



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

PACIFIC NORTHWEST BALLET

June 30, 2021 and 2020

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Report of Independent Auditors

To the Audit Committee
Pacific Northwest Ballet

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Pacific Northwest Ballet Association and Pacific Northwest Ballet Foundation (collectively, Pacific Northwest Ballet or the Organization), which comprise the consolidated balance sheet as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year ended June 30, 2021, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pacific Northwest Ballet as of June 30, 2021, and the consolidated changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Organization's 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 8, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying consolidating balance sheet is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of the Organization's 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 basic consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated basic financial statements as a whole.



Seattle, Washington
September 14, 2021

**Pacific Northwest Ballet
Consolidated Balance Sheets**

ASSETS

	June 30,	
	2021	2020
ASSETS		
PNB Association assets		
Current assets		
Cash and cash equivalents	\$ 4,012,911	\$ 3,871,412
Accounts receivable	169,973	124,651
Contributions receivable, net	589,535	369,245
Inventory	299,024	273,833
Prepaid expenses	<u>509,529</u>	<u>426,778</u>
Total current assets	5,580,972	5,065,919
Long-term contributions receivable, net	203,429	277,666
Investments	1,430,353	1,228,147
Gift annuity reserves	151,599	164,670
Investment in gift shop	337,252	334,016
Personal property and leasehold improvements, net	<u>10,221,979</u>	<u>11,214,537</u>
Total PNB Association assets	<u>17,925,584</u>	<u>18,284,955</u>
PNB Foundation assets		
Investments	25,092,204	18,940,597
Contributions receivable, net	48,167	54,253
Charitable remainder unitrust receivable	<u>1,708,382</u>	<u>1,776,832</u>
Total PNB Foundation assets	<u>26,848,753</u>	<u>20,771,682</u>
Total assets	<u>\$ 44,774,337</u>	<u>\$ 39,056,637</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 450,300	\$ 456,245
Deferred revenue	2,288,018	2,379,738
Payroll Protection Program loans	5,087,000	3,087,000
Dancer severance liability - current portion	100,000	132,000
Gift annuities payable - current portion	<u>13,900</u>	<u>18,546</u>
Total current liabilities	7,939,218	6,073,529
Accrued lease rent	589,016	592,644
Dancer severance liability	475,510	601,991
Gift annuities payable	<u>81,477</u>	<u>96,601</u>
Total liabilities	<u>9,085,221</u>	<u>7,364,765</u>
NET ASSETS		
Without donor restrictions	7,610,462	8,711,083
With donor restrictions	<u>28,078,654</u>	<u>22,980,789</u>
Total net assets	<u>35,689,116</u>	<u>31,691,872</u>
Total liabilities and net assets	<u>\$ 44,774,337</u>	<u>\$ 39,056,637</u>

Pacific Northwest Ballet

Consolidated Statements of Activities

	Without Donor Restrictions				With Donor Restrictions	2021 Total	2020 Total
	Operating	Capital	Board Designated	Total			
EARNED REVENUE							
Nutcracker ticket sales	\$ 427,908	\$ -	\$ -	\$ 427,908	\$ -	\$ 427,908	\$ 5,889,189
Other ticket sales	881,926	-	-	881,926	-	881,926	3,688,295
Performance fees	40,278	-	-	40,278	-	40,278	50,000
Ballet school and community education	2,058,371	-	-	2,058,371	-	2,058,371	4,424,559
Gift shop (net)	3,236	-	-	3,236	-	3,236	139,581
Other earned income	37,652	-	-	37,652	-	37,652	165,393
	3,449,371	-	-	3,449,371	-	3,449,371	14,357,017
CONTRIBUTIONS							
Contributions to Association - donated ticket sales	1,058,462	-	-	1,058,462	-	1,058,462	1,281,194
Contributions to Association - fundraising	4,803,987	-	-	4,803,987	437,292	5,241,279	7,780,916
Contributions to Foundation	-	-	-	-	27,365	27,365	1,589,103
Bequests designated to Foundation by Board	-	-	210,287	210,287	-	210,287	148,314
Special events (net expenses of \$28,765 and \$153,564)	419,945	-	-	419,945	-	419,945	497,301
Contributed goods and services revenues	251,314	-	-	251,314	-	251,314	579,471
	6,533,708	-	210,287	6,743,995	464,657	7,208,652	11,876,299
RELEASES, TRANSFERS, AND OTHER							
PNB Foundation support	845,000	-	(93,993)	751,007	(751,007)	-	-
Releases of restricted funds	622,669	-	-	622,669	(622,669)	-	-
Federal tax credits	1,585,104	-	-	1,585,104	-	1,585,104	-
Change in value of charitable remainder unitrust receivable	-	-	-	-	(68,450)	(68,450)	179,009
Investment return (loss)	5,231	-	670,822	676,053	6,075,334	6,751,387	(31,963)
	3,058,004	-	576,829	3,634,833	4,633,208	8,268,041	147,046
TOTAL REVENUE	13,041,083	-	787,116	13,828,199	5,097,865	18,926,064	26,380,362
EXPENSES							
Ballet company and performances	8,416,462	441,406	-	8,857,868	-	8,857,868	17,347,547
Ballet school and community education	2,803,067	719,863	-	3,522,930	-	3,522,930	5,052,817
Administration	2,004,893	-	-	2,004,893	-	2,004,893	2,255,502
Development	543,129	-	-	543,129	-	543,129	972,185
	13,767,551	1,161,269	-	14,928,820	-	14,928,820	25,628,051
CHANGE IN NET ASSETS	(726,468)	(1,161,269)	787,116	(1,100,621)	5,097,865	3,997,244	752,311
NET ASSETS							
Beginning of year	(3,407,158)	9,553,302	2,564,939	8,711,083	22,980,789	31,691,872	30,939,561
End of year	\$ (4,133,626)	\$ 8,392,033	\$ 3,352,055	\$ 7,610,462	\$ 28,078,654	\$ 35,689,116	\$ 31,691,872

Pacific Northwest Ballet

Consolidated Statements of Functional Expenses

	Program Expenses			Support Expenses			Total Expenses	
	Ballet Company and Performances	Ballet School and Community Education	Total	Administration	Development	Total	2021	2020
Salaries, taxes, and benefits								
Salaries								
Dancers	\$ 2,419,635	\$ -	\$ 2,419,635	\$ -	\$ -	\$ -	\$ 2,419,635	\$ 3,588,565
Musicians	605,451	346,462	951,913	-	-	-	951,913	2,383,514
Other artists	653,021	-	653,021	-	-	-	653,021	851,184
Production	759,940	-	759,940	-	-	-	759,940	1,806,856
Box office and marketing	770,317	-	770,317	-	-	-	770,317	888,663
Teachers	-	729,211	729,211	-	-	-	729,211	1,038,168
Administrative	-	625,712	625,712	812,712	325,567	1,138,279	1,763,991	2,267,203
Total salaries	5,208,364	1,701,385	6,909,749	812,712	325,567	1,138,279	8,048,028	12,824,153
Payroll taxes	620,360	225,996	846,356	85,618	45,414	131,032	977,388	1,574,599
Employee benefits	992,322	192,946	1,185,268	50,756	39,647	90,403	1,275,671	2,081,989
Total salaries, taxes, and benefits	6,821,046	2,120,327	8,941,373	949,086	410,628	1,359,714	10,301,087	16,480,741
Choreography and dance	398,940	407	399,347	-	-	-	399,347	323,358
Scenery and stage	49,612	-	49,612	-	-	-	49,612	300,802
Costume and toe shoes	131,958	1,533	133,491	-	-	-	133,491	303,956
Music and instruments	53,586	-	53,586	-	-	-	53,586	129,308
Performance hall	29,999	-	29,999	-	-	-	29,999	775,300
Total production expenses	664,095	1,940	666,035	-	-	-	666,035	1,832,724
Building occupancy	481,623	455,111	936,734	262,137	-	262,137	1,198,871	1,960,627
Advertising	183,292	13,674	196,966	-	10,876	10,876	207,842	1,410,245
Professional services	26,233	43,889	70,122	213,641	50,809	264,450	334,572	640,822
Bank fees	67,294	64,144	131,438	14,554	34,895	49,449	180,887	416,467
Software, supplies, and equipment	12,571	26,389	38,960	184,723	8,768	193,491	232,451	251,242
Printing and copying	51,151	8,860	60,011	-	15,800	15,800	75,811	213,693
Travel	55,680	2,259	57,939	225	-	225	58,164	191,797
Hospitality	4,984	358	5,342	935	3,021	3,956	9,298	135,865
Postage and delivery	21,233	6,010	27,243	6,998	-	6,998	34,241	111,539
Insurance	17,662	10,000	27,662	70,844	-	70,844	98,506	98,850
Student expenses	-	41,886	41,886	-	-	-	41,886	83,143
Other	8,598	6,853	15,451	55,097	6,038	61,135	76,586	58,221
Total other expenses	930,321	679,433	1,609,754	809,154	130,207	939,361	2,549,115	5,572,511
Contributed goods and services	1,000	1,367	2,367	246,653	2,294	248,947	251,314	579,471
Depreciation and amortization	441,406	719,863	1,161,269	-	-	-	1,161,269	1,162,604
Total expenses	\$ 8,857,868	\$ 3,522,930	\$ 12,380,798	\$ 2,004,893	\$ 543,129	\$ 2,548,022	\$ 14,928,820	\$ 25,628,051

Pacific Northwest Ballet
Consolidated Statements of Cash Flows

	Years Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,997,244	\$ 752,311
Adjustments to reconcile change in net assets to cash from operating activities		
Depreciation and amortization	1,161,269	1,162,604
Net loss (gain) on investments	(6,538,212)	337,270
Contributions restricted for purchase of long-term assets	(176,667)	(55,000)
Contributions and earnings restricted for endowments	(588,752)	(2,290,437)
Provision for uncollectible pledges	113,906	10,327
Cash from changes in operating assets and liabilities		
Accounts receivable	(45,322)	(30,625)
Contributions receivable	(185,923)	1,045,643
Inventory and prepaid expenses	(107,942)	355,938
Investment in gift shop	(3,236)	(139,581)
Accounts payable and accrued expenses	(167,973)	(707,514)
Deferred revenue	(91,720)	(2,065,818)
Accrued lease rent	<u>(3,628)</u>	<u>25,441</u>
Net cash from operating activities	<u>(2,636,956)</u>	<u>(1,599,441)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for personal property and leasehold improvements	(168,711)	(24,632)
Payments to life tenants of gift annuity	(16,223)	(18,546)
Increase in gift annuity reserves	-	25,000
Purchases of investments	(3,898,909)	(6,378,698)
Proceeds from sale of investments	<u>4,096,379</u>	<u>4,161,229</u>
Net cash from investing activities	<u>12,536</u>	<u>(2,235,647)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts from Paycheck Protection Program loan	2,000,000	3,087,000
Contributions received for purchase of long-term assets	176,667	55,000
Contributions and earnings received for endowments	<u>589,252</u>	<u>2,123,338</u>
Net cash from financing activities	<u>2,765,919</u>	<u>5,265,338</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>141,499</u>	<u>1,430,250</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>3,871,412</u>	<u>2,441,162</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,012,911</u>	<u>\$ 3,871,412</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid during the year	<u>\$ 565</u>	<u>\$ 2,726</u>
Income taxes paid during the year	<u>\$ -</u>	<u>\$ 7,040</u>

Pacific Northwest Ballet Notes to Consolidated Financial Statements

Note 1 – Description of Organization and Summary of Significant Accounting Policies

Organization – Pacific Northwest Ballet Association (the Association or PNB Association) and Pacific Northwest Ballet Foundation (the Foundation or PNB Foundation) (collectively, the Organization or PNB) are not-for-profit corporations organized in 1972 and 1996, respectively. The Association stages several major ballets each year, operates a ballet school, and promotes public interest in the art of ballet. The mission of the Association is to enrich lives in the Pacific Northwest by:

- Setting new standards for artistic excellence, innovation, and creativity;
- Attracting the most talented dancers, choreographers, musicians, staff, and volunteers;
- Educating and developing dance artists as well as enthusiasts;
- Captivating a devoted, supportive, continually growing, and diverse audience; and
- Strengthening the Organization's financial foundation.

The Foundation was formed to conduct and support activities exclusively for the benefit of the Association. Its board is elected by the governing board of the Association. The Foundation receives and holds endowment funds for and makes distributions to the Association.

COVID-19 – In March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Organization temporarily closed its facilities for the remainder of the year ended June 30, 2020, as well as the full year ended June 30, 2021, due to government restrictions on public gatherings and business operations. The Organization has a “no refund” policy for performances and classes. Revenue from cancelled performances and classes were recognized as “donated ticket sales” contributions in the accompanying financial statements.

During this temporary closure, performances and dance education have continued via the internet but earned revenue has materially decreased. Donors have increased contributions and management has reduced expenses in response to reduced earned revenue. However, the Organization cannot reasonably estimate the extent to which the pandemic may materially change future operations or consumer and donor behavior and the effects that these and other factors will have on net revenues and cash flows. No adjustments have been made to these consolidated financial statements as a result of this uncertainty.

The Association has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants.

The Organization qualified for Employee Retention and other payroll tax credits under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and subsequent amendments while operations were restricted by government mandates during the year ended June 30, 2021. The credits are recorded as other revenue when related payroll expenses were incurred and subsequently claimed on payroll tax forms. As of June 30, 2021, the credits totaled \$1,585,104.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Adoption of new accounting pronouncement – On July 1, 2020, the Organization adopted Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The Update clarifies principles for recognizing revenue based on satisfaction of obligations to customers, and it also eliminates capitalization of direct-response advertising costs. Adoption of the Update did not result in a material change to the Organization's financial statements.

Basis of presentation – The Organization reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions as follows:

Net assets without donor restrictions – Net assets that are not subject to or are no longer subject to donor-imposed restrictions. Net assets without donor restrictions are further categorized as operating, capital and board-designated net assets. Capital activity includes contributions, gains and expenses related to the acquisition, disposition, depreciation, and amortization of long-lived assets. Board-designated net assets are subject to self-imposed limits by action of the governing board and may be earmarked for future projects, investment, or other uses.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization or the passage of time.

Changes in net assets – Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions are reported as releases of net assets with donor restrictions when stipulated time restriction ends or purpose restriction is accomplished. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service. The Organization has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

Investment earnings on donor-restricted endowment funds, including realized and unrealized capital gains, are classified as net assets with donor restrictions until they are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by Washington State's Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

Basis of consolidation – The consolidated financial statements include the financial position and the results of activities, changes in net assets, and cash flows of the Association and the Foundation. All significant intercompany transactions have been eliminated in the consolidated financial statements.

Use of estimates – The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

Cash and cash equivalents – The Organization considers all temporary investments with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents in depository institution accounts that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Accounts receivable – Accounts receivable consist of amounts due for student tuition, credit card sales, and for costume and set rentals or co-productions. All account balances are due in less than one year. No allowance for uncollectible balances has been deemed necessary based upon historical experience.

Contributions receivable – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. The Organization records an allowance for doubtful accounts on pledges based on review of individual past due balances, historical write-off experience, and economic data. Unconditional promises to give that are expected to be collected over a period of more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the discount rate adjustment technique, in which the rate is based upon the risk-free interest rate applicable to those years when pledges were received (Note 4). The effective interest rate on discounted contributions receivable was 5.0% for the years ended June 30, 2021 and 2020.

Inventory – Inventory consists of ballet shoes for use by PNB Association dancers in future performances. Such inventory items are recorded at the lower of cost or market.

Investments – The Organization's investments are recorded at fair value in the consolidated balance sheets, and the realized and unrealized gains and losses on investments are reported in the consolidated statements of activities as part of investment return.

PNB Association's investments, consisting of money market funds and fixed income securities, are held in separate accounts in accordance with donor restrictions or contractual requirements.

Investment in gift shop – PNB Association has a 50% ownership interest in Song & Dance, LLC, d.b.a. aMUSEments: Gifts of Artistic Expression (the LLC). The purpose of the LLC is to operate a retail gift shop in McCaw Hall. The investment in the LLC is accounted for using the equity method.

Gift annuities – The Organization periodically enters into gift annuity agreements in connection with contributions for which it is obligated to make periodic payments to designated beneficiaries. Assets contributed are recorded at fair value when received, and a liability is recorded at the present value of future cash flows to annuitants. Funds equal to at least 110% of the present value of payments due to beneficiaries are maintained in a reserve account as required by statute. Investment earnings on the annuity reserves are recognized when earned, and actuarial adjustments are made to the liability annually. The annuity reserve consists of money market funds and fixed income securities.

Charitable remainder unitrust receivable – The Foundation is the beneficiary of a trust administered by a donor. The trust invests in temporary cash investments, mutual funds, and contracts receivable. The Foundation's beneficiary interest receivable is recorded at its estimated fair value based on the use of present value techniques and the trust administrator's annual estimated fair value based on unobservable inputs (Note 6).

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Personal property and leasehold improvements – Personal property and leasehold improvements are stated at cost if purchased or fair market value if contributed. Sets and costumes with a minimum original cost of \$250,000, equipment with a minimum cost of \$5,000, and leasehold improvements with an original cost of \$50,000 are capitalized. Leasehold improvements represent capitalized costs of constructing the Association's rehearsal, school, and administrative facilities in its leased Seattle Center and Bellevue locations. Gains or losses on the disposition of capital assets are included in the consolidated statements of activities at the time of disposal (Note 7).

Depreciation and amortization of personal property and leasehold improvements are provided as follows:

Sets and costumes	Straight-line basis	3–10 years
Office, studio, and stage equipment	Straight-line basis	3–5 years
Leasehold improvements	Straight-line basis	Lesser of lease term or estimated useful life

Revenue recognition – The Organization earns revenue primarily from performance ticket sales and from school tuition. Tickets are generally purchased in advance and are nonrefundable. Revenues from ticket sales are recognized when the performance occurs. School tuition is nonrefundable and is recognized as revenue ratably over the class term.

Deferred revenue – Deferred revenue consists primarily of ticket sales for the upcoming season and tuition for ballet school classes subsequent to the corresponding consolidated balance sheet date.

Contributions – Unconditional contributions are recognized as revenues in the period received. Contributed assets with measurable performance or other barriers and a right of return are recorded as deferred revenue until the donor-imposed conditions have been substantially met or explicitly waived.

Contributed goods and services – Contributed goods are recorded at fair value when received by the Organization. Contributed professional and advertising services are reflected in the consolidated financial statements, inasmuch as an objective basis is available to measure the value of such services. However, a substantial number of volunteers have donated their time to the program services and fundraising campaigns of the Organization, which is not reflected in the consolidated financial statements because no objective basis is available to measure the value of such services.

Advertising expense – Advertising costs are expensed when incurred. Advertising expense was \$207,842 and \$1,410,245 for the years ended June 30, 2021 and 2020, respectively.

Income tax – The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code except to the extent of unrelated business income from a partnership with Seattle Opera to operate the aMUSEments gift shop in McCaw Hall.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Recent accounting pronouncements – In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842). The new guidance establishes principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. For nonpublic entities, this update is effective for fiscal years beginning after December 15, 2021. The Organization is evaluating the impact of adoption on its financial statements.

Reclassifications – Certain reclassifications have been made to the 2020 comparable information to conform to the 2021 presentation. Such reclassifications do not alter the change in net assets or net asset balances as previously reported.

Functional allocation of expenses – Expenses are summarized on a functional basis in the consolidated financial statements. Expenses are charged directly to the function they benefit. When functions are shared or costs are intermingled, expenses are allocated on a reasonable basis that is consistently applied. Amortization expense is allocated on a square-footage basis, and bank fees are allocated based on estimated percentage use.

Subsequent events – Subsequent events are events that occur after the consolidated balance sheet date but before consolidated financial statements are issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheets, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization has evaluated subsequent events through September 14, 2021, which is the date that the consolidated financial statements were available to be issued.

Note 2 – Net Assets

Net assets without donor restrictions consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Operating	<u>\$ (4,133,626)</u>	<u>\$ (3,407,158)</u>
Capital	<u>8,392,033</u>	<u>9,553,302</u>
Board-designated		
Specific projects	42,071	42,071
Stabilization Fund	638,681	638,681
Quasi-endowment		
General Endowment Fund	1,044,740	643,892
Artistic Directors' Fund	1,448,048	1,104,173
Scholarship and Outreach Fund	<u>178,515</u>	<u>136,122</u>
Total board-designated net assets	<u>3,352,055</u>	<u>2,564,939</u>
Total net assets without donor restrictions	<u>\$ 7,610,462</u>	<u>\$ 8,711,083</u>

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 2 – Net Assets (continued)

The board-designated Stabilization Fund, established in 2000 for cash flow stability, preserves working capital to offset operating deficits. Designations to the Stabilization Fund are based on operating surpluses before non-cash expenses and donor-specified contributions.

Net assets with donor restrictions consisted of the following at June 30:

	2021	2020
Subject to the passage of time or expenditure for specified purpose		
PNB Association		
Dancer Transition Fund	\$ 146,970	\$ 142,203
50th Anniversary Campaign	844,757	867,937
Donor-restricted to future fiscal years	346,429	401,821
Donor-restricted for specified performances	514,162	646,472
Donor-restricted for sets and costumes	92,485	92,485
Donor-restricted for leasehold improvements	<u>1,955,824</u>	<u>1,934,950</u>
	<u>3,900,627</u>	<u>4,085,868</u>
Endowment funds		
PNB Foundation		
General Endowment Fund	4,220,320	4,200,870
School and Outreach Funds	5,070,129	5,064,629
Artistic and Creative Funds	4,409,518	4,409,518
Artistic Directors' Fund	2,095,355	2,095,355
Dancers and Pointe Shoes Funds	1,122,463	1,122,463
Accumulated earnings	5,578,693	450,854
Accumulated losses	-	(196,353)
General Endowment unitrust receivable	1,708,382	1,776,832
Present value discount and allowance for doubtful accounts	<u>(26,833)</u>	<u>(29,247)</u>
	<u>24,178,027</u>	<u>18,894,921</u>
Total net assets with donor restrictions	<u><u>\$ 28,078,654</u></u>	<u><u>\$ 22,980,789</u></u>

Donor-restricted net assets for leasehold improvements are government grants used to rebuild the Bellevue ballet school. The grants are secured by leasehold improvements with a net cost of \$6,835,000 and \$7,457,000 as of June 30, 2021 and 2020, respectively, and must be repaid if the Organization fails to operate the Bellevue ballet school through January 2029.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 3 – Contributions

Contributions consisted of the following for the years ended June 30:

	Without Donor Restrictions	With Donor Restrictions	Total
2021			
Individual	\$ 5,251,481	\$ 159,427	\$ 5,410,908
Corporate	169,516	255,230	424,746
Foundation	399,870	50,000	449,870
Government	<u>251,869</u>	-	<u>251,869</u>
	<u><u>\$ 6,072,736</u></u>	<u><u>\$ 464,657</u></u>	<u><u>\$ 6,537,393</u></u>
2020			
Individual	\$ 5,549,976	\$ 3,179,785	\$ 8,729,761
Corporate	634,479	304,260	938,739
Foundation	781,300	54,300	835,600
Government	<u>289,667</u>	5,760	<u>295,427</u>
	<u><u>\$ 7,255,422</u></u>	<u><u>\$ 3,544,105</u></u>	<u><u>\$ 10,799,527</u></u>

Note 4 – Contributions Receivable

Contributions receivable consisted of the following at June 30:

	PNB Association	PNB Foundation	Total	2020 Total
Current (less than one year)				
Individuals and affiliated groups	\$ 334,660	\$ 49,000	\$ 383,660	\$ 377,245
Corporate	10,000	-	10,000	12,500
Foundation	25,000	-	25,000	3,000
Government	308,600	-	308,600	100,000
Allowance for doubtful accounts	<u>(88,725)</u>	<u>(19,000)</u>	<u>(107,725)</u>	<u>(86,000)</u>
Current contributions receivable, net	<u><u>\$ 589,535</u></u>	<u><u>\$ 30,000</u></u>	<u><u>\$ 619,535</u></u>	<u><u>\$ 406,745</u></u>
Long-term (one to four years)				
Individuals and affiliated groups	\$ 15,779	\$ 26,000	\$ 41,779	\$ 86,129
Corporate	-	-	-	-
Foundation	25,000	-	25,000	-
Government	200,000	-	200,000	300,000
Present value discount	(22,075)	(1,833)	(23,908)	(48,710)
Allowance for doubtful accounts	<u>(15,275)</u>	<u>(6,000)</u>	<u>(21,275)</u>	<u>(43,000)</u>
Long-term contributions receivable, net	<u><u>\$ 203,429</u></u>	<u><u>\$ 18,167</u></u>	<u><u>\$ 221,596</u></u>	<u><u>\$ 294,419</u></u>

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 5 – Investments

Investments consisted of the following at June 30:

	PNB Association	PNB Foundation
2021		
Money market	\$ 296,366	\$ 141,870
Fixed income securities	1,133,987	-
Equity securities and mutual funds	-	24,950,334
	<u><u>\$ 1,430,353</u></u>	<u><u>\$ 25,092,204</u></u>
2020		
Money market	\$ 156,571	\$ 215,911
Fixed income securities	1,071,576	-
Equity securities and mutual funds	-	18,724,686
	<u><u>\$ 1,228,147</u></u>	<u><u>\$ 18,940,597</u></u>

Net investment return consisted of the following for the years ended June 30:

	2021	2020
Interest and dividend income	\$ 286,371	\$ 399,526
Realized and unrealized gain (loss) on investments	6,551,283	(361,378)
Investing expenses	<u>(86,267)</u>	<u>(70,111)</u>
	<u><u>\$ 6,751,387</u></u>	<u><u>\$ (31,963)</u></u>

Note 6 – Fair Value Measurements

The Organization applies the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

The ASC 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 active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 6 – Fair Value Measurements (continued)

Assets that are measured at fair value on a recurring basis are categorized using the three levels of the fair value hierarchy as follows as of June 30:

2021	Total	Level 1	Level 2	Level 3
Investments				
Money market	\$ 438,236	\$ 438,236	\$ -	\$ -
Fixed income securities	1,133,987	1,133,987	-	-
Equity securities and mutual funds	24,950,334	24,950,334	-	-
Gift annuity reserves	151,599	151,599	-	-
Charitable remainder unitrust	1,708,382	-	-	1,708,382
Total assets in the fair value hierarchy	<u>\$ 28,382,538</u>	<u>\$ 26,674,156</u>	<u>\$ -</u>	<u>\$ 1,708,382</u>
2020	Total	Level 1	Level 2	Level 3
Investments				
Money market	\$ 372,482	\$ 372,482	\$ -	\$ -
Fixed income securities	1,071,576	1,071,576	-	-
Equity securities and mutual funds	18,724,686	18,724,686	-	-
Gift annuity reserves	164,670	164,670	-	-
Charitable remainder unitrust	1,776,832	-	-	1,776,832
Total assets in the fair value hierarchy	<u>\$ 22,110,246</u>	<u>\$ 20,333,414</u>	<u>\$ -</u>	<u>\$ 1,776,832</u>

Level 3 assets consist of a charitable remainder unitrust receivable, administered by an outside trustee, which is valued at the present value of the estimated expected future remainder interest to be received when the trust assets are distributed. Adjustments to the remainder interest reflect changes in the fair value, life expectancy, and discount rate.

Investment securities are exposed to various risks, such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investment securities and investment contracts, and the level of uncertainty related to changes in the value of the investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect account balances and the amounts reported in the consolidated balance sheets and the consolidated statements of activities.

The Organization's management determines the fair value measurement policies and procedures, which are reassessed at least annually to determine whether the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

The following table discloses the summary of changes in the fair value of Level 3 investment assets:

	2021	2020
Beginning balance	\$ 1,776,832	\$ 1,597,823
Change in fair value of charitable remainder unitrust	<u>(68,450)</u>	<u>179,009</u>
Ending balance	<u><u>\$ 1,708,382</u></u>	<u><u>\$ 1,776,832</u></u>

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 6 – Fair Value Measurements (continued)

Quantitative information about significant unobservable inputs used in Level 3 fair value measurements is as follows:

Name	Fair Value June 30, 2021	Valuation Technique	Unobservable Inputs	Range of Input Values (Weighted Average)
Charitable Remainder Unitrust	\$ 1,708,382	Discounted cash flow	Payout percentage Discount rate - 2021 Discount rate - 2020	8% 1.2% 0.6%

Note 7 – Leasehold Improvements and Personal Property

Leasehold improvements and personal property consisted of the following at June 30:

	Cost	Accumulated Depreciation/ Amortization	Net
2021			
Leasehold improvements	\$ 17,133,922	\$ 8,010,149	\$ 9,123,773
Sets and costumes	7,085,785	5,995,711	1,090,074
Office, studio, and stage equipment	618,660	610,528	8,132
	\$ 24,838,367	\$ 14,616,388	\$ 10,221,979
2020			
Leasehold improvements	\$ 16,965,212	\$ 7,208,264	\$ 9,756,948
Sets and costumes	7,574,162	6,134,173	1,439,989
Office, studio, and stage equipment	622,539	604,939	17,600
	\$ 25,161,913	\$ 13,947,376	\$ 11,214,537

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 8 – Line of Credit

The Association has a \$1,600,000 revolving credit facility, payable on demand, bearing interest at 1.50% plus the one-month LIBOR (1.59% at June 30, 2021) with a December 31, 2021, maturity. The facility is secured by the Association's contribution receivables, investments, costumes, and sets. Interest expense under the line of credit was approximately \$0 for the years ended June 30, 2021 and 2020. The average outstanding balance on the line of credit was \$0 for the years ended June 30, 2021 and 2020. There was no outstanding balance on the line of credit as of June 30, 2021 and 2020.

The Association has a standby letter of credit for \$95,000 as of June 30, 2021, in favor of American Guild of Musical Artists in accordance with requirements in its union contract.

Note 9 – Paycheck Protection Program Loans

In March 2020, the Association was granted a loan under the Paycheck Protection Program offered by the United States Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), in the amount of \$3,087,000. The loan bears interest at 1.0% with monthly payments of principal and interest beginning in September 2021 and continuing through maturity in April 2022, if required. All or a portion of the loan may be forgiven if the Association uses all proceeds for eligible purposes, maintains certain employment and compensation levels in accordance with and subject to the CARES Act and the rules, regulations and guidance. Management represents that the Association expended all of the loan proceeds on eligible purposes by June 30, 2020, but as of the report date, has not yet completed its application for loan forgiveness.

In March 2021, the Association was granted a second loan under the Paycheck Protection Program in the amount of \$2,000,000. This loan bears interest at 1.0% with monthly payments of principal and interest beginning in August 2022 through maturity in March 2026, if required, and all or a portion of the loan may be forgiven if used for eligible purposes. Management represents that the Association expended all of the loan proceed on eligible purposes by June 30, 2021, but as of the report date, has not yet applied for loan forgiveness.

The Association accounts for these PPP loans as conditional grants, to be recorded as a refundable advance until repayment is specifically waived.

Note 10 – Related Party Transactions

Contributions, including both gifts and pledges to give, from members of the Association's board of trustees were approximately \$1,023,000 and \$2,346,000 for the years ended June 30, 2021 and 2020, respectively. Contributions receivable of approximately \$210,000 and \$226,000 as of June 30, 2021 and 2020, respectively, were due from members of the Association's board of trustees.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 11 – Benefit Plans

The Association has a contract with dancers employed under an American Guild of Musical Artists contract. The contract provides that the Association shall contribute to the PNB Association Employee Benefit Plan, a 401(k) plan, an amount that is 5% of each dancer's gross compensation, plus an additional 7.5% of matching contributions. However, the contract was amended to suspend contributions for most of the year ended June 30, 2021. Contributions for dancers were approximately \$6,200 and \$407,000 for the years ended June 30, 2021 and 2020, respectively. The contract also provides dancers with severance pay upon termination if they have completed five years of employment with the Association. The liability for future dancer severance pay is estimated in accordance with the contract based on each dancer's current compensation and years of service.

The Association has a contract with musicians employed under an International Guild of Symphony, Opera and Ballet Musicians contract. The contract provides that the Association shall contribute to the PNB Association Employee Benefit Plan, a 401(k) plan, an amount that is 7.5% of each musician's wages, plus up to an additional 3.5% of matching contributions. However, the contract was amended to suspend contributions for most of the year ended June 30, 2021. Contributions for musicians were approximately \$400 and \$131,000 for the years ended June 30, 2021 and 2020, respectively.

The Association has a contract with stagehands employed under an International Alliance of Theatrical Stage Employees (IATSE) contract. The contract provides for 401(k) benefits under a union retirement plan, and requires that the Association contribute 6% of gross pay to the IATSE plan. However, the contract was amended to suspend contributions for most of the year ended June 30, 2021. Retirement benefits expense for stagehands was approximately \$5,400 and \$46,000 for the years ended June 30, 2021 and 2020, respectively. Additionally, the contract provides for health and welfare benefits and requires that the Association contribute 10% of gross wages to the union plan. However, the contract was amended to pay an equivalent of 50% of the current COBRA rate for resident stagehands for the period January 1 to June 30, 2021. The health and welfare benefits expense for stagehands was approximately \$30,000 and \$75,000 for the years ended June 30, 2021 and 2020, respectively.

The Association has a contract with dressers employed under a Theatrical Wardrobe Union contract. The contract provides for 401(k) benefits under a union retirement plan, and requires that the Association contribute 6% of gross wages. However, the contract was amended to suspend contributions for most of the year ended June 30, 2021. Retirement benefits expense for dressers was approximately \$200 and \$13,000 for the years ended June 30, 2021 and 2020, respectively. Additionally, the contract provides for health and welfare benefits and requires that the Association contribute 20% and 10% of gross wages to the union plan for the years ended June 30, 2021 and 2020, respectively. The health and welfare benefits expense for dressers was approximately \$2,600 and \$23,000 for the years ended June 30, 2021 and 2020, respectively.

Salaries of employees covered under collective bargaining agreements were approximately \$2,976,000 and \$6,156,000, representing 37% and 48% of salaries for the years ended June 30, 2021 and 2020, respectively.

The Association has a defined contribution plan to provide retirement benefits for all employees not covered by a collective bargaining agreement. Under the terms of the plan, it is optional for the Association to provide a matching contribution, which is based on an eligible employee's gross wages. The Association made matching contributions of approximately \$0 and \$76,000 for the years ended June 30, 2021 and 2020, respectively.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 12 – Rent Commitments

The Association rents office, studio, school, and warehouses under noncancelable operating leases expiring through 2034. The office, studio, and school leases have renewal options for 10 to 15 years. The lease for the Seattle office, studio, and school had annual lease payment escalations through February 2021, and requires the Association to make \$300,000 of tenant improvements by December 2021. The warehouse and Bellevue school leases have scheduled rent increases over the lease terms. Accounting principles require total lease payments to be expensed evenly over the related lease term. In years when the amortized rent expense is in excess of the schedule lease payments, the difference is recorded as accrued lease rent liability. Conversely, in years when the amortized rent expense is less than the actual lease payments, the difference reduces the accrued lease rent liability.

The Association performs its ballets in McCaw Hall under an operating agreement with the City of Seattle and Seattle Opera. Under the agreement, the Association pays the City of Seattle an annual fee based on annual hall net operating expenses and its percentage use of the hall. The agreement also requires shared responsibility for capital renewal costs and for debt service on the outstanding balance of capital funding for McCaw Hall. The term of the agreement is through 2028 with two 15-year renewal options. The Association's share of the debt service is expected to be approximately \$30,000 for each year through 2023. The Association's share of capital renewal costs was \$0 for the years ended June 30, 2021 and 2020.

Rental expense consists of the following for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Office, studios, schools, and warehouses		
Lease payments	\$ 639,965	\$ 1,316,396
Rent expense in excess of lease payments	92,179	110,817
McCaw Hall	-	415,160
In-kind rent	<u>206,271</u>	<u>-</u>
	<u><u>\$ 938,415</u></u>	<u><u>\$ 1,842,373</u></u>

Aggregate minimum rental commitments consisted of the following as of June 30:

2022	\$ 908,030
2023	893,216
2024	917,869
2025	943,219
2026	969,286
Thereafter	<u>7,054,223</u>
	<u><u>\$ 11,685,843</u></u>

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 13 – Intellectual Property Agreement

On July 2, 2002, the Association entered into an agreement to continue the Association's interest in certain intellectual property and restaging of ballets. The agreement also requires that certain consulting services be provided throughout the lifetimes of the parties. Amounts paid under this agreement were approximately \$135,000 and \$134,000 during 2021 and 2020, respectively. Future amounts due under this agreement approximate the following as of June 30:

2022	\$ 138,000
2023	141,000
2024	143,000
2025	144,000
2026	145,000
Thereafter	<u>747,000</u>
	<u><u>\$ 1,458,000</u></u>

Note 14 – Endowment Policies

Investment earnings on donor-restricted endowment funds, including realized and unrealized capital gains, are classified as net assets with donor restrictions until they are appropriated for distribution to the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment net assets consist of the following as of June 30:

	2021	2020
Board-designated quasi-endowment	\$ 2,671,303	\$ 1,884,187
Donor-restricted endowment	<u>24,178,027</u>	<u>18,894,921</u>
 Total endowment net assets	 <u>\$ 26,849,330</u>	 <u>\$ 20,779,108</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below either the original gift amount or the amount required to be maintained by the donor. As of June 30, 2020, endowment funds with a fair value of \$4,765,105 were below their corpus of \$4,961,458. This decline in the fair value of these funds resulted from unfavorable market fluctuations, and appropriation was deemed prudent by the board of the Foundation. There were no endowment funds with fair values below their corpus as of June 30, 2021.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 14 – Endowment Policies (continued)

Change in endowment net assets for the year ended June 30, 2021, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, July 1, 2020	\$ 1,884,187	\$ 18,894,921	\$ 20,779,108
Net investment return (loss)	670,822	6,075,198	6,746,020
Change in value of charitable remainder trust receivable	-	(68,450)	(68,450)
Board appropriations	(93,993)	(751,007)	(845,000)
Board-designated additions	210,287	-	210,287
Contributions	-	27,365	27,365
 Total net assets, June 30, 2021	 \$ 2,671,303	 \$ 24,178,027	 \$ 26,849,330

Change in endowment net assets for the year ended June 30, 2020, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, July 1, 2019	\$ 1,829,845	\$ 17,911,799	\$ 19,741,644
Net investment return (loss)	(7,993)	(70,970)	(78,963)
Change in value of charitable remainder trust receivable	-	179,009	179,009
Board appropriations	(85,979)	(714,021)	(800,000)
Board-designated additions	148,314	-	148,314
Contributions	-	1,589,104	1,589,104
 Total net assets, June 30, 2020	 \$ 1,884,187	 \$ 18,894,921	 \$ 20,779,108

Investment policy

- The investment policy of the Foundation is to increase the value of the endowment portfolio and at the same time provide a dependable, growing source of income that will be used to support various programs of the Association.
- Endowment assets will be managed on a total return basis while taking into account the level of investment income required. Although the board of the Foundation recognizes the importance of the preservation of capital, they also adhere to the principle that varying degrees of investment risk are generally rewarded with associated returns over the long term.
- Endowment assets will be diversified among asset classes, as well as within each asset class including diversification among sectors and industries, quality, market capitalization, and investment style on the premise that portfolio diversification and equity style diversification provide protection against a single security or class of securities having a disproportionate impact on aggregate performance.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 14 – Endowment Policies (continued)

Investment objectives

- **Risk** – The endowment's risk capacity enables it to serve its mission in perpetuity and to focus its investment horizon primarily over the long term. Consequently, it has the ability to take on a moderately higher degree of volatility and illiquidity than most operating entities. To that consideration, the board of the Foundation believes that a reasonable risk target for the investment portfolio is in the range of 8% to 14%, as measured by the per annum standard deviation of returns over the last five years. The board of the Foundation believes that achieving that risk target can best be accomplished through a diversified set of investment assets.

With the Foundation's payout needs in mind, the following liquidity constraints will apply:

- ◆ **Lock-ups** – The Foundation may hold no more than 25% of the portfolio in assets with liquidity of one-quarter of a year or more, and no more than 10% of its portfolio in assets with liquidity of one year or more.
- ◆ **Concentrations** – The Foundation may not hold more than 5% of its portfolio in any single security that is not supported by the full faith of the U.S. Government.
- **Return** – Results will be measured through a total return approach, which is the sum of both market value changes (realized and unrealized) and the current yield (interest and dividends). The Foundation should seek to achieve the largest return that is possible, while still being consistent with its risk and liquidity targets. It recognizes that the magnitude of the potential return will vary substantially from one environment to the next. Accordingly, from time to time, it may be appropriate for the Foundation to adjust its return expectation to reflect the lack or plethora of opportunities in the market.

Distribution policy

- The overall objective of the distribution policy is to produce distributions to the Association, as well as to preserve the real value of the endowment funds through time by growth of principal. In accordance with UPMIFA, the board of trustees of the Foundation considers the following factors when determining (1) the amounts to be distributed to the Association in accordance with donor intent and (2) the amounts to be accumulated in the endowment funds in accordance with donor intent:
 - ◆ the duration and preservation of the endowment fund;
 - ◆ the purposes of the Organization and the endowment fund;
 - ◆ general economic conditions;
 - ◆ the possible effect of inflation or deflation;
 - ◆ the expected total return from income and the appreciation of investments;
 - ◆ other resources of the Organization; and
 - ◆ the investment policies of the Organization.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 14 – Endowment Policies (continued)

- The distribution formula is based on a percentage of the average invested assets over the previous 12 quarters ending March 31. The spending policy, as calculated above, is determined on a year-to-year basis by the board. The board has set the following guidelines with respect to any distribution:
 - ◆ Retain discretion to not make a distribution if the board believes that the distribution would affect the viability of future distributions.
 - ◆ Retain discretion to make a distribution that would cause the fair value of assets to fall below the original value of gifts donated, if the board believes that to do so would be consistent with UPMIFA and would be a prudent balance between the donors' intent to maintain funds in perpetuity and the donors' intent that the endowment provide support to the Association.
 - ◆ Reserve the right to not pay out in any given year.

Note 15 – Liquidity and Availability of Financial Assets

The Organization's working capital and cash flows have seasonal variations during the year attributable to the cash receipts from Nutcracker ticket sales in the second quarter of the fiscal year and from prepaid subscription and tuition revenues in the fourth quarter of the fiscal year. Cash outflows vary each year based on performance programming, but are generally higher than cash inflows during the first quarter of the fiscal year. To manage liquidity, the Organization maintains a \$1.6 million line of credit with a bank that is drawn upon as needed (Note 8). During the years ended June 30, 2021 and 2020, additional liquidity was provided in the form of Payroll Protection Program loans (Note 9). The Organization may also draw upon board-designated funds with board approval. If necessary, the Foundation may change the timing and amount of funds appropriated from the endowment and distributed to the Association.

Financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general use within one year, are as follows.

	2021	2020
Financial assets		
Cash and cash equivalents	\$ 4,012,911	\$ 3,871,412
Accounts receivable	169,973	124,651
Contributions receivable within one year	589,535	369,245
Investments	26,522,557	20,168,744
Gift annuity reserves	151,599	164,670
Total financial assets, excluding noncurrent receivables	31,446,575	24,698,722
Less amounts not available for general use within one year		
Assets restricted by statute for payment of gift annuities	(151,599)	(164,670)
Endowment investments subject to spending policy and appropriation	(25,092,204)	(18,940,597)
Add back endowment funds appropriated for use within one year	900,000	1,250,000
Donor restricted financial assets	(1,944,803)	(2,150,918)
Add back amounts available for donor-specified expenditures within one year	1,082,868	1,010,920
Board-designated assets subject to board approval for use	(680,752)	(680,752)
Financial assets available for general use within one year	<u>\$ 5,560,085</u>	<u>\$ 5,022,705</u>

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 16 – Contingencies

At times, the Organization may be involved in litigation and contingencies arising in the normal course of business. After consultation with legal counsel, management estimates that any current matters will be resolved without significant impact to the Organization's financial position.

Note 17 – Subsequent Events

On July 1, 2021, the Association was awarded \$5,959,600 under the Shuttered Venue Operator Grant Program offered by the United States Small Business Administration under the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act. Grant funds must be spent only on allowable costs, as defined by the legislation and by Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Supplementary Information

Pacific Northwest Ballet
Consolidating Balance Sheet
June 30, 2021

ASSETS					
	PNB Association	PNB Foundation	Eliminating	Consolidated	
ASSETS					
PNB Association assets					
Current assets					
Cash and cash equivalents	\$ 4,012,911	\$ -	\$ -	\$ 4,012,911	
Accounts receivable	169,973	-	-	169,973	
Contributions receivable, net	589,535	577	(577)	589,535	
Inventory	299,024	-	-	299,024	
Prepaid expenses	509,529	-	-	509,529	
Total current assets	5,580,972	577	(577)	5,580,972	
Long-term contributions receivable, net	203,429	-	-	203,429	
Investments	1,430,353	-	-	1,430,353	
Gift annuity reserves	151,599	-	-	151,599	
Investment in gift shop	337,252	-	-	337,252	
Personal property and leasehold improvements, net	10,221,979	-	-	10,221,979	
Total PNB Association assets	<u>17,925,584</u>	<u>577</u>	<u>(577)</u>	<u>17,925,584</u>	
PNB Foundation assets					
Investments	-	25,092,204	-	25,092,204	
Contributions receivable, net	-	48,167	-	48,167	
Charitable remainder unitrust receivable	-	1,708,382	-	1,708,382	
Total PNB Foundation assets	<u>-</u>	<u>26,848,753</u>	<u>-</u>	<u>26,848,753</u>	
Total assets	<u><u>\$ 17,925,584</u></u>	<u><u>\$ 26,849,330</u></u>	<u><u>\$ (577)</u></u>	<u><u>\$ 44,774,337</u></u>	
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 450,877	\$ -	\$ (577)	\$ 450,300	
Deferred revenue	2,288,018	-	-	2,288,018	
Paycheck Protection Program Loans	5,087,000	-	-	5,087,000	
Dancer severance liability - current portion	100,000	-	-	100,000	
Gift annuities payable - current portion	13,900	-	-	13,900	
Total current liabilities	<u>7,939,795</u>	<u>-</u>	<u>(577)</u>	<u>7,939,218</u>	
Accrued lease rent	589,016	-	-	589,016	
Dancer severance liability	475,510	-	-	475,510	
Gift annuities payable	81,477	-	-	81,477	
Total liabilities	<u>9,085,798</u>	<u>-</u>	<u>(577)</u>	<u>9,085,221</u>	
NET ASSETS					
Without donor restrictions	4,939,159	2,671,303	-	7,610,462	
With donor restrictions	3,900,627	24,178,027	-	28,078,654	
Total net assets	<u>8,839,786</u>	<u>26,849,330</u>	<u>-</u>	<u>35,689,116</u>	
Total liabilities and net assets	<u><u>\$ 17,925,584</u></u>	<u><u>\$ 26,849,330</u></u>	<u><u>\$ (577)</u></u>	<u><u>\$ 44,774,337</u></u>	