



Report of Independent Auditors
and Consolidated Financial Statements
with Supplementary Information

Pacific Northwest Ballet

June 30, 2023 and 2022

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Report of Independent Auditors

To the Audit Committee
Pacific Northwest Ballet

Report on the Audit of the Consolidated 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 sheet as of June 30, 2023, 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, 2023, and the change in their net assets 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 Consolidated 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the accompanying consolidated financial statements, on July 1, 2022, Pacific Northwest Ballet Association and Pacific Northwest Ballet Foundation adopted Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated 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 June 30, 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 11, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, 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 Pacific Northwest Ballet Association and Pacific Northwest Ballet Foundation's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated 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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Seattle, Washington
September 19, 2023

Consolidated Financial Statements

Pacific Northwest Ballet
Consolidated Balance Sheets
June 30, 2023 and 2022

	2023	2022
ASSETS		
ASSETS		
PNB Association assets		
Current assets		
Cash and cash equivalents	\$ 2,048,539	\$ 9,758,103
Accounts receivable	211,582	287,913
Contributions receivable, net	2,111,074	1,932,355
Inventory	340,596	315,000
Prepaid expenses	599,378	511,370
Investments	6,946,894	-
Total current assets	12,258,063	12,804,741
Long-term contributions receivable, net	2,024,669	2,967,856
Long-term investments	159,165	2,200,269
Gift annuity reserves	120,392	133,552
Investment in gift shop	459,230	308,944
Personal property and leasehold improvements, net	8,055,473	9,108,168
Operating leases asset	7,767,020	-
Total PNB Association assets	30,844,012	27,523,530
PNB Foundation assets		
Investments	25,344,984	21,849,622
Contributions receivable, net	30,000	40,000
Charitable remainder unitrust receivable	1,633,722	1,871,405
Total PNB Foundation assets	27,008,706	23,761,027
Total assets	<u>\$ 57,852,718</u>	<u>\$ 51,284,557</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,320,358	\$ 1,362,785
Deferred revenue	4,451,750	3,990,500
Payroll Protection Program loan	1,527,691	2,000,000
Dancer severance liability - current portion	100,000	150,000
Gift annuities payable - current portion	13,900	13,900
Operating leases liability - current portion	681,170	-
Total current liabilities	8,094,869	7,517,185
Gift annuities payable	74,528	77,990
Dancer severance liability	573,332	499,496
Accrued lease rent	-	631,750
Operating leases liability	7,770,805	-
Total liabilities	16,513,534	8,726,421
NET ASSETS		
Without donor restrictions	10,494,016	13,663,218
With donor restrictions	30,845,168	28,894,918
Total net assets	41,339,184	42,558,136
Total liabilities and net assets	<u>\$ 57,852,718</u>	<u>\$ 51,284,557</u>

See accompanying notes.

Pacific Northwest Ballet
Consolidated Statements of Activities
Years Ended June 30, 2023 and 2022

	Without Donor Restrictions			With Donor Restrictions	2023 Total	2022 Total
	Operating	Capital	Board Designated	Total		
EARNED REVENUE						
Nutcracker ticket sales	\$ 6,129,774	\$ -	\$ -	\$ 6,129,774	\$ -	\$ 4,786,005
Other ticket sales	6,381,366	-	-	6,381,366	-	5,075,092
Performance fees	657,500	-	-	657,500	-	295,188
Ballet school and community education	4,223,543	-	-	4,223,543	-	3,229,090
Gift shop (net)	150,286	-	-	150,286	-	135,692
Other earned income	282,284	-	-	282,284	-	96,825
	<u>17,824,753</u>	<u>-</u>	<u>-</u>	<u>17,824,753</u>	<u>-</u>	<u>13,617,892</u>
CONTRIBUTIONS						
Contributions to Association	4,919,895	-	-	4,919,895	487,845	10,383,770
Contributions to Foundation	-	-	-	-	1,134,100	13,833
Bequests designated to Foundation by Board	-	-	611,626	611,626	-	1,356,367
Shuttered Venue Operator Grant	-	-	-	-	-	8,000,000
Special events (net expenses of \$212,121 and \$126,711)	446,632	-	-	446,632	-	328,878
Contributed nonfinancial assets	269,470	-	-	269,470	-	100,015
	<u>5,635,997</u>	<u>-</u>	<u>611,626</u>	<u>6,247,623</u>	<u>1,621,945</u>	<u>20,182,863</u>
RELEASES, TRANSFERS, AND OTHER						
PNB Foundation support	1,005,000	-	(139,138)	865,862	(865,862)	-
Releases of restricted funds	950,908	-	-	950,908	(950,908)	-
Net transfer from board-designated funds	2,921,061	-	(2,921,061)	-	-	-
Transfer to Capital Fund of personal property	(23,796)	23,796	-	-	-	-
Forgiveness of Payroll Protection Program loan	-	-	-	-	-	3,087,000
Federal tax credits	-	-	-	-	-	1,046,270
Change in value of charitable remainder unitrust receivable	-	-	-	-	(237,683)	163,023
Investment return (loss)	164,770	-	382,296	547,066	2,382,758	(3,738,403)
	<u>5,017,943</u>	<u>23,796</u>	<u>(2,677,903)</u>	<u>2,363,836</u>	<u>328,305</u>	<u>557,890</u>
TOTAL REVENUE	<u>28,478,693</u>	<u>23,796</u>	<u>(2,066,277)</u>	<u>26,436,212</u>	<u>1,950,250</u>	<u>34,358,645</u>
EXPENSES						
Ballet company and performances	19,881,783	339,027	-	20,220,810	-	18,933,678
Ballet school and community education	4,651,918	735,449	-	5,387,367	-	5,067,426
Administration	2,863,469	2,016	-	2,865,485	-	2,607,771
Development	1,131,752	-	-	1,131,752	-	880,750
	<u>28,528,922</u>	<u>1,076,492</u>	<u>-</u>	<u>29,605,414</u>	<u>-</u>	<u>27,489,625</u>
CHANGE IN NET ASSETS	<u>(50,229)</u>	<u>(1,052,696)</u>	<u>(2,066,277)</u>	<u>(3,169,202)</u>	<u>1,950,250</u>	<u>6,869,020</u>
NET ASSETS						
Beginning of year	<u>(3,492,607)</u>	<u>7,252,071</u>	<u>9,903,754</u>	<u>13,663,218</u>	<u>28,894,918</u>	<u>35,689,116</u>
End of year	<u>\$ (3,542,836)</u>	<u>\$ 6,199,375</u>	<u>\$ 7,837,477</u>	<u>\$ 10,494,016</u>	<u>\$ 30,845,168</u>	<u>\$ 42,558,136</u>

See accompanying notes.

Pacific Northwest Ballet
Consolidated Statements of Functional Expenses
Years Ended June 30, 2023 and 2022

	Program Expenses			Support Expenses			Total Expenses	
	Ballet Company and Performances	Ballet School and Community Education	Total	Administration	Development	Total	2023	2022
Salaries, taxes, and benefits								
Salaries								
Dancers	\$ 3,695,749	\$ -	\$ 3,695,749	\$ -	\$ -	\$ -	\$ 3,695,749	\$ 3,311,647
Musicians	2,292,488	434,253	2,726,741	-	-	-	2,726,741	2,487,766
Other artists	1,085,656	-	1,085,656	-	-	-	1,085,656	932,974
Production	2,315,873	52,382	2,368,255	-	-	-	2,368,255	2,134,587
Box office and marketing	864,805	-	864,805	-	-	-	864,805	945,072
Teachers	-	966,770	966,770	-	-	-	966,770	979,658
Administrative	-	949,951	949,951	1,102,540	601,988	1,704,528	2,654,479	2,319,318
Total salaries	10,254,571	2,403,356	12,657,927	1,102,540	601,988	1,704,528	14,362,455	13,111,022
Payroll taxes	1,474,767	330,641	1,805,408	113,848	86,740	200,588	2,005,996	1,840,371
Employee benefits	1,997,977	277,785	2,275,762	92,023	90,614	182,637	2,458,399	2,245,713
Total salaries, taxes, and benefits	13,727,315	3,011,782	16,739,097	1,308,411	779,342	2,087,753	18,826,850	17,197,106
Choreography and dance	620,339	890	621,229	-	-	-	621,229	721,088
Scenery and stage	507,807	13,345	521,152	-	-	-	521,152	473,381
Costume and toe shoes	424,178	1,306	425,484	-	-	-	425,484	317,509
Music and instruments	131,638	790	132,428	-	-	-	132,428	148,642
Performance hall	1,228,185	36,682	1,264,867	-	-	-	1,264,867	1,205,083
Total production expenses	2,912,147	53,013	2,965,160	-	-	-	2,965,160	2,865,703
Building occupancy	513,475	1,015,814	1,529,289	603,136	-	603,136	2,132,425	2,017,850
Advertising	1,264,989	24,724	1,289,713	-	2,457	2,457	1,292,170	1,326,513
Professional services	242,984	74,200	317,184	427,234	102,474	529,708	846,892	828,188
Bank fees	360,785	193,211	553,996	61,686	51,500	113,186	667,182	469,949
Travel	381,244	113,439	494,683	5,151	70	5,221	499,904	442,640
Software, supplies, and equipment	15,003	16,098	31,101	219,075	7,685	226,760	257,861	482,510
Hospitality	14,393	14,719	29,112	27,182	112,298	139,480	168,592	187,579
Printing and copying	126,047	17,985	144,032	2,337	580	2,917	146,949	74,310
Postage and delivery	127,767	106	127,873	13,515	2,017	15,532	143,405	74,868
Insurance	30,528	10,000	40,528	73,633	-	73,633	114,161	107,331
Student expenses	-	82,021	82,021	-	-	-	82,021	55,799
Other	11,265	19,240	30,505	77,344	8,031	85,375	115,880	76,201
Total other expenses	3,088,480	1,581,557	4,670,037	1,510,293	287,112	1,797,405	6,467,442	6,143,738
Contributed nonfinancial assets	153,841	5,566	159,407	44,765	65,298	110,063	269,470	100,015
Depreciation and amortization	339,027	735,449	1,074,476	2,016	-	2,016	1,076,492	1,183,063
Total expenses	\$ 20,220,810	\$ 5,387,367	\$ 25,608,177	\$ 2,865,485	\$ 1,131,752	\$ 3,997,237	\$ 29,605,414	\$ 27,489,625

See accompanying notes.

Pacific Northwest Ballet
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,218,952)	\$ 6,869,020
Adjustments to reconcile change in net assets to cash from (used in) operating activities		
Depreciation and amortization	1,076,492	1,183,063
Net loss (gain) on investments	(2,374,354)	4,077,547
Forgiveness of Payroll Protection Program loan	-	(3,087,000)
Contributions restricted for purchase of long-term assets	(100,000)	(105,000)
Contributions and earnings restricted or designated for endowments	(2,462,782)	(1,575,292)
Write offs of and provision for uncollectible pledges	28,822	78,957
Noncash lease expense	53,205	-
Cash from changes in operating assets and liabilities		
Accounts receivable	76,331	(117,940)
Contributions receivable	973,329	(4,351,060)
Inventory and prepaid expenses	(113,604)	(17,817)
Investment in gift shop	(150,286)	28,308
Accounts payable and accrued expenses	(8,153)	996,884
Deferred revenue	461,250	1,702,482
Accrued lease rent	-	42,734
Net cash (used in) from operating activities	<u>(3,758,702)</u>	<u>5,724,886</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for personal property and leasehold improvements	(23,797)	(69,252)
Payments to life tenants of gift annuity	(13,900)	(13,900)
Purchases of investments	(9,921,194)	(5,928,496)
Proceeds from sale/maturity of investments	<u>3,907,556</u>	<u>4,341,662</u>
Net cash (used in) investing activities	<u>(6,051,335)</u>	<u>(1,669,986)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Paycheck Protection Program loan	(472,309)	-
Contributions received for purchase of long-term assets	100,000	105,000
Contributions and earnings received for endowments	<u>2,472,782</u>	<u>1,585,292</u>
Net cash from financing activities	<u>2,100,473</u>	<u>1,690,292</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(7,709,564)</u>	<u>5,745,192</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>9,758,103</u>	<u>4,012,911</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 2,048,539</u></u>	<u><u>\$ 9,758,103</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid during the year	<u>\$ 43,791</u>	<u>\$ -</u>
Income taxes paid during the year	<u>\$ 4,000</u>	<u>\$ -</u>
Operating lease assets obtained in exchange for operating lease liabilities	<u><u>\$ 9,103,661</u></u>	<u><u>\$ -</u></u>

See accompanying notes.

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.

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.

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 \$0 and \$1,046,270 for the years ended June 30, 2023 and 2022, respectively.

Adoption of new accounting principle – The Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases* (Topic 842), effective July 1, 2022, using the modified retrospective approach and did not adjust comparative periods as allowed by the standard. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to carry forward the historical lease classification.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Transactions give rise to leases when the Organization receives substantially all the economic benefits from and has the ability to direct the use of specified property and equipment. The Organization determines if an arrangement is a lease at inception.

Lease right-of-use (ROU) assets represent the Organization's right to use, or control the use of, a specified asset for the lease term. Lease liabilities are the Organization's obligation to make lease payments arising from a lease and are measured on a discounted basis. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term on the commencement date. The operating lease ROU asset includes any lease payments made and initial direct costs incurred and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for minimum lease payments continues to be recognized on a straight-line basis over the lease term.

The adoption had a material impact on the Organization's consolidated balance sheet but did not have a material impact on the consolidated statement of activities. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. Adoption of the standard required the Organization to adjust amounts as of January 1, 2022, resulting in an increase in operating lease ROU assets of \$8,471,911 and increase in operating lease liabilities of \$9,103,661 and a decrease in accrued lease rent of \$631,750.

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 personal property and leasehold improvements. 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).

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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.

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% for the years ended June 30, 2023 and 2022.

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.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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).

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.

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 and performance fees 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.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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 \$1,292,170 and \$1,326,513 for the years ended June 30, 2023 and 2022, 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.

Reclassifications – Certain reclassifications have been made to the 2022 comparable information to conform to the 2023 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 19, 2023, 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>2023</u>	<u>2022</u>
Operating	<u>\$ (3,542,836)</u>	<u>\$ (3,492,607)</u>
Capital	<u>6,199,375</u>	<u>7,252,071</u>
Board-designated		
Quasi-endowment		
General Endowment Fund	2,945,701	2,197,582
Artistic Directors' Fund	1,275,983	1,181,024
Scholarship and Outreach Fund	<u>157,303</u>	<u>145,597</u>
	4,378,987	3,524,203
Specific projects	39,809	40,870
Support for 2022-2023 operations	-	1,700,000
Support for 2023-2024 operations	1,000,000	2,700,000
Support for 2024-2025 operations	1,140,000	900,000
Stabilization Fund	<u>1,278,681</u>	<u>1,038,681</u>
Total board-designated net assets	<u>7,837,477</u>	<u>9,903,754</u>
Total net assets without donor restrictions	<u><u>\$ 10,494,016</u></u>	<u><u>\$ 13,663,218</u></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, 2023, the Association's board has designated \$2,140,000 of its net assets, 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

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

	2023	2022
Subject to the passage of time or expenditure for specified purpose		
PNB Association		
Dancer Transition Fund	\$ 160,927	\$ 141,003
50th Anniversary Campaign	5,617,759	5,835,618
Donor-restricted to future fiscal years	380,760	404,405
Donor-restricted for specified performances	16,573	248,487
Donor-restricted for sets and costumes	53,971	66,593
Donor-restricted for leasehold improvements	1,974,400	1,967,638
	<u>8,204,390</u>	<u>8,663,744</u>
Endowment funds		
PNB Foundation		
General Endowment Fund	4,253,423	4,225,323
School and Outreach Funds	5,183,129	5,077,129
Artistic and Creative Funds	5,409,518	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	2,968,168	1,454,981
General Endowment unitrust receivable	1,633,722	1,871,405
Present value discount and allowance for doubtful accounts	(25,000)	(25,000)
	<u>22,640,778</u>	<u>20,231,174</u>
Total net assets with donor restrictions	<u>\$ 30,845,168</u>	<u>\$ 28,894,918</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 \$5,780,000 and \$6,420,000 as of June 30, 2023 and 2022, 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
2023			
Individual	\$ 4,478,018	\$ 1,472,945	\$ 5,950,963
Corporate	312,334	85,000	397,334
Foundation	372,019	-	372,019
Government	369,150	64,000	433,150
	<u>\$ 5,531,521</u>	<u>\$ 1,621,945</u>	<u>\$ 7,153,466</u>
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
	<u>\$ 14,045,335</u>	<u>\$ 5,708,635</u>	<u>\$ 19,753,970</u>

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	2023	2022
Rent abatement	Administration	\$ -	\$ 52,357
Legal and audit services	Administration	41,865	20,942
Hospitality food	Fundraising	65,298	24,496
Advertising	Ballet company	132,341	-
Airfare	Ballet company	17,350	-
Other professional services	Administration & Ballet company	7,050	822
Student food and clothing	Education	5,566	1,398
		<u>\$ 269,470</u>	<u>\$ 100,015</u>

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 4 – Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2023			2022
	PNB Association	PNB Foundation	Total	Total
Current (less than one year)				
Individuals and affiliated groups	\$ 539,574	\$ 55,000	\$ 594,574	\$ 666,478
Corporate	10,000	-	10,000	7,500
Foundation	1,512,000	-	1,512,000	1,074,000
Government	153,500	-	153,500	353,377
Allowance for doubtful accounts	(104,000)	(25,000)	(129,000)	(129,000)
Current contributions receivable, net	<u>\$ 2,111,074</u>	<u>\$ 30,000</u>	<u>\$ 2,141,074</u>	<u>\$ 1,972,355</u>
Long-term (one to four years)				
Individuals and affiliated groups	\$ 100,000	\$ -	\$ 100,000	\$ -
Corporate	-	-	-	-
Foundation	2,000,000	-	2,000,000	3,000,000
Government	-	-	-	100,000
Present value discount	(75,331)	-	(75,331)	(132,144)
Allowance for doubtful accounts	-	-	-	-
Long-term contributions receivable, net	<u>\$ 2,024,669</u>	<u>\$ -</u>	<u>\$ 2,024,669</u>	<u>\$ 2,967,856</u>

Note 5 – Investments

Investments consisted of the following at June 30:

	PNB Association	PNB Foundation
2023		
Money market	\$ 457,391	\$ 275,727
Fixed income securities	6,648,668	-
Equity securities and mutual funds	-	25,069,257
	<u>\$ 7,106,059</u>	<u>\$ 25,344,984</u>
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>

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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

	2023	2022
Interest and dividend income	\$ 633,850	\$ 413,191
Realized and unrealized gain (loss) on investments	2,387,514	(4,059,500)
Investing expenses	(91,540)	(92,094)
	<u>\$ 2,929,824</u>	<u>\$ (3,738,403)</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:

2023	Total	Level 1	Level 2	Level 3
Investments				
Money market	\$ 733,118	\$ 733,118	\$ -	\$ -
Fixed income securities	6,648,668	6,648,668	-	-
Equity securities and mutual funds	25,069,257	25,069,257	-	-
Gift annuity reserves	120,392	120,392	-	-
Charitable remainder unitrust	1,633,722	-	-	1,633,722
	<u>\$ 34,205,157</u>	<u>\$ 32,571,435</u>	<u>\$ -</u>	<u>\$ 1,633,722</u>
Total assets in the fair value hierarchy	<u>\$ 34,205,157</u>	<u>\$ 32,571,435</u>	<u>\$ -</u>	<u>\$ 1,633,722</u>
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	1,871,405	-	-	1,871,405
	<u>\$ 26,054,848</u>	<u>\$ 24,183,443</u>	<u>\$ -</u>	<u>\$ 1,871,405</u>
Total assets in the fair value hierarchy	<u>\$ 26,054,848</u>	<u>\$ 24,183,443</u>	<u>\$ -</u>	<u>\$ 1,871,405</u>

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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:

	2023	2022
Beginning balance	\$ 1,871,405	\$ 1,708,382
Change in fair value of charitable remainder unitrust	(237,683)	163,023
Ending balance	<u>\$ 1,633,722</u>	<u>\$ 1,871,405</u>

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

Name	Fair Value June 30, 2023	Valuation Technique	Unobservable Inputs	Range of Input Values (Weighted Average)
Charitable Remainder Unitrust	\$ 1,633,722	Discounted cash flow	Payout percentage	8%
			Discount rate - 2023	4.2%
			Discount rate - 2022	3.6%

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	Depreciation/ Amortization	Net
2023			
Leasehold improvements	\$ 17,203,174	\$ 9,660,177	\$ 7,542,997
Sets and costumes	7,085,785	6,592,347	493,438
Office, studio, and stage equipment	642,457	623,419	19,038
	<u>\$ 24,931,416</u>	<u>\$ 16,875,943</u>	<u>\$ 8,055,473</u>
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>

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 (5.05% at June 30, 2023) with a December 31, 2023, 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, 2023 and 2022. The average outstanding balance on the line of credit was \$0 for the years ended June 30, 2023 and 2022. There was no outstanding balance on the line of credit as of June 30, 2023 and 2022.

The Association has a standby letter of credit for \$95,000 as of June 30, 2023 and 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

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. Interest expense was \$43,791 and \$0 for the years ended June 30, 2023 and 2022, respectively.

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 \$1,247,000 and \$1,645,000 for the years ended June 30, 2023 and 2022, respectively. Contributions receivable of approximately \$104,000 and \$536,000 as of June 30, 2023 and 2022, 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. Contributions for dancers were approximately \$391,100 and \$348,800 for the years ended June 30, 2023 and 2022, 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 8% of each musician's wages, plus up to an additional 4% of matching contributions. Contributions for musicians were approximately \$165,900 and \$154,000 for the years ended June 30, 2023 and 2022, 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. Retirement benefits expense for stagehands was approximately \$56,400 and \$53,700 for the years ended June 30, 2023 and 2022, respectively. Additionally, the contract provides for health and welfare benefits and requires that the Association contribute 10% of gross wages to the union plan. The health and welfare benefits expense for stagehands was approximately \$99,900 and \$92,400 for the years ended June 30, 2023 and 2022, respectively.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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. Retirement benefits expense for dressers was approximately \$15,400 and \$13,800 for the years ended June 30, 2023 and 2022, respectively. Additionally, the contract provides for health and welfare benefits and requires that the Association contribute 12% and 11% of gross wages to the union plan for the years ended June 30, 2023 and 2022, respectively. The health and welfare benefits expense for dressers was approximately \$31,900 and \$30,600 for the years ended June 30, 2023 and 2022, 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, an amount that is 2% of each stage manager's gross compensation, plus an additional 2% of matching contributions for the year ended June 30, 2023. Contributions were matching contributions up to 4% of each stage manager's gross compensation and no nondiscretionary contributions for the year ended June 30, 2022. Contributions for stage managers were approximately \$2,500 and \$1,700 for the years ended June 30, 2023 and 2022, respectively.

Salaries of employees covered under collective bargaining agreements were approximately \$7,051,000 and \$6,320,000, representing 49% and 48% of salaries for the years ended June 30, 2023 and 2022, 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 \$180,500 and \$157,800 for the years ended June 30, 2023 and 2022, respectively.

Note 12 – Leases

The Organization rents office, studio, school, and warehouses under noncancelable operating leases expiring through 2034. Variable expenses generally represent the Organization's share of the landlord's operating expenses. The Organization determined the likelihood of exercising lease extension options as reasonably or not reasonably certain depending on the lease. The risk-free rate was used as the discount rate in determining the ROU asset and lease liabilities at the commencement date of leases as of July 1, 2022, for leases existing before the implementation of Topic 842. The Organization has made an accounting policy election not to recognize right-of-use assets and lease liabilities that arise from short-term leases for any class of underlying asset. The Organization does not act as a lessor.

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.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

The Organization performs its ballets in McCaw Hall under an operating agreement with the City of Seattle and Seattle Opera. Under the agreement, the Organization 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. All payments under this agreement are considered variable lease expenses.

The weighted average discount rate for operating leases as of June 30, 2023, was 2.88%. The weighted average remaining lease term for operating leases as of June 30, 2023, was 9.72 years.

Rental expense consists of the following for the year ended June 30, 2023:

Operating lease expense	
Lease payments	\$ 893,389
Lease expense in excess of lease payments	53,205
	<u>946,594</u>
Variable lease expense	
McCaw Hall	760,928
Common area expense	172,195
	<u>933,123</u>
Short-term lease expense - summer student housing	<u>452,958</u>
	<u><u>\$ 2,332,675</u></u>

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

2024	\$ 913,756
2025	943,908
2026	949,000
2027	976,759
2028	1,001,517
Thereafter	<u>4,951,502</u>
Total undiscounted cash flows	9,736,442
Less present value discount	<u>(1,284,467)</u>
Total lease liabilities	8,451,975
Less current portion of lease liabilities	<u>(681,170)</u>
Noncurrent lease liabilities	<u><u>\$ 7,770,805</u></u>

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Previous lease guidance disclosures – ASC 840, Leases

As the Organization has not restated prior-year information for the adoption of ASC 842, total operating lease expense under ASC 840, Leases, consisted of the following for the year ended June 30, 2022:

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

As previously disclosed, the minimum future lease rental commitments under the previous lease guidance as of June 30, 2022 was:

2023	\$ 893,564
2024	918,224
2025	943,581
2026	969,655
2027	996,466
Thereafter	<u>6,059,580</u>
	<u><u>\$ 10,781,070</u></u>

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 \$144,000 and \$138,000 during 2023 and 2022, respectively. Future amounts due under this agreement approximate the following as of June 30:

2024	\$ 147,000
2025	151,000
2026	155,000
2027	159,000
2028	163,000
Thereafter	<u>875,000</u>
	<u><u>\$ 1,650,000</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.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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

	2023	2022
Board-designated quasi-endowment	\$ 4,378,987	\$ 3,524,203
Donor-restricted endowment	<u>22,640,778</u>	<u>20,231,174</u>
Total endowment net assets	<u>\$ 27,019,765</u>	<u>\$ 23,755,377</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, 2023 and 2022.

Change in endowment net assets for the year ended June 30, 2023, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, July 1, 2022	\$ 3,524,203	\$ 20,231,174	\$ 23,755,377
Net investment return (loss)	382,296	2,379,049	2,761,345
Change in value of charitable remainder trust receivable	-	(237,683)	(237,683)
Board appropriations	(139,138)	(865,862)	(1,005,000)
Board-designated additions	611,626	-	611,626
Contributions	-	1,134,100	1,134,100
Total net assets, June 30, 2023	<u>\$ 4,378,987</u>	<u>\$ 22,640,778</u>	<u>\$ 27,019,765</u>

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>

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.

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- 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.
- ♦ **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;

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Notes to Consolidated Financial Statements

- ◆ 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.

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 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.

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Notes to Consolidated Financial Statements

Financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general use within one year, are as follows.

	2023	2022
Financial assets		
Cash and cash equivalents	\$ 2,048,539	\$ 9,758,103
Accounts receivable	211,582	287,913
Contributions receivable	4,135,743	4,900,211
Investments	32,451,043	24,049,891
Gift annuity reserves	120,392	133,552
	<hr/>	<hr/>
Total financial assets	38,967,299	39,129,670
Less amounts not available for general use within one year		
Assets restricted by statute for payment of gift annuities	(120,392)	(133,552)
Endowment investments subject to spending policy and appropriation	(25,344,984)	(21,849,622)
Add back endowment funds appropriated for use within one year	1,064,000	1,055,000
Donor restricted financial assets	(6,229,990)	(6,796,106)
Add back amounts available for donor-specified expenditures within one year	472,471	831,916
Board-designated assets subject to board approval for use	(3,458,490)	(6,379,551)
	<hr/>	<hr/>
Financial assets available for general use within one year	<u>\$ 5,349,914</u>	<u>\$ 5,857,755</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, 2023

ASSETS				
	<u>PNB Association</u>	<u>PNB Foundation</u>	<u>Eliminating</u>	<u>Consolidated</u>
ASSETS				
PNB Association assets				
Current assets				
Cash and cash equivalents	\$ 2,048,539	\$ -	\$ -	\$ 2,048,539
Accounts receivable	211,582	11,059	(11,059)	211,582
Contributions receivable, net	2,111,074	-	-	2,111,074
Inventory	340,596	-	-	340,596
Prepaid expenses	599,378	-	-	599,378
Investments	6,946,894	-	-	6,946,894
Total current assets	12,258,063	11,059	(11,059)	12,258,063
Long-term contributions receivable, net	2,024,669	-	-	2,024,669
Long-term Investments	159,165	-	-	159,165
Gift annuity reserves	120,392	-	-	120,392
Investment in gift shop	459,230	-	-	459,230
Personal property and leasehold improvements, net	8,055,473	-	-	8,055,473
Operating leases asset	7,767,020	-	-	7,767,020
Total PNB Association assets	30,844,012	11,059	(11,059)	30,844,012
PNB Foundation assets				
Investments	-	25,344,984	-	25,344,984
Contributions receivable, net	-	30,000	-	30,000
Charitable remainder unitrust receivable	-	1,633,722	-	1,633,722
Total PNB Foundation assets	-	27,008,706	-	27,008,706
Total assets	<u>\$ 30,844,012</u>	<u>\$ 27,019,765</u>	<u>\$ (11,059)</u>	<u>\$ 57,852,718</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 1,331,417	\$ -	\$ (11,059)	\$ 1,320,358
Deferred revenue	4,451,750	-	-	4,451,750
Paycheck Protection Program Loan	1,527,691	-	-	1,527,691
Dancer severance liability - current portion	100,000	-	-	100,000
Gift annuities payable - current portion	13,900	-	-	13,900
Operating leases liability - current portion	681,170	-	-	681,170
Total current liabilities	8,105,928	-	(11,059)	8,094,869
Gift annuities payable	74,528	-	-	74,528
Dancer severance liability	573,332	-	-	573,332
Operating leases liability	7,770,805	-	-	7,770,805
Total liabilities	16,524,593	-	(11,059)	16,513,534
NET ASSETS				
Without donor restrictions	6,115,029	4,378,987	-	10,494,016
With donor restrictions	8,204,390	22,640,778	-	30,845,168
Total net assets	14,319,419	27,019,765	-	41,339,184
Total liabilities and net assets	<u>\$ 30,844,012</u>	<u>\$ 27,019,765</u>	<u>\$ (11,059)</u>	<u>\$ 57,852,718</u>

See report of independent auditors.

