San Francisco Ballet Association

Consolidated Financial Statements as of and for the Year Ended June 30, 2011, and Independent Auditors' Report

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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, 2011, 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 2010 consolidated financial statements, on which we have issued our report dated October 20, 2010 (December 27, 2010 as to Note 16 of the 2010 consolidated financial statements).

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, 2011, 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.

Deloitte & Touche LLP

October 24, 2011

SAN FRANCISCO BALLET ASSOCIATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2011
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2010)
(In thousands of dollars)

	2011	2010
ASSETS		
CASH AND CASH EQUIVALENTS	$ 5,972	$ 9,904
ACCOUNTS RECEIVABLE	127	118
PREPAID EXPENSES AND DEPOSITS	1,686	1,679
PLEDGES RECEIVABLE — Net	6,604	6,386
RECEIVABLES FROM SPLIT INTEREST AGREEMENTS — Net	4,210	6,143
OTHER INVESTMENTS	493	
OTHER ASSETS	390	
RESTRICTED CASH	2,838	1,202
BOND ISSUANCE COSTS — Net	1,090	850
PROPERTY AND EQUIPMENT — Net	33,364	34,292
ENDOWMENT INVESTMENTS	87,929	80,252
TOTAL	$ 144,703	$ 140,826
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 4,518	$ 4,635
Deferred compensation and postretirement benefit obligation	654	576
Deferred performance and school revenue	4,452	5,065
Gift annuity payment liability	409	308
Interest rate swap liability	4,167	4,908
Bonds payable	45,270	44,900
Total liabilities	59,470	60,392
NET ASSETS:		
Unrestricted	17,257	14,859
Temporarily restricted	16,254	14,758
Permanently restricted	51,722	50,817
Total net assets	85,233	80,434
TOTAL	$ 144,703	$ 140,826

See notes to consolidated financial statements.

SAN FRANCISCO BALLET ASSOCIATION

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)
(In thousands of dollars)

	2011							
	Unrestricted							
	Operating	Property	Board-Designated	Total	Temporarily Restricted	Permanently Restricted	Total	2010
OPERATING REVENUES:								
San Francisco performance	$ 17,627	$ -	$ -	$ 17,627	$ -	$ -	$ 17,627	$ 17,000
Touring	307			307			307	96
School and student housing	1,993			1,993			1,993	1,992
Other income — net	379	(18)	3	364			364	294
Total operating revenues	20,306	(18)	3	20,291	-	-	20,291	19,382
OPERATING EXPENSES:								
Program services:								
Ballet production	25,395	1,423		26,818			26,818	25,501
Touring	538			538			538	938
School and student housing	2,951	361		3,312			3,312	3,166
Education and outreach	501	24		525			525	545
Total program services	29,385	1,808	-	31,193	-	-	31,193	30,150
Support services:								
Marketing, publicity, and audience development	3,976	51		4,027			4,027	4,213
General and administrative	4,020	330	544	4,894		238	5,132	4,717
Total support services	7,996	381	544	8,921	-	238	9,159	8,930
Debt service		1,985		1,985			1,985	546
Total operating expenses	37,381	4,174	544	42,099	-	238	42,337	39,626
OPERATING REVENUES LESS OPERATING EXPENSES	(17,075)	(4,192)	(541)	(21,808)	-	(238)	(22,046)	(20,244)
SUPPORT:								
Contributions	10,856		545	11,401	3,803	180	15,384	14,842
Special events and auxiliary activities — net	1,615			1,615	16		1,631	1,399
Change in donor stipulation			(55)	(55)	(6)	61	-	
Net assets released:								
From donor restriction	2,727	637	996	4,360	(4,360)		-	
From board designation	500		(500)	-			-	
For appropriation	4,025		(1,356)	2,669	(2,669)		-	
Total contributions in support of operations	19,723	637	(370)	19,990	(3,216)	241	17,015	16,241
Fundraising expenses	(1,987)	(55)	(306)	(2,348)			(2,348)	(2,395)
Support — net	17,736	582	(676)	17,642	(3,216)	241	14,667	13,846
CHANGE IN NET ASSETS FROM OPERATIONS	661	(3,610)	(1,217)	(4,166)	(3,216)	3	(7,379)	(6,398)
NON-OPERATING:								
Endowment investment income — net			6,724	6,724	4,712	902	12,338	7,600
Transfer between funds	456		(456)	-			-	
Change in post-retirement benefit obligation	(78)			(78)			(78)	(120)
Net realized and unrealized loss on interest rate swap agreement		(82)		(82)			(82)	(2,071)
INCREASE (DECREASE) IN NET ASSETS	1,039	(3,692)	5,051	2,398	1,496	905	4,799	(989)
NET ASSETS — Beginning of year (current)	(1,464)	(2,569)	18,892	14,859	14,758	50,817	80,434	81,423
NET ASSETS — End of year	$ (425)	$(6,261)	$23,943	$ 17,257	$16,254	$51,722	$ 85,233	$ 80,434

See notes to consolidated financial statements.

SAN FRANCISCO BALLET ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)
(In thousands of dollars)

	2011	2010
OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ 4,799	$ (989)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Permanently restricted contributions received	(960)	(894)
Depreciation	2,250	2,477
Loss on asset disposals	8	1
Amortization of bond issuance costs	36	30
Write off of bond issuance costs	558	
Net realized and unrealized gains on marketable investments	(9,715)	(4,611)
Limited partnership investment net gains	(882)	(1,519)
Change in allowance for doubtful pledges receivable	(209)	
Change in discount of pledges receivable	30	(121)
Change in fair value of the interest rate swap	(741)	1,315
Net effect of change in:		
Accounts receivable	(9)	94
Prepaid expenses and deposits	(7)	(216)
Pledges receivable	(39)	3,226
Receivables from split interest agreements	1,933	(156)
Other assets	(390)	
Accounts payable and accrued expenses	(106)	254
Deferred compensation and postretirement benefit obligation	78	119
Deferred performance and school revenue	(613)	(170)
Gift annuity payment liability	101	39
Net cash used in operating activities	(3,878)	(1,121)
INVESTING ACTIVITIES:		
Purchases of endowment investments	(14,071)	(9,290)
Proceeds from sales of endowment investments	16,991	11,419
Purchase of operating investments	(493)	
Increase in restricted cash	(2,251)	
Uses of restricted cash	615	1,037
Purchases of property and equipment	(1,330)	(1,586)
Proceeds from disposals of property and equipment		176
Net cash (used in) provided by investing activities	(539)	1,756
FINANCING ACTIVITIES:		
Permanently restricted contributions received	960	894
Principal payment on bonds payable	(330)	
Principal payment on capital lease obligation	(11)	(7)
Repayment of note payable to bank		(1,197)
Bond proceeds received	45,600	
Bonds refunded	(44,900)	
Payment of bond issuance costs	(834)	
Net cash provided by (used in) financing activities	485	(310)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,932)	325
CASH AND CASH EQUIVALENTS — Beginning of year	9,904	9,579
CASH AND CASH EQUIVALENTS — End of year	$ 5,972	$ 9,904
SUPPLEMENTAL DISCLOSURES:		
Property acquired under capital lease	$ -	$ 35
Cash paid during the year for interest	$ 1,924	$ 1,020

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 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.

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 decrease in the value of split interest agreements for the year ended June 30, 2011, was $1,933, primarily as a result of the termination of a charitable remainder trust, which was transferred from split interest agreements to pledges receivable as of June 30, 2011.

Other Investments — Other investments is a fund invested in mutual funds established by collective bargaining agreement between the American Guild of Musical Artists and the Association and restricted by that agreement to support dancer career transition. This fund had previously been held in the Foundation's endowment investments, and was moved by Association Board resolution from board-designated endowment to operations during the year ended June 30, 2011, and is shown as a non-operating transfer between funds in the accompanying consolidated statement of activities and changes in net assets.

Other Assets — Other assets consist of capitalized costs associated with the taping of *The Little Mermaid* in May 2011 for media distribution.

Restricted Cash — Restricted cash is invested in cash and cash equivalents and a money market fund that are held by third parties in restricted accounts in accordance with bonds payable and interest rate swap agreements and requirements set forth in these agreements for collateral posting.

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 within the Property Fund over the first two years the new works are presented. The Ballet's production of *Nutcracker*, including the costs for sets, costumes, staging, and choreography, completed in 2005 and updated in 2007, 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 securities, mutual fund investments, alternative 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 mutual fund investments are stated at estimated fair value. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price). Other investments, such as alternative investments, are also recorded at estimated fair value. The fair values of alternative investments have been estimated using the net asset value per share of the investment. 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 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.

Deferred Performance and School Revenue — Deferred performance and school revenue as of June 30, 2011, primarily consists of advance ticket sales for performances scheduled in the Ballet's 2012 repertory season, which opens in January 2012, as well as advance tuition payments for school classes to be conducted in the year ending June 30, 2012.

Derivative Instruments — The Ballet adopted new guidance 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.

Derivative financial instruments are used by the Ballet on a limited basis to manage interest rate risk associated with its tax-exempt bonds. Derivative financial instruments 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 agreements 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. Derivative instruments are discussed further in Note 7.

Unrestricted Net Assets — Unrestricted net assets are available to support all activities of the Ballet and are not subject to donor-imposed stipulations:

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 and bad debt expense. The Board of Trustees can approve the movement of funds from board-designated funds to other unrestricted funds in accordance 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 are 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. During the year ended June 30, 2011, several donors recharacterized their contributions to the Foundation, the net effect of which is disclosed as changes in donor stipulations in the accompanying consolidated statement of activities and changes in net assets.

Other Income — Other income is presented net of costs of approximately \$565 relating to sales and rentals for the year ended June 30, 2011.

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, 2011.

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, 2011, the value of contributed services recognized as revenues in the accompanying consolidated financial statements was approximately \$617 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 $1,385 for the year ended June 30, 2011. These costs include donated goods and services of approximately $386.

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.

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

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

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

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

Level 2 — Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices in active markets as in Level 1. Fair value is determined through observable trading activity reported at 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.

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 2011, such amounts have exceeded Federal Deposit Insurance Corporation (FDIC) 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, 2011, the following endowment investments equal or exceed 5% of the fair market value of total endowment investments:

Dodge & Cox Income Fund	17 %
Daedalus Partners, LLP	11
iShares ACWI Index	10
Dodge & Cox International Fund	6
Osterweis Strategic Income Fund	6
Canyon Value Realization Fund (Cayman), L.P.	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, 2011.

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, depreciable lives of property and equipment, fair value of endowment investments, postretirement benefits liabilities, and fair value of the bond and swap agreements and the related credit valuation adjustments. Actual results could differ from those estimates.

New Accounting Pronouncements

Employers Participation in Multi-Employer Pension Plans — In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-09 ("ASU 2011-09") which amends Accounting Standards Codification ("ASC") (ASC 715-80) by increasing the quantitative and qualitative disclosures an employer is required to provide about its participation in significant multiemployer plans that offer pension and other postretirement benefits. Under ASU 2011-09, the Ballet will be required to disclose the amount of contributions made to other postretirement plans for each annual period for which an income statement is presented, the nature of the benefits, and which employees are covered by the plan. The new requirements also include disclosure of the nature and effect of changes affecting comparability of total employer contributions, such as changes in the contribution rate, a business combination, or a change in the number of employees covered by the plan. The adoption of ASU 2011-09 is effective for the Ballet beginning July 1, 2012. The adoption of ASU 2011-09 is not expected to have a material impact on the Ballet's consolidated financial statements.

Fair Value Measurement Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs — In May 2011, FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"), which amended ASC No. 820, *Fair Value Measurement* ("ASC 820") to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The adoption of ASU 2011-04 is effective for the Ballet beginning July 1, 2012. The adoption of ASU 2011-04 is not expected to have a material impact on the Ballet's consolidated financial statements.

2. PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2011, are due as follows:

2012	$ 5,926
2013 to 2017	889
Total pledges receivable	6,815
Less allowance for doubtful pledges receivable	(209)
Less discount for amounts expected to be collected after June 30, 2011	(2)
Pledges receivable — net	$ 6,604

3. FAIR VALUE MEASUREMENTS

As of June 30, 2011, the Ballet's investments are classified by levels within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Assets — at fair value:				
Restricted cash:				
Cash and cash equivalents	$ 2,251	$ -	$ -	$ 2,251
Money market funds	587			587
Total restricted cash	2,838	-	-	2,838
Other investments:				
Money market funds	88			88
Mutual funds:				
Fixed income — government	204			204
Fixed income — other	201			201
Total other investments	493	-	-	493
Endowment investments:				
Money market funds	841			841
Equity securities:				
U.S. companies	14,866			14,866
International companies	2,887			2,887
Mutual funds:				
Fixed income	22,764			22,764
Equity — U.S. companies	1,132			1,132
Equity — international companies	9,209			9,209
Exchange Traded Fund — global index	10,463			10,463
Alternative investments:				
Equity long/short hedge fund		9,635		9,635
Credit strategies hedge fund		1,529	1,665	3,194
Event-driven hedge fund		2,899	1,242	4,141
Multi-strategy hedge funds		4,715	4,082	8,797
Total endowment investments	62,162	18,778	6,989	87,929
Total assets — at fair value	$ 65,493	$ 18,778	$ 6,989	$ 91,260
Total liabilities — at fair value interest rate swap	$ -	$ 4,167	$ -	$ 4,167

For the year ended June 30, 2011, the changes in investments classified as Level 3 are as follows:

	Credit Strategy	Event-Driven	Multi-Strategy	Total
Balance — beginning of year	$ 1,945	$ 3,843	$ 176	$ 5,964
Unrealized gain	223	103	(6)	320
Purchases			4,000	4,000
Transfers out:				
Proceeds from sales	(500)			(500)
Undesignation of investments	(3)		(88)	(91)
Expiration of lock-up period		(2,704)		(2,704)
	(503)	(2,704)	(88)	(3,295)
Balance — end of year	$ 1,665	$ 1,242	$ 4,082	$ 6,989

Changes in unrealized gains including investment returns relating to instruments that are classified as Level 3 still held as of June 30, 2011, are $227. The expiration of the lock-up period on certain investments resulted in a reclassification of $2,704 of investments being transferred from Level 3 to Level 2 for disclosure purposes. The undesignation of certain investments resulted in reclassification of $91 being transferred from Level 3 to Level 2 for disclosure purposes. Transfers between levels for alternative investments occur when the Ballet has the ability to redeem the alternative investment in the near term.

The following schedule discusses the nature and risks of alternative 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:

	Fair Value	Unfunded Commitments	Redemption Period (if Currently Eligible)	Redemption Notice Period
Long/short equity (a)	$ 9,635	$ -	Quarterly	45 days
Credit strategies (b)	3,194		Quarterly	90 days
Event-driven (c)	4,141		Semi-annually	65 days
Multi-strategy (d)	4,830		Quarterly	60 days
Multi-strategy (e)	3,967	1,000	Anniversary annually	65 days
Total	$ 25,767	$ 1,000		

(a) This class 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, 2011. The fund is scheduled to terminate on December 31, 2020.

(b) This class 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 might be misunderstood by the general market 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, 2011, approximately 4.2% of the fair market value is in special situation accounts, which cannot be redeemed until liquidated by management of the fund. The Ballet's investment in this fund may be composed of up to 35% of such special situation, or side pocket, funds. Additionally, the fund manager may impose a 10% gate restriction on redemptions for this investment which would limit the Ballet's ability to liquidate its full investment in the fund.

(c) This class 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, 2011. Additionally, the fund manager may impose a 30% gate restriction on redemptions for this investment which would limit the Ballet's ability to liquidate its full investment in the fund.

(d) This class 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 attempts to capitalize 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, 2011, approximately 3.6% 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.

(e) This class includes an investment in a hedge fund that seeks to generate superior risk-adjusted returns with an absolute return orientation without limiting itself to a pre-defined strategy. To achieve these returns, the fund employs a multi-strategy approach to attempt to capture inefficiencies in public and private market situations. The fund's focus is on event oriented investing, credit/distress debt, capital structure arbitrage and equity derivatives. The fair value of the investment in this category has been estimated using the net asset value per share of the investment. The investment has a one year lock up period expiring on February 1, 2012. Additionally, the fund has a side pocket allowance of 20% and the fund manager may impose a gate restriction on redemption at their discretion which could limit the Ballet's ability to liquidate its full investment in the fund.

4. PROPERTY AND EQUIPMENT

The Ballet's property and equipment as of June 30, 2011, is as follows:

Land	$ 4,519
Buildings and improvements	33,469
Furniture and equipment	6,121
Capitalized sets and costumes	12,122
Construction in progress	901
Total property and equipment	57,132
Accumulated depreciation	(23,768)
Property and equipment — net	$ 33,364

The Property fund on the accompanying consolidated statement of activities and changes in net assets includes the following types of depreciation expense on the Ballet productions line: $559 allocated occupancy; $584 sets and costumes; and $278 other, primarily from stage and theatrical equipment.

5. CREDIT FACILITIES

The Ballet has a line of credit with First Republic Bank of $2,419, which together with an outstanding undrawn standby letter of credit of $2,274 to support its workers' compensation insurance policies (see Note 8), 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. As of June 30, 2011, 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 Ballet had no outstanding borrowings under the secured line of credit as of June 30, 2011. Unused letters of credit totaling $749 have been issued under the line of credit, leaving $1,629 available to the Ballet for operating liquidity at June 30, 2011. The secured line of credit expires on November 30, 2011.

6. BONDS PAYABLE

As a result of the downgrading of the credit rating of Allied Irish Bank ("AIB"), the Ballet 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 $44,900 California Infrastructure and Economic Development Bank ("CIEDB") Series 2008 (San Francisco Ballet) Bonds (the "Series 2008 Bonds") in whole on December 30, 2010.

On December 14, 2010, First Republic Bank entered into a Private Placement Agreement with the CIEDB ("Issuer") and the Ballet, whereby the First Republic Bank agreed 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"), closing on December 30, 2010. The interest rate on the Series 2010A bonds resets monthly at a fixed rate. The interest rate on the Series 2010B bonds resets at a LIBOR-based floating rate plus a spread. The Ballet has the option to convert Series 2010B to a fixed rate prior to December 31, 2014.

Proceeds from the Series 2010 Bonds were used to refund a portion of the Series 2008 Bonds and to fund costs of issuance of the Series 2010 Bonds and reissuance of the Series 2008 Bonds. The outstanding amount of the Series 2008 Bonds was reduced to $15,600 and the interest rate of the Series 2008 Bonds resets 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.

The following is a summary of each series outstanding as of June 30, 2011:

	June 30, 2011			
Issue Name	**Amount Issued**	**Final Maturity**	**Interest Rate**	**Amount Outstanding**
Series 2008	$ 15,600	August 1, 2038	0.30 %	$ 15,600
Series 2010A	25,000	August 1, 2038	4.45	24,760
Series 2010B	5,000	August 1, 2038	1.49	4,910
Total	$ 45,600			$ 45,270

The Series 2008 and Series 2010 Bonds are secured by Gross Revenues of the Ballet as defined in the Letter of Credit Reimbursement Agreement with First Republic Bank, and are guaranteed by the Foundation, as defined in the Guaranty Agreement with the Foundation and CIEDB and The Bank of New York Mellon Trust Company, as Trustee.

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 First Republic Bank under both Series and guarantees to CIEDB and The Bank of New York Mellon Trust Company, as Trustee, (a) the principal of and redemption premium, if any, when and as the Series 2008 and Series 2010 Bonds shall become due (whether at maturity, by acceleration, call for redemption, or otherwise); (b) the interest on the Series 2008 and Series 2010 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, 2011, the fair value of bonds payable was quoted at $42,367. The fair value of bonds payable is estimated based on discounted cash flows and confirmed by a third party, and includes a “credit valuation adjustment” based on the Ballet’s nonperformance risk.

Accumulated amortization as of June 30, 2011, related to the bond issuance costs of the Series 2008 and 2010 Bonds was $45. As a result of the refinancing transaction in December 2010, bond issuance costs net of accumulated amortization of $558 related to the Series 2008 Bonds were written off and $834 of additional bond issuance costs were incurred. Interest payments are payable and due on the first of each month. Interest expense related to bonds payable for the year ended June 30, 2011, was approximately $1,099. In connection with the Letter of Credit Reimbursement Agreement with First Republic Bank for the Series 2008 Bonds, the Ballet was required to be and was in compliance with certain financial covenants as of June 30, 2011.

Principal amounts are due as follows:

	Series 2008	Series 2010A	Series 2010B	Total
2012	$ -	$ 480	$ 180	$ 660
2013		480	180	660
2014		540	180	720
2015		540	180	720
2016		540	180	720
Thereafter	15,600	22,180	4,010	41,790
Total	$ 15,600	$ 24,760	$ 4,910	$ 45,270

The remaining bond project proceeds are held in a restricted cash account, and certain conditions must be met prior to the release of the funds. Bond project proceeds were used 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 bond issuance costs.

7. INTEREST RATE SWAP AGREEMENT

The Ballet uses interest rate swap instruments to mitigate the changes in interest rates associated with variable rate indebtedness. The Ballet pays a fixed rate of 3.922% on a notional amount of $22,000 to the swap counterparty in exchange for their payments of the variable rate debt instruments.

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 $4,167 as of June 30, 2011, including a credit valuation adjustment of $89, which reduced the Ballet's liability, and is included in the 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 for interest were approximately $823 during the year ended June 30, 2011. 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, 2011, the Ballet was required to post collateral on the swap agreement and $2,250 was posted as of June 30, 2011, and is included in restricted cash in the accompanying consolidated statement of financial position.

In August 2011, the Board of Directors of the Foundation agreed to loan the Association a portion of the Foundation's unrestricted board-designated endowment investments to assist in meeting such collateral postings. As of October 24, 2011, $4,492 was posted and $1,100 had been borrowed from the Foundation. Such borrowings are eliminated upon consolidation.

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, 2011:

			2011	
	Maturity Date of Derivative	Fixed Rate	Notional Amount Outstanding	Fair Value
Interest rate swap	July 1, 2036	3.922 %	$ 22,000	$ 4,167

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, 2011, of approximately $1,879, is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. As of June 30, 2011, the Ballet had unused letters of credit totaling $2,924, as required by the Ballet's insurance carriers. As a result of the annual renewal of such insurance policies in June, 2011 and negotiations with insurance carriers for prior fiscal year's policies, the total letters of credit required by the Ballet's insurance carriers was adjusted to $2,500 subsequent to fiscal year end.

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 reinstated for the year ended June 30, 2011.

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 $1,450 for the year ended June 30, 2011.

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 $496 has been calculated based on the net present value of the expected payments. The total present value as of June 30, 2011, of the future health benefits, or the expected postretirement benefit obligation for health, is approximately $148. The accumulated postretirement benefit obligation of the future health benefits, as of June 30, 2011, is $157. The cost for the year ended June 30, 2011, for future health benefits is $12.

The following table sets forth the health benefits agreement's benefit obligations, fair value of plan assets, and status as of June 30, 2011, which liability is included in the consolidated statement of financial position:

Benefit obligation	$ 157
Fair value of plan assets	
Unfunded status — end of year	$ 157

Amounts recognized for health benefits in unrestricted net assets consist of unrecognized prior service costs of $157 as of June 30, 2011. The periodic net benefit cost for the year ended June 30, 2011, was $12. The weighted-average assumption used to determine benefit obligations as of June 30, 2011, was 4.6%.

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

	1% Increase	1% Decrease
Effect of the health care component on:		
Accumulated postretirement benefit obligation	$ 12	$ (11)
Service cost and interest cost for fiscal year 2011	1	(1)
Total	$ 13	$ (12)

For measurement purposes, an 8.2% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended June 30, 2011. This annual rate is based on market conditions for similar benefits and was assumed to decrease gradually to 5% through the year ending June 30, 2020, and remain at that level thereafter.

No benefits are expected to be paid from the postretirement benefit plan in each year ending June 30, 2012 to June 30, 2013. The aggregate benefits expected to be paid in the eight years from 2014 to 2021 are approximately $129. The expected benefits are based on the same assumptions used to measure the Ballet's benefit obligation as of June 30, 2011, 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, 2011, consists of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,467)	$ 6,818	$ 45,509	$ 48,860
Board-designated endowment funds	39,069			39,069
Total funds	$ 35,602	$ 6,818	$ 45,509	$ 87,929

Changes in endowment by net asset class for the year ended June 30, 2011, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — July 1, 2010	$ 31,560	$ 4,781	$ 43,911	$ 80,252
Investment return — investment income	425	977	212	1,614
Net realized and unrealized appreciation	6,293	3,735	690	10,718
Total investment return	6,718	4,712	902	12,332
Additions to endowment funds from contributions and pledge payments	1,832		635	2,467
Reclassifications of Board-designated endowments	(2,586)			(2,586)
Change in donor stipulations	(55)	(6)	61	
Appropriation of endowment assets for expenditure	(1,867)	(2,669)		(4,536)
Endowment net assets — June 30, 2011	$ 35,602	$ 6,818	$ 45,509	$ 87,929

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets for the year ended June 30, 2011 (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	$ 45,509
Total endowment funds classified as permanently restricted net assets	$ 45,509
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	540
With purpose restrictions	4,772
Total endowment funds classified as temporarily restricted net assets	$ 6,818

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 $3,467 as of June 30, 2011. 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, 2011, temporarily restricted net assets were available for the following purposes:

Passage of time, including unpaid pledges	$ 2,328
Property and equipment	4,737
New ballet production	3,421
Ballet school support	2,789
Social media	900
Education and outreach, including dancer wellness and career transition	714
Accumulated appreciation of endowment funds not appropriated for expenditure	540
Artistic and production	408
Performance recordings	383
Other, including special events	34
Total temporarily restricted net assets	$ 16,254

Net assets released during the year ended June 30, 2011, were as follows:

Due to the expiration of time	$ 2,747
Appropriation of endowment assets for expenditure	1,132
New ballet production	1,099
Property and equipment	656
Ballet school support	630
Touring	323
New media	154
Education and outreach, including dancer wellness and career transition	190
Artistic and production	97
Other, including special events	1
Total net assets released from restrictions	$ 7,029

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, 2011, that have an initial noncancelable lease term in excess of one year:

Years Ending June 30	
2012	$ 68
2013	74
2014	60
2015	42
2016	38
Total	$ 282

Rent expense from operating leases approximated $363 for the year ended June 30, 2011.

13. COLLECTIVE BARGAINING AGREEMENTS

Approximately 72% (550 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:

Union	# of Employees	Contract Expiration Date at June 30, 2011	Status
International Alliance of Theatrical Stage Employee (IATSE), Local 16	144	June 30, 2011	New contract expiring June 30, 2014 fully ratified in September 2011
IATSE, Local 784	33	August 31, 2011	In negotiations
Total	177		

14. RELATED PARTIES

As of June 30, 2011, undiscounted pledges receivable include approximately $1,219 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, $368 was received from related parties, primarily for legal and investment advisory services.

A member of the Association's Board of Trustees and the Foundation's Board of Directors is a General Partner of a long/short equity alternative investment valued at $9,635 and a fixed income mutual fund managed by the same member's investment management company was valued at $4,841 as of June 30, 2011.

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 bonds payable, First Republic Bank, and of the Foundation's investment custodian, First Republic Trust Company.

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 October 24, 2011, the date on which the consolidated financial statements were issued.

Management concluded that no material subsequent events have occurred since June 30, 2011 that required further recognition or disclosure in such financial statements.

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