Consolidated Financial Statements and Report of Independent Certified Public Accountants

San Francisco Ballet Association

June 30, 2021

Contents

GRANT THORNTON LLP
101 California St., Suite 2700
San Francisco, CA 94111-5830

D +1 415 986 3900
F +1 415 986 3916

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
San Francisco Ballet Association

We have audited the accompanying consolidated statement of financial position of the San Francisco Ballet Association and the San Francisco Ballet Endowment Foundation (collectively known as the "Ballet") as of June 30, 2021, and the related consolidated statement of activities and changes in net assets, the consolidated statement of functional expenses, and the consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the San Francisco Ballet Association and the San Francisco Ballet Endowment Foundation as of June 30, 2021, and the changes in their net assets, their functional expenses, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on 2020 summarized comparative information
We have previously audited the Ballet's 2020 consolidated financial statements, and expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 28, 2020. The summarized comparative information presented herein as of and for the year ended June 30, 2020 is derived from those consolidated financial statements.

Grant Thornton LLP

San Francisco, California
October 26, 2021

SAN FRANCISCO BALLET ASSOCIATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2021
(With summarized financial information as of June 30, 2020)
(In thousands of dollars)

	June 30, 2021	June 30, 2020
ASSETS		
Cash and cash equivalents	$ 6,134	$ 8,565
Restricted cash	6,007	8,007
Accounts receivable	3,401	260
Prepaid expenses and deposits	1,411	1,359
Pledges receivable, net	1,821	2,184
Receivables from split-interest agreements, net	2,350	2,183
Other investments	626	624
Other assets	696	626
Property and equipment, net	19,127	19,214
Endowment investments	137,458	113,925
Total assets	$ 179,031	$ 156,947
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 7,062	$ 7,094
Line of credit	2,975	-
Paycheck protection program loan	9,321	7,321
Current portion loans payable	1,920	1,906
Deferred compensation and postretirement benefit obligation	2,090	2,101
Deferred performance and school revenue	7,426	5,357
Gift annuity payment liability	697	734
Interest rate swap liability	6,749	8,923
Non-current loans payable, net	32,950	34,852
Total liabilities	71,190	68,288
NET ASSETS:		
Without donor restrictions	8,824	8,053
With donor restrictions	99,017	80,606
Total net assets	107,841	88,659
TOTAL LIABILITIES AND NET ASSETS	$ 179,031	$ 156,947

The accompanying notes are an integral part of this consolidated financial statement.

SAN FRANCISCO BALLET ASSOCIATION

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED June 30, 2021
(In thousands of dollars)

	For the year ended June 30, 2021			
	Without donor restrictions	**With donor restrictions**	**Total**	**For the year ended June 30, 2020**
REVENUE AND SUPPORT:				
San Francisco performance	$ 1,756	$ -	$ 1,756	$ 13,518
Touring	-	-	-	354
School and student housing, net of scholarships	2,182	-	2,182	2,421
Other income	5,622	-	5,622	1,013
Contributions	16,473	935	17,408	18,206
Special events and other activities	1,551	65	1,616	4,353
Net assets released from donor restrictions	4,020	(4,020)	-	-
Total revenue and support	31,604	(3,020)	28,584	39,865
EXPENSES:				
Program services:				
Ballet production and touring	23,121	-	23,121	32,637
School and student housing	4,394	-	4,394	3,918
Education and outreach	714	-	714	862
Support Services:				
Marketing, publicity and audience development	2,325	-	2,325	4,960
General and administrative	6,151	-	6,151	5,612
Fundraising	3,151	-	3,151	5,046
Total expenses	39,856	-	39,856	53,035
CHANGE IN NET ASSETS FROM OPERATIONS	(8,252)	(3,020)	(11,272)	(13,170)
NON-OPERATING:				
Endowment investment income, net	7,617	21,431	29,048	370
Change in post-retirement benefit obligation	74	-	74	(126)
Net realized and unrealized gain (loss) on interest rate swap	1,332	-	1,332	(3,010)
INCREASE / (DECREASE) IN NET ASSETS	771	18,411	19,182	(15,936)
NET ASSETS - Beginning of Year	8,053	80,606	88,659	104,595
NET ASSETS - End of Year	$ 8,824	$ 99,017	$ 107,841	$ 88,659

The accompanying notes are an integral part of this consolidated financial statement.

SAN FRANCISCO BALLET ASSOCIATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021
(In thousands of dollars)

	Program Services						Support Services				FY21	FY20
	Ballet Production	Touring	Ballet Production and Touring	School and Student Housing	Education and Outreach	Total Programs	Marketing, publicity and audience development	General and Administrative	Fundraising	Total Support Services	Total Expenses	Total Expenses
SALARIES, PAYROLL TAXES AND BENEFITS												
Salaries	$ 13,744	$ 4	$ 13,748	$ 1,773	$ 503	$ 16,024	$ 1,250	$ 2,517	$ 1,810	$ 5,577	$ 21,601	$ 28,635
Payroll taxes and benefits	4,690	2	4,692	351	117	5,160	281	378	300	959	6,119	8,258
	18,434	6	18,440	2,124	620	21,184	1,531	2,895	2,110	6,536	27,720	36,893
OTHER EXPENSES												
Advertising	-	-	-	17	-	17	51	28	1	80	97	1,347
Dance medical services	989	-	989	1	-	990	-	-	-	-	990	229
Depreciation and amortization	727	-	727	380	26	1,133	56	273	59	388	1,521	1,503
Events and cultivation	23	-	23	1	-	24	-	1	268	269	293	1,187
Information technology expense	-	-	-	18	-	18	165	378	5	548	566	621
In-kind expenses	20	-	20	-	-	20	16	58	238	312	332	1,043
Interest expense	292	-	292	188	15	495	34	113	57	204	699	1,136
License, permits and fees	257	-	257	107	-	364	3	776	38	817	1,181	1,263
Marketing and shop expenses - other	-	-	-	-	-	-	5	-	-	5	5	88
Miscellaneous expense	114	-	114	254	2	370	3	77	31	111	481	911
Occupancy	480	-	480	945	8	1,433	9	87	26	122	1,555	822
Other expense	-	-	-	-	-	-	153	-	-	153	153	555
Printed materials, postage and mailing	1	-	1	2	-	3	73	2	139	214	217	535
Production expense	474	-	474	3	3	480	-	-	18	18	498	1,798
Professional services	383	-	383	129	22	534	197	1,087	110	1,394	1,928	1,511
Receivable w rite-off	3	3	6	2	-	8	-	134	1	135	143	63
Scholarship expense	79	-	79	-	-	79	-	-	-	-	79	86
Shoes and tights	237	-	237	10	-	247	-	-	-	-	247	214
Taxes	133	-	133	-	-	133	-	-	-	-	133	(12)
Theater-space rental	165	-	165	-	-	165	-	-	7	7	172	338
Travel and entertainment	199	-	199	137	14	350	20	106	32	158	508	560
Utilities and telephone	102	-	102	76	4	182	9	136	11	156	338	344
	4,678	3	4,681	2,270	94	7,045	794	3,256	1,041	5,091	12,136	16,142
TOTAL EXPENSES	$ 23,112	$ 9	$ 23,121	$ 4,394	$ 714	$ 28,229	$ 2,325	$ 6,151	$ 3,151	$ 11,627	$ 39,856	$ 53,035

The accompanying notes are an integral part of this consolidated financial statement.

San Francisco Ballet Association

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2021 (With summarized financial information for the year ended June 30, 2020)

	2021	2020
OPERATING ACTIVITIES:		
Increase / (decrease) in net assets	$ 19,182	$ (15,936)
Adjustments to reconcile increase / (decrease) in net assets to cash used in operating activities:		
Contributions received for perpetual endowment	(313)	(609)
Depreciation	1,521	1,503
Amortization of loan issuance costs	18	19
Net realized and unrealized (gain) on investments	(10,432)	(233)
Limited partnership investment gains/losses, net	(16,566)	2,793
Proceeds from sales of donated securities	(199)	(204)
Change in allowance for doubtful pledges receivable	(92)	(92)
Change in discount of pledges receivable	29	(63)
Change in fair value of the interest rate swap	(2,174)	2,398
Net effect of changes in:		
Accounts receivable	(3,141)	(89)
Prepaid expenses and deposits	(52)	70
Pledges receivable	426	695
Receivables from split-interest agreements	(167)	(104)
Other assets	(70)	39
Gift annuity payment liability	(37)	(11)
Deferred compensation and postretirement benefit obligation	(11)	185
Accounts payable and accrued expenses	(28)	(74)
Deferred performance and school revenue	2,069	(1,737)
Net cash used in operating activities	(10,037)	(11,450)
INVESTING ACTIVITIES:		
Purchases of endowment investments	(10,875)	(22,897)
Proceeds from sale/return of endowment investments	14,340	30,858
Increase in operating cash in endowment portfolio	(2)	(38)
Purchase of property and equipment	(1,434)	(513)
Net cash provided by investing activities	2,029	7,410
FINANCING ACTIVITIES:		
Proceeds from sales of donor-restricted securities	199	204
Contributions received for perpetual endowment	313	609
Line of credit utilization	2,975	-
PPP loan proceeds received	2,000	7,321
Principal payments on bond payable	(1,906)	(1,884)
Reduction (Principal payments) on capital lease obligations	(4)	32
Net cash provided by financing activities	3,577	6,282
Net increase/decrease in cash, cash equivalents, and restricted cash	(4,431)	2,242
Cash, cash equivalents, and restricted cash at beginning of year	16,572	14,330
Cash, cash equivalents, and restricted cash at end of year	$ 12,141	$ 16,572
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the year for interest	$ 1,517	$ 1,732

The accompanying notes are an integral part of this consolidated financial statement.

Notes to consolidated financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

San Francisco Ballet Association (the "Association") operates both a dance company and a ballet school. As America's oldest professional ballet company and one of the three largest ballet companies in the United States with its year-end roster of 72 dancers and 8 apprentices, the Association has enjoyed a long and rich tradition of artistic "firsts" since its founding in 1933. It performed the first American productions of Swan Lake and Nutcracker, as well as the first production of Coppélia choreographed by an American choreographer. Guided in its early years by American dance pioneers and brothers Lew, Willam, and Harold Christensen, the Association has typically presented more than 100 performances annually in San Francisco, California, and other communities in the Bay Area, as well as annual tours to domestic and international locations. San Francisco Ballet Endowment Foundation (the "Foundation"), a separate legal entity, holds the majority of the assets of the endowment for the benefit of the Association. The Association and the Foundation (collectively, the "Ballet") are California not-for-profit corporations founded in 1933 and 1980, respectively.

Principles of consolidation

The accompanying consolidated financial statements include the consolidated statement of financial position, consolidated statement of activities and changes in net assets, consolidated statement of functional expenses, and consolidated statement of cash flows of the Association and the Foundation because the Association has both control of and economic interest in the Foundation. Intercompany transactions and accounts have been eliminated in consolidation.

Basis of presentation

The Ballet classifies its net assets in the following categories:

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions that may be used for any purpose at the discretion of the Board of Trustees and management.

Net Assets with Donor Restrictions

Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, which are met by actions of the Ballet or by the passage of time. Other donor restrictions are perpetual in nature, where donor-imposed restrictions require funds be maintained in perpetuity.

The consolidated financial statements include certain prior year summarized comparative information in total, but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles general accepted in the United States of America ("U.S. GAAP"). Accordingly, such information should be read in conjunction with the Ballet's consolidated financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits and highly liquid investments, including certificates of deposit, with remaining maturities of three months or less.

Accounts receivable

Accounts receivable consist of a tax credit refund from the Coronavirus Aid, Relief, and Economic Security ("CARES") Act Employee Retention Credits in addition to dividends and student receivables.

Pledges receivable

Pledges receivable consist of unconditional promises to give that are expected to be collected in future years. Such receivables are recorded at the present value of their estimated future cash flows. The discount on pledges receivable pledged during the year ended June 30, 2021, utilized a risk-adjusted rate of 1.976%. For pledges receivable pledged prior to the year ended June 30, 2021, the discounts on these amounts were computed using risk-adjusted rates applicable in the years in which those promises were received, ranging from 2.027% to 3.651%. Amortization of the discounts is included in contributions in the accompanying consolidated statement of activities and changes in net assets.

Receivables from split-interest agreements and gift annuity payment liability

Receivables from split-interest agreements represent the Ballet's irrevocable remainder interests in a pooled income fund and various trusts primarily held by third-party trustees. The pooled income fund and trusts are stated at estimated fair value, which is measured as the present value of the estimated future distributions expected to be received over the expected terms of the agreements. Trusts contributed by donors under charitable gift annuity agreements and controlled by the Ballet are recognized at estimated fair value with a corresponding liability to beneficiaries of the annuity agreements. Such liability is calculated as the present value of the estimated future cash flows to be distributed to the income beneficiaries over their expected lives. In determining the present value, the Ballet considers single or joint life expectancy for new gifts from the 2000CM Combined Healthy Mortality Table and prior gifts using the same mortality table as used in prior years, the estimated return on the invested assets during the expected term of the agreements, the contractual payment obligations under the agreements, and a discount rate reflective of current market conditions.

Other investments

Other investments consist of a fund invested in mutual funds established by a collective bargaining agreement between the American Guild of Musical Artists and the Association restricted to support dancer career transitions.

Other assets

Other assets consist of a voluntary salary deferral plan for certain highly compensated employees under Internal Revenue Code ("IRC") Section 457(b) (see Note 10).

Restricted cash

Restricted cash is invested in cash and cash equivalents that are held by third parties in restricted accounts in accordance with an interest rate swap agreement and requirements set forth in an agreement for collateral posting. The decrease in restricted cash during the year ended June 30, 2021 of $2,000 relates primarily to the decrease in the interest rate swap liability. In 2020, the Ballet adopted Accounting Standards Update ("ASU") No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* which required presentation of restricted cash within the beginning and end of year cash balances in the consolidated statement of cash flows.

Loan issuance costs

Loan issuance costs are being amortized over the term of the related loans payable. Costs associated with previous loan issuances are amortized in the year in which a refinancing occurs.

Property and equipment

Property and equipment are stated at cost. Donated property and equipment are recorded at estimated fair value at the date of receipt. The building and improvements are being depreciated on a straight-line basis over 20-40 years. Depreciation of furniture and equipment is computed on the straight-line basis over the estimated useful life of the assets, generally 3-10 years.

Maintenance expenses and all costs for new productions, including sets, costumes, and choreography, are charged to operating expense as incurred or in the year of initial performance with the exception of costs associated with full-length works. Full-length works are capitalized and depreciated on a straight-line basis within the property fund over the first two years the new works are presented. The Ballet's production of Nutcracker, including the costs for sets, costumes, staging, and choreography, completed in 2005 and updated in 2007, was depreciated on a straight-line basis over 15 years beginning in 2005 and ending in 2019.

Endowment investments

Endowment investments consist of fixed income investments, mutual fund investments, alternative investments, real estate, and cash and cash equivalent balances restricted by donors or designated by the Association's Board of Trustees for long-term investment. Investments in fixed income investments and mutual fund investments are stated at estimated fair value. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price). Other investments, such as alternative investments, are also recorded at estimated fair value. The fair values of alternative investments have been estimated using the net asset value per share of the investment. Investments in real estate partnerships are based primarily on third-party appraisals of the underlying real estate. Gains or losses that result from market fluctuations are recognized in the period such fluctuations occur. Dividend and interest income are recognized when earned.

Deferred compensation and postretirement benefit obligations

The Ballet's deferred compensation and postretirement benefit obligation arises from an individual contract with provisions for postretirement health benefits and salary continuance. In determining the fair value of the salary continuance, the Ballet considers the present value of expected future cash commitments. In determining the fair value of the postretirement health benefits, the Ballet considers the Pri-2012 Combined Healthy Mortality Table projected generationally with Scale MP-2020, makes assumptions about future increases in health care premiums, and employs a discount rate based on the FTSE Russell Pension Liability Index Interest rate yield curve. Due to uncertainties inherent in the estimation process, it is possible that future events in either the near or long term could materially affect the amounts reported in the consolidated statement of financial position.

Deferred performance and school revenue

Deferred performance and school revenue as of June 30, 2021, primarily consists of advance ticket sales of $6,323 for performances scheduled in the Ballet's 2022 repertory season, which opens in January 2022, as well as advance tuition payments of $716 for school classes to be conducted in the year ending June 30, 2022. As of June 30, 2020, these two categories were $4,885 and $59, respectively.

Derivative instruments

Derivative financial instruments are used by the Ballet on a limited basis to manage interest rate risk associated with its tax-exempt loans. Derivative financial instruments, which for the Ballet consist of one interest rate swap agreement discussed further in Note 7, are recorded at their fair market value in the liabilities section in the accompanying consolidated statement of financial position. Changes in the underlying value of derivative financial instruments are recorded in net realized and unrealized loss on interest rate swap agreement in the accompanying consolidated statement of activities and changes in net assets. The Ballet does not enter into derivative contracts for the purpose of speculation.

Net assets without donor restrictions

Net assets without donor restrictions are available to support all activities of the Ballet and are not subject to donor-imposed stipulations and consist of net investment in property and equipment purchased or constructed. Assets and/or liabilities related to loan financing and derivative agreements are also included in this net asset category. Depreciation, interest, and facilities related expenses associated with these purchases are allocated to both program and support services using the Ballet's functional expense allocation methodology as disclosed below.

Net assets with donor restrictions

Net assets with donor restrictions represent contributions whose use is limited by donor-imposed stipulations that require the gift to be invested in perpetuity. The income from such invested assets, including realized and unrealized gains, is generally available to support the activities of the Ballet. Donors may also restrict all or part of the income and/or appreciation from these investments to donor restricted net assets, resulting in increases/decreases to these net assets.

Revenue recognition

Effective as of July 1, 2020, The Ballet adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* The core principle of the guidance is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Ballet's adoption did not impact the pattern of revenue recognition but did result in additional disclosure.

The Ballet recognizes ticket sales revenue throughout the performance season for which the tickets are sold. Payments received for future performances, such as ticket subscriptions, are deferred until the performance occurs.

Revenue from student tuition, housing, and fees is recognized during the year in which the related services are provided to students. Payment for tuition and housing is required before the start of the school year. All amounts received prior to the commencement of the academic year, including enrollment deposits, are deferred to the applicable period.

Other income includes revenue generated from the CARES Act Employee Retention Credits and facility fees, which are recognized as revenue as costs are incurred on the seat replacement project at the War Memorial Opera House.

Special events revenue equal to the fair value of direct benefits to donors and contribution income for the excess received is recorded when the event takes place.

All contributions are recognized as revenue when received or unconditionally promised to the Ballet. The Ballet classifies gifts of cash and other assets as donor-restricted support if received with donor stipulations that limit the use of the contributions. When such restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, assets are reclassified to net assets without donor restriction and reported as net assets released from restrictions. Conditional promises to give, those with measurable performance or other barrier and a right of return, are not recognized as revenue until the conditions are substantially met. Investments received as gifts are initially recorded at estimated fair value at the date of donation. The Ballet's irrevocable interest in split-interest agreements is recognized as revenue at the time such agreements are made known to the Ballet.

Contribution of services

Contributions of services are recognized when received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. During the year ended June 30, 2021, the value of contributed services recognized as revenue and expense in the accompanying consolidated financial statements was $333 and consisted primarily of $185 in donated legal services and $42 for special events and other activities. In addition, a substantial number of volunteers have donated significant amounts of time in the Ballet's program services and fundraising activities through participation in the Auxiliary, Encore!, Allegro Circle, and BRAVO (Ballet Resource and Volunteer Organization). The value of donated volunteer services has not been recognized in the accompanying consolidated financial statements because such volunteer services do not meet the criteria described above.

Functional expense allocations

Expenses applicable to more than one activity, such as facilities, interest, warehouse-related depreciation, and occupancy costs including supplies, travel, and personnel, are allocated based on square footage and thus allocated between program and support services, license, permits, and fees include credit card fees and music rentals and royalties. Miscellaneous expense includes insurance, delivery services, dues and subscriptions, t-shirts for the students, and immigration services. Production expense reflects choreographer fees, travel and housing, costume construction and rental, and trucking costs.

Estimated fair value of financial instruments

The Ballet's financial instruments include cash, cash equivalents, investments, split-interest agreements, real estate, and a swap agreement. For cash and cash equivalents, the carrying amounts approximate fair value because of the short maturity of these items. The swap agreement is reflected at its estimated fair value using the methodology described in Note 7. Investments are reflected as estimated fair value as described below.

A fair value hierarchy has been established which prioritizes and ranks the level of market price observability used in measuring fair value. Market price observability is impacted by a number of factors, including the type of instrument, the characteristics specific to the instrument, and the state of the marketplace (including the existence and transparency of transactions between market participants). Instruments with readily available actively quoted prices, or for which fair value can be measured from actively quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

Level 1 - Quoted prices are available in active markets for identical instruments as of the reporting date. The types of instruments which would generally be included in Level 1 include listed equity securities and fixed income mutual funds. The Ballet, to the extent that it holds such instruments, does not adjust the quoted price for these instruments, even in situations where the Ballet holds a large position, and a sale could reasonably impact the quoted price.

Level 2 - Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices in active markets as in Level 1. Fair value is determined through observable trading activity reported at net asset value ("NAV") or through the use of models or other valuation methodologies. The types of instruments which would generally be included in this category include unlisted derivative financial instruments and alternative investments for which an exit price has been observed.

Level 3 - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant judgment or estimation by the Ballet. The types of instruments which would generally be included in this category include split-interest agreements, real estate, and limited partnerships with designated investments, lock-up periods or gates extending more than three months beyond the consolidated statement of financial position date.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement. The Ballet's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the instrument.

Investments in alternative investments (primarily partnerships and limited liability companies) that do not have readily available market values are stated at fair value as reported by the general partner and as assessed for reasonableness by Ballet management. The Ballet's interest in alternative investments is measured at NAV.

See Note 3 for fair value measurement disclosures.

Concentrations of credit risk

Financial instruments that potentially subject the Ballet to credit risk consist primarily of cash, cash equivalents, accounts and pledges receivable, and endowment investments. The Ballet maintains cash and cash equivalents with major financial institutions. During the year ended June 30, 2021, such amounts have exceeded Federal Deposit Insurance Corporation limits. The Ballet's endowment investments have been placed with a major custodian, First Republic Trust Company. The Ballet closely monitors these endowment investments and its accounts and pledges receivable and has not experienced significant credit losses. As of June 30, 2021, the following endowment investments equal or exceed 5% of the fair market value of total endowment investments:

Equity – Sands Global	11%
Generation IM Global Equity Fund	10%
Dodge & Cox Income Fund	7%
Durable Capital Offshore Fund Ltd	7%
Dreyfus US Govt Prime Cash Mgt	6%
Abrams Capital Partners II, L.P. Fund	6%
Cevian Capital	5%
Steadfast International Ltd	5%

Income tax status

The Ballet follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to consolidated financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the consolidated financial statements if the position is "more likely than not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

(In thousands of dollars)

The Association and the Foundation are exempt from federal income tax under IRC Section 501(c)(3) of the IRC, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the IRC. The Association and the Foundation are also exempt from California franchise taxes under Revenue and Taxation Code Section 23701d on its income other than unrelated business income. The Ballet has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. The Ballet has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. There were no tax penalties or interest classified as tax expense for the year ended June 30, 2021.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. As disclosed above, estimates are used for, but not limited to, accounts and pledges receivable valuation, split-interest agreement receivables and liabilities valuation, depreciable lives of property and equipment, fair value of endowment investments, postretirement benefits liabilities, and fair value of the loan and swap agreements and the related credit valuation adjustments. Actual results could differ from those estimates.

New accounting pronouncements

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases (Topic 842).* The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their statement of financial position for all leases with lease terms longer than 12 months. The amendments in the update are effective for fiscal years beginning after December 15, 2021, with early application permitted. The Ballet is currently evaluating the impact of this pronouncement on its consolidated financial statements.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2021, are due as follows:

2022	$	1,850
2023		100
Total pledges receivable		1,950
Less allowance for doubtful pledges receivable		(73)
Less discount for amounts expected to be collected after June 30, 2020		(56)
Pledges receivable, net	$	1,821

At June 30, 2021, pledges receivable included pledges of $1,228 from members of the Association's Board of Trustees and the Foundation's Board of Directors (see Note 15).

(In thousands of dollars)

NOTE 3 – FAIR VALUE MEASUREMENTS

As of June 30, 2021, the Ballet's investments are classified by levels within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Assets held for and in split-interest agreements:				
Mutual funds	$ 1,732	$ -	$ -	$ 1,732
Beneficial interest in charitable remainder trusts	-	-	618	618
Total assets held for and in from split interest agreements, net	1,732	-	618	2,350
Other investments:				
Money market funds	89	-	-	89
Mutual funds				
Fixed income - government	259	-	-	259
Fixed income - other	278	-	-	278
Cash in transit	-	-	-	-
Total other investments	626	-	-	626
Endowment investments:				
Money market funds	19,114	-	-	19,114
Fixed income securities				
US Government agencies	272	509	-	781
Governments bonds and notes	-	1,719	-	1,719
Corporate bonds	2,810	10	-	2,820
Foreign income securities	-	61	-	61
Mutual funds				
Fixed income	15,163	-	-	15,163
Equity-US	7,806	-	-	7,806
Equity-global	15,512	-	-	15,512
Subtotal investments	60,677	2,299	-	62,976
Alternative investments				
Real estate partnership interest	-	-	4,996	4,996
Valued at NAV				
Credit strategies	-	-	-	6,232
Event-driven hedge fund	-	-	-	8,495
Multi-strategy hedge fund	-	-	-	3,233
Domestic equities				9,575
Long-biased hedge fund	-	-	-	41,951
Subtotal	-	-	4,996	74,482
Total endowment investments				137,458
Total assets				$ 140,434
Total liability				
Interest rate swap	$	$ 6,749	$	$ 6,749
Total liability	$ -	$ 6,749	$ -	$ 6,749

(In thousands of dollars)

The following schedules discusses the nature and risks of alternative investments, which calculate NAV per share or its equivalent and whether those investments are probable of being sold at amounts different from NAV per share:

	Fair value	Redemption period	Redemption notice period
Multi-strategy[a]	$ 3,230	Quarterly	60 days
Multi-strategy[b]	3	Anniversary annually	65 days
Special situations[c]	8,495	Annually	90 days
Real estate [d]	4,996	n/a	n/a
Long-only/long-biased [e]	4,123	Annually	90 days
Long-only/long-biased [f]	7,121	Annually	90 days
Long-biased [g]	5,551	Annually	120 days
Long-only/long-biased [h]	5,193	Monthly	30 days
Long-only/long-biased [i]	13,750	Quarterly	30 days
Credit strategies [j]	6,232	n/a	n/a
Long-only/long-biased [k]	6,213	Anniversary 3 Yr/Qtr	60 days
Domestic equities [l]	9,575	Annually/Anniv	90 days/150 days
Total	$ 74,482		

[a] This is an investment in a hedge fund that seeks to generate stable, predictable returns with a low correlation to the broader debt and equity markets. The fund attempts to capitalize on perceived market inefficiencies surrounding areas like complex capital structures, businesses in transition or orphaned equities by calculating intrinsic value according to three fundamental criteria: creditworthiness, value creation and optionality. The fund will pursue this value investment strategy in primarily domestic situations in distressed debt, bank loans, high-yield bonds, direct investment, turnaround equities, convertible arbitrage, and risk arbitrage. The fair value of the investment in this category has been estimated using the net asset value per share of the investments. The fund does not have a lock-up period. The fund has a 100% side-pocket allowance and a 25% gate restriction on available capital. Redemption requires a 60-day notification.

[b] This is an investment in a hedge fund that employs a multi-strategy approach to capture perceived inefficiencies in public and private market situations. The fund’s focus is on event-oriented investing, credit/distress debt, capital structure arbitrage and equity derivatives. The fair value of the investment in this category has been estimated using the NAV per share of the investments. Additionally, the fund manager may impose a gate restriction on redemption at their discretion which, could limit the Ballet’s ability to liquidate its full investment in the fund. On March 23, 2017, the investment manager decided to return capital to shareholders and wind down operations. The fund has currently returned approximately 99% of total year-end capital.

[c] This is an investment in a hedge fund that seeks to invest in equities perceived to be undervalued, event-driven securities and distressed securities. The strategy is value driven and pursues opportunities in inefficient markets where estimated intrinsic value exceeds the market price of the securities. The fair value of the investment has been estimated using the NAV per share of the investments. The fund has a 25% side pocket allowance, but no gate restrictions. Redemption requires a 90-day notification.

[d] This class includes a restricted interest in a limited partnership. The underlying asset of the partnership is the fair value of the retail building located on 250 Post Street in the city of San Francisco. The building

is approximately 33,000 square feet and was appraised at $59,000 in August of 2020. The appraisal report reflected the effects of COVID-19 restrictions and had a significant impact on the value, reducing it by $27,000 from $86,000. The Partnership refinanced the mortgage obligation in December 2018 and the balance is $2,198 at June 30, 2021. San Francisco Ballet's interest is approximately 8.8% with fair market value of $4,996 at June 30, 2021. The Ballet has concluded that its interest remains fairly valued.

(e) This is an investment in a long-biased hedge fund that seeks to invest in domestic U.S. equities. It has an activist-oriented investment strategy based on small- and mid-cap companies perceived to be undervalued. The fair value of the investment in this category has been estimated using the NAV per share of the investments. The investment has a three-year lock-up period expiring December 2022 for $2,667 of the Ballet's investment. The fund has a 10% side pocket allowance but no gate restrictions and redemption requires 90-day notification.

(f) This is an investment in a hedge fund that seeks significant appreciation by investing in companies perceived to be undervalued. Their strategy is long-biased, focusing on equities in Northern Europe. They constructively work with management teams and identify situations that have the potential to double in value over a three-year period. The fair value of the investment in this category has been estimated using the NAV per share of the investments. The investment has a rolling three-year lock-up period, which expires December 2021 to June 2023, depending on Tranche. The fund has a 40% side-pocket allowance and a 50% fund-level gate restriction based on available capital.

(g) This pooled vehicle is long-biased and invests in equity, absolute return, and hybrid strategies that invest across the globe. The fair value of the investment in this category has been estimated using the NAV per share of the investments. The investment has a three-year lock-up period that expired on May 31, 2017. The fund has a no gate- or side-pocket restrictions

(h) This is an investment in a hedge fund that is long-only and seeks to invest in undervalued emerging market equities. Investments are generally made in companies with market caps greater than $5,000. The fund holds its positions for an average of four to five years and seeks a minimum of 50% upside over two to three years. The fair value of the investment in this category has been estimated using the NAV per share of the investments. The fund has a no gate- or side-pocket restrictions. Redemption requires a 30-day notification.

(i) This is an investment in a hedge fund that is long-only and seeks to integrate sustainability research with rigorous fundamental equity analysis. This fund specifically seeks investments in companies with management teams who recognize that economic, social, environmental, and political issues can affect business opportunities and risks. The fair value of the investment in this category has been estimated using the NAV per share of the investments. The investment has a lock-up period, which expired December 31, 2019 for $1,000 of the Ballet's investment. The fund has a 25% fund-level gate restriction based on available capital and no side-pocket allowance. Redemption requires 30-day notice is an investment in a hedge fund that is long-only and seeks to invest in undervalued emerging market equities. Investments are generally made in companies with market caps greater than $5,000. The fund holds its positions for an average of four to five years and seeks a minimum of 50% upside over two to three years. The fair value of the investment in this category has been estimated using the NAV per share of the investments. The fund has a 25% gate restriction and no side-pocket restriction. Redemption requires a 30-day notification.

(j) This investment primarily invests in the most subordinated tranches of commercial mortgage-backed securitizations. The fund plans to hold its investments for a long duration. The investment term of the fund is 12 years, subject to two consecutive one-year extensions. The fund has no gate- or side-pocket restrictions.

(k) This investment is a hedge fund that focuses primarily on equities and derivatives of publicly traded companies in a number of industry sectors. These investments are not confined to any particular industry or asset class. The fund has investments for both long and short durations but with a bias toward long investments. The investment has a three-year lock-up period that expires on September 30, 2022. Redemption requires a 60-day notification.

(In thousands of dollars)

(l) This investment primarily invests in small companies, focusing on both early stage and durable growth across private and public markets. The investment has a one-year lock-up period for Tranche A, and a rolling 3-years for Tranche B that expire on June 30, 2021, and October 31, 2022, respectively. Redemption requires a 90-day notification for Tranche A, and 150 days for Tranche B.

The quantitative information about significant unobservable inputs related to Level 3 alternative investments in real estate used at June 30, 2021, is as follows:

	Fair value	Valuation techniques	Unobservable inputs	Assumptions
Commercial real estate	$ 4,996	Income capitalization	Terminal cap rate Rent growth rate	5.25% 3.00%

NOTE 4 – PROPERTY AND EQUIPMENT

The Ballet's property and equipment as of June 30, 2021 is as follows:

	2021	2020
Land	$ 4,519	$ 4,519
Leasehold improvements and property under capital leases	220	34
Buildings and improvements	35,179	34,649
Furniture and equipment	8,420	8,409
Capitalized sets and costumes	16,230	16,230
Construction in progress	1,311	696
Total property and equipment	65,879	64,537
Accumulated depreciation	(46,752)	(45,323)
Property and equipment, net	$ 19,127	$ 19,214

NOTE 5 – CREDIT FACILITIES

The Ballet has a line of credit with First Republic Bank of $5,500, which together with an outstanding undrawn standby letter of credit of $2,350 to support its workers' compensation insurance policies (see Note 9), is secured by certain investment securities in the Foundation's portfolio and are subject to a collective limit of 90% of the market value of those securities. At June 30, 2021, that limit would not have further constrained the Ballet's secured line of credit limit. Interest on the secured line of credit is charged at the greater of the prime rate minus 0.25% or 4% at June 30, 2021. The Ballet had $2,975 outstanding under the secured line of credit as of June 30, 2021, which was repaid in September 2021. The secured line of credit expires on November 30, 2021 and will automatically renew for a one-year period on that date subject to the approval of the bank.

(In thousands of dollars)

NOTE 6 – LOANS PAYABLE

On April 15, 2020, the Ballet received a Small Business Administration loan through the Paycheck Protection Program in the amount of $7,321, which was used primarily for payroll but also covered mortgage interest, rent, and utility costs incurred and paid during the covered period through August 13, 2020. This SBA loan carries a fixed interest rate of 1% and both principal and interest must be paid in 18 equal installments beginning November 15, 2020. The Ballet is currently awaiting the loan forgiveness application approval. On June 8, 2021, the Ballet received another loan through the Paycheck Protection Program in the amount of $2,000, for which the Ballet plans to prepare the loan forgiveness application as well.

On June 6, 2013, the Ballet borrowed $44,510 in four tax-exempt series: $12,000 California Infrastructure and Economic Development Bank ("CIEDB") Revenue Loans Series 2013A (San Francisco Ballet Association), $11,000 each in CIEDB Variable Rate Revenue Loans Series 2013B and 2013C (San Francisco Ballet Association), and $10,510 CIEDB Revenue Loans Series 2013D (San Francisco Ballet Association) (collectively, $44,510 and the "Series 2013 Loan"). First Republic Bank entered into an Assignment Agreement with CIEDB, whereby the First Republic Bank agreed to purchase CIEDB's rights in connection with the issuance of the Series 2013 Loans. The Ballet and First Republic Bank entered into a Master Loan Agreement governing the private placement.

Proceeds from the Series 2013 Loans were used to refinance the Ballet's existing indebtedness (the Series 2010 and Series 2008 Bonds) and to fund costs of issuance of the Series 2013 Loans. In connection with the Series 2013 Loans, the Ballet has agreed that it will not obtain additional financing in excess of $250 from any lender other than First Republic Bank.

The Ballet's tax-exempt debt was originally issued for the renovation of the Ballet's headquarters building, the purchase and renovation of a warehouse and a student residence, certain technology hardware upgrades, construction of ballet sets and costumes, new theatrical equipment, the payment of interest and fees, and certain loan issuances costs.

The interest rate on the Series 2013A Loans is fixed at 2.95%. The interest rates on the Series 2013B, 2013C, and 2013D loans reset at a LIBOR-based floating rate plus a spread.

All four series had interest-only payments through and including the payment due on June 1, 2016, at which time payments due include both interest and payable.

The following is a summary of each series outstanding as of June 30, 2021:

Issue name	Amount issued	Final maturity	Interest rate	Amount outstanding
Series 2013A	$ 12,000	August 1, 2038	2.95%	$ 10,006
Series 2013B	11,000	August 1, 2038	1.43%	8,519
Series 2013C	11,000	August 1, 2038	1.43%	8,519
Series 2013D	10,510	August 1, 2038	1.43%	8,141
Total	$ 44,510			35,185
Loan issuance costs, net				(315)
Total loans payable, net				$ 34,870

Series 2013 Loans are secured by a continuing security interest in the Association's right, title, and interest in personal property as defined in the Security Agreement with CIEDB, and are guaranteed by the

(In thousands of dollars)

Foundation, as defined in the Guaranty Agreement between the Foundation, First Republic Bank and CIEDB.

As guarantor, the Foundation guarantees the due and punctual payment of any and all amounts due pursuant to the Master Loan Agreement relating to the Series 2013 Loans among First Republic Bank, CIEDB and the Ballet.

Interest payments are payable and due on the first of each month. Interest expense related to loans payable for the year ended June 30, 2021, was approximately $668. In connection with the Master Loan Agreement with First Republic Bank for the Series 2013 Loans, the Ballet was required to be and was in compliance with certain financial covenants as of June 30, 2021.

Principal amounts are due as follows:

	Series				
	2013A	2013B	2013C	2013D	Total
2022	454	496	496	474	1,920
2023	467	496	496	474	1,933
2024	480	496	496	474	1,946
2025	496	496	496	474	1,962
2026	511	496	496	474	1,977
Thereafter	7,602	6,038	6,038	5,769	25,447
	$ 10,010	$ 8,518	$ 8,518	$ 8,139	$ 35,185

NOTE 7 – INTEREST RATE SWAP AGREEMENT

The Ballet utilizes an interest rate swap agreement to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under the terms of the agreement, the Ballet pays a fixed rate of 3.92% to the swap counterparty in exchange for a variable rate of 68.50% of 1-month LIBOR on the notional amount. The swap agreement does not qualify as a cash flow hedge, and as a result, changes in the fair value of the interest rate swap agreement during a period are recognized immediately in changes in net assets without donor restrictions. The fair value of the interest rate swap agreement is based on quotes from the market makers and, therefore, is classified as Level 2 in the fair value hierarchy as shown in Note 3.

The fair value of the swap agreement is estimated based on mid-market rates and industry standard valuation models. A credit risk spread (in basis points) is added as a flat spread to the discount curve used in the valuation model. Each leg is discounted and the difference between the present value of each leg's cash flows equals the market value of the swap. The fair value also considers the risk of each counterparty by including a "credit valuation adjustment" determined by taking into account the nonperformance risk of each counterparty to the swap. The estimated fair value of the swap agreement was $6,749 as of June 30, 2021, including a credit valuation adjustment of $69, which reduced the Ballet's liability, and is included in the interest rate swap liability in the accompanying consolidated statement of financial position. Payments made to the counterparty of the swap agreement for interest were $849 during the year ended June 30, 2021. The swap agreement contains certain collateral requirements based on the credit rating of the Ballet and the current fair market value of the swap agreement. During the year ended June 30, 2021, the collateral requirement on the swap agreement decreased by $2,000 resulting in $6,007 posted as of June 30, 2021 and is included in restricted cash in the accompanying consolidated statement of financial position.

(In thousands of dollars)

The following table shows the outstanding notional amount of derivative instruments measured at fair value as reported in the consolidated statement of financial position as of June 30, 2021:

	Statement of financial position location	Maturity date of derivative	Notional fixed rate	Amount outstanding	Fair value
Interest rate swap	Liability under interest rate swap agreement	July 1, 2036	3.92%	$ 22,000	$ 6,749

Amounts reflected in the change in value of the interest rate swap agreement for the year ended June 30, 2021, was as follows:

Statement of activities and changes in net assets location	Realized and unrealized gain
Non-operating:	
Net realized and unrealized gain on interest rate swap agreements	$ 1,332

NOTE 8 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Ballet's financial assets available within one year of the consolidated statement of financial position date for general expenditures were as follows:

Financial assets	
Cash, cash equivalents, and restricted cash	$ 12,141
Accounts receivable	3,401
Pledges receivable, net	1,821
Other investments	626
Other assets	696
Endowment investments	137,458
Total financial assets available within one year	156,143
Less:	
Defined benefit plan asset	(684)
Restricted cash	(6,007)
Investments not convertible to cash within next 12 months (not otherwise included below)	(6,232)
Financial assets with donor restrictions	(94,877)
Total financial assets available within one year	$ 48,343

The Ballet manages cash to align with typical seasonality of performance expense, ticket sales, and contributed revenue, and to consider specific needs and uses. The Ballet also maintains a $3,000 line of credit which it used in March 2021 and repaid in September 2021.

In addition to maintaining liquidity to meet operational requirements, the Ballet must also meet its debt covenants that require it to maintain liquid assets equal to or greater than $25,000 so long as the outstanding principal balance on the loans is greater than $25,000, or 50% of the then-outstanding principal balance of the loans, once the outstanding principal balance on the loans is $25,000 or less. The Ballet meets this covenant with unrestricted assets held in its Endowment, as well as cash and cash equivalents within the Association's accounts. As of June 30, 2021, the Ballet had $23,343 more than the required coverage in terms of unrestricted Endowment assets and Association cash.

(In thousands of dollars)

NOTE 9 – WORKERS' COMPENSATION

The Ballet's workers' compensation insurance policies include self-insured retention limits and fully insured coverage above such limits. Accruals for claims under the Ballet's self-insured retention limits are recorded on a claim-incurred basis. The estimated liability for workers' compensation claims incurred but unpaid as of June 30, 2021, of $1,762 is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. As of June 30, 2021, the Ballet had unused letters of credit totaling $2,350 as required by the Ballet's insurance carriers.

NOTE 10 – POSTRETIREMENT AND HEALTH AND WELFARE PLANS

The Ballet has a defined contribution retirement plan that covers all eligible nonunion employees and includes a 401(k) component.

Substantially all theatrical employees are covered under collective bargaining agreements that require payments to multi-employer pension, health, and welfare plans. Contributions to these plans approximated $1,370 for the year ended June 30, 2021.

The Ballet has an agreement with a key employee to provide postretirement salary continuance and employee and spousal health benefits for a fixed period of time dependent on the number of years served under the agreement and on the absence of certain types of postretirement employment and benefits available to the employee. The fair value of the salary continuance of $1,188 has been calculated based on the net present value of the expected payments. The total present value as of June 30, 2021, of the future health benefits, or the expected postretirement benefit obligation for health, was approximately $228. This amount is equal to the accumulated postretirement benefit obligation of the future health benefits, as of June 30, 2021. The gain for the year ended June 30, 2021, affecting future health benefits was $3. Salary and benefit continuance are included in the liability on the consolidated statement of financial position.

The following table sets forth the health benefits agreement's obligations, fair value of plan assets, and status as of June 30, 2021, which liability is included in the consolidated statement of financial position.

	2021	2020
Benefit obligation	$ 228	$ 229
Unfunded status - end of year	$ 228	$ 229

Amounts recognized for health benefits in net assets without donor restrictions consist of unrecognized prior service costs of $228 as of June 30, 2021. The periodic net benefit gain for the year ended June 30, 2021, was $3. The weighted-average assumption used to determine benefit obligations as of June 30, 2021, was 1.96%.

(In thousands of dollars)

Assumed health care trend rates have significant effect on the amounts reported for health care premiums. A 1% change in assumed health care cost trend rates would have the following effects:

	1% increase	1% decrease
Effect of health care component on:		
Accumulated postretirement benefit obligation	$ 12	$ (11)
Service cost and interest cost for fiscal year 2021	-	-
Total	$ 12	$ (11)

For measurement purposes, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended June 30, 2021. This annual rate is based on market conditions for similar benefits and was assumed to decrease gradually to 4.5% through the year ending June 30, 2021 and remain at that level thereafter.

No benefits are expected to be paid from the postretirement benefit plan in the year ended June 30, 2022. The aggregate benefits expected to be paid in the five years from 2021 to 2025 are approximately $162. The expected benefits are based on the same assumptions used to measure the Ballet's benefit obligation as of June 30, 2021 and include future employee service.

The Ballet also has a voluntary salary deferral plan for highly compensated employees under IRC Section 457(b). Eligible employees may elect to contribute to the plan and the Ballet may make qualified non-elective discretionary contributions. Matching contributions were made during the year ended June 30, 2021.

Multi-employer pension plans

The Ballet contributes to several multi-employer defined benefit pension plans under the terms of collective bargaining agreements that cover certain union-represented employees. The Ballet's collective bargaining agreements do not require that a minimum contribution be made to these plans. For the year ended June 30, 2021, the Ballet contributed to multiple union trusts and charged to expense $444.

The risks of participating in multi-employer pension plans are different from single employer pension plans in the following aspects:

a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; and

b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

If the Ballet stops participating in its multi-employer pension plan, the Ballet may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

(In thousands of dollars)

The Ballet's participation in these plans for the year ended June 30, 2021, is outlined in the table below. All information in the table is as of June 30, 2021. The EIN-PN column provides the Employer Identification Number ("EIN") and the Plan Number ("PN"). The Pension Protection Act ("PPA") zone status is based on information that the Ballet received from the plan. Among other factors, generally, plans in critical status ("red") are less than 65% funded, and plans at least 80% funded are said to be in the "green zone". The "FIP/RP status pending/implemented" column indicates plans for which a funding improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented by the trustees of each plan. Information related to the impact of utilization of extended amortization periods on zone status is either not available or not obtainable without undue cost and effort.

Pension fund	**EIN — PN**	**Expiration Date**	**Pension Protection Act Zone Status**	Are the Company's Contributions more than 5% of Total Plan Contributions as of Plan year-Per Form 5500	**Pending/ Implemented**	**Plan's Year End**	**Ballet Contribution as of Plan Year End**	**Surcharge on Plan?**	Total Plan Contributions	5% contributions? Calculated per FE - use Form 5500
The AGMA Retirement Plan	13-3826401- Plan No. 001	6/30/2021	Green	Yes	N/A	8/31/2020	$ 325	No	$ 3,702	9%
American Federation of Musicians and Employer's Pension Fund and Subsidiary	51-6120204 - Plan No. 001	11/30/2022	Red	No	Implemented	3/31/2020	363	Yes	74,976	0%
I.A.T.S.E. Local 16 Pension Plan	94-6296420 - Plan No. 001	6/30/2020	Green	No	N/A	12/31/2019	148	No	12,992	1%
I.A.T.S.E. Local 16 Pension Plan	94-6296420 - Plan No. 001	6/30/2021	Green	No	N/A	12/31/2019	2	No	12,992	0%
I.A.T.S.E. National Pension Fund	13-1849172 - Plan No. 001	7/31/2020	Green	No	N/A	12/31/2019	47	No	35,173	0%
I.A.T.S.E. National Pension Fund	13-1849172 - Plan No. 001	8/31/2022	Green	No	N/A	12/31/2019	14	No	35,173	0%

NOTE 11 – ENDOWMENT

The Ballet's endowment consists of over 200 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Endowment Foundation Board of trustees (Board) to function as endowments or Board-designated endowment funds.

The endowment consists of the following components: (a) perpetual endowment, which represent the historic dollar value of contributions restricted by donors for permanent investment; (b) earnings on perpetual endowments that are also restricted in perpetuity; (c) time or purpose-restricted investments whose earnings have been restricted by donors for specific purposes or have not yet been appropriated for expenditure by the Board; and (d) endowment investments, which represent funds directed for investment in the endowment by the Board, and the expenses associated with raising and managing the endowment funds. The Ballet's endowment investments represent the Ballet's complete endowment fund. Pledge receivables and trust receivables are excluded from the Ballet's endowment until received.

The Ballet has interpreted Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Ballet classifies as perpetual endowment: (a) the original value of gifts donated to the perpetual endowment; (b) the original value of subsequent gifts to the perpetual endowment; and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund that is not classified in perpetual endowment is classified as time or purpose-restricted net assets until those amounts are appropriated for expenditure by the Ballet in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Ballet considers the following factors in deciding to appropriate or accumulate endowment funds:

a) The duration and preservation of the fund
b) The purposes of the Ballet and the donor-restricted portion of the endowment fund
c) General economic conditions
d) The possible effect of inflation and deflation
e) The expected total return from income and appreciation of investments
f) Other resources of the Ballet
g) The investment policies of the fund

Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Certain Board-designated endowment funds have donor restrictions on the appropriation of the earnings generated by the fund. The principal of such gifts is considered Board designated and the accumulated earnings are considered donor restricted.

Endowment net asset composition by type of fund as of June 30, 2021, consists of the following:

	Total
Donor-restricted endowment funds (net of underwater position of ($520)	$ 79,653
Accumulated appreciation	15,224
Total funds	$ 94,877

(In thousands of dollars)

While the Board does not designate endowment net assets, the Board-designated endowment assets as of June 30, 2021, is $42,581 (see table below).

Changes in endowment by net asset class for the years ended June 30, 2021 and 2020 are as follows:

	2021		
	Without donor restrictions	With donor restrictions	Total
Endowment assets, beginning of year	$ 36,132	$ 77,793	$ 113,925
Investment return:			
Investment return - investment income	684	1,361	2,045
Net realized and unrealized appreciation	7,047	19,956	27,003
Total investment return	7,731	21,317	29,048
Additions and reclassifications to endowment funds from contributions and pledge payments	114	642	756
Transfers of Board-designated endowments	1,994	-	1,994
Appropriation of endowment assets for expenditure	(3,390)	(4,875)	(8,265)
	$ 42,581	$ 94,877	$ 137,458

	2020		
	Without donor restrictions	With donor restrictions	Total
Endowment assets, beginning of year	$ 43,788	$ 80,658	$ 124,446
Investment return:			
Investment return - investment income	1,012	2,151	3,163
Net realized and unrealized depreciation	(419)	(2,340)	(2,759)
Total investment return	593	(189)	404
Additions and reclassifications to endowment funds from contributions and pledge payments	(477)	977	500
Transfers of Board-designated endowments	(81)	-	(81)
Appropriation of endowment assets for expenditure	(7,691)	(3,653)	(11,344)
Endowment assets, end of year	$ 36,132	$ 77,793	$ 113,925

(In thousands of dollars)

From time to time, the fair value of assets associated with individual donor-endowment funds may fall below the value of the initial and subsequent donor gift amounts deficit. When donor endowment deficits exist, they are classified as a reduction of assets with donor restrictions. Deficits associated with funds functioning as endowments, when they exist, are likewise classified as a reduction of assets with donor restrictions. These deficits resulted from unfavorable market fluctuations and continued appropriation for certain programs and expenditures that were deemed prudent. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in assets with donor restrictions. Deficiencies of this nature are reflected in the consolidated financial statements and are as follows:

	2021	2020
Fair value of endowment funds in an underwater position	$ 5,271	$ 39,849
Historical gift value of endowment funds in an underwater position	5,791	43,941
Total underwater deficiency of endowment funds	$ (520)	$ (4,092)

Return objectives and risk parameters

The Ballet has adopted endowment investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Endowment assets include those assets of donor-restricted funds that the Ballet must hold in perpetuity or for a donor-specified period as well as the Board-designated fund. Endowment assets are invested in a manner that is intended to produce results that exceed the total return of a benchmark composed of 60% of the MSCI All Country World Index (“ACWI”), and 40% of the Barclays U.S. Aggregate Bond Index, while assuming a moderate level of investment risk. The Ballet expects its endowment funds, over a complete market cycle, to provide an average annual real rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving investment objectives

To achieve its long-term rate of return objectives, the Ballet relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Ballet targets a diversified asset allocation that places greater emphasis on investments in cash and fixed income, equities, real estate, and alternative investment strategies in a 15-40-10-35 percentage ratio, with discretion to make tactical adjustments to those ratios, to achieve its long-term objectives within prudent risk constraints.

Relationship of spending policy to investment objectives

The Ballet has a policy of appropriating for distribution each year up to a maximum of 5% of its endowment funds’ average fair value over the prior 12 quarters as of June 30, preceding the fiscal year in which the distribution is planned. In establishing this policy, the Ballet considered the expected return on its endowment. Accordingly, the Ballet expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to or greater than planned payouts, plus inflation over a complete market cycle. Additional real growth will be provided through new gifts and investment returns in excess of appropriations. Depending upon market conditions and the needs and available resources of the Association, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment.

(In thousands of dollars)

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS AND NET ASSETS RELEASED FROM RESTRICTIONS

As of June 30, 2021, net assets with donor restrictions were available for the following purposes:

New Ballet production	$	2,469
Ballet school support		3,356
Accumulated appreciation of endowment funds not underwater		6,995
Resources for property and equipment		568
Passage of time, including unpaid pledges		1,456
Touring		1,242
Special Events		153
Education and outreach		829
Perpetual endowment		79,653
Split interest agreements		1,981
Miscellaneous		315
Total net assets with donor restrictions	$	99,017

Net assets released during the year ended June 30, 2021 were as follows:

For use in ensuing fiscal years/due to expiration of time	$	109
Property and equipment		38
Accumulated appreciation of endowment funds (time restricted portion) appropriated for expenditure		1,703
New ballet production		1,145
Touring		59
Ballet school support		680
Education and outreach		254
Artistic and production		32
Total releases	$	4,020

NOTE 13 – LEASE COMMITMENTS

The Ballet rents performance space, office space, office equipment, student housing, and event venues under various operating leases. During FY20, the Ballet School entered into an agreement with San Francisco Conservatory of Music (“SFCM”) to provide year-round housing for Ballet School students in SFCM's new Ute and William K. Bowes, Jr. Center for Performing Arts, effective September 1, 2020.

The following is a schedule of approximate future minimum rental payments required under the leases as of June 30, 2021, that have an initial noncancellable lease term in excess of one year:

(In thousands of dollars)

Year ending June 30,		
2022	$	1,029
2023		1,059
2024		1,091
2025		1,124
2026		1,157
Thereafter		5,413
Total	$	10,873

Rent expense from operating leases approximated $1,033 for the year ended June 30, 2021.

NOTE 14 – COLLECTIVE BARGAINING AGREEMENTS

Approximately 79% (581 employees) of the Ballet's employees are covered by collective bargaining agreements. Two agreements, Local 16 I.A.T.S.E and I.A.T.S.E Site Teachers, expired June 30, 2020; one agreement, Local 706 Wig/Make-up, expired July 31, 2020, and two agreements, AGMA and Local B-18, Box office and Ushers, expired June 30, 2021. These are currently undergoing negotiations. One agreement, Local 800, expires within 12 months of June 30, 2021.

NOTE 15 – RELATED PARTIES

As of June 30, 2021, undiscounted pledges receivable includes approximately $1,228 due from members of the Association's Board of Trustees and of the Foundation's Board of Directors.

A fixed income mutual fund managed by a member of the Association's Board of Trustees and the Foundation's Board of Directors' investment management company was valued at $5,443 as of June 30, 2021. A member of the Association's Board of Trustees is the Chairman and Founding Chief Executive Officer of the bank with which the Association has its operating accounts, credit facilities and loans payable, First Republic Bank, of the Foundation's investment custodian, First Republic Trust Company and of the Association's investment broker, First Republic Securities.

A member of the Foundation's Board of Directors sits on a committee of the investment manager, which oversees the fixed income investment strategy, monitoring implementation of that strategy, and overseeing the research process for two of the Ballet's mutual fund holdings. This member is also a partner and shareholder of an investment firm that manages one of the Ballet's global equity holdings. The collective value of the Ballet's investments in the mutual funds and global stock fund was $11,986 at June 30, 2021.

Of the value of contributed services recognized as revenues in the accompanying consolidated financial statements, $185 was received from related parties, primarily for legal services.

These transactions were subject to customary arrangements regarding fees and, for the limited partnership, allocation of investment gains.

NOTE 16 – CONTINGENCIES

The Ballet is periodically involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Ballet's financial position, or its changes in net assets.

NOTE 17 – SUBSEQUENT EVENTS

The Ballet evaluated subsequent events through October 26, 2021, the date on which the consolidated financial statements were issued.

Extension negotiations with AGMA and Local B18 (Ushers) are currently in progress.

On July 30, 2021, the Ballet received an $8,000 Shuttered Venue Operators Grant from the US Small Business Administration.

On August 24, 2021, the Ballet secured a new loan of $3,900 from First Republic Bank to pay off the existing tax-exempt bonds that were used to acquire and renovate the Jackson Street property.