

New York City Ballet, Inc.

Financial Statements

June 30, 2010 and 2009



Statements of Financial Position at June 30, (in thousands)

| | 2010 | 2009 |
|--|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 21,157 | \$ 16,953 |
| Investments | 132,364 | 124,666 |
| Pledges receivable, net | 11,333 | 14,582 |
| Accounts receivable | 366 | 596 |
| Inventory | 184 | 158 |
| Deferred production costs | 1,573 | 1,297 |
| Due from CCMD | 3,226 | 4,096 |
| Leasehold in Rose Building and other property and equipment, less accumulated depreciation of \$9,207 in 2010 and \$8,585 in 2009 | 5,247 | 5,768 |
| Total assets | \$ 175,450 | \$ 168,116 |
| Liabilities and net assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 4,337 | \$ 2,683 |
| Advance ticket sales and other deferred revenue | 2,641 | 134 |
| Payroll-related liabilities due to CCMD | 1,010 | 920 |
| Payroll-related and other liabilities | 10,219 | 9,963 |
| Total liabilities | 18,207 | 13,700 |
| Net assets (see note 8) | | |
| Unrestricted: | 33,802 | 32,090 |
| Temporarily restricted: | 13,605 | 13,455 |
| Permanently restricted | | |
| Wallace endowment | 57,750 | 57,750 |
| Endowments for which income is unrestricted | 21,405 | 20,651 |
| Donor-restricted endowment | 30,681 | 30,470 |
| | <i>109,836</i> | <i>108,871</i> |
| Total net assets | 157,243 | 154,416 |
| Total liabilities and net assets | \$ 175,450 | \$ 168,116 |

The accompanying footnotes are an integral part of these financial statements.

**Statements of Activities for the Year ended June 30,
(in thousands)**

| | 2010 | 2009 |
|--|-----------------|--------------------|
| Changes in unrestricted net assets | | |
| Operating revenues: | | |
| Performance ticket sales and tour fees | \$ 25,358 | \$ 25,893 |
| Investment income not to exceed spending policy | 7,879 | 8,309 |
| Other revenues | 822 | 1,654 |
| Total operating revenues | 34,059 | 35,856 |
| Operating expenses: | | |
| Program services: | | |
| Ballet production costs | 42,379 | 41,177 |
| Facility expenses | 5,042 | 4,713 |
| Production management expenses | 4,385 | 4,296 |
| | <i>51,806</i> | <i>50,186</i> |
| Supporting services: | | |
| Administration | 5,409 | 6,261 |
| Public support expense | 4,643 | 4,030 |
| | <i>10,052</i> | <i>10,291</i> |
| Total operating expenses | 61,858 | 60,477 |
| Loss from operations before public support | (27,799) | (24,621) |
| Public support including utilization of temporarily restricted net assets: | | |
| Appropriation from the City of New York | 1,113 | 1,238 |
| Other governmental agencies | 350 | 331 |
| Special events | 3,638 | 3,341 |
| Guild memberships and activities | 2,373 | 2,520 |
| Foundations | 2,659 | 2,386 |
| Corporations | 1,210 | 2,650 |
| Individuals | 7,534 | 6,174 |
| Estates and trusts | 441 | 1,217 |
| Total public support | 19,318 | 19,857 |
| Operating deficit | (8,481) | (4,764) |
| Pension plan and postemployment adjustments | (865) | (3,352) |
| Investment income for operations (spending policy) | (7,879) | (8,309) |
| Net increase (decrease) in value of investments | 18,937 | (13,022) |
| Changes in unrestricted net assets | \$ 1,712 | \$ (29,447) |

(Continued)

Statements of Activities for the Year ended June 30, (continued)
(in thousands)

| | 2010 | 2009 |
|---|-------------------|-------------------|
| Changes in temporarily restricted net assets | | |
| Investment revenue | \$ 2,284 | \$ 849 |
| Public support: | | |
| Other government | 200 | 105 |
| Foundations | 864 | 1,565 |
| Corporations | 370 | 389 |
| Individuals | 2,626 | 7,755 |
| Utilization of temporarily restricted net assets | (6,274) | (3,124) |
| Change in value of split-interest arrangements | 80 | (123) |
| Changes in temporarily restricted net assets | 150 | 7,416 |
| Changes in permanently restricted net assets | | |
| Public support: | | |
| Foundations | 185 | 283 |
| Estates | 25 | - |
| Individuals | 755 | 474 |
| Changes in permanently restricted net assets | 965 | 757 |
| Changes in total net assets | 2,827 | (21,274) |
| Net assets: | | |
| Beginning of year | 154,416 | 175,690 |
| End of year | \$ 157,243 | \$ 154,416 |

The accompanying footnotes are an integral part of these financial statements.

**Statements of Cash Flows for the Year ended June 30,
(in thousands)**

| | 2010 | 2009 |
|--|-----------|-------------|
| Cash flows from operating activities | | |
| Change in net assets: | | |
| Unrestricted | \$ 1,712 | \$ (29,447) |
| Temporarily restricted | 150 | 7,416 |
| Permanently restricted | 965 | 757 |
| | 2,827 | (21,274) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 622 | 632 |
| Contributions restricted for long-term activities | (2,758) | (441) |
| Bad debt expense | 268 | |
| Donated securities | 701 | 551 |
| Net (gain) loss on investments | (20,386) | 13,304 |
| Decreases (increases) in assets: | | |
| Pledges receivable | 2,981 | (5,093) |
| Accounts receivable | 230 | (311) |
| Inventory | (26) | (1) |
| Deferred production costs | (276) | (307) |
| Due from CCMD | 870 | (2,299) |
| Increases (decreases) in liabilities: | | |
| Accounts payable and accrued expenses | 1,654 | (870) |
| Advance ticket sales and other deferred revenue | 2,507 | 134 |
| Payroll-related liabilities due to CCMD | 90 | 22 |
| Payroll-related and other liabilities | 256 | 2,907 |
| Net cash used in operating activities | (10,440) | (13,046) |
| Cash flows from investing activities | | |
| Proceeds from sales of investments | 34,784 | 59,789 |
| Purchases of investments | (22,797) | (55,899) |
| Purchases of property and equipment | (101) | (456) |
| Net cash provided by investing activities | 11,886 | 3,434 |
| Cash flows from financing activities | | |
| Endowment contributions | 2,758 | 441 |
| Net cash provided by financing activities | 2,758 | 441 |
| Net increase (decrease) in cash and cash equivalents | 4,204 | (9,171) |
| Cash and cash equivalents | | |
| Beginning of year | 16,953 | 26,124 |
| End of year | \$ 21,157 | \$ 16,953 |

1 Summary of Financial Statement Presentation and Significant Accounting Policies

The New York City Ballet, Inc. ("City Ballet"), established in January 1978, performs, promotes and sustains the art of ballet. City Ballet is a not-for-profit organization and a constituent of City Center of Music and Drama, Inc. ("CCMD"). City Ballet operates as an entity independent of CCMD, which provides certain services as described further below.

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.

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 statement of financial position 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.

Cash and cash equivalents

Cash equivalents consist of highly liquid financial investments purchased with a maturity of three months or less.

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.

Investments

The investments in the accompanying financial statements consist of money-market accounts, equities, corporate bonds, and diversified hedge funds. The equity, corporate bonds and money-market investments are reported at their fair values, which are based on readily available market quotations. The diversified hedge funds investments were adjusted to fair values annually, at the City Ballet's fiscal year-end, based on the valuations of the underlying assets, as provided by the investment managers. Management reviews the calendar year-end audited values provided by the investments managers and believes the reported amounts of these investments at City Ballet's fiscal year-end to be reasonable estimates of fair value.

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 the fair values on the dates of gift.

Endowments

City Ballet reports all applicable disclosures to its Board-designated and donor-restricted funds treated as endowments (see Note 8).

1 Summary of Financial Statement Presentation and Significant Accounting Policies (continued)

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 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. From time to time, 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 value and recorded as income. Amortization of this discount will be recorded as additional contributions over the term of each pledge.

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.

Allocation of expenses, income and support

CCMD provides services to City Ballet and New York City Opera, Inc., the other principal constituents of CCMD, in connection with its operation and management of the David H. Koch Theater and other administrative and accounting services under a management and services agreement. CCMD's David H. Koch Theater facility expenses, facility income, and New York City facility support are allocated among the constituents based upon the number of scheduled performance weeks in the theater during the year. Administrative revenue and expense are allocated equally among the constituents except for contributions and grants restricted for theater improvements and depreciation of donated equipment and facilities. Allocated expenses result in intercompany receivables and payables that are periodically liquidated through cash transfers.

Functional allocation of expenses

Expenses are classified according to the programs for which they were incurred and are summarized on a functional basis in the accompanying statements of activities and in Note 7. Accordingly, certain costs have been allocated among programs and supporting services in reasonable ratios by management.

Income tax uncertainties

In fiscal-year 2010, City Ballet has adopted the provisions of Accounting Standards Codification ("ASC") 740-10-05 relating to accounting and reporting uncertainty in income taxes. Due to City Ballet's general tax-exempt status, ASC 740-10-05 has not had, and is not expected to have a material impact on its financial statements.

Fair-value measurement

City Ballet reports a fair-value measurement of all applicable assets and liabilities (see Note 2).

Use of estimates

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.

Subsequent events

City Ballet considers the 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 the date of the independent auditors' report.

1 Summary of Financial Statement Presentation and Significant Accounting Policies (continued)

Reclassifications

Certain prior year balances have been reclassified for comparative purposes.

2 Investments

At each fiscal year-end, investments and cash equivalents consisted of the following (in thousands):

| | 2010 | 2009 |
|-------------------------|-------------------|-------------------|
| Equities | \$ 39,825 | \$ 54,105 |
| Corporate bonds | - | 218 |
| Diversified hedge funds | 92,539 | 70,343 |
| Cash equivalents | 18,818 | 16,880 |
| | \$ 151,182 | \$ 141,546 |

During fiscal-years 2010 and 2009, net investment income (losses) consisted of the following (in thousands):

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|------------------|--------------------|
| Interest and dividends | \$ 835 | \$ 1,131 |
| Net realized gains (losses) | 10,345 | (457) |
| Net unrealized gains (losses) | <u>10,041</u> | <u>(12,847)</u> |
| | <u>\$ 21,221</u> | <u>(\$ 12,173)</u> |

Included in interest and dividends are management fees of \$416,000 and \$457,000 and utilized interest of \$446,000 and \$547,000 in fiscal-years 2010 and 2009, respectively. Year-to-year variation is due to market fluctuations and the performance of the portfolio managers.

ASC 820-10-05 establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based upon 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 assets and liabilities at the reporting date. The types of investments included in Level 1 are equity securities, corporate bonds, and money-market funds.
- Level 2: Valuations are based on (i) quoted prices for similar assets or liabilities in active markets, or (ii) quoted prices for identical or similar assets or liabilities 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: Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability. Level 3 assets include diversified hedge funds, the underlying investments of which could not be independently valued, or cannot be immediately redeemed at or near the fiscal year-end.

2 Investments (continued)

Most investments classified in Level 3 consist of shares or units in investment funds, as opposed to direct interest in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of City Ballet's interest therein, its classification in Level 3 is based on City Ballet's ability to redeem its interest at or near June 30, 2010. The classification of investments in the fair-value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following summarizes the fair value measurements of City Ballet's investments of June 30, 2010 and 2009 (in thousands):

| | 2010 | 2009 |
|---------|-------------------|-------------------|
| Level 1 | 58,643 | 71,203 |
| Level 3 | 92,539 | 70,343 |
| | \$ 151,182 | \$ 141,546 |

The following summarizes the changes in fair values of the City Ballet's Level 3 investments during fiscal-years June 30, 2010 and 2009 (in thousands):

| Fair-value Measurements Using Level 3 Inputs | | 2010 | 2009 |
|---|--|------------------|------------------|
| Opening balance | | \$ 70,343 | \$ 63,388 |
| Purchases | | 11,795 | 13,276 |
| Redemptions | | (837) | (629) |
| Realized gains | | 206 | 147 |
| Unrealized gains | | 11,032 | (5,839) |
| Closing balance | | \$ 92,539 | \$ 70,343 |

The following table lists investments in other investment companies by major category:

| JUNE 30, 2010 | | | | |
|------------------------------|---|-------------------------|-------------------------|-----------------------------|
| | CITY BALLET'S FAIR VALUE (in thousands) | UNFUNDED COMMITMENTS | REDEMPTION FREQUENCY | REDEMPTION NOTICE PERIOD |
| Offshore hedge funds: | \$ 8,115 | None | Monthly | 30 days |
| | 11,594 | None | Quarterly | 65 days |
| | 13,176 | None | Quarterly | 90 days |
| | 15,033 | None | Quarterly | Subject to gates |
| | 13,714 | None | Annually | 45 days |
| | 3,999 | None | Annually | 100 days |
| Limited partnerships: | \$ 12,176 | None | Monthly | 1 day |
| | 5,043 | None | Quarterly | 30 days |
| | 9,689 | None | Annually | 60 days |

3 *Pledges Receivable*

Pledges have been recorded at their present value net of applicable discounts of \$505,000 and \$998,000 in fiscal-years 2010 and 2009, respectively. Pledges are expected to be collected as follows (in thousands):

| | 2010 | | 2009 | |
|--------------------------------|--------------|------------------------|--------------|------------------------|
| | Unrestricted | Permanently Restricted | Unrestricted | Permanently Restricted |
| Less than one year | \$ 5,600 | 1,880 | \$ 5,324 | 2,312 |
| One to five years | 4,121 | | 5,586 | 1,360 |
| Allowance for doubtful pledges | (268) | | | |

4 *Pension Plans*

City Ballet participates in a noncontributory, defined-benefit pension plan (the “Plan”) for nonunion, salaried employees of CCMD and its constituents. Pension 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. The policy is to fund annually the required contribution necessary to comply with the Employee Retirement Income Security Act of 1974.

Unrestricted net assets decreased by \$748,000 and \$3,414,000 in fiscal-years 2010 and 2009, respectively, due to pension adjustments required to increase the accrued pension benefit liability to the amount of the unfunded projected benefit obligation at each June 30. These amounts were inclusive of City Ballet’s share of CCMD’s costs. The fiscal-year 2010 adjustment is due primarily to a decrease in the interest rate used to value plan liabilities.

Amounts are allocated to City Ballet based on an actuarial determination of City Ballet’s participation in the Plan. Separate information regarding the components of pension cost, the fair value of plan assets, and accumulated and projected benefit obligations is not available for City Ballet. Such information, along with the key actuarial assumptions, is contained in the financial statements of CCMD.

City Ballet’s allocated portion of net periodic pension cost for fiscal-years 2010 and 2009 was \$1,058,000 and \$727,000, respectively. Partially as a result of these factors, City Ballet’s allocated portion of accrued pension liability at June 30, 2010 and 2009 was \$6,825,000 and \$6,364,000, respectively.

City Ballet also contributes to union pension plans directly and through CCMD, based upon a percentage of those employees’ salaries. Pension costs associated with plans paid directly by City Ballet amounted to approximately \$2,514,000 and \$2,576,000 in fiscal-years 2010 and 2009, respectively.

5 *Commitments*

Samuel B. and David Rose Building (Rose Building):

During fiscal-year 1985, City Ballet entered into an agreement with eight other Lincoln Center constituents whereby it contributed, based on space usage, a pro rata share of the costs of the Rose Building. Under the agreement, City Ballet received a 99-year lease for its space. Construction costs were capitalized and are being amortized over the anticipated useful life of the building. Depreciation began in fiscal-year 1992 when the space was put into service, and amounted to \$352,000 for each fiscal-years 2010 and 2009. 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.

5 Commitments (continued)

Warehouse and telemarketing office:

During fiscal-years 2010 and 2009, City Ballet leased space for two warehouses expiring in fiscal-year 2020 and has a year to year lease for a telemarketing office. Rent expense including these spaces for fiscal-years 2010 and 2009 was \$424,000 and \$373,000, respectively. Future minimum lease payments under these leases are as follows (in thousands):

| <u>Fiscal Year Ending</u> | |
|---------------------------|-----------------|
| 2011 | \$ 188 |
| 2012 | 188 |
| 2013 | 193 |
| 2014 | 195 |
| 2015 | 196 |
| Thereafter | <u>974</u> |
| | \$ <u>1,934</u> |

6 Postretirement and Postemployment Benefits Other than Pensions

In fiscal-year 1978, CCMD adopted the policy of providing the option to certain employees with 20 years of service and who were 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. In fiscal-year 1997 the CCMD Board of Governors reinstated this benefit for all active employees who had, at that date, already achieved the requisite 20 years of service. In addition, City Ballet contracts with various unions include provisions for severance payments to members after they reach a predetermined length of service. City Ballet funds both of these obligations using the pay-as-you-go method.

Unrestricted net assets of City Ballet were decreased by \$117,000 in fiscal-year 2010 and increased by \$54,000 in fiscal-year 2009 to record the adjustments required to balance the accrued postretirement benefit liability to the amount of the unfunded projected benefit obligation as of June 30. These amounts were inclusive of City Ballet's share of CCMD's costs. Such amounts are reflected as adjustments to net assets in the accompanying statements of activities.

The following tables set forth basic information relating to the accrued benefit liability (in thousands):

| | <u>2010</u> | <u>2009</u> |
|--|-------------|-------------|
| Postretirement Benefit Obligation at the end of year | \$ 1,300 | \$ 1,138 |
| Accumulated Obligation | <u>770</u> | <u>735</u> |
| Unrecognized Amounts | 530 | 403 |

| | <u>2010</u> | <u>2009</u> |
|--|-------------|-------------|
| Postretirement Benefit Obligation at the end of year | | |
| Actives not fully eligible to retire | \$ 168 | \$ 115 |
| Actives fully eligible to retire | 241 | 197 |
| Retirees | <u>891</u> | <u>826</u> |
| Total | \$ 1,300 | \$ 1,138 |

6 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 for each fiscal year (in thousands):

| | 2010 | 2009 |
|---|-------------|-------------|
| Net periodic postretirement benefit cost: | | |
| Service | \$ 3 | \$ 3 |
| Interest | 74 | 75 |
| Amorization of accumulated loss | <u>33</u> | <u>38</u> |
| <i>Net periodic postretirement benefit cost</i> | 110 | 116 |
| Actual payments | <u>(75)</u> | <u>(81)</u> |
| <i>Net change</i> | 35 | 35 |
| Accumulated obligation: | | |
| Beginning of year | 735 | 700 |
| End of year | \$ 770 | \$ 735 |

Estimated benefit payments are as follows:

| Year Beginning July 1 st | Estimated Employer Benefit Payment |
|--------------------------|---------------------------------------|
| 2010 | \$ 98 |
| 2011 | 98 |
| 2012 | 98 |
| 2013 | 98 |
| 2014 | 102 |
| 2015 - 2019 | 497 |

The accumulated postretirement benefit obligation was actuarially determined as of June 30, 2010, using assumed discount rates of 5.0%. The assumed rate of future increases in health care was 8.0% in the first year, declining to 4% by the year 2018. Had the health-care cost-trend rate assumption been increased by 1%, the accumulated postretirement benefit obligation would have increased by 18.2%. 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 9.8%. The postretirement balance is reflected as part of payroll-related and other liabilities.

7 Schedule of Functional Expenses (in thousands)

| | Ballet Production Costs | Facility Expenses | Production Management Expenses | Total Program Services | Administration | Public Support Expenses | 2010 Total | 2009 Total |
|---|-------------------------------|----------------------|--------------------------------------|------------------------------|----------------|-------------------------------|---------------|---------------|
| Salaries | \$ 23,349 | \$ 31 | \$ 3,251 | \$ 26,631 | \$ 2,011 | \$ 1,405 | \$ 30,047 | \$ 30,158 |
| Benefits | 9,005 | 9 | 1,018 | 10,032 | 723 | 624 | 11,379 | 9,996 |
| Salaries and related benefits | 32,354 | 40 | 4,269 | 36,663 | 2,734 | 2,029 | 41,426 | 40,154 |
| Occupancy | 88 | 813 | | 901 | 3 | 7 | 911 | 792 |
| Depreciation | 160 | 353 | | 513 | 54 | 55 | 622 | 632 |
| Printing | 3,260 | | | 3,260 | 10 | 273 | 3,543 | 3,340 |
| Transportation | 1,119 | | | 1,119 | 20 | 133 | 1,272 | 2,062 |
| Scenery, music, and costumes | 3,093 | | | 3,093 | | | 3,093 | 2,382 |
| Professional fees | 1,736 | | 50 | 1,786 | 448 | 1,771 | 4,005 | 4,647 |
| Data processing, telephone and office expenses | 178 | | | 178 | 75 | 107 | 360 | 504 |
| Miscellaneous expenses | 391 | 3 | 66 | 460 | 416 | 268 | 1,144 | 673 |
| CCMD shared services allocation | | 3,833 | | 3,833 | 1,649 | | 5,482 | 5,291 |
| | \$ 42,379 | \$ 5,042 | \$ 4,385 | \$ 51,806 | \$ 5,409 | \$ 4,643 | \$ 61,858 | \$ 60,477 |

8 Fund balances

Unrestricted net assets

City Ballet's unrestricted net assets balance consists of several funds. The Board of Directors has designated a portion of City Ballet's unrestricted net assets to function as endowment in the same manner as its donor-restricted endowment, as well as for certain other purposes. Board designated endowments have funded City Ballet's accumulated operating deficit. Total unrestricted net assets are as follows (in thousands):

| | 2010 | 2009 |
|-------------------------------|-------------|-------------|
| Accumulated operating deficit | \$ (25,033) | \$ (15,750) |
| Investment in Rose Building | 3,580 | 3,932 |
| Board designated endowments: | | |
| Functioning as endowment | 34,717 | 23,659 |
| Cash/investment reserves | 15,696 | 15,407 |
| Touring | 1,606 | 1,606 |
| Repertory | 3,236 | 3,236 |
| | \$ 33,802 | \$ 32,090 |

8 Fund balances (continued)

Temporarily restricted net assets

City Ballet's temporarily restricted fund balance consists of the following funds (in thousands):

| | 2010 | 2009 |
|-----------------------------|------------------|------------------|
| Future productions | \$ 910 | \$ 734 |
| Time and other restrictions | 12,052 | 11,965 |
| Dancer's emergency | 643 | 756 |
| | <u>\$ 13,605</u> | <u>\$ 13,455</u> |

Permanently restricted net assets

City Ballet's endowments consist of both Board-designated and donor-restricted funds, established for a variety of purposes. The New York State Uniform Management of Institutional Funds Act ("UMIFA") requires the preservation of the historic dollar value of the original gift as of the gift date, absent explicit donor stipulations to the contrary.

Donor-restricted endowment

The historic gift value of City Ballet's donor-restricted endowment as of June 30, 2010 and 2009 was \$109,836,000 and \$108,871,000, 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, as follows (in thousands):

| | 2010 | 2009 |
|------------------------------------|------------------|------------------|
| Touring | \$ 2,975 | \$ 2,975 |
| Martins repertory fund | 3,000 | 3,000 |
| Levin dancer | 1,000 | 1,000 |
| Education | 900 | 900 |
| Scenic design maintenance | 250 | 250 |
| Robbins repertory fund | 67 | 67 |
| Choreographic institute | 16,120 | 15,909 |
| Nureyev emerging choreographers | 1,000 | 1,000 |
| Dance on | 500 | 500 |
| Martins' 25 | 344 | 344 |
| Balanchine repertory | 2,310 | 2,310 |
| Musical Leadership | 2,000 | 2,000 |
| Kirstein apprentice and loan funds | 215 | 215 |
| | <u>\$ 30,681</u> | <u>\$ 30,470</u> |

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 in cash prior to that fiscal year-end.

In addition, a program of City Ballet, the New York Choreographic Institute, has a restricted endowment that supports its activities. At the close of fiscal-year 2010, accumulated earnings of \$2,858,000 from this endowment remained unutilized and were included in temporarily restricted net assets.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UMIFA requires the organization to retain as a fund of perpetual duration. City Ballet had no deficiencies of this nature as of June 30, 2010 and 2009.

8 *Fund balances (continued)*

Spending policy

In June 1991, City Ballet adopted a policy permitting management to budget and expend a percentage (5% in each of the fiscal-years 2010 and 2009) of a moving average of quarterly market values of its investment portfolio. The difference between this calculated amount and actual investment income is reported as “investment income for operations (spending policy)” in the statement of activities and is added to or subtracted from Board-designated net assets.

Return objectives

City Ballet has adopted investment and spending policies for endowment assets that are designed to provide a predictable stream of funding to those programs supported by its endowments, while seeking to maintain the purchasing power of the endowment assets



Independent Auditors' Report

Board of Directors
New York City Ballet, Inc.

We have audited the accompanying statements of financial position of the New York City Ballet, Inc. ("City Ballet") as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of City Ballet's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the financial position of the New York City Ballet, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

New York, New York
November 16, 2010