

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

San Francisco Ballet Association

June 30, 2023

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
San Francisco Ballet Association

Opinion

We have audited the consolidated financial statements of San Francisco Ballet Association and the San Francisco Ballet Endowment Foundation (collectively known as the "Ballet"), which comprise the consolidated statement of financial position as of June 30 2023, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Ballet as of June 30, 2023, and the changes in its net assets, its functional expenses, and its cash flows the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

In performing an audit in accordance with US GAAS, we:

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

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

Report on 2022 summarized comparative information

We have previously audited the Ballet's 2022 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 4, 2022. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



San Francisco Ballet Association

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2023
(With summarized financial information as of June 30, 2022)
(In thousands of dollars)

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 6,912	\$ 7,149
Restricted cash	717	2,437
Accounts receivable	255	267
Prepaid expenses and deposits	1,780	1,545
Pledges receivable, net	2,684	3,217
Receivables from split-interest agreements, net	1,793	1,913
Other investments	618	626
Other assets	3,432	3,030
Right-of-use assets, net	7,150	-
Property and equipment, net	15,402	16,453
Endowment investments	107,764	112,785
	<hr/>	<hr/>
Total assets	\$ 148,507	\$ 149,422
	<hr/>	<hr/>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 6,233	\$ 6,350
Paycheck protection program loan	335	2,524
Current portion loans payable	1,947	1,934
Deferred compensation and postretirement benefit obligation	1,622	1,791
Deferred performance and school revenue	6,881	6,160
Gift annuity payment liability	585	643
Interest rate swap liability	1,327	3,611
Lease liabilities	7,273	-
Non-current loans payable, net	26,504	31,032
	<hr/>	<hr/>
Total liabilities	52,707	54,045
Net assets		
Without donor restrictions	12,259	13,485
With donor restrictions	83,541	81,892
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Total net assets	95,800	95,377
	<hr/>	<hr/>
Total liabilities and net assets	\$ 148,507	\$ 149,422
	<hr/>	<hr/>

The accompanying notes are an integral part of these consolidated financial statements.

San Francisco Ballet Association

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2023
(With summarized financial information as of June 30, 2022)
(In thousands of dollars)

	For the year ended June 30, 2023			For the year ended June 30, 2022
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and support:				
San Francisco performance	\$ 21,073	\$ -	\$ 21,073	\$ 18,161
Touring	293	-	293	126
School and student housing, net of scholarships	3,861	-	3,861	3,837
Other income	3,537	-	3,537	10,110
Contributions of cash and other financial assets	10,910	6,104	17,014	22,865
Contributions of nonfinancial assets	345	-	345	425
Special events and other activities	4,089	-	4,089	6,617
Net assets released from donor restrictions	11,580	(11,580)	-	-
Total revenue and support	55,688	(5,476)	50,212	62,141
Expenses:				
Program services:				
Ballet production and touring	38,955	-	38,955	34,514
School and student housing	6,003	-	6,003	5,472
Education and outreach	868	-	868	684
Support services:				
Marketing, publicity and audience development	4,506	-	4,506	3,503
General and administrative	6,777	-	6,777	6,523
Fundraising	4,544	-	4,544	5,360
Total expenses	61,653	-	61,653	56,056
CHANGE IN NET ASSETS FROM OPERATIONS	(5,965)	(5,476)	(11,441)	6,085
Non-operating:				
Endowment investment income (loss), net	3,764	7,125	10,889	(20,996)
Change in post-retirement benefit obligation	9	-	9	138
Net realized and unrealized gain on interest rate swap	966	-	966	2,309
INCREASE (DECREASE) IN NET ASSETS	(1,226)	1,649	423	(12,464)
Net assets - beginning of year	13,485	81,892	95,377	107,841
Net assets - end of year	\$ 12,259	\$ 83,541	\$ 95,800	\$ 95,377

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, 2023
(With summarized financial information as of June 30, 2022)
(In thousands of dollars)

	Program Services						Support Services				2023 Total Expenses	2022 Total Expenses
	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		
Salaries, payroll taxes and benefits												
Salaries	\$ 23,625	\$ 166	\$ 23,791	\$ 2,317	\$ 616	\$ 26,724	\$ 1,157	\$ 3,087	\$ 1,625	\$ 5,869	\$ 32,593	\$ 28,861
Payroll taxes and benefits	8,397	56	8,453	517	414	9,084	245	559	319	1,123	10,207	8,606
	32,022	222	32,244	2,834	730	35,808	1,402	3,646	1,944	6,992	42,800	37,467
Other expenses												
Advertising	-	-	-	19	-	19	1,111	-	17	1,128	1,147	929
Dance medical services	331	-	331	4	-	335	-	-	-	-	335	831
Depreciation and amortization	628	-	628	305	22	955	53	323	50	426	1,381	1,417
Events and cultivation	22	-	22	5	7	34	11	3	1,286	1,300	1,334	1,965
Information technology expense	2	-	2	11	-	13	82	556	26	664	677	604
In-kind expenses	-	-	-	-	-	-	-	-	345	345	345	425
Interest expense	562	-	562	363	29	954	60	226	110	396	1,350	718
License, permits and fees	834	(4)	830	189	3	1,022	3	356	70	429	1,451	1,526
Marketing and shop expenses - other	-	-	-	-	-	-	119	-	-	119	119	49
Miscellaneous expense	589	-	589	737	15	1,341	27	156	64	247	1,588	797
Occupancy	277	25	302	1,309	12	1,623	30	93	19	142	1,765	2,136
Other expense	-	-	-	-	-	-	470	-	-	470	470	417
Printed materials, postage and mailing	50	-	50	6	7	63	130	6	156	292	355	496
Production expense	2,165	52	2,217	4	8	2,229	-	-	41	41	2,270	1,544
Professional services	211	-	211	86	18	315	980	954	151	2,085	2,400	2,596
Receivable write-off	-	-	-	8	-	8	-	17	99	116	124	66
Scholarship expense	68	-	68	-	-	68	-	-	-	-	68	57
Shoes and tights	350	-	350	11	-	361	-	-	-	-	361	351
Taxes	4	-	4	2	-	6	-	64	-	64	70	254
Theater-space rental	265	1	266	-	-	266	1	-	132	133	399	459
Travel and entertainment	118	11	129	28	10	167	13	167	18	198	365	568
Utilities and telephone	150	-	150	82	7	239	14	210	16	240	479	384
	6,626	85	6,711	3,169	138	10,020	3,104	2,600	2,600	8,835	18,853	18,589
Total expenses	\$ 38,648	\$ 307	\$ 38,955	\$ 6,003	\$ 868	\$ 45,828	\$ 4,506	\$ 6,777	\$ 4,544	\$ 15,827	\$ 61,653	\$ 56,056

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

San Francisco Ballet Association

CONSOLIDATED STATEMENTS OF CASH FLOWS

As of June 30, 2023
(With summarized financial information as of June 30, 2022)
(In thousands of dollars)

	2023	2022
Operating activities:		
Increase (decrease) in net assets	\$ 423	\$ (12,464)
Adjustments to reconcile increase (decrease) in net assets to cash provided by (used in) operating activities:		
Contributions received for perpetual endowment	(446)	(1,218)
Depreciation	1,381	1,417
Reduction in the carrying amount of ROU assets – operating leases	1,017	-
Loss on asset disposals	3	-
Amortization of loan issuance costs	18	18
Net realized and unrealized loss (gain) on investments	(2,839)	12,111
Limited partnership investment gains/losses, net	(3,615)	15,352
Change in allowance for doubtful pledges receivable	-	25
Change in discount of pledges receivable	48	72
Change in fair value of the interest rate swap	(2,284)	(3,138)
Net effect of changes in:		
Accounts receivable	12	3,134
Prepaid expenses and deposits	(235)	(134)
Pledges receivable	485	(1,493)
Receivables from split-interest agreements	120	437
Other assets	402	72
Gift annuity payment liability	(58)	(54)
Deferred compensation and postretirement benefit obligation	(169)	(299)
Lease liability	(894)	-
Accounts payable and accrued expenses	(40)	(708)
Deferred performance and school revenue	721	(1,266)
Net cash provided by (used in) operating activities	(6,754)	11,936
Investing activities:		
Purchases of endowment investments	(5,480)	(5,694)
Proceeds from sale/return of endowment investments	16,955	2,904
Decrease in operating cash in endowment portfolio	8	-
Purchase of property and equipment	(333)	(1,221)
Net cash (used in) provided by investing activities	11,150	(4,011)
Financing activities:		
Contributions received for perpetual endowment	446	1,218
Line of credit utilization	-	(2,975)
PPP loans forgiveness	(2,000)	(6,703)
Principal payments on PPP1 unforgiven amount	(189)	(94)
Principal payments on bond payable	(4,533)	(1,922)
Payments on finance lease obligation	(4)	(4)
Reduction (principal payments) on finance lease	(73)	-
Net cash (used in) provided by financing activities	(6,353)	(10,480)
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(1,957)	(2,555)
Cash, cash equivalents, and restricted cash at beginning of year	9,586	12,141
Cash, cash equivalents, and restricted cash at end of year	\$ 7,629	\$ 9,586
Supplemental disclosures:		
Cash paid during the year for interest	\$ 849	\$ 1,446
Noncash impact of adopting ASC 842 at July 1, 2022	7,939	-
PPP loan forgiveness	(2,000)	(6,703)

The accompanying notes are an integral part of these consolidated statements.

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

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 6 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.

Prior Year Summarized Information

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, 2022, from which the summarized information was derived.

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

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.

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, 2023 of \$1,720 relates primarily to the decrease in the interest rate swap liability.

Accounts Receivable

Accounts receivable consist of 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, 2023, utilized a risk-adjusted rate of 5.320%. For pledges receivable pledged prior to the year ended June 30, 2023, the discounts on these amounts were computed using risk-adjusted rates applicable in the years in which those promises were received, ranging from 1.976% 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 prepaid usage of assets in common at the War Memorial Opera House ("WMOF") such as refurbished seating and a voluntary salary deferral plan for certain highly compensated employees under Internal Revenue Code ("IRC") Section 457(b) (see Note 10). As majority of the costs associated

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

with the seating refurbishment were incurred in fiscal year 2022, assets were reclassified from property and equipment, net, to other assets on the consolidated statement of financial position for both years shown.

Leases

Leases are included in right-of-use ("ROU") assets and lease liabilities in the consolidated statement of financial position. ROU assets and liabilities reflect the present value of future minimum lease payments over the lease term. Operating lease expense is recognized on a straight-line basis over the lease term. The Ballet does not report ROU assets or lease liabilities for short term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. The Ballet determines if an arrangement has an embedded lease at lease inception. Lease terms may include options to extend or terminate the lease when it is reasonably certain the Ballet will exercise that option.

Loan Issuance Costs

Loan issuance costs are being amortized over the term of the related loans payable.

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.

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 ("NAV") 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-2021, makes assumptions about future increases in health care premiums, and employs a discount rate based on the FTSE Russell Pension

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

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, 2023, primarily consist of advance ticket sales of \$5,654 for performances scheduled in the Ballet's 2024 repertory season, which opens in January 2024, as well as advance tuition payments of \$1,267 for school classes to be conducted in the year ending June 30, 2024. As of June 30, 2022, unearned balances in these two categories were \$5,429 and \$688, 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 8, 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.

Revenue Recognition and Performance Obligations

Contracts deemed exchange contracts are recognized in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised 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. Revenue is measured based on consideration specified in a contract with a customer. The Ballet recognizes revenues when or as it satisfies performance obligations by transferring control over goods and services to a customer.

The Ballet's revenue is disaggregated by customer type, contract type and service type. The Ballet recognizes ticket sales revenue at a point in time based on the timing of a specific performance basis. Payments received for future performances, such as ticket subscriptions, are deferred until the performance occurs.

Revenue from student tuition, housing, and fees is recognized over time 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 Payment Protection Program loan forgiveness, CARES Act Employee Retention Credits and facility fees, which are recognized as revenue as costs are incurred at the War Memorial Opera House.

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

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

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.

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.

Contributed Nonfinancial Assets

Contributions of goods and services are recognized when received if such goods and 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, 2023, the value of contributed services recognized as revenue and expense in the accompanying consolidated financial statements was \$345 and consisted primarily of donated services for special events. 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.

For the years ended June 30, contributed nonfinancial assets recognized within the statement of activities and changes in net assets included:

	2023	2022
Professional services	\$ 160	\$ 260
Memberships	-	62
Food	56	12
Beverage	78	50
Event rental	-	40
Costume item	1	-
Advertising	50	-
	<hr/>	<hr/>
Total contributed nonfinancial assets	\$ 345	\$ 425

The Ballet recognized contributed nonfinancial assets within revenue, including contributed catering and food and beverage. None of these assets had donor-imposed restrictions.

The fair market value of a non-cash gift is generally the price for which the asset would sell on the open market on the day of the donation. The Ballet determines the fair value by using comparable services and products, and by comparing prices on donor websites.

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.

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

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 8. 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 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 the Ballet's management. The Ballet's interest in alternative investments is measured at NAV.

See Note 3 for fair value measurement disclosures.

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

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, 2023, 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, 2023, the following endowment investments equal or exceed 5% of the fair market value of total endowment investments:

Generation IM Global Equity Fund	11%
Equity - Sands Global	10%
Abrams Capital Partners II, L.P. Fund	8%
Cevian Capital	8%
Dodge & Cox Income Fund	7%
Dreyfus US Govt Prime Cash Mgt	7%
Durable Capital Offshore Fund Ltd	6%
Vanguard Index Admiral Fund	6%
Vanguard Money Market	6%
WGI Emerging Markets Fund	5%
Dodge & Cox Osterweis Strategic Income Fund	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, 2023.

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

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

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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.

Recent Accounting Pronouncements

Effective as of July 1, 2022, the Ballet adopted FASB's Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The Ballet's adoption resulted in recognizing ROU assets and lease liabilities totaling \$7,939 in its consolidated statement of financial position at July 1, 2022. The Ballet elected not to restate the summarized comparative financial information for 2022. It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases.

Application of the new standards for Finance leases for equipment, formerly known as capital leases, had a minor impact on assets, liabilities and lease costs, and the asset continues to be reported in Property and equipment, net, and the related liabilities in Accounts payable and accrued expenses.

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2023, are due as follows:

2024	\$ 2,219
2025	370
2026	245
Thereafter	<u>125</u>
Total pledges receivable	2,959
Less allowance for doubtful pledges receivable	(100)
Less discount for amounts expected to be collected after June 30, 2023	<u>(175)</u>
Pledges receivable, net	<u>\$ 2,684</u>

At June 30, 2023, pledges receivable included pledges of \$1,010 from members of the Association's Board of Trustees and the Foundation's Board of Directors (see Note 15).

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

NOTE 3 - FAIR VALUE MEASUREMENTS

As of June 30, 2023, 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	\$ 1,260	\$ -	\$ -	\$ 1,260
Beneficial interest in charitable remainder trusts	-	-	533	533
Total assets held for and in split interest agreements, net	1,260	-	533	1,793
Other investments:				
Money market funds	146	-	-	146
Mutual funds				
Fixed income - government	228	-	-	228
Fixed income - other	244	-	-	244
Total other investments	618	-	-	618
Endowment investments:				
Money market funds				
Fixed income securities	16,021	-	-	16,021
US Government agencies	-	1,112	-	1,112
Governments bonds and notes	-	1,428	-	1,428
Corporate bonds	1,106	61	-	1,167
Municipal Obligations	-	29	-	29
Mutual funds				
Fixed income	12,668	-	-	12,668
Equity-US	8,043	-	-	8,043
Equity-global	10,743	-	-	10,743
Subtotal investments	48,581	2,630	-	51,211
Alternative investments				
Real estate partnership interest	-	-	4,281	4,281
Valued at NAV				
Credit strategies	-	-	-	6,718
Event-driven hedge fund	-	-	-	9,014
Domestic equities	-	-	-	6,728
Long-biased hedge fund	-	-	-	29,812
Subtotal	-	-	4,281	56,553
Total endowment investments	-	-	4,281	107,764
Total assets	\$ -	\$ -	\$ -	\$ 110,175
Interest rate swap	\$ -	\$ 1,327	\$ -	\$ 1,327
Total liability	\$ -	\$ 1,327	\$ -	\$ 1,327

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(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
Special situations ^(a)	\$ 9,013	Annually	90 days
Long-only/long-biased ^(b)	8,216	Annually	90 days
Long-only/long-biased ^(c)	5,033	Monthly	30 days
Long-only/long-biased ^(d)	12,088	Quarterly	30 days
Credit strategies ^(e)	6,718	N/A	N/A
Long-biased ^(f)	4,447	Annually	120 days
Real estate ^(g)	4,281	N/A	N/A
		Anniversary	
Long-biased ^(h)	29	3 Yr/Qtr	60 days
		Annually/	90 days/
Domestic equities ⁽ⁱ⁾	6,728	Anniversary	150 days
	<u>\$ 56,553</u>		
Total			

^(a) 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.

^(b) 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; the Ballet's tranches unlock 12/31/24, 6/30/25, 12/30/25, and 6/30/26. The fund has a 40% side-pocket allowance and a 50% fund-level gate restriction based on available capital.

^(c) 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.

^(d) 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

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

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based on available capital and no side-pocket allowance. Redemption requires 30-day notice. The fair value of the investment in this category has been estimated using the NAV per share of the investments.

- (e) 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 lock up period is 2 years. The fund has no gate or side-pocket restrictions.
- (f) 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 four-year lock-up period that expired on June 1, 2017. The fund has a no gate or side-pocket restrictions.
- (g) 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 \$50,600 in July of 2023. The Partnership refinanced the mortgage obligation in December 2018 and the balance is \$1,929 at June 30, 2023. San Francisco Ballet's interest is approximately 8.8% with fair market value of \$4,281 at June 30, 2023.
- (h) 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 had a three-year lock-up period that expired on September 30, 2022. Redemption requires a 60-day notification. The Ballet has fully redeemed this position.
- (i) 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 that expired June 30, 2023, and a rolling 3-years for Tranche B that expires on December 31, 2025. There is no gate restriction and a max side pocket of 25%. 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, 2023, is as follows:

	Fair Value	Valuation Techniques	Unobservable Inputs	Assumptions
Commercial real estate	\$ 4,281	Income capitalization	Terminal cap rate Rent growth rate	5.25% 3.00%

NOTE 4 - RIGHT-OF-USE ASSETS AND LEASE LIABILITIES, LESSOR ACTIVITY

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 Jackson Street property, an owned property, which was previously used as a student residence, was rented out to Westmont College as of June 1, 2021.

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

The Ballet evaluated current contracts to determine whether any met the criteria of a lease. The ROU assets represent the Ballet's right to use the underlying assets for the lease term, and the lease liabilities represent its obligation to make lease payments for those leased assets. The ROU assets and lease liabilities, all of which result from operating leases, were calculated based on the present value of future lease payments over the lease terms. For the present value calculation, the Ballet opted to use the FY23 weighted average borrowing rate of 5.32%.

These operating leases consist of the SFCM, which provides housing for students of the Ballet school, Ricoh, which provides copiers, and Pitney Bowes, which provides a mailing machine. The SFCM lease excludes a 5-year extension option, which the Ballet is not reasonably certain to exercise. As such, the extension period is excluded from both the ROU asset and lease liability.

For the year ended June 30, 2023, the total operating lease cost for these leases was \$1,196. Cash paid for the same period was \$1,072. The remaining lease terms were eight years for SFCM, and five years each for the leased equipment.

For the years ended June 30, future maturities of lease liabilities are presented in the table below:

	SFCM	RICOH	Pitney Bowes	Total
2024	\$ 1,087	\$ 18	\$ 4	\$ 1,109
2025	1,119	18	4	1,141
2026	1,153	18	4	1,175
2027	1,188	18	4	1,210
2028	1,223	4	1	1,228
Thereafter	2,995	-	-	2,995
Total lease payments	8,765	76	16	8,857
Less: Present value discount	(1,571)	(11)	(2)	(1,584)
Total lease obligations	\$ 7,194	\$ 66	\$ 13	\$ 7,273
	SFCM	RICOH	Pitney Bowes	Total
ROU assets	\$ 7,847	\$ 76	\$ 16	\$ 7,939
Accumulated amortization	(776)	(10)	(3)	(789)
	\$ 7,071	\$ 66	\$ 13	\$ 7,150

Weighted average remaining lease term: 8.28 years

Weighted average discount rate: 5.32%

Two leases, Jackson Street and AT&T, are leases where the Ballet is the lessor. Jackson Street was leased to Westmont College as of June 1, 2021 for a 10-year term with two options to extend. The first option, if exercised, would extend the lease term for another 48 months. The second extension is subject to written consent by the Ballet and, if exercised, would extend the lease by another 60 months. AT&T has leased space at 455 Franklin for communications installations and is in its final five-year extension, ending June

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

30, 2027. In the case of Jackson Street and AT&T, which were both classified as operating leases, the Ballet continues to recognize the assets; lease income is recognized on a straight-line basis over the lease term. Lease revenue for the year ended June 30, 2023 was \$434. Reflected in property and equipment on the statement of financial position, Jackson Street represents \$2,335 with \$958 in accumulated depreciation nets to 1,377 at June 30, 2023.

The following is a schedule of future rental payments to be received for the Jackson Street and AT&T:

<u>Year Ending June 30,</u>	
2024	\$ 414
2025	426
2026	438
2027	451
2028	359
Thereafter	<u>1,110</u>
Total	<u>\$ 3,198</u>

NOTE 5 - PROPERTY AND EQUIPMENT

The Ballet's property and equipment as of June 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 4,519	\$ 4,519
Leasehold improvements and property under capital leases	439	439
Buildings and improvements	34,425	34,721
Furniture and equipment	7,336	8,235
Capitalized sets and costumes	16,230	16,230
Construction in progress	<u>510</u>	<u>256</u>
Total property and equipment	63,460	64,400
Accumulated depreciation	<u>(48,058)</u>	<u>(47,947)</u>
Property and equipment, net	<u>\$ 15,402</u>	<u>\$ 16,453</u>

NOTE 6 - 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 10), 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, 2023, that limit would not have 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, 2023. The secured line of credit expires on November 30, 2023 and automatically renews for a one-year period on that date subject to the approval of the bank.

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

NOTE 7 - LOANS PAYABLE

On April 15, 2020, the Ballet received a Small Business Administration ("SBA") loan through the Paycheck Protection Program in the amount of \$7,321, which was used primarily for payroll costs but also covered mortgage interest, rent, and utility costs incurred and paid during the covered period through August 13, 2020. The SBA partially forgave this loan on December 14, 2021. The remaining balance of \$335 carries a fixed interest rate of 1% and the Ballet is making monthly payments until April 15, 2025, when final payment is due. On June 8, 2021, the Ballet received another loan through the Paycheck Protection Program in the amount of \$2,000, which was forgiven by the SBA on July 18, 2022.

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 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. On June 1, 2023, the master loan agreement was amended to convert the reference rate from LIBOR to SOFR.

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.

On August 24, 2021, encumbrances related to the student residence were removed from the loan agreement. At the same time, \$3,900 of the tax-exempt bonds used to acquire the property were paid off using proceeds from a new \$3,900 loan issued by First Republic Bank. The new loan, the Jackson Street loan, is secured by the student residence, has an interest rate of 3.4%, partially amortizes after 2 years, and fully matures on August 24, 2031, with a final balloon payment of \$2,888 due at such time.

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

**(With summarized financial information as of June 30, 2022)
(In thousands of dollars)**

The following is a summary of each series outstanding as of June 30, 2023:

Issue Name	Amount Issued	Final Maturity	Interest Rate	Amount Outstanding
Series 2013A	\$ 12,000	August 1, 2034	2.95%	\$ 5,190
Series 2013B	11,000	August 1, 2038	6.54%	7,525
Series 2013C	11,000	August 1, 2038	6.54%	7,525
Series 2013D	10,510	August 1, 2038	6.54%	4,590
Total	<u>\$ 44,510</u>			24,830
Loan issuance costs, net				(279)
Jackson Street Loan				<u>3,900</u>
Total loans payable, net				<u>\$ 28,451</u>

The Endowment's Operations Stability Fund paid an additional \$2.6 million principal of Series 2013D bonds December 2022, reducing the Series D liability from \$10,510 to \$4,590.

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.

Interest payments are payable and due on the first of each month. Interest expense related to loans payable for the year ended June 30, 2023, was approximately \$1,289. 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, 2023.

Principal amounts are due as follows:

	2013A	2013B	2013C	Series 2013D	Jackson St.	Total
2024	\$ 481	\$ 496	\$ 496	\$ 474	\$ 94	\$ 2,041
2025	497	496	496	474	116	2,079
2026	512	496	496	474	121	2,099
2027	527	496	496	474	125	2,118
2028	542	496	496	474	129	2,137
Thereafter	2,631	5,045	5,045	2,220	3,315	18,256
	<u>\$ 5,190</u>	<u>\$ 7,525</u>	<u>\$ 7,525</u>	<u>\$ 4,590</u>	<u>\$ 3,900</u>	<u>\$ 28,730</u>

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

NOTE 8 - 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 has been paying 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 until the reference rate was converted to the daily compounded SOFR rate on June 30, 2023. 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 \$1,327 as of June 30, 2023, including a credit valuation adjustment of \$29, 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 \$1,318 during the year ended June 30, 2023. 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, 2023, the collateral requirement on the swap agreement decreased by \$1,720 resulting in \$717 posted as of June 30, 2023 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, 2023:

	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%	<u>\$ 13,000</u>	<u>\$ 1,327</u>

Amounts reflected in the change in value of the interest rate swap agreement for the year ended June 30, 2023, 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	<u>\$ 966</u>

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

NOTE 9 - 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	\$ 7,629
Accounts receivable	255
Pledges receivable, net	2,684
Other investments	618
Other assets	3,432
Endowment investments	<u>107,764</u>
Total financial assets available within one year	122,382
Less:	
Defined benefit plan asset, and prepaid usage of assets at WMOH	(3,030)
Restricted cash	(717)
Investments not convertible to cash within next 12 months (not otherwise included below)	(6,718)
Donor restricted endowments	<u>(76,768)</u>
Total financial assets available within one year	<u>\$ 35,149</u>

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 \$2,975 line of credit which it used in February 2023 and repaid in June 2023.

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. This requirement was temporarily reduced by the bank to \$22,000 as of June 30, 2022, and back to \$25,000 as of June 30, 2023. 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, 2023, the Ballet had \$10,149 more than the required coverage in terms of unrestricted Endowment assets and Association cash.

NOTE 10 - 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, 2023, of \$1,931 is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. As of June 30, 2023, the Ballet had unused letters of credit totaling \$2,350 as required by the Ballet's insurance carriers.

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

NOTE 11 - 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 \$2,578 for the year ended June 30, 2023.

The Ballet has an agreement with a former 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 \$984 has been calculated based on the net present value of the expected payments. The total present value as of June 30, 2023, of the future health benefits, or the expected postretirement benefit obligation for health, was approximately \$207. This amount is equal to the accumulated postretirement benefit obligation of the future health benefits, as of June 30, 2023. The loss for the year ended June 30, 2023, affecting future health benefits was \$(12). Salary and benefit continuance are included in the deferred compensation and postretirement benefit obligation 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, 2023, which liability is included in the consolidated statement of financial position.

	<u>2023</u>	<u>2022</u>
Benefit obligation	\$ 207	\$ 220
Fair value of assets	-	-
Unfunded status - end of year	<u>\$ 207</u>	<u>\$ 220</u>

Amounts recognized for health benefits in net assets without donor restrictions consist of unrecognized prior service costs of \$207 as of June 30, 2023. The periodic net benefit loss for the year ended June 30, 2023, was \$12. The weighted-average assumption used to determine benefit obligations as of June 30, 2023, was 4.73%.

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, 2023. 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, 2042 and remain at that level thereafter.

Benefits payouts from the postretirement benefit plan began in FY23. The aggregate benefits expected to be paid in the six years from 2024 to 2029 are approximately \$185. The expected benefits are based on the same assumptions used to measure the Ballet's benefit obligation as of June 30, 2023 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.

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

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, 2023, the Ballet contributed to multiple union trusts and charged to expense \$2,052.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

The Ballet's participation in these plans for the year ended June 30, 2023, is outlined in the table below. All information in the table is as of June 30, 2023. 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 the Total Plan Contributions as of Plan year-Per Form 5500	FIP/RP Status 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	6/30/2024	Green	Yes	N/A	8/31/2022	\$ 555	No	\$ 3,741	15%
American Federation of Musicians and Employer's Pension Fund and Subsidiary	51-6120204- Plan No. 001 94-6296420-	11/30/2025	Red	No	Implemented	3/31/2022	986	Yes	54,517	2%
I.A.T.S.E. Local 16 Pension Plan	Plan No. 001 94-6296420-	6/30/2025	Green	Yes	N/A	12/31/2021	394	No	4,811	8%
I.A.T.S.E. Local 16 Pension Plan	Plan No. 001	6/30/2023	Green	No	N/A	12/31/2021	40	No	4,811	1%
I.A.T.S.E. National Pension Fund	13-1849172- Plan No. 001	7/31/2024	Green	No	N/A	12/31/2021	21	No	37,757	0%
I.A.T.S.E. National Pension Fund	13-1849172- Plan No. 001	8/31/2025	Green	No	N/A	12/31/2021	113	No	37,757	0%

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

NOTE 12 - 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.

Endowment net asset composition by type of fund as of June 30, 2023, consists of the following:

	<u>Total</u>
Donor-restricted endowment funds (net of underwater position of \$6,924)	\$ 73,198
Accumulated appreciation	<u>3,570</u>
Total funds	<u>\$ 76,768</u>

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

While the Board does not designate endowment net assets, the Board-designated endowment assets as of June 30, 2023, is \$30,996 (see table below).

Changes in endowment by net asset class for the years ended June 30, 2023 and 2022 are as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ 35,916	\$ 76,869	\$ 112,785
Investment return:			
Investment return - investment income	801	1,701	2,502
Net realized and unrealized depreciation	1,829	6,455	8,284
Total investment return	2,630	8,156	10,786
Additions and reclassifications to endowment funds from contributions and pledge payments	86	446	532
Transfers of Board-designated endowments	(38)		(38)
Appropriation of endowment assets for expenditure	(7,598)	(8,703)	(16,301)
Endowment assets, end of year	<u>\$ 30,996</u>	<u>\$ 76,768</u>	<u>\$ 107,764</u>
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ 42,581	\$ 94,877	\$ 137,458
Investment return:			
Investment return - investment income	923	2,426	3,349
Net realized and unrealized appreciation	(6,820)	(17,580)	(24,400)
Total investment return	(5,897)	(15,154)	(21,051)
Additions and reclassifications to endowment funds from contributions and pledge payments	(831)	2,076	1,245
Transfers of Board-designated endowments	3,820	-	3,820
Appropriation of endowment assets for expenditure	(3,757)	(4,930)	(8,687)
Endowment assets, end of year	<u>\$ 35,916</u>	<u>\$ 76,869</u>	<u>\$ 112,785</u>

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(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:

	2023	2022
Fair value of endowment funds in an underwater position	\$ 51,492	\$ 47,830
Historical gift value of endowment funds in an underwater position	58,416	54,168
Total underwater deficiency of endowment funds	<u>\$ (6,924)</u>	<u>\$ (6,338)</u>

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. During the year ended June 30, 2023 the board approved

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

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supplemental draw of \$5,000 which is reflected in the \$16,301 appropriation for expenditure. \$2,002 came from funds with donor restrictions

NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS AND NET ASSETS RELEASED FROM RESTRICTIONS

As of June 30, 2023, net assets with donor restrictions were available for the following purposes:

New Ballet production	\$ 821
Ballet school support	1,046
Accumulated appreciation of endowment funds not underwater	673
Resources for property and equipment	1,342
Passage of time, including unpaid pledges	4,226
Touring	232
Education and outreach	662
Perpetual endowment	73,198
Split-interest agreements	1,208
Miscellaneous artistic	133
	<hr/>
Total net assets with donor restrictions	\$ 83,541

Net assets released during the year ended June 30, 2023 were as follows:

For use in ensuing fiscal years/due to expiration of time	\$ 640
Other accumulated appreciation of endowment funds (time restricted portion)	
appropriated for expenditure	4,284
New ballet production	1,382
SF Festival Next@90	2,267
Touring	473
Special events	9
Ballet school support	1,182
Education and outreach	678
Miscellaneous artistic	224
Property and equipment	441
	<hr/>
Total releases	\$ 11,580

NOTE 14 - COLLECTIVE BARGAINING AGREEMENTS

Approximately 76% (556 employees) of the Ballet's employees are covered by collective bargaining agreements. Agreements covering Local 800 and Local B18 expired June 30, 2022, and June 30, 2023, respectively. Local 6 was ratified in August 2023 while Local 800 negotiations are currently underway. One agreement, AGMA, expires within 12 months of June 30, 2023.

San Francisco Ballet Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

(With summarized financial information as of June 30, 2022)

(In thousands of dollars)

NOTE 15 - RELATED PARTIES

As of June 30, 2023, undiscounted pledges receivable includes approximately \$1,010 due from members of the Association's Board of Trustees and of the Foundation's Board of Directors. Of the contributions received, \$1,435 were from members of these Boards.

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 \$5,340 as of June 30, 2023. 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 \$9,435 at June 30, 2023.

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, 2023, the date on which the consolidated financial statements were issued.