



Report of Independent Auditors
and Consolidated Financial Statements
with Supplementary Information

Pacific Northwest Ballet

June 30, 2024 and 2023



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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 (the Organization), which comprise the consolidated balance sheet as of June 30, 2024, 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, 2024, 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 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 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 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, 2023 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 19, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 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 16, 2024

Consolidated Financial Statements

Pacific Northwest Ballet
Consolidated Balance Sheets
June 30, 2024 and 2023

	2024	2023
ASSETS		
ASSETS		
PNB Association assets		
Current assets		
Cash and cash equivalents	\$ 4,481,387	\$ 2,048,539
Accounts receivable	187,801	211,582
Employee Retention Tax Credit Receivable	631,193	-
Contributions receivable, net	3,917,928	2,111,074
Inventory	327,106	340,596
Prepaid expenses	383,988	599,378
Investments	7,631,546	6,946,894
Total current assets	17,560,949	12,258,063
Long-term contributions receivable, net	2,967,799	2,024,669
Long-term investments	201,464	159,165
Gift annuity reserves	128,389	120,392
Investment in gift shop	477,703	459,230
Personal property and leasehold improvements, net	8,013,047	8,055,473
Operating leases asset	7,052,722	7,767,020
Total PNB Association assets	36,402,073	30,844,012
PNB Foundation assets		
Investments	29,634,865	25,344,984
Contributions receivable, net	23,500	30,000
Charitable remainder unitrust receivable	1,801,026	1,633,722
Total PNB Foundation assets	31,459,391	27,008,706
Total assets	\$ 67,861,464	\$ 57,852,718
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,664,034	\$ 1,320,358
Deferred revenue	4,490,016	4,451,750
Payroll Protection Program loan	-	1,527,691
Dancer severance liability - current portion	185,500	100,000
Gift annuities payable - current portion	13,900	13,900
Operating leases liability - current portion	731,660	681,170
Total current liabilities	7,085,110	8,094,869
Gift annuities payable	71,102	74,528
Dancer severance liability	599,497	573,332
Operating leases liability	7,038,855	7,770,805
Total liabilities	14,794,564	16,513,534
NET ASSETS		
Without donor restrictions	11,592,621	10,494,016
With donor restrictions	41,474,279	30,845,168
Total net assets	53,066,900	41,339,184
Total liabilities and net assets	\$ 67,861,464	\$ 57,852,718

See accompanying notes.

Pacific Northwest Ballet
Consolidated Statements of Activities
Year Ended June 30, 2024
(with comparative totals for the year ended June 30, 2023)

	Without Donor Restrictions			Total	With Donor Restrictions	2024 Total	2023 Total
	Operating	Capital	Board Designated				
EARNED REVENUE							
Nutcracker ticket sales	\$ 7,570,566	\$ -	\$ -	\$ 7,570,566	\$ -	\$ 7,570,566	\$ 6,129,774
Other ticket sales	7,293,517	-	-	7,293,517	-	7,293,517	6,381,366
Performance fees	93,091	-	-	93,091	-	93,091	657,500
Ballet school and community education	4,856,826	-	-	4,856,826	-	4,856,826	4,223,543
Gift shop (net)	143,472	-	-	143,472	-	143,472	150,286
Other earned income	124,124	-	549	124,673	-	124,673	282,284
	<u>20,081,596</u>	<u>-</u>	<u>549</u>	<u>20,082,145</u>	<u>-</u>	<u>20,082,145</u>	<u>17,824,753</u>
CONTRIBUTIONS							
Contributions to Association - donated ticket sales	45,398	-	-	45,398	-	45,398	-
Contributions to Association - fundraising	4,451,249	100,000	-	4,551,249	6,702,383	11,253,632	5,407,740
Contributions to Foundation	-	-	-	-	2,108,024	2,108,024	1,134,100
Bequests designated to Foundation by Board	-	-	1,159,979	1,159,979	-	1,159,979	611,626
Special events (net expenses of \$230,053 and \$212,121)	478,838	-	-	478,838	-	478,838	446,632
Contributed nonfinancial assets	353,925	-	-	353,925	-	353,925	269,470
	<u>5,329,410</u>	<u>100,000</u>	<u>1,159,979</u>	<u>6,589,389</u>	<u>8,810,407</u>	<u>15,399,796</u>	<u>7,869,568</u>
RELEASES, TRANSFERS, AND OTHER							
PNB Foundation support	1,107,000	-	(191,179)	915,821	(915,821)	-	-
Releases of restricted funds	585,284	-	-	585,284	(585,284)	-	-
Net transfer to board-designated funds	(302,299)	-	302,299	-	-	-	-
Transfer to Capital Fund of personal property	(180,421)	180,421	-	-	-	-	-
Forgiveness of Payroll Protection Program loan	2,050,831	-	-	2,050,831	-	2,050,831	-
Employee Retention Tax Credit	631,193	-	-	631,193	-	631,193	-
Change in value of charitable remainder unitrust receivable	-	-	-	-	167,304	167,304	(237,683)
Investment return (loss)	385,293	-	656,566	1,041,859	3,152,505	4,194,364	2,929,824
	<u>4,276,881</u>	<u>180,421</u>	<u>767,686</u>	<u>5,224,988</u>	<u>1,818,704</u>	<u>7,043,692</u>	<u>2,692,141</u>
TOTAL REVENUE	<u>29,687,887</u>	<u>280,421</u>	<u>1,928,214</u>	<u>31,896,522</u>	<u>10,629,111</u>	<u>42,525,633</u>	<u>28,386,462</u>
EXPENSES							
Ballet company and performances	20,488,402	350,461	-	20,838,863	-	20,838,863	20,220,810
Ballet school and community education	5,111,617	735,449	-	5,847,066	-	5,847,066	5,387,367
Administration	3,043,103	2,016	-	3,045,119	-	3,045,119	2,865,485
Development	1,066,869	-	-	1,066,869	-	1,066,869	1,131,752
	<u>29,709,991</u>	<u>1,087,926</u>	<u>-</u>	<u>30,797,917</u>	<u>-</u>	<u>30,797,917</u>	<u>29,605,414</u>
CHANGE IN NET ASSETS	<u>(22,104)</u>	<u>(807,505)</u>	<u>1,928,214</u>	<u>1,098,605</u>	<u>10,629,111</u>	<u>11,727,716</u>	<u>(1,218,952)</u>
NET ASSETS							
Beginning 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>41,339,184</u>	<u>42,558,136</u>
End of year	<u>\$ (3,564,940)</u>	<u>\$ 5,391,870</u>	<u>\$ 9,765,691</u>	<u>\$ 11,592,621</u>	<u>\$ 41,474,279</u>	<u>\$ 53,066,900</u>	<u>\$ 41,339,184</u>

See accompanying notes.

Pacific Northwest Ballet
Consolidated Statements of Functional Expenses
Year Ended June 30, 2024
(with comparative totals for the year ended June 30, 2023)

	Program Expenses			Support Expenses			Total Expenses	
	Ballet Company and Performances	Ballet School and Community Education	Total	Administration	Development	Total	2024	2023
Salaries, taxes, and benefits								
Salaries								
Dancers	\$ 4,045,980	\$ -	\$ 4,045,980	\$ -	\$ -	\$ -	\$ 4,045,980	\$ 3,695,749
Musicians	2,269,752	462,016	2,731,768	-	-	-	2,731,768	2,726,741
Other artists	1,128,375	-	1,128,375	-	-	-	1,128,375	1,085,656
Production	2,263,208	68,545	2,331,753	-	-	-	2,331,753	2,368,255
Box office and marketing	916,672	-	916,672	-	-	-	916,672	864,805
Teachers	-	1,043,235	1,043,235	-	-	-	1,043,235	966,770
Administrative	-	1,059,480	1,059,480	1,169,807	552,878	1,722,685	2,782,165	2,654,479
Total salaries	10,623,987	2,633,276	13,257,263	1,169,807	552,878	1,722,685	14,979,948	14,362,455
Payroll taxes	1,451,914	355,557	1,807,471	119,504	76,638	196,142	2,003,613	2,005,996
Employee benefits	2,245,778	335,473	2,581,251	105,493	86,402	191,895	2,773,146	2,458,399
Total salaries, taxes, and benefits	14,321,679	3,324,306	17,645,985	1,394,804	715,918	2,110,722	19,756,707	18,826,850
Choreography and dance	546,362	700	547,062	-	-	-	547,062	621,229
Scenery and stage	409,434	4,837	414,271	-	-	-	414,271	521,152
Costume and toe shoes	395,603	1,639	397,242	-	-	-	397,242	425,484
Music and instruments	161,992	1,400	163,392	-	-	-	163,392	132,428
Performance hall	1,371,290	40,290	1,411,580	-	-	-	1,411,580	1,264,867
Total production expenses	2,884,681	48,866	2,933,547	-	-	-	2,933,547	2,965,160
Building occupancy	536,342	1,101,444	1,637,786	643,241	-	643,241	2,281,027	2,132,425
Advertising	1,334,810	38,816	1,373,626	-	2,550	2,550	1,376,176	1,292,170
Professional services	273,200	85,654	358,854	376,660	85,410	462,070	820,924	846,892
Bank fees	475,778	159,050	634,828	16,354	54,358	70,712	705,540	667,182
Travel	27,283	14,341	41,624	275,775	2,736	278,511	320,135	499,904
Software, supplies, and equipment	131,030	19,837	150,867	4,168	19,279	23,447	174,314	257,861
Hospitality	117,918	176,676	294,594	10,354	765	11,119	305,713	168,592
Printing and copying	10,626	12,228	22,854	35,136	114,420	149,556	172,410	146,949
Postage and delivery	175,403	-	175,403	10,463	419	10,882	186,285	143,405
Insurance	30,528	10,000	40,528	84,729	-	84,729	125,257	114,161
Student expenses	-	96,805	96,805	-	-	-	96,805	82,021
Other	4,124	13,296	17,420	75,055	8,751	83,806	101,226	115,880
Total other expenses	3,117,042	1,728,147	4,845,189	1,531,935	288,688	1,820,623	6,665,812	6,467,442
Contributed nonfinancial assets	165,000	10,298	175,298	116,364	62,263	178,627	353,925	269,470
Depreciation and amortization	350,461	735,449	1,085,910	2,016	-	2,016	1,087,926	1,076,492
Total expenses	\$ 20,838,863	\$ 5,847,066	\$ 26,685,929	\$ 3,045,119	\$ 1,066,869	\$ 4,111,988	\$ 30,797,917	\$ 29,605,414

See accompanying notes.

Pacific Northwest Ballet
Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 11,727,716	\$ (1,218,952)
Adjustments to reconcile change in net assets to cash from (used in) operating activities		
Depreciation and amortization	1,087,926	1,076,492
Net gain on investments	(3,360,476)	(2,374,354)
Forgiveness of Payroll Protection Program loan	(2,050,831)	-
Contributions restricted for purchase of long-term assets	(2,067,500)	(100,000)
Contributions and earnings restricted or designated for endowments	(3,661,702)	(2,462,782)
Write offs of and provision for uncollectible pledges	1,449	28,822
Noncash lease expense	32,838	53,205
Cash from changes in operating assets and liabilities		
Accounts receivable	23,781	76,331
Employee Retention Tax Credit receivable	(631,193)	-
Contributions receivable	(2,918,737)	973,329
Inventory and prepaid expenses	228,880	(113,604)
Investment in gift shop	(18,473)	(150,286)
Accounts payable and accrued expenses	465,815	(8,153)
Deferred revenue	38,266	461,250
Net cash (used in) operating activities	(1,102,241)	(3,758,702)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for personal property and leasehold improvements	(1,045,500)	(23,797)
Payments to life tenants of gift annuity	(13,900)	(13,900)
Increase in gift annuity reserves	(16,000)	-
Purchases of investments	(20,188,636)	(9,921,194)
Proceeds from sale/maturity of investments	18,540,283	3,907,556
Net cash (used in) investing activities	(2,723,753)	(6,051,335)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Paycheck Protection Program loan	(412,109)	(472,309)
Return of Paycheck Protection Program loan payments and interest	935,249	-
Contributions received for purchase of long-term assets	2,067,500	100,000
Contributions and earnings received for endowments	3,668,202	2,472,782
Net cash from financing activities	6,258,842	2,100,473
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,432,848	(7,709,564)
CASH AND CASH EQUIVALENTS, beginning of year	2,048,539	9,758,103
CASH AND CASH EQUIVALENTS, end of year	\$ 4,481,387	\$ 2,048,539
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid during the year	\$ 10,535	\$ 43,791
Income taxes paid during the year	\$ 7,036	\$ 4,000
Operating lease assets obtained in exchange for operating lease liabilities	\$ -	\$ 9,103,661

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.

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 claimed on payroll tax forms. The credits totaled \$631,193 and \$0 for the years ended June 30, 2024 and 2023, respectively.

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.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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 credit losses 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, 2024 and 2023.

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.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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).

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

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Operating lease assets and liabilities – 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 is recognized on a straight-line basis over the lease term.

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.

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 \$1,376,176 and \$1,292,170 for the years ended June 30, 2024 and 2023, 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.

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.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

New accounting pronouncements – In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduced an expected credit loss methodology for the measurement and recognition of credit losses on most financial assets, including trade accounts receivable, contract assets, and financial instruments at amortized cost. The expected credit loss methodology under ASU 2016-13 is based on historical experience, current conditions, reasonable and supportable forecasts, and replaces the probable/incurred loss model for measuring and recognizing expected credit losses under current US GAAP. The ASU also requires disclosure of information regarding how a company developed its allowance, including changes in the factors that influenced management’s estimate of expected credit losses and the reasons for those changes. The ASU and its related clarifying updates are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years, with early adoption permitted. The Organization adopted the standard on July 1, 2023, and the adoption did not have a significant impact on the consolidated financial statements.

Subsequent events – Subsequent events are events that occur after the consolidated balance sheet date but before the 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 16, 2024, which is the date that the consolidated financial statements were available to be issued.

Note 2 – Net Assets

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

	2024	2023
Operating	\$ (3,564,940)	\$ (3,542,836)
Capital	5,391,870	6,199,375
Board-designated		
Quasi-endowment		
General Endowment Fund	4,418,741	2,945,701
Artistic Directors’ Fund	1,411,591	1,275,983
Scholarship and Outreach Fund	174,021	157,303
	6,004,353	4,378,987
Specific projects	42,657	39,809
Support for 2023-2024 operations	-	1,000,000
Support for 2024-2025 operations	2,290,000	1,140,000
Stabilization Fund	1,428,681	1,278,681
Total board-designated net assets	9,765,691	7,837,477
Total net assets without donor restrictions	\$ 11,592,621	\$ 10,494,016

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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, 2024, the Association's board has designated \$2,290,000 of its net assets, to provide additional working capital for operations in fiscal years ending June 30, 2024 and June 30, 2025, as the Organization works to rebuild revenues negatively impacted by the pandemic.

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

	2024	2023
Subject to the passage of time or expenditure for specified purpose		
PNB Association		
Dancer Transition Fund	\$ 199,880	\$ 160,927
50th Anniversary Campaign	8,835,956	5,617,759
Donor-restricted to future fiscal years	485,000	380,760
Donor-restricted for specified performances	2,816,875	16,573
Donor-restricted for sets and costumes	16,678	53,971
Donor-restricted for leasehold improvements	1,974,400	1,974,400
	14,328,789	8,204,390
Endowment funds		
PNB Foundation		
General Endowment Fund	5,512,614	4,253,423
School and Outreach Funds	5,715,376	5,183,129
Artistic and Creative Funds	5,709,518	5,409,518
Artistic Directors' Fund	2,095,355	2,095,355
Dancers and Pointe Shoes Funds	1,139,049	1,122,463
Accumulated earnings	5,197,552	2,968,168
General Endowment unitrust receivable	1,801,026	1,633,722
Present value discount and allowance for doubtful accounts	(25,000)	(25,000)
	27,145,490	22,640,778
Total net assets with donor restrictions	\$ 41,474,279	\$ 30,845,168

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 book value of \$5,140,000 and \$5,780,000 as of June 30, 2024 and 2023, 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
2024			
Individual	\$ 4,970,950	\$ 8,530,877	\$ 13,501,827
Corporate	265,500	85,000	350,500
Foundation	289,497	194,530	484,027
Government	230,679	-	230,679
	<u>\$ 5,756,626</u>	<u>\$ 8,810,407</u>	<u>\$ 14,567,033</u>
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>

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

	Program or Support	2024	2023
Legal and audit services	Administration	\$ 116,364	\$ 41,865
Hospitality food	Fundraising	62,263	65,298
Advertising	Ballet company	150,000	132,341
Airfare	Ballet company	15,000	17,350
Other professional services	Administration & Ballet company	-	7,050
Student food and clothing	Education	10,298	5,566
		<u>\$ 353,925</u>	<u>\$ 269,470</u>

Pacific Northwest Ballet
Notes to Consolidated Financial Statements

Note 4 – Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2024			2023 Total
	PNB Association	PNB Foundation	Total	
Current (less than one year)				
Individuals and affiliated groups	\$ 1,409,249	\$ 48,500	\$ 1,457,749	\$ 594,574
Corporate	5,000	-	5,000	10,000
Foundation	2,603,679	-	2,603,679	1,512,000
Government	4,000	-	4,000	153,500
Allowance for doubtful accounts	(104,000)	(25,000)	(129,000)	(129,000)
Current contributions receivable, net	<u>\$ 3,917,928</u>	<u>\$ 23,500</u>	<u>\$ 3,941,428</u>	<u>\$ 2,141,074</u>
Long-term (one to four years)				
Individuals and affiliated groups	\$ 2,050,020	\$ -	\$ 2,050,020	\$ 100,000
Foundation	1,000,000	-	1,000,000	2,000,000
Present value discount	(82,221)	-	(82,221)	(75,331)
Long-term contributions receivable, net	<u>\$ 2,967,799</u>	<u>\$ -</u>	<u>\$ 2,967,799</u>	<u>\$ 2,024,669</u>

Note 5 – Investments

Investments consisted of the following at June 30:

	PNB Association	PNB Foundation
2024		
Money market	\$ 1,541,500	\$ 373,864
Fixed income securities	6,291,510	-
Equity securities and mutual funds	-	29,261,001
	<u>\$ 7,833,010</u>	<u>\$ 29,634,865</u>
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>

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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

	2024	2023
Interest and dividend income	\$ 930,757	\$ 633,850
Realized and unrealized gain (loss) on investments	3,368,479	2,387,514
Investing expenses	(104,872)	(91,540)
	\$ 4,194,364	\$ 2,929,824

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:

	Total	Level 1	Level 2	Level 3
2024				
Investments				
Money market	\$ 1,915,364	\$ 1,915,364	\$ -	\$ -
Fixed income securities	6,291,510	6,291,510	-	-
Equity securities and mutual funds	29,261,001	29,261,001	-	-
Gift annuity reserves	128,389	128,389	-	-
Charitable remainder unitrust	1,801,026	-	-	1,801,026
Total assets in the fair value hierarchy	\$ 39,397,290	\$ 37,596,264	\$ -	\$ 1,801,026
2023				
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
Total assets in the fair value hierarchy	\$ 34,205,157	\$ 32,571,435	\$ -	\$ 1,633,722

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:

	2024	2023
Beginning balance	\$ 1,633,722	\$ 1,871,405
Change in fair value of charitable remainder unitrust	167,304	(237,683)
Ending balance	\$ 1,801,026	\$ 1,633,722

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

Name	Fair Value June 30, 2024	Valuation Technique	Unobservable Inputs	Range of Input Values (Weighted Average)
Charitable Remainder Unitrust	\$ 1,801,026	Discounted cash flow	Payout percentage	8%
			Discount rate - 2024	5.6%
			Discount rate - 2023	4.2%

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	Depreciation/ Amortization	Net
2024			
Leasehold improvements	\$ 17,297,596	\$ 10,485,190	\$ 6,812,406
Sets and costumes	8,036,862	6,850,499	1,186,363
Office, studio, and stage equipment	642,458	628,180	14,278
	<u>\$ 25,976,916</u>	<u>\$ 17,963,869</u>	<u>\$ 8,013,047</u>
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>

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 (6.86% at June 30, 2024) with a December 31, 2024, maturity. The facility is secured by the Association's contribution receivables, investments, costumes, and sets. Interest expense under the line of credit was \$0 for the years ended June 30, 2024 and 2023. The average outstanding balance on the line of credit was \$0 for the years ended June 30, 2024 and 2023. There was no outstanding balance on the line of credit as of June 30, 2024 and 2023.

The Association has a standby letter of credit for \$95,000 as of June 30, 2024 and 2023, in favor of American Guild of Musical Artists in accordance with requirements in its union contract.

Note 9 – Paycheck Protection Program Loan

In March 2021, 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 \$2,000,000. The loan bears interest at 1.0% with monthly payments of principal and interest beginning in August 2022 and continuing through maturity in March 2026, if required. During the years ended June 30, 2024 and June 30, 2023, payments made on the loan totaled \$935,249, including principal and interest. The loan was forgiven in full in April 2024 in accordance with the CARES Act and the rules, regulations and guidance, and was recorded as a gain on forgiveness of debt in the consolidated statement of activities in the amount of \$2,050,831. Interest expense was \$0 and \$43,791 the years ended June 30, 2024 and 2023, respectively.

The Association accounted for the PPP loan as debt, to be recorded as a current liability until repayment is specifically waived.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Note 10 – Related-Party Transactions

Contributions, including both gifts and contributions receivable, from members of the Association's board of trustees were approximately \$6,411,000 and \$1,247,000 for the years ended June 30, 2024 and 2023, respectively. Contributions receivable of approximately \$3,399,000 and \$104,000 as of June 30, 2024 and 2023, 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 7.75% of matching contributions. Contributions for dancers were approximately \$439,900 and \$391,100 for the years ended June 30, 2024 and 2023, 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 \$165,700 and \$165,900 for the years ended June 30, 2024 and 2023, 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 \$71,800 and \$56,400 for the years ended June 30, 2024 and 2023, respectively. Additionally, the contract provides for health and welfare benefits and requires that the Association contribute 11% and 10% of gross wages to the union plan for the years ended June 30, 2024 and 2023, respectively. The health and welfare benefits expense for stagehands was approximately \$112,300 and \$99,900 for the years ended June 30, 2024 and 2023, 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. Retirement benefits expense for dressers was approximately \$20,500 and \$15,400 for the years ended June 30, 2024 and 2023, respectively. Additionally, the contract provides for health and welfare benefits and requires that the Association contribute 12% of gross wages to the union plan. The health and welfare benefits expense for dressers was approximately \$41,600 and \$31,900 for the years ended June 30, 2024 and 2023, 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. Contributions for stage managers were approximately \$1,900 and \$2,500 for the years ended June 30, 2024 and 2023, respectively.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

Salaries of employees covered under collective bargaining agreements were approximately \$7,480,900 and \$7,051,000, representing 50% and 49% of salaries for the years ended June 30, 2024 and 2023, 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 \$202,900 and \$180,500 for the years ended June 30, 2024 and 2023, 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% per year. 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.

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, 2024 and 2023, was 2.88%. The weighted average remaining lease term for operating leases as of June 30, 2024 and 2023, was 8.72 years and 9.72 years, respectively.

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Notes to Consolidated Financial Statements

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

	2024	2023
Operating lease expense		
Lease payments	\$ 913,776	\$ 893,389
Lease expense in excess of lease payments	32,838	53,205
	946,614	946,594
Variable lease expense		
McCaw Hall	814,085	760,928
Common area expense	163,961	172,195
	978,046	933,123
Short-term lease expense - summer student housing	500,307	452,958
	\$ 2,424,967	\$ 2,332,675

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

2025	\$ 943,907
2026	949,000
2027	976,759
2028	1,001,517
2029	1,025,127
Thereafter	3,926,375
Total undiscounted cash flows	8,822,685
Less present value discount	(1,052,170)
Total lease liabilities	7,770,515
Less current portion of lease liabilities	(731,660)
Noncurrent lease liabilities	\$ 7,038,855

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 \$147,000 and \$144,000 during 2024 and 2023, respectively. Future amounts due under this agreement approximate the following as of June 30:

2025	\$ 150,000
2026	154,000
2027	158,000
2028	162,000
2029	166,000
Thereafter	<u>891,000</u>
	<u>\$ 1,681,000</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:

	<u>2024</u>	<u>2023</u>
Board-designated quasi-endowment	\$ 6,004,353	\$ 4,378,987
Donor-restricted endowment	<u>27,145,490</u>	<u>22,640,778</u>
Total endowment net assets	<u>\$ 33,149,843</u>	<u>\$ 27,019,765</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, 2024 and 2023.

Change in endowment net assets for the year ended June 30, 2024, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, July 1, 2023	\$ 4,378,987	\$ 22,640,778	\$ 27,019,765
Net investment return	656,566	3,145,205	3,801,771
Change in value of charitable remainder trust receivable	-	167,304	167,304
Board appropriations	(191,179)	(915,821)	(1,107,000)
Board-designated additions	1,159,979	-	1,159,979
Contributions	-	2,108,024	2,108,024
Total net assets, June 30, 2024	<u>\$ 6,004,353</u>	<u>\$ 27,145,490</u>	<u>\$ 33,149,843</u>

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

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	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
	<u>\$ 4,378,987</u>	<u>\$ 22,640,778</u>	<u>\$ 27,019,765</u>
Total net assets, June 30, 2023	<u>\$ 4,378,987</u>	<u>\$ 22,640,778</u>	<u>\$ 27,019,765</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.
- 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.

Pacific Northwest Ballet

Notes to Consolidated Financial Statements

- **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). 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, 2024 and 2023, reduced by amounts not available for general use within one year, are as follows.

	2024	2023
Financial assets		
Cash and cash equivalents	\$ 4,481,387	\$ 2,048,539
Accounts receivable	187,801	211,582
Employee Retention Tax Credit Receivable	631,193	-
Contributions receivable	6,885,727	4,135,743
Investments	37,467,875	32,451,043
Gift annuity reserves	128,389	120,392
Total financial assets	49,782,372	38,967,299
Less amounts not available for general use within one year		
Assets restricted by statute for payment of gift annuities	(128,389)	(120,392)
Endowment investments subject to spending policy and appropriation	(29,634,865)	(25,344,984)
Add back endowment funds appropriated for use within one year	1,125,000	1,064,000
Donor restricted financial assets	(12,354,389)	(6,229,990)
Add back amounts available for donor-specified expenditures within one year	3,418,433	472,471
Board-designated assets subject to board approval for use	(3,761,338)	(3,458,490)
Financial assets available for general use within one year	\$ 8,446,824	\$ 5,349,914

Note 16 – Contingencies

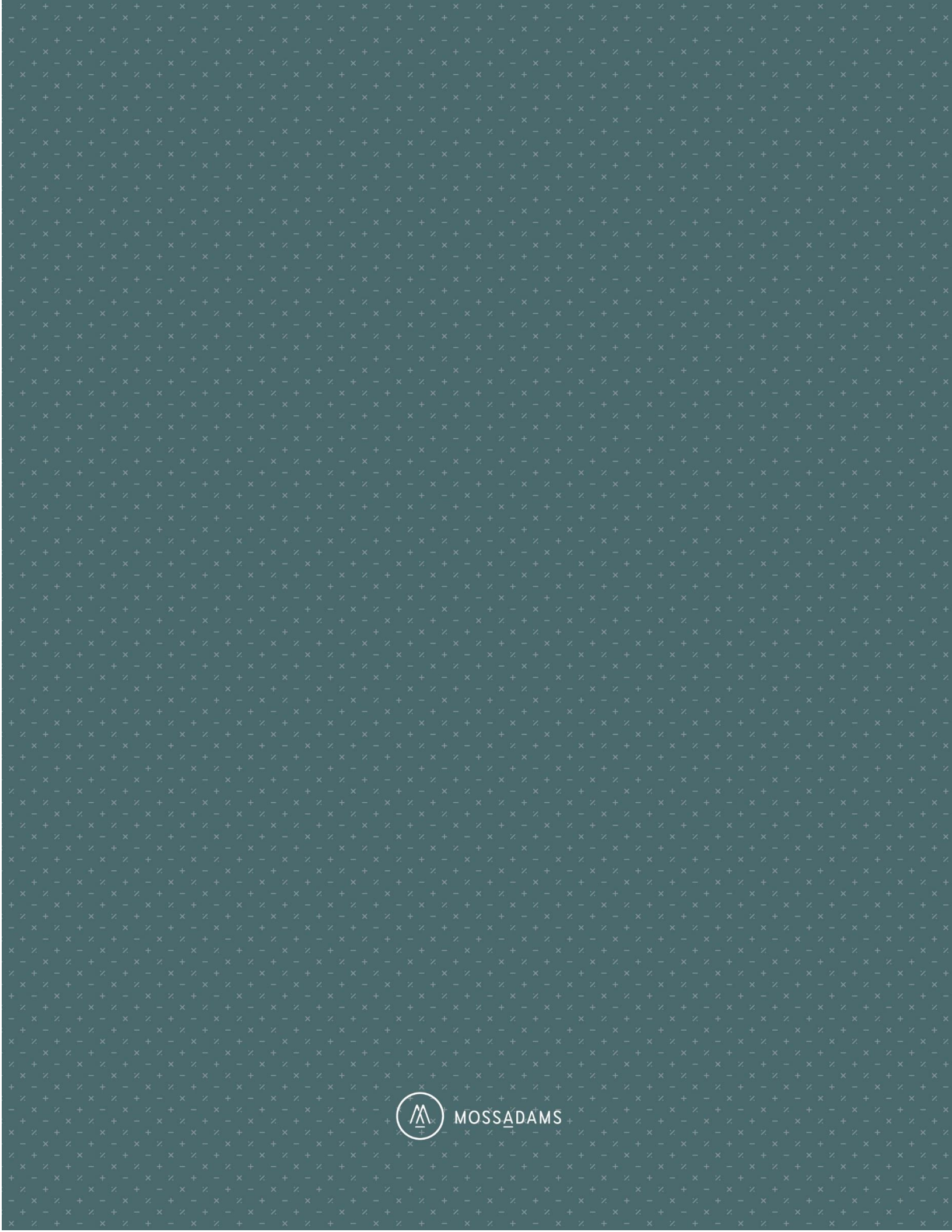
At times, the Organization may be involved in litigation and contingencies arising in the normal course of business. After consultation with legal counsel, management estimates that any current matters will be resolved without significant impact to the Organization’s financial position.

Supplementary Information

Pacific Northwest Ballet
Consolidating Balance Sheet
June 30, 2024

ASSETS				
	PNB Association	PNB Foundation	Eliminating	Consolidated
ASSETS				
PNB Association assets				
Current assets				
Cash and cash equivalents	\$ 4,481,387	\$ -	\$ -	\$ 4,481,387
Accounts receivable	187,801	1,690,452	(1,690,452)	187,801
Employee Retention Tax Credit receivable	631,193	-	-	631,193
Contributions receivable, net	3,917,928	-	-	3,917,928
Inventory	327,106	-	-	327,106
Prepaid expenses	383,988	-	-	383,988
Investments	7,631,546	-	-	7,631,546
Total current assets	17,560,949	1,690,452	(1,690,452)	17,560,949
Long-term contributions receivable, net	2,967,799	-	-	2,967,799
Long-term Investments	201,464	-	-	201,464
Gift annuity reserves	128,389	-	-	128,389
Investment in gift shop	477,703	-	-	477,703
Personal property and leasehold improvements, net	8,013,047	-	-	8,013,047
Operating leases asset	7,052,722	-	-	7,052,722
Total PNB Association assets	36,402,073	1,690,452	(1,690,452)	36,402,073
PNB Foundation assets				
Investments	-	29,634,865	-	29,634,865
Contributions receivable, net	-	23,500	-	23,500
Charitable remainder unitrust receivable	-	1,801,026	-	1,801,026
Total PNB Foundation assets	-	31,459,391	-	31,459,391
Total assets	\$ 36,402,073	\$ 33,149,843	\$ (1,690,452)	\$ 67,861,464
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 3,354,486	\$ -	\$ (1,690,452)	\$ 1,664,034
Deferred revenue	4,490,016	-	-	4,490,016
Paycheck Protection Program Loan	-	-	-	-
Dancer severance liability - current portion	185,500	-	-	185,500
Gift annuities payable - current portion	13,900	-	-	13,900
Operating leases liability - current portion	731,660	-	-	731,660
Total current liabilities	8,775,562	-	(1,690,452)	7,085,110
Gift annuities payable	71,102	-	-	71,102
Dancer severance liability	599,497	-	-	599,497
Operating leases liability	7,038,855	-	-	7,038,855
Total liabilities	16,485,016	-	(1,690,452)	14,794,564
NET ASSETS				
Without donor restrictions	5,588,268	6,004,353	-	11,592,621
With donor restrictions	14,328,789	27,145,490	-	41,474,279
Total net assets	19,917,057	33,149,843	-	53,066,900
Total liabilities and net assets	\$ 36,402,073	\$ 33,149,843	\$ (1,690,452)	\$ 67,861,464

See report of independent auditors.



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