San Francisco Ballet Association

Consolidated Financial Statements as of and for the Year Ended June 30, 2010, and Independent Auditors' Report
INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
San Francisco Ballet Association
San Francisco, California

We have audited the accompanying consolidated statement of financial position of the San Francisco Ballet Association (the “Ballet”) as of June 30, 2010, and the related consolidated statements of activities and changes in net assets and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Ballet’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Ballet’s 2009 consolidated financial statements, on which we have issued our report dated November 17, 2009.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Ballet as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

October 20, 2010
(December 27, 2010 as to Note 16)
SAN FRANCISCO BALLET ASSOCIATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2010
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2009)
(In thousands of dollars)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH AND CASH EQUIVALENTS</td>
<td>$ 9,904</td>
<td>$ 9,579</td>
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<tr>
<td>ACCOUNTS RECEIVABLE</td>
<td>118</td>
<td>212</td>
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<tr>
<td>PREPAID EXPENSES AND DEPOSITS</td>
<td>1,679</td>
<td>1,463</td>
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<tr>
<td>PLEDGES RECEIVABLE — Net</td>
<td>6,386</td>
<td>9,491</td>
</tr>
<tr>
<td>RECEIVABLES FROM SPLIT INTEREST AGREEMENTS — Net</td>
<td>6,143</td>
<td>5,987</td>
</tr>
<tr>
<td>RESTRICTED CASH</td>
<td>1,202</td>
<td>2,239</td>
</tr>
<tr>
<td>BOND ISSUANCE COSTS — Net</td>
<td>850</td>
<td>880</td>
</tr>
<tr>
<td>PROPERTY AND EQUIPMENT — Net</td>
<td>34,292</td>
<td>35,325</td>
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<td>ENDOWMENT INVESTMENTS</td>
<td>80,252</td>
<td>76,251</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$140,826</td>
<td>$141,427</td>
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</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND NET ASSETS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LIABILITIES:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$ 4,635</td>
<td>$ 4,353</td>
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<tr>
<td>Deferred compensation and postretirement benefit obligation</td>
<td>576</td>
<td>457</td>
</tr>
<tr>
<td>Note payable to bank</td>
<td></td>
<td>1,197</td>
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<tr>
<td>Deferred performance and school revenue</td>
<td>5,065</td>
<td>5,235</td>
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<tr>
<td>Gift annuity payment liability</td>
<td>308</td>
<td>269</td>
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<tr>
<td>Interest rate swap liability</td>
<td>4,908</td>
<td>3,593</td>
</tr>
<tr>
<td>Bonds payable</td>
<td>44,900</td>
<td>44,900</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>60,392</td>
<td>60,004</td>
</tr>
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</table>

| NET ASSETS:                  |       |       |
| Unrestricted                 | 14,859 | 14,681 |
| Temporarily restricted       | 14,758 | 16,815 |
| Permanently restricted       | 50,817 | 49,927 |
| Total net assets             | 80,434 | 81,423 |

| TOTAL                        | $140,826 | $141,427 |

See notes to consolidated financial statements.
<table>
<thead>
<tr>
<th></th>
<th>Operating</th>
<th>Property</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OPERATING REVENUES:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Francisco performance</td>
<td>$17,000</td>
<td>$ -</td>
<td>$ -</td>
<td>$17,000</td>
<td>$ -</td>
<td>$17,000</td>
</tr>
<tr>
<td>Touring</td>
<td>96</td>
<td>96</td>
<td>96</td>
<td>96</td>
<td>96</td>
<td>1,200</td>
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<tr>
<td>School and student housing</td>
<td>1,992</td>
<td>1,992</td>
<td>1,992</td>
<td>1,992</td>
<td>1,992</td>
<td>1,760</td>
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<tr>
<td>Other income — net</td>
<td>316 (24)</td>
<td>2</td>
<td>294</td>
<td></td>
<td>294</td>
<td>375</td>
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<td>Total operating revenues</td>
<td>19,404</td>
<td>(24)</td>
<td>2</td>
<td>19,382</td>
<td></td>
<td>19,612</td>
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<td>OPERATING EXPENSES:</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Program services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ballet production</td>
<td>23,902</td>
<td>1,599</td>
<td>25,501</td>
<td>25,501</td>
<td>25,936</td>
<td></td>
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<tr>
<td>Touring</td>
<td>938</td>
<td>938</td>
<td>938</td>
<td>938</td>
<td>3,216</td>
<td></td>
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<tr>
<td>School and student housing</td>
<td>2,777</td>
<td>389</td>
<td>3,166</td>
<td>3,166</td>
<td>3,251</td>
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<td>Education and outreach</td>
<td>518</td>
<td>27</td>
<td>545</td>
<td></td>
<td>545</td>
<td>556</td>
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<tr>
<td>Total program services</td>
<td>28,135</td>
<td>2,015</td>
<td>-</td>
<td>30,150</td>
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<td>32,959</td>
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<td>Support services:</td>
<td></td>
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<td></td>
<td></td>
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<td>Marketing, publicity and</td>
<td>4,154</td>
<td>59</td>
<td>4,213</td>
<td>4,213</td>
<td>4,244</td>
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<td>audience development</td>
<td>3,782</td>
<td>329</td>
<td>556</td>
<td>4,667</td>
<td>50</td>
<td>4,717</td>
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<td>General and administrative</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>4,901</td>
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<td>Total support services</td>
<td>7,936</td>
<td>388</td>
<td>556</td>
<td>8,880</td>
<td>50</td>
<td>8,930</td>
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<td>Debt service</td>
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<td></td>
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<td>9,145</td>
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<td>Total operating expenses</td>
<td>36,071</td>
<td>2,949</td>
<td>556</td>
<td>39,576</td>
<td>50</td>
<td>39,626</td>
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<td>OPERATING REVENUES LESS</td>
<td>(16,667)</td>
<td>(2,973)</td>
<td>(554)</td>
<td>(20,194)</td>
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<td>(20,244)</td>
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<td>OPERATING EXPENSES</td>
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<td>(23,665)</td>
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<td>SUPPORT:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Contributions</td>
<td>10,274</td>
<td>1,020</td>
<td>11,294</td>
<td>618</td>
<td>14,842</td>
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<tr>
<td>Special events and Auxiliary</td>
<td>1,399</td>
<td>1,399</td>
<td>1,399</td>
<td>1,399</td>
<td>908</td>
<td></td>
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<tr>
<td>activities — net</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Net assets released:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From donor restriction</td>
<td>4,458</td>
<td>277</td>
<td>875</td>
<td>5,610</td>
<td>-</td>
<td></td>
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<tr>
<td>From board designation</td>
<td>429</td>
<td>(429)</td>
<td>-</td>
<td></td>
<td>-</td>
<td></td>
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<tr>
<td>For appropriation</td>
<td>4,074</td>
<td>(994)</td>
<td>3,080</td>
<td>(3,080)</td>
<td>-</td>
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<td>Total contributions in</td>
<td>20,634</td>
<td>277</td>
<td>472</td>
<td>21,383</td>
<td>618</td>
<td>16,241</td>
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<tr>
<td>support of operations</td>
<td></td>
<td></td>
<td></td>
<td>(5,760)</td>
<td></td>
<td>21,715</td>
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<tr>
<td>Fundraising expenses</td>
<td>(2,058)</td>
<td>(60)</td>
<td>(277)</td>
<td>(2,395)</td>
<td></td>
<td>(2,353)</td>
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<tr>
<td>Support — net</td>
<td>18,576</td>
<td>217</td>
<td>195</td>
<td>18,988</td>
<td>618</td>
<td>13,846</td>
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<tr>
<td>CHANGE IN NET ASSETS FROM</td>
<td>1,909</td>
<td>(2,756)</td>
<td>(359)</td>
<td>(1,206)</td>
<td>(5,760)</td>
<td>658</td>
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<tr>
<td>OPERATIONS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(6,398)</td>
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<tr>
<td>NON-OPERATING:</td>
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<td></td>
<td></td>
<td></td>
<td>(4,488)</td>
</tr>
<tr>
<td>Investment income (loss) — net</td>
<td>3,575</td>
<td>3,575</td>
<td>3,703</td>
<td>322</td>
<td>7,600</td>
<td></td>
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<tr>
<td>Change in post-retirement</td>
<td>(120)</td>
<td>(120)</td>
<td>(120)</td>
<td>(120)</td>
<td>(49)</td>
<td></td>
</tr>
<tr>
<td>benefit obligation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net realized and unrealized</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>loss on interest rate swap</td>
<td>(2,071)</td>
<td>(2,071)</td>
<td>-</td>
<td></td>
<td></td>
<td>(2,071)</td>
</tr>
<tr>
<td>INCREASE (DECREASE) IN NET</td>
<td>1,789</td>
<td>(4,827)</td>
<td>3,216</td>
<td>178</td>
<td>(2,057)</td>
<td>890</td>
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<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(989)</td>
</tr>
<tr>
<td>NET ASSETS — Beginning of year</td>
<td>(3,253)</td>
<td>2,258</td>
<td>15,676</td>
<td>14,681</td>
<td>16,815</td>
<td>49,927</td>
</tr>
<tr>
<td>current</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>81,423</td>
</tr>
<tr>
<td>NET ASSETS — End of year</td>
<td>$ (1,464)</td>
<td>$ (2,569)</td>
<td>$18,892</td>
<td>$14,859</td>
<td>$14,758</td>
<td>$50,817</td>
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See notes to consolidated financial statements.
SAN FRANCISCO BALLET ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2009)
(In thousands of dollars)

<table>
<thead>
<tr>
<th>OPERATING ACTIVITIES:</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in net assets</td>
<td>$ (989)</td>
<td>$(19,857)</td>
</tr>
<tr>
<td>Adjustments to reconcile decrease in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanently restricted contributions received</td>
<td>(894)</td>
<td>(2,978)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,477</td>
<td>2,394</td>
</tr>
<tr>
<td>Loss on asset disposals</td>
<td>1</td>
<td>76</td>
</tr>
<tr>
<td>Amortization of bond issuance costs</td>
<td>30</td>
<td>28</td>
</tr>
<tr>
<td>Net realized and unrealized (gains) losses on marketable investments</td>
<td>(4,611)</td>
<td>12,137</td>
</tr>
<tr>
<td>Limited partnership investment net losses (gains)</td>
<td>(1,519)</td>
<td>2,658</td>
</tr>
<tr>
<td>Change in allowance for doubtful pledges receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in discount of pledges receivable</td>
<td>(121)</td>
<td>(189)</td>
</tr>
<tr>
<td>Change in fair value of the interest rate swap</td>
<td>1,315</td>
<td>1,642</td>
</tr>
<tr>
<td>Net effect of changes in:</td>
<td></td>
<td></td>
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<tr>
<td>Accounts receivable</td>
<td>94</td>
<td>(126)</td>
</tr>
<tr>
<td>Prepaid expenses and deposits</td>
<td>(216)</td>
<td>(53)</td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>3,226</td>
<td>3,629</td>
</tr>
<tr>
<td>Receivables from split interest agreements</td>
<td>(156)</td>
<td>133</td>
</tr>
<tr>
<td>Other assets</td>
<td>489</td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>254</td>
<td>(343)</td>
</tr>
<tr>
<td>Deferred compensation and postretirement benefit obligation</td>
<td>119</td>
<td>49</td>
</tr>
<tr>
<td>Deferred performance and school revenue</td>
<td>(170)</td>
<td>879</td>
</tr>
<tr>
<td>Gift annuity payment liability</td>
<td>39</td>
<td>15</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>(1,121)</td>
<td>592</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>INVESTING ACTIVITIES:</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of endowment investments</td>
<td>(9,290)</td>
<td>(20,355)</td>
</tr>
<tr>
<td>Proceeds from sales of endowment investments</td>
<td>11,419</td>
<td>16,760</td>
</tr>
<tr>
<td>Uses of restricted cash</td>
<td>1,037</td>
<td>6,544</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(1,586)</td>
<td>(4,815)</td>
</tr>
<tr>
<td>Proceeds from disposals of property and equipment</td>
<td>176</td>
<td>2</td>
</tr>
<tr>
<td>Net cash provided by (used in) investing activities</td>
<td>1,756</td>
<td>(1,864)</td>
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<table>
<thead>
<tr>
<th>FINANCING ACTIVITIES:</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanently restricted contributions received</td>
<td>894</td>
<td>2,978</td>
</tr>
<tr>
<td>Permanently restricted contributions received from sale of long-lived assets</td>
<td></td>
<td>395</td>
</tr>
<tr>
<td>Principal payment on capital lease obligation</td>
<td>(7)</td>
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</tr>
<tr>
<td>Proceeds received from note payable to bank</td>
<td></td>
<td>1,197</td>
</tr>
<tr>
<td>Repayment of note payable to bank</td>
<td>(1,197)</td>
<td></td>
</tr>
<tr>
<td>Proceeds received from short-term loan</td>
<td>44,000</td>
<td></td>
</tr>
<tr>
<td>Payment of short-term loan</td>
<td>(44,000)</td>
<td></td>
</tr>
<tr>
<td>Bond proceeds received</td>
<td>44,900</td>
<td></td>
</tr>
<tr>
<td>Bonds refunded</td>
<td>(44,000)</td>
<td></td>
</tr>
<tr>
<td>Payment of bond issuance costs</td>
<td>(906)</td>
<td></td>
</tr>
<tr>
<td>Investment income restricted for long-term purposes</td>
<td>(39)</td>
<td></td>
</tr>
<tr>
<td>Net cash provided by (used in) financing activities</td>
<td>(310)</td>
<td>4,525</td>
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</table>

NET INCREASE IN CASH AND CASH EQUIVALENTS
325
CASH AND CASH EQUIVALENTS — Beginning of year
9,579
CASH AND CASH EQUIVALENTS — End of year
$ 9,904
$ 9,579
SUPPLEMENTAL DISCLOSURES:
Property acquired under capital lease
$ 35
$ -
Cash paid during the year for interest
$ 1,020
$ 1,509

See notes to consolidated financial statements.
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 seventy-two 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 currently presents 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 financial position, changes in net assets, and cash flows of the Association and the Foundation because the Association has both control of and economic interest in the Foundation. Interorganizational transactions and accounts have been eliminated in consolidation.

Basis of Presentation — The accompanying consolidated financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted Net Assets — Unrestricted net assets are available to support all activities of the Ballet and are not subject to donor-imposed stipulations. Commencing July 1, 2009, the Ballet changed its basis of presentation to disclose the funds within unrestricted net assets as noted below:

Property — The Property fund represents funds raised through bond fundraising or allocated by the Board of Trustees to acquire long-lived assets which include property and equipment assets. Assets and/or liabilities related to bond financing and derivative agreements are also included within this fund. Depreciation, amortization and debt related activity associated with long lived assets, bond financing and derivative agreements are incurred within the fund, including realized and unrealized gains and losses on the Ballet’s interest swap agreements. Such expenses are allocated to both program and support services using the Ballet’s functional expense allocation methodology as disclosed below.

Board-Designated — The Board-Designated Fund represents funds designated by the Board of Trustees to function as part of the endowment pool of investments. An annual allocation of funds based on 5% of the Ballet’s endowment funds’ average fair value over the prior three years as of March 31, preceding the fiscal year in which the distribution is planned is made by the Foundation’s Board of Directors (see Note 10) and is reflected as appropriated within the net assets released from restriction within Support. General and administrative support services are comprised of the operating costs of the endowment funds. The Board of Trustees can approve the movement of funds from board-designated funds to other unrestricted funds in according with their policies and procedures.
Operating — The Operating fund represents the core operating activity of the Ballet. Revenues and expenses from performances, touring, school and student housing will be earned/incurred within the operating fund.

Temporarily Restricted Net Assets — Temporarily restricted net assets represent contributions whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Ballet pursuant to those stipulations. Temporarily restricted net assets also include accumulated appreciation of permanently restricted endowment funds that have not been appropriated by the Board in accordance with the California Uniform Prudent Management of Institutional Funds Act of 2008 (UPMIFA).

Permanently Restricted Net Assets — Permanently restricted net assets 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 permanently restricted net assets, resulting in increases/decreases to these net assets.

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 discounts on these amounts were computed using risk-free rates applicable in the years in which those promises were received. 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 fair value, the Ballet considers single or joint life expectancy from the 1983 Group Mortality Table and the RP-2000 Combined Healthy Mortality Table, 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. The increase in the value of split interest agreements for the year ended June 30, 2010, was $155.

Restricted Cash — Restricted cash is invested in a money market fund that is held by a trustee in restricted accounts established with proceeds received from the issuance of bonds.

Bond Issuance Costs — Bond issuance costs are being amortized over the term of the related bonds payable.

Property and Equipment — Property and equipment are stated at cost. Donated property and equipment is 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.

Fixed assets that are acquired with resources restricted for such acquisition are considered to be temporarily restricted and are released from restrictions over the estimated useful life of the asset.
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 over the first two years the new works are presented within the Property Fund. The Ballet’s production of Nutcracker, including the costs for sets, costumes, staging, and choreography, completed in 2005 and updated in 2007, is being depreciated on a straight-line basis over 15 years, beginning in 2005. The Ballet’s production of Swan Lake, including the costs for sets, costumes, staging, and choreography, completed in 2009, is being depreciated on a straight-line basis over the first five years the work is presented, beginning in 2009.

**Endowment Investments** — Endowment investments consist of equity and fixed income mutual fund investments, limited partnership investments, and cash and cash equivalent balances restricted by donors or designated by the Association’s Board of Trustees for long-term investment. Investments in equity securities and fixed income mutual funds 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 limited partnership interests, are also recorded at estimated fair value. The fair values of limited partnership interests have been estimated using the net asset value per share of the investment. 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 Performance and School Revenue** — Deferred performance and school revenue as of June 30, 2010, primarily consists of advance ticket sales for performances scheduled in the Ballet’s 2011 repertory season, which opens in January 2011, as well as advance tuition payments for school classes to be conducted in the year ending June 30, 2011.

**Deferred Compensation and Postretirement Benefit Obligation** — 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 RP-2000 Combined Healthy Mortality Table projected generationally with Scale AA, makes assumptions about future increases in health care premiums, and employs a discount rate based on the Citigroup Pension Discount 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.

**Derivative Instruments** — As of January 1, 2009, the Ballet is subject to the provisions of Accounting Standards Codification (ASC or the “Codification”) 815-10, *Disclosures about Derivative Instruments and Hedging Activities*. This standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to provide a better understanding of how those instruments and activities are accounted for; how and why they are used; and their effects on an entity’s financial position, financial performance and cash flows. The Ballet is required to provide qualitative disclosures about the objectives and strategies for using derivative instruments, and quantitative disclosures about the fair value of, and gains or losses on, derivative instruments.

The Ballet does not designate any derivatives as hedges. Thus, the changes in fair value of derivative instruments are reported in net realized and unrealized gains (losses) on investments on the statements of activities and changes in net assets.

Derivative instruments are discussed further in Note 7.
**Other Income** — Other income is presented net of costs of approximately $535 relating to sales and rentals for the year ended June 30, 2010.

**Revenue Recognition** — All contributions are recognized as revenue when received or unconditionally promised to the Ballet. The Ballet classifies gifts of cash and other assets as temporarily or permanently 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Temporarily restricted contributions are reported as unrestricted support when the restriction is met in the same period as the contribution is received or when appropriated for expenditure by the Board. Conditional promises to give are not recognized as revenue until the conditions are substantially met. Conditional promises totaled $500, a portion of which was recorded within accounts payable and accrued expenses, as of June 30, 2010.

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.

**Contributions 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, 2010, the value of contributed services recognized as revenues in the accompanying consolidated financial statements was approximately $707 and consisted primarily of donated legal, investment advisory, and catering services and travel vouchers. 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!, 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.

**Special Events and Auxiliary Activities** — Special events and auxiliary activities are presented net of costs of approximately $1,226 for the year ended June 30, 2010. These costs include donated goods and services of approximately $160.

**Functional Expense Allocations** — Expenses applicable to more than one activity, such as facilities-related depreciation, supplies, travel, personnel, and occupancy costs, are allocated among program services and support services on the basis of usage and management estimates.

**Estimated Fair Value of Financial Instruments** — The Ballet’s financial instruments include cash, cash equivalents, investments, 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.

On July 1, 2008, the Ballet adopted guidance which defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. In conjunction with the adoption of this guidance, the Ballet also elected to early adopt guidance issued relating to certain investments in funds that do not have readily determinable fair values including limited partnerships. This guidance 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 also 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 net asset value 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 limited partnerships with designated investments, lock up periods or gates extending more than three months beyond the balance sheet 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.

The adoption of this guidance did not have a material effect on the Ballet’s consolidated financial statements. 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 2010, such amounts have exceeded Federal Deposit Insurance Corporation (FDIC) limits. The Ballet’s endowment investments have been placed with a major custodian. The Ballet closely monitors these endowment investments and its accounts and pledges receivable and has not experienced significant credit losses. As of June 30, 2010, the following endowment investments exceed 5% of the fair market value of total endowment investments:

- Dodge & Cox Income Fund 18%
- Daedalus Partners, LLP 17%
- iShares ACWI Index 12%
- Osterweis Strategic Income Fund 6%
- Canyon Value Realization Fund (Cayman), L.P. 5%
- Dodge & Cox International Fund 5%

Income Tax Status — The Association and the Foundation have been classified as a publicly supported, tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code, and are exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d). Ballet management believes that no liabilities are required to accrue for uncertain tax positions as of June 30, 2010.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 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, receivable lives of property and equipment, fair value of endowment investments, postretirement benefits liabilities, and fair value of the swap agreement and the related credit valuation adjustment. Actual results could differ from those estimates.

Codification — In June 2009, the Codification, a single source of authoritative non-governmental GAAP, superseding existing Financial Accounting Standards Board (FASB), American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related accounting literature, was created. The Codification is a reorganization and compilation of all then-existing authoritative GAAP for nongovernmental entities. The Codification was effective for interim or annual financial periods ending after September 15, 2009 and was adopted by the Ballet for reporting in the fiscal year ended June 30, 2010. The adoption did not have a material impact on the Ballet’s consolidated statement of financial position, statement of activities and changes in net assets or cash flows.

Improving Disclosures About Fair Value Measurements — In September 2009, the FASB issued FASB Accounting Standards Update (ASU) No. 2009-12, Investment in Certain Entities that Calculate Net Asset Value per Share. ASU No. 2009-12 (formerly FAS 157-g) amends FASB Statement No. 157, Fair Value Measurements, adds disclosures, and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accountants (AICPA) Guide in arriving at their reported NAV. The Ballet adopted ASU No. 2009-12 for the year ended June 30, 2010. The adoption of this guidance did not have a material impact on the Ballet’s financial statements.
In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU No. 2010-06 is effective as of June 30, 2010. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation; this is effective for the Ballet as of July 1, 2010. The Ballet does not believe adoption of this guidance will have a material impact on the consolidated financial statements.

Reclassifications — Certain prior year amounts have been reclassified to conform to the current year presentation without affecting previously reported classes of net assets in total.

2. **PLEDGES RECEIVABLE**

Pledges receivable as of June 30, 2010, are due as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$5,184</td>
</tr>
<tr>
<td>2012 to 2016</td>
<td>1,235</td>
</tr>
<tr>
<td><strong>Total pledges receivable</strong></td>
<td><strong>6,419</strong></td>
</tr>
</tbody>
</table>

Less discount for amounts expected to be collected after June 30, 2010  
(33)

Pledges receivable — net  
$6,386
### 3. FAIR VALUE MEASUREMENTS

As of June 30, 2010, the Ballet’s investments are classified by levels within the valuation hierarchy as follows:

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets — at fair value:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted cash</td>
<td>$1,202</td>
<td>$</td>
<td>$</td>
<td>$1,202</td>
</tr>
<tr>
<td>Endowment investments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents held for investment</td>
<td>1,164</td>
<td>1,164</td>
<td></td>
<td>1,164</td>
</tr>
<tr>
<td>Equity securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. companies</td>
<td>12,237</td>
<td></td>
<td>12,237</td>
<td></td>
</tr>
<tr>
<td>International companies</td>
<td>2,492</td>
<td></td>
<td>2,492</td>
<td></td>
</tr>
<tr>
<td>Mutual funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed income</td>
<td>20,769</td>
<td></td>
<td>20,769</td>
<td></td>
</tr>
<tr>
<td>Equity — U.S. companies</td>
<td>955</td>
<td>955</td>
<td></td>
<td>1,910</td>
</tr>
<tr>
<td>Equity — International companies</td>
<td>7,049</td>
<td>7,049</td>
<td></td>
<td>14,098</td>
</tr>
<tr>
<td>Equity — Global index</td>
<td>9,701</td>
<td>9,701</td>
<td></td>
<td>19,402</td>
</tr>
<tr>
<td>Equity long/short hedge fund</td>
<td>13,930</td>
<td></td>
<td>13,930</td>
<td></td>
</tr>
<tr>
<td>Credit strategies hedge fund</td>
<td>1,829</td>
<td>1,945</td>
<td></td>
<td>3,774</td>
</tr>
<tr>
<td>Event-driven hedge fund</td>
<td></td>
<td>3,843</td>
<td>3,843</td>
<td></td>
</tr>
<tr>
<td>Multi-strategy hedge fund</td>
<td></td>
<td>4,162</td>
<td>176</td>
<td>4,338</td>
</tr>
<tr>
<td>Total endowment investments</td>
<td>54,367</td>
<td>19,921</td>
<td>5,964</td>
<td>80,252</td>
</tr>
<tr>
<td>Total assets — at fair value</td>
<td>$55,569</td>
<td>$19,921</td>
<td>$5,964</td>
<td>$81,454</td>
</tr>
<tr>
<td>Total liabilities — at fair value — interest rate swap</td>
<td>$-</td>
<td>$4,908</td>
<td>$-</td>
<td>$4,908</td>
</tr>
<tr>
<td>Total liabilities at fair value</td>
<td>$-</td>
<td>$4,908</td>
<td>$-</td>
<td>$4,908</td>
</tr>
</tbody>
</table>

For the year ended June 30, 2010, the changes in investments classified as Level 3 are as follows:

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance — beginning of year</td>
<td></td>
<td></td>
<td></td>
<td>$22,839</td>
</tr>
<tr>
<td>Unrealized gain</td>
<td></td>
<td></td>
<td></td>
<td>546</td>
</tr>
<tr>
<td>Transfers out:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from liquidations</td>
<td></td>
<td></td>
<td></td>
<td>(501)</td>
</tr>
<tr>
<td>Undesignation of investments</td>
<td></td>
<td></td>
<td></td>
<td>(1,161)</td>
</tr>
<tr>
<td>Transfers to Level 2 based on adoption of new accounting pronouncement</td>
<td></td>
<td></td>
<td></td>
<td>(15,759)</td>
</tr>
<tr>
<td>Balance — end of year</td>
<td></td>
<td></td>
<td></td>
<td>$5,964</td>
</tr>
</tbody>
</table>

Changes in unrealized gains including investment returns relating to instruments that are classified as Level 3 still held as of June 30, 2010, are $1,762. As disclosed in Note 1, the Ballet adopted ASU No. 2009-12 as of June 30, 2010, which resulted in a reclassification of $15,759 of investments being transferred from Level 3 to Level 2 for disclosure purposes.
The following schedule discusses the nature and risks of investments which calculate net asset value per share or its equivalent and whether those investments are probable of being sold at amounts different from net asset value per share:

<table>
<thead>
<tr>
<th>Redempion Period</th>
<th>Fair Value</th>
<th>Notice Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redemption</td>
<td>If currently eligible</td>
<td></td>
</tr>
<tr>
<td>Period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long/short equity (a)</td>
<td>$13,930</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Credit strategies (b)</td>
<td>3,774</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Event-driven (c)</td>
<td>3,843</td>
<td>Semi-annually</td>
</tr>
<tr>
<td>Multi-strategy (d)</td>
<td>4,338</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Total</td>
<td>$25,885</td>
<td></td>
</tr>
</tbody>
</table>

(a) This category represents an investment in a hedge fund that invests in principally, but not solely, in equity and equity-related securities that are traded publicly in US markets. The fund employs a risk-averse investment strategy that endeavors to limit downside risk as much as to generate upside returns using a balanced long/short strategy that attempts to produce solid results in up market and superior results in down market, and above average results over long periods of time. On the long side, the fund invests in companies experiencing improving fundamentals and which are undervalued by historical market or other standards. Conversely, on the short side, the fund invests in companies experiencing deteriorating fundamentals and which are overvalued by historical market or other standards. The fair value of the investment in this category has been estimated using the Ballet’s interest in partners’ capital to which a proportionate share of net assets is attributed. There are no gates or lockup periods remaining for this investment at June 30, 2010. The fund is scheduled to terminate on December 31, 2020.

(b) This category includes an investment in a hedge fund that takes a bottom-up, credit oriented approach to investing in various fixed income and equity securities, derivative transactions and other instruments. The fund looks for complex situations where risk is misunderstood and rigorous research or active involvement may enhance returns and limit risk. The fair value of the investment in this category has been estimated using the Ballet’s interest in partners’ capital to which a proportionate share of net assets is attributed. The investment has no lock up period and is allowed to redeem up to 25% of the investment excluding special situation accounts on a quarterly basis. As of June 30, 2010, approximately 3% of the fair market value is in special situation accounts, which cannot be redeemed until liquidated by management of the fund.

(c) This category includes an investment in a multi-strategy hedge fund, focusing on distressed and event-driven situations with definable catalysts, including stressed and distressed credits, equity transactions, litigation, and capital structure arbitrage. Value drivers typically revolve around legal and/or accounting issues at a given company. The fund has a diversified portfolio with moderate concentration, and distressed investments typically comprise approximately 50% of total exposure. The fund may contain some activist positions and is primarily invested in domestic companies. The fair value of the investment in this category has been estimated using the net asset value per share of the investment. The investment has a remaining lock-up period of two months at June 30, 2010. Additionally, the fund manager may impose a 30% gate restriction on redemptions for this investment.
This category includes 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 capitalizes on 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. As of June 30, 2010, approximately 4% of the fair market value of the investment in this category is a designated investment that cannot be redeemed until liquidated by management of the fund.

4. PROPERTY AND EQUIPMENT

The Ballet’s property and equipment as of June 30, 2010, is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$4,519</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>33,464</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>6,143</td>
</tr>
<tr>
<td>Capitalized sets and costumes</td>
<td>11,490</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>333</td>
</tr>
<tr>
<td><strong>Total property and equipment</strong></td>
<td><strong>55,949</strong></td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(21,657)</td>
</tr>
<tr>
<td><strong>Property and equipment — net</strong></td>
<td><strong>$34,292</strong></td>
</tr>
</tbody>
</table>

The Property Fund on the Statement of Activities includes the following types of depreciation expense on the Ballet productions line: $590 allocated occupancy; $756 sets and costumes; and $253 other, primarily from stage and theatrical equipment.

5. CREDIT FACILITIES

The Ballet has a line of credit with a bank of $1,444, which together with its outstanding undrawn letters of credit are secured by certain investment securities in the Foundation’s portfolio and are subject to a collective limit of 70% of the market value of those securities. As of June 30, 2010, that limit would not have constrained the Ballet’s secured line of credit. Interest on the secured line of credit is charged at the greater of the prime rate, minus 0.25% or 5%. The secured line of credit expires on October 31, 2010. The Ballet had no outstanding borrowings under the secured line of credit as of June 30, 2010, and $3,005 of unused secured letters of credit to support its workers’ compensation insurance policies (see Note 8).

The Ballet also has an unsecured line of credit with the same bank of $975, of which $500 had been allocated as of June 30, 2010 and $650 as of July 8, 2010, as a letter of credit to support the Ballet’s workers’ compensation insurance policy for the fiscal years ending June 30, 2010 and June 30, 2011. Interest on the unsecured line of credit is charged at the greater of the prime rate, plus 1% or 5%. The unsecured line of credit expires on October 31, 2010.
6. **BONDS PAYABLE**

On August 2, 2006, the Ballet entered into an agreement with the California Infrastructure and Economic Development Bank for the issuance of $44,000 Series 2006 Bonds and refunded the $19,540 in Revenue Bonds, Series 2002 (the “Series 2002 Bonds”). The Series 2006 Bonds bore interest at a variable rate reset daily, mature on various dates from July 1, 2027 through July 1, 2036, were an unsecured obligation of the Ballet, were guaranteed by the Foundation, and were insured by the Financial Guaranty Insurance Company (FGIC).

On August 1, 2008, the Ballet refinanced on a long-term basis with the $44,900 California Infrastructure and Economic Development Bank, Variable Rate Revenue Bonds, Series 2008 (the “Series 2008 Bonds”). As a result of the transaction, all of the refunded Series 2006 Bonds were legally defeased and no longer represent obligations of the Ballet. The Series 2008 Bonds bear interest at a variable rate reset daily (1.75% as of June 30, 2010), mature on various dates from July 1, 2029 through July 1, 2038, are secured by Gross Revenues of the Ballet as defined in the Letter of Credit Reimbursement Agreement with Allied Irish Bank, P.L.C. (AIB), and are guaranteed by the Foundation, as defined in the Guaranty Agreement with the Foundation and the California Infrastructure and Economic Development Bank and The Bank of New York Mellon Trust Company, as Trustee. Interest payments are due and payable on the first of each month.

As guarantor, the Foundation guarantees the full and prompt payment and performance when due, whether by acceleration or otherwise, and at all times thereafter, of all obligations of the Association to AIB under the Series and guarantees to the California Infrastructure and Economic Development Bank and The Bank of New York Mellon Trust Company, as Trustee, (a) the principal of and redemption premium, if any, on the Series 2008 Bonds when and as the same shall become due (whether at maturity, by acceleration, call for redemption, or otherwise); (b) the interest on the Series 2008 Bonds when and as the same shall become due; (c) the purchase price of the Series 2008 Bonds tendered or deemed tendered for purchase pursuant to the Indenture; and (d) all amounts due or to become due under the Loan Agreement.

As of June 30, 2010, the fair value of the Series 2008 Bonds was quoted at $44,900. The carrying value of the bonds payable represents a reasonable estimate of the corresponding fair value due to the associated variable interest rate.

Interest payments are payable and due on the first of each month. Interest expense related to bonds payable for the year ended June 30, 2010, was approximately $187. In connection with the Letter of Credit Reimbursement Agreement with AIB for the Series 2008 Bonds, the Ballet was required to be and was in compliance with certain financial covenants as of June 30, 2010.

The remaining proceeds from the Series 2006 Bonds are held in restricted cash accounts, and certain conditions must be met prior to the release of the funds. In addition to the refunding of the Series 2002 Bonds, the proceeds from the Series 2006 Bonds were used for the purchase and renovation of a warehouse and a student residence, certain technology hardware upgrades, reimbursement of costs for projects undertaken in connection with the Series 2002 Bonds, construction of ballet sets and costumes, the payment of interest and fees, and costs incurred in connection with the issuance of the Series 2006 Bonds, and were being used for new theatrical equipment.
7. **INTEREST RATE SWAP**

Concurrent with the issuance of the Series 2006 Bonds, the Ballet entered into a swap agreement, which effectively fixed the interest rate on a notional amount of $22,000, at 3.922%, for the remaining term of the Series 2006 Bonds.

After the defeasance of the Series 2006 Bonds, the existing swap agreement remains in place at the same notional amount, interest rate, term, and maturity date as discussed above, but is no longer insured by FGIC. An amendment to the swap agreement dated July 9, 2008, removed FGIC from the collateral requirements and increased the decline in the fair market value of the swap agreement before either the Ballet or the counterparty has to post collateral.

The fair value of the swap agreement is estimated based on a quote from the market maker of this instrument and confirmed by a third party, plus a credit valuation adjustment based on the respective credit rating of the Ballet and its counterparty. The estimated fair value of the swap agreement was $4,908 as of June 30, 2010, including a credit valuation adjustment of $310, which reduced the Ballet’s liability, and is included in interest rate swap liability in the accompanying consolidated statement of financial position. The swap interest rate liability is a Level 2 fair value measurement. Payments made to the counterparty of the swap agreement were approximately $824 during the year ended June 30, 2010. 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, 2010, the Ballet was not required to post collateral on the swap agreement and no collateral was posted as of June 30, 2010. In July 2010, the Ballet was required to post collateral and as of October 20, 2010, $1,380 was posted.

The following table shows the outstanding notional amount of derivative instruments measured at fair value as reported in the consolidated balance sheet as of June 30, 2010:

<table>
<thead>
<tr>
<th>Maturity Date of Derivative</th>
<th>Fixed Rate</th>
<th>Notional Amount Outstanding</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate swap</td>
<td>7/1/2036</td>
<td>3.922 %</td>
<td>$22,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$22,000</td>
<td>$(4,908)</td>
</tr>
</tbody>
</table>

8. **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, 2010, of approximately $2,277, is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. As of June 30, 2010, the Ballet had unused letters of credit totaling $3,005, as required by the Ballet’s insurance carriers.
9. 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. Matching contributions were eliminated for the year ended June 30, 2010.

Substantially all theatrical employees are covered under collective bargaining agreements that require payments to multiemployer pension, health, and welfare plans. Contributions to these plans approximated $1,076 for the year ended June 30, 2010.

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 $440 has been calculated based on the net present value of the expected payments. The total present value as of June 30, 2010, of the future health benefits, or the expected postretirement benefit obligation for health, is approximately $123. The accumulated postretirement benefit obligation of the future health benefits, as of June 30, 2010, is $135. The cost for the year ending June 30, 2011, for future health benefits will be $12.

The following table sets forth the health benefits agreement's benefit obligations, fair value of plan assets, and status as of June 30, 2010, which liability is included in the consolidated statement of financial position:

<table>
<thead>
<tr>
<th>Benefit obligation</th>
<th>$135</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets</td>
<td></td>
</tr>
<tr>
<td>Unfunded status — end of year</td>
<td>$135</td>
</tr>
</tbody>
</table>

Amounts recognized for health benefits in unrestricted net assets consist of unrecognized prior service costs of $135 as of June 30, 2010. The periodic net benefit cost for the year ended June 30, 2010 was $12. The weighted-average assumption used to determine benefit obligations as of June 30, 2010, was 4.8%.

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:

<table>
<thead>
<tr>
<th>1% Increase</th>
<th>1% Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect of the health care component on:</td>
<td></td>
</tr>
<tr>
<td>Accumulated postretirement benefit obligation</td>
<td>$ 11</td>
</tr>
<tr>
<td>Service cost and interest cost for fiscal year 2010</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>$12</td>
</tr>
</tbody>
</table>

For measurement purposes, a 8.6% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended June 30, 2010. The rate was assumed to decrease gradually to 5.0% through the year ending June 30, 2019, and remain at that level thereafter.
No benefits are expected to be paid from the postretirement benefit plan in each year ending June 30, 2011 to June 30, 2013. The aggregate benefits expected to be paid in the seven years from 2014 to 2020 are approximately $106. The expected benefits are based on the same assumptions used to measure the Ballet’s benefit obligation as of June 30, 2010, and include future employee service.

10. 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) permanently restricted investments, which represent the historic dollar value of contributions restricted by donors for permanent investment, (b) earnings on permanently restricted investments that are also permanently restricted, (c) temporarily 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) unrestricted endowment investments, which represent funds directed for investment in the endowment by the Board, losses on underwater donor-restricted investments, 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily 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 making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Ballet and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Ballet
7. The investment policies of the Ballet

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, 2010, consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor-restricted endowment funds</td>
<td>(6,355)</td>
<td>4,781</td>
<td>43,911</td>
<td>42,337</td>
</tr>
<tr>
<td>Board-designated endowment funds</td>
<td>37,915</td>
<td></td>
<td></td>
<td>37,915</td>
</tr>
<tr>
<td>Total funds</td>
<td>31,560</td>
<td>4,781</td>
<td>43,911</td>
<td>80,252</td>
</tr>
</tbody>
</table>

Changes in endowment by net asset class for the year ended June 30, 2010, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets — July 1, 2009</td>
<td>29,307</td>
<td>4,158</td>
<td>42,786</td>
<td>76,251</td>
</tr>
<tr>
<td>Investment return — investment income</td>
<td>1,387</td>
<td>230</td>
<td>74</td>
<td>1,691</td>
</tr>
<tr>
<td>Net realized and unrealized appreciation</td>
<td>2,194</td>
<td>3,473</td>
<td>247</td>
<td>5,914</td>
</tr>
<tr>
<td>Total investment return</td>
<td>3,581</td>
<td>3,703</td>
<td>321</td>
<td>7,605</td>
</tr>
<tr>
<td>Additions to endowment funds from contributions and pledge payments</td>
<td>1,039</td>
<td></td>
<td>804</td>
<td>1,843</td>
</tr>
<tr>
<td>Appropriation of endowment assets for expenditure</td>
<td>(2,367)</td>
<td>(3,080)</td>
<td></td>
<td>(5,447)</td>
</tr>
<tr>
<td>Endowment net assets — June 30, 2010</td>
<td>31,560</td>
<td>4,781</td>
<td>43,911</td>
<td>80,252</td>
</tr>
</tbody>
</table>

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets for the year ended June 30, 2010 (endowment only), are as follows:

- Permanently restricted net assets — the portion of permanently restricted net assets participating in the investment pool that is required to be maintained permanently by explicit donor stipulation or UPMIFA
  $43,911

- Total endowment funds classified as permanently restricted net assets
  $43,911

- Temporarily restricted net assets:
  - Donor-restricted principal and income on Board-designated endowments
    $1,506
  - The portion of perpetual endowment funds subject to a time restriction under UPMIFA:
    - Without purpose restrictions
      75
    - With purpose restrictions
      3,200

- Total endowment funds classified as temporarily restricted net assets
  $4,781

**Endowment Funds With Deficits** — 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 unrestricted net assets. Deficits associated with funds functioning as endowments, when they exist, are
likewise classified as a reduction of unrestricted net assets. Deficits reported in unrestricted net assets were $6,355 as of June 30, 2010. 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 unrestricted net assets.

**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 Board-designated fund. Under this policy, as approved by the Foundation’s Board, 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 S&P 500 index and 40% of the Barclays Capital U.S. Government/Credit 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 equities, bonds, and alternative investment strategies in a 40-20-40 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 three years as of March 31, preceding the fiscal year in which the distribution is planned. The appropriation amount is determined in the preceding fiscal year, one fiscal year prior to when it becomes available for expenditure. 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.
11. TEMPORARILY RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

As of June 30, 2010, temporarily restricted net assets were available for the following purposes:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passage of time, including unpaid pledges</td>
<td>3,843</td>
</tr>
<tr>
<td>Accumulated appreciation of endowment funds not appropriated for expenditure</td>
<td>75</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>4,566</td>
</tr>
<tr>
<td>New ballet production</td>
<td>3,377</td>
</tr>
<tr>
<td>Ballet school support</td>
<td>1,753</td>
</tr>
<tr>
<td>New media</td>
<td>386</td>
</tr>
<tr>
<td>Education and outreach, including dancer wellness and career transition</td>
<td>520</td>
</tr>
<tr>
<td>Touring</td>
<td>25</td>
</tr>
<tr>
<td>Artistic and production</td>
<td>213</td>
</tr>
<tr>
<td><strong>Total temporarily restricted net assets</strong></td>
<td><strong>14,758</strong></td>
</tr>
</tbody>
</table>

Net assets released during the year ended June 30, 2010 were as follows:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to the expiration of time</td>
<td>2,503</td>
</tr>
<tr>
<td>Appropriation of endowment assets for expenditure</td>
<td>1,276</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>385</td>
</tr>
<tr>
<td>New media</td>
<td>296</td>
</tr>
<tr>
<td>New ballet production</td>
<td>2,485</td>
</tr>
<tr>
<td>Touring</td>
<td>682</td>
</tr>
<tr>
<td>Artistic and production</td>
<td>178</td>
</tr>
<tr>
<td>Special events</td>
<td>2</td>
</tr>
<tr>
<td>Ballet school support</td>
<td>688</td>
</tr>
<tr>
<td>Education and outreach, including dancer wellness and career transition</td>
<td>195</td>
</tr>
<tr>
<td><strong>Total net assets released from restrictions</strong></td>
<td><strong>8,690</strong></td>
</tr>
</tbody>
</table>

12. LEASE COMMITMENTS

The Ballet rents performance space, office space, office equipment, and event venues under various operating leases. The following is a schedule of approximate future minimum rental payments required under the leases as of June 30, 2010, that have an initial noncancelable lease term in excess of one year:

<table>
<thead>
<tr>
<th>Years Ending June 30</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>68</td>
</tr>
<tr>
<td>2012</td>
<td>34</td>
</tr>
<tr>
<td>2013</td>
<td>34</td>
</tr>
<tr>
<td>2014</td>
<td>19</td>
</tr>
<tr>
<td>2015</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>155</strong></td>
</tr>
</tbody>
</table>

Rent expense from operating leases approximated $375 for the year ended June 30, 2010.
13. COLLECTIVE BARGAINING AGREEMENTS

Approximately 77% (617 employees) of the Ballet’s employees are covered by collective bargaining agreements. The following is a schedule of expiring agreements and the number of employees covered under each agreement:

<table>
<thead>
<tr>
<th>Union</th>
<th># of Employees</th>
<th>Contract Expiration Date at June 30, 2010</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Alliance of Theatrical Stage Employees (IATSE), Local B-18</td>
<td>63</td>
<td>7/31/2010</td>
<td>New contract expiring 7/31/2013 fully ratified in September 2010</td>
</tr>
<tr>
<td>IATSE, Local 784</td>
<td>30</td>
<td>7/31/2010</td>
<td>New contract expiring 7/31/2013 fully ratified in September 2010</td>
</tr>
<tr>
<td>IATSE, Local 16</td>
<td>215</td>
<td>6/30/2011</td>
<td></td>
</tr>
<tr>
<td>IATSE, Local 800</td>
<td>9</td>
<td>6/30/2011</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>423</td>
</tr>
</tbody>
</table>

14. RELATED PARTIES

As of June 30, 2010, undiscounted pledges receivable include approximately $3,141 due from members of the Association’s Board of Trustees and of the Foundation’s Board of Directors.

Of the value of contributed services recognized as revenues in the accompanying consolidated financial statements, $274 was received from related parties, primarily for legal and investment advisory services.

A member of the Associations Board of Trustees and the Foundation’s Board of Directors is a General Partner of a nonmarketable limited partnership investment valued at $13,930 and a fixed income mutual fund managed by the same member’s investment management company was valued at $4,390 as of June 30, 2010.

A member of the Association’s Board of Trustees is the Chairman and Founding Chief Executive Officer of the Foundation’s investment custodian and of the bank with which the Association has its operating accounts and credit facilities. Both the investment custodian and the bank operate as a division of a larger bank. Another member of the Association’s Board of Trustees and of the Foundation’s Board of Directors is an employee of the larger bank, which is wholly owned by a third bank.

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

15. 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.
16. SUBSEQUENT EVENTS

The Ballet evaluated subsequent events through December 27, 2010, the date on which the consolidated financial statements were issued.

Management concluded that no material subsequent events have occurred since June 30, 2010 that required further recognition or disclosure in such financial statements except as follows:

At June 30, 2010, the Ballet had a line of credit with First Republic Bank of $1,444, which together with its outstanding undrawn letters of credit, are secured by certain investment securities in the Foundation’s portfolio and are subject to a collective limit of 70% of the market value of those securities. Interest on the secured line of credit is charged at the greater of the prime rate, minus 0.25% or 5%. The Ballet had no outstanding borrowings under the secured line of credit as of June 30, 2010, and $3,005 of unused secured letters of credit to support its workers’ compensation insurance policies. On October 26, 2010 the Ballet modified the existing terms of its secured and unsecured line of credit agreements to extend the maturity date to September 30, 2011. (See Note 5). On December 14, 2010, the Ballet modified the secured line of credit agreement to reduce borrowing capacity from $1,444 to $720. The other modifications made to this agreement were not material in nature. (See Note 5).

On December 16, 2010, the Ballet agreed in principle to modify its swap agreement to reduce the fair market value levels at which either the Ballet or the counterparty has to post collateral. This modification decreased the Ballet’s collateral posting threshold from $5,000 to $2,500 at the Ballet’s current credit rating as determined by Standard & Poor’s. (See Note 7). The Ballet anticipates that such modification will become effective on December 30, 2010 and expects to have sufficient operating cash on hand to meet the modified collateral posting requirements at that time.

As a result of the downgrading of the credit rating of AIB (see Note 6), the Ballet has elected to replace AIB with an alternate letter of credit from First Republic Bank, with a confirming letter of credit provided by the Federal Home Loan Bank of San Francisco, thereby triggering a mandatory tender on the Series 2008 Bonds in whole on December 30, 2010. On December 14, 2010, First Republic Bank ("Purchaser") entered into a Private Placement Agreement with the California Infrastructure and Economic Development Bank ("CIEDB") ("Issuer") and the Ballet, whereby the Purchaser agrees to purchase from the Issuer $25,000 CIEDB Revenue Bonds Series 2010A (San Francisco Ballet Association) and $5,000 CIEDB Variable Rate Revenue Bonds Series 2010B (San Francisco Ballet Association), (collectively the “Series 2010 Bonds”), with the closing to occur on December 30, 2010. Proceeds from the Series 2010 Bonds will be used to refund a portion of the Series 2008 Bonds and to fund costs of the Series 2010 Bonds and reissuance of the Series 2008 Bonds. The outstanding amount of the Series 2008 Bonds will be reduced to $15,600 and upon reissuance, the interest rate of the Series 2008 Bonds will reset monthly. In connection with obtaining the alternate letter of credit from First Republic Bank, the Ballet has agreed that it will not obtain additional financing in excess of $250 from any lender other than First Republic Bank.

* * * * *