Grant Thornton

Consolidated Financial Statements with Report of Independent Certified Public Accountants

San Francisco Ballet Association

June 30, 2014

Contents

Report of Independent Certified Public Accountants

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To the Board of Trustees
San Francisco Ballet Association

We have audited the accompanying consolidated statement of financial position of the San Francisco Ballet Association (the "Ballet") as of June 30, 2014, and the related consolidated statement of activities and changes in net assets and the consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the San Francisco Ballet Association as of June 30, 2014, and its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating supplementary information on the 2014 consolidated statement of activities and changes in net assets is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

San Francisco, California
December 3, 2014

Consolidated statement of financial position as of June 30, 2014
(in thousands of dollars)

Assets:		
Cash and cash equivalents	$	6,024
Accounts receivable		251
Prepaid expenses and deposits		2,706
Pledges receivable, net		7,728
Receivables from split interest agreements, net		5,910
Assets held for sale		170
Other investments		540
Other assets		201
Restricted cash		4,897
Loan issuance costs, net		445
Property and equipment, net		29,855
Endowment investments		105,592
Total assets	$	164,319
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	$	6,062
Deferred compensation and postretirement benefit obligation		998
Deferred performance and school revenue		6,317
Gift annuity payment liability		1,493
Interest rate swap liability		5,840
Loans payable		44,510
Total liabilities		65,220
Net assets:		
Unrestricted		19,135
Temporarily restricted		20,143
Permanently restricted		59,821
Total net assets		99,099
Total liabilities and net assets	$	164,319

Consolidated statement of activities and changes in net assets for the year ended June 30, 2014

(in thousands of dollars)

	Unrestricted						
	Operating	Property	Board-Designated	Total	Temporarily Restricted	Permanently Restricted	Total
	Consolidating supplementary information						
OPERATING REVENUES:							
San Francisco performance	$ 20,687	$ -	$ -	$ 20,687	$ -	$ -	$ 20,687
Touring	1,460	-	-	1,460	-	-	1,460
School and student housing, net of scholarship of $1,048	1,571	-	-	1,571	-	-	1,571
Other income, net	359	58	2	419	-	-	419
Total operating revenues	24,077	58	2	24,137	-	-	24,137
OPERATING EXPENSES:							
Program services:							
Ballet production	28,839	1,815	-	30,654	-	-	30,654
Touring	3,196	-	-	3,196	-	-	3,196
School and student housing	2,664	322	-	2,986	-	-	2,986
Education and outreach	732	22	-	754	-	-	754
Total program services	35,431	2,159	-	37,590	-	-	37,590
Support services:							
Marketing, publicity and audience development	5,507	116	-	5,623	-	-	5,623
General and administrative	4,281	272	426	4,979	-	-	4,979
Total support services	9,788	388	426	10,602	-	-	10,602
Debt service	-	906	-	906	-	-	906
Total operating expenses	45,219	3,453	426	49,098	-	-	49,098
Operating Revenues Less Operating Expenses	(21,142)	(3,395)	(424)	(24,961)	-	-	(24,961)
SUPPORT:							
Contributions	13,078	-	2,393	15,471	3,401	2,251	21,123
Special events and other activities	3,652	-	-	3,652	-	-	3,652
Net assets released:							
From donor restriction	6,068	1,476	4,709	12,253	(12,253)	-	-
By appropriation	4,397	-	(4,397)	-	-	-	-
Total contributions in support of operations	27,195	1,476	2,705	31,376	(8,852)	2,251	24,775
Fundraising expenses	(2,178)	(49)	(617)	(2,844)	-	-	(2,844)
Fundraising expenses for special events	(1,134)	-	-	(1,134)	-	-	(1,134)
Costs of direct benefits to donors for special events	(553)	-	-	(553)	-	-	(553)
Support, net	23,330	1,427	2,088	26,845	(8,852)	2,251	20,244
CHANGE IN NET ASSETS FROM OPERATIONS	2,188	(1,968)	1,664	1,884	(8,852)	2,251	(4,717)
NON-OPERATING:							
Endowment investment income, net	-	-	6,476	6,476	6,750	1,019	14,245
Change in post-retirement benefit obligation	(117)	-	-	(117)	-	-	(117)
Net realized and unrealized gain/(loss) on interest rate swap	-	(977)	-	(977)	-	-	(977)
Other losses	-	-	-	-	-	(61)	(61)
INCREASE (DECREASE) IN NET ASSETS	2,071	(2,945)	8,140	7,266	(2,102)	3,209	8,373
NET ASSETS - Beginning of year (as restated, see Note 12)	377	(16,503)	27,995	11,869	22,245	56,612	90,726
NET ASSETS - End of year	$ 2,448	$ (19,448)	$ 36,135	$ 19,135	$ 20,143	$ 59,821	$ 99,099

Consolidated statement of cash flows for the year ended June 30, 2014

(in thousands of dollars)

OPERATING ACTIVITIES:		
Increase in net assets	$	8,373
Adjustments to reconcile increase in net assets to cash used in operating activities:		
Permanently restricted contributions		(1,991)
Depreciation		2,611
Loss on asset disposals		13
Amortization of loan issuance costs		18
Donated asset held for sale		(170)
Non-cash contribution of property and equipment		(11)
Net realized and unrealized gains on investments		(7,493)
Limited partnership investment net gains		(4,453)
Proceeds from sales of donor restricted securities		(216)
Change in allowance for doubtful pledges receivable		(3)
Change in discount of pledges receivable		28
Change in fair value of the interest rate swap		143
Net effect of change in:		
Accounts receivable		67
Prepaid expenses and deposits		(1,063)
Pledges receivable		1,824
Receivables from split-interest agreements		(155)
Other assets		(84)
Accounts payable and accrued expenses		1,700
Deferred compensation and postretirement benefit obligation		202
Deferred performance and school revenue		345
Gift annuity payment liability		(90)
Net cash used in operating activities		(405)
INVESTING ACTIVITIES:		
Purchases of endowment investments		(48,955)
Proceeds from sales of endowment investments		47,822
Increase in operating cash in endowment portfolio		(20)
Increase in restricted cash		(350)
Purchases of property and equipment		(374)
Net cash used in investing activities		(1,877)
FINANCING ACTIVITIES:		
Proceeds from sales of donor restricted securities		216
Permanently restricted contributions received		1,991
Principal payments on capital lease obligation		(2)
Net cash provided by financing activities		2,205
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		(77)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		6,101
CASH AND CASH EQUIVALENTS, END OF YEAR	$	6,024
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the year for interest	$	1,717
NON CASH INVESTING ACTIVITIES		
Property acquired under capital lease	$	49

Notes to consolidated financial statements

(in thousands of dollars)

Note 1 – Summary of significant accounting policies

Organization

San Francisco Ballet Association (the "Association") operates both a dance company and a ballet school. As America's oldest professional ballet company and one of the three largest ballet companies in the United States with its year-end roster of seventy-one 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 statement of financial position, activities and 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. Intercompany 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 on the accrual basis of accounting and in accordance with generally accepted accounting principles (GAAP).

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits and highly liquid investments, including certificates of deposit, with original 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 originally recorded at the present value of their estimated future cash flows. The discounts on these amounts were computed using risk adjusted rates applicable in the years in which those promises were received ranging from 0.40% to 1.86%. Amortization of the discounts is included in contributions in the accompanying consolidated statement of activities and changes in net assets.

Note 1 – Summary of significant accounting policies (continued)

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.

Other investments

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

Other assets

Other assets consist of a voluntary salary deferral plan for certain highly compensated employees under Internal Revenue Code Section 457(b) (See Note 9).

Restricted cash

Restricted cash is invested in cash and cash equivalents that are held by third parties in restricted accounts in accordance with an interest rate swap agreement and requirements set forth in an agreement for collateral posting. The increase in restricted cash during the year ended June 30, 2014, of $350 relates primarily to the increase in the interest rate swap liability.

Loan issuance costs

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

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.

Note 1 – Summary of significant accounting policies (continued)

Property and equipment, continued

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 expenses 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*, which was last performed in 2011, 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 fixed income investments, mutual fund investments, alternative investments, real estate, and cash and cash equivalent balances restricted by donors or designated by the Association's Board of Trustees for long-term investment. Investments in fixed income investments and mutual fund investments are stated at estimated fair value. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price). Other investments, such as alternative investments, are also recorded at estimated fair value. The fair values of alternative investments have been estimated using the net asset value per share of the investment. Investments in real estate partnerships are based primarily on third party appraisals of the underlying real estate. Gains or losses that result from market fluctuations are recognized in the period such fluctuations occur. Dividend and interest income are recognized when earned. Purchases and sales are recognized at the trade date.

Deferred compensation and postretirement benefit obligations

The Ballet's deferred compensation and postretirement benefit obligation arises from an individual contract with provisions for postretirement health benefits and salary continuance. In determining the fair value of the salary continuance, the Ballet considers the present value of expected future cash commitments. In determining the fair value of the postretirement health benefits, the Ballet considers the RP-2000 Combined Healthy Mortality Table projected generationally with Scale BB, 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.

Note 1 – Summary of significant accounting policies (continued)

Deferred performance and school revenue

Deferred performance and school revenue as of June 30, 2014, primarily consists of advance ticket sales for performances scheduled in the Ballet's 2015 repertory season, which opens in January 2015, tours to Italy and Paris in July 2014, as well as advance tuition payments for school classes to be conducted in the year ending June 30, 2015.

Derivative instruments

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

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 loan 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 loan financing and derivative agreements are also included within this fund. Depreciation, amortization and debt-related activity associated with long-lived assets, loan financing and derivative agreements are incurred within the fund, including realized and unrealized gains and losses on the Ballet's interest swap agreement. Depreciation and facilities related 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). This allocation is reflected as net assets released for appropriation 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.

Note 1 – Summary of significant accounting policies (continued)

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.

Other income

Other income is presented net of costs of approximately $753 relating to sales and rentals for the year ended June 30, 2014.

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. Investments received as gifts are initially recorded at estimated fair value at the date of donation. The Ballet's irrevocable interest in split interest agreements is recognized as revenue at the time such agreements are made known to the Ballet.

Contribution of services

Contributions of services are recognized when received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. During the year ended June 30, 2014, the value of contributed services recognized as revenues and expenses in the accompanying consolidated financial statements was approximately $1,927, and consisted primarily of $1,341 in donated advertising services and $207 for special events and other activities. In addition, a substantial number of volunteers have donated significant amounts of time in the Ballet's program services and fundraising activities through participation in the Auxiliary, Encore!, BRAVO (Ballet Resource and Volunteer Organization) and the Allegro Circle. 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.

Note 1 – Summary of significant accounting policies (continued)

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, split-interest agreements, real estate, and a swap agreement. For cash and cash equivalents, the carrying amounts approximate fair value because of the short maturity of these items. The swap agreement is reflected at its estimated fair value using the methodology described in Note 7.

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

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

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

Level 1 — Quoted prices are available in active markets for identical instruments as of the reporting date. The types of instruments which would generally be included in Level 1 include 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 certain fixed income investments, unlisted derivative financial instruments and alternative investments for which an exit price has been observed.

Note 1 – Summary of significant accounting policies (continued)

Estimated fair value of financial instruments, continued

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 certain split interest agreements, real estate, and limited partnerships with designated investments, lock up periods or gates extending more than three months beyond the statement of financial position date.

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

See Note 3 for fair value measurement disclosures.

Concentrations of credit risk

Financial instruments that potentially subject the Ballet to credit risk consist primarily of cash, cash equivalents, accounts and pledges receivable, and endowment investments. The Ballet maintains cash and cash equivalents with major financial institutions. During the year ended June 30, 2014, 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, 2014, the following endowment investments equal or exceed 5% of the fair market value of total endowment investments:

Dodge & Cox Global Stock Fund	17%
Dodge & Cox Income Fund	15%
Abrams Capital Partners II, L.P Fund	7%
Eton Park Overseas Fund	6%
Aurelius Capital International Ltd.	6%
Cevian Capital II Ltd.	5%
250 Post Street LLP	5%

Income tax status

The Association and the Foundation have been classified as publicly supported, tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code on its income other than unrelated business income, and are exempt from California franchise taxes under Revenue and Taxation Code Section 23701d on its income other than unrelated business income.

Note 1 – Summary of significant accounting policies (continued)

Income tax status, continued

As required by accounting principles generally accepted in the United States of America (US GAAP), the Ballet has identified and evaluated its significant tax positions for which the statute of limitations remain open and determined that there is no material unrecognized benefit or liability to be recorded. The open tax years are the years ended June 30, 2011 through June 30, 2014 for federal tax purposes and the years ended June 30, 2010 through June 30, 2014 for California tax purposes. There have been no material changes in unrecognized benefits as of June 30, 2014, nor are any material changes anticipated in the twelve months following June 30, 2014. Tax penalties and interest of $1 are classified as tax expense for the year ended June 30, 2014.

Use of estimates

The preparation of financial statements in conformity with US 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 loan and swap agreements and the related credit valuation adjustments. Actual results could differ from those estimates.

New accounting pronouncements

Classifications of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows - In October 2012, FASB issued the ASU No. 2012-05 – *Statement of Cash Flows (Topic 230) Not-for-Profit Entities – Classifications of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* The update requires a not-for-profit entity to classify sale proceeds of donated financial assets consistent with cash donations as an operating activity, if such assets were converted nearly immediately into cash, unless the donor restricted the use of the proceeds to long-term purposes, in which case those cash receipts should be classified as a financing activity. If those assets were not immediately converted to cash, the proceeds upon sale should be classified as an investing activity. This guidance was effective for the Ballet beginning July 1, 2013 and did not have a material effect of the consolidated financial statements.

Note 2 – Pledges receivable

Pledges receivable as of June 30, 2014, are due as follows:

	As of June 30, 2014
2015	$ 6,253
2016	1,573
2017	90
2018	20
Total pledges receivable	7,936
Less allowance for doubtful pledges receivable	(207)
Less discount for amounts expected to be collected after June 30, 2014	(1)
Pledges receivable, net	$ 7,728

At June 30, 2014, pledges receivable included a pledges of $3,190 from members of the Association's Board of Trustees and the Foundation's Board of Directors (see Note 14).

Note 3 – Fair value measurements

As of June 30, 2014, the Ballet's investments are classified by levels within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Assets held for and in split interest agreements				
Cash and cash equivalent	$ 156	$ -	$ -	$ 156
Mutual funds				
Fixed income-government	1,125	-	-	1,125
Fixed income-US	391	-	-	391
Fixed income-global	57	-	-	57
Equity-US	1,102	-	-	1,102
Equity-global	652	-	-	652
Complementary strategies	254	-	-	254
Real Assets	220	-	-	220
Beneficial interest in charitable remainder trusts	-	-	1,953	1,953
Total assets held for and in from split interest agreements, net	3,957	-	1,953	5,910
Other Investments:				
Money market funds	89	-	-	89
Mutal Funds				
Fixed income-government	222	-	-	222
Fixed income-other	229	-	-	229
Total other investments	540	-	-	540
Restricted cash:				
Cash and cash equivalent	4,897	-	-	4,897
Total restricted cash	4,897	-	-	4,897
Endowment Investments:				
Money market fund	3,528	-	-	3,528
Fixed income securities				
US Government agencies	-	1,012	-	1,012
Government bonds and notes	-	938	-	938
Corporate bonds	-	2,530	-	2,530
Foreign income securities	-	266	-	266
Mutual funds				
Fixed income	19,125	-	-	19,125
Equity-US	1,476	-	-	1,476
Equity-global	22,186	-	-	22,186
Exchange traded funds				
Emerging markets	4,000	-	-	4,000
Alternatives investments				
Credit strategies hedge fund	-	693	794	1,487
Event-driven hedge fund	-	11,237	2,738	13,975
Multi-strategy hedge fund	-	2,637	9,339	11,976
Long-biased hedge fund	-	4,258	8,658	12,916
Relative value hedge fund	-	1,314	3,769	5,083
Real estate partnership fund	-	-	5,369	5,369
Total endowment investments	50,315	24,885	30,667	105,867
Total Assets	$ 59,709	$ 24,885	$ 32,620	$ 117,214
Total Liability				
Interest rate swap	$ -	$ 5,840	$ -	$ 5,840

Note 3 – Fair value measurements (continued)

For the year ended June 30, 2014 the changes in investments classified as Level 3 are as follows:

Level 3 rollforward	Credit strategy	Multi-strategy	Multi-event	Long-biased	Relative value	Real estate	Split interest agreements	Total
Balance- Beginning of year	$ 765	$ 8,097	$ 9,068	$ -	$ 4,799	$ 5,333	$ 1,825	$ 29,887
Purchase	-	-	-	8,000	-	-	-	8,000
Change in discount	-	-	-	-	-	-	128	128
Partnership unrealized gain	45	1,242	1,221	658	203	36	-	3,405
Transfers out:								
Expiration of lock up period	-	-	(7,551)	-	-	-	-	(7,551)
Undesignation of investments	(16)	-	-	-	(1,233)	-	-	(1,249)
Total transfers out	(16)	-	(7,551)	-	(1,233)	-	-	(8,800)
Balance- End of year	$ 794	$ 9,339	$ 2,738	$ 8,658	$ 3,769	$ 5,369	$ 1,953	$ 32,620

Changes in unrealized gains including investment returns relating to instruments that are classified as Level 3 still held as of June 30, 2014, are $2,456. The change in redemption period and expiration of lock-up periods of certain investments resulted in reclassification of $16 being transferred from Level 3 to Level 2 for disclosure purposes. Transfers between levels for alternative investments as of June 30, 2014 are recorded at the end of the month in which the Ballet has the ability to redeem the alternative investment in the near term due to the expiration of lock up restrictions.

The following schedules 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:

Alternative schedule	Fair value	Unfunded commitments	Redemption period	Redemption notice period
Credit strategies (a)	$ 1,487	-	Quarterly	90 days
Event-driven (b)	6,424	-	Semi-annually	65 days
Multi-strategy (c)	5,274	-	Quarterly	60 days
Multi-strategy (d)	6,702	-	Anniversary annually	65 days
Relative value (e)	5,083	-	Anniversary annually	60 days
Event-driven (f)	7,551	-	Annually	90 days
Long-biased (g)	4,258	-	Annually	90 days
Long-biased (h)	5,658	-	Annually	90 days
Long-biased (i)	3,000	-	Annually	120 days
Real estate (j)	5,369	-	n/a	n/a
	$ 50,806			

Note 3 – Fair value measurements (continued)

a) 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 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 net asset value per share of the investment. 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, 2014, approximately 7.0% 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 situations, 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.

b) This class includes an investment in a hedge fund that seeks perceived 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 lock up period has expired on 75% of the principal invested. The remaining 25% has a lock up period which expires on March 2015. However, 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.

c) 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, 2014, 25% of the fair market value of the investment in this category is available for redemption each quarter.

Note 3 – Fair value measurements (continued)

d) 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 capture perceived inefficiencies in public and private market situations. The fund's focus is on event-oriented investing, credit/distress debt, capital structure arbitrage and equity derivatives. The fair value of the investment in this category has been estimated using the net asset value per share of the investments. The fund had 9% lock up period which expired March 2014. Additionally the fund manager may impose a gate restriction on redemption at their discretion which could limit the Ballet's ability to liquidate its full investment in the fund.

e) This class includes an investment in a hedge fund that seeks to generate consistent above average return with limited systemic market risk. To achieve these returns, the fund seeks perceived arbitrage in volatility, mortgage security, yield curve, intramarket bond and cash bond/futures. The fund may also employ leverage to enhance return. The fair value of the investment in this category has been estimated using the net asset value per share of the investments. 22% of the investment had a two year lock up period which expired in December 2013. The remaining 78% of the investment has a lock up period which expires March 2015. The fund has no side pocket allowance or gate restrictions. Redemption requires a 60-day notification.

f) This class includes an investment in a hedge fund that seeks to invest in equities perceived to be undervalued, event driven securities and distressed securities. The strategy is value driven and pursues opportunities in inefficient markets where estimated intrinsic value may exceed the market price of the securities. The fair value of the investment in this category has been estimated using the net asset value per share of the investments. The investment has a 25 month lock up period expiring on February 2017. The fund has a 25% side pocket allowance but no gate restrictions and redemption requires a 90-day notification.

g) This class includes an investment in a long-biased hedge fund that seeks to invest in domestic U.S. equities. It has an activist-oriented investment strategy based on small and mid-cap companies perceived to be undervalued. The fair value of the investment in this category has been estimated using the net asset value per share of the investments. The investment has a lock up period expiring December 2016. The fund has 10% side pocket allowance but no gate restrictions and redemption requires 90-day notification.

Note 3 – Fair value measurements (continued)

h) This class includes an investment in a hedge fund which seeks significant appreciation by investing in companies perceived to be undervalued. The fund strategy is long-biased, focusing on European equities. The fund constructively works with management teams and identifies situations that have the potential to double in value over a 3-year period. The fair value of the investment in this category has been estimated using the net asset value per share of the investments. The investment has a lock up period expiring October 1, 2016. The fund has a 40% side pocket allowance and a 20% grate restriction based on available capital.

i) This class includes investments in a mixture of hybrid and emerging markets and has a long-biased strategy. The fair value of the investment in this category has been estimated using the net asset value per share of the investments. The investment has a lock up period expiring June 1, 2017. The fund has a no gate or side pocket restrictions.

j) This class includes a restricted interest in a limited partnership. The underlying asset of the partnership is the fair value of the retail building located on 250 Post Street in the city of San Francisco. The building is approximately 33 square feet and was appraised at $64,000 in June of 2013 with a mortgage obligation balance of $2,957 at June 30, 2014. The building is appraised every other year and the next appraisal is scheduled for fiscal year end June 30, 2015. San Francisco Ballet's interest is approximately 8.8% with fair market value is $5,300 as of June 30, 2014.

The quantitative information about significant unobservable inputs related to Level 3 alternative investments in real estate investments used at June 30, 2014, is as follows:

	Fair value	Valuation techniques	Unobservable inputs	Assumptions
Commercial real estate	$ 5,369	Income capitalization	Terminal cap rate	5.50%
			Rent growth rate	3.00%

Note 4 – Property and equipment

The Ballet's property and equipment as of June 30, 2014, is as follows:

	As of June 30, 2014
Land	$ 4,519
Buildings and improvements	33,770
Furniture and equipment	7,539
Capitalized sets and costumes	15,790
Construction in progress	103
Total property and equipment	61,721
Accumulated depreciation	(31,866)
Property and equipment, net	$ 29,855

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: $503 allocated occupancy; $1,016 sets and costumes; and $296 other, primarily stage and theatrical equipment.

Note 5 – Credit facilities

The Ballet has a line of credit with First Republic Bank of $4,300, which together with an outstanding undrawn standby letter of credit of $450 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 85% of the market value of those securities. As of June 30, 2014, that limit would not have further constrained the Ballet's secured line of credit limit. Interest on the secured line of credit is charged at the greater of the prime rate, minus 0.25% or 4%. The Ballet had no outstanding borrowings under the secured line of credit as of June 30, 2014. The secured line of credit expires on November 30, 2014 and will automatically renew for a one-year period on that date.

Note 6– Loans payable

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

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

Note 6– Loans payable (continued)

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

The interest rate on the Series 2013A Loans is fixed. The interest rates on the Series 2013B, 2013C, and 2013D Loans reset at a LIBOR-based floating rate plus a spread. The Ballet has the option to convert Series 2013B, 2013C or 2013D to a fixed rate prior to June 1, 2016. All four series have interest-only payments through and including the payment due on June 1, 2016, at which time payments will be interest and principal.

The following is a summary of each series outstanding as of June 30, 2014:

Issue name	Amount issued	Final maturity	Interest rate	Amount outstanding
Series 2013A	$ 12,000	August 1, 2038	3.45%	$ 12,000
Series 2013B	11,000	August 1, 2038	1.41%	11,000
Series 2013C	11,000	August 1, 2038	1.41%	11,000
Series 2013D	10,510	August 1, 2038	1.41%	10,510
Total	$ 44,510			$ 44,510

The Series 2013 Loans are secured by a continuing security interest in the Association's right, title and interest in personal property as defined in the Security Agreement with CIEDB, and are guaranteed by the Foundation, as defined in the Guaranty Agreement between the Foundation, First Republic Bank and CIEDB.

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

As of June 30, 2014, the fair value of loans payable was quoted at $45,609. The fair value of loans 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 and the value of the Ballet's option to convert its floating rate series to fixed rate.

Interest payments are payable and due on the first of each month. Interest expense related to loans payable for the year ended June 30, 2014, was approximately $887. In connection with the Master Loan Agreement with First Republic Bank for the Series 2013 Loans, the Ballet was required to be and was in compliance with certain financial covenants as of June 30, 2014.

Note 6– Loans payable (continued)

Principal amounts are due as follows, assuming the Ballet does not exercise its option to convert Series 2013B, C or D to a fixed rate:

	Series				
	2013A	2013B	2013C	2013D	Total
2015	$ -	$ -	$ -	$ -	$ -
2016	-	-	-	-	-
2017	365	335	335	320	1,354
2018	378	347	347	331	1,402
2019	391	359	359	343	1,452
Thereafter	10,865	9,960	9,960	9,516	40,302
Total	$ 12,000	$ 11,000	$ 11,000	$ 10,510	$ 44,510

Note 7 – Interest rate swap agreement

The Ballet utilizes an interest rate swap agreement to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under the terms of the agreement, the Ballet pays a fixed rate of 3.92% to the swap counterparty in exchange for a variable rate of 68.5% of 1-month LIBOR on the notional amount. The swap agreement does not qualify as a cash flow hedge, and as a result, the changes in the fair value of the interest rate swap agreement during a period are recognized immediately in the change in unrestricted net assets. The fair value of the interest rate swap agreement is based on quotes from the market makers and, therefore, is classified as Level 2 in the fair value hierarchy as shown in Note 3.

The fair value of the swap agreement is estimated based on mid-market rates and industry standard valuation models. A credit risk spread (in basis points) is added as a flat spread to the discount curve used in the valuation model. Each leg is discounted and the difference between the present value of each leg's cash flows equals the market value of the swap. The fair value also considers the risk of each counterparty by including a "credit valuation adjustment" determined by taking into account the nonperformance risk of each counterparty to the swap. The estimated fair value of the swap agreement was $5,840 as of June 30, 2014, including a credit valuation adjustment of $152, which reduced the Ballet's liability, and is included in the interest rate swap liability in the accompanying consolidated statement of financial position. Payments made to the counterparty of the swap agreement for interest were approximately $830 during the year ended June 30, 2014. 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, 2014, the Ballet was required to post collateral on the swap agreement and $4,897 was posted as of June 30, 2014, and is included in restricted cash in the accompanying consolidated statement of financial position.

Note 7 – Interest rate swap agreement (continued)

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 June 30, 2014, $966 had been borrowed from the Foundation. Such borrowings reduce the value of endowment investments and increase restricted cash in the accompanying consolidated statement of financial position.

The following table shows the outstanding notional amount of derivative instruments measured at fair value as reported in the consolidated statement of financial position as of June 30, 2014:

	Statement of financial position location	Maturity date of derivative	Notional fixed rate	Amount outstanding	Fair value
Interest rate swap	Liability under interest rate swap agreement	July 1, 2036	3.92%	$ 22,000	$ 5,840

Amounts reflected in the change in value of the interest rate swap agreement for the year ended June 30, 2014 was as follows:

	Statement of activities and changes in net assets location	Realized and unrealized losses
Interest rate swap agreement	Non-operating: Net realized and unrealized losses on interest rate swap agreements	$ (977)

Under the terms of the swap agreement, the Ballet is required to issue audited financial statements to the counterparty within 150 days of its fiscal year end, which is November 27, 2014. The counterparty has granted the Ballet an additional 30 days to comply with this requirement of the agreement.

Note 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, 2014, of approximately $2,701 is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. As of June 30, 2014, the Ballet had unused letters of credit totaling $2,150 as required by the Ballet's insurance carriers. As a result of the annual renewal of such insurance policies in June 2014 and negotiations with insurance carriers for prior fiscal years' policies, the total letters of credit required by the Ballet's insurance carriers was adjusted to $2,550 subsequent to fiscal year end.

Note 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, 2013, and were subsequently reinstated on July 1, 2013.

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 $1,888 for the year ended June 30, 2014.

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 $582 has been calculated based on the net present value of the expected payments. The total present value as of June 30, 2014, of the future health benefits, or the expected postretirement benefit obligation for health, is approximately $202. The accumulated postretirement benefit obligation of the future health benefits, as of June 30, 2014, is $214. The cost for the year ended June 30, 2014, for future health benefits is $14.

The following table sets forth the health benefits agreement's benefit obligations, fair value of plan assets, and status as of June 30, 2014, which liability is included in the consolidated statement of financial position:

	As of June 30, 2014	
Benefit obligation	$	214
Fair value of plan assets		-
Unfunded status – end of year	$	214

Amounts recognized for health benefits in unrestricted net assets consist of unrecognized prior service costs of $214 as of June 30, 2014. The periodic net benefit cost for the year ended June 30, 2014, was $14. The weighted-average assumption used to determine benefit obligations as of June 30, 2014, was 3.6%.

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	$	20	$	(18)
Service cost and interest cost for fiscal year 2014		1		(1)
Total	$	21	$	(19)

Note 9 – Postretirement and health and welfare plans (continued)

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended June 30, 2014. 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 year ending June 30, 2015. The aggregate benefits expected to be paid in the nine years from 2014 to 2022 are approximately $142. The expected benefits are based on the same assumptions used to measure the Ballet's benefit obligation as of June 30, 2014, and include future employee service.

The Ballet also has a voluntary salary deferral plan for highly compensated employees under Internal Revenue Code Section 457(b). Eligible employees may elect to contribute to the plan and the Ballet may make qualified non-elective discretionary contributions. Matching contributions were made during the year ended June 30, 2014.

Multiemployer pension plans

The Ballet contributes to several multiemployer defined benefit pension plans under the terms of collective bargaining agreements that cover certain union-represented employees. The Ballet's collective bargaining agreements do not require that a minimum contribution be made to these plans. For the year ended June 30, 2014 the Ballet contributed to union trusts and charged to expense $1,158.

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

a) Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

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

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

The Ballet's participation in these plans for the year ended June 30, 2014 is outlined in the table below. All information in the table is as of June 30, 2014. The "EIN-PN" column provides the Employer Identification Number (EIN) and the Plan Number (PN). The most recent Pension Protection Act (PPA) zone status available in 2014 is for the plan year ended June 30, 2014. The zone status is based on information that the Ballet received from the plan. Among other factors, generally, plans in critical status ("red", respectively) are less than 65% funded, and plans at least 80% funded are said to be in the "green zone". The "FIP/RP status pending/implemented" column indicates plans for which a funding improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented by the trustees of each plan. Information related to the impact of utilization of extended amortization periods on zone status is either not available or not obtainable without undue cost and effort.

Note 9 – Postretirement and health and welfare plans (continued)

Multiemployer pension plans, continued

Pension fund	EIN — PN	Collective bargaining agreement expiration date	Pension protection act zone status	Are the Ballet's contributions more than 5% of total plan	FIP/RP status pending / implemented	Plan's year end	Ballet contribution as of plan year end	Surcharge on plan?
The AGMA Retirement Plan	13-3826401- Plan No. 001	6/30/2016	Green	No	N/A	8/31/2013	$ 115	No
American Federation of Musicians and Employer's Pension Fund and Subsidiary	51-6120204 - Plan No. 001	11/30/2015	Red	No	Implemented	3/31/2014	560	Yes
I.A.T.S.E. Local 16 Pension Plan	94-6296420 - Plan No. 001	6/30/2014	Red	Yes	Implemented	12/31/2013	249	Yes
I.A.T.S.E. Local 16 Pension Plan	94-6296420 - Plan No. 001	7/31/2016	Red	No	Implemented	12/31/2013	34	Yes
I.A.T.S.E. National Pension Fund	13-1849172 - Plan No. 001	7/31/2016	Green	No	N/A	12/31/2013	2	No
I.A.T.S.E. National Pension Fund	13-1849172 - Plan No. 001	10/31/2014	Green	No	N/A	12/31/2013	30	No

Note 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.

Note 10 – Endowment (continued)

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:

a) The duration and preservation of the fund

b) The purposes of the Ballet and the donor-restricted portion of the endowment fund

c) General economic conditions

d) The possible effect of inflation and deflation

e) The expected total return from income and appreciation of investments

f) Other resources of the Ballet

g) The investment policies of the fund

Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of fund as of June 30, 2014, consists of the following:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (2,174)	$ 7,862	$ 54,403	$ 60,091
Board-designated endowment funds	45,776	-	-	45,776
Total funds	$ 43,602	$ 7,862	$ 54,403	$ 105,867

Note 10 – Endowment (continued)

Changes in endowment by net asset class for the year ended June 30, 2014, are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment assets, beginning of year, as previously reported	$ 33,641	$ 8,049	$ 50,823	$ 92,513
Reclassifications (see Note 12)	2,450	(3,027)	577	-
Endowment assets, beginning of year, as restated	36,091	5,022	51,400	92,513
Investment return:				
Investment return - investment income	990	1,112	247	2,349
Net realized and unrealized appreciation	6,504	4,581	832	11,917
Total investment return	7,494	5,693	1,079	14,266
Additions to endowment funds from contributions and pledge payments	3,359	-	1,924	5,283
Reclassifications of Board-designated endowments	(353)	-	-	(353)
Appropriation of endowment assets for expenditure	(2,989)	(2,853)	-	(5,842)
Endowment assets, end of year	$ 43,602	$ 7,862	$ 54,403	$ 105,867

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets for the year ended June 30, 2014 (endowment only), are as follows:

Permanently restricted net assets	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 54,403
Total endowment funds classified as permanently restricted net assets	$ 54,403
Temporarily restricted net assets	
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:	
Without purpose restrictions	2,385
With purpose restrictions	5,477
Total endowment funds classified as temporarily restricted net assets	$ 7,862

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 $(2,174) as of June 30, 2014. 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.

Note 10 – Endowment (continued)

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. Endowment assets are invested in a manner that is intended to produce results that exceed the total return of a benchmark composed of 60% of the MSCI All-Country World Index (ACWI), and 40% of the Barclays U.S. Aggregate Bond Index, while assuming a moderate level of investment risk. The Ballet expects its endowment funds, over a complete market cycle, to provide an average annual real rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving investment objectives

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

Note 11 – Temporarily restricted net assets and net assets released from restrictions

As of June 30, 2014, temporarily restricted net assets were available for the following purposes:

Property and equipment	$	5,024
Passage of time, including unpaid pledges		4,074
New ballet productions		3,560
Ballet school support		3,159
Accumulated appreciation of endowment funds not appropriated for expenditure (no purpose restriction)		2,385
Education and outreach		945
Touring		468
Special events		273
Social media		208
Artistic and production		39
Miscellaneous		8
Total temporarily restricted net assets	$	20,143

Temporarily restricted net assets released during the year ended June 30, 2014, were as follows:

New ballet productions	$	2,772
Unpaid pledges		2,256
For use in ensuing fiscal years/due to expiration of time		2,314
Accumulated appreciation of endowment funds not appropriated for expenditure (no purpose restriction)		1,434
Touring		1,247
Property and equipment		1,119
Ballet school support		576
Social media		252
Artistic and production		184
Education and outreach		99
Total temporarily restricted net assets	$	12,253

Note 12 – Restatement of opening net asset balances

During the year ended June 30, 2014, the Ballet determined that certain endowment funds were not properly classified within net assets in previously issued financial statements. Accordingly, an adjustment was recorded as of July 1, 2013 to reclassify certain net assets from temporarily restricted net assets to unrestricted net assets and to permanently restricted net assets. The effect of this reclassification is summarized below:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of the year, as previously reported	$ 9,419	$ 25,272	$ 56,035	$ 90,726
To reclassify endowment funds to appropriate net asset categories	2,450	(3,027)	577	-
Net assets, beginning of the year, as restated	$ 11,869	$ 22,245	$ 56,612	$ 90,726

Note 13 – 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, 2014, that have an initial noncancelable lease term in excess of one year:

Year ending June 30,		
2015	$	98
2016		94
2017		55
2018		55
2019		42
Thereafter		6
Total	$	350

Rent expense from operating leases approximated $746 for the year ended June 30, 2014.

Note 14 – Collective bargaining agreements

Approximately 75% (560 employees) of the Ballet's employees are covered by collective bargaining agreements. The following is a schedule of agreements expiring within twelve months of June 30, 2014, the number of employees covered under such agreements, and the status of negotiations with each bargaining unit:

Union	# of employees	Contract expiration date at June 30, 2014	Status
IATSE Local 16 (Crew)	167	June 30, 2014	Negotiations active
IATSE Local 784 (Wardrobe)	47	August 31, 2014	Negotiations pending
IATSE Local 800 (Scenic Artists)	5	June 30, 2014	Awaiting ratification of new contract to expire June 30, 2017
Total	219		

Note 15 – Related parties

As of June 30, 2014, undiscounted pledges receivable include approximately $3,190 due from members of the Association's Board of Trustees and of the Foundation's Board of Directors, including a pledge from a single Trustee of $1,539.

A fixed income mutual fund managed by a member of the Association's Board of Trustees and the Foundation's Board of Directors' investment management company was valued at $4,565 as of June 30, 2014. A member of the Association's Board of Trustees is the Chairman and Founding Chief Executive Officer of the bank with which the Association has its operating accounts, credit facilities and loans payable, First Republic Bank, of the Foundation's investment custodian, First Republic Trust Company and of the Association's investment broker, First Republic Securities.

Note 15 – Related parties (continued)

A member of the Foundation's Board of Directors sits on a committee of the investment manager which oversees the fixed income investment strategy, monitoring implementation of that strategy, and overseeing the research process for two of the Ballet's mutual fund holdings. The collective value of the Ballet's investments in those mutual funds was $17,154 at June 30, 2014.

Of the value of contributed services recognized as revenues in the accompanying consolidated financial statements, $90 was received from related parties, primarily for legal services.

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

Note 16 – Contingencies

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

Note 17 – Subsequent events

The Ballet evaluated subsequent events through December 3, 2014, the date on which the consolidated financial statements were issued.

Grant Thornton