Consolidated Financial Statements and Report of Independent Certified Public Accountants

San Francisco Ballet Association

June 30, 2020

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
San Francisco Ballet Endowment Foundation

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, 2020, 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.

Grant Thornton

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, 2020, 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 2019 summarized comparative information
We have previously audited the Ballet's 2019 consolidated financial statements, and expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 21, 2019. The summarized comparative information presented herein as of and for the year ended June 30, 2019 is derived from those consolidated financial statements.

Grant Thornton LLP

San Francisco, California
October 28, 2020

SAN FRANCISCO BALLET ASSOCIATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS OF JUNE 30, 2020
(With summarized financial information as of June 30, 2019)
(In thousands of dollars)

	June 30, 2020	June 30, 2019
ASSETS		
Cash and cash equivalents	$ 8,565	$ 8,883
Restricted cash	8,007	5,447
Accounts receivable	260	171
Prepaid expenses and deposits	1,359	1,429
Pledges receivable, net	2,184	2,724
Receivables from split-interest agreements, net	2,183	2,079
Other investments	624	586
Other assets	626	665
Property and equipment, net	19,214	20,204
Endowment investments	113,925	124,446
Total assets	$ 156,947	$ 166,634
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 7,094	$ 7,136
Paycheck protection program loan	7,321	-
Current portion loans payable	1,906	1,870
Deferred compensation and postretirement benefit obligation	2,101	1,916
Deferred performance and school revenue	5,357	7,094
Gift annuity payment liability	734	745
Interest rate swap liability	8,923	6,525
Non-current loans payable, net	34,852	36,753
Total liabilities	68,288	62,039
NET ASSETS:		
Without donor restrictions	8,053	20,645
With donor restrictions	80,606	83,950
Total net assets	88,659	104,595
TOTAL LIABILITIES AND NET ASSETS	$ 156,947	$ 166,634

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 (UNAUDITED)
FOR THE TWELVE MONTHS ENDED JUNE 30, 2020
(In thousands of dollars)

	For the twelve months ended June 30, 2020			
	Without donor restrictions	**With donor restrictions**	**Total**	**For the year ended June 30, 2019**
REVENUE AND SUPPORT:				
San Francisco performance	$ 13,518	$ -	$ 13,518	$ 22,080
Touring	354	-	354	652
School and student housing, net of scholarships	2,421	-	2,421	2,894
Other income	1,013	-	1,013	1,418
Contributions	17,569	637	18,206	19,729
Special events and other activities	4,265	88	4,353	4,884
Net assets released from donor restrictions	5,072	(5,072)	-	-
Total revenue and support	44,212	(4,347)	39,865	51,657
EXPENSES:				
Program services:				
Ballet production and touring	32,637	-	32,637	36,572
School and student housing	3,918	-	3,918	4,243
Education and outreach	862	-	862	791
Support Services:				
Marketing, publicity and audience development	4,960	-	4,960	6,088
General and administrative	5,612	-	5,612	6,560
Fundraising expenses	5,046	-	5,046	5,733
Total expenses	53,035	-	53,035	59,987
CHANGE IN NET ASSETS FROM OPERATIONS	(8,823)	(4,347)	(13,170)	(8,330)
NON-OPERATING:				
Endowment investment income (loss), net	(633)	1,003	370	5,869
Change in post-retirement benefit obligation	(126)	-	(126)	(408)
Net realized and unrealized (loss) on interest rate swap	(3,010)	-	(3,010)	(2,026)
DECREASE IN NET ASSETS	(12,592)	(3,344)	(15,936)	(4,895)
NET ASSETS - Beginning of Year	20,645	83,950	104,595	109,490
NET ASSETS - End of Year	$ 8,053	$ 80,606	$ 88,659	$ 104,595

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

SAN FRANCISCO BALLET ASSOCIATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (UNAUDITED)
FOR THE TWELVE MONTHS ENDED JUNE 30, 2020
(In thousands of dollars)

	Program Services						Support Services				FY20	FY19
	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 and benefits	$ 20,031	$ 246	$ 20,277	$ 1,834	$ 611	$ 22,722	$ 1,420	$ 2,481	$ 2,012	$ 5,913	$ 28,635	$ 29,669
Payroll taxes and benefits	6,656	72	6,728	369	116	7,213	268	393	384	1,045	8,258	8,174
	26,687	318	27,005	2,203	727	29,935	1,688	2,874	2,396	6,958	36,893	37,843
OTHER EXPENSES												
Advertising	-	-	-	24	-	24	1,293	1	29	1,323	1,347	1,685
Dance medical services	222	7	229	-	-	229	-	-	-	-	229	387
Depreciation and amortization	744	-	744	363	26	1,133	55	257	58	370	1,503	2,108
Events and cultivation	12	-	12	3	8	23	180	2	982	1,164	1,187	1,576
Information technology expense	-	-	-	13	-	13	148	431	29	608	621	729
In-kind expenses	20	-	20	-	-	20	292	70	661	1,023	1,043	1,431
Interest expense	488	-	488	315	25	828	57	191	60	308	1,136	1,434
License, permits and fees	610	4	614	104	2	720	7	463	73	543	1,263	1,503
Marketing and shop expenses - other	-	-	-	-	-	-	88	-	-	88	88	159
Miscellaneous expense	453	17	470	210	10	690	20	121	80	221	911	943
Occupancy	245	-	245	398	10	653	24	121	24	169	822	1,253
Other expense	-	-	-	-	-	-	555	-	-	555	555	751
Printed materials, postage and mailing	78	1	79	8	1	88	230	12	205	447	535	708
Production expense	1,401	362	1,763	24	3	1,790	-	-	8	8	1,798	2,794
Professional services	171	-	171	99	33	303	282	823	103	1,208	1,511	2,059
Receivable write-off	4	-	4	(1)	-	3	-	51	9	60	63	134
Scholarship expense	86	-	86	-	-	86	-	-	-	-	86	100
Shoes and tights	206	-	206	8	-	214	-	-	-	-	214	401
Taxes	5	-	5	4	-	9	-	(22)	1	(21)	(12)	95
Theater-space rental	178	-	178	-	-	178	10	-	150	160	338	433
Travel and entertainment	75	133	208	57	12	277	22	94	167	283	560	1,057
Utilities and telephone	110	-	110	86	5	201	9	123	11	143	344	404
	5,108	524	5,632	1,715	135	7,482	3,272	2,738	2,650	8,660	16,142	22,144
TOTAL EXPENSES	$ 31,795	$ 842	$ 32,637	$ 3,918	$ 862	$ 37,417	$ 4,960	$ 5,612	$ 5,046	$ 15,618	$ 53,035	$ 59,987

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, 2020 (With summarized financial information for the year ended June 30, 2019)

	2020	2019
OPERATING ACTIVITIES:		
Decrease in net assets	$ (15,936)	$ (4,895)
Adjustments to reconcile decrease in net assets to cash used in operating activities:		
Contributions received for perpetual endowment	(609)	(1,950)
Depreciation	1,503	2,090
Amortization of loan issuance costs	19	18
Gain on disposal of property and equipment	-	(303)
Net realized and unrealized (gain) on investments	(233)	(3,004)
Limited partnership investment losses, net	2,793	1,118
Proceeds from sales of donated securities	(204)	(299)
Change in allowance for doubtful pledges receivable	(92)	(60)
Change in discount of pledges receivable	(63)	(39)
Change in fair value of the interest rate swap	2,398	1,510
Net effect of changes in:		
Accounts receivable	(89)	48
Prepaid expenses and deposits	70	224
Pledges receivable	695	1,180
Receivables from split-interest agreements	(104)	1,478
Other assets	39	(139)
Gift annuity payment liability	(11)	61
Deferred compensation and postretirement benefit obligation	185	444
Accounts payable and accrued expenses	(74)	69
Deferred performance and school revenue	(1,737)	269
Net cash used in operating activities	(11,450)	(2,180)
INVESTING ACTIVITIES:		
Purchases of endowment investments	(22,897)	(9,937)
Proceeds from sale/return of endowment investments	30,858	11,775
Increase in operating cash in endowment portfolio	(38)	(13)
Purchase of property and equipment	(513)	(185)
Net cash provided by investing activities	7,410	1,640
FINANCING ACTIVITIES:		
Proceeds from sales of donor-restricted securities	204	299
Contributions received for perpetual endowment	609	1,950
PPP loan proceeds received	7,321	-
Principal payments on bond payable	(1,884)	(1,858)
Reduction (Principal payments) on capital lease obligations	32	(9)
Net cash provided by financing activities	6,282	382
Net decrease in cash, cash equivalents, and restricted cash	2,242	(158)
Cash, cash equivalents, and restricted cash at beginning of year	14,330	14,488
Cash, cash equivalents, and restricted cash at end of year	$ 16,572	$ 14,330
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the year for interest	$ 1,732	$ 1,942

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 68 dancers, 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

As a result of the adoption of Accounting Standards Update (“ASU”) 2016-14 in FY19, 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, 2019, 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.

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, 2020 utilized a risk-adjusted rate of 2.027%. For pledges receivable pledged prior to the year ended June 30, 2020, the discounts on these amounts were computed using risk-adjusted rates applicable in the years in which those promises were received, ranging from 2.062% 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 increase in restricted cash during the year ended June 30, 2020 of $2,560 relates primarily to the increase 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. This standard was adopted retrospectively to 2019.

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-2019, 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, 2020, primarily consists of advance ticket sales for performances scheduled in the Ballet's 2021 repertory season, which opens in January 2021 as well as advance tuition payments for school classes to be conducted in the year ending June 30, 2021.

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

As of July 1, 2019, the Ballet adopted the ASU No. 2018-08 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update were reviewed and applied in: (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance; and (2) determining whether a contribution is conditional. The Ballet determined there was no impact on its FY20 consolidated financial statements.

The Ballet recognizes ticket sales revenue throughout the performance season for which the tickets are sold. In FY20, as a result of the War Memorial Opera House closure and subsequent performance cancellations, many ticket holders donated their tickets back to the Ballet, resulting in recognition of contribution revenue of $2,246 which would have otherwise been recognized as performance revenue. Others opted to have their tickets deferred to the FY21 season, which amounted to $3,183.

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.

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, 2020, the value of contributed services recognized as revenues and expenses in the accompanying consolidated financial statements was $1,043 and consisted primarily of $266 in donated advertising services and $629 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.

The Ballet adopted guidance, which defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. This guidance also allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value ("NAV") per share or its equivalent.

Enhanced disclosures about financial instruments that are measured and reported at fair value are required under the guidance. 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 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.

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, 2020, 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, 2020, the following endowment investments equal or exceed 5% of the fair market value of total endowment investments:

Advisors Inner Circle Sands Global Fund	10%
Dodge & Cox Income Fund	9%
Generation IM Global Equity Fund	8%
Dreyfus US Govt Prime Cash Mgt	8%
Abrams Capital Partners II, L.P. Fund	6%
Bracebridge LTD	5%
Canyon Value Realization Fund	5%
Dreyfus US Government Fund	5%
Durable Capital Offshore Fund Ltd	5%
Vanguard Money Market	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.

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, 2020.

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 ("FASB") 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.

In May 2014, the FASB issued 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. This guidance is effective for fiscal years beginning after December 15, 2019. The Ballet is evaluating the impact this update will have on its consolidated financial statements.

(In thousands of dollars)

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2020 are due as follows:

2021	$	1,925
2022		351
2023		100
Total pledges receivable		2,376
Less allowance for doubtful pledges receivable		(107)
Less discount for amounts expected to be collected after June 30, 2020		(85)
Pledges receivable, net	$	2,184

At June 30, 2020, pledges receivable included pledges of $1,476 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, 2020, 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	$ 1,547	$ -	$ -	$ 1,547
Beneficial interest in charitable remainder trusts	-	-	636	636
Total assets held for and in from split interest agreements, net	1,547	-	636	2,183
Other investments:				
Money market funds	90	-	-	90
Mutual funds				
Fixed income - government	261	-	-	261
Fixed income - other	273	-	-	273
Cash in transit	-	-	-	-
Total other investments	624	-	-	624
Endowment investments:				
Money market funds	12,055	-	-	12,055
Fixed income securities				
US Government agencies	280	689	-	969
Governments bonds and notes	-	1,796	-	1,796
Corporate bonds	2,445	143	-	2,588
Foreign income securities	-	-	-	-
Mutual funds				
Fixed income	14,818	-	-	14,818
Equity-US	5,643	-	-	5,643
Equity-global	11,015	-	-	11,015
Subtotal investments	47,067	2,628	-	48,884
Alternative investments				
Real estate partnership	-	-	4,985	4,985
Valued at NAV				
Credit strategies	-	-	-	4,253
Event-driven hedge fund	-	-	-	6,968
Multi-strategy hedge fund	-	-	-	5,247
Domestic equities				5,897
Long-biased hedge fund				31,646
Relative value hedge fund	-	-	-	6,045
Subtotal	-	-	4,985	65,041
Total endowment investments				113,925
Total assets				$ 116,732
Total liability				
Interest rate swap	$	$ 8,923	$	$ 8,923
Total liability	$ -	$ 8,923	$ -	$ 8,923

(In thousands of dollars)

For the year ended June 30, 2020, the changes in investments classified as Level 3 are as follows:

Level 3 rollforward	Real estate	Split-interest agreements	Total
Balance - beginning of year	$ 7,350	$ 595	$ 7,945
Change in discount	-	41	41
Partnership unrealized	(2,365)	-	(2,365)
Balance – end of year	$ 4,985	$ 636	$ 5,621

Changes in unrealized gains including investment returns relating to instruments that are classified as Level 3 still held as of June 30, 2020 are $2,365.

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)]	$ 5,240	Quarterly	60 days
Multi-strategy[(b)]	8	Anniversary annually	65 days
Relative value[(c)]	6,045	Anniversary annually	60 days
Special situations[(d)]	6,968	Annually	90 days
Real estate [(e)]	4,985	n/a	n/a
Long-only/long-biased [(f)]	3,966	Annually	90 days
Long-only/long-biased [(g)]	4,879	Annually	90 days
Long-biased [(h)]	4,386	Annually	120 days
Long-only/long-biased [(i)]	3,583	Monthly	30 days
Long-only/long-biased [(j)]	9,299	Quarterly	30 days
Credit strategies [(k)]	4,253	n/a	n/a
Long-only/long-biased [(l)]	5,532	Anniversary 3 Yr/Qtr	60 days
Domestic equities [(m)]	5,897	Annually/Anniv	90 days/150 days
Total	$ 65,041		

(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 generate consistent above-average return with limited systemic market risk. To achieve these returns, the fund seeks arbitrage opportunities in volatility, mortgage security, yield curve, intramarket bond and cash bond/future. The fund will also employ leverage to enhance return. The fair value of the investment in this category has been estimated using the NAV per share of the investments. The last lock-up period for this investment expired March 2015. The fund has a 20% side pocket allowance, but no gate restrictions. Redemption requires a 60-day notification.

(d) 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.

(e) 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 Partnership refinanced the mortgage obligation in December 2018 and the balance is $2,323 at June 30, 2020. San Francisco Ballet's interest is approximately 8.8% with fair market value of $4,985 at June 30, 2020.

(f) 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.

(g) 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.

(h) 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

(i) 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.

(j) 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 expires 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.

(k) 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.

(l) 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.

(m) 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.

(In thousands of dollars)

The quantitative information about significant unobservable inputs related to Level 3 alternative investments in real estate used at June 30, 2020, is as follows:

	Fair value	Valuation techniques	Unobservable inputs	Assumptions
Commercial real estate	$ 4,985	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, 2020 is as follows:

	2020	2019
Land	$ 4,519	$ 4,519
Lease	34	-
Buildings and improvements	34,649	34,648
Furniture and equipment	8,409	8,361
Capitalized sets and costumes	16,230	16,230
Construction in progress	696	266
Total property and equipment	64,537	64,024
Accumulated depreciation	(45,323)	(43,820)
Property and equipment, net	$ 19,214	$ 20,204

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, 2020, 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%. The Ballet had no outstanding borrowings under the secured line of credit as of June 30, 2020. The secured line of credit expires on November 30, 2020 and will automatically renew for a one-year period on that date subject to the approval of the bank.

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 preparing the loan forgiveness application.

(In thousands of dollars)

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%, reduced from 3.45% as agreed to by lender as of October 1, 2019. The interest rates on the Series 2013B, 2013C, and 2013D loans reset at a LIBOR-based floating rate plus a spread. The Ballet had the option, which ultimately expired without being exercised, to convert Series 2013B, 2013C or 2013D to a fixed rate prior to July 1, 2016.

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, 2020:

Issue name	Amount issued	Final maturity	Interest rate	Amount outstanding
Series 2013A	$ 12,000	August 1, 2038	2.95%	$ 10,448
Series 2013B	11,000	August 1, 2038	1.43%	9,015
Series 2013C	11,000	August 1, 2038	1.43%	9,015
Series 2013D	10,510	August 1, 2038	1.43%	8,613
Total	$ 44,510			37,092
Loan issuance costs, net				(334)
Total loans payable, net				$ 36,758

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 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.

(In thousands of dollars)

Interest payments are payable and due on the first of each month. Interest expense related to loans payable for the year ended June 30, 2020 was approximately $1,119. 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, 2020.

Principal amounts are due as follows:

	Series				
	2013A	2013B	2013C	2013D	Total
2021	$ 440	$ 496	$ 496	$ 474	$ 1,906
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
Thereafter	8,114	6,534	6,534	6,243	27,425
	$ 10,451	$ 9,014	$ 9,014	$ 8,613	$ 37,092

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 $8,923 as of June 30, 2020, including a credit valuation adjustment of $86, 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 $613 during the year ended June 30, 2020. 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, 2020, the Ballet was required to post collateral on the swap agreement with $8,007 posted as of June 30, 2020 and is included in restricted cash in the accompanying consolidated statement of financial position.

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, 2020:

	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	$ 8,923

(In thousands of dollars)

Amounts reflected in the change in value of the interest rate swap agreement for the year ended June 30, 2020 was as follows:

Statement of activities and changes in net assets location	Realized and unrealized gain (loss)
Non-operating:	
Net realized and unrealized gain (loss) on interest rate swap agreements	$ (3,010)

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	$ 16,572
Accounts receivable	260
Pledges receivable, net	2,184
Other investments	624
Other assets	626
Endowment investments	113,925
Total financial assets available within one year	134,191
Less:	
Pledges receivable collectible beyond one year	(451)
Defined benefit plan asset	(621)
Restricted cash	(8,007)
Investments not convertible to cash within next 12 months (not otherwise included below)	(4,253)
Financial assets with donor restrictions	(77,590)
Total financial assets available within one year	$ 43,269

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 2020 and repaid in May 2020.

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, 2020, the Ballet had almost twice the required coverage in terms of unrestricted Endowment assets and Association cash.

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, 2020, of $1,953 is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. As of June 30, 2020, the Ballet had unused letters of credit totaling $2,350 as required by the Ballet's insurance carriers.

(In thousands of dollars)

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 $2,116 for the year ended June 30, 2020.

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 $1,255 has been calculated based on the net present value of the expected payments. The total present value as of June 30, 2020, of the future health benefits, or the expected postretirement benefit obligation for health, was approximately $229. This amount is equal to the accumulated postretirement benefit obligation of the future health benefits, as of June 30, 2020. The loss for the year ended June 30, 2020, affecting future health benefits was $11. 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, 2020, which liability is included in the consolidated statement of financial position.

	2020	2019
Benefit obligation	$ 229	$ 230
Unfunded status - end of year	$ 229	$ 230

Amounts recognized for health benefits in net assets without donor restrictions consist of unrecognized prior service costs of $229 as of June 30, 2020. The periodic net benefit loss for the year ended June 30, 2020 was $11. The weighted-average assumption used to determine benefit obligations as of June 30, 2020 was 1.71%.

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	$ 14	$ (13)
Service cost and interest cost for fiscal year 2019	-	-
Total	$ 14	$ (13)

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, 2020. 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, 2020 and remain at that level thereafter.

No benefits are expected to be paid from the postretirement benefit plan in the year ended June 30, 2020. The aggregate benefits expected to be paid in the five years from 2020 to 2024 are approximately $158. The expected benefits are based on the same assumptions used to measure the Ballet's benefit obligation as of June 30, 2020 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, 2020.

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, 2020, the Ballet contributed to multiple union trusts and charged to expense $1,499.

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.

San Francisco Ballet Association

June 30, 2020

(With summarized financial information as of June 30, 2019)

(In thousands of dollars)

The Ballet's participation in these plans for the year ended June 30, 2020, is outlined in the table below. All information in the table is as of June 30, 2020. 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 Pan year - per Form 550	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 500
The AGMA Retirement Plan	13-3826401- Plan No. 001	6/30/2021	Green	Yes	N/A	8/31/2019	333	No	$ 4,679	7%
American Federation of Musicians and Employer's pension fund and subsidiary	51-6120204- Plan No. 001	11/30/2020	Red	No	Implemented	3/31/2019	716	yes	72,806	1%
I.A.T.S.E. Local 16 pension Plan	94-6296420- Plan No. 001	6/30/2021	Green	No	N/A	12/31/2018	288	No	11,212	3%
I.A.T.S.E. Local 16 pension Plan	94-6296420- Plan No. 001	6/30/2021	Green	No	N/A	12/31/2018	15	No	11,212	0%
I.A.T.S.E. National Pension Fund	13-1849172- Plan No. 001	7/31/2021	Green	No	N/A	12/31/2018	45	No	31,275	0%
I.A.T.S.E. National Pension Fund	13-1849172- Plan No. 001	8/31/2022	Green	No	N/A	12/31/2018	56	no	31,275	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 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 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, 2020, consists of the following:

	Total
Donor-restricted endowment funds (net of underwater position of $4,092)	$ 73,592
Accumulated appreciation	4,201
Total funds	$ 77,793

(In thousands of dollars)

While the Board does not designate endowment net assets, the Board-designated endowment assets as of June 30, 2020 is $35,887 (see table below).

Changes in endowment by net asset class for the years ended June 30, 2020 and 2019 are as follows:

	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 appreciation	(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
Reclassifications of Board-designated endowments	(81)	-	(81)
Appropriation of endowment assets for expenditure	(7,691)	(3,653)	(11,344)
	$ 36,132	$ 77,793	$ 113,925

	2019		
	Without donor restrictions	With donor restrictions	Total
Endowment assets, beginning of year	$ 45,044	$ 79,135	$ 124,179
Investment return:			
Investment return - investment income	1,257	1,997	3,254
Net realized and unrealized appreciation	1,036	1,672	2,708
Total investment return	2,293	3,669	5,962
Additions to endowment funds from contributions and pledge payments	808	1,708	2,516
Reclassifications of Board-designated endowments	(815)	-	(815)
Appropriation of endowment assets for expenditure	(3,542)	(3,854)	(7,396)
	$ 43,788	$ 80,658	$ 124,446

(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 without donor restrictions. Deficits associated with funds functioning as endowments, when they exist, are likewise classified as a reduction of assets without 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 without donor restrictions. Deficiencies of this nature are reflected in the consolidated financial statements and are as follows:

	2020	2019
Fair value of endowment funds in an underwater position	$ 39,849	$ 19,353
Historical gift value of endowment funds in an underwater position	43,941	22,598
Total underwater deficiency of endowment funds	$ (4,092)	$ (3,245)

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, 2020, net assets with donor restrictions were available for the following purposes:

Accumulated appreciation of endowment funds not underwater	$	4,201
Time restrictions		1,364
Split interest agreements, net		1,449
Perpetual endowment		73,592
Total net assets with donor restrictions	$	80,606

Net assets released during the year ended June 30, 2020 were as follows:

For use in ensuing fiscal years/due to expiration of time	$	1,793
Property and equipment		45
Accumulated appreciation of endowment funds (time restricted portion) appropriated for expenditure		
Pledge payment		1,793
New ballet production		198
Touring		238
Ballet school support		677
Education and outreach		188
Special events		119
Artistic and production		21
Total releases	$	5,072

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, 2020 that have an initial noncancellable lease term in excess of one year:

Year ending June 30, 2020		
2021	$	76
2022		28
Total	$	104

Rent expense from operating leases approximated $635 for the year ended June 30, 2020.

(In thousands of dollars)

During FY19, the Ballet entered into a sublease agreement to rent out the location that is no longer in use. Expected rental income for the duration of the above lease term is as follows:

Year ending June 30,		
2021	$	71
Total	$	71

NOTE 14 – COLLECTIVE BARGAINING AGREEMENTS

Approximately 74% (543 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, have been extended and are currently undergoing negotiations. Four agreements, AGMA, AFM, Local B-18, and Local 706, expire within 12 months of June 30, 2020.

NOTE 15 – RELATED PARTIES

As of June 30, 2020, undiscounted pledges receivable includes approximately $1,476 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 $4,790 as of June 30, 2020. 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 $11,814 at June 30, 2020.

Of the value of contributed services recognized as revenues in the accompanying consolidated financial statements, $167 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 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 28, 2020, the date on which the consolidated financial statements were issued.

On March 6, by order of San Francisco Mayor London N. Breed, to prevent the spread of COVID-19, all public performances, events, and gatherings at the San Francisco War Memorial and Performing Arts Center were canceled. This order was followed by an announcement from the World Health Organization on March 11 where the WHO declared the novel strain of COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The pandemic has caused worldwide disruption to businesses and economic activity and could result in a significant drop in operating revenue and the fair value of the San Francisco Ballet Endowment Foundation investments. In compliance with local health mandates, the San Francisco Ballet has remained closed since March 16 and has not received revenue from admissions or onsite events since the closure of the War Memorial on March 6. The Ballet has been operating on a reduced expense budget but has increased its digital offerings and outreach to engage community members and donors. The Ballet continues to receive annual funding from individual and institutional donors and has been the recipient of new levels of support from individuals and institutions who have provided emergency funds for operations during the pandemic-related closure. Management is carefully monitoring developments. The extent of the adverse impact on the Ballet cannot be predicted at this time. No adjustments have been made to these financial statements as a result of this uncertainty.

Extension negotiations with IATSE, Local 706 (Hair & Make-up), are currently in progress.