



NEW YORK CITY BALLET, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

Board of Directors
New York City Ballet, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the New York City Ballet, Inc. ("City Ballet"), which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

City Ballet's management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgments, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditors consider internal control relevant to the organization's preparation and fair presentation of the 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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of the New York City Ballet, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



New York, New York
December 7, 2017

NEW YORK CITY BALLET, INC.

Statements of Financial Position

(in thousands)

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 6,261	\$ 8,043
Endowment investments (see Note C)	189,723	167,824
Gift annuities and other investments	1,383	1,362
Pledges receivable (see Note B)	21,825	26,306
Accounts receivable	634	499
Inventory	474	454
Deferred production costs	1,791	968
Due from CCMD	2,153	147
Construction in progress (see Note G)	143	10
Leasehold in Rose Building and other property and equipment, less accumulated depreciation of \$12,329 in 2017 and \$11,243 in 2016 (see Note G)	<u>19,080</u>	<u>19,506</u>
	<u>\$ 243,467</u>	<u>\$ 225,119</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,076	\$ 2,473
Advance ticket sales and other deferred revenue	6,119	5,737
Loan payable	8,000	10,000
Due to CCMD		586
Payroll-related liabilities due to CCMD	2,725	1,783
Payroll-related and other liabilities	<u>10,693</u>	<u>13,470</u>
Total liabilities	<u>30,613</u>	<u>34,049</u>
Net assets:		
Unrestricted (see Note E)	<u>25,415</u>	<u>15,478</u>
Temporarily restricted:		
Time and other restrictions (see Note F)	14,617	20,095
Endowment appreciation (see Note D)	<u>39,855</u>	<u>26,723</u>
	<u>54,472</u>	<u>46,818</u>
Permanently restricted (see Note D):		
Wallace endowment	57,751	57,751
Endowments for which income is unrestricted	32,736	29,796
Endowments for which income is restricted	<u>42,480</u>	<u>41,227</u>
	<u>132,967</u>	<u>128,774</u>
Total net assets	<u>212,854</u>	<u>191,070</u>
	<u>\$ 243,467</u>	<u>\$ 225,119</u>

See notes to financial statements.

NEW YORK CITY BALLET, INC.

Statement of Activities

Year Ended June 30, 2017

(with summarized financial information for 2016)

(in thousands)

	2017						2016	
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	Total	Total
	General Operating	Board-Designated	Fixed Assets					
Operating revenues:								
Performance ticket sales and tour fees	\$ 37,823			\$ 37,823		\$ 37,823	\$ 35,599	
Investment earnings per spending policy	8,519			8,519		8,519	7,905	
Income (losses) in excess of spending policy in endowment		\$ 3,402		3,402	\$ 13,293	16,695	(21,106)	
Investment income other than endowment		99		99		99	14	
Other revenues	9,694			9,694		9,694	12,284	
Total operating revenues	56,036	3,501		59,537	13,293	72,830	34,696	
Operating expenses:								
Program services:								
Ballet production costs	50,036			50,036		50,036	46,868	
Depreciation			\$ 977	977		977	808	
Facility expenses	16,637			16,637		16,637	18,120	
Production-management expenses	4,656			4,656		4,656	4,516	
	71,329		977	72,306		72,306	70,312	
Supporting services:								
Administration	7,169			7,169		7,169	6,473	
Public support	5,583			5,583		5,583	5,237	
	12,752			12,752		12,752	11,710	
Total operating expenses	84,081		977	85,058		85,058	82,022	
(Loss) income from operations before public support	(28,045)	3,501	(977)	(25,521)	13,293	(12,228)	(47,326)	
Public support:								
Appropriation from the City of New York	2,359			2,359	7	2,366	2,206	
Other public support	18,108			18,108	4,631	26,932	29,502	
Utilization of temporarily restricted net assets	7,621		2,494	10,115	(10,115)	0	0	
Total public support	28,088		2,494	30,582	(5,477)	4,193	31,708	
Earnings (deficit) before adjustments	43	3,501	1,517	5,061	7,816	4,193	(15,618)	
Recovery of underwater funds and transfer	162			162	(162)	0	0	
Pension, postemployment and other adjustments	4,796	(82)		4,714		4,714	(3,926)	
Change in net assets	5,001	3,419	1,517	9,937	7,654	4,193	(19,544)	
Net assets - beginning of year	(19,291)	25,509	9,260	15,478	46,818	128,774	210,614	
Net assets - end of year	\$ (14,290)	\$ 28,928	\$ 10,777	\$ 25,415	\$ 54,472	\$ 132,967	\$ 191,070	

See notes to financial statements.

NEW YORK CITY BALLET, INC.

Statement of Activities
Year Ended June 30, 2016
(in thousands)

	2016						
	General Operating	Board- Designated	Fixed Assets	Unrestricted Total	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:							
Performance ticket sales and tour fees	\$ 35,599			\$ 35,599			\$ 35,599
Investment earnings per spending policy	7,905			7,905			7,905
Losses in excess of spending policy in endowment		\$ (3,894)		(3,894)	\$ (17,212)		(21,106)
Investment income (losses) other than endowment		14		14			14
Other revenues	<u>12,284</u>			<u>12,284</u>			<u>12,284</u>
Total operating revenues	<u>55,788</u>	<u>(3,880)</u>		<u>51,908</u>	<u>(17,212)</u>		<u>34,696</u>
Operating expenses:							
Program services:							
Ballet production costs	46,868			46,868			46,868
Depreciation			\$ 808	808			808
Facility expenses	18,120			18,120			18,120
Production-management expenses	<u>4,516</u>			<u>4,516</u>			<u>4,516</u>
	<u>69,504</u>		<u>808</u>	<u>70,312</u>			<u>70,312</u>
Supporting services:							
Administration	6,473			6,473			6,473
Public support	<u>5,237</u>			<u>5,237</u>			<u>5,237</u>
	<u>11,710</u>			<u>11,710</u>			<u>11,710</u>
Total operating expenses	<u>81,214</u>		<u>808</u>	<u>82,022</u>			<u>82,022</u>
Loss from operations before public support	<u>(25,426)</u>	<u>(3,880)</u>	<u>(808)</u>	<u>(30,114)</u>	<u>(17,212)</u>		<u>(47,326)</u>
Public support:							
Appropriation from the City of New York	2,199			2,199	7		2,206
Other public support	15,600	259		15,859	5,709	\$ 7,934	29,502
Utilization of temporarily restricted net assets	<u>7,650</u>		<u>8,053</u>	<u>15,703</u>	<u>(15,703)</u>		<u>0</u>
Total public support	<u>25,449</u>	<u>259</u>	<u>8,053</u>	<u>33,761</u>	<u>(9,987)</u>	<u>7,934</u>	<u>31,708</u>
Earnings (deficit) before adjustments	23	(3,621)	7,245	3,647	(27,199)	7,934	(15,618)
Capital renewal and replacement	<u>(4,308)</u>	<u>4,308</u>		<u>0</u>			<u>0</u>
Surplus (deficit) after capital renewal and replacement	(4,285)	687	7,245	3,647	(27,199)	7,934	(15,618)
Underwater funds transfer	(162)			(162)	162		0
Pension, postemployment and other adjustments	<u>(3,895)</u>	<u>(31)</u>		<u>(3,926)</u>			<u>(3,926)</u>
Change in net assets	(8,342)	656	7,245	(441)	(27,037)	7,934	(19,544)
Net assets - beginning of year	<u>(10,949)</u>	<u>24,853</u>	<u>2,015</u>	<u>15,919</u>	<u>73,855</u>	<u>120,840</u>	<u>210,614</u>
Net assets - end of year	<u>\$ (19,291)</u>	<u>\$ 25,509</u>	<u>\$ 9,260</u>	<u>\$ 15,478</u>	<u>\$ 46,818</u>	<u>\$ 128,774</u>	<u>\$ 191,070</u>

See notes to financial statements.

NEW YORK CITY BALLET, INC.

Statements of Cash Flows

(in thousands)

	Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Changes in net assets:		
Unrestricted	\$ 9,937	\$ (441)
Temporarily restricted	7,654	(27,037)
Permanently restricted	<u>4,193</u>	<u>7,934</u>
	21,784	(19,544)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	1,086	894
Contributions restricted for long-term activities	(5,204)	(3,000)
Donated securities	(2,602)	(1,912)
Proceeds from the sale of donated securities	2,608	1,904
Net (gains) losses on investments	(24,382)	13,511
Changes in:		
Gift annuities	(21)	(28)
Pledges receivable	4,481	(53)
Accounts receivable	(135)	64
Inventory	(20)	(59)
Deferred production costs	(823)	(60)
Due from CCMD	(2,006)	4,019
Accounts payable and accrued expenses	603	(951)
Advance ticket sales and other deferred revenue	382	385
Due to CCMD	(586)	(1,523)
Payroll-related liabilities due to CCMD	942	211
Payroll-related and other liabilities	<u>(2,777)</u>	<u>2,650</u>
Net cash used in operating activities	<u>(6,670)</u>	<u>(3,492)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	70,263	63,943
Purchases of investments	(67,786)	(63,907)
Construction in progress	(133)	16,136
Purchases of property and equipment	<u>(660)</u>	<u>(17,084)</u>
Net cash provided by (used in) investing activities	<u>1,684</u>	<u>(912)</u>
Cash flows from financing activities:		
Endowment contributions	5,204	3,000
Payments of loan payable	<u>(2,000)</u>	<u>(2,000)</u>
Net cash provided by financing activities	<u>3,204</u>	<u>1,000</u>
Net decrease in cash and cash equivalents	(1,782)	(3,404)
Cash and cash equivalents - beginning of year	<u>8,043</u>	<u>11,447</u>
Cash and cash equivalents - end of year	<u>\$ 6,261</u>	<u>\$ 8,043</u>

See notes to financial statements.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE A - SUMMARY OF FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The New York City Ballet, Inc. ("City Ballet") is a not-for-profit organization incorporated in 1977 in the State of New York. Its primary home and principal place of performance is the David H. Koch Theater, which is operated for City Ballet by the City Center of Music and Drama, Inc. ("CCMD"), which also provides certain administrative services to City Ballet. City Ballet is represented on the Board of Governors of CCMD, and the Chairman of the CCMD Board of Governors is an *ex officio* member of the Board of Directors of City Ballet.

City Ballet is a tax-exempt organization and, accordingly, is not subject to income tax in accordance with §501(c)(3) of the Internal Revenue Code (the "Code") and has been classified as a publicly supported organization as defined in §509(a)(2) of the Code. Contributions to City Ballet are tax deductible to contributors as provided by law.

In March 2017, City Ballet and CCMD entered into an Agreement and Plan of Merger whereby CCMD would be merged with and into City Ballet as of July 1, 2017, and City Ballet would be the surviving entity succeeding to all of CCMD's rights, assets, debts, and liabilities. In June 2017, the New York State Attorney General approved this merger. Also in June 2017, the Certificate of Merger was filed with, and accepted by, the New York State Department of State. This completed all requirements of applicable New York law, and the merger was effective as of July 1, 2017.

The following is a summary of significant accounting policies consistently followed by City Ballet in the preparation of its financial statements:

[1] Financial statement presentation:

The accounts of City Ballet are maintained in accordance with the principles of fund accounting. This procedure classifies resources for accounting purposes into funds established to reflect the activities and objectives specified by donors and/or City Ballet's Board of Directors. The financial statements are presented in accordance with accounting principles generally accepted in the United States of America, which require that a not-for-profit organization's financial statements report the amounts for each of three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - based upon the existence or absence of donor-imposed restrictions. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions and estimates that affect the amounts reported. Actual results could differ from those estimates.

[2] Cash and cash equivalents:

Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased. Cash and cash equivalents managed by City Ballet's investment managers, as part of its long-term investment strategy, are included in endowment investments.

[3] Property and equipment:

City Ballet does not own any land or buildings. Purchases of furniture and equipment that are not material are charged to current operations. Significant additions are capitalized and are depreciated using the straight-line method over the estimated useful lives of the assets.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE A - SUMMARY OF FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] Investments:

Investments in cash, debt securities, equity securities, and money-market funds maintained by investment managers are reported at their fair values, which are based on quoted market prices. In addition, City Ballet has investments in certain not-readily-marketable securities, through ownership interests in various hedge funds for which market values are not readily obtainable. The fair value of the hedge funds has been estimated based on the respective net asset value ("NAV") per share (or its equivalent unit), used as a practical expedient for valuing the underlying hedge-fund investments, based on the valuation policies and procedures of the respective general partners. Each general partner performs oversight of the underlying positions, both on a by-type-of-investment level and from a risk perspective, and is responsible for ensuring that the investments are valued according to the policies and procedures adopted by the partnership. City Ballet places reliance upon those procedures and records the interests in hedge funds at fair value as determined by the general partners. Because of the complex management structures and natures of the underlying investments and the inherent uncertainty of the hedge-fund valuations, City Ballet and its various investment advisors monitor the underlying investments, in order to reduce the risk of potential losses due to changes in fair values or the failure of counterparties to perform. Management believes the carrying amounts of the investments in not-readily-marketable securities are reasonable estimates of their fair values. However, the estimated values of these hedge-fund positions may differ from actual values, had a ready market for the underlying investments existed.

Realized gains and losses on assets sold, and unrealized appreciation or depreciation on investments held, are reported in the statements of activities.

Donated securities are initially recorded at their fair values on the dates of the gifts, and it is typically City Ballet's policy to sell donated securities upon receipt.

Investment expenses include the services of investment managers and custodians. The balances of investment-management fees disclosed in Note C are those specific fees charged by City Ballet's various investment managers in each fiscal year; however, they do not include those fees that may be embedded in various other investment accounts and transactions.

[5] Public support, grants, and contributions:

City Ballet reports a gift of cash and other assets as restricted support if it is received with the donor's requirements that limit the use of the donation. When a donor's restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are then reclassified to unrestricted net assets and reported in the statements of activities as part of public support, including utilization of temporarily restricted net assets. City Ballet recognizes contribution revenue for donated goods and services at their fair values, with a corresponding expense categorized as supporting services.

Pledges that are collectible in future years are discounted to their present values at prevailing interest rates and are recorded as revenue. Amortization of these discounts is subsequently recorded as additional contributions over the term of each pledge.

[6] Performance sales:

Revenue from ticket sales is recognized at the times of the related performances. Proceeds from ticket sales received in advance are deferred as liabilities until the day of the related event or performance.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE A - SUMMARY OF FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Production costs:

City Ballet charges costume, scenery, and other production costs for current productions to expense as incurred. Costs relating to future productions are accounted for as assets until the years in which the productions are first presented.

[8] Allocation of expenses, income and support:

Under the current Sublicense and Management and Services Agreement between CCMD and City Ballet, CCMD operates and manages the David H. Koch Theater for City Ballet and provides City Ballet with certain administrative services. Under an earlier agreement among CCMD, City Ballet and New York City Opera, Inc. ("City Opera"), CCMD also operated and managed the Koch Theater for the use of City Opera and provided City Opera with certain administrative services. These allocated expenses have resulted in intercompany receivables and payables that have been periodically liquidated in the past through cash transfers, with outstanding balances receivables and payable included in City Ballet's and CCMD's respective financial statements, as described in the following paragraphs.

In May 2011, City Opera announced its intention to move from Lincoln Center and the Koch Theater. In June 2011, City Opera formally submitted a letter of intention to CCMD informing CCMD that they would withdraw from using CCMD's accounting services by September 2011 and from using its information services by December 2011. City Opera also informed CCMD and City Ballet that it would move its operations from the Theater by January 1, 2012, which it subsequently did.

In September 2013, City Opera filed for Chapter 11 protection with the United States Bankruptcy Court Southern District of New York. Both CCMD and City Ballet have filed claims in the City Opera bankruptcy case, with City Ballet filing a claim in the amount of approximately \$781,000, representing City Opera's share of vacation paid for certain union employees and certain estimated expenses through April 27, 2014, when the City Opera's Management and Services Agreement with CCMD terminated.

In December 2015, a plan of reorganization was filed in the City Opera bankruptcy case that would provide distributions to its general unsecured creditors that were estimated by the proponents of the plan to be in the 4.7% - 10% range. In early 2017, the City Ballet claim against City Opera was allowed in the amount of approximately \$781,000, which was the full amount asserted. In mid-2017, the City Opera issued checks to unsecured creditors whose claims were allowed, including City Ballet, in an amount equal to approximately 1.55% of the allowed claim, representing the first of four equal payments, although later payments may be adjusted in a non-material manner. As a result, City Ballet is in the process of receiving a check in the amount of \$12,118 during 2017, and has the right to receive in excess of \$36,000 in three equal payments over the next three years, subject to the financial ability of the City Opera to make these additional payments. Based on the foregoing, City Ballet anticipates receiving distributions from the City Opera on behalf of its claim in an aggregate amount slightly more than \$48,000 over the next three years.

[9] Functional allocation of expenses:

City Ballet's expenses are summarized on a functional basis in Note I. Accordingly, direct costs have been allocated among the various program and supporting-service categories based on the nature of the expense as determined by management. Indirect costs have been allocated on the basis of utilization. Depreciation has been further allocated between operating and non-operating activities. Management estimates that approximately 85% of expenses are related to programmatic activities, with the remaining expenses allocated between administration and public support.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE A - SUMMARY OF FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] Net assets:

The net assets of City Ballet and the changes therein are classified and reported as follows:

(i) *Unrestricted:*

Unrestricted net assets represent those resources that are not subject to donor-imposed restrictions. However, the Board of Directors has designated certain of the unrestricted net assets to function as endowment (see Note D).

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that are subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") and the use of which has been restricted by donors to specific purposes and/or by the passage of time. Net assets released from restrictions represent the passage of time, satisfaction of the restricted purposes and/or explicit appropriation for expenditure by the Board of Directors.

(iii) *Permanently restricted:*

Permanently restricted net assets represent the historic dollar value of those resources that have been designated by the donor to be held and invested in perpetuity. Generally, the donors of these assets direct City Ballet to use all or part of the accumulated investment returns on related investments to support specific City Ballet programs or activities. Under the terms of NYPMIFA, market appreciation will be classified as temporarily restricted in the accompanying statements of activities, pending appropriation for expenditure by the Board of Directors.

[11] Gift annuities:

City Ballet is the beneficiary of planned gifts under certain split-interest agreements, consisting of various charitable gift annuities, for which City Ballet does not serve as trustee.

[12] Income tax:

City Ballet is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, relating to accounting and reporting for uncertainty in income taxes. Because of City Ballet's general tax-exempt status, ASC Topic 740 has not had, and is not expected to have, a material impact on its financial statements.

[13] New accounting pronouncement:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2017-14 amends financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2017-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and the availability of resources, and (v) the presentation of operating cash flows. The new standard will be effective for annual reporting periods beginning after December 15, 2017. Management is currently evaluating the effect that this new guidance will have on City Ballet's financial statements and related disclosures.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE A - SUMMARY OF FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[14] Reclassification:

Certain disclosures in the accompanying fiscal-year 2016 financial statements have been reclassified to conform to the fiscal-year 2017 presentation.

[15] Subsequent events:

City Ballet has considered all accounting treatments, and the related disclosures in the current fiscal-year's financial statements, that would be required as the result of all events or transactions that occurred after June 30, 2017 through December 7, 2017, the date on which the financial statements were available to be issued.

[16] NYC Ballet 422, LLC:

NYC Ballet 422, LLC (the "LLC") was formed on May 2014 as a limited liability company under New York liability law and is a disregarded entity of City Ballet. In fiscal-year 2017, the LLC had revenue of approximately \$1,000 and expenses of approximately \$21,000. In fiscal-year 2016, the LLC had revenue of approximately \$7,000 and expenses of approximately \$11,000. These results of operations are included in the accompanying statements of activities.

NOTE B - PLEDGES RECEIVABLE

Pledges of \$21,825,000 and \$26,306,000 have been recorded net of applicable discounts of \$1,447,000 and \$2,473,000 in fiscal-years 2017 and 2016, respectively. Pledges specifically for City Ballet's endowment, net of applicable discounts, totaled \$11,005,000 and \$12,016,000 in fiscal-years 2017 and 2016, respectively. Pledges are expected to be collected as follows:

	June 30,			
	2017		2016	
	<u>Operating</u>	<u>Endowment</u>	<u>Operating</u>	<u>Endowment</u>
	(in thousands)			
Less than one year	\$ 6,672	\$ 4,973	\$ 6,821	\$ 2,275
One to five years	<u>4,752</u>	<u>6,944</u>	<u>8,607</u>	<u>11,150</u>
	11,424	11,917	15,428	13,425
Less discount to present value at rates of 3% - 6% for fiscal- years 2017 and 2016	<u>(535)</u>	<u>(912)</u>	<u>(1,064)</u>	<u>(1,409)</u>
	10,889	11,005	14,364	12,016
Allowance for doubtful pledges	<u>(69)</u>	<u> </u>	<u>(74)</u>	<u> </u>
Total	<u>\$ 10,820</u>	<u>\$ 11,005</u>	<u>\$ 14,290</u>	<u>\$ 12,016</u>

Pledges receivable from four unrelated private funders totaled approximately \$11,551,000 and represented approximately 52% of pledges receivable at June 30, 2017. Pledges receivable from four unrelated private funders totaled approximately \$13,400,000 and represented approximately 51% of pledges receivable at June 30, 2016.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE C - INVESTMENTS

At each fiscal year-end, investments consisted of the following:

	June 30,	
	2017	2016
	(in thousands)	
Endowment investments:		
Cash equivalents	\$ 35,643	\$ 868
Equity securities	58,185	67,338
Hedge funds:		
Domestic	15,940	14,116
Offshore	79,955	85,502
	<u>\$ 189,723</u>	<u>\$ 167,824</u>

As disclosed above, concentration of City Ballet's investments in excess of 10% of the fair value of its portfolio included approximately (i) 18% invested in cash equivalents, (ii) 31% invested in equity securities, and (iii) 51% invested in hedge funds.

During fiscal-years 2017 and 2016, net investment income (losses) consisted of the following:

	Year Ended June 30,	
	2017	2016
	(in thousands)	
Net realized gains	\$ 7,939	\$ 6,931
Net unrealized gains (losses)	<u>16,443</u>	<u>(20,442)</u>
Net gains (losses) on investments	24,382	(13,511)
Interest and dividends, net	<u>832</u>	<u>310</u>
	<u>\$ 25,214</u>	<u>\$ (13,201)</u>

Offset in interest and dividends are management fee expenses of \$453,000 and \$660,000 for fiscal-years 2017 and 2016, respectively.

The FASB's ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for those investments at the reporting date.
- Level 2: Valuations are based on (i) quoted prices for similar investments in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE C - INVESTMENTS (CONTINUED)

Level 3: Valuations are based on pricing inputs that are unobservable and that include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued.

Certain of City Ballet's investments are valued using NAV per share (or its equivalent unit) as a practical expedient for determining fair value. This applies to investments which (i) do not have a readily determinable fair value and (ii) the financial statements of which were prepared by the respective investment managers, in a manner consistent with the measurement principles applied to either an investment company or to an entity which has the attributes of an investment company. Investments that are valued using NAV per share (or its equivalent unit) are not required to be categorized within the fair-value hierarchy. Accordingly, these investments and certain related disclosures have been excluded from the accompanying financial statements.

City Ballet's investments are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The availability of relevant market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. During fiscal-years 2017 and 2016, there were no transfers among the fair-value hierarchy levels.

The following tables summarize the fair values of City Ballet's assets at each fiscal year-end, in accordance with the ASC Topic 820 valuation levels:

	June 30, 2017				
	Fair-Value Hierarchy			Valued at NAV	Total Investments
	Level 1	Level 3	Total (in thousands)		
Cash and cash equivalents	\$ 35,643		\$ 35,643		\$ 35,643
Equity securities	58,185		58,185		58,185
Hedge funds				\$ 95,895	95,895
Total investments	93,828		93,828	95,895	189,723
Morgan Stanley Stern Endowment	153		153		153
Charitable gift annuities		\$ 1,230	1,230		1,230
Total	\$ 93,981	\$ 1,230	\$ 95,211	\$ 95,895	\$ 191,106

Included in the investment categories above is one Merrill Lynch account in which the Bank of America has a security interest as collateral for \$8,000,000 in borrowings by City Ballet under a line-of-credit agreement (see Note M[3]).

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2017 and 2016**

NOTE C - INVESTMENTS (CONTINUED)

	June 30, 2016				
	Fair-Value Hierarchy			Valued at NAV	Total Investments
	Level 1	Level 3	Total		
			(in thousands)		
Cash and cash equivalents	\$ 868		\$ 868		\$ 868
Equity securities	67,338		67,338		67,338
Alternative investments				\$ 99,618	99,618
Total investments	68,206		68,206	99,618	167,824
Morgan Stanley Stern endowment	159		159		159
Charitable gift annuities		\$ 1,203	1,203		1,203
Total	\$ 68,365	\$ 1,203	\$ 69,568	\$ 99,618	\$ 169,186

The following table summarizes the changes in fair value of City Ballet's Level 3 investments for each fiscal-year:

	Fair-Value Measurements Using Level 3 Inputs Year Ended June 30,	
	2017	2016
	(in thousands)	
Opening balance	\$ 1,203	\$ 1,170
Purchases	859	956
Redemptions	(909)	(906)
Realized gains	7	52
Unrealized gains (losses)	70	(69)
Closing balance	\$ 1,230	\$ 1,203

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE C - INVESTMENTS (CONTINUED)

The following table describes the funding commitment (in thousands of dollars) and redemption information as of June 30, 2017 for City Ballet's hedge funds:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge funds - domestic:				
New Generation Turnaround Fund LP	\$ 7,435	None	Monthly	20 days
AG Fund, L.P.	<u>8,505</u>	None	Annual (12/31)	60 days
Total hedge funds - domestic	<u>15,940</u>			
Hedge funds - offshore:				
York Credit Opportunities Unit Trust.	9,373	None	Monthly	1 day
Gotham Hedged Value Strategies (Intl)	21,864	None	Monthly	15 days
GSO Secured Trust, Ltd.	10,795	None	Monthly	30 days
Coatue Offshore Fund, Ltd.	6,833	None	Quarterly	45 days
TV Feeder Fund, Ltd.	9,364	None	Quarterly	45 days
Valinor Capital Partners Offshore, Ltd.	13,489	None	Quarterly	60 days
Archer Capital Offshore Fund, Ltd.	8,114	None	Quarterly	90 days
Oz Overseas Fund, Ltd.	<u>123</u>	None	Redemption in process	N/A
Total hedge funds - offshore	<u>79,955</u>			
Total	<u>\$ 95,895</u>			

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE D - ENDOWMENT

City Ballet's endowment consists of both Board-designated (see Note E) and donor-restricted funds, established for a variety of purposes.

[1] Endowment net assets (inclusive of approximately \$11,005,000 and \$12,016,000 pledges in fiscal-years 2017 and 2016, respectively), by type of fund, as of each fiscal year-end:

	June 30, 2017			Total
	Board- Designated	Temporarily Restricted	Permanently Restricted	
	(in thousands)			
Functioning as endowment	\$ 10,808		\$ 7,162	\$ 17,970
Touring	2,319			2,319
Delmas Repertory	7,014			7,014
Capital Campaign 1999		\$ 3,898	13,786	17,684
Martison Memorial/Society Loan		132	84	216
General	269		1,000	1,269
Capital Campaign 2014 General	307		10,529	10,836
Board-Designated	4,624			4,624
Bequests	2,740			2,740
Wallace Endowment		<u>21,812</u>	<u>57,751</u>	<u>79,563</u>
Total	<u>28,081</u>	<u>25,842</u>	<u>90,312</u>	<u>144,235</u>
Choreographic Institute		7,344	16,378	23,722
Nureyev Repertory		366	1,000	1,366
Martins Repertory		1,295	3,000	4,295
Martins' 25		79	344	423
Martins' 30		8	115	123
Balanchine Repertory		567	1,320	1,887
Symphony in C		692	1,000	1,692
Robbins Repertory		17	67	84
Touring		1,326	2,975	4,301
Education		254	775	1,029
Levin Dance		433	1,000	1,433
Dance On		105	1,000	1,105
Musical Leadership		791	2,000	2,791
Scenic Design Maintenance		91	250	341
Kirstein Memorial		121	235	356
Capital Campaign 2014 Stepping		338	6,903	7,241
Capital Campaign 2014 Education		50	744	794
Capital Campaign 2014 Repertory		33	444	477
Capital Campaign 2014 Toe Shoes		19	150	169
Capital Campaign 2014 Dancers' Salary		18	1,210	1,228
Capital Campaign 2014 New Works		28	584	612
Capital Campaign 2014 Costumes		<u>38</u>	<u>986</u>	<u>1,024</u>
Total restricted	<u>0</u>	<u>14,013</u>	<u>42,480</u>	<u>56,493</u>
Investments held by others (Stern)	<u>(22)</u>	<u>0</u>	<u>175</u>	<u>153</u>
Total	<u>\$ 28,059</u>	<u>\$ 39,855</u>	<u>\$ 132,967</u>	<u>\$ 200,881</u>

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2017 and 2016**

NOTE D - ENDOWMENT (CONTINUED)

[1] (continued)

	June 30, 2016			
	Board- Designated	Temporarily Restricted	Permanently Restricted	Total
	(in thousands)			
Functioning as endowment	\$ 9,300		\$ 7,162	\$ 16,462
Touring	2,121			2,121
Delmas Repertory	6,422			6,422
Capital Campaign 1999		\$ 2,395	13,769	16,164
Martison Memorial/Society Loan		114	84	198
General	161		1,000	1,161
Capital Campaign 2014 General	(16)		7,606	7,590
Unrestricted	4,215			4,215
Bequests	2,489			2,489
Wallace Endowment		<u>15,025</u>	<u>57,751</u>	<u>72,776</u>
Total	<u>24,692</u>	<u>17,534</u>	<u>87,372</u>	<u>129,598</u>
Choreographic Institute		4,827	16,378	21,205
Nureyev Repertory		246	1,000	1,246
Martins Repertory		929	3,000	3,929
Martins' 25		43	344	387
Martins' 30			115	115
Balanchine Repertory		406	1,320	1,726
Symphony in C		549	1,000	1,549
Robbins Repertory		10	67	77
Touring		960	2,975	3,935
Education		166	775	941
Levin Dance		311	1,000	1,311
Dance On		21	1,000	1,021
Musical Leadership		554	2,000	2,554
Scenic Design Maintenance		62	250	312
Kirstein Memorial		91	235	326
Capital Campaign 2014 Stepping			6,695	6,695
Capital Campaign 2014 Education			736	736
Capital Campaign 2014 Repertory			439	439
Capital Campaign 2014 Toe Shoes			150	150
Capital Campaign 2014 Dancers' Salary			1,177	1,177
Capital Campaign 2014 New Works		<u>2</u>	<u>571</u>	<u>573</u>
Total restricted	<u>0</u>	<u>9,177</u>	<u>41,227</u>	<u>50,404</u>
Investments held by others (Stern)	<u>(28)</u>	<u>12</u>	<u>175</u>	<u>159</u>
Total	<u>\$ 24,664</u>	<u>\$ 26,723</u>	<u>\$ 128,774</u>	<u>\$ 180,161</u>

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2017 and 2016**

NOTE D - ENDOWMENT (CONTINUED)

[2] Changes in endowment net assets during each fiscal-year:

	Year Ended June 30, 2017				
	<u>Unrestricted</u>	<u>Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	(in thousands)				
Opening balance	\$ (162)	\$ 24,692	\$ 26,711	\$ 116,583	\$ 167,824
Investment management fees		(80)	(373)		(453)
Interest, dividends and realized gains		1,901	7,323		9,224
Unrealized gains		<u>3,389</u>	<u>13,054</u>		<u>16,443</u>
Subtotal		<u>5,210</u>	<u>20,004</u>		<u>25,214</u>
Additions				5,204	<u>5,204</u>
Transfers due to underwater funds	162		(162)		0
Spending policy of 5%		(1,808)	(6,711)		(8,519)
Funds transfer		<u>(13)</u>	<u>13</u>		<u>0</u>
	<u>\$ 0</u>	28,081	<u>\$ 39,855</u>	<u>\$ 121,787</u>	<u>\$ 189,723</u>
Net income on investments held by others		<u>(22)</u>			
Endowment net assets, end of year		<u>\$ 28,059</u>			

	Year Ended June 30, 2016				
	<u>Unrestricted</u>	<u>Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	(in thousands)				
Opening balance		\$ 24,019	\$ 43,761	\$ 113,583	\$ 181,363
Investment management fees		(122)	(538)		(660)
Interest, dividends and realized gains		1,454	6,447		7,901
Unrealized gains		<u>(3,761)</u>	<u>(16,681)</u>		<u>(20,442)</u>
Subtotal		<u>(2,429)</u>	<u>(10,772)</u>		<u>(13,201)</u>
Additions		<u>4,567</u>		3,000	<u>7,567</u>
Transfers due to underwater funds	\$ (162)		162		0
Spending policy of 5%		<u>(1,465)</u>	<u>(6,440)</u>		<u>(7,905)</u>
	(162)	24,692	26,711	<u>\$ 116,583</u>	<u>\$ 167,824</u>
Net income on investments held by others		<u>(28)</u>	<u>12</u>		
Endowment net assets, end of year	<u>\$ (162)</u>	<u>\$ 24,664</u>	<u>\$ 26,723</u>		

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE D - ENDOWMENTS (CONTINUED)

[3] Donor-restricted endowment:

The historic dollar value of City Ballet's donor-restricted endowment as of June 30, 2017 and 2016 was \$42,480,000 and \$41,227,000, respectively. A portion of the income derived from donor-restricted endowment may be used for unrestricted purposes, while some donors have restricted the income from their endowment contributions for specific purposes.

Donor-restricted endowment also includes certain challenge grant funds from the National Endowment for the Arts, which require that the gift be maintained in perpetuity with only the income being utilized. Amounts may be withdrawn from these funds during the year to finance current operations, with the condition that all withdrawals are fully repaid no later than two years from the date of the borrowing.

In addition, in accordance with an agreement with the City of New York, a donor-restricted endowment was established to act as a working capital reserve. Interest generated by this fund is available for current operations. Additionally, portions of the principal may be temporarily withdrawn during the year for financing current operations on the condition that all withdrawals be fully repaid in cash prior to the fiscal year-end.

[4] Funds with deficiencies:

Due to unfavorable market fluctuations, from time to time, the fair value of assets associated with individual donor-restricted endowment funds may decline below the historic dollar value of the donor's original permanently restricted contribution. Under the terms of NYPMIFA, City Ballet has no responsibility to restore such decreases in value. In accordance with generally accepted accounting principles, deficiencies of this nature that were reported as unrestricted net assets were approximately \$162,000 as of June 30, 2016. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the board. There were no funds with deficiencies as of June 30, 2017.

[5] Spending policy:

City Ballet has a policy permitting management to budget and expend a percentage of endowment earnings, based on each fund's average market value over the preceding 20 quarters. For fiscal-years 2017 and 2016, the applied percentage was 5.0%.

NOTE E - UNRESTRICTED NET ASSETS

[1] Unrestricted net assets at each fiscal-year end consisted of the following:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Undesignated	\$ (5,124)	\$ (5,273)
Pension/postemployment accumulated other income and loss	(9,143)	(13,857)
Fixed assets	10,777	9,260
Capital renewal and replacement	846	846
Underwater funds		(162)
Board-designated to function as endowment	<u>28,059</u>	<u>24,664</u>
Total	<u>\$ 25,415</u>	<u>\$ 15,478</u>

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2017 and 2016**

NOTE E - UNRESTRICTED NET ASSETS (CONTINUED)

[2] Pension/postemployment accumulated other income and loss:

The pension/postemployment accumulated other income and loss ("AOCI") is composed of the following for fiscal-years 2017 and 2016:

AOCI Fund Balance Analysis			
<u>Fiscal-Year 2017</u>	<u>Pension</u>	<u>Post- Employment</u>	<u>Total AOCI</u>
		(in thousands)	
Allocated from CCMD	\$ (827)	\$ (157)	\$ (984)
Direct from City Ballet	<u>(7,219)</u>	<u>(940)</u>	<u>(8,159)</u>
Total	<u>\$ (8,046)</u>	<u>\$ (1,097)</u>	<u>\$ (9,143)</u>
<u>Fiscal-Year 2016</u>			
Allocated from CCMD	\$ (1,785)	\$ (410)	\$ (2,195)
Direct from City Ballet	<u>(10,042)</u>	<u>(1,620)</u>	<u>(11,662)</u>
Total	<u>\$ (11,827)</u>	<u>\$ (2,030)</u>	<u>\$ (13,857)</u>

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets consisted of the following:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
	(in thousands)	
Productions	\$ 1,952	\$ 3,255
Emergency	510	526
CLUT	185	242
Education	229	233
Passage of time	<u>11,741</u>	<u>15,839</u>
Total time and other restrictions	14,617	20,095
Accumulation endowment income reserve for appropriations	<u>39,855</u>	<u>26,723</u>
End of fiscal year (net assets)	<u>\$ 54,472</u>	<u>\$ 46,818</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE F - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

During each fiscal-year, temporarily restricted net assets were released from restrictions in fulfillment of the following:

	Year Ended June 30,	
	2017	2016
	(in thousands)	
Productions	\$ 2,950	\$ 3,322
Emergency	58	114
CLUT	58	59
Education	838	503
Passage of time	<u>6,211</u>	<u>11,705</u>
End of year (net assets)	<u>\$ 10,115</u>	<u>\$ 15,703</u>

NOTE G - LEASEHOLD, PROPERTY AND EQUIPMENT

[1] Construction in progress:

Construction in progress represents the capitalized costs incurred for leasehold improvements in the space utilized by City Ballet in the Koch Theater. At June 30, 2017 and 2016, construction in progress was \$143,000 and \$10,000, respectively.

[2] Leasehold in Rose Building and other property and equipment consisted of the following:

	June 30,	
	2017	2016
	(in thousands)	
Leasehold improvements	\$ 11,034	\$ 11,034
Property and equipment	<u>20,375</u>	<u>19,715</u>
	31,409	30,749
Less accumulated depreciation	<u>(12,329)</u>	<u>(11,243)</u>
	<u>\$ 19,080</u>	<u>\$ 19,506</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE H - PUBLIC SUPPORT

Unrestricted net public support provided to City Ballet, and the utilization of temporarily restricted net assets by major classifications, were as follows during each fiscal-year:

	Year Ended June 30,	
	2017	2016
	(in thousands)	
Appropriation from the City of New York	\$ 2,366	\$ 2,206
Other governmental agencies	234	234
Special events	5,726	5,803
Membership	2,761	2,723
Foundation	4,390	4,486
Corporate	4,527	4,852
Individual	10,243	12,098
Estates	<u>335</u>	<u>1,100</u>
Subtotal	30,582	33,502
Estates (Board-designated)	<u> </u>	<u>259</u>
Total	<u>\$ 30,582</u>	<u>\$ 33,761</u>

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2017 and 2016**

NOTE I - SCHEDULE OF FUNCTIONAL EXPENSES

For fiscal-year 2017 (with summary totals for fiscal-year 2016), the following schedule describes management's allocation of expenses by natural classification to City Ballet's various functional categories:

	<u>Ballet Production</u>	<u>Facility Management</u>	<u>Production Management</u>	<u>Total Program Services</u>	<u>Administration</u>	<u>Public Support Expenses</u>	<u>2017 Total</u>	<u>2016 Total</u>
	(in thousands)							
Salaries	\$ 28,432		\$ 3,494	\$ 31,926	\$ 2,408	\$ 2,225	\$ 36,559	\$ 34,735
Benefits	<u>12,364</u>		<u>1,140</u>	<u>13,504</u>	<u>1,093</u>	<u>831</u>	<u>15,428</u>	<u>13,279</u>
Salaries and related benefits	40,796		4,634	45,430	3,501	3,056	51,987	48,014
Occupancy	83	\$ 1,055		1,138	1	47	1,186	1,164
Depreciation	51	16		67	41		108	86
Printing	2,979			2,979	11	234	3,224	3,177
Transportation	1,016		14	1,030	30	107	1,167	1,323
Scenery, music, and costumes	1,892			1,892			1,892	1,791
Professional fees	876			876	848	2,075	3,799	3,424
Data processing, telephone and office expenses	110			110	58	64	232	186
Miscellaneous expenses	1,831	18	8	1,857	366		2,223	2,487
Departmental overhead allocation	402			402	(402)		0	0
CCMD shared services allocation		<u>15,548</u>		<u>15,548</u>	<u>2,715</u>		<u>18,263</u>	<u>19,562</u>
Total expenses before funded depreciation	50,036	16,637	4,656	71,329	7,169	5,583	84,081	81,214
Funded depreciation	<u>11</u>	<u>966</u>		<u>977</u>			<u>977</u>	<u>808</u>
	<u>\$ 50,047</u>	<u>\$ 17,603</u>	<u>\$ 4,656</u>	<u>\$ 72,306</u>	<u>\$ 7,169</u>	<u>\$ 5,583</u>	<u>\$ 85,058</u>	<u>\$ 82,022</u>

NOTE J - DONATED GOODS AND SERVICES

Donated goods and services, including legal services, are valued at the standard market rate that would have been incurred by City Ballet if it would have had to expend its own resources to acquire them. The fair value of these donations was \$708,000 and \$496,000 during fiscal-years 2017 and 2016, respectively. These amounts are reported as both revenue and expense in the accompanying statements of activities.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE K - PENSION PLANS

Until fiscal-year 2011, City Ballet participated in a noncontributory, defined-benefit pension plan (the "Plan") for nonunion, salaried employees of CCMD and its constituents. In July 2010, City Ballet separated its portion of the Plan into the "NYCB Retirement Plan for Salaried Employees." The assets were allocated to the successor plan in accordance with the prescribed methodology for a spin-off, as outlined by federal Pension Benefit Guaranty Corporation ("PBGC") regulations. This plan was frozen effective June 15, 2012. In place of this frozen pension plan, management amended the existing 403(b) plan to include employer contributions, retroactive to January 1, 2012. Pension benefits for vested employees as of the freeze date are based on years of service and final average compensation, as defined in the plan. Plan benefit obligations and assets are combined for all participants in the plan. City Ballet's policy is to fund annually the required contribution necessary to comply with the Employee Retirement Income Security Act of 1974 ("ERISA").

The following table sets forth basic information relating to the total accrued benefit liability of the Plan at each fiscal year-end:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
	(in thousands)	
Projected benefit obligation	\$ (23,977)	\$ (24,461)
Plan assets at fair value	<u>17,798</u>	<u>15,911</u>
Funded status (asset deficit), recognized as liabilities in the statements of financial position	<u>\$ (6,179)</u>	<u>\$ (8,550)</u>

The key assumptions used to determine the Plan's net periodic pension cost during each fiscal-year were as follows:

	<u>Year Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Discount rate	3.93%	4.67%
Long-range return on assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

The following are the components of the net periodic pension cost for the Plan for each fiscal year:

	<u>Year Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
	(in thousands)	
Expected return on plan assets	\$ (1,152)	\$ (1,225)
Interest cost on projected benefit obligation	936	1,007
Amortization of accumulated loss	<u>1,145</u>	<u>634</u>
Net periodic pension cost	<u>\$ 929</u>	<u>\$ 416</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE K - PENSION PLANS (CONTINUED)

Contributions to the Plan, and benefits paid during each fiscal year, were as follows:

	Year Ended June 30,	
	2017	2016
	(in thousands)	
Employer contributions	<u>\$ 477</u>	<u>\$ 750</u>
Benefits paid	<u>\$ 685</u>	<u>\$ 515</u>

City Ballet expects to contribute approximately \$425,000 to the Plan in fiscal-year 2018.

Benefit payments under the Plan, which include expected future service, are expected to be paid as follows:

Fiscal-Year Ending June 30,	Pension Benefits
	(in thousands)
2018	\$ 1,339
2019	1,346
2020	1,496
2021	1,565
2022	1,582
2023-2027	7,853

The Plan's assets are managed in accordance with ERISA standards for prudent investments. The investment objectives are long-term growth and current income. This investment objective seeks long-term capital appreciation, balanced by a substantial and stable rate of current income. It is recognized that this objective would entail accepting short-term volatility in the market value of the fund as a trade-off for the opportunity of earning long-term growth in capital. The Plan's assets are invested in a diversified mix of U.S. and international equity securities, alternative investments, and fixed-income securities. As of June 30, 2017, the asset allocation is 8% in cash equivalents, 38% in U.S. equity securities, 32% in debt securities and 22% in mutual funds. Asset-manager performance is reviewed at least once every three months and benchmarked against the peer universe for the given investment style.

City Ballet's target allocations of Plan assets and the actual weighted-average allocations were as follows for each fiscal-year:

	Year Ended June 30,		
	Target 2017	Actual 2017	Actual 2016
Cash equivalents	8%	8%	10%
Equity securities	38%	38%	58%
Debt securities	32%	32%	32%
Mutual funds	22%	22%	0%

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE K - PENSION PLANS (CONTINUED)

City Ballet's net periodic pension cost for fiscal-year 2017 and allocated net periodic pension cost for fiscal-year 2016 was approximately \$929,000 and \$416,000 respectively. City Ballet's accrued benefit liability at June 30, 2017 and 2016 was approximately \$6,179,000 and \$8,550,000 respectively, and is reported in payroll-related and other liabilities in the accompanying statements of financial position. Accumulated other comprehensive loss associated with the Plan, inclusive of amounts allocated from CCMD, was approximately \$13,857,000 and \$11,827,000 in fiscal-years 2017 and 2016, respectively.

City Ballet also contributes to union pension plans based upon a percentage of employee salaries. Pension costs associated with these plans amounted to approximately \$2,892,000 and \$2,641,000 in fiscal years 2017 and 2016, respectively.

NOTE L - POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In fiscal-year 1978, CCMD adopted the policy of providing to certain employees (i.e., those who had at least 20 years of service and who were at least 65 years of age upon their retirement from City Ballet or CCMD) the opportunity to continue in the group medical and life insurance plan, at no cost to the employees. The CCMD Board of Governors ended this policy in April 1995 for employees who had not vested in this benefit, but, in fiscal-year 1997, the CCMD Board of Governors reinstated this benefit for all active employees who, at that date, had already achieved the requisite 20 years of service. In addition, City Ballet contracts with various unions to include provisions for severance payments to members after they reach a pre-determined length of service. City Ballet funds both of these obligations as benefits are actually paid.

Unrestricted net assets of City Ballet were decreased by \$932,000 and \$370,000 in fiscal-years 2017 and 2016, respectively, to record the adjustments required to balance the accrued postretirement benefit liability to the amount of the unfunded projected benefit obligation as of June 30. These amounts were inclusive of City Ballet's share of CCMD's costs. Such amounts are reflected as adjustments to net assets in the accompanying statements of activities.

The following tables set forth basic information relating to the accrued benefit liability at each fiscal year-end:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
	(in thousands)	
Accumulated obligation	\$ 2,475	\$ 3,235
Unrecognized amounts	<u>(3,443)</u>	<u>(3,605)</u>
	<u>\$ (968)</u>	<u>\$ (370)</u>
	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
	(in thousands)	
Postretirement benefit obligation at the end of year:		
Active employees not fully eligible to retire	\$ 0	\$ 400
Active employees fully eligible to retire	359	383
Retirees	<u>2,116</u>	<u>2,452</u>
Total	<u>\$ 2,475</u>	<u>\$ 3,235</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE L - POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

The following items are the components of the net periodic postretirement benefit cost and the corresponding changes to the accumulated obligation during each fiscal-year:

	Year Ended June 30,	
	2017	2016
	(in thousands)	
Net periodic postretirement benefit cost:		
Service	\$ 10	\$ 11
Interest	120	123
Amortization of accumulated loss	<u>209</u>	<u>218</u>
Net periodic postretirement benefit cost	339	352
Actual payments	<u>(131)</u>	<u>(156)</u>
Net change	208	196
Accumulated obligation:		
Beginning of year	<u>983</u>	<u>787</u>
End of year	<u>\$ 1,191</u>	<u>\$ 983</u>

Estimated benefit payments are as follows:

Year Beginning July 1,	Employer Benefit Payment
	(in thousands)
2018	\$ 193
2019	190
2020	228
2021	223
2022 - 2026	1,356

The accumulated postretirement benefit obligation was actuarially determined as of June 30, 2017, using assumed discount rates of 4.21%. The assumed rate of future increases in healthcare was not applicable in the first year, declining to 4.5% by fiscal-year 2024. Had the health-care cost-trend rate assumption been increased by 1.0%, the accumulated postretirement benefit obligation would have increased by 7.8%. The effect of this change on the sum of the service and interest cost components of net periodic postretirement benefit cost would have been an increase of 320.2%. The postretirement balance is included as part of payroll-related and other liabilities in the accompanying statements of financial position.

The accumulated other comprehensive loss associated with City Ballet's postretirement benefits, inclusive of amounts allocated from CCMD, was approximately \$1,097,000 and \$2,030,000 during fiscal-years 2017 and 2016, respectively.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE M - COMMITMENTS

[1] Samuel B. and David Rose Building:

During fiscal-year 1985, City Ballet entered into an agreement whereby it contributed, based on space usage, a pro-rata share of the costs of the Rose Building. Under the agreement, City Ballet received a 99-year lease for its space. Construction costs were capitalized and are being amortized over the anticipated useful life of the building. Depreciation began in fiscal-year 1992, when the space was put into service and amounted to \$352,000 for each of the fiscal-years 2017 and 2016. Also, under the terms of the lease, in addition to its own operating costs, City Ballet is committed to pay its share of common area costs.

[2] Warehouses, archival space, and telemarketing office:

During fiscal-years 2017 and 2016, City Ballet leased space for two warehouses, archival space, and a telemarketing office under agreements expiring in fiscal-year 2020. Rent expense, including rent applicable to these spaces, was approximately \$398,000 and \$405,000 for fiscal-years 2017 and 2016, respectively. Future minimum commitments under these leases are approximately \$250,000 for each of the fiscal-years 2018 and 2019 and approximately \$167,000 for fiscal-year 2020.

[3] Loan payable:

In December 2013, City Ballet entered into an agreement with Bank of America for a line of credit for an amount up to \$12,000,000. Under the terms of the agreement, interest will be charged at a rate equal to the LIBOR daily floating rate, plus 0.75 percentage points, and City Ballet can borrow and repay through January 2, 2018. As collateral, the bank has a security interest in one investment account held by Merrill Lynch. The outstanding balance of the outstanding loan drawn from the line was \$8,000,000 and \$10,000,000 at June 30, 2017 and 2016, respectively.

NOTE N - CREDIT RISK

Financial instruments that potentially subject City Ballet to concentrations of credit risk consist principally of cash accounts deposited in high-credit-quality financial institutions, the balances of which, from time to time, may exceed federal insurance limits. However, management believes City Ballet does not face a significant risk of loss on these accounts that would arise due to the failure of these institutions.