	-	-	-	6,474
Total revenue	<u>223,287</u>	<u>-</u>	<u>223,287</u>	<u>1,416,216</u>
Other income:				
Net investment return	45,662	776,475	822,137	202,054
Miscellaneous income	13,135	-	13,135	37,377
Total other income	<u>58,797</u>	<u>776,475</u>	<u>835,272</u>	<u>239,431</u>
<b>TOTAL PUBLIC SUPPORT, REVENUE, AND OTHER INCOME</b>	<u>1,475,863</u>	<u>712,873</u>	<u>2,188,736</u>	<u>3,510,461</u>
<b>EXPENSES:</b>				
Performance	602,888	-	602,888	1,469,269
Education	251,995	-	251,995	1,020,883
Service projects	344,851	-	344,851	507,064
Management and general	180,952	-	180,952	271,721
Fundraising	202,480	-	202,480	220,356
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>1,583,166</u>	<u>-</u>	<u>1,583,166</u>	<u>3,489,293</u>
Bad debt	<u>2,500</u>	<u>-</u>	<u>2,500</u>	<u>-</u>
<b>TOTAL EXPENSES</b>	<u>1,585,666</u>	<u>-</u>	<u>1,585,666</u>	<u>3,489,293</u>
<b>CHANGES IN NET ASSETS</b>	<u>(109,803)</u>	<u>712,873</u>	<u>603,070</u>	<u>21,168</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>2,872,992</u>	<u>9,291,667</u>	<u>12,164,659</u>	<u>12,143,491</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,763,189</u>	<u>\$ 10,004,540</u>	<u>\$ 12,767,729</u>	<u>\$ 12,164,659</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## AMERICAN DANCE FESTIVAL, INC.

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

## EXHIBIT B

For the Years Ended September 30, 2020 and 2019

Page 2 of 2

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>PUBLIC SUPPORT AND REVENUE:</b>			
Public support:			
Federal	\$ 60,000	\$ -	\$ 60,000
State	82,000	-	82,000
City	55,000	-	55,000
Foundations	1,157,215	105,000	1,262,215
Corporations	21,500	-	21,500
Individuals	241,267	15,043	256,310
Donated facilities, services, and materials	117,789	-	117,789
	<u>1,734,771</u>	<u>120,043</u>	<u>1,854,814</u>
Net assets released from restrictions	<u>368,152</u>	<u>(368,152)</u>	<u>-</u>
Total public support	<u>2,102,923</u>	<u>(248,109)</u>	<u>1,854,814</u>
Revenue:			
Performance programs	365,229	-	365,229
Education programs tuition	694,408	-	694,408
Housing/meals/fees	180,704	-	180,704
Merchandise/program ads	62,101	-	62,101
Contractual service revenues	107,300	-	107,300
Special event revenue	6,474	-	6,474
Total revenue	<u>1,416,216</u>	<u>-</u>	<u>1,416,216</u>
Other income (loss):			
Net investment return	34,766	167,288	202,054
Miscellaneous income	37,377	-	37,377
Total other income	<u>72,143</u>	<u>167,288</u>	<u>239,431</u>
<b>TOTAL PUBLIC SUPPORT, REVENUE, AND OTHER INCOME</b>	<u>3,591,282</u>	<u>(80,821)</u>	<u>3,510,461</u>
<b>EXPENSES:</b>			
Performance	1,469,269	-	1,469,269
Education	1,020,883	-	1,020,883
Service projects	507,064	-	507,064
Management and general	271,721	-	271,721
Fundraising	220,356	-	220,356
<b>TOTAL EXPENSES</b>	<u>3,489,293</u>	<u>-</u>	<u>3,489,293</u>
<b>CHANGES IN NET ASSETS</b>	<u>101,989</u>	<u>(80,821)</u>	<u>21,168</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>2,771,003</u>	<u>9,372,488</u>	<u>12,143,491</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,872,992</u>	<u>\$ 9,291,667</u>	<u>\$ 12,164,659</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## AMERICAN DANCE FESTIVAL, INC.

## STATEMENTS OF CASH FLOWS

## EXHIBIT C

For the Years Ended September 30, 2020 and 2019

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 603,070	\$ 21,168
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	46,771	49,520
Inventory reserve	-	7,000
Inventory write-down	-	15,264
Contributions restricted in perpetuity	(450)	(4,875)
Net realized and unrealized gains on investments	(689,403)	(55,062)
Increase (decrease) in cash arising from changes in assets and liabilities:		
Promises to give, net	180,753	(244,423)
Accounts receivable	4,981	5,960
Inventory, net	-	(11,382)
Prepaid expenses and other current assets	30,853	(22,312)
Accounts payable	(197,151)	54,472
Deferred revenue	(13,201)	(36,157)
Accrued payroll and related liabilities	(21,975)	4,716
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(55,752)</b>	<b>(216,111)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	6,274,757	10,884,593
Purchases of investments	(6,144,266)	(11,130,869)
Purchases of property and equipment	-	(13,965)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>130,491</b>	<b>(260,241)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions restricted in perpetuity	450	4,875
Proceeds from note payable	172,400	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>172,850</b>	<b>4,875</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>247,589</b>	<b>(471,477)</b>
<b>CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR</b>	<b>814,244</b>	<b>1,285,721</b>
<b>CASH AND CASH EQUIVALENTS- END OF YEAR</b>	<b>\$ 1,061,833</b>	<b>\$ 814,244</b>
<b><u>RECONCILIATION OF CASH AND CASH EQUIVALENTS:</u></b>		
Cash and cash equivalents	\$ 625,123	\$ 251,802
Restricted cash and cash equivalents	436,710	562,442
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 1,061,833</b>	<b>\$ 814,244</b>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Non-cash activity:		
Donated securities	\$ 23,248	\$ 25,425
Donated facilities, services, and materials	\$ -	\$ 117,789

The accompanying Notes to Financial Statements are an integral part of these financial statements.



## AMERICAN DANCE FESTIVAL, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended September 30, 2020 and 2019

EXHIBIT D

Page 1 of 2

	2020						2019
	Performance	Education	Service Projects	Management and General	Fundraising	Totals	Totals
Salaries, taxes, and benefits	\$ 371,613	\$ 101,456	\$ 132,906	\$ 87,721	\$ 184,813	\$ 878,509	\$ 1,037,339
Artistic fees	145,480	98,088	96,380	-	-	339,948	1,049,742
Occupancy	3,083	3,390	41,347	4,514	1,666	54,000	175,024
Credit card charges and fees	13,516	12,060	3,644	16,662	2,639	48,521	71,359
Depreciation	-	-	40,907	5,864	-	46,771	49,520
Professional services	3,255	68	9,200	28,289	-	40,812	97,389
Travel and subsistence	28,063	2,428	2,452	3,204	1,846	37,993	213,305
Insurance	-	-	-	27,633	-	27,633	27,510
Audition expense	-	21,581	-	-	-	21,581	15,729
Printing	14,772	2,779	469	357	771	19,148	63,511
Supplies	3,044	1,705	3,354	1,896	2,493	12,492	27,101
Dues, subscriptions, and licenses	5,240	1,087	219	844	4,657	12,047	23,674
Advertising and publicity	7,939	-	-	-	-	7,939	17,254
Telephone	4,055	760	1,155	669	1,260	7,899	7,929
Equipment rentals and maintenance	628	650	4,962	1,367	-	7,607	72,408
Scholarships, fellowships, and awards	-	-	7,365	-	-	7,365	214,201
Postage and freight	280	3,295	491	818	1,682	6,566	17,714
Miscellaneous	-	2,648	-	1,114	653	4,415	29,542
Resale merchandise	1,920	-	-	-	-	1,920	34,472
Room and board	-	-	-	-	-	-	208,840
Food and housing assistance	-	-	-	-	-	-	35,730
Total Functional Expenses	602,888	251,995	344,851	180,952	202,480	1,583,166	3,489,293
Bad debt	-	-	-	2,500	-	2,500	-
Total Expenses	\$ 602,888	\$ 251,995	\$ 344,851	\$ 183,452	\$ 202,480	\$ 1,585,666	\$ 3,489,293

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## AMERICAN DANCE FESTIVAL, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended September 30, 2020 and 2019

EXHIBIT D

Page 2 of 2

	2019					
	Performance	Education	Service Projects	Management and General	Fundraising	Totals
Salaries, taxes, and benefits	\$ 461,793	\$ 140,673	\$ 144,241	\$ 135,612	\$ 155,020	\$ 1,037,339
Artistic fees	581,097	306,670	161,880	95	-	1,049,742
Occupancy	72,053	38,449	54,145	5,211	5,166	175,024
Credit card charges and fees	11,017	30,424	2,409	23,213	4,296	71,359
Depreciation	-	-	41,973	7,547	-	49,520
Professional services	41,840	14,838	380	40,331	-	97,389
Travel and subsistence	83,625	38,156	40,932	12,144	38,448	213,305
Insurance	-	542	-	26,968	-	27,510
Audition expense	-	15,729	-	-	-	15,729
Printing	55,251	3,658	1,619	428	2,555	63,511
Supplies	6,279	6,007	6,188	4,474	4,153	27,101
Dues, subscriptions, and licenses	3,965	6,144	7,372	1,846	4,347	23,674
Advertising and publicity	16,067	305	660	50	172	17,254
Telephone	3,831	1,147	1,108	840	1,003	7,929
Equipment rentals and maintenance	52,379	17,360	1,168	1,481	20	72,408
Scholarships, fellowships, and awards	-	196,958	17,243	-	-	214,201
Postage and freight	7,900	4,945	2,254	940	1,675	17,714
Miscellaneous	14,890	4,951	-	8,500	1,201	29,542
Resale merchandise	34,472	-	-	-	-	34,472
Room and board	120	189,207	19,197	316	-	208,840
Food and housing assistance	22,690	4,720	4,295	1,725	2,300	35,730
Total Expenses	<u>\$ 1,469,269</u>	<u>\$ 1,020,883</u>	<u>\$ 507,064</u>	<u>\$ 271,721</u>	<u>\$ 220,356</u>	<u>\$ 3,489,293</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**AMERICAN DANCE FESTIVAL, INC.****NOTES TO FINANCIAL STATEMENTS**

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**ORGANIZATION**

American Dance Festival, Inc. ("Organization") is a broadly based nonprofit corporation whose goals are to encourage and support the creation of new modern dance work by both established and emerging choreographers; to preserve our modern dance heritage through continued presentation of classic works, as well as through archival efforts; to build wider national and international audiences for modern dance; to enhance public understanding and appreciation of the art form and its cultural and historical significance; and to provide a sound scientific/aesthetic base for professional education and training of dancers and a forum for integrating and disseminating information on dance education.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Basis of Accounting.**

The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

The Organization reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 and changes in net assets as net assets released from restrictions.

**B. Cash and Cash Equivalents.**

Cash and cash equivalents consist of all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase. Restricted cash and cash equivalents are funds which have been restricted by donor for purpose, time, or perpetuity. At times, the Organization places deposits with high-quality financial institutions that may be in excess of federally insured amounts. The Organization has not experienced any financial loss related to such deposits.

**C. Investments.**

Investments are stated at fair value and include marketable securities, mutual funds, bonds, and treasury bills. Donated securities are initially recorded at their fair value at the date of the gift. Net investment return (loss) is reported in the statements of activities and changes in net assets and consist of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

## AMERICAN DANCE FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

## D. Promises to Give.

Unconditional promises to give are recognized as support in the period pledged and as assets, decreases of liabilities, or expenses depending on the form of the benefit received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are recognized when the conditions upon which they depend are substantially met. An allowance for uncollectible promises to give is calculated based on management's estimate of collectability.

## E. Accounts Receivable.

Accounts receivable are recorded at net realizable value. The Organization provides an allowance for doubtful accounts, for all receivables, equal to the estimated losses that are expected to be incurred in their collection. The allowance is based on historical collection experience and management's review of the current status of the existing receivables. As of September 30, 2020, the Organization had recorded an allowance of \$2,500. For the year ending September 30, 2019, no allowance was deemed necessary.

## F. Inventory.

Inventory consists primarily of clothing, books, and posters. Inventory is purchased and immediately available to be sold at the Organization's store and is valued at the lower of cost or market using the first-in, first-out method. The Organization records a reserve for inventory that has been identified as obsolete. The inventory reserve totaled \$42,000 for the years ended September 30, 2020 and 2019.

## G. Property and Equipment.

Property and equipment are stated at cost for purchased assets and at fair value on the date of the gift for donated assets. Property and equipment are capitalized if the life is expected to be greater than one year and if the cost exceeds \$1,000. Depreciation is calculated using the straight-line method over estimated useful lives of 5 to 40 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities and changes in net assets. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed.

The Organization reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions.

## AMERICAN DANCE FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS

Page 3 of 13

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

## G. Property and Equipment (continued).

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying values exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended September 30, 2020 and 2019.

## H. Compensated Absences.

Employees of the Organization are granted ten days of paid time off at the beginning of each calendar year. Unused paid time off is not reimbursed to employees when they leave the organization. Accordingly, the Organization no longer accrues vacation payable to employees.

## I. Income Tax Status.

The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is classified as other than a private foundation. The entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Organization is exempt from North Carolina income and franchise taxes under the North Carolina Non-Profit Corporation Act. If applicable, the Organization reports interest and penalties related to unrecognized tax positions as interest expense under management and general expenses.

## J. Estimates.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

## K. Donated Facilities, Services, and Materials.

The Organization uses facilities, donated by unrelated parties, the value of which is recorded as a contribution and an expense in the statements of activities and changes in net assets.

## L. Advertising and Publicity Costs.

The Organization uses advertising and publicity to promote its programs among the audiences it serves. Advertising and publicity costs are expensed as incurred. Advertising and publicity expense for the years ended September 30, 2020 and 2019, totaled \$7,939 and \$17,254, respectively.

## AMERICAN DANCE FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS

Page 4 of 13

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

## M. Allocation of Expenses.

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and in the statements of functional expenses. Accordingly, certain costs have been allocated between the programs and supporting services benefited, based on management estimates.

## N. Net Assets.

Net assets, support and revenue, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

## O. New Accounting Pronouncement.

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

## AMERICAN DANCE FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS

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**LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure that is without donor or other restrictions limiting their use, within one year of the statement of financial position date comprise the following:

	2020	2019
Cash and cash equivalents	\$ 625,123	\$ 251,802
Investments	1,329,609	1,409,602
Promises to give	410,865	566,618
Accounts receivable	11,028	16,009
	<u>2,376,625</u>	<u>2,244,031</u>
Less amounts unavailable for general expenditures within one year, due to:		
Restrictions by donors or for time	<u>(380,695)</u>	<u>(566,618)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,995,930</u>	<u>\$ 1,677,413</u>

As part of the Organization's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The majority of the Organization's spending is program related and relies upon funds coming in to support those programs. Management adjusts program offerings based upon available funding. The Organization also has a total of approximately \$4.4 million in the endowment, which is not restricted in perpetuity. These funds can be appropriated and used for program related expenses such as grants, scholarships, artists commissions, and presentation fees, as allowed by the donor. Management believes financial assets available to meet cash needs for general expenditures within one year to be sufficient.

**FAIR VALUE OF ASSETS**

U.S. GAAP defines fair value as the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e. the exit price). U.S. GAAP also establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets as of the reporting date.

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## NOTES TO FINANCIAL STATEMENTS

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**FAIR VALUE OF ASSETS (CONTINUED)**

Level 2 - Valuations based on inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, are valued at prices for similar assets or liabilities in markets that are not active, or determined through the use of models or other valuation methodologies.

Level 3 - Pricing inputs are unobservable and include situations where there is little, if any, market activity for the asset. Fair value for these assets is determined using valuation methodologies that consider a range of factors, including but not limited to the price at which the asset was acquired, the nature of the asset, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the asset. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these assets existed.

There were no changes during the years ended September 30, 2020 and 2019, to the Organization's valuation techniques used to measure asset values on a recurring basis.

The following tables summarize the assets of the Organization for which fair values are determined on a recurring basis as of September 30, 2020 and 2019. As required by U.S. GAAP, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

September 30, 2020				
	Level 1	Level 2	Level 3	Total
Domestic equities	\$ 7,069,680	\$ -	\$ -	\$ 7,069,680
International equities	1,624,879	-	-	1,624,879
Fixed income	1,680,895	-	-	1,680,895
Real estate investment trusts	152,403	-	-	152,403
	<u>\$ 10,527,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,527,857</u>
September 30, 2019				
	Level 1	Level 2	Level 3	Total
Domestic equities	\$ 5,844,638	\$ -	\$ -	\$ 5,844,638
International equities	1,835,191	-	-	1,835,191
Fixed income	1,966,246	-	-	1,966,246
Real estate investment trusts	322,870	-	-	322,870
	<u>\$ 9,968,945</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,968,945</u>



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**NOTES TO FINANCIAL STATEMENTS**

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**PROMISES TO GIVE**

Unconditional promises to give are as follows for the years ended September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 413,365	\$ 566,618
Receivable in one to five years	<u>4,550</u>	<u>29,550</u>
Gross promises to give	417,915	596,168
 Allowance for uncollectible promises	 <u>(2,500)</u>	 <u>-</u>
 Net present value of promises to give	 <u><u>\$ 415,415</u></u>	 <u><u>\$ 596,168</u></u>

**NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions for the years ended September 30, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
Purpose restricted:		
Commissions and presentations	\$ 122,680	\$ -
Made in NC dance program	73,750	75,000
Residency	51,000	-
Studio rental subsidy	31,167	34,947
International Choreographers Residency Program	22,453	-
Scholarships	19,730	25,384
Parkinsons program	15,990	17,898
Performance support	19,500	-
Music rights	7,625	7,625
Capital campaign	<u>5,550</u>	<u>5,550</u>
	369,445	166,404
 Time restricted:		
Unconditional promises to give	11,246	10,168
Unappropriated earnings on endowment assets	<u>4,353,902</u>	<u>3,845,598</u>
	4,365,148	3,855,766
 Restricted in perpetuity	 <u>5,269,947</u>	 <u>5,269,497</u>
	 <u><u>\$ 10,004,540</u></u>	 <u><u>\$ 9,291,667</u></u>

## AMERICAN DANCE FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS

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**NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)**

The remaining balance of unconditional promises to give not included in net assets with restrictions are considered unrestricted, as the donors have indicated the grants and contributions are to support the period in which they were promised.

**ENDOWMENTS**

The Organization's endowments were established for the support of the mission of the Organization. The endowments include donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law*

The Board of Directors of the Organization has interpreted 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 Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

*Return Objectives and Risk Parameters*

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period.

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**NOTES TO FINANCIAL STATEMENTS**

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**ENDOWMENTS (CONTINUED)**

*Strategies Employed for Achieving Objectives*

While the investment of Organization funds may vary according to their purpose and restrictions, certain general principals shall govern the investment of all Organization funds, as follows: only those costs that are appropriate and reasonable under the circumstances shall be incurred in the management of Organization funds; reasonable effort shall be made to verify the facts relevant to all investments; and one or more funds of the Organization may be pooled for investment purposes.

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Organization has a policy of appropriating investment earnings for distribution each year based upon the prior year's investment earnings of the related endowment. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at a moderate rate. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

*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 SPMIFA requires to retain as a fund of perpetual duration. As of September 30, 2020 and 2019, the endowment funds were above the required amounts.

The changes in endowment net assets for the year ended September 30, 2020, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 9,115,100	\$ 9,115,100
Investment return:			
Income, net	-	214,261	214,261
Net appreciation	-	660,803	660,803
Total investment return	-	875,064	875,064
Contributions	-	450	450
Appropriation of endowment assets for expenditure	-	(366,765)	(366,765)
Endowment net assets, end of year	\$ -	\$ 9,623,849	\$ 9,623,849

## AMERICAN DANCE FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS

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**ENDOWMENTS (CONTINUED)**

Amounts were appropriated for expenditure totaling \$366,765 for the year ending September 30, 2020. Most of these funds were used for scholarships, artist commissions, and presentation fees during the 2020 season, and were approved by management and the Board of the Organization. There were funds totalling \$122,680 which are appropriated but remained unspent due to the COVID-19 outbreak. These funds are reported as net assets with donor restrictions at September 30, 2020, restricted for commissions and presentations.

The endowment net asset composition by type of fund as of September 30, 2020, was as follows:

	Without Donor Restrictions	Donor Restricted for Time or Purpose	Donor Restricted in Perpetuity	Total
Donor restricted	\$ -	\$ 4,353,902	\$ 5,269,947	\$ 9,623,849

The changes in endowment net assets for the year ended September 30, 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 9,206,423	\$ 9,206,423
Investment return:			
Income, net	-	107,927	107,927
Net appreciation	-	59,361	59,361
Total investment return	-	167,288	167,288
Contributions	-	4,875	4,875
Appropriation of endowment assets for expenditure	-	(263,486)	(263,486)
Endowment net assets, end of year	\$ -	\$ 9,115,100	\$ 9,115,100

Amounts appropriated for expenditure totaling \$263,486 for the year ending September 30, 2019, were used for artist commissions, presentation fees, and scholarships during the 2019 season, and were approved by management and the Board of the Organization.

The endowment net asset composition by type of fund as of September 30, 2019, was as follows:

	Without Donor Restrictions	Donor Restricted for Time or Purpose	Donor Restricted in Perpetuity	Total
Donor restricted	\$ -	\$ 3,845,603	\$ 5,269,497	\$ 9,115,100

## AMERICAN DANCE FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS

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**DONATED FACILITIES, SERVICES, AND MATERIALS**

The Organization recognizes donated facilities, services, and materials that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Organization receives donated facilities from Duke University. The Organization must pay for 25% of the rental agreement annually. The rental agreement cost includes telephone, janitorial services, and insurance. The rental agreement is negotiated annually based on expected use.

During the year ended September 30, 2019, the estimated values of donated facilities, services, and materials are:

Facilities	\$ 102,900
Food and lodging	9,930
Advertising	3,865
Printing	<u>1,094</u>
Total donated facilities, services, and materials	<u><u>\$ 117,789</u></u>

There were no donated facilities, services, and materials during the year ended September 30, 2020.

**CANCELED EVENTS**

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency due to a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

As a result of the COVID-19 outbreak, the Organization canceled all in person classes, events, and programs scheduled during mid-March through the end of the fiscal year. The Organization held virtual events and classes during this time.

**COMMITMENTS AND CONTINGENCIES**

The Organization has received proceeds from federal, state, and local grants. Periodic audits of these grants may be required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that no such refunds will be required, and no provision has been made in the accompanying financial statements for the refund of grant monies.

## AMERICAN DANCE FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS

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**COMMITMENTS AND CONTINGENCIES (CONTINUED)**

The Organization has an operating lease for office equipment that expires in November 2021, and requires a minimum monthly fee of \$154 plus maintenance and service fees. The copier costs totaled \$2,844 and \$4,471, for the years September 30, 2020 and 2019, respectively. These costs are included in supplies on the statements of functional expenses.

Future minimum lease payments under the non-cancelable lease, having an initial or remaining lease term of more than one year at September 30, 2020, are as follows:

<u>Year ending September 30,</u>	
2021	\$ 1,663
2022	<u>339</u>
	<u>\$ 2,002</u>

The full impact of the COVID-19 outbreak continues to evolve. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity going forward.

**RETIREMENT PLAN**

The Organization has established a Section 401(k) retirement plan which covers substantially all of its employees who have attained the age of 21 and have completed one year of service. The Organization matches 100% of the employees' contributions up to a maximum of 4% of the employees' compensation. For the years ended September 30, 2020 and 2019, retirement plan expense under the 401(k) plan totaled \$23,068 and \$23,647, respectively.

**LONG-TERM DEBT**

In April 2020, the Organization was granted a loan (the "Loan") from a financial institution in the amount of \$172,400 pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted in March 2020. The Loan, which was in the form of a Note, matures on April 15, 2022 and bears interest at a rate of 1% per annum. The Note may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties. The Note and accrued interest are forgivable after 24 weeks as long as the borrower uses the loan proceeds for qualifying expenses over the 24-week period. The amount of loan forgiveness may be reduced under certain circumstances as described in the loan agreement. The Organization intends to use the entire Loan amount for qualifying expenses. At September 30, 2020, the outstanding loan balance is \$172,400.

**AMERICAN DANCE FESTIVAL, INC.****NOTES TO FINANCIAL STATEMENTS**

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**LONG-TERM DEBT (CONTINUED)**

Subsequent to signing the original loan agreement, the Small Business Administration (“SBA”) issued additional guidelines giving the Organization 10 months from the last day of the 24-week covered period to apply for loan forgiveness. Once the application is submitted, the lender has 60 days to act on the application and forward its recommendation to the SBA, who then has 90 days to act on that recommendation and remit the forgiveness proceeds to the lender, at which point the payments on the unforgiven balance, if any, of the loan would begin. If the Organization does not apply for loan forgiveness, the earliest date for commencement of payments of principal and interest is 10 months after the last day of the 24-week covered period.

There was no long-term debt at September 30, 2019.

**SUBSEQUENT EVENTS**

Management has evaluated subsequent events for recognition or disclosure through March 12, 2021, which was the date that the financial statements were available to be issued and determined no events required disclosure.