

EISNERAMPER

NEW YORK CITY BALLET, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

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LLP



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, 2018 and 2017, 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.

Auditor's 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 auditor's judgment, 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, 2018 and 2017, 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.



EISNERAMPER LLP
New York, New York
December 12, 2018



NEW YORK CITY BALLET, INC.

Statements of Financial Position

(in thousands)

	June 30,	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 13,263	\$ 6,261
Pledges receivable (see Note B)	15,597	21,825
Accounts receivable	778	634
Endowment investments (see Note C)	220,770	189,723
Gift annuities and other investments	1,800	1,383
Inventory	507	474
Deferred production costs	1,155	1,791
Due from CCMD		2,153
Construction in progress (see Note G)	304	143
Leasehold improvements and other property and equipment, less accumulated depreciation of \$17,573 in 2018 and \$12,329 in 2017 (see Note G)	<u>78,473</u>	<u>19,080</u>
	<u>\$ 332,647</u>	<u>\$ 243,467</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,968	\$ 3,076
Advance ticket sales and other deferred revenue	6,187	6,119
Loan payable	4,000	8,000
Payroll-related liabilities due to CCMD		2,725
Payroll-related and other liabilities	<u>11,999</u>	<u>10,693</u>
Total liabilities	<u>28,154</u>	<u>30,613</u>
Net assets:		
Unrestricted (see Note E)	<u>111,671</u>	<u>25,415</u>
Temporarily restricted:		
Time and other restrictions (see Note F)	12,271	14,617
Endowment appreciation (see Note D)	<u>45,280</u>	<u>39,855</u>
	<u>57,551</u>	<u>54,472</u>
Permanently restricted (see Note D):		
Wallace endowment	57,751	57,751
Endowments for which income is unrestricted	31,465	32,736
Endowments for which income is restricted	<u>46,055</u>	<u>42,480</u>
	<u>135,271</u>	<u>132,967</u>
Total net assets	<u>304,493</u>	<u>212,854</u>
	<u>\$ 332,647</u>	<u>\$ 243,467</u>

See notes to financial statements.

NEW YORK CITY BALLET, INC.

Statement of Activities

Year Ended June 30, 2018

(with summarized financial information for 2017)

(in thousands)

	2018						2017
	Unrestricted			Unrestricted Total	Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board-Designated	Funded Fixed Assets				
Operating revenues:							
Performance ticket sales and tour fees	\$ 38,846			\$ 38,846			\$ 38,846
Investment earnings per spending policy	9,578			9,578			9,578
Income in excess of spending policy in endowment		\$ 1,977		1,977	\$ 5,425		7,402
Investment income other than endowment		97		97			97
Rental and other revenues	11,259			11,259			11,259
Total operating revenues	<u>59,683</u>	<u>2,074</u>		<u>61,757</u>	<u>5,425</u>		<u>67,182</u>
Operating expenses:							
Program services:							
Ballet production costs	49,164			49,164			49,164
Depreciation			\$ 5,098	5,098			5,098
Facility expenses	17,493			17,493			17,493
Production-management expenses	4,871			4,871			4,871
	<u>71,528</u>		<u>5,098</u>	<u>76,626</u>			<u>76,626</u>
Supporting services:							
Administration	8,346			8,346			8,346
Public support	5,564			5,564			5,564
	<u>13,910</u>			<u>13,910</u>			<u>13,910</u>
Total operating expenses	<u>85,438</u>		<u>5,098</u>	<u>90,536</u>			<u>90,536</u>
Change in net assets from operations before public support	<u>(25,755)</u>	<u>2,074</u>	<u>(5,098)</u>	<u>(28,779)</u>	<u>5,425</u>		<u>(23,354)</u>
Public support:							
Appropriation from the City of New York	2,515			2,515	2,399		4,914
Other public support	18,744			18,744	5,105	\$ 6,304	30,153
Net assets released from restrictions - operating activities	4,570		5,408	9,978	(9,978)		0
Total public support	<u>25,829</u>		<u>5,408</u>	<u>31,237</u>	<u>(2,474)</u>	<u>6,304</u>	<u>35,067</u>
Change in net assets before non-operating activities	74	2,074	310	2,458	2,951	6,304	11,713
Bad debt expense – non-operating						(4,000)	(4,000)
Pension, postemployment and other adjustments	2,691	(98)		2,593			2,593
Change in net assets before transfer of CCMD net assets	2,765	1,976	310	5,051	2,951	2,304	10,306
Transfer of CCMD net assets	(1,375)	18,341	64,239	81,205	128		81,333
Increase in net assets	1,390	20,317	64,549	86,256	3,079	2,304	91,639
Net assets - beginning of year	(14,290)	28,928	10,777	25,415	54,472	132,967	212,854
Net assets - end of year	\$ (12,900)	\$ 49,245	\$ 75,326	\$ 111,671	\$ 57,551	\$ 135,271	\$ 304,493

See notes to financial statements.

NEW YORK CITY BALLET, INC.

Statement of Activities
Year Ended June 30, 2017
(in thousands)

	2017						
	Unrestricted						
	General Operating	Board- Designated	Funded Fixed Assets	Unrestricted Total	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:							
Performance ticket sales and tour fees	\$ 37,823			\$ 37,823			\$ 37,823
Investment earnings per spending policy	8,519			8,519			8,519
Income (losses) in excess of spending policy in endowment		\$ 3,402		3,402	\$ 13,293		16,695
Investment income other than endowment		99		99			99
Other revenues	<u>9,694</u>			<u>9,694</u>			<u>9,694</u>
Total operating revenues	<u>56,036</u>	<u>3,501</u>		<u>59,537</u>	<u>13,293</u>		<u>72,830</u>
Operating expenses:							
Program services:							
Ballet production costs	50,036			50,036			50,036
Depreciation			\$ 977	977			977
Facility expenses	16,637			16,637			16,637
Production-management expenses	<u>4,656</u>			<u>4,656</u>			<u>4,656</u>
	<u>71,329</u>		<u>977</u>	<u>72,306</u>			<u>72,306</u>
Supporting services:							
Administration	7,169			7,169			7,169
Public support	<u>5,583</u>			<u>5,583</u>			<u>5,583</u>
	<u>12,752</u>			<u>12,752</u>			<u>12,752</u>
Total operating expenses	<u>84,081</u>		<u>977</u>	<u>85,058</u>			<u>85,058</u>
(Loss) income from operations before public support	<u>(28,045)</u>	<u>3,501</u>	<u>(977)</u>	<u>(25,521)</u>	<u>13,293</u>		<u>(12,228)</u>
Public support:							
Appropriation from the City of New York	2,359			2,359	7		2,366
Other public support	18,108			18,108	4,631	\$ 4,193	26,932
Utilization of temporarily restricted net assets	<u>7,621</u>		<u>2,494</u>	<u>10,115</u>	<u>(10,115)</u>		<u>0</u>
Total public support	<u>28,088</u>		<u>2,494</u>	<u>30,582</u>	<u>(5,477)</u>	<u>4,193</u>	<u>29,298</u>
Earnings (deficit) before adjustments	43	3,501	1,517	5,061	7,816	4,193	17,070
Recovery of underwater funds and transfer	162			162	(162)		0
Pension, postemployment and other adjustments	<u>4,796</u>	<u>(82)</u>		<u>4,714</u>			<u>4,714</u>
Change in net assets	5,001	3,419	1,517	9,937	7,654	4,193	21,784
Net assets - beginning 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>
Net assets - end of year	<u>\$ (14,290)</u>	<u>\$ 28,928</u>	<u>\$ 10,777</u>	<u>\$ 25,415</u>	<u>\$ 54,472</u>	<u>\$ 132,967</u>	<u>\$ 212,854</u>

See notes to financial statements.

NEW YORK CITY BALLET, INC.

Statements of Cash Flows

(in thousands)

	Year Ended June 30,	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increases in net assets:		
Unrestricted	\$ 86,256	\$ 9,937
Temporarily restricted	3,079	7,654
Permanently restricted	<u>2,304</u>	<u>4,193</u>
	91,639	21,784
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation and amortization	5,244	1,086
Contributions restricted for long-term activities	(5,304)	(5,204)
Change in allowance for doubtful accounts	4,232	
Donated securities	(1,804)	(2,602)
Proceeds from the sale of donated securities	1,804	2,608
Net gains on investments	(16,738)	(24,382)
Transfer of CCMD net assets	(81,333)	
Changes in:		
Gift annuities and other investments	9	(21)
Pledges receivable	1,996	4,481
Accounts receivable	143	(135)
Inventory	(33)	(20)
Deferred production costs	945	(823)
Due from CCMD		(2,006)
Accounts payable and accrued expenses	1,141	603
Advance ticket sales and other deferred revenue	68	382
Due to CCMD		(586)
Payroll-related liabilities due to CCMD		942
Payroll-related and other liabilities	<u>(2,791)</u>	<u>(2,777)</u>
Net cash used in operating activities	<u>(782)</u>	<u>(6,670)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	117,250	70,263
Purchases of investments	(113,716)	(67,786)
Cash and cash equivalents from CCMD merger	3,249	
Construction in progress	(161)	(133)
Purchases of property and equipment	<u>(142)</u>	<u>(660)</u>
Net cash provided by investing activities	<u>6,480</u>	<u>1,684</u>
Cash flows from financing activities:		
Endowment contributions	5,304	5,204
Payments of loan payable	<u>(4,000)</u>	<u>(2,000)</u>
Net cash provided by financing activities	<u>1,304</u>	<u>3,204</u>
Net change in cash and cash equivalents	7,002	(1,782)
Cash and cash equivalents - beginning of year	<u>6,261</u>	<u>8,043</u>
Cash and cash equivalents - end of year	<u>\$ 13,263</u>	<u>\$ 6,261</u>

See notes to financial statements.

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

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 in Lincoln Center, which was operated for City Ballet by City Center of Music and Drama, Inc. ("CCMD"), which also provided certain administrative services to City Ballet through June 30, 2017.

In March 2017, City Ballet and CCMD entered into an Agreement and Plan of Merger whereby CCMD was merged with and into City Ballet as of July 1, 2017, and City Ballet became 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.

As a result of the merger, City Ballet reported in its statement of activities for fiscal-year 2018 the fair value of net assets transferred from CCMD, consisting of the following:

Funded leasehold improvements and equipment	\$ 64,239
Other leasehold improvements and equipment	256
Cash and cash equivalents	3,249
Investments	17,843
Accounts receivables and other assets	1,594
Accounts payable and accrued expenses	<u>(5,848)</u>
 Total	 <u>\$ 81,333</u>

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 ("U.S. GAAP"), 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 U.S. GAAP 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.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

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

[3] Property and equipment:

City Ballet does not own any land or buildings, but instead occupies space owned by the City of New York. Purchases of furniture and equipment that are not material are charged to current operations. Significant additions, those that have a cost of \$35,000 or more or a useful life greater than three years, are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets. The fiscal-year 2018 financials include leasehold improvements and significant property additions made to the David H. Koch Theater by CCMD which are capitalized and depreciated using the straight-line method over their estimated useful lives of 3 - 37 years. Leasehold improvements are recorded at their costs and are amortized over the life of the lease. Funded fixed assets include amounts received from donors that were disbursed for fixed assets.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2018 and 2017, respectively, and, in the opinion of management, there were no impairments. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[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 and private equity funds ("alternative investments") for which market values are not readily obtainable. The fair value of the alternative investments 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 alternative 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 the alternative investments 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 alternative investments 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 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.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

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

[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 an interest rate commensurate with the risk involved and are recorded as revenue. Amortization of these discounts is subsequently recorded as additional contributions over the term of each pledge.

[6] Revenue recognitions:

(i) Performance ticket sales and tour fees:

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

(ii) Rental income:

Revenue from the rental of the David H. Koch Theater which is recognized when the performance or event occurs and the services are provided. Rental income is included in other revenues in the statements of activities.

[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:

Prior to July 1, 2017, CCMD had a Sublicense and Management and Services Agreement with City Ballet. CCMD operated and managed the David H. Koch Theater for City Ballet and provided City Ballet with certain administrative services. The expenses associated with these services were allocated to City Ballet resulting in intercompany receivables and payables and were periodically liquidated through cash transfers. Subsequent to the merger of the two entities, all services managed by CCMD are now managed by City Ballet.

[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, 2018 and 2017

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

[10] Measure of operations:

In the statements of activities, City Ballet includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. It excludes bad debt expense on endowment pledges and pension, postemployment and other adjustments.

[11] 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. However, the Board of Directors has designated certain of the unrestricted net assets to function as endowment. As a result of the merger, City Ballet increased its Board-designated endowment by approximately \$18,341,000, representing the board-designated net assets transferred from CCMD, the earnings of which will continue to be applied to future support of the operations of the David H. Koch Theater (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 donors 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 statements of activities, pending appropriation for expenditure by the Board of Directors.

[12] Gift annuities and other investments:

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. Other investments in fiscal-year 2018 include fixed-income mutual funds of approximately \$427,000 as a result of the merger with CCMD.

[13] 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.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

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

[14] Upcoming accounting change:

In August 2016, the FASB issued Accounting Standards Update ("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 classes, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and availability of resources, and (v) presentation of operating cash flows. The new reporting standard is effective for fiscal years beginning after December 15, 2017. City Ballet will adopt the new standard for its fiscal-year 2019.

[15] Subsequent events:

City Ballet evaluated subsequent events through December 12, 2018, 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 the New York liability law and is a disregarded entity of City Ballet. In fiscal-year 2018, the LLC had no income and expenses of approximately \$2,000. In fiscal-year 2017, the LLC had income of approximately \$1,000 and expenses of approximately \$21,000. These activities are included in the statements of activities.

[17] David H. Koch Theater Gift:

In fiscal-year 2009, to provide needed aesthetic and acoustical improvements to the New York State Theater, a beloved historical building, and to upgrade to state-of-the-art production capabilities, Mr. David H. Koch pledged \$100,000,000 to CCMD for the theater, to be paid over 10 years, with the theater accordingly renamed the David H. Koch Theater. A pledge balance of \$15,000,000 was paid during fiscal-year 2017, prior to the merger.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE B - PLEDGES RECEIVABLE

In fiscal-years 2018 and 2017, respectively, pledges of \$15,597,000 and \$21,825,000 have been recorded net of applicable discounts of \$954,000 and \$1,447,000. Pledges specifically for City Ballet's endowment, net of applicable discounts, totaled \$8,004,000 and \$11,005,000 in fiscal-years 2018 and 2017, respectively. Pledges are expected to be collected as follows:

	June 30,			
	2018		2017	
	<u>Operating</u>	<u>Endowment</u>	<u>Operating</u>	<u>Endowment</u>
	(in thousands)			
Less than one year	\$ 6,293	\$ 5,234	\$ 6,672	\$ 4,973
One to five years	<u>1,801</u>	<u>7,524</u>	<u>4,752</u>	<u>6,944</u>
	8,094	12,758	11,424	11,917
Less discount to present value at rates ranging from 3% - 6% for fiscal-years 2018 and 2017	<u>(200)</u>	<u>(754)</u>	<u>(535)</u>	<u>(912)</u>
	7,894	12,004	10,889	11,005
Allowance for doubtful pledges	<u>(301)</u>	<u>(4,000)</u>	<u>(69)</u>	<u> </u>
Total	<u>\$ 7,593</u>	<u>\$ 8,004</u>	<u>\$ 10,820</u>	<u>\$ 11,005</u>

At June 30, 2018, pledges receivable from three unrelated private funders totaled approximately \$6,000,000 and represented approximately 38% of pledges receivable. At June 30, 2017, pledges receivable from four unrelated private funders totaled approximately \$ 11,551,000 and represented 52% of pledges receivable.

NOTE C - INVESTMENTS

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

	June 30,	
	<u>2018</u>	<u>2017</u>
	(in thousands)	
Endowment investments:		
Cash equivalents	\$ 9,438	\$ 35,643
Equity securities	32,538	58,185
Hedge funds:		
Domestic	86,187	15,940
Offshore	87,439	79,955
Private equity funds	<u>5,168</u>	<u> </u>
	<u>\$ 220,770</u>	<u>\$ 189,723</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE C - INVESTMENTS (CONTINUED)

At June 30, 2018, concentrations of City Ballet's investments in excess of 10% of the fair values of its portfolio included approximately 15% invested in equity securities and 79% invested in hedge funds. At June 30, 2017, concentrations of City Ballet's investments in excess of 10% of the fair values of its portfolio included approximately 31% invested in equity securities and 51% invested in hedge funds.

The fiscal-year end June 30, 2017 balances reflect City Ballet's investments before the merger with CCMD. The following endowment investments were combined with City Ballet as a result of the CCMD merger as of July 1, 2017.

	Year Ended June 30, 2018
	(in thousands)
Funds designated by CCMD's Board of Governors	\$ 17,563
Investment returns	<u>778</u>
	<u>\$ 18,341</u>

During fiscal-years 2018 and 2017, net investment income consisted of the following:

	Year Ended June 30,	
	2018	2017
	(in thousands)	
Net realized gains	\$ 15,322	\$ 7,939
Net unrealized gains	<u>1,416</u>	<u>16,443</u>
Net gains on investments	16,738	24,382
Interest and dividends, net	<u>242</u>	<u>832</u>
	<u>\$ 16,980</u>	<u>\$ 25,214</u>

Offsets in interest and dividends are management fees expenses of approximately \$623,000 and \$453,000 for fiscal-years 2018 and 2017, respectively.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE C - INVESTMENTS (CONTINUED)

The FASB's ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value designations. 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 identical 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.
- Level 3: Valuations are based on pricing inputs that are unobservable and 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 2018 and 2017, there were no transfers among the fair-value hierarchy levels.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

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, 2018				
Fair-Value Hierarchy			Valued at NAV	Total Investments
Level 1	Level 3	Total (in thousands)		
Cash and cash equivalents	\$ 9,438	\$ 9,438		\$ 9,438
Equity securities	32,538	32,538		32,538
Alternative investments			\$ 178,794	178,794
Total endowment investments	41,976	41,976	178,794	220,770
Morgan Stanley Stern Endowment	150	150		150
Fixed-income mutual funds	427	427		427
Charitable gift annuities and other investments		\$ 1,223		1,223
Total	<u>\$ 42,553</u>	<u>\$ 43,776</u>	<u>\$ 178,794</u>	<u>\$ 222,570</u>

Included in the investment categories above is one Merrill Lynch account in which the Bank of America has a security interest as collateral for \$4,000,000 in borrowings by City Ballet under a line-of-credit agreement (see Note O[3]).

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 endowment investments	93,828	93,828	95,895	189,723
Morgan Stanley Stern Endowment	153	153		153
Charitable gift annuities		\$ 1,230		1,230
Total	<u>\$ 93,981</u>	<u>\$ 95,211</u>	<u>\$ 95,895</u>	<u>\$ 191,106</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

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 Year Ended June 30,	
	2018	2017
	(in thousands)	
Opening balance	\$ 1,230	\$ 1,203
Purchases	458	859
Redemptions	(532)	(909)
Realized gains	22	7
Unrealized gains	45	70
Closing balance	<u>\$ 1,223</u>	<u>\$ 1,230</u>

The following table describes the funding commitment (in thousands of dollars) and redemption information as of June 30, 2018 for City Ballet's alternative investments:

	Fair Value (in thousands)	Unfunded Commitments (in thousands)	Redemption Frequency	Redemption Notice Period
Hedge funds - domestic:				
Angelo Gordon Super Fund, LP	6,688	None	Annual (12/31)	60 days
Farallon Equity Partners, LP	21,562	None	Quarterly	30 days
Renaissance Inst'l Diversified Alpha Fund, LLC	11,143	None	Monthly	2 months
Wellington CTF Select Leaders	6,276	None	Monthly	30 days
New Generation Turnaround Fund (Bermuda), LP	8,914	None	Monthly	20 days
Sanderson Int'l Value Fund	10,362	None	Monthly	10 days
Highclere Int'l Investors SMID Fund	5,329	None	Monthly	10 days
GQG Partners Emerging Markets Equity Fund	7,743	None	Weekly	Prior Friday
Wellington CTF Int'l Quality Growth	7,627	None	Daily	1 day
Davidson Kempner LT Distressed Opps Int'l IV, LP	<u>543</u>	4,500	N/A	N/A
Total hedge funds - domestic	<u>86,187</u>			
Hedge funds - offshore:				
Archer Capital Offshore Fund, Ltd.	8,068	None	Quarterly	90 days
Nitorum Offshore Fund, Ltd.	6,690	None	Quarterly	60 days
Valinor Capital Partners Offshore, Ltd.	7,217	None	Quarterly	60 days
TVF Fund, Ltd.	9,746	None	Quarterly	45 days
Coatue Offshore Fund, Ltd.	7,856	None	Quarterly	45 days
York Credit Opportunities Unit Trust.	10,391	None	Monthly	60 days
Blackstone/GSO Secured Trust, Ltd.	21,403	None	Monthly	30 days
Indus Select Fund, Ltd.	5,638	None	Monthly	30 days
Gotham Hedged Value Strategies (Int'l) SPC, Ltd.	10,333	None	Monthly	15 days
Och Ziff Overseas Fund, Ltd.	<u>97</u>	None	Redemption in process	N/A
Total hedge funds - offshore	<u>87,439</u>			
Private equity funds:				
Canyon DOF II (Cayman)	2,638	2,575	N/A	N/A
Sageview Capital Partners II (Offshore), LP	<u>2,530</u>	2,628	N/A	N/A
Total private equities	<u>5,168</u>			
Total	<u>\$ 178,794</u>			

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE D - ENDOWMENT

City Ballet's endowment consists of both Board-designated and donor-restricted funds, established for a variety of purposes. City Ballet's fiscal-year 2018 endowments includes \$18,341,328 merged from CCMD as of July 1, 2017 (see Note D [2]).

[1] Endowment net assets (inclusive of approximately \$8,004,000 and \$11,005,000 pledges in fiscal-years 2018 and 2017, respectively), by type of fund, as of each fiscal year-end, are as follows:

	June 30, 2018			Total
	Board- Designated	Temporarily Restricted	Permanently Restricted	
	(in thousands)			
Functioning as endowment	\$ 11,352		\$ 7,162	\$ 18,514
Touring	2,390			2,390
Delmas Repertory	7,228			7,228
Capital Campaign 1999		\$ 4,463	13,798	18,261
Martison Memorial/Society Loan		139	84	223
General	309		1,000	1,309
Capital Campaign 2014 General	552		9,246	9,798
Unrestricted	23,734			23,734
Bequests	2,834			2,834
Wallace Endowment		<u>24,283</u>	<u>57,751</u>	<u>82,034</u>
Total unrestricted	<u>48,399</u>	<u>28,885</u>	<u>89,041</u>	<u>166,325</u>
Choreographic Institute		8,607	16,378	24,985
Nureyev Repertory		409	1,000	1,409
Martins Repertory		1,427	3,000	4,427
Martins' 25		92	344	436
Martins' 30		12	115	127
Balanchine Repertory		626	1,320	1,946
Symphony in C		743	1,000	1,743
Robbins Repertory		20	67	87
Touring		1,459	2,975	4,434
Education		286	775	1,061
Levin Dance		478	1,000	1,478
Dance On		149	1,000	1,149
Musical Leadership		878	2,000	2,878
Scenic Design Maintenance		102	250	352
Kirstein Memorial		133	235	368
Capital Campaign 2014 Stepping		610	6,972	7,582
Capital Campaign 2014 Education		77	750	827
Capital Campaign 2014 Repertory		51	448	499
Capital Campaign 2014 Toe Shoes		26	150	176
Capital Campaign 2014 Dancers' Salary		65	1,210	1,275
Capital Campaign 2014 New Works		50	694	744
Capital Campaign 2014 Costumes		68	1,000	1,068
Capital Campaign 2014 Ballet Master		23	2,408	2,431
Capital Campaign 2014 Jacob Funds		<u>4</u>	<u>964</u>	<u>968</u>
Total restricted	<u>0</u>	<u>16,395</u>	<u>46,055</u>	<u>62,450</u>
Investments held by others (Stern)	<u>(25)</u>		<u>175</u>	<u>150</u>
Total	<u>\$ 48,374</u>	<u>\$ 45,280</u>	<u>\$ 135,271</u>	<u>\$ 228,925</u>

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

NOTE D - ENDOWMENT (CONTINUED)

[1] (continued)

	June 30, 2017			
	Board- Designated	Temporarily Restricted	Permanently Restricted	Total
	(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
Unrestricted	4,624			4,624
Bequests	2,740			2,740
Wallace Endowment	<u> </u>	<u>21,812</u>	<u>57,751</u>	<u>79,563</u>
Total unrestricted	<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> </u>	<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, 2018 and 2017**

NOTE D - ENDOWMENT (CONTINUED)

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

	Year Ended June 30, 2018			Total
	Board-Designated	Temporarily Restricted	Permanently Restricted	
	(in thousands)			
Opening balance	\$ 28,081	\$ 39,855	\$ 121,787	\$ 189,723
Investment management fees	(174)	(449)		(623)
Interest, dividends and realized gains	4,532	11,655		16,187
Unrealized gains	396	1,020		1,416
Subtotal	<u>4,754</u>	<u>12,226</u>		<u>16,980</u>
Additions from CCMD merger - July 1, 2017	18,341			18,341
Other additions			5,304	5,304
Spending policy of 5%	<u>(2,777)</u>	<u>(6,801)</u>		<u>(9,578)</u>
	48,399	<u>\$ 45,280</u>	<u>\$ 127,091</u>	<u>\$ 220,770</u>
Net income on investments held by others	<u>(25)</u>			
Endowment net assets, end of year	<u>\$ 48,374</u>			

	Year Ended June 30, 2017				Total
	Unrestricted	Board-Designated	Temporarily Restricted	Permanently Restricted	
	(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		3,389	13,054		16,443
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>			

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE D - ENDOWMENTS (CONTINUED)

[3] Donor-restricted endowment:

The historic dollar value of City Ballet's donor-restricted endowment as of June 30, 2018 and 2017 was approximately \$135,271,000 and \$132,967,000, 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. There were no such deficiencies in either fiscal-year 2018 and 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 2018 and 2017, the applied percentage was 5.0%.

NOTE E - UNRESTRICTED NET ASSETS

Unrestricted net assets for City Ballet's fiscal-year 2018 includes those of CCMD due to the merger of the two entities.

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

	<u>2018</u>	<u>2017</u>
	(in thousands)	
Undesignated	\$ (6,325)	\$ (5,124)
Pension/postemployment accumulated other income and loss	(6,550)	(9,143)
Fixed assets - funded	75,326	10,777
Capital renewal and replacement	846	846
Board-designated to function as endowment	<u>48,374</u>	<u>28,059</u>
Total	<u>\$ 111,671</u>	<u>\$ 25,415</u>

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

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 2018 and 2017:

	Year Ended June 30,	
	2018	2017
	(in thousands)	
Pension	\$ (5,573)	\$ (8,046)
Post-employment	(977)	(1,097)
Total	<u>\$ (6,550)</u>	<u>\$ (9,143)</u>

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for City Ballet's fiscal-year 2018 include those of CCMD due to the merger of the two entities.

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

	June 30,	
	2018	2017
	(in thousands)	
Productions	\$ 1,885	\$ 1,952
Emergency	510	510
CLUT	153	185
Education	222	229
Passage of time	<u>9,501</u>	<u>11,741</u>
Total time and other restrictions	12,271	14,617
Accumulation of endowment income reserved for appropriations	<u>45,280</u>	<u>39,855</u>
Total	<u>\$ 57,551</u>	<u>\$ 54,472</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

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,	
	2018	2017
	(in thousands)	
Productions	\$ 1,928	\$ 2,950
Emergency		58
CLUT	60	58
Education	946	838
Passage of time	<u>7,044</u>	<u>6,211</u>
Total	<u>\$ 9,978</u>	<u>\$ 10,115</u>

NOTE G - LEASEHOLD, PROPERTY AND EQUIPMENT

[1] Construction in progress:

The 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, 2018 and 2017, construction in progress was \$304,000 and \$143,000, respectively.

[2] Leasehold improvements and other property and equipment for City Ballet's fiscal-year 2018 include those of CCMD due to the merger of the two entities.

Leasehold improvements and other property and equipment consisted of the following:

	June 30,	
	2018	2017
	(in thousands)	
Leasehold improvements	\$ 75,618	\$ 11,034
Property and equipment	<u>20,428</u>	<u>20,375</u>
	96,046	31,409
Less accumulated depreciation	<u>(17,573)</u>	<u>(12,329)</u>
	<u>\$ 78,473</u>	<u>\$ 19,080</u>

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

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,	
	2018	2017
	(in thousands)	
Appropriation from the City of New York	\$ 4,914	\$ 2,366
Other governmental agencies	199	234
Special events	6,131	5,726
Membership	2,731	2,761
Foundation	2,724	4,390
Corporate	4,564	4,527
Individual	9,661	10,243
Estates	<u>313</u>	<u>335</u>
Total	<u>\$ 31,237</u>	<u>\$ 30,582</u>

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NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE I - SCHEDULE OF FUNCTIONAL EXPENSES

For fiscal-year 2018 (with summary totals for fiscal-year 2017), 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>2018 Total</u>	<u>2017 Total</u>
	(in thousands)							
Salaries	\$ 27,441	\$ 7,940	\$ 3,775	\$ 39,156	\$ 3,849	\$ 2,106	\$ 45,111	\$ 36,559
Benefits	<u>12,108</u>	<u>3,662</u>	<u>1,027</u>	<u>16,797</u>	<u>1,697</u>	<u>827</u>	<u>19,321</u>	<u>15,428</u>
Salaries and related benefits	39,549	11,602	4,802	55,953	5,546	2,933	64,432	51,987
Occupancy	72	4,811		4,883	119	65	5,067	1,186
Depreciation	68	27		95	49	2	146	108
Printing	2,944			2,944	10	191	3,145	3,224
Transportation	903	19	11	933	28	75	1,036	1,167
Scenery, music, and costumes	1,545	36		1,581	32	60	1,673	1,892
Professional fees	1,258	144	58	1,460	2,048	284	3,792	3,799
Data processing, telephone and office expenses	154	57		211	351	63	625	232
Miscellaneous expenses	2,269	797		3,066	565	1,891	5,522	2,223
Departmental overhead allocation	402			402	(402)			0
CCMD shared services allocation								18,263
Total expenses before funded Depreciation and bad debt expense – non-operating	49,164	17,493	4,871	71,528	8,346	5,564	85,438	84,081
Funded depreciation	11	5,087		5,098			5,098	977
Bad debt expense – non-operating						4,000	4,000	
	<u>\$ 49,175</u>	<u>\$ 22,580</u>	<u>\$ 4,871</u>	<u>\$ 76,626</u>	<u>\$ 8,346</u>	<u>\$ 9,564</u>	<u>\$ 94,536</u>	<u>\$ 85,058</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 \$663,000 and \$708,000 during fiscal-years 2018 and 2017, 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, 2018 and 2017

NOTE K - PENSION PLANS

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

As part of the merger of City Ballet and CCMD, the "CCMD Retirement Plan for Salaried Employees" was merged with and into the "NYCB Retirement Plan for Salaried Employees" as of December 31, 2017. Accordingly, the CCMD plan's total net assets available for benefits were transferred to the City Ballet plan, effective December 31, 2017.

Accordingly, the balances reported for fiscal-year 2018 pertain to the consolidated post-merger plan (the "Plan"), which includes the balances of the CCMD plan. The balances for fiscal-year 2017 pertain to the City Ballet plan, exclusively.

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>2018</u>	<u>2017</u>
	(in thousands)	
Projected benefit obligation	\$ (28,999)	\$ (23,977)
Plan assets at fair value	<u>24,189</u>	<u>17,798</u>
Funded status (asset deficit), recognized as liabilities in the statements of financial position	<u>\$ (4,810)</u>	<u>\$ (6,179)</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>2018</u>	<u>2017</u>
Discount rate	4.18%	3.93%
Long-range return on assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

NOTE K - PENSION PLANS (CONTINUED)

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

	Year Ended June 30,	
	2018	2017
	(in thousands)	
Expected return on plan assets	\$ (1,628)	\$ (1,152)
Interest cost on projected benefit obligation	1,218	936
Amortization of accumulated loss	841	1,145
Net periodic pension cost	<u>\$ 431</u>	<u>\$ 929</u>

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

	Year Ended June 30,	
	2018	2017
	(in thousands)	
Employer contributions	<u>\$ 700</u>	<u>\$ 477</u>
Benefits paid	<u>\$ 959</u>	<u>\$ 685</u>

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

<u>Fiscal-Year Ending June 30,</u>	<u>Pension Benefits</u>
	(in thousands)
2019	\$1,647
2020	1,660
2021	1,865
2022	1,948
2023	1,955
2024-2028	9,700

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, 2018, the asset allocation is 5% in cash equivalents, 27% in U.S. equity securities, 66% in mutual funds, and 2% in other securities. Asset-manager performance is reviewed at least once every three months and benchmarked against the peer universe for the given investment style.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE K - PENSION PLANS (CONTINUED)

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 2018	Actual 2018	Actual 2017
Cash equivalents	5%	5%	8%
Equity securities	27%	27%	38%
Debt securities	0%	0%	32%
Mutual funds	66%	66%	22%
Other	2%	2%	22%

City Ballet's net periodic pension cost for fiscal-year 2018 and allocated net periodic pension cost for fiscal-year 2017 was approximately \$431,000 and \$929,000 respectively. City Ballet's accrued benefit liability at June 30, 2018 and 2017 was approximately \$4,810,000 and \$6,179,000 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 combined with CCMD, was approximately \$5,573,000 and \$8,046,000 in fiscal-years 2018 and 2017, 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 \$3,967,000 and \$2,892,000 in fiscal-years 2018 and 2017, 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 65 years of age upon their retirement from either City Ballet or CCMD) to continue in group medical and life insurance plans, at no cost to the employee. In April 1995, the CCMD Board of Governors ended this policy 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 \$120,000 and \$932,000 in fiscal-years 2018 and 2017, 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.

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

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

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

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
	(in thousands)	
Accumulated obligation	\$ 2,410	\$ 2,475
Unrecognized amounts	<u>(3,520)</u>	<u>(3,443)</u>
	<u>\$ (1,110)</u>	<u>\$ (968)</u>
	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
	(in thousands)	
Postretirement benefit obligation at the end of year:		
Active employees not fully eligible to retire	\$ 0	\$ 0
Active employees fully eligible to retire	351	359
Retirees	<u>2,059</u>	<u>2,116</u>
Total	<u>\$ 2,410</u>	<u>\$ 2,475</u>

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:

	<u>Year Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
	(in thousands)	
Net periodic postretirement benefit cost:		
Service	\$ 0	\$ 10
Interest	100	120
Amortization of accumulated loss	<u>128</u>	<u>209</u>
Net periodic postretirement benefit cost	228	339
Actual payments	<u>(173)</u>	<u>(131)</u>
Net change	55	208
Accumulated obligation:		
Beginning of year	<u>1,191</u>	<u>983</u>
End of year	<u>\$ 1,246</u>	<u>\$ 1,191</u>

NEW YORK CITY BALLET, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

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

Estimated benefit payments are as follows:

<u>Year Beginning July 1,</u>	<u>Employer Benefit Payment</u> (in thousands)
2018	\$ 205
2019	202
2020	241
2021	236
2022	228
2023 - 2027	1,344

The accumulated postretirement benefit obligation was actuarially determined as of June 30, 2018, using assumed discount rates of 4.58%. The assumed rate of future increases in health care was not applicable in the first year, declining to 4.5% by fiscal-year year 2025. 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 301.8%. 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 combined with CCMD, was approximately \$977,000 and \$1,097,000 in fiscal-years 2018 and 2017 respectively.

NOTE M - KOCH THEATER RENTAL ACTIVITIES

The Koch Theater is available for rent when not in use by City Ballet. The revenue from these rentals is used to partially offset the facility and administrative expenses of the Theater.

NOTE N - NEW YORK CITY CONTRIBUTIONS FOR CAPITAL EXPENDITURES

The City of New York owns the Koch Theater and partially supports the operation of the facility through energy subsidies and an annual appropriation from the New York City Department of Cultural Affairs ("DCA"). This annual appropriation amounted to approximately \$2,522,000 in fiscal-year 2018. Under the terms of its license agreement with the City of New York for the Koch Theater, City Ballet pays a nominal rent and the operating and maintenance costs of the building. City Ballet has taken the position that no comparable market exists for the rental of the buildings occupied by any of the 33 members of its Cultural Institutions Group, of which City Ballet is a member; therefore, no provision for that contribution, or for the associated expense, has been provided in the accompanying financial statements.

The City and State of New York also provide capital support for the Koch Theater. City Ballet reports this capital support as an increase in construction in progress until the associated assets are placed in service. The resulting temporarily restricted net assets are utilized as the assets that they support are placed into the service.

Historically, the City of New York made approximately \$38,940,000 in capital expenditures from fiscal-years 1990 to 2018.

NEW YORK CITY BALLET, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE O - 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 \$415,000 and \$352,000 for fiscal-years 2018 and 2017, respectively. 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 and telemarketing office:

During fiscal-years 2018 and 2017, City Ballet leased space for two warehouses and archival space under agreements expiring in fiscal-year 2020. Rent expense, including rent applicable to these spaces, was approximately \$408,000 and \$398,000 for fiscal-years 2018 and 2017, respectively. Future minimum commitments under these leases are approximately \$252,000 for fiscal-year 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, 2019. 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 \$4,000,000 and \$8,000,000 at June 30, 2018 and 2017, respectively.

NOTE P - 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.