



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

PACIFIC NORTHWEST BALLET

June 30, 2022 and 2021

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Report of Independent Auditors

To the Audit Committee
Pacific Northwest Ballet

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Pacific Northwest Ballet Association and Pacific Northwest Ballet Foundation, which comprise the consolidated balance sheets as of June 30, 2022, and the related consolidated statements of activities, functional expenses,, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Pacific Northwest Ballet Association and Pacific Northwest Ballet Foundation as of June 30, 2022, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pacific Northwest Ballet Association and Pacific Northwest Ballet Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pacific Northwest Ballet Association and Pacific Northwest Ballet Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Pacific Northwest Ballet Association and Pacific Northwest Ballet Foundation 's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pacific Northwest Ballet Association and Pacific Northwest Ballet Foundation 's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter

Report on Summarized Comparative Information

We have previously audited the Organization's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 14, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, 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.

Monahan LLP

Seattle, Washington
October 11, 2022

**Pacific Northwest Ballet
Consolidated Balance Sheets**

ASSETS

	June 30,	
	2022	2021
ASSETS		
PNB Association assets		
Current assets		
Cash and cash equivalents	\$ 9,758,103	\$ 4,012,911
Accounts receivable	287,913	169,973
Contributions receivable, net	1,932,355	589,535
Inventory	315,000	299,024
Prepaid expenses	<u>511,370</u>	<u>509,529</u>
Total current assets	12,804,741	5,580,972
Long-term contributions receivable, net	2,967,856	203,429
Investments	2,200,269	1,430,353
Gift annuity reserves	133,552	151,599
Investment in gift shop	308,944	337,252
Personal property and leasehold improvements, net	<u>9,108,168</u>	<u>10,221,979</u>
Total PNB Association assets	<u>27,523,530</u>	<u>17,925,584</u>
PNB Foundation assets		
Investments	21,849,622	25,092,204
Contributions receivable, net	40,000	48,167
Charitable remainder unitrust receivable	<u>1,871,405</u>	<u>1,708,382</u>
Total PNB Foundation assets	<u>23,761,027</u>	<u>26,848,753</u>
Total assets	<u>\$ 51,284,557</u>	<u>\$ 44,774,337</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,362,785	\$ 450,300
Deferred revenue	3,990,500	2,288,018
Payroll Protection Program loans	2,000,000	5,087,000
Dancer severance liability - current portion	150,000	100,000
Gift annuities payable - current portion	<u>13,900</u>	<u>13,900</u>
Total current liabilities	7,517,185	7,939,218
Accrued lease rent	631,750	589,016
Dancer severance liability	499,496	475,510
Gift annuities payable	<u>77,990</u>	<u>81,477</u>
Total liabilities	<u>8,726,421</u>	<u>9,085,221</u>
NET ASSETS		
Without donor restrictions	13,663,218	7,610,462
With donor restrictions	<u>28,894,918</u>	<u>28,078,654</u>
Total net assets	<u>42,558,136</u>	<u>35,689,116</u>
Total liabilities and net assets	<u>\$ 51,284,557</u>	<u>\$ 44,774,337</u>

Pacific Northwest Ballet
Consolidated Statements of Activities

	Without Donor Restrictions				With Donor Restrictions	2022 Total	2021 Total
	Operating	Capital	Board Designated	Total			
EARNED REVENUE							
Nutcracker ticket sales	\$ 4,786,005	\$ -	\$ -	\$ 4,786,005	\$ -	\$ 4,786,005	\$ 427,908
Other ticket sales	5,075,092	-	-	5,075,092	-	5,075,092	881,926
Performance fees	295,188	-	-	295,188	-	295,188	40,278
Ballet school and community education	3,229,090	-	-	3,229,090	-	3,229,090	2,058,371
Gift shop (net)	135,692	-	-	135,692	-	135,692	3,236
Other earned income	96,825	-	-	96,825	-	96,825	37,652
	13,617,892	-	-	13,617,892	-	13,617,892	3,449,371
CONTRIBUTIONS							
Contributions to Association - donated ticket sales	-	-	-	-	-	-	1,058,462
Contributions to Association - fundraising	4,688,968	-	-	4,688,968	5,694,802	10,383,770	5,241,279
Contributions to Foundation	-	-	-	-	13,833	13,833	27,365
Bequests designated to Foundation by Board	-	-	1,356,367	1,356,367	-	1,356,367	210,287
Shuttered Venue Operator Grant	8,000,000	-	-	8,000,000	-	8,000,000	-
Special events (net expenses of \$126,711 and \$28,765)	328,878	-	-	328,878	-	328,878	419,945
Contributed nonfinancial assets	100,015	-	-	100,015	-	100,015	251,314
	13,117,861	-	1,356,367	14,474,228	5,708,635	20,182,863	7,208,652
RELEASES, TRANSFERS, AND OTHER							
PNB Foundation support	900,000	-	(106,681)	793,319	(793,319)	-	-
Releases of restricted funds	930,435	-	-	930,435	(930,435)	-	-
Net transfer to board-designated funds	(5,698,799)	-	5,698,799	-	-	-	-
Transfer to Capital Fund for leasehold improvements	(43,101)	43,101	-	-	-	-	-
Gain on forgiveness of Payroll Protection Program loan	3,087,000	-	-	3,087,000	-	3,087,000	-
Federal tax credits	1,046,270	-	-	1,046,270	-	1,046,270	1,585,104
Change in value of charitable remainder unitrust receivable	(9,977)	-	(396,786)	(406,763)	163,023	163,023	(68,450)
Investment return (loss)	-	-	-	-	(3,331,640)	(3,738,403)	6,751,387
	211,828	43,101	5,195,332	5,450,261	(4,892,371)	557,890	8,268,041
TOTAL REVENUE	26,947,581	43,101	6,551,699	33,542,381	816,264	34,358,645	18,926,064
EXPENSES							
Ballet company and performances	18,491,453	442,225	-	18,933,678	-	18,933,678	8,857,868
Ballet school and community education	4,326,588	740,838	-	5,067,426	-	5,067,426	3,522,930
Administration	2,607,771	-	-	2,607,771	-	2,607,771	2,004,893
Development	880,750	-	-	880,750	-	880,750	543,129
	26,306,562	1,183,063	-	27,489,625	-	27,489,625	14,928,820
CHANGE IN NET ASSETS	641,019	(1,139,962)	6,551,699	6,052,756	816,264	6,869,020	3,997,244
NET ASSETS							
Beginning of year	(4,133,626)	8,392,033	3,352,055	7,610,462	28,078,654	35,689,116	31,691,872
End of year	\$ (3,492,607)	\$ 7,252,071	\$ 9,903,754	\$ 13,663,218	\$ 28,894,918	\$ 42,558,136	\$ 35,689,116

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	2022	2021
Salaries, taxes, and benefits								
Salaries								
Dancers	\$ 3,311,647	\$ -	\$ 3,311,647	\$ -	\$ -	\$ -	\$ 3,311,647	\$ 2,419,635
Musicians	2,050,128	437,638	2,487,766	-	-	-	2,487,766	951,913
Other artists	932,974	-	932,974	-	-	-	932,974	653,021
Production	2,100,292	34,295	2,134,587	-	-	-	2,134,587	759,940
Box office and marketing	945,072	-	945,072	-	-	-	945,072	770,317
Teachers	-	979,658	979,658	-	-	-	979,658	729,211
Administrative	-	838,121	838,121	1,038,541	442,656	1,481,197	2,319,318	1,763,991
Total salaries	9,340,113	2,289,712	11,629,825	1,038,541	442,656	1,481,197	13,111,022	8,048,028
Payroll taxes	1,359,226	312,700	1,671,926	106,772	61,673	168,445	1,840,371	977,388
Employee benefits	1,849,670	253,104	2,102,774	84,915	58,024	142,939	2,245,713	1,275,671
Total salaries, taxes, and benefits	12,549,009	2,855,516	15,404,525	1,230,228	562,353	1,792,581	17,197,106	10,301,087
Choreography and dance	721,088	-	721,088	-	-	-	721,088	399,347
Scenery and stage	466,313	7,068	473,381	-	-	-	473,381	49,612
Costume and toe shoes	315,416	2,093	317,509	-	-	-	317,509	133,491
Music and instruments	147,522	1,120	148,642	-	-	-	148,642	53,586
Performance hall	1,176,913	28,170	1,205,083	-	-	-	1,205,083	29,999
Total production expenses	2,827,252	38,451	2,865,703	-	-	-	2,865,703	666,035
Building occupancy	509,926	969,755	1,479,681	538,169	-	538,169	2,017,850	1,198,871
Advertising	1,297,708	20,120	1,317,828	-	8,685	8,685	1,326,513	207,842
Professional services	255,326	85,724	341,050	359,493	127,645	487,138	828,188	334,572
Bank fees	289,296	109,645	398,941	16,263	54,745	71,008	469,949	180,887
Software, supplies, and equipment	227,049	32,937	259,986	220,345	2,179	222,524	482,510	232,451
Printing and copying	66,331	7,224	73,555	396	359	755	74,310	75,811
Travel	308,789	124,260	433,049	9,516	75	9,591	442,640	58,164
Hospitality	61,458	4,864	66,322	22,671	98,586	121,257	187,579	9,298
Postage and delivery	64,843	603	65,446	9,389	33	9,422	74,868	34,241
Insurance	28,078	10,000	38,078	69,253	-	69,253	107,331	98,506
Student expenses	-	55,799	55,799	-	-	-	55,799	41,886
Other	5,566	10,292	15,858	58,749	1,594	60,343	76,201	76,586
Total other expenses	3,114,370	1,431,223	4,545,593	1,304,244	293,901	1,598,145	6,143,738	2,549,115
Contributed nonfinancial assets	822	1,398	2,220	73,299	24,496	97,795	100,015	251,314
Depreciation and amortization	442,225	740,838	1,183,063	-	-	-	1,183,063	1,161,269
Total expenses	\$ 18,933,678	\$ 5,067,426	\$ 24,001,104	\$ 2,607,771	\$ 880,750	\$ 3,488,521	\$ 27,489,625	\$ 14,928,820

Pacific Northwest Ballet
Consolidated Statements of Cash Flows

	Years Ended June 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,869,020	\$ 3,997,244
Adjustments to reconcile change in net assets to cash from operating activities		
Depreciation and amortization	1,183,063	1,161,269
Net loss (gain) on investments	4,077,547	(6,538,212)
Gain on forgiveness of Payroll Protection Program loan	(3,087,000)	-
Contributions restricted for purchase of long-term assets	(105,000)	(176,667)
Contributions and earnings restricted for endowments	(1,575,292)	(588,752)
Provision for uncollectible pledges	78,957	113,906
Cash from changes in operating assets and liabilities		
Accounts receivable	(117,940)	(45,322)
Contributions receivable	(4,351,060)	(185,923)
Inventory and prepaid expenses	(17,817)	(107,942)
Investment in gift shop	28,308	(3,236)
Accounts payable and accrued expenses	996,884	(167,973)
Deferred revenue	1,702,482	(91,720)
Accrued lease rent	<u>42,734</u>	<u>(3,628)</u>
Net cash from operating activities	<u>5,724,886</u>	<u>(2,636,956)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for personal property and leasehold improvements	(69,252)	(168,711)
Payments to life tenants of gift annuity	(13,900)	(16,223)
Purchases of investments	(5,928,496)	(3,898,909)
Proceeds from sale of investments	<u>4,341,662</u>	<u>4,096,379</u>
Net cash from investing activities	<u>(1,669,986)</u>	<u>12,536</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts on Paycheck Protection Program loan	-	2,000,000
Contributions received for purchase of long-term assets	105,000	176,667
Contributions and earnings received for endowments	<u>1,585,292</u>	<u>589,252</u>
Net cash from financing activities	<u>1,690,292</u>	<u>2,765,919</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>5,745,192</u>	<u>141,499</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,012,911</u>	<u>3,871,412</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 9,758,103</u></u>	<u><u>\$ 4,012,911</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid during the year	<u>\$ -</u>	<u>\$ 565</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 closed its facilities to the public through 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 consolidated financial statements.

During the fiscal year ended June 30, 2021, performances and dance education were provided primarily via the internet, and earned revenue materially decreased. Donors increased contributions and management reduced expenses in response to reduced earned revenue. In July and November 2021, the Organization received a total of \$8,000,000 from the United States Small Business Administration under its Shuttered Venue Operator Grant program, and resumed live performances and in-person dance education for the year ended June 30, 2022.

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 through September 30, 2021. The credits are recorded as other revenue when related payroll expenses were incurred and subsequently claimed on payroll tax forms. The credits totaled \$1,046,270 and \$1,585,104 for the years ended June 30, 2022 and 2021, respectively.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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

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, expenses, and transfers between net assets 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.

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.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

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

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 3.5% and 5.0% for the years ended June 30, 2022 and 2021, respectively.

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 annuity reserves and annuities payable – 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 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 nonfinancial assets – Contributed nonfinancial assets consist of goods and professional services utilized in operations and are recorded at estimated fair value when received by the Organization. The fair value of contributed goods is estimated based on retail prices of similar items. The fair value of contributed rent is based on contracted lease payments that were abated. The fair value of contributed professional services is estimated based on current rates for similar services. In addition, 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 the requirements to do so have not been met.

Advertising expense – Advertising costs are expensed when incurred. Advertising expense was \$1,326,513 and \$207,842 for the years ended June 30, 2022 and 2021, respectively.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

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

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.

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, 2022. The Organization is evaluating the impact of adoption on its consolidated financial statements.

Reclassifications – Certain reclassifications have been made to the 2021 comparable information to conform to the 2022 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 October 11, 2022, which is the date that the consolidated financial statements were available to be issued.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 2 – Net Assets

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

	<u>2022</u>	<u>2021</u>
Operating	<u>\$ (3,492,607)</u>	<u>\$ (4,133,626)</u>
Capital	<u>7,252,071</u>	<u>8,392,033</u>
Board-designated		
Quasi-endowment		
General Endowment Fund	2,197,582	1,044,740
Artistic Directors' Fund	1,181,024	1,448,048
Scholarship and Outreach Fund	<u>145,597</u>	<u>178,515</u>
	3,524,203	2,671,303
Specific projects		
Support for 2022-2023 operations	40,870	42,071
Support for 2023-2024 operations	1,700,000	-
Support for 2024-2025 operations	2,700,000	-
Stabilization Fund	900,000	-
	<u>1,038,681</u>	<u>638,681</u>
Total board-designated net assets	<u>9,903,754</u>	<u>3,352,055</u>
Total net assets without donor restrictions	<u>\$ 13,663,218</u>	<u>\$ 7,610,462</u>

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.

As of June 30, 2022, the Association's board has designated \$5,300,000 of its net assets from fiscal year ended June 30, 2022, to provide additional working capital for operations in fiscal years through June 30, 2025, as the Organization works to rebuild revenues negatively impacted by the pandemic.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 2 – Net Assets (continued)

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

	<u>2022</u>	<u>2021</u>
Subject to the passage of time or expenditure for specified purpose		
PNB Association		
Dancer Transition Fund	\$ 141,003	\$ 146,970
50th Anniversary Campaign	5,835,618	844,757
Donor-restricted to future fiscal years	404,405	346,429
Donor-restricted for specified performances	248,487	514,162
Donor-restricted for sets and costumes	66,593	92,485
Donor-restricted for leasehold improvements	<u>1,967,638</u>	<u>1,955,824</u>
	<u>8,663,744</u>	<u>3,900,627</u>
Endowment funds		
PNB Foundation		
General Endowment Fund	4,225,323	4,220,320
School and Outreach Funds	5,077,129	5,070,129
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	1,454,981	5,578,693
General Endowment unitrust receivable	1,871,405	1,708,382
Present value discount and allowance for doubtful accounts	<u>(25,000)</u>	<u>(26,833)</u>
	<u>20,231,174</u>	<u>24,178,027</u>
Total net assets with donor restrictions	<u><u>\$ 28,894,918</u></u>	<u><u>\$ 28,078,654</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 \$6,420,000 and \$6,835,000 as of June 30, 2022 and 2021, 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 of cash and other financial assets consisted of the following for the years ended June 30:

	Without Donor Restrictions	With Donor Restrictions	Total
2022			
Individual	\$ 5,171,061	\$ 368,295	\$ 5,539,356
Corporate	201,426	259,540	460,966
Foundation	434,896	5,059,000	5,493,896
Government	8,237,952	21,800	8,259,752
	\$ 14,045,335	\$ 5,708,635	\$ 19,753,970
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	251,869	-	251,869
	\$ 6,072,736	\$ 464,657	\$ 6,537,393

During the year ended June 30, 2022, the Organization received a \$5,000,000 pledge from a private foundation to support a potential capital campaign. The pledge will be paid in quarterly installments over five years.

Government contributions for the year ended June 30, 2022, include \$8,000,000 of pandemic-related assistance from the United States Small Business Administration from its Shuttered Venue Operator Grant program.

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

	Program or Support	2022	2021
Rent abatement	Administration	\$ 52,357	\$ 206,271
Legal and audit services	Administration	20,942	40,382
Hospitality food	Fundraising	24,496	2,294
Costumes	Ballet company	-	1,000
Other professional services	Ballet company	822	-
Student food and clothing	Education	1,398	1,367
		\$ 100,015	\$ 251,314

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 4 – Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2022			2021 Total
	PNB Association	PNB Foundation	Total	
Current (less than one year)				
Individuals and affiliated groups	\$ 601,478	\$ 65,000	\$ 666,478	\$ 383,660
Corporate	7,500	-	7,500	10,000
Foundation	1,074,000	-	1,074,000	25,000
Government	353,377	-	353,377	308,600
Allowance for doubtful accounts	(104,000)	(25,000)	(129,000)	(107,725)
Current contributions receivable, net	<u>\$ 1,932,355</u>	<u>\$ 40,000</u>	<u>\$ 1,972,355</u>	<u>\$ 619,535</u>
Long-term (one to four years)				
Individuals and affiliated groups	\$ -	\$ -	\$ -	\$ 41,779
Corporate	-	-	-	-
Foundation	3,000,000	-	3,000,000	25,000
Government	100,000	-	100,000	200,000
Present value discount	(132,144)	-	(132,144)	(23,908)
Allowance for doubtful accounts	-	-	-	(21,275)
Long-term contributions receivable, net	<u>\$ 2,967,856</u>	<u>\$ -</u>	<u>\$ 2,967,856</u>	<u>\$ 221,596</u>

Note 5 – Investments

Investments consisted of the following at June 30:

	PNB Association	PNB Foundation
2022		
Money market	\$ 105,770	\$ 803,188
Fixed income securities	2,094,499	-
Equity securities and mutual funds	-	21,046,434
	<u>\$ 2,200,269</u>	<u>\$ 21,849,622</u>
2021		
Money market	\$ 296,366	\$ 141,870
Fixed income securities	1,133,987	-
Equity securities and mutual funds	-	24,950,334
	<u>\$ 1,430,353</u>	<u>\$ 25,092,204</u>

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 5 – Investments (continued)

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

	2022	2021
Interest and dividend income	\$ 413,191	\$ 286,371
Realized and unrealized gain (loss) on investments	(4,059,500)	6,551,283
Investing expenses	<u>(92,094)</u>	<u>(86,267)</u>
	<u><u>\$ (3,738,403)</u></u>	<u><u>\$ 6,751,387</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.

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:

2022	Total	Level 1	Level 2	Level 3
Investments				
Money market	\$ 908,958	\$ 908,958	\$ -	\$ -
Fixed income securities	2,094,499	2,094,499	-	-
Equity securities and mutual funds	21,046,434	21,046,434	-	-
Gift annuity reserves	133,552	133,552	-	-
Charitable remainder unitrust	<u>1,871,405</u>	<u>-</u>	<u>-</u>	<u>1,871,405</u>
Total assets in the fair value hierarchy	<u><u>\$ 26,054,848</u></u>	<u><u>\$ 24,183,443</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,871,405</u></u>
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	<u>1,708,382</u>	<u>-</u>	<u>-</u>	<u>1,708,382</u>
Total assets in the fair value hierarchy	<u><u>\$ 28,382,538</u></u>	<u><u>\$ 26,674,156</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,708,382</u></u>

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 6 – Fair Value Measurements (continued)

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:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 1,708,382	\$ 1,776,832
Change in fair value of charitable remainder unitrust	<u>163,023</u>	<u>(68,450)</u>
Ending balance	<u><u>\$ 1,871,405</u></u>	<u><u>\$ 1,708,382</u></u>

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

Name	Fair Value June 30, 2022	Valuation Technique	Unobservable Inputs	Range of Input Values (Weighted Average)
Charitable Remainder Unitrust	\$ 1,871,405	Discounted cash flow	Payout percentage Discount rate - 2022 Discount rate - 2021	8% 3.6% 1.2%

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 7 – Personal Property and Leasehold Improvements

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

	Cost	Accumulated Depreciation/ Amortization	Net
2022			
Leasehold improvements	\$ 17,203,174	\$ 8,835,163	\$ 8,368,011
Sets and costumes	7,085,785	6,345,628	740,157
Office, studio, and stage equipment	618,660	618,660	-
	<u>\$ 24,907,619</u>	<u>\$ 15,799,451</u>	<u>\$ 9,108,168</u>
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
	<u>\$ 24,838,367</u>	<u>\$ 14,616,388</u>	<u>\$ 10,221,979</u>

Note 8 – Line of Credit

The Association has a \$1,600,000 revolving credit facility, payable on demand, bearing interest at 1.55% plus the daily simple secured overnight financing rate (2.99% at June 30, 2022) with a December 31, 2022, 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, 2022 and 2021. The average outstanding balance on the line of credit was \$0 for the years ended June 30, 2022 and 2021. There was no outstanding balance on the line of credit as of June 30, 2022 and 2021.

The Association has a standby letter of credit for \$95,000 as of June 30, 2022, 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. The loan was forgiven in full in April 2022 in accordance with the CARES Act and the rules, regulations and guidance, and was recorded as a gain on forgiveness of debt in the statement of activities.

Pacific Northwest Ballet **Notes to Consolidated Financial Statements**

Note 9 – Paycheck Protection Program Loans (continued)

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 proceeds 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 debt, to be recorded as a current liability until repayment is specifically waived.

Note 10 – Related Party Transactions

Contributions, including both gifts and contributions receivable, from members of the Association's board of trustees were approximately \$1,645,000 and \$1,023,000 for the years ended June 30, 2022 and 2021, respectively. Contributions receivable of approximately \$536,000 and \$210,000 as of June 30, 2022 and 2021, respectively, were due from members of the Association's board of trustees.

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 \$348,800 and \$6,200 for the years ended June 30, 2022 and 2021, 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 \$154,000 and \$400 for the years ended June 30, 2022 and 2021, respectively.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 11 – Benefit Plans (continued)

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 \$53,700 and \$5,400 for the years ended June 30, 2022 and 2021, 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 \$92,400 and \$30,000 for the years ended June 30, 2022 and 2021, 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 \$13,800 and \$200 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, respectively. The health and welfare benefits expense for dressers was approximately \$30,600 and \$2,600 for the years ended June 30, 2022 and 2021, respectively.

The Association has a contract with stage managers 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, matching contributions up to 4% of each stage manager's gross compensation for the year ended June 30, 2022. Contributions for dancers were approximately \$1,700 and \$0 for the years ended June 30, 2022 and 2021, respectively.

Salaries of employees covered under collective bargaining agreements were approximately \$6,320,000 and \$2,976,000, representing 48% and 37% of salaries for the years ended June 30, 2022 and 2021, 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 \$157,800 and \$0 for the years ended June 30, 2022 and 2021, 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. Thereafter annual lease payment escalations are based on the local Consumer Price Index published by the United States Bureau of Labor Statistics not to exceed 3%. 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 scheduled 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 \$50,000 and \$0 for the years ended June 30, 2022 and 2021.

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

	<u>2022</u>	<u>2021</u>
Office, studios, schools, and warehouses		
Lease payments	\$ 1,118,302	\$ 639,965
Rent expense in excess of lease payments	83,166	92,179
In-kind rent	52,357	206,271
McCaw Hall	<u>604,145</u>	<u>-</u>
	<u>\$ 1,857,970</u>	<u>\$ 938,415</u>

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

2023	\$ 893,564
2024	918,224
2025	943,581
2026	969,655
2027	996,466
Thereafter	<u>6,059,580</u>
	<u>\$ 10,781,070</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 \$138,000 and \$135,000 during 2022 and 2021, respectively. Future amounts due under this agreement approximate the following as of June 30:

2023	\$ 144,000
2024	147,000
2025	150,000
2026	153,000
2027	156,000
Thereafter	<u>827,000</u>
	 <u>\$ 1,577,000</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:

	2022	2021
Board-designated quasi-endowment	\$ 3,524,203	\$ 2,671,303
Donor-restricted endowment	<u>20,231,174</u>	<u>24,178,027</u>
 Total endowment net assets	 <u>\$ 23,755,377</u>	 <u>\$ 26,849,330</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. There were no endowment funds with fair values below their corpus as of June 30, 2022 or 2021.

Change in endowment net assets for the year ended June 30, 2022, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, July 1, 2021	\$ 2,671,303	\$ 24,178,027	\$ 26,849,330
Net investment return (loss)	(396,786)	(3,330,390)	(3,727,176)
Change in value of charitable remainder trust receivable	-	163,023	163,023
Board appropriations	(106,681)	(793,319)	(900,000)
Board-designated additions	1,356,367	-	1,356,367
Contributions	-	13,833	13,833
 Total net assets, June 30, 2022	 <u>\$ 3,524,203</u>	 <u>\$ 20,231,174</u>	 <u>\$ 23,755,377</u>

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

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.

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.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 14 – Endowment Policies (continued)

- ◆ **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.
- 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.

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

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). Additional liquidity was provided in the form of a \$2,000,000 Payroll Protection Program loan (Note 9) in the year ended June 30, 2021, and an \$8,000,000 grant from the United States Small Business Administration under its Shuttered Venue Operator Grant program in the year ended June 30, 2022. 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, 2022 and 2021, reduced by amounts not available for general use within one year, are as follows.

	2022	2021
Financial assets		
Cash and cash equivalents	\$ 9,758,103	\$ 4,012,911
Accounts receivable	287,913	169,973
Contributions receivable within one year	1,932,355	589,535
Investments	24,049,891	26,522,557
Gift annuity reserves	<u>133,552</u>	<u>151,599</u>
Total financial assets, excluding noncurrent receivables	36,161,814	31,446,575
Less amounts not available for general use within one year		
Assets restricted by statute for payment of gift annuities	(133,552)	(151,599)
Endowment investments subject to spending policy and appropriation	(21,849,622)	(25,092,204)
Add back endowment funds appropriated for use within one year	1,055,000	900,000
Donor restricted financial assets	(6,696,106)	(1,944,803)
Donor restricted contributions receivable beyond one year	2,867,856	1,092
Add back amounts available for donor-specified expenditures		
within one year	831,916	1,082,868
Board-designated assets subject to board approval for use	<u>(6,379,551)</u>	<u>(680,752)</u>
Financial assets available for general use within one year	<u>\$ 5,857,755</u>	<u>\$ 5,561,177</u>

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.

Supplementary Information

Pacific Northwest Ballet
Consolidating Balance Sheet
June 30, 2022

ASSETS				
	PNB Association	PNB Foundation	Eliminating	Consolidated
ASSETS				
PNB Association assets				
Current assets				
Cash and cash equivalents	\$ 9,758,103	\$ -	\$ -	\$ 9,758,103
Accounts receivable	293,563	- -	(5,650)	287,913
Contributions receivable, net	1,932,355	- -	- -	1,932,355
Inventory	315,000	- -	- -	315,000
Prepaid expenses	511,370	- -	- -	511,370
Total current assets	12,810,391	- -	(5,650)	12,804,741
Long-term contributions receivable, net	2,967,856	- -	- -	2,967,856
Investments	2,200,269	- -	- -	2,200,269
Gift annuity reserves	133,552	- -	- -	133,552
Investment in gift shop	308,944	- -	- -	308,944
Personal property and leasehold improvements, net	9,108,168	- -	- -	9,108,168
Total PNB Association assets	27,529,180	- -	(5,650)	27,523,530
PNB Foundation assets				
Investments	- -	21,849,622	- -	21,849,622
Contributions receivable, net	- -	40,000	- -	40,000
Charitable remainder unitrust receivable	- -	1,871,405	- -	1,871,405
Total PNB Foundation assets	- -	23,761,027	- -	23,761,027
Total assets	<u><u>\$ 27,529,180</u></u>	<u><u>\$ 23,761,027</u></u>	<u><u>\$ (5,650)</u></u>	<u><u>\$ 51,284,557</u></u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 1,362,785	\$ 5,650	\$ (5,650)	\$ 1,362,785
Deferred revenue	3,990,500	- -	- -	3,990,500
Paycheck Protection Program Loan	2,000,000	- -	- -	2,000,000
Dancer severance liability - current portion	150,000	- -	- -	150,000
Gift annuities payable - current portion	13,900	- -	- -	13,900
Total current liabilities	7,517,185	5,650	(5,650)	7,517,185
Accrued lease rent	631,750	- -	- -	631,750
Dancer severance liability	499,496	- -	- -	499,496
Gift annuities payable	77,990	- -	- -	77,990
Total liabilities	<u><u>8,726,421</u></u>	<u><u>5,650</u></u>	<u><u>(5,650)</u></u>	<u><u>8,726,421</u></u>
NET ASSETS				
Without donor restrictions	10,139,015	3,524,203	- -	13,663,218
With donor restrictions	8,663,744	20,231,174	- -	28,894,918
Total net assets	<u><u>18,802,759</u></u>	<u><u>23,755,377</u></u>	<u><u>- -</u></u>	<u><u>42,558,136</u></u>
Total liabilities and net assets	<u><u>\$ 27,529,180</u></u>	<u><u>\$ 23,761,027</u></u>	<u><u>\$ (5,650)</u></u>	<u><u>\$ 51,284,557</u></u>