

SCHOOL OF AMERICAN BALLET, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2009



LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
School of American Ballet, Inc.

We have audited the accompanying statement of financial position of School of American Ballet, Inc. (a not-for-profit corporation) as of August 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2008 financial statements, and in our report dated November 14, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of School of American Ballet, Inc. as of August 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
November 16, 2009

SCHOOL OF AMERICAN BALLET, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009 WITH COMPARATIVE TOTALS FOR 2008

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2009 Total	2008 Total	
	General Operations	Board Designated Endowment (Note 2a)	Plant					Total
Assets								
Current Assets								
Cash and cash equivalents (Note 1b)	\$ 409,938	\$ -	\$ 269,787	\$ 679,725	\$ 469,856	\$ -	\$ 1,149,581	\$ 715,368
Tuition, interest and other receivables	15,394	10,200	-	25,594	-	-	25,594	13,535
Unconditional promises to give (Notes 1c and 3)	218,640	667,837	-	886,477	255,455	-	1,141,932	1,467,262
Prepaid expenses and other current assets	50,302	1,524	-	51,826	-	-	51,826	203,684
Total Current Assets	694,274	679,561	269,787	1,643,622	725,311	-	2,368,933	2,399,849
Other Assets								
Investments, at fair value (Notes 1g and 4)	1,173,594	22,604,672	-	23,778,266	-	29,456,953	53,235,219	61,182,285
Unconditional promises to give (Notes 1c and 3)	-	169,511	-	169,511	53,342	767,441	990,294	1,422,598
Property and equipment, at cost, less accumulated depreciation (Notes 1d , 5, 6 and 7)	-	-	20,065,618	20,065,618	-	-	20,065,618	21,330,891
Capitalized financing costs	-	-	325,112	325,112	-	-	325,112	337,375
Restricted cash - proceeds from financing (Note 7)	-	-	99,482	99,482	-	-	99,482	98,034
Prepaid expenses and other assets	-	-	-	-	-	-	-	72,529
Total Assets	\$1,867,868	\$23,453,744	\$20,759,999	\$46,081,611	\$ 778,653	\$30,224,394	\$77,084,658	\$86,843,561
Liabilities and Net Assets								
Liabilities								
Accounts payable and other liabilities	\$1,133,988	\$ 144,210	\$ 5,890	\$ 1,284,088	\$ -	\$ -	\$ 1,284,088	\$ 1,226,294
Deferred income	703,612	-	-	703,612	-	-	703,612	512,102
Financing obligation payable (Note 7)	1,837,600	144,210	5,890	1,987,700	-	-	1,987,700	1,738,396
Total Liabilities	1,837,600	144,210	8,600,000	8,600,000	-	-	8,600,000	8,600,000
Commitments (Notes 5 and 8)								
Net Assets	30,268	23,309,534	12,154,109	35,493,911	778,653	30,224,394	66,496,958	76,505,165
Total Liabilities and Net Assets	\$1,867,868	\$23,453,744	\$20,759,999	\$46,081,611	\$ 778,653	\$30,224,394	\$77,084,658	\$86,843,561

See notes to financial statements.

SCHOOL OF AMERICAN BALLET, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2009 WITH COMPARATIVE TOTALS FOR 2008

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2009 Total	2008 * Total
	General Operations	Board Designated Endowment (Note 2a)	Plant				
Revenue (Excluding Public Support)							
Tuition (Note 1e)	\$1,697,389	\$ -	\$ -	\$ -	\$ -	\$ 1,697,389	\$ 1,675,245
Room and board fees	1,291,021	-	-	-	-	1,291,021	1,226,559
Workshop tickets and other program fees	138,760	-	-	-	-	138,760	133,959
Other income	237,401	-	-	-	-	237,401	226,146
Interest and dividends (Notes 1g and 4)	380	-	1,447	-	-	1,827	9,532
Total Revenue	<u>3,364,951</u>	<u>-</u>	<u>1,447</u>	<u>-</u>	<u>-</u>	<u>3,366,398</u>	<u>3,271,441</u>
Expenses							
Teaching and other artistic programs	4,497,861	-	592,446	-	-	5,090,307	4,416,505
Student financial aid (Note 1e)	1,393,712	-	-	-	-	1,393,712	1,250,841
Student services and residence	2,233,550	-	613,235	-	-	2,846,785	2,839,629
General administration	1,017,162	-	293,654	-	-	1,310,816	1,406,424
Development	1,325,154	-	106,650	-	-	1,431,804	1,494,835
Total Expenses	<u>10,467,439</u>	<u>-</u>	<u>1,605,985</u>	<u>-</u>	<u>-</u>	<u>12,073,424</u>	<u>11,408,234</u>
Deficiency of revenue over expenses before support and items shown below	<u>(7,102,488)</u>	<u>-</u>	<u>(1,604,538)</u>	<u>-</u>	<u>-</u>	<u>(8,707,026)</u>	<u>(8,136,793)</u>
Support							
Contributions (Notes 5 and 10)	2,348,974	246,124	2,600	719,327	234,662	3,551,687	4,598,459
Special events revenue (Note 11)	1,986,384	-	-	-	-	1,986,384	1,864,717
Less: Special events direct expenses (Note 11)	(366,004)	-	-	-	-	(366,004)	(369,006)
Revaluation of unconditional promises to give	-	-	-	-	-	-	(23,250)
Net assets released from restriction							
Satisfaction of time and program restrictions	329,500	50,000	-	(379,500)	-	-	-
Total Support	<u>4,298,854</u>	<u>296,124</u>	<u>2,600</u>	<u>339,827</u>	<u>234,662</u>	<u>5,172,067</u>	<u>6,070,920</u>
Excess (deficiency) of revenue and support over expenses before items shown below	<u>(2,803,634)</u>	<u>296,124</u>	<u>(1,601,938)</u>	<u>339,827</u>	<u>234,662</u>	<u>(3,534,959)</u>	<u>(2,065,873)</u>
Investment income available for operations							
Per Board approved spending policy (Notes 4 and 9)	<u>3,168,669</u>	<u>(3,168,669)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets before Appropriations	365,035	(2,872,545)	(1,601,938)	339,827	234,662	(3,534,959)	(2,065,873)
Appropriations							
Transfer to board designated operating reserve (Note 2a)	(295,000)	295,000	-	-	-	-	-
Bond administrative fees and interest expense	<u>(67,012)</u>	<u>-</u>	<u>67,012</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets before Non Operating Activities	<u>3,023</u>	<u>(2,577,545)</u>	<u>(1,534,926)</u>	<u>339,827</u>	<u>234,662</u>	<u>(3,534,959)</u>	<u>(2,065,873)</u>
Non Operating Activities - Changes from Investments							
Investment income (Notes 1g and 4)	-	(3,047,389)	-	-	(1,151,691)	(4,199,080)	4,154,096
Net unrealized (losses) gains on investments (Notes 1g and 4)	-	(1,511,189)	-	-	(468,625)	(1,979,814)	(8,329,248)
Direct investment expenses	-	(294,354)	-	-	-	(294,354)	(321,502)
Decrease in Non Operating Activities	<u>-</u>	<u>(4,852,932)</u>	<u>-</u>	<u>-</u>	<u>(1,620,316)</u>	<u>(6,473,248)</u>	<u>(4,496,654)</u>
Increase (decrease) in net assets	3,023	(7,430,477)	(1,534,926)	339,827	(1,385,654)	(10,008,207)	(6,562,527)
Net assets, beginning of year	<u>27,245</u>	<u>30,740,011</u>	<u>13,689,035</u>	<u>438,826</u>	<u>31,610,048</u>	<u>76,505,165</u>	<u>83,067,692</u>
Net Assets, End of Year	<u>\$ 30,268</u>	<u>\$23,309,534</u>	<u>\$12,154,109</u>	<u>\$ 778,653</u>	<u>\$30,224,394</u>	<u>\$66,496,958</u>	<u>\$76,505,165</u>

* Certain amounts have been reclassified for comparative purposes.

See notes to financial statements.

SCHOOL OF AMERICAN BALLET, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2009 WITH COMPARATIVE TOTALS FOR 2008

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2009 Total	2008 Total
	General Operations	Board Designated Endowment (Note 2a)	Plant				
Cash Flows From Operating Activities							
Increase (decrease) in net assets	\$ 3,023	\$(7,430,477)	\$(1,534,926)	\$(8,962,380)	\$ 339,827	\$(1,385,654)	\$(10,008,207)
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities:							
Depreciation	-	-	1,333,120	1,333,120	-	-	1,333,120
Amortization of bond issuance costs	-	-	12,263	12,263	-	-	12,263
Realized and unrealized losses on investments	-	5,585,417	-	5,585,417	-	1,620,316	7,205,733
(Increase) decrease in:							
Tuition, interest and other receivables	(9,859)	(2,200)	-	(12,059)	-	-	(12,059)
Unconditional promises to give	(52,830)	492,178	408,465	847,813	(53,634)	(36,545)	757,634
Prepaid expenses and other current assets	149,215	2,643	72,529	224,387	-	-	224,387
Increase (decrease) in:							
Accounts payable and other liabilities	134,140	(69,633)	(6,713)	57,794	-	-	57,794
Deferred income	191,510	-	-	191,510	-	-	191,510
Net Cash Provided (Used) By Operating Activities	<u>415,199</u>	<u>(1,422,072)</u>	<u>284,738</u>	<u>(722,135)</u>	<u>286,193</u>	<u>198,117</u>	<u>(237,825)</u>
Cash Flows From Investing Activities							
Sales (purchases) of investments, net	(482,622)	1,422,072	-	939,450	-	(198,117)	741,333
Disbursements for property and equipment	-	-	(67,847)	(67,847)	-	-	(67,847)
Net Cash Provided (Used) By Investing Activities	<u>(482,622)</u>	<u>1,422,072</u>	<u>(67,847)</u>	<u>871,603</u>	<u>-</u>	<u>(198,117)</u>	<u>673,486</u>
Cash Flows From Financing Activities							
Capitalized financing costs	-	-	-	-	-	-	(6,282)
Restricted cash	-	-	(1,448)	(1,448)	-	-	(1,448)
Net Cash Provided (Used) By Financing Activities	<u>-</u>	<u>-</u>	<u>(1,448)</u>	<u>(1,448)</u>	<u>-</u>	<u>-</u>	<u>(1,448)</u>
Net increase (decrease) in cash and cash equivalents	(67,423)	-	215,443	148,020	286,193	-	434,213
Cash and cash equivalents, beginning of year	<u>477,361</u>	<u>-</u>	<u>54,344</u>	<u>531,705</u>	<u>183,663</u>	<u>-</u>	<u>715,368</u>
Cash and Cash Equivalents, End of Year	<u>\$ 409,938</u>	<u>\$ -</u>	<u>\$ 269,787</u>	<u>\$ 679,725</u>	<u>\$ 469,856</u>	<u>\$ -</u>	<u>\$ 1,149,581</u>
Supplemental Information							
Interest paid						<u>\$ 133,148</u>	<u>\$ 225,601</u>

See notes to financial statements.

SCHOOL OF AMERICAN BALLET, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2009****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

The School of American Ballet, Inc. (the "School") was founded in 1934 and incorporated in the State of New York as a not-for-profit institution. The School is the preeminent classical dance academy in the United States and is known both nationally and internationally for its professional training curriculum. During 2009, the School recognized its 75th anniversary with a series of commemorative programs. The School maintains its Federal income tax exempt status under Section 501(c)(3) and has been designated as an organization which is not a private foundation.

b - Cash and Cash Equivalents

The School considers all short-term highly liquid investments, such as money market funds and certificates of deposit with maturities of six months or less, to be cash equivalents, except for cash and short-term investments managed by the School as part of their long-term investment strategies.

c - Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The School uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Unconditional promises to give due after one year are discounted to net present value using a discount rate of 5%.

d - Property and Equipment

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on the straight-line basis.

e - Student Financial Aid

Of the combined tuition and room and board fees (Statement of Activities - Revenues and Support), approximately 38% and 34% represents financial aid in fiscal years 2009 and 2008, respectively.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

e - Student Financial Aid (continued)

The School records the value of tuition and residence scholarships to selected students as revenue with a corresponding amount as financial aid expense as follows:

	2009	2008
Tuition	\$ 677,116	\$611,755
Residence	458,430	377,784
Other financial aid	8,890	6,800
	\$1,144,436	\$996,339

f - Rose Building Operating Expense

Rose Building operating expense for fiscal years 2009 and 2008 was \$1,933,911 and \$1,948,392, respectively. This amount is allocated partially based on cubic feet to the approximate departments to represent normal operating usage patterns, and partially based on additional building projects undertaken, relating directly to specific departments. The totals per department were:

	2009	2008
1) Teaching and other artistic programs	\$678,675	\$693,766
2) Student services and residence	994,208	987,793
3) General administration	121,813	124,522
4) Development	139,215	142,311

g - Investments

The School reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are included in the change in net assets. Interest, dividends, gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income restricted by the donor is reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the income is recognized.

The fair values of limited partnership investments not publicly traded on national security exchanges represent the School's pro rata interest in the net assets of each investment and are based on financial information determined and reported by investment managers, subject to review, evaluation, and adjustment by the management of the School or on the basis of other information developed, obtained, and evaluated periodically by the School. Because of inherent uncertainties in the valuation of certain alternative investments, those estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed, and those differences could be material.

SCHOOL OF AMERICAN BALLET, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2009****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****g - Investments (continued)**

The School was required to adopt Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), effective September 1, 2008. SFAS 157 clarifies that fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Under SFAS 157, fair value measurements are not adjusted for transaction costs. SFAS 157 provides for use of a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels.

Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the School. Unobservable inputs reflect the assumptions developed by the School based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities. The School's investments in cash, money market funds, mutual funds, corporate stocks, and fixed income securities are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values.

The School's investments in limited partnerships are classified within Levels 2 and 3 of the fair value hierarchy. The value of Level 2 investments are determined by the general partners or management of the companies. Redemption of the School's limited partnership investments are subject to certain withdrawal restrictions, which permit withdrawal only on specified dates during each calendar year. Certain limited partnership investments are classified under Level 3 because they are traded infrequently (or not at all) and have underlying investments which have little or no readily available pricing. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available.

h - Financial Statement Presentation

The School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

i - Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

j - Prior Year information

The financial information includes 2008 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Certain expense categories from 2008 have been reclassified to conform with the 2009 presentation.

Note 2 - Restrictions on Assets

a - Board Designated Endowment Net Assets

The School's Board of Directors has directed that certain unrestricted funds be treated as funds functioning as endowment to support the School's on-going programs and ensure its ability to meet future needs. Following the School's spending policy, as described in Note 4, a portion of the income from the Board Designated Endowment is applied to scholarships, faculty salaries and other operating expenses. In addition, certain principal amounts have been designated to fund an operating reserve.

Board designated net assets are comprised as follows:

	<u>2009</u>	<u>2008</u>
Funds functioning as endowment	\$22,496,317	\$30,221,794
Operating reserve	<u>813,217</u>	<u>518,217</u>
	<u>\$23,309,534</u>	<u>\$30,740,011</u>

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following:

	<u>2009</u>	<u>2008</u>
Future programs	\$682,140	\$372,376
Future periods	<u>96,513</u>	<u>66,450</u>
	<u>\$778,653</u>	<u>\$438,826</u>

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 2 - Restrictions on Assets (continued)c - Permanently Restricted Net Assets

Permanently restricted net assets represent contributions received from donors directing that the principal be retained.

Note 3 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009</u>	<u>2008</u>
	<u>General Operations</u>	<u>Board Designated Endowment</u>				
Due in less than one year	\$218,640	\$667,837	\$255,455	\$ -	\$1,141,932	\$1,467,262
Due in one to five years	-	188,600	60,000	1,000,000	1,248,600	1,773,550
	<u>218,640</u>	<u>856,437</u>	<u>315,455</u>	<u>1,000,000</u>	<u>2,390,532</u>	<u>3,240,812</u>
Less: Discount	-	(19,089)	(6,658)	(232,559)	(258,306)	(350,952)
	<u>\$218,640</u>	<u>\$837,348</u>	<u>\$308,797</u>	<u>\$ 767,441</u>	<u>\$2,132,226</u>	<u>\$2,889,860</u>

No reserve for uncollectible amounts was required at August 31, 2009 or 2008.

Note 4 - Investments

Investments are reflected at fair value at August 31 and are summarized as follows:

	<u>2009</u>		<u>2008</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Marketable Securities				
Corporate stocks and mutual funds (equity)	\$14,833,494	\$14,465,617	\$25,983,635	\$24,867,768
Fixed income securities	18,603,704	17,518,915	12,068,194	12,047,603
Cash at broker being held for investments	2,573,757	2,573,757	4,447,670	4,447,670
Other Investments				
Investment funds	<u>17,224,264</u>	<u>17,547,768</u>	<u>18,682,786</u>	<u>16,710,268</u>
	<u>\$53,235,219</u>	<u>\$52,106,057</u>	<u>\$61,182,285</u>	<u>\$58,073,309</u>

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 4 - Investments (continued)

The following summarizes the School's investments by the Levels within the fair value hierarchy used to measure their respective fair values at August 31, 2009:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Marketable Securities				
Corporate stocks and mutual funds (equity)	\$14,833,494	\$14,833,494	\$ -	\$ -
Fixed income securities	18,603,704	18,603,704	-	-
Cash at broker being held for investments	2,573,757	2,573,757	-	-
Other Investments				
Investment funds	<u>17,224,264</u>	<u>-</u>	<u>1,386,423</u>	<u>15,837,841</u>
	<u>\$53,235,219</u>	<u>\$36,010,955</u>	<u>\$1,386,423</u>	<u>\$15,837,841</u>

The following summarizes changes in fair value of the School's Level 3 assets for the year ended August 31, 2009. The information reflects gains and losses for the full year for assets categorized as Level 3 as of August 31, 2009. The information does not include gains or losses for assets that were transferred out of Level 3 prior to August 31, 2009.

Balance - beginning of year	\$17,048,698
Management fees	(61,014)
Unrealized losses	(1,984,082)
Purchases	837,500
Redemptions	<u>(3,261)</u>
Balance - End of Year	<u>\$15,837,841</u>

The limited partnerships hold investments in domestic and international equities, debt securities and real estate. The operating activities of some of these limited partnerships and investment companies may involve trading, directly or indirectly, in derivative financial investments that involve varying degrees of market and credit risk.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 4 - Investments (continued)

The following summarizes investment return and its classification in the statement of activities:

	<u>General Operations</u>	<u>Board Designated Endowment</u>	<u>Plant</u>	<u>Permanently Restricted</u>	<u>Total 2009</u>	<u>Total 2008</u>
Interest and dividends	\$ 380	\$ 1,026,839	\$1,447	\$ -	\$1,028,666	\$ 1,142,508
Net realized gains (losses)	-	(4,074,228)	-	(1,151,691)	(5,225,919)	3,021,120
Investment Income	380	(3,047,389)	1,447	(1,151,691)	(4,197,253)	4,163,628
Net unrealized losses on investments	-	(1,511,189)	-	(468,625)	(1,979,814)	(8,329,248)
Total Investment Return	<u>\$ 380</u>	<u>\$(4,558,578)</u>	<u>\$1,447</u>	<u>\$(1,620,316)</u>	<u>\$(6,177,067)</u>	<u>\$(4,165,620)</u>

The School utilizes a board approved spending policy providing income for operations. It is calculated using a three year average of the total market value of investments as of February 28 for the three preceding fiscal years. The School's 2009 and 2008 draws of investment income for operations were determined to be 5.25% based on this formula. The Board approved the transfer to operations of \$3,168,669 and \$3,119,192 in 2009 and 2008, respectively.

Note 5 - Constituency Agreements

- a - The School is an official Constituent of Lincoln Center. As a Constituent, the School remains independent but is entitled to representation on various Lincoln Center boards and councils and may use the Lincoln Center name. Lincoln Center, in turn, is allowed to name the School as a Constituent. The School participates in the Lincoln Center Consolidated Corporate Fund drive. In fiscal year 2009, the Consolidated Fund drive paid \$129,113 to the School for operating support and in return, the School solicits corporate contributions only for special purposes.
- b - The School has entered into an agreement (the "Agreement") with various institutions and Lincoln Center for the Performing Arts, Inc. ("Lincoln Center") (the "Participants") whereby they participated in the construction of The Samuel B. and David Rose Building at Lincoln Center, which is owned by Lincoln Center, and used for educational, performing and residential purposes. Each Participant was responsible for its agreed-upon share of design and construction costs. The School occupies educational and residential space in the Rose Building under the terms of a proprietary lease with Lincoln Center. The monthly rent is based on the School's share of the costs to operate the completed facility. The initial lease term will expire on December 31, 2085 and may be renewed at the lessee's option for any number of 99-year terms.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 5 - Constituency Agreements (continued)

b - (continued)

The School has joined ten other Lincoln Center constituents as a member of the Lincoln Center Development Project, Inc., which is charged with designing and implementing a master plan for the renovation of the Lincoln Center campus and its major facilities. Lincoln Center, Inc. has undertaken to raise 100% of the monies necessary for the capital costs of the related public spaces.

On September 23, 2005, the School signed the Lincoln Center 65th Street Redevelopment Master Agreement with three "65th Street Constituents", Lincoln Center and other parties. The agreement sets forth commitments which are specific to the 65th Street Redevelopment Project and which include specific financial commitments between Lincoln Center and the 65th Street Constituents. Pursuant to 65th Street Redevelopment Projects constituent agreements, there is a conditional obligation of Lincoln Center to the constituents related to fundraising matching. Subsequent to completion of its construction of two new studios in 2007, the School has received \$929,363 under this provision. The School also submitted and recorded an additional request for \$144,337 during 2009.

Note 6 - Property, Equipment and Land

Property, equipment and land consist of the following:

	<u>Life</u>	<u>2009</u>	<u>2008</u>
Furniture, equipment and computers	3-10 years	\$ 2,676,349	\$ 2,608,502
Capitalized construction costs of The Samuel B. and David Rose Building at Lincoln Center:			
Interior costs	20 years	9,023,245	9,023,245
Core and shell costs	20-40 years	18,613,064	18,613,064
New studio construction costs	30 years	<u>7,285,419</u>	<u>7,285,419</u>
		37,598,077	37,530,230
Less: Accumulated depreciation		<u>(19,599,506)</u>	<u>(18,266,386)</u>
		17,998,571	19,263,844
Land		<u>2,067,047</u>	<u>2,067,047</u>
		<u>\$20,065,618</u>	<u>\$21,330,891</u>

Total depreciation was \$1,333,120 and \$1,305,738 for the years ended August 31, 2009 and 2008, respectively.

During 2006, the School commenced a construction project to create the "Lincoln Kirstein Wing", including two new dance studios, within its existing facility. This project was completed and put in service during 2007.

SCHOOL OF AMERICAN BALLET, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2009****Note 7 - Financing Obligation**

On August 8, 2006, The Trust for Cultural Resources of the City of New York ("Trust") issued Revenue Bonds, Series 2006 ("Bonds") in the amount of \$8,600,000. The Bonds were issued by the Trust in order to provide funds for the School's construction and equipping of two new studios and certain other capital improvements (the "Project"). A portion of bond proceeds also provided for costs of issuance and capitalized interest. These Bonds were issued by the Trust under a letter of credit issued by Wachovia Bank, National Association ("Bank"). In accordance with the financing agreement, the School received funds totaling \$8,600,000, which were placed in a restricted custodial account at Bank of New York, the Trustee. Amounts are released to the School upon presentation of eligible costs to Bank of New York relating to the Project.

Neither the Series 2006 Bonds nor the School's obligations under the Loan Agreement are secured by a pledge of or mortgage on any specific revenues, assets or property of the School. The Bonds are scheduled to mature on July 1, 2036. The School expects that the 2036 maturity will be: (1) paid in whole or in part prior to July 1, 2036, with the portion not previously retired, if any, being paid on July 1, 2036, from current operating funds and/or (2) refinanced, in whole or in part, on or prior to July 1, 2036 through the issuance of either taxable or tax-exempt obligations.

The Bonds bear interest at a variable Weekly Interest Rate, determined by Merrill Lynch, Pierce, Fenner and Smith, Inc., the Remarketing Agent. As of August 31, 2009, this interest rate was 0.20%; it averaged 1.43% during 2009. The School has an option to convert the interest to a fixed rate.

The Bonds are secured by a Letter of Credit issued by the Bank and the initial term will expire on August 8, 2016. The Letter of Credit fee is .37% per annum, payable quarterly.

Note 8 - Retirement Plan

The School has a retirement plan established for all full-time staff members to which the School, after one year of service, contributes a discretionary amount on behalf of eligible employees toward the purchase of annuity contracts. The School's contributions vest to employees over a period of 3 years. The retirement plan expense amounted to \$312,057 and \$292,546 during fiscal years 2009 and 2008, respectively, which was based on a contribution of 10% of each participant's regular annual compensation.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 9 - Endowment Funds

The School's endowment consists of numerous individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Consistent with New York State Not-for-Profit Corporation Law, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the fund. In addition, certain of these gifts specify that realized and unrealized gains and losses be retained in permanently restricted net assets. The fair value of these funds was \$13,952,261 and \$15,722,577 at August 31, 2009 and 2008, respectively. The income earned on the permanently restricted net assets is used for the general operations of the School or the restricted purposes designated by the donor. Such restricted purposes include: scholarships, apprentice support, faculty chairs, workshop, and physical therapy program. The accumulated earnings of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as board-designated unrestricted net assets until those amounts are appropriated for expenditure by the School.

As of August 31, 2009, the School's invested endowment funds composition, by type of fund and net asset classification, are summarized as follows:

	<u>Board- Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$29,456,953	\$29,456,953
Board-designated endowment funds	<u>22,604,672</u>	<u>-</u>	<u>22,604,672</u>
Total Endowment Funds	<u>\$22,604,672</u>	<u>\$29,456,953</u>	<u>\$52,061,625</u>

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 9 - Endowment Funds (continued)

Changes in endowment funds for the year ended August 31, 2009 are summarized as follows:

	<u>Board- Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$29,612,161	\$30,879,152	\$60,491,313
Investment Return:			
Investment income, net of fees	732,485	-	732,485
Net depreciation (realized and unrealized)	<u>(5,585,417)</u>	<u>(1,620,316)</u>	<u>(7,205,733)</u>
Total Investment Return (Deficit)	<u>(4,852,932)</u>	<u>(1,620,316)</u>	<u>(6,473,248)</u>
Contributions and payments on pledges	<u>719,112</u>	<u>198,117</u>	<u>917,229</u>
Appropriation of endowment assets for expenditure	<u>(3,168,669)</u>	<u>-</u>	<u>(3,168,669)</u>
Transfer to board-designated operating reserve	<u>295,000</u>	<u>-</u>	<u>295,000</u>
Endowment Funds, End of Year	<u>\$22,604,672</u>	<u>\$29,456,953</u>	<u>\$52,061,625</u>

Included in board-designated endowment net assets is \$813,217 funding an operating reserve.

The School has adopted investment and spending policies for endowment assets that endeavor to provide a stream of funding for the School's operations while seeking to preserve the purchasing power of the endowment's assets. The School's investment guidelines anticipate allocation of funds across a number of asset classes and establish ranges for the portion of endowment assets that may be invested in fixed income securities and the portion that shall be available to managers to invest in equities.

All of the School's investments are pooled to facilitate their management. The School manages its pooled investments on a total return basis. Dividends, interest and net realized and unrealized gains (losses) are allocated to the various funds using the market value unit method, which is adjusted when funds are added to the pool.

Note 10 - Permanently Restricted Net Asset Contributions

Permanently restricted net asset contributions include bequests amounting to \$10,929 and \$1,519,528 in 2009 and 2008, respectively.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 11 - Special Events

The following is a summary of the net income generated by the fundraising benefits held in fiscal years 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Gross benefit income	\$2,184,613	\$2,117,965 *
Distributions to New York City Ballet (Benefit Partner) of Net Nutcracker Family Benefit income	<u>(198,229)</u>	<u>(253,248)</u>
	1,986,384	1,864,717
Direct expenses	<u>(366,004)</u>	<u>(369,006)</u>
	1,620,380	1,495,711
Indirect expenses	<u>(293,522)</u>	<u>(274,711)</u>
Net Income from Benefits	<u>\$1,326,858</u>	<u>\$1,221,000</u>

* Net of a temporarily restricted release of \$5,000 in 2008.

Note 12 - Donated Services

During 2009, the School undertook a strategic planning process in consultation with McKinsey & Company, Inc. The services of McKinsey staff members were provided without charge to the School. These services are not included in the statement of activities because they do not meet the criteria for recording donated services. Certain other expenses associated with this effort have been recorded as part of the 75th Anniversary programs.

Note 13 - Functional Allocation of Expenses

The cost of providing the programs and the supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services in reasonable ratios determined by management.