



NEW YORK CITY BALLET, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 8, 2016

NEW YORK CITY BALLET, INC.

Statements of Financial Position

(in thousands)

	June 30,	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 8,043	\$ 11,447
Endowment investments (see Note C)	167,824	181,363
Gift annuities and other investments	1,362	1,334
Pledges receivable (see Note B)	26,306	26,253
Accounts receivable	499	563
Inventory	454	395
Deferred production costs	968	908
Due from CCMD	147	4,166
Construction in progress	10	16,146
Leasehold in Rose Building and other property and equipment, less accumulated depreciation of \$11,243 in 2016 and \$10,349 in 2015	<u>19,506</u>	<u>3,316</u>
	<u>\$ 225,119</u>	<u>\$ 245,891</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,473	\$ 3,424
Advance ticket sales and other deferred revenue	5,737	5,352
Loan payable	10,000	12,000
Due to CCMD	586	2,109
Payroll-related liabilities due to CCMD	1,783	1,572
Payroll-related and other liabilities	<u>13,470</u>	<u>10,820</u>
Total liabilities	<u>34,049</u>	<u>35,277</u>
Net assets:		
Unrestricted (see Note E)	<u>15,478</u>	<u>15,919</u>
Temporarily restricted:		
Time and other restrictions (see Note F)	20,095	30,082
Endowment appreciation (see Note D)	<u>26,723</u>	<u>43,773</u>
	<u>46,818</u>	<u>73,855</u>
Permanently restricted (see Note D):		
Wallace endowment	57,751	57,751
Endowments for which income is unrestricted	29,796	24,365
Endowments for which income is restricted	<u>41,227</u>	<u>38,724</u>
	<u>128,774</u>	<u>120,840</u>
Total net assets	<u>191,070</u>	<u>210,614</u>
	<u>\$ 225,119</u>	<u>\$ 245,891</u>

See notes to financial statements.

NEW YORK CITY BALLET, INC.

Statement of Activities

Year Ended June 30, 2016

(with summarized financial information for 2015)

(in thousands)

	2016						2015
	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	12,284			12,284			12,284
Total operating revenues	55,788	(3,880)		51,908	(17,212)		34,696
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	4,516			4,516			4,516
Supporting services:							
Administration	6,473			6,473			6,473
Public support	5,237			5,237			5,237
Total operating expenses	81,214		808	82,022			82,022
Loss from operations before public support	(25,426)	(3,880)	(808)	(30,114)	(17,212)		(47,326)
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	7,650		8,053	15,703	(15,703)		0
Total public support	25,449	259	8,053	33,761	(9,987)	7,934	31,708
Earnings (deficit) before adjustments	23	(3,621)	7,245	3,647	(27,199)	7,934	(15,618)
Capital renewal and replacement	(4,308)	4,308		0			0
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	(3,895)	(31)		(3,926)			(3,926)
Change in net assets	(8,342)	656	7,245	(441)	(27,037)	7,934	(19,544)
Net assets - beginning of year	(10,949)	24,853	2,015	15,919	73,855	120,840	210,614
Net assets - end of year	\$ (19,291)	\$ 25,509	\$ 9,260	\$ 15,478	\$ 46,818	\$ 128,774	\$ 210,614

See notes to financial statements.

NEW YORK CITY BALLET, INC.

Statement of Activities
Year Ended June 30, 2015
(in thousands)

	2015					
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board-Designated	Fixed Assets			
Operating revenues:						
Performance ticket sales and tour fees	\$ 33,717			\$ 33,717		\$ 33,717
Investment earnings per spending policy	7,494			7,494		7,494
Losses in excess of spending policy in endowment		\$ (1,191)		(1,191)	\$ (4,984)	(6,175)
Investment losses other than endowment		(7)		(7)		(7)
Other revenues	<u>13,940</u>			<u>13,940</u>		<u>13,940</u>
Total operating revenues	<u>55,151</u>	<u>(1,198)</u>		<u>53,953</u>	<u>(4,984)</u>	<u>48,969</u>
Operating expenses:						
Program services:						
Ballet production costs	44,833			44,833		44,833
Depreciation			\$ 655	655		655
Facility expenses	18,264			18,264		18,264
Production-management expenses	<u>4,158</u>			<u>4,158</u>		<u>4,158</u>
	<u>67,255</u>		<u>655</u>	<u>67,910</u>		<u>67,910</u>
Supporting services:						
Administration	6,694			6,694		6,694
Public support	<u>5,242</u>			<u>5,242</u>		<u>5,242</u>
	<u>11,936</u>			<u>11,936</u>		<u>11,936</u>
Total operating expenses	<u>79,191</u>		<u>655</u>	<u>79,846</u>		<u>79,846</u>
Loss from operations before public support	<u>(24,040)</u>	<u>(1,198)</u>	<u>(655)</u>	<u>(25,893)</u>	<u>(4,984)</u>	<u>(30,877)</u>
Public support:						
Appropriation from the City of New York	2,305			2,305	10	2,315
Other public support	16,630	2,409		19,039	16,382	\$ 4,964
Utilization of temporarily restricted net assets	<u>6,482</u>			<u>6,482</u>	<u>(6,482)</u>	<u>0</u>
Total public support	<u>25,417</u>	<u>2,409</u>		<u>27,826</u>	<u>9,910</u>	<u>42,700</u>
Earnings (deficit) before adjustments	1,377	1,211	(655)	1,933	4,926	4,964
Capital renewal and replacement	<u>(500)</u>	<u>446</u>	<u>54</u>	<u>0</u>		<u>0</u>
Surplus (deficit) after capital renewal and replacement	877	1,657	(601)	1,933	4,926	4,964
Pension, postemployment and other adjustments	<u>(3,468)</u>	<u>(5)</u>		<u>(3,473)</u>		<u>(3,473)</u>
Change in net assets	(2,591)	1,652	(601)	(1,540)	4,926	4,964
Net assets - beginning of year	<u>(8,358)</u>	<u>23,201</u>	<u>2,616</u>	<u>17,459</u>	<u>68,929</u>	<u>115,876</u>
Net assets - end 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>

See notes to financial statements.

NEW YORK CITY BALLET, INC.

Statements of Cash Flows

(in thousands)

	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Changes in net assets:		
Unrestricted	\$ (441)	\$ (1,540)
Temporarily restricted	(27,037)	4,926
Permanently restricted	<u>7,934</u>	<u>4,964</u>
	(19,544)	8,350
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	894	736
Contributions restricted for long-term activities	(3,000)	(1,761)
Donated securities	(1,912)	(3,300)
Proceeds from the sale of donated securities	1,904	2,205
Net losses (gains) on investments	13,511	(1,139)
Changes in:		
Gift annuities	(28)	121
Pledges receivable	(53)	(8,142)
Accounts receivable	64	43
Inventory	(59)	(24)
Deferred production costs	(60)	253
Due from CCMD	4,019	848
Accounts payable and accrued expenses	(951)	(678)
Advance ticket sales and other deferred revenue	385	861
Due to CCMD	(1,523)	
Payroll-related liabilities due to CCMD	211	92
Payroll-related and other liabilities	<u>2,650</u>	<u>1,607</u>
Net cash (used in) provided by operating activities	<u>(3,492)</u>	<u>72</u>
Cash flows from investing activities:		
Proceeds from sales of investments	63,943	75,372
Purchases of investments	(63,907)	(71,133)
Construction in progress	16,136	(10,133)
Purchases of property and equipment	<u>(17,084)</u>	<u>(128)</u>
Net cash used in investing activities	<u>(912)</u>	<u>(6,022)</u>
Cash flows from financing activities:		
Endowment contributions	3,000	1,761
Proceeds from line of credit payable		7,000
Payments of loan payable	<u>(2,000)</u>	<u> </u>
Net cash provided by financing activities	<u>1,000</u>	<u>8,761</u>
Net change in cash and cash equivalents	(3,404)	2,811
Cash and cash equivalents - beginning of year	<u>11,447</u>	<u>8,636</u>
Cash and cash equivalents - end of year	<u>\$ 8,043</u>	<u>\$ 11,447</u>

See notes to financial statements.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

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 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.

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. 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.

[4] Investments:

Investments in cash, debt and equity securities, and money-market funds maintained by investment managers are reported at their fair values, which are based on quoted market prices. The alternative investments, consisting of diversified hedge funds and limited partnerships, are adjusted to fair values annually, at City Ballet's fiscal year-end, based on the valuations of the underlying assets as provided by the respective investment managers. Management reviews the calendar year-end audited values provided by the investment managers and concludes the reported amounts of these investments at City Ballet's fiscal year-end to be reasonable estimates of fair value.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

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

[4] Investments: (continued)

City Ballet's investments in limited partnerships are valued based on the valuation policies and procedures of the general partners. Each general partner performs oversight of the underlying manager's material positions, both on an investment level and from a risk perspective. The general partners are responsible for ensuring that the investments are valued according to the policies and procedures adopted by the partnerships. City Ballet places reliance upon those procedures and records these investments at fair value as determined by the general partners.

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

[5] Public support, grants, and contributions:

City Ballet reports gifts of cash and other assets as restricted support if they are received with donor stipulations 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 reclassified to unrestricted net assets and reported in the statement 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 have been discounted to their present values and recorded as income. Amortization of this discount will be recorded as additional contributions over the term of each pledge.

[6] Performance sales:

Revenue from ticket sales is recognized when the services have been rendered. Ticket sales received in advance are deferred until the day of the event.

[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 deferred until the year 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.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

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

[8] Allocation of expenses, income and support: (continued)

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 fiscal-years 2014 and 2013, respectively, City Ballet paid approximately \$267,000 and \$1,277,000 to CCMD to cover City Opera's unfunded obligations. 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 filed claims in the City Opera bankruptcy case, with City Ballet filing a claim in the amount of approximately \$781,000. The City Opera has not yet accepted the full amount of CCMD's claim, and the parties have engaged in some discussion over the exact amount of this claim.

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 are estimated by the proponents of the plan to be in the 4.7% - 10% range. As City Ballet claim against City Opera has not yet been fully allowed, the amount to be received by City Opera is not yet set. Based on the foregoing, City Ballet would be likely to receive distributions from the City Opera on behalf of its claim totaling between \$36,000 and \$78,000, payable over a four year period with the first payment payable in January 2017. The exact amount that NYCB will ultimately receive from City Opera at June 30, 2016 remains uncertain.

[9] Functional allocation of expenses:

City Ballet's expenses are classified according to the programs for which they were incurred and 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 expenses.

[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 resources that are not subject to donor-imposed restrictions. The Board of Directors has designated certain 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 by the Board of Directors.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

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

[10] Net assets: (continued)

(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 statement of activities, pending appropriations by the Board of Directors.

[11] Gift annuities:

City Ballet is the beneficiary of planned gifts under certain split-interest agreements, consisting of 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 pronouncements:

In May 2015, the FASB issued Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement to categorize, within the fair-value hierarchy, all investments for which fair value is measured using the net asset value ("NAV") per share (or its equivalent unit) as a practical expedient. The City Ballet elected to adopt ASU 2015-07 for fiscal-year 2016. Accordingly, investments for which fair value is measured using NAV per share (or its equivalent unit) as a practical expedient have not been categorized within the fair-value hierarchy, and certain related disclosures have been properly excluded from the financial statements. The amendment has been applied retrospectively to all periods presented.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 will amend 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 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and 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. City Ballet has chosen not to early-adopt ASU 2016-14.

[14] Reclassification:

Certain disclosures in the accompanying fiscal-year 2015 financial statements have been reclassified to conform with the fiscal-year 2016 presentation.

[15] Subsequent events:

City Ballet considers all accounting treatments, and the related disclosures in the current fiscal-year's financial statements, that may be required as the result of all events or transactions that occur after the fiscal year-end through December 8, 2016, the date on which the financial statements were available to be issued.

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2016 and 2015**

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

[16] NYC Ballet 422, LLC:

NYC Ballet 422, LLC (the "LLC") was formed in May 2014 as a limited liability company under the New York liability law. The LLC is a disregarded entity of City Ballet. In fiscal-year 2016, the LLC had income of approximately \$7,000 and expenses of approximately \$11,000. In fiscal-year 2015, The LLC had income of approximately \$63,000 and expenses of approximately \$100,000. These activities are included in the accompanying statements of activities.

NOTE B - PLEDGES RECEIVABLE

Pledges of \$26,306,000 and \$26,253,000 have been recorded net of applicable discounts of \$2,473,000 and \$3,574,000 in fiscal-years 2016 and 2015, respectively. Pledges specifically for City Ballet's endowment, net of applicable discounts, totaled \$12,016,000 and \$7,083,000 in fiscal-years 2016 and 2015, respectively. Pledges are expected to be collected as follows:

	June 30,			
	2016		2015	
	Operating	Endowment	Operating	Endowment
	(in thousands)			
Less than one year	\$ 6,821	\$ 2,275	\$ 7,635	\$ 1,500
One to five years	7,543	9,741	11,630	5,583
Allowance for doubtful pledges	(74)	—	(95)	—
Total	<u>\$ 14,290</u>	<u>\$ 12,016</u>	<u>\$ 19,170</u>	<u>\$ 7,083</u>

NOTE C - INVESTMENTS

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

	June 30,	
	2016	2015
	(in thousands)	
Endowment investments:		
Cash equivalents	\$ 868	\$ 7,475
Equity securities	67,338	57,680
Alternative investments	<u>99,618</u>	<u>116,208</u>
	<u>\$ 167,824</u>	<u>\$ 181,363</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE C - INVESTMENTS (CONTINUED)

During fiscal-years 2016 and 2015, net investment (losses) income consisted of the following:

	Year Ended June 30,	
	2016	2015
	(in thousands)	
Net realized gains	\$ 6,931	\$ 15,528
Net unrealized losses	<u>(20,442)</u>	<u>(14,389)</u>
Net (losses) gains on investments	(13,511)	1,139
Interest and dividends, net	<u>310</u>	<u>180</u>
	<u>\$ (13,201)</u>	<u>\$ 1,319</u>

Offset in interest and dividends are management fee expenses of \$660,000 and \$644,000 for fiscal-years 2016 and 2015, respectively.

The FASB's ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a three-level 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, 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.
- Level 3: Valuations are based on pricing inputs that are unobservable and includes situations where (i) there is little, if any, market activity for the investments, or (ii) the underlying investments cannot be independently valued.

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. In such instances, the transfer is reported at the beginning of the reporting period. During fiscal-years 2016 and 2015, there were no transfers among the fair-value hierarchy levels.

Investment expenses include the services of investment managers and custodians. The balances of investment management fees disclosed 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.

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2016 and 2015**

NOTE C - INVESTMENTS (CONTINUED)

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, 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
Morgan Stanley Stern Endowment	159	159		159
Charitable gift annuities	<u>\$ 1,203</u>	<u>1,203</u>		<u>1,203</u>
Total investments	<u>\$ 68,365</u>	<u>\$ 1,203</u>	<u>\$ 99,618</u>	<u>\$ 169,186</u>

Included in the investment categories above are two Merrill Lynch accounts in which the Bank of America has a security interest as collateral for \$10,000,000 in borrowings by City Ballet under a line-of-credit agreement (see Note M[3]).

June 30, 2015				
Fair-value Hierarchy			Valued at NAV	Total Investments
Level 1	Level 3	Total (in thousands)		
Cash and cash equivalents	\$ 7,475	\$ 7,475		\$ 7,475
Equity securities	57,680	57,680		57,680
Alternative investments			\$ 116,208	116,208
Morgan Stanley Stern Endowment	164	164		164
Charitable gift annuities	<u>\$ 1,170</u>	<u>1,170</u>		<u>1,170</u>
Total investments	<u>\$ 65,319</u>	<u>\$ 1,170</u>	<u>\$ 116,208</u>	<u>\$ 182,697</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE C - INVESTMENTS (CONTINUED)

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 For Year Ended June 30,	
	2016	2015
	(in thousands)	
Opening balance	\$ 1,170	\$ 1,268
Purchases	956	731
Redemptions	(906)	(805)
Realized gains	52	21
Unrealized losses	(69)	(45)
Closing balance	<u>\$ 1,203</u>	<u>\$ 1,170</u>

The following table describes the funding commitment and redemption information as of June 30, 2016 for City Ballet's alternative investments, including charitable gift annuities:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Offshore hedge funds:				
Archer Capital Offshore Fund, Ltd.	\$ 9,232	None	Quarterly	90 days
BlackRock Asia Pacific Partners, Ltd.	4	None	None in liquidation	N/A
BlackRock Multi-Manager Partners, Ltd.	12	None	None in liquidation	N/A
Oz Overseas Fund, Ltd.	214	None	None in liquidation	N/A
GSO Secured Trust, Ltd.	15,538	None	Monthly	30 days
Lakeview Opportunity Fund, Ltd.	724	None	None in liquidation	N/A
Gotham Hedged Value Strategies (Intl)	18,937	None	Monthly	15 days
Coatue Offshore Fund, Ltd.	5,682	None	Quarterly	45 days
Limited partnerships:				
AG Fund, L.P.	7,738	None	Annual (12/31)	60 days
New Generation Turnaround Fund LP	6,378	None	Monthly	20 days
TV Feeder Fund, Ltd.	7,690	None	Quarterly	45 days
Valinor Capital Partners Offshore, Ltd.	11,198	None	Quarterly	60 days
Other:				
York Credit Opportunities Unit Trust.	16,271	None	Monthly	1 day
Wells Fargo Annuity/NYCB-CGA	<u>1,203</u>	None	N/A	N/A
	<u>\$ 100,821</u>			

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE D - ENDOWMENTS

City Ballet's endowments consist of both Board-designated and donor-restricted funds, established for a variety of purposes.

[1] Endowment net assets (inclusive of \$12,016,000 and \$7,083,000 in pledges), by type of fund, as of each fiscal year-end:

	June 30, 2016			Total
	Board- Designated	Temporarily Restricted	Permanently Restricted	
	(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>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, 2016 and 2015**

NOTE D - ENDOWMENTS (CONTINUED)

	June 30, 2015			
	Board- Designated	Temporarily Restricted	Permanently Restricted	Total
	(in thousands)			
Functioning as endowment	\$ 11,576		\$ 7,162	\$ 18,738
Touring	2,410			2,410
Delmas Repertory	7,305			7,305
Capital Campaign 1999		\$ 4,571	14,235	18,806
Martison Memorial/Society Loan		142	84	226
General	319		1,000	1,319
Capital Campaign 2014 General			1,709	1,709
Bequests	2,409			2,409
Wallace Endowment		<u>24,924</u>	<u>57,751</u>	<u>82,675</u>
Total	<u>24,019</u>	<u>29,637</u>	<u>81,941</u>	<u>135,597</u>
Choreographic Institute		7,168	16,378	23,546
Nureyev Repertory		409	1,000	1,409
Martins Repertory		1,465	3,000	4,465
Martins' 25		96	344	440
Martins' 30		13	115	128
Balanchine Repertory		640	1,320	1,960
Symphony in C		760	1,000	1,760
Robbins Repertory		20	67	87
Touring		1,496	2,975	4,471
Education		294	775	1,069
Levin Dance		490	1,000	1,490
Dance On		103	500	603
Musical Leadership		902	2,000	2,902
Scenic Design Maintenance		104	250	354
Kirstein Memorial		136	235	371
Capital Campaign 2014 Stepping		28	6,413	6,441
Capital Campaign 2014 Education			225	225
Capital Campaign 2014 Dancers' Salary			<u>1,127</u>	<u>1,127</u>
Total restricted		<u>14,124</u>	<u>38,724</u>	<u>52,848</u>
Investments held by others (Stern)	<u>(12)</u>	<u>12</u>	<u>175</u>	<u>175</u>
Total	<u>\$ 24,007</u>	<u>\$ 43,773</u>	<u>\$ 120,840</u>	<u>\$ 188,620</u>

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2016 and 2015**

NOTE D - ENDOWMENTS (CONTINUED)

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

	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		<u>\$ 24,019</u>	<u>\$ 43,761</u>	<u>\$ 113,583</u>	<u>\$ 181,363</u>
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>(162)</u>	<u>(1,465)</u>	<u>(6,440)</u>		<u>(7,905)</u>
Net income on investments held by others	<u>(162)</u>	<u>24,692</u>	<u>26,711</u>	<u>\$ 116,583</u>	<u>\$ 167,824</u>
Endowment net assets, end of year	<u>\$ (162)</u>	<u>\$ 24,664</u>	<u>\$ 26,723</u>		

	Year Ended June 30, 2015				
	<u>Unrestricted</u>	<u>Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	(in thousands)				
Opening balance		<u>\$ 22,801</u>	<u>\$ 48,745</u>	<u>\$ 111,822</u>	<u>\$ 183,368</u>
Investment management fees		(108)	(536)		(644)
Interest, dividends and realized gains		2,752	13,600		16,352
Unrealized gains		<u>(2,422)</u>	<u>(11,967)</u>		<u>(14,389)</u>
Subtotal		<u>222</u>	<u>1,097</u>		<u>1,319</u>
Additions		<u>2,409</u>		1,761	<u>4,170</u>
Spending policy of 5%		<u>(1,413)</u>	<u>(6,081)</u>		<u>(7,494)</u>
Net income on investments held by others		<u>24,019</u>	<u>43,761</u>	<u>\$ 113,583</u>	<u>\$ 181,363</u>
Endowment net assets, end of year		<u>\$ 24,007</u>	<u>\$ 43,773</u>		

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE D - ENDOWMENTS (CONTINUED)

[3] Donor-restricted endowment:

The historic dollar value of City Ballet's donor-restricted endowment as of June 30, 2016 and 2015 was \$41,216,000 and \$38,724,000, 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 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, 2015.

[5] Spending policy:

City Ballet has a policy permitting management to budget and expend a percentage of endowment draw on each fund's average market value of its investment portfolio over 20 quarters. For fiscal-years 2016 and 2015, this was 5.0% through December 2014 and 2013, respectively.

NOTE E - UNRESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
	(in thousands)	
Undesignated	\$ (5,273)	\$ (1,017)
Pension/postemployment accumulated other income and loss	(13,857)	(9,932)
Fixed assets	9,260	2,015
Capital renewal and replacement	846	846
Underwater funds	(162)	
Board-designated	<u>24,664</u>	<u>24,007</u>
Total	<u>\$ 15,478</u>	<u>\$ 15,919</u>

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2016 and 2015**

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 2016 and 2015:

AOCI Fund Balance Analysis			
Fiscal-Year 2016	Pension	Post-employment	Total AOCI
		(in thousands)	
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>
Fiscal-Year 2015			
Allocated from CCMD	\$ (1,035)	\$ (518)	\$ (1,553)
Direct from City Ballet	<u>(6,497)</u>	<u>(1,882)</u>	<u>(8,379)</u>
Total	<u>\$ (7,532)</u>	<u>\$ (2,400)</u>	<u>\$ (9,932)</u>

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

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

	June 30,	
	2016	2015
	(in thousands)	
Productions	\$ 3,255	\$ 2,898
Emergency	526	574
CLUT	242	302
Education	233	206
Passage of time	<u>15,839</u>	<u>26,102</u>
Total time and other restrictions	20,095	30,082
Accumulation endowment income reserve for appropriations	<u>26,723</u>	<u>43,773</u>
End of year	<u>\$ 46,818</u>	<u>\$ 73,855</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

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,	
	2016	2015
	(in thousands)	
Productions	\$ 3,322	\$ 2,230
Emergency	114	68
CLUT	59	59
Education	503	505
Passage of time	<u>11,705</u>	<u>3,620</u>
End of year	<u>\$ 15,703</u>	<u>\$ 6,482</u>

NOTE G - LEASEHOLD, PROPERTY AND EQUIPMENT

[1] Construction in progress:

For fiscal-years 2016 and 2015, construction in progress was \$10,000 and \$16,146,000, respectively. The construction in progress at June 30, 2015, represented construction costs for leasehold improvements in the space utilized by City Ballet in the Koch Theater that were placed in service in fiscal-year 2016.

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

	June 30,	
	2016	2015
	(in thousands)	
Leasehold improvements	\$ 11,034	\$ 11,034
Property and equipment	<u>19,715</u>	<u>2,631</u>
	30,749	13,665
Less accumulated depreciation	<u>(11,243)</u>	<u>(10,349)</u>
	<u>\$ 19,506</u>	<u>\$ 3,316</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE H - PUBLIC SUPPORT

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

	Year Ended June 30,	
	2016	2015
	(in thousands)	
Appropriation from the City of New York	\$ 2,206	\$ 2,315
Other governmental agencies	234	224
Special events	5,803	5,626
Membership	2,723	2,654
Foundation	4,486	3,027
Corporate	4,852	2,963
Individual	12,098	8,008
Estates	<u>1,100</u>	<u>600</u>
Subtotal	33,502	25,417
Estates (Board designated)	<u>259</u>	<u>2,409</u>
Total	<u>\$ 33,761</u>	<u>\$ 27,826</u>

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2016 and 2015**

NOTE I - SCHEDULE OF FUNCTIONAL EXPENSES

For fiscal-year 2016 (with summary totals for fiscal-year 2015), the following schedule reports the allocation of expenses to the various functional categories:

	<u>Ballet Production</u>	<u>Facility Management</u>	<u>Production Management</u>	<u>Total</u>	<u>Administration</u>	<u>Public Support</u>	<u>2016 Total</u>	<u>2015 Total</u>
	(in thousands)							
Salaries	\$ 26,714		\$ 3,473	\$ 30,187	\$ 2,445	\$ 2,103	\$ 34,735	\$ 32,539
Benefits	<u>10,832</u>		<u>1,022</u>	<u>11,854</u>	<u>688</u>	<u>737</u>	<u>13,279</u>	<u>12,489</u>
Salaries and related benefits	37,546		4,495	42,041	3,133	2,840	48,014	45,028
Depreciation	24	\$ 20		44	42		86	81
Occupancy	83	986		1,069	1	94	1,164	1,066
Printing	2,948			2,948	13	216	3,177	3,580
Transportation	1,170		15	1,185	27	111	1,323	925
Scenery, music, and costumes	1,791			1,791			1,791	1,856
Professional fees	1,072			1,072	444	1,908	3,424	3,682
Data processing, telephone and office expenses	70			70	48	68	186	248
Miscellaneous expenses	1,743	1	6	1,750	737		2,487	2,364
Departmental overhead allocation	421			421	(421)		0	0
CCMD shared services allocation		<u>17,113</u>		<u>17,113</u>	<u>2,449</u>		<u>19,562</u>	<u>20,361</u>
Total expenses Before funded depreciation	46,868	18,120	4,516	69,504	6,473	5,237	81,214	79,191
Funded depreciation	<u>160</u>	<u>648</u>		<u>808</u>			<u>808</u>	<u>655</u>
	<u>\$ 47,028</u>	<u>\$ 18,768</u>	<u>\$ 4,516</u>	<u>\$ 70,312</u>	<u>\$ 6,473</u>	<u>\$ 5,237</u>	<u>\$ 82,022</u>	<u>\$ 79,846</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 to obtain them are \$496,000 and \$554,000 for fiscal-years 2016 and 2015, 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, 2016 and 2015

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 Pension Benefit Guaranty Corporation ("PBGC") regulations. Benefits 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 of 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:

	June 30,	
	2016	2015
	(in thousands)	
Projected benefit obligation	\$ (24,461)	\$ (22,125)
Plan assets at fair value	<u>15,911</u>	<u>16,786</u>
Funded status (asset deficit), recognized as liabilities in the statements of financial position	<u>\$ (8,550)</u>	<u>\$ (5,339)</u>

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

	Year Ended June 30,	
	2016	2015
Discount rate	4.67%	4.00%
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:

	Year Ended June 30,	
	2016	2015
	(in thousands)	
Expected return on plan assets	\$ (1,225)	\$ (1,224)
Interest cost on projected benefit obligation	1,007	836
Amortization of accumulated loss	<u>634</u>	<u>415</u>
Net periodic pension cost	<u>\$ 416</u>	<u>\$ 27</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE K - PENSION PLANS (CONTINUED)

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

	Year Ended June 30,	
	2016	2015
	(in thousands)	
Employer contributions	<u>\$ 750</u>	<u>\$ 1,209</u>
Benefits paid	<u>\$ 515</u>	<u>\$ 427</u>

City Ballet expects to contribute approximately \$937,000 to its pension plan in fiscal-year 2017.

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)
2017	\$ 1,195
2018	1,181
2019	1,262
2020	1,272
2021	1,423
2022-2026	7,640

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, 2016, the asset allocation is 10% in cash equivalents, 58% in U.S. equity securities, and 32% in debt securities. 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 2016	Actual 2016	Actual 2015
Cash equivalents	10%	10%	8%
Equity securities	58%	58%	57%
Debt securities	32%	32%	35%

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE K - PENSION PLANS (CONTINUED)

City Ballet's net periodic pension cost for fiscal-year 2016 and allocated net periodic pension cost for fiscal-year 2015 were approximately \$416,000 and \$27,000, respectively. City Ballet's accrued benefit liability at June 30, 2016 and 2015 was approximately \$8,550,000 and \$5,339,000, respectively, and is reported in payroll-related liabilities in the accompanying statements of financial position. The accumulated other comprehensive loss associated with City Ballet's pension plan, inclusive of amounts allocated from CCMD, was \$11,827,000 and \$7,532,000 in fiscal-years 2016 and 2015, 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 \$2,641,000 and \$2,560,000 in fiscal-years 2016 and 2015, respectively.

NOTE L - POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In fiscal-year 1978, CCMD adopted the policy of providing the option 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) to continue in the group medical and life insurance plan, at no cost to the employee. 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 predetermined length of service. City Ballet funds both of these obligations as benefits are actually paid.

Unrestricted net assets of City Ballet were decreased by \$370,000 in fiscal-year 2016 and increased by \$1,849,000 in fiscal-year 2015 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 reported 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>2016</u>	<u>2015</u>
	(in thousands)	
Accumulated obligation	\$ 3,235	\$ 3,409
Unrecognized amounts	<u>(3,605)</u>	<u>(1,539)</u>
	<u>\$ (370)</u>	<u>\$ 1,870</u>

	<u>June 30</u>	
	<u>2016</u>	<u>2015</u>
	(in thousands)	
Postretirement benefit obligation at the end of year:		
Active employees not fully eligible to retire	\$ 400	\$ 412
Active employees fully eligible to retire	383	402
Retirees	<u>2,452</u>	<u>2,595</u>
Total	<u>\$ 3,235</u>	<u>\$ 3,409</u>

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2016 and 2015**

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

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

	Year Ended June 30,	
	2016	2015
	(in thousands)	
Net periodic postretirement benefit cost:		
Service	\$ 11	\$ 5
Interest	123	57
Amortization of accumulated loss	<u>218</u>	<u>64</u>
Net periodic postretirement benefit cost	352	126
Actual payments	<u>(156)</u>	<u>(140)</u>
Net change	196	(14)
Accumulated obligation:		
Beginning of year	<u>787</u>	<u>801</u>
End of year	<u>\$ 983</u>	<u>\$ 787</u>

Estimated benefit payments are as follows:

Year Beginning July 1,	Employer Benefit Payment
	(in thousands)
2016	\$ 213
2017	211
2018	266
2019	264
2020	259
2021 - 2025	1,591

The accumulated postretirement benefit obligation was actuarially determined as of June 30, 2016, using assumed discount rates of 3.81%. The assumed rate of future increases in health care was 8.0% in the first year, declining to 4.5% by fiscal-year year 2023. Had the health-care cost-trend rate assumption been increased by 1.0%, the accumulated postretirement benefit obligation would have increased by 9.0%. 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 331.4%. The postretirement balance is reported as part of payroll-related 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 \$2,030,000 and \$2,400,000 in fiscal-years 2016 and 2015, respectively.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE M - COMMITMENTS

[1] Samuel B. and David Rose Building:

During fiscal-year 1985, City Ballet entered into an agreement whereby, based on space usage, it contributed a pro-rata share of the operating 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 2016 and 2015. 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 2016 and 2015, City Ballet rented two warehouses, archival space and a telemarketing office under lease agreements expiring in fiscal-year 2020. Rent expense, including rent applicable to the above spaces, was \$405,000 and \$373,000 for fiscal-years 2016 and 2015, respectively. Future minimum commitments under these leases are \$243,000 at June 30, 2017, approximately \$250,000 for each fiscal year from 2018 through 2019, and \$167,000 thereafter.

[3] Loan payable:

In December 2013, City Ballet entered into an agreement with Bank of America for a line of credit in the amount of \$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, 2017. As collateral, the bank has a security interest in two investment accounts held by Merrill Lynch. At June 30, 2016 and 2015, the loan balance owed to the bank, the proceeds from which were used to pay for capital expenditures was \$10,000,000 and \$12,000,000, 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.