

***San Francisco Ballet  
Association***

*Consolidated Financial Statements  
for the Year Ended June 30, 2005,  
and Independent Auditors' Report*

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of the San Francisco Ballet Association (the "Ballet") as of June 30, 2005, 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 2004 financial statements and, in our report dated October 26, 2004, we expressed an unqualified opinion on those 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, 2005, 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*

November 29, 2005

# SAN FRANCISCO BALLET ASSOCIATION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2005

(With summarized financial information for the year ended June 30, 2004)

	2005	2004
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 5,466,884	\$ 3,917,443
ACCOUNTS RECEIVABLE	323,981	752,409
PREPAID EXPENSES AND DEPOSITS	3,535,646	1,791,654
PLEDGES RECEIVABLE—Net	7,424,512	8,733,444
RECEIVABLES FROM SPLIT INTEREST AGREEMENTS—Net	4,667,116	4,283,155
RESTRICTED CASH	1,092,988	5,234,456
BOND ISSUANCE COSTS—Net	397,149	411,858
PROPERTY AND EQUIPMENT—Net	24,580,369	21,799,889
ENDOWMENT INVESTMENTS	<u>63,335,100</u>	<u>56,581,297</u>
TOTAL	<u>\$ 110,823,745</u>	<u>\$ 103,505,605</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 2,483,424	\$ 2,468,065
Deferred performance and school revenue	4,959,183	4,538,197
Interest rate swap liability	754,862	234,630
Bonds payable	<u>19,540,000</u>	<u>19,540,000</u>
Total liabilities	<u>27,737,469</u>	<u>26,780,892</u>
<b>NET ASSETS:</b>		
Unrestricted	30,273,470	27,690,058
Temporarily restricted	14,463,043	12,422,876
Permanently restricted	<u>38,349,763</u>	<u>36,611,779</u>
Total net assets	<u>83,086,276</u>	<u>76,724,713</u>
TOTAL	<u>\$ 110,823,745</u>	<u>\$ 103,505,605</u>

See notes to consolidated financial statements.

# SAN FRANCISCO BALLET ASSOCIATION

## CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2005

(With summarized financial information for the year ended June 30, 2004)

	2005			Total	2004 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>OPERATING REVENUES:</b>					
San Francisco performance	\$ 12,674,963			\$ 12,674,963	\$ 12,039,249
Touring	442,497			442,497	576,627
School and student housing	1,376,812			1,376,812	1,250,067
Postage and handling fees	357,975			357,975	348,276
Sales and rentals—net	157,087			157,087	145,011
Endowment transfers	4,362,352			4,362,352	3,313,361
Dividend and interest income	66,330			66,330	288,625
Other income	105,986			105,986	316,416
Total operating revenues	<u>19,544,002</u>			<u>19,544,002</u>	<u>18,277,632</u>
<b>OPERATING EXPENSES:</b>					
Program services:					
Ballet production	19,973,454			19,973,454	18,843,792
Touring	1,210,987			1,210,987	1,345,213
School and student housing	2,910,877			2,910,877	2,370,901
Education and outreach	413,753			413,753	321,631
Total program services	<u>24,509,071</u>			<u>24,509,071</u>	<u>22,881,537</u>
Support services:					
Marketing, publicity, and audience development	3,226,785			3,226,785	3,286,201
General and administrative	3,135,396			3,135,396	2,793,398
Fundraising	1,647,210			1,647,210	1,595,392
Total support services	<u>8,009,391</u>			<u>8,009,391</u>	<u>7,674,991</u>
Net realized and unrealized losses on interest rate swap	695,413			695,413	432,785
Total operating expenses	<u>33,213,875</u>			<u>33,213,875</u>	<u>30,989,313</u>
Operating revenues less operating expenses	<u>(13,669,873)</u>			<u>(13,669,873)</u>	<u>(12,711,681)</u>
<b>CONTRIBUTIONS IN SUPPORT OF OPERATIONS:</b>					
Contributions	8,702,639	\$ 3,421,219		12,123,858	10,957,079
Special events and Auxiliary activities—net	1,617,948			1,617,948	1,315,442
Net assets released from restrictions	3,467,586	(3,467,586)			
Total contributions in support of operations	<u>13,788,173</u>	<u>(46,367)</u>		<u>13,741,806</u>	<u>12,272,521</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>118,300</u>	<u>(46,367)</u>		<u>71,933</u>	<u>(439,160)</u>
<b>ENDOWMENT:</b>					
Contributions	1,892,392	1,944,418	\$ 1,105,534	4,942,344	5,847,731
Endowment management and fundraising expenses	(586,057)			(586,057)	(403,181)
Investment return after transfers to operations	768,266	533,064	632,450	1,933,780	5,189,440
Bad debt expense	(25,000)			(25,000)	
Net assets released from restrictions	390,948	(390,948)			
Change in net assets from endowment	<u>2,440,549</u>	<u>2,086,534</u>	<u>1,737,984</u>	<u>6,265,067</u>	<u>10,633,990</u>
<b>BUILDING MAINTENANCE FUND—</b>					
Dividend and interest income	24,563			24,563	3,788
INCREASE IN NET ASSETS	2,583,412	2,040,167	1,737,984	6,361,563	10,198,618
NET ASSETS—Beginning of year	<u>27,690,058</u>	<u>12,422,876</u>	<u>36,611,779</u>	<u>76,724,713</u>	<u>66,526,095</u>
NET ASSETS—End of year	<u>\$ 30,273,470</u>	<u>\$ 14,463,043</u>	<u>\$ 38,349,763</u>	<u>\$ 83,086,276</u>	<u>\$ 76,724,713</u>

See notes to consolidated financial statements.

# SAN FRANCISCO BALLET ASSOCIATION

## CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2005

(With summarized financial information for the year ended June 30, 2004)

	2005	2004
<b>CASH FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 6,361,563	\$ 10,198,618
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Permanently restricted contributions received	(1,880,300)	(1,111,400)
Depreciation and amortization	1,303,081	1,310,702
Net realized and unrealized gains on investments	(3,780,911)	(6,923,035)
Limited partnership gain	(962,197)	(404,070)
Change in fair value of derivative	520,232	234,630
Investment income from restricted cash	(65,549)	(279,120)
Net effect of changes in:		
Accounts receivable	428,428	(55,143)
Prepaid expenses and deposits	(1,743,992)	(271,250)
Pledges receivable	1,308,932	(1,934,390)
Receivables from split interest agreements	(383,961)	(473,491)
Accounts payable and accrued expenses	15,359	(534,176)
Deferred performance and school revenue	420,986	287,025
Net cash provided by operating activities	<u>1,541,671</u>	<u>44,900</u>
<b>CASH FROM INVESTING ACTIVITIES:</b>		
Purchases of endowment investments	(10,756,934)	(9,806,989)
Proceeds from sales and maturities of endowment investments	8,746,239	8,341,488
Change in restricted cash	4,207,017	8,725,191
Acquisitions of property and equipment	<u>(4,068,852)</u>	<u>(9,434,752)</u>
Net cash used in investing activities	<u>(1,872,530)</u>	<u>(2,175,062)</u>
<b>CASH FROM FINANCING ACTIVITIES—</b>		
Permanently restricted contributions received	<u>1,880,300</u>	<u>1,111,400</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	1,549,441	(1,018,762)
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>		
	<u>3,917,443</u>	<u>4,936,205</u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>		
	<u>\$ 5,466,884</u>	<u>\$ 3,917,443</u>
<b>SUPPLEMENTAL DISCLOSURES—Cash paid during the year for interest</b>		
	<u>\$ 287,040</u>	<u>\$ 185,399</u>

See notes to consolidated financial statements.

# SAN FRANCISCO BALLET ASSOCIATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

(With summarized financial information for the year ended June 30, 2004)

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization**—San Francisco Ballet Association (the “Ballet”), operates both a dance company and a ballet school. As America’s first professional ballet company, the Ballet has enjoyed a long and rich tradition of artistic “firsts” since its founding in 1933, performing the first American productions of *Swan Lake* and *Nutcracker*, as well as the first twentieth-century American *Coppélia*. The Ballet is one of the three largest ballet companies in the United States with its current roster of sixty-nine dancers. The Ballet presents regular performances in San Francisco, California, and other communities in the Bay Area, as well as annual tours to domestic and foreign locations. The San Francisco Ballet Endowment Foundation (the “Foundation”), a separate not-for-profit corporation, holds the assets of the San Francisco Ballet endowment for the benefit of the Ballet.

**Principles of Consolidation**—The accompanying consolidated financial statements include the financial position, changes in net assets, and cash flows of the Ballet and the Foundation because the Ballet has both control of and economic interest in the Foundation. Inter-organizational 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** consist of demand deposits and highly liquid investments purchased with an original maturity of three months or less.

**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 are 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** represent the Ballet's irrevocable remainder interests in a pooled income fund and various trusts held by third-party trustees. These receivables 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. In determining the fair value, the Ballet considers single or joint life expectancy from the 1983 Group 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 estimation of the fair value of these receivables is subjective and requires significant judgment. 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.

**Bond issuance costs** are being amortized over the term of the bonds payable. Accumulated amortization as of June 30, 2005 was \$44,128.

**Restricted cash** is invested in two guaranteed investment contracts that are held by a trustee in restricted accounts established with proceeds received from the bonds payable.

**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 twenty to forty years. Depreciation of furniture and equipment is computed on the straight-line basis over the estimated useful life of the assets, generally three to ten years.

Fixed assets that are donated or 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 expense as incurred or in the year of initial performance with the exception of costs associated with full-length works. Full-length works are capitalized and depreciated on a straight-line basis over the first two years the new works are presented. The Ballet's new production of *Nutcracker*, including the costs for sets, costumes, staging and choreography, completed in 2005, is being depreciated on a straight-line basis over fifteen years.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

**Endowment investments** consist of equity and fixed income investments, limited partnership investments, and cash and cash equivalent balances restricted by donors or designated by the Ballet's Board of Trustees for long-term investment. Investments in equity and debt securities are stated at estimated fair value based on quoted market prices. Other investments, such as limited partnership interests, are also recorded at estimated fair value. Limited partnership interests include nonmarketable and/or restricted investment securities whose values have been estimated by the managing partner of the limited partnership in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation of nonmarketable and restricted investments, those estimated fair values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Gains or losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales of securities are calculated on an adjusted cost basis. Adjusted cost for this purpose is the estimated fair value of the security at the beginning of the year, or the cost if purchased during the year. Dividend and interest income is recognized when earned.

**Deferred performance and school revenue** primarily consists of advance ticket sales for performances scheduled in the Ballet's 2006 repertory season, which opens on January 28, 2006, as well as advance tuition payments for school classes to be conducted in the year ending June 30, 2006.

**Derivative Instrument**—The Ballet has an interest rate swap agreement, which is considered a derivative instrument, to manage the interest rate exposure of its bonds by minimizing its exposure to volatility in the market. The interest rate swap agreement is reflected on the consolidated statement of financial position at estimated fair value.

**Unrestricted net assets** are available to support all activities of the Ballet. Unrestricted net assets include amounts designated by the Ballet's Board of Trustees for the Building Maintenance Fund (the "Fund"), which totaled approximately \$3,015,000 at June 30, 2005. The Fund was established by the Board of Trustees to provide for the maintenance of the Ballet's facilities when other financial resources are not available for such purposes. The Ballet's Board of Trustees determines on an annual basis how much

will be designated to or transferred from the Fund with consideration given to the Ballet's unrestricted operating results and facilities maintenance costs.

**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.

**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.

**Sales and rentals** are presented net of costs of \$450,000 for the year ended June 30, 2005.

**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. Conditional promises to give are not recognized as revenue until the conditions are substantially met. There were no conditional promises at June 30, 2005.

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** 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, 2005, the value of contributed services recognized as revenues in the accompanying consolidated financial statements was \$458,000 and consisted primarily of legal, construction, design, and air travel services. 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 organizations. 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** are presented net of costs of \$885,400 for the year ended June 30, 2005, including donated food and beverages of approximately \$322,000.

**Functional Expense Allocations**—Expenses, such as depreciation, supplies, travel, personnel, and occupancy costs, are allocated among program services and support services on the basis of occupancy ratios and on estimates made by the Ballet's management.

**Collective Bargaining Agreements**—Approximately 82% (1,075 employees) of the Ballet's employees are covered by collective bargaining agreements. Of these employees, 80 are covered under an agreement that expires within one year on June 30, 2006.

***Income Tax Status***—The Ballet has been classified as a publicly supported, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d).

***Fair Value of Financial Instruments***—The Ballet’s financial instruments include cash, cash equivalents, guaranteed investment contracts, accounts receivable, pledges receivable, receivables from split interest agreements, endowment investments, accounts payable and accrued expenses, an interest rate swap agreement, and bonds payable. For cash, cash equivalents, accounts receivable, and accounts payable and accrued expenses, the carrying amounts approximate fair value because of the short maturity of these items. Endowment investments, guaranteed investment contracts, pledges receivable, receivables from split interest agreements, and the interest rate swap agreement are reflected at their estimated fair values using methodologies described above. The carrying amount of the bonds payable represents a reasonable estimate of the corresponding fair value due to the associated variable interest rate.

***Concentrations of Credit Risk***—Financial instruments that potentially subject the Ballet to credit risk consist primarily of cash, cash equivalents, guaranteed investment contracts, accounts and pledges receivable, and investments. The Ballet maintains cash and cash equivalents with major financial institutions. At times, such amounts may exceed Federal Depository Insurance Corporation limits. The Ballet’s investments have been placed with major counterparties. The Ballet closely monitors these investments and has not experienced significant credit losses. The Ballet closely monitors its accounts and pledges receivable and has not experienced significant credit losses.

***Use of Estimates***—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from these estimates.

***Comparative Presentation***—The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Ballet’s consolidated financial statements for the year ended June 30, 2004, from which the summarized information was derived.

***Reclassifications***—Certain 2004 amounts have been reclassified to conform with the 2005 financial statement presentation.

## 2. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2005 are due as follows:

<b>Fiscal Year Ending June 30</b>	
2006	\$ 2,659,040
2007 through 2010	4,784,140
Thereafter	<u>292,857</u>
Total pledges receivable	7,736,037
Less discount for amounts expected to be collected after June 30, 2005	<u>(311,525)</u>
Pledges receivable—net	<u>\$ 7,424,512</u>

## 3. ENDOWMENT INVESTMENTS

The endowment investments consist of the following components; (1) permanently restricted investments which represent the historic dollar value of contributions restricted by donors for permanent investment, (2) temporarily restricted investments from the reinvested net income of endowment investments whose earnings have been restricted by donors for specific purposes, and (3) unrestricted endowment investments which represent funds directed for investment in the endowment by the Ballet's Board of Trustees and the net income from unrestricted endowment investments after expenses associated with raising and managing the endowment funds.

A portion of the accumulated net investment return from the endowment investments is transferred for use in the Ballet's operations each year based on a transfer rate established by the Foundation's Board of Directors (the "Operating Transfer"). For the year ended June 30, 2005, the Operating Transfer was based on a transfer rate of 5% applied to the average of the estimated fair value of the total endowment investments as of March 31, 2002, 2003, and 2004. In addition to the Operating Transfer of \$2,461,229, the Foundation's Board of Directors also approved a supplemental transfer of \$1,901,123 (the "Supplemental Transfer") for the year ended June 30, 2005.

Endowment investments consist of the following at June 30, 2005, at estimated fair value:

Equity investments	\$ 33,520,114
Fixed income investments	18,813,506
Limited partnership investment	9,030,462
Cash and cash equivalents held for investment	<u>1,971,017</u>
Total endowment investments	<u>\$ 63,335,100</u>

A member of the Foundation's Board of Directors is a General Partner of the limited partnership. A member of the Ballet's Board of Trustees is the Chief Executive Officer of the Foundation's investment custodian.

The following schedule summarizes the investment return from the endowment investments for the year ended June 30, 2005:

Net realized and unrealized gains	\$ 3,780,911
Limited partnership gain	962,197
Dividends and interest	<u>1,553,024</u>
Total return on endowment investments	6,296,132
Amount transferred to operations	<u>(4,362,352)</u>
Investment return after transfers to operations	<u>\$ 1,933,780</u>

The Operating Transfer for the year ended June 30, 2005 included investment earnings of \$606,969 from endowment funds restricted to fund specific programs, including \$257,002 from the Ford Foundation New Works Fund.

The investment return after transfers to operations included \$533,064 that is temporarily restricted for specific programs and can be transferred for such purposes in future years, and \$632,450 that is permanently restricted and has been reinvested in the Ford Foundation New Works Fund.

#### 4. PROPERTY AND EQUIPMENT

The Ballet's property and equipment were comprised of the following at June 30, 2005:

	Historical Cost	Accumulated Depreciation	Net
Temporarily Restricted:			
Building and improvements	\$ 10,925,688	\$ (5,632,987)	\$ 5,292,701
Furniture and equipment	697,634	(672,135)	25,499
Capitalized sets and costumes	62,745	(3,234)	59,511
Construction in progress—Building	<u>310,000</u>	<u>                    </u>	<u>310,000</u>
Total temporarily restricted	<u>11,996,067</u>	<u>(6,308,356)</u>	<u>5,687,711</u>
Unrestricted:			
Land	571,689		571,689
Building and improvements	14,035,324	(751,609)	13,283,715
Furniture and equipment	2,123,170	(1,449,637)	673,533
Capitalized sets and costumes	8,443,198	(4,551,797)	3,891,401
Construction in progress—Building	<u>472,320</u>	<u>                    </u>	<u>472,320</u>
Total unrestricted	<u>25,645,701</u>	<u>(6,753,043)</u>	<u>18,892,658</u>
Total property and equipment—net	<u>\$ 37,641,768</u>	<u>\$ (13,061,399)</u>	<u>\$ 24,580,369</u>

#### 5. CREDIT FACILITY

The Ballet has a line of credit with a bank of \$584,200, secured by certain investment securities in the San Francisco Ballet Endowment portfolio. Interest on the line of credit is charged at the prime rate minus 0.25%. The line of credit expires January 31, 2006. The Ballet had no outstanding borrowings under the line of credit as of June 30, 2005.

## 6. BONDS PAYABLE

On July 3, 2002, the Ballet entered into an agreement with the California Infrastructure and Economic Development Bank for the issuance of \$19,540,000 in Revenue Bonds, Series 2002 (the "Bonds"). The Bonds bear interest at a variable rate (2.25% as of June 30, 2005), mature on various dates from July 1, 2007 through July 1, 2032 and are secured by Gross Revenues of the Ballet, as defined in the Letter of Credit, Reimbursement and Security Agreement with Allied Irish Bank, P.L.C. Interest payments are payable and due on the first of each month. Interest expense for the year ended June 30, 2005 was \$317,686. In connection with the Bonds, the Ballet is required to be in compliance with certain financial covenants.

The following is a schedule of future principal payments required under the Bond indenture:

<b>Fiscal Year Ending June 30</b>	
2008	\$ 440,000
2009	500,000
2010	500,000
Thereafter	<u>18,100,000</u>
Total	<u>\$ 19,540,000</u>

The proceeds from the Bonds are held in restricted cash accounts and certain conditions must be met prior to the release of the funds. The proceeds from the Bonds are being used for the renovation and expansion of the Ballet's building; the construction of sets, properties, and costumes for two new full-length ballet productions; the payment of interest and letter of credit fees; and costs incurred in connection with the issuance of the Bonds. The restricted cash is held in short-term investment accounts. As of June 30, 2005, the restricted cash included two guaranteed investment contracts of \$7,388 and \$1,016,155, both with a guaranteed interest rate of 2.45%, which matured July 1, 2005.

On August 22, 2003, the Ballet entered into an interest rate swap agreement (the "Swap Agreement") with respect to the Bonds which effectively fixed the interest rate on a notional amount of \$8,000,000 at 4.44% for the remaining term of the Bonds. The fair value of the Swap Agreement is estimated based on a quote from the market maker of this instrument and represents the estimated amounts the Ballet would expect to receive or pay to terminate the agreement. The estimated fair value of the Swap Agreement was approximately (\$755,000) at June 30, 2005, and is included in liabilities on the accompanying consolidated statement of financial position. The Swap Agreement also required the Ballet to fund a security deposit in the amount of \$250,000, which was placed in a certificate of deposit with an interest rate of 3.39% maturing on August 19, 2008. The security deposit is included in prepaid expenses and deposits on the accompanying consolidated statement of financial position. Payments made to the counterparty of the Swap Agreement were approximately \$175,000 during the year ended June 30, 2005 and is included in net realized and unrealized losses on interest rate swaps in the consolidated statement of activities and changes in net assets.

## 7. TEMPORARILY RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were available for the following purposes as of June 30, 2005:

For use in ensuing fiscal years	\$ 6,673,647
Property and equipment	5,752,716
New ballet production	782,417
Ballet School support	537,775
Touring activities	475,000
Education and outreach	238,913
Dancers' career transition	<u>2,575</u>
Total temporarily restricted net assets	<u>\$ 14,463,043</u>

Net assets were released from donor restrictions during the year ended June 30, 2005 by incurring expenses satisfying the restricted purposes specified by donors as follows:

Due to the expiration of time	\$ 2,902,611
Property and equipment	284,498
New ballet production	100,000
Ballet School support	227,000
Touring activities	175,000
Education and outreach	165,000
Dancers' career transition	<u>4,425</u>
Total net assets released from restrictions	<u>\$ 3,858,534</u>

## 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 at June 30, 2005 of approximately \$1,228,000 is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

At June 30, 2005, the Ballet had unused letters of credit totaling \$2,305,800 and an unused security deposit of \$500,000, as required by the Ballet's insurance carriers. The security deposit is included in prepaid expenses and deposits in the consolidated statement of financial position.

## 9. POSTRETIREMENT AND HEALTH AND WELFARE PLANS

The Ballet has a defined contribution retirement plan that covers all eligible non-union employees, and includes a 401(k) component. Contributions approximated \$258,600 for the year ended June 30, 2005, and were made at the discretion of the Ballet.

Substantially all theatrical employees are covered under collective bargaining agreements that require payments to multi-employer pension, health and welfare plans. Contributions to these plans approximated \$1,886,000 for the year ended June 30, 2005.

**10. LEASE COMMITMENTS**

The Ballet rents performance space, a student residence facility, and storage space under various operating leases through October 2008. The following is a schedule of future minimum rental payments required under operating leases that have initial noncancelable lease terms in excess of one year:

<b>Fiscal Year Ending June 30</b>	
2006	\$ 348,000
2007	293,000
2008	253,000
2009	<u>47,000</u>
Total	<u>\$ 941,000</u>

Rent expense approximated \$787,000 for the year ended June 30, 2005.

**11. 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.

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