



# NEW YORK CITY OPERA, INC.

FINANCIAL STATEMENTS

JUNE 30, 2011 and 2010

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
New York City Opera, Inc.

We have audited the accompanying statements of financial position of New York City Opera, Inc. ("City Opera") as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of City Opera'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 New York City Opera, Inc. as of June 30, 2011 and 2010, 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.

As explained in Note K to the accompanying financial statements, City Opera has experienced reduced revenues and other financial challenges, resulting in a deficit in unrestricted net assets at June 30, 2011 and 2010. Management's efforts to address the situation and its plans for the future are also described in Note K. These financial statements have been prepared assuming that City Opera will continue as a going concern, and our report on these financial statements is unqualified. However, there are uncertainties in City Opera's future, and the outcome will depend on the success of management in a sustainable plan for City Opera's future. Accordingly, these financial statements do not include any adjustments that might result from the outcome of these uncertainties.



New York, New York  
November 2, 2011

# NEW YORK CITY OPERA, INC.

## Statements of Financial Position

(in thousands)

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,682	\$ 1,435
Investments	5,603	10,049
Pledges receivables, net of allowance of doubtful pledges of \$22 in 2011 and \$25 in 2010	1,089	2,331
Accounts receivable and other	320	321
Deferred marketing and production costs	205	714
Due from CCMD	<u>33</u>	
Total current assets	<u>8,932</u>	<u>14,850</u>
Noncurrent assets:		
Investments	131	220
Other assets	37	37
Pledges receivable	2,120	1,848
Fixed assets, net of accumulated depreciation of \$2,056 in 2011 and \$1,833 in 2010	<u>454</u>	<u>677</u>
Total noncurrent assets	<u>2,742</u>	<u>2,782</u>
	<u>\$ 11,674</u>	<u>\$ 17,632</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,955	\$ 2,173
Deferred ticket and other revenues	11	953
Due to CCMD		<u>309</u>
Total current liabilities	<u>1,966</u>	<u>3,435</u>
Noncurrent liabilities:		
Postretirement and postemployment liabilities	2,914	3,571
Payroll related liabilities due to member	793	890
Charitable gift annuities	42	44
Other	<u>57</u>	<u>38</u>
Total noncurrent liabilities	<u>3,806</u>	<u>4,543</u>
	<u>5,772</u>	<u>7,978</u>
Net assets:		
Unrestricted:		
Unrestricted net assets - operating	(31,446)	(28,093)
Unrestricted net assets - endowment deficit	<u>(14,438)</u>	<u>(14,766)</u>
Total unrestricted assets	<u>(45,884)</u>	<u>(42,859)</u>
Temporarily restricted:		
Future productions	173	296
Costume replacement	471	471
Education	68	
Wallace endowment	717	717
Time and other	<u>3,027</u>	<u>2,641</u>
Total temporarily restricted assets	<u>4,456</u>	<u>4,125</u>
Permanently restricted:		
Wallace endowment	41,263	41,263
Other endowments	3,234	4,292
Working capital reserve	<u>2,833</u>	<u>2,833</u>
Total permanently restricted assets	<u>47,330</u>	<u>48,388</u>
	<u>5,902</u>	<u>9,654</u>
	<u>\$ 11,674</u>	<u>\$ 17,632</u>

# NEW YORK CITY OPERA, INC.

## Statements of Activities (in thousands)

	Year Ended June 30,							
	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and public support:</b>								
Operating revenues:								
Performance ticket sales	\$ 2,937			\$ 2,937	\$ 3,285			\$ 3,285
Supplementary activities	870			870	978			978
Investment and other interest income	167	\$ 1		168	280	\$ 27		307
Other	<u>4,582</u>	<u>          </u>	<u>          </u>	<u>4,582</u>	<u>5,230</u>	<u>          </u>	<u>          </u>	<u>5,230</u>
Total revenue	<u>8,556</u>	<u>1</u>	<u>          </u>	<u>8,557</u>	<u>9,773</u>	<u>27</u>	<u>          </u>	<u>9,800</u>
Public support:								
City of New York	788			788	968			968
State and federal government	196			196	323			323
Other	14,886	1,450		16,336	12,066	947		13,013
Utilization of restricted net assets	<u>2,178</u>	<u>(1,120)</u>	<u>\$ (1,058)</u>	<u>0</u>	<u>3,023</u>	<u>(3,023)</u>	<u>          </u>	<u>0</u>
Total public support	<u>18,048</u>	<u>330</u>	<u>(1,058)</u>	<u>17,320</u>	<u>16,380</u>	<u>(2,076)</u>	<u>          </u>	<u>14,304</u>
Total revenues and public support	<u>26,604</u>	<u>331</u>	<u>(1,058)</u>	<u>25,877</u>	<u>26,153</u>	<u>(2,049)</u>	<u>          </u>	<u>24,104</u>
<b>Expenses:</b>								
Program services	24,076			24,076	23,464			23,464
Supplementary activities	946			946	965			965
Fundraising	2,248			2,248	2,432			2,432
Administrative and general	2,183			2,183	2,325			2,325
Allocated costs	<u>1,682</u>	<u>          </u>	<u>          </u>	<u>1,682</u>	<u>1,635</u>	<u>          </u>	<u>          </u>	<u>1,635</u>
Total	<u>31,135</u>	<u>          </u>	<u>          </u>	<u>31,135</u>	<u>30,821</u>	<u>          </u>	<u>          </u>	<u>30,821</u>
Change in net assets before other items	(4,531)	331	(1,058)	(5,258)	(4,668)	(2,049)		(6,717)
Investment gains on endowment funds	79			79	335			335
Pension plan and postemployment adjustment	<u>1,427</u>	<u>          </u>	<u>          </u>	<u>1,427</u>	<u>(862)</u>	<u>          </u>	<u>          </u>	<u>(862)</u>
<b>Change in net assets</b>	<b>(3,025)</b>	<b>331</b>	<b>(1,058)</b>	<b>(3,752)</b>	<b>(5,195)</b>	<b>(2,049)</b>	<b>          </b>	<b>(7,244)</b>
Net assets, beginning of year	<u>(42,859)</u>	<u>4,125</u>	<u>48,388</u>	<u>9,654</u>	<u>(37,664)</u>	<u>6,174</u>	<u>\$ 48,388</u>	<u>16,898</u>
<b>Net assets, end of year</b>	<b>\$ (45,884)</b>	<b>\$ 4,456</b>	<b>\$ 47,330</b>	<b>\$ 5,902</b>	<b>\$ (42,859)</b>	<b>\$ 4,125</b>	<b>\$ 48,388</b>	<b>\$ 9,654</b>

See notes to financial statements

## NEW YORK CITY OPERA, INC.

### Statements of Cash Flows

(in thousands)

	Year Ended June	
	30,	
	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (3,752)	\$ (7,244)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Donated securities	(467)	(222)
Depreciation	223	304
Net realized and unrealized gains	(79)	(365)
Changes in:		
Accounts receivable and other	1	145
Pledges receivable	970	116
Deferred marketing and production costs	509	59
Due from member	(33)	670
Accounts payable and accrued liabilities	(218)	124
Deferred ticket and other revenues	(942)	(442)
Due to member	(309)	309
Postretirement and postemployment liabilities	(657)	78
Payroll-related liabilities due to member	(97)	672
Charitable gift annuities	(2)	(10)
Other noncurrent liabilities	19	(42)
Net cash used in operating activities	<u>(4,834)</u>	<u>(5,848)</u>
<b>Cash flows from investing activities:</b>		
Investment sales, net	5,081	5,067
Purchases of fixed assets	<u>          </u>	<u>(80)</u>
Net cash provided by investing activities	<u>5,081</u>	<u>4,987</u>
<b>Net change in cash and cash equivalents</b>	<b>247</b>	<b>(861)</b>
Cash and cash equivalents, beginning of year	<u>1,435</u>	<u>2,296</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 1,682</u></b>	<b><u>\$ 1,435</u></b>
<b>Supplemental disclosure of cash flow information:</b>		
Non-cash donations of goods and services	\$ 90	\$ 72

## **NEW YORK CITY OPERA, INC.**

### **Notes to Financial Statements June 30, 2011 and 2010**

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

The New York City Opera, Inc. ("City Opera"), founded in New York in 1943, has been recognized as one of America's preeminent cultural institutions. City Opera's mission is to inspire audiences with innovative and theatrically compelling opera, to nurture the work of American artists and young singers, and to build new audiences through affordable ticket prices and extensive outreach and education programs. City Opera is a not-for-profit organization and a constituent of the City Center of Music and Drama, Inc. ("CCMD"). City Opera operates as an entity independent of CCMD, which provides certain services as described further below.

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

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

#### **[1] Basis of accounting:**

The accompanying financial statements of City Opera have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit entities.

#### **[2] Applicability of NYPMIFA:**

In September 2010, New York State enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), the terms of which are applicable to City Opera. NYPMIFA principally addresses (i) the management and investment of all of a not-for-profit entity's "institutional funds" (which are mainly the financial assets of the entity and which exclude programmatic assets), and (ii) the appropriations by the governing board of earnings derived from donor-restricted endowment funds. In essence, NYPMIFA requires all of the financial resources of the entity to be used in a "prudent" fashion, with the express approval and action of the governing board. City Opera's Board is currently in the process of interpreting and implementing the requirements of the Act in regards to net asset classification, appropriation of endowment assets, and investments and spending policies.

#### **[3] Cash and cash equivalents:**

For financial reporting purposes, City Opera considers all highly liquid financial investments purchased with an original maturity of three months or less to be cash equivalents, except for that held as part of the investment portfolio.

#### **[4] Fixed assets:**

City Opera does not own any land or buildings. Periodic purchases of furniture and equipment, which are not material, are charged to current operations. Significant fixed asset additions, including leasehold improvements, are capitalized and are depreciated using the straight-line method over the estimated useful lives of the assets. In accordance with industry practice, scenery, costumes and stage properties are charged to current operations when a production is first performed. City Opera did not retire any fixed assets in fiscal year 2011.

## **NEW YORK CITY OPERA, INC.**

### **Notes to Financial Statements June 30, 2011 and 2010**

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

##### **[5] Investments:**

The investments in the accompanying financial statements consist of money-market accounts, bond funds, marketable debt and a hedge fund. The money-market, bond fund, and debt investments are reported at their fair values, which are based on readily available market quotations. The hedge fund is adjusted to fair values annually, at City Opera'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 investment managers and believes the reported amounts of these investments at City Opera'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 their fair value on the dates of gift.

##### **[6] Public support, grants, and contributions:**

City Opera 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 statements of activities as utilization of temporarily restricted net assets.

Pledges that are collectible in future years have been discounted at a rate of 5% and 6% to their present value and recorded as income. Amortization of this discount will be recorded as additional contributions over the term of each pledge.

##### **[7] Advertising and promotion costs:**

City Opera recognizes marketing expenses as they are incurred, except for the direct-response marketing costs related to performances taking place in the following year. This amount is included in deferred marketing and production costs until the performances take place. At June 30, 2011 and 2010, \$12,286 and \$411,000, respectively, of marketing costs were reported as assets.

##### **[8] Allocation of expenses, income and support:**

CCMD provides services to City Opera and New York City Ballet, Inc., the other principal constituent of CCMD, in connection with its operation and management of the David H. Koch Theater and other administrative and accounting services provided to the constituents under the 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 with cash transfers.

In December 2009, City Opera entered into an agreement with New York City Ballet, Inc. and CCMD for a maximum of \$9 million of relief for expenses related to CCMD's operation of the theater and other administrative expenses due to the renovation of the David H. Koch Theater. Total fiscal years 2011 and 2010 expenses relieved were approximately \$3,400,000 and \$3,800,000, respectively and have been included in other operating revenue in the accompanying statements of activities. In June 2011, City Opera provided notice to CCMD and New York City Ballet of termination of support services under the

# NEW YORK CITY OPERA, INC.

## Notes to Financial Statements June 30, 2011 and 2010

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

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

Management and Services agreement. Negotiations between City Opera, CCMD and New York City Ballet regarding the terms of the separation are ongoing. City Opera will be vacating the David Koch Theater by the end of 2011.

#### [9] Volunteers:

The members of City Opera's Volunteer Council make significant contributions of time to the program and support functions of City Opera. These contributions do not meet the criteria for accounting recognition of contributed services, and, therefore, their value is not reflected in these financial statements.

#### [10] Transactions with related parties:

Occasionally, organizations affiliated with members of City Opera's Board of Directors (the "Board") provide services to City Opera. Fees for such services are negotiated on an arm's length basis and have been reviewed by the Audit Committee of the Board.

During both fiscal years 2011 and 2010, City Opera had no related party transactions.

#### [11] 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.

#### [12] Net assets:

The net assets of City Opera 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.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that are subject to the requirements of NYPMIFA and the use of which has been restricted by donors to specific purposes and/or passage of time. 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 as unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

(iii) *Permanently restricted:*

Permanently restricted net assets represent those resources that have been designated by the donor to be held and invested in perpetuity. Generally, the donors of these assets direct City Opera to use all or part of the income earned on related investments to support operations. Under the terms of NYPMIFA, those earnings are classified as temporarily restricted in the accompanying statement of activities, pending appropriations by the Board.

The working capital reserve is included as part of permanently restricted net assets. Amounts may be withdrawn during a year to finance current operations, with the condition that all withdrawals are returned prior to that fiscal year-end. The full amount of the fund was withdrawn during fiscal year 2011 and had not been repaid at June 30, 2011. This reserve represents income generated from the sale of air rights related to the New York City Center Theater located at West 55th Street. Investment income from this fund is available for operations.

## NEW YORK CITY OPERA, INC.

### Notes to Financial Statements June 30, 2011 and 2010

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

##### [13] Fair-value measurement:

City Opera reports a fair-value measurement of all applicable financial assets and liabilities (see Note E).

##### [14] Income tax uncertainties:

City Opera is subject to the provisions of Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 740-10-05 relating to accounting and reporting for uncertainty in income taxes. Due to City Opera's general tax-exempt status, ASC 740-10-05 has not had, and is not expected to have a material impact on City Opera's financial statements.

##### [15] Reclassification:

Certain prior-year balances have been reclassified for comparative purposes.

##### [16] Subsequent events:

City Opera 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.

#### NOTE B - PROGRAM SERVICES

Details of program service expenses are as follows (in thousands):

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Production payroll and related expenses	\$ 16,864	\$ 15,962
Costumes, scenery, and props	1,179	788
Music and royalties	350	264
Front of house	503	514
Marketing	2,383	2,555
Facility expense	<u>2,797</u>	<u>3,381</u>
	<u>\$ 24,076</u>	<u>\$ 23,464</u>

## NEW YORK CITY OPERA, INC.

### Notes to Financial Statements June 30, 2011 and 2010

#### NOTE C - PLEDGES RECEIVABLE

Pledges are expected to be collected as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 1,111	\$ 2,356
One to five years	2,120	1,848
Allowance for doubtful pledges	(22)	(25)

Amounts shown are net of applicable discounts of approximately \$154,000 and \$277,000 in fiscal years 2011 and 2010, respectively. The rate used to calculate discounts was 5% and 6% in fiscal years 2011 and 2010, respectively.

#### NOTE D - NET PUBLIC SUPPORT

Details of unrestricted net public support and the utilization of temporarily restricted net assets by major classifications and related expenses are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Appropriation from the City of New York	\$ 788	\$ 968
Other governmental agencies	196	323
Corporations	572	455
Foundations	3,563	4,169
Individuals	10,660	6,743
Estates	95	393
Special events and awards	<u>2,174</u>	<u>3,329</u>
	<b>18,048</b>	16,380
Public support expense:		
General	(1,588)	(1,892)
Special events and awards	<u>(660)</u>	<u>(540)</u>
	<b><u>\$ 15,800</u></b>	<b><u>\$ 13,948</u></b>

#### NOTE E - INVESTMENTS

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

	<u>2011</u>	<u>2010</u>
Debt securities	\$ 112	\$ 162
Hedge fund	80	169
Temporary investments and brokers' cash	<u>5,542</u>	<u>9,938</u>
	<b><u>\$ 5,734</u></b>	<b><u>\$ 10,269</u></b>

## NEW YORK CITY OPERA, INC.

### Notes to Financial Statements June 30, 2011 and 2010

#### NOTE E - INVESTMENTS (CONTINUED)

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 consist of exchange-traded equity securities and debt and actively traded obligations issued by the U.S. government and government agencies.
- 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 2 assets include other U.S. government and agency securities and corporate debt securities that are redeemable at or near the balance sheet date and for which a model was derived for valuation.
- 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 included securities in privately held companies, secured notes, private corporate bonds, and limited partnerships, the underlying investments of which could not be independently valued, or cannot be immediately redeemed at or near the fiscal year-end.

City Opera's hedge fund is at Level 3 and all other investments are at Level 1 under the ASC 820-10-05 valuation levels at June 30, 2011 and 2010.

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 Opera's interest therein, its classification in Level 2 or 3 is based on City Opera's ability to redeem its interest at or near June 30, 2011. If the interest can be redeemed in the near term, the investment is classified as Level 2. 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.

In 2011 and 2010, unrestricted investment income included interest and dividends of approximately \$156,000 and \$267,000, respectively. In addition, income earned on operating funds totaling \$11,000 and \$13,000 in fiscal years 2011 and 2010, respectively.

The following summarizes the changes in fair values of the City Opera's Level 3 investments for fiscal years 2011 and 2010 (in thousands):

	<u>June 30, 2011</u> <u>Hedge Fund</u>
Balance - July 1, 2010	\$ 169
Net sales	(100)
Realized gains	1
Unrealized gains	<u>10</u>
Balance - June 30, 2011	<u>\$ 80</u>

**NEW YORK CITY OPERA, INC.**

**Notes to Financial Statements  
June 30, 2011 and 2010**

**NOTE E - INVESTMENTS (CONTINUED)**

	<u>June 30, 2010</u> <u>Hedge Fund</u>
Balance - July 1, 2009	\$ 2,921
Net sales	(2,767)
Realized losses	(133)
Unrealized gains	<u>148</u>
Balance - June 30, 2010	<u>\$ 169</u>

The following table lists investments in alternative investments by major category:

	<u>June 30, 2011</u>			
	<u>Fair Value (in thousands)</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge fund	\$ 80	\$ -	Quarterly	91 days

**NOTE F - PENSION PLANS**

Until fiscal year 2011, City Opera participated in a noncontributory, defined-benefit pension plan (the "Plan") for nonunion, salaried employees of CCMD and its constituents. In July 2010, City Opera separated its portion of the Plan into the "NYCO Retirement Plan for Salaried Employees". The assets were allocated to the successor plan in accordance with the prescribed methodology for a spin-off, as outlined by Pension Benefit Guaranty Corporation ("PBGC") regulations. Benefits are based on years of service and final average compensation, as defined in the Plan. Plan benefit obligations and assets are combined for all participants of the Plan. The policy is to fund annually the required contribution necessary to comply with the Employee Retirement Income Security Act of 1974 ("ERISA").

Effective May 31, 2011, the plan was amended to freeze plan participation and benefit accruals. Active employees will continue to accrue years of service for vesting purposes, and their pension benefit accrued as of May 31, 2011 will not be reduced, but no further benefit accruals will be made to the Plan.

The following table sets forth basic information relating to the total accrued benefit liability of the Plan as of June 30, 2011:

Projected Benefit Obligation	\$ (5,141)
Plan Assets at Fair Value	<u>3,623</u>
Funded Status (asset deficit) recognized as liabilities in the statements of financial position	<u>\$ (1,518)</u>

The key assumptions used to determine net periodic pension cost at June 30, 2011 are as follows:

Discount rate	5.34%
Long-range return on assets	7.50%
Rate of compensation increase	4.00%

## NEW YORK CITY OPERA, INC.

### Notes to Financial Statements June 30, 2011 and 2010

#### NOTE F - PENSION PLANS (CONTINUED)

The following items are the components of the net periodic pension cost for the Plan for the fiscal year ended June 30, 2011:

Expected return on plan assets	\$ (226)
Service cost benefit earned during the year	154
Interest cost on projected benefit obligation	280
Amortization of prior service cost	-
Amortization of accumulated loss	<u>144</u>
Net periodic pension cost	<u>\$ 352</u>

Information with regards to contributions to the Plan and benefits paid during City Opera's fiscal year 2011 is as follows:

Employer contributions	\$ 188
Benefits paid	\$ 129

City Opera expects to contribute approximately \$301,000 to its pension plan in fiscal year 2012.

The following benefit payments, which include future service, are expected to be paid as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Pension Benefits</u>
2012	\$ 245
2013	271
2014	263
2015	263
2016	320
2017-2020	1,711

The investment policy for the City Opera pension plan is based on ERISA standards for prudent investing. The investment objective of the Plan is to earn sufficient investment income, with careful balance of risk and return, over the coming years to fund the excess of current liabilities over assets, minimizing amounts paid from operating budgets. The plan assets are to be invested 70% in widely diversified funds of risk based assets and 30% in bond funds with sufficient liquidity to meet the annuity payment obligations of the pension plan. The broad investment goal is to achieve an investment return, net of all expenses, of at least 2% more than the Moody's bond yield used for the valuation of the Plan's assets. The City Opera Pension Committee meets at least twice yearly with the Investment Advisor to select appropriate investments for the Pension Fund.

City Opera's target allocations of plan assets as of June 30, 2011 and the actual weighted-average allocations as of June 30, 2011 and June 30, 2010 are as follows:

	<u>2012</u>	<u>2011</u>
Equity securities	70%	71%
Debt securities	30%	14%
Other		10%
Cash equivalents		5%

City Opera's accrued benefit liability at June 30, 2011 was approximately \$1,518,000 and is reflected in payroll-related liabilities in the accompanying statements of financial position.

## NEW YORK CITY OPERA, INC.

### Notes to Financial Statements June 30, 2011 and 2010

#### NOTE F - PENSION PLANS (CONTINUED)

City Opera is also allocated a portion of CCMD's pension benefit costs. Additional information regarding the components of pension cost, the fair value of plan assets, and accumulated and projected benefit obligations is available, along with the key actuarial assumptions, in the financial statements of CCMD. City Opera's allocated portion of net periodic pension cost for fiscal years 2011 and 2010 was \$(332,000) and \$342,000, respectively.

Unrestricted net assets increased by \$1,311,000 and decreased by \$780,000 in fiscal years 2011 and 2010, respectively, as a result of requirements to adjust the accrued pension benefit liability to the amount of the unfunded projected benefit obligation at each June 30. These amounts were inclusive of City Opera's share of CCMD's costs. The fiscal year 2011 adjustment is due primarily to the freezing of the pension plan as of May 31, 2011.

City Opera 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 Opera amounted to approximately \$675,000 and \$651,000 in fiscal years 2011 and 2010, respectively.

#### NOTE G - COMMITMENTS AND CONTINGENCIES

- [1] City Opera leases space for offices, a thrift shop, and a warehouse for costumes and production sets. Rent expense for fiscal years 2011 and 2010 was \$697,000 and \$740,000, respectively. Future minimum lease payments under these leases at June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	
2012	\$ 552,000
2013	364,000
2014	364,000
2015	364,000
2016	<u>393,000</u>
	<u>\$ 2,037,000</u>

City Opera has also entered into artist contracts for the following year's productions, totaling \$228,000 and \$1,555,000 as of June 30, 2011 and 2010, respectively.

- [2] 67% of City Opera's direct labor force is covered by collective bargaining agreements with various unions. The agreements with Local 802, American Guild of Musical Artists ("AGMA"), and Local 829 expired during the year ended June 30, 2011. A new agreement was negotiated with Local 829. City Opera is still in negotiations with Local 802 and AGMA to reach new agreements.

In May 2011, AGMA filed an unfair labor practice charge with the National Labor Relations Board ("NLRB") against City Opera. In June 2011, City Opera submitted a position statement with the NLRB setting forth its position. The NLRB continues to investigate the charge and has not made any decision on the matter at this time.

#### NOTE H - POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In 1978, CCMD adopted the policy of providing the option to certain employees who have 20 years of service, and who were 65 years of age upon their retirement from the City Opera 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 yet vested in this benefit. In 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

## NEW YORK CITY OPERA, INC.

### Notes to Financial Statements June 30, 2011 and 2010

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

In addition, City Opera's contracts with the various unions, both directly and through CCMD, include provisions for this benefit for all active employees who had, at that date, already achieved the requisite 20 years of service. In addition, City Opera's contracts with the various unions, both directly and through CCMD, include provisions for severance payments to members after they reach a predetermined length of service. City Opera funds both of these obligations as they are due.

At June 30, unrestricted net assets of City Opera were increased by approximately \$116,000 and decreased by \$82,000 in 2011 and 2010, respectively, to record the adjustments required to balance the accrued postretirement benefit liability to the amount of the unfunded projected benefit obligation. These amounts were inclusive of City Opera'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>2011</u>	<u>2010</u>
Postretirement benefit obligation at the end of year	\$ 450	\$ 600
Accumulated obligation	575	544
Unrecognized amounts	(125)	56
	<u>2011</u>	<u>2010</u>
Postretirement benefit obligation at the end of year:		
Actives not fully eligible to retire	\$ 175	\$ 174
Actives fully eligible to retire	47	58
Retirees	<u>228</u>	<u>368</u>
	<u>\$ 450</u>	<u>\$ 600</u>

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):

	<u>2011</u>	<u>2010</u>
Net periodic postretirement benefit cost:		
Service	\$ 5	\$ 3
Interest	27	34
Amortization of prior years' service cost		
Amortization of accumulated loss	<u>          </u>	<u>(13)</u>
Net periodic postretirement benefit cost	32	24
Actual payments	<u>(1)</u>	<u>(27)</u>
Net change	31	(3)
Accumulated obligation, beginning of year	<u>544</u>	<u>547</u>
Accumulated obligation, end of year	<u>\$ 575</u>	<u>\$ 544</u>

## NEW YORK CITY OPERA, INC.

### Notes to Financial Statements June 30, 2011 and 2010

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

Estimated benefit payments are as follows:

<u>Year Beginning July 1,</u>	<u>Estimated Employer Benefit Payment</u>
2011	\$ 33
2012	32
2013	38
2014	41
2015-2019	214

The accumulated postretirement benefit obligation was actuarially determined as of June 30, 2011 using an assumed discount rate of 4.85%. The assumed rate of future increases in healthcare was 9% in the first year, declining to 4.5% by the year 2018. Had the healthcare-cost trend rate assumption been increased by 1%, the accumulated postretirement benefit obligation would have increased by 9.1%. 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 11.5%. The postretirement balance is reflected as part of postretirement and postemployment liabilities.

#### NOTE I - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

##### [1] Temporarily restricted net assets:

Temporarily restricted net assets held at June 30, 2011 represent \$4,456,000 in contributions, grants and other unexpended revenues and gains available for specific program purposes and future periods, as follows:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Future productions	\$ 173	\$ 296
Costume replacement	471	471
Wallace special projects fund	717	717
Education	68	
Time and other restrictions	<u>3,027</u>	<u>2,641</u>
	<u>\$ 4,456</u>	<u>\$ 4,125</u>

During the years ended June 30, 2011 and 2010, City Opera incurred \$1,120,000 and \$3,023,000, respectively, in expenses in satisfaction of the restricted purposes specified by donors, or satisfied the restrictions by the occurrence of other events. Accordingly, a corresponding amount has been reported as a reclassification from temporarily restricted net assets to unrestricted net assets in the accompanying statement of activities.

## NEW YORK CITY OPERA, INC.

### Notes to Financial Statements June 30, 2011 and 2010

#### NOTE I - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (CONTINUED)

##### [2] Permanently restricted net assets:

At June 30, 2011, the organization held \$47,330,000 in permanently restricted net assets. The investment income earned on the investment of these permanently restricted net assets is restricted as follows:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
General operating	\$ 45,470	\$ 46,528
Income restricted for:		
Individual artist support	95	95
New operas	500	500
Artist fees	<u>1,265</u>	<u>1,265</u>
	<u>\$ 47,330</u>	<u>\$ 48,388</u>

During the year ended June 30, 2011, City Opera requested and obtained donor approval to release the permanent restrictions on \$1,058,000 of endowment funds. Accordingly, a corresponding amount has been reported as a reclassification from permanently restricted net assets to unrestricted net assets in the accompanying statement of activities.

#### NOTE J - ENDOWMENTS

City Opera's endowment consists of 13 individual donor-restricted funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has adopted investment and spending policies for endowment assets that strive to achieve a superior total rate of return while also seeking to maintain the purchasing power of the endowment.

City Opera's Board has adopted a spending rate policy. The amount of income to be made available for current operations from assets invested long-term is established as 5.5% of those long-term assets. However, during fiscal years 2011 and 2010, the Board chose to waive the spending rule, and make only interest and dividends available for operations. The difference between the actual investment results and the spending rate transfer is reported in the accompanying statements of activities as excess of investment gains over amounts set by spending rate. The cumulative amount of the investment gains (losses) over the spending rate transfer is reported in the accompanying statement of financial position in unrestricted net assets as "Board-designated-endowment deficit".

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or NYPMIFA requires the organization to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were approximately \$14,520,000 and \$15,014,000 as of June 30, 2011 and 2010, respectively. In addition, approximately \$3,800,000 and \$3,921,000 in approved borrowings were made against endowment assets in fiscal years 2011 and 2010, respectively. Cumulative borrowings against endowment fund assets are \$27,920,000 as of June 30, 2011. These deficiencies are a result of unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board. Accordingly, in order to report the deficiencies, the excess losses and appropriations have been classified as transactions of the unrestricted net asset class and will be reinstated out of future endowment earnings.

## NEW YORK CITY OPERA, INC.

### Notes to Financial Statements June 30, 2011 and 2010

#### NOTE J - ENDOWMENTS (CONTINUED)

The following summarizes the City Opera's endowment-related activities for the years ended June 30, 2011 and 2010 (in thousands):

<b>June 30, 2011 (NYPMIFA)</b>				
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, at beginning of year			\$ 48,388	\$ 48,388
Total investment earnings			246	246
Re-class of investment earnings		\$ 246	(246)	0
Appropriation of endowment assets for expenditure	\$ 246	(246)		0
Release of restriction on endowment funds	1,058		(1,058)	0
Appropriation of endowment assets	<u>(1,304)</u>			<u>(1,304)</u>
Endowment net assets, end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 47,330</u>	<u>\$ 47,330</u>
<b>June 30, 2010 (UMIFA)</b>				
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, at beginning of year			\$ 48,388	\$ 48,388
Total investment earnings			556	556
Re-class of investments earnings	\$ 556		(556)	0
Appropriation of endowment assets	<u>(556)</u>			<u>(556)</u>
Endowment net assets, end of year	<u>\$ 0</u>	<u>\$</u>	<u>\$ 48,388</u>	<u>\$ 48,388</u>

#### NOTE K - PLANS FOR THE FUTURE

In fiscal 2012, New York City Opera will launch a new business model that will inaugurate an exciting era of artistic excellence while dramatically reducing fixed overhead expenditures. After an exhaustive appraisal of all aspects of the company, with no single line item sacrosanct, an achievable and balanced operating budget was built beginning from the income side (i.e., what the company felt sure it could raise) as opposed to the expense side (i.e., what the company felt it ought to be spending) which had been the standard operating practice over the past decade. By re-examining many of its industry's longstanding assumptions, City Opera has arrived at a radically new business model for an American opera company, one that is fleeter, more efficient, and significantly less expensive. The threefold plan includes 1) producing high-quality opera in venues across New York City, 2) streamlining administrative staff and production personnel, and 3) renegotiating contracts with the City Opera Orchestra and Chorus.

More than \$10 million in fixed costs have been trimmed from the fiscal 2012 operating budget. Consequently, the fiscal 2012 operating budget is significantly smaller at \$13.5 million, as opposed to over \$30.1 million in fiscal 2011. The new model not only promises a balanced operating budget moving forward, it offers City Opera the flexibility to contract and expand with its financial outlook. The incremental expense of adding future performances will be much less than under the previous model and more of the money raised will go directly onto the stage. Additionally, City Opera's departure from Lincoln Center extends its season beyond the present allotment of three months, providing both the increased presence and exposure necessary for future growth in both earned and contributed income.