

**SCHOOL OF AMERICAN BALLET, INC.**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2010**



## 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, 2010, 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 2009 financial statements, and in our report dated November 16, 2009, 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, 2010, 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  
December 23, 2010

## SCHOOL OF AMERICAN BALLET, INC.

## STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2010 WITH COMPARATIVE TOTALS FOR 2009

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2010 Total	2009 Total	
	General Operations	Board Designated Endowment (Note 2a)	Plant					Total Unrestricted
<b>Assets</b>								
Current Assets								
Cash and cash equivalents (Note 1b)	\$ 278,275	\$ -	\$ 101,104	\$ 379,379	\$ 464,608	\$ -	\$ 843,987	\$ 1,149,581
Tuition, interest and other receivables	4,873	3,825	-	8,698	-	-	8,698	25,594
Unconditional promises to give (Notes 1c and 3)	196,375	248,702	-	445,077	208,210	-	653,287	1,141,932
Prepaid expenses and other current assets	156,425	8,503	-	164,928	-	-	164,928	51,826
Total Current Assets	635,948	261,030	101,104	998,082	672,818	-	1,670,900	2,368,933
Other Assets								
Investments, at fair value (Notes 1g and 4)	1,039,647	23,640,251	-	24,679,898	-	30,451,309	55,131,207	53,235,219
Unconditional promises to give (Notes 1c and 3)	-	51,210	-	51,210	27,103	805,814	884,127	990,294
Property and equipment, at cost, less accumulated depreciation (Notes 1d, 5, 6 and 7)	-	-	18,903,999	18,903,999	-	-	18,903,999	20,065,618
Capitalized financing costs	-	-	312,849	312,849	-	-	312,849	325,112
Restricted cash - proceeds from financing (Note 7)	-	-	99,663	99,663	-	-	99,663	99,482
<b>Total Assets</b>	<b>\$1,675,595</b>	<b>\$23,952,491</b>	<b>\$19,417,615</b>	<b>\$45,045,701</b>	<b>\$ 699,921</b>	<b>\$31,257,123</b>	<b>\$77,002,745</b>	<b>\$77,084,658</b>
<b>Liabilities and Net Assets</b>								
Liabilities								
Accounts payable and other liabilities	\$ 828,903	\$ 57,848	\$ -	\$ 886,751	\$ -	\$ -	\$ 886,751	\$ 1,284,088
Deferred income (Note 1h)	813,312	-	-	813,312	-	-	813,312	703,612
	1,642,215	57,848	-	1,700,063	-	-	1,700,063	1,987,700
Financing obligation payable (Note 7)	-	-	8,600,000	8,600,000	-	-	8,600,000	8,600,000
Total Liabilities	1,642,215	57,848	8,600,000	10,300,063	-	-	10,300,063	10,587,700
Commitments (Notes 5 and 8)								
Net Assets								
Unrestricted	33,380	23,894,643	10,817,615	34,745,638	-	-	34,745,638	35,493,911
Temporarily restricted	-	-	-	-	699,921	-	699,921	778,653
Permanently restricted	-	-	-	-	-	31,257,123	31,257,123	30,224,394
Total Net Assets	33,380	23,894,643	10,817,615	34,745,638	699,921	31,257,123	66,702,682	66,496,958
<b>Total Liabilities and Net Assets</b>	<b>\$1,675,595</b>	<b>\$23,952,491</b>	<b>\$19,417,615</b>	<b>\$45,045,701</b>	<b>\$ 699,921</b>	<b>\$31,257,123</b>	<b>\$77,002,745</b>	<b>\$77,084,658</b>

See notes to financial statements.

## SCHOOL OF AMERICAN BALLET, INC.

## STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2010 WITH COMPARATIVE TOTALS FOR 2009

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2010 Total	2009* Total
	General Operations	Board Designated Endowment (Note 2a)	Plant				
Revenue (Excluding Public Support)							
Tuition (Note 1e)	\$2,083,504	\$ -	\$ -	\$ 2,083,504	\$ -	\$ -	\$ 1,697,389
Room and board fees	1,348,774	-	-	1,348,774	-	-	1,291,021
Workshop tickets and other program fees	275,822	-	-	275,822	-	-	266,755
Other income	126,434	-	-	126,434	-	47,698	109,406
Interest and dividends (Notes 1g and 4)	-	-	181	181	-	-	1,827
Total Revenue	<u>3,834,534</u>	<u>-</u>	<u>181</u>	<u>3,834,715</u>	<u>-</u>	<u>47,698</u>	<u>3,366,398</u>
Expenses							
Program Services							
Teaching and other artistic programs	3,927,113	5,000	516,521	4,448,634	-	-	5,090,307
Student financial aid (Note 1e)	1,437,850	-	-	1,437,850	-	-	1,393,712
Student services and residence	2,209,368	-	609,230	2,818,598	-	-	2,846,785
Supporting Services							
General administration	919,013	-	201,153	1,120,166	-	-	1,310,816
Development	1,314,636	-	105,953	1,420,589	-	-	1,431,804
Total Expenses	<u>9,807,980</u>	<u>5,000</u>	<u>1,432,857</u>	<u>11,245,837</u>	<u>-</u>	<u>-</u>	<u>12,073,424</u>
Excess (deficiency) of revenue over expenses before support and items shown below	<u>(5,973,446)</u>	<u>(5,000)</u>	<u>(1,432,676)</u>	<u>(7,411,122)</u>	<u>-</u>	<u>47,698</u>	<u>(8,707,026)</u>
Support							
Contributions (Note 5)	1,811,843	128,833	-	1,940,676	305,310	258,265	3,551,687
Special events revenue (Note 10)	2,146,187	-	-	2,146,187	-	-	1,986,384
Less: Special events direct expenses (Note 10)	(523,125)	-	-	(523,125)	-	-	(366,004)
Revaluation of unconditional promises to give	-	(12,500)	-	(12,500)	(1,695)	-	-
Net assets released from restriction							
Satisfaction of time and program restrictions (\$379,500 in 2009)	382,347	-	-	382,347	(382,347)	-	-
Total Support	<u>3,817,252</u>	<u>116,333</u>	<u>-</u>	<u>3,933,585</u>	<u>(78,732)</u>	<u>258,265</u>	<u>5,172,067</u>
Excess (deficiency) of revenue and support over expenses before items shown below	<u>(2,156,194)</u>	<u>111,333</u>	<u>(1,432,676)</u>	<u>(3,477,537)</u>	<u>(78,732)</u>	<u>305,963</u>	<u>(3,534,959)</u>
Investment income available for operations							
Per Board approved spending policy (Notes 4 and 9) (\$3,168,669 in 2009)	2,985,488	(2,985,488)	-	-	-	-	-
Increase (Decrease) in Net Assets before Appropriations	829,294	(2,874,155)	(1,432,676)	(3,477,537)	(78,732)	305,963	(3,534,959)
Appropriations							
Transfer to board designated operating reserve (Note 2a) (\$295,000 in 2009)	(730,000)	730,000	-	-	-	-	-
Bond administrative fees and interest expense (\$67,012 in 2009)	(96,182)	-	96,182	-	-	-	-
Increase (Decrease) in Net Assets before Non Operating Activities	<u>3,112</u>	<u>(2,144,155)</u>	<u>(1,336,494)</u>	<u>(3,477,537)</u>	<u>(78,732)</u>	<u>305,963</u>	<u>(3,534,959)</u>
Non Operating Activities - Changes from Investments							
Investment income (Notes 1g and 4)	-	3,174,855	-	3,174,855	-	792,515	(4,199,080)
Net unrealized (losses) gains on investments (Notes 1g and 4)	-	(158,893)	-	(158,893)	-	(65,749)	(1,979,814)
Direct investment expenses	-	(286,698)	-	(286,698)	-	-	(294,354)
Increase (Decrease) in Non Operating Activities	<u>-</u>	<u>2,729,264</u>	<u>-</u>	<u>2,729,264</u>	<u>-</u>	<u>726,766</u>	<u>(6,473,248)</u>
Increase (decrease) in net assets	3,112	585,109	(1,336,494)	(748,273)	(78,732)	1,032,729	(10,008,207)
Net assets, beginning of year	30,268	23,309,534	12,154,109	35,493,911	778,653	30,224,394	76,505,165
<b>Net Assets, End of Year</b>	<u>\$ 33,380</u>	<u>\$23,894,643</u>	<u>\$10,817,615</u>	<u>\$34,745,638</u>	<u>\$ 699,921</u>	<u>\$31,257,123</u>	<u>\$66,496,958</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, 2010 WITH COMPARATIVE TOTALS FOR 2009

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2010 Total	2009 Total
	General Operations	Board Designated Endowment (Note 2a)	Plant				
<b>Cash Flows From Operating Activities</b>							
Increase (decrease) in net assets	\$ 3,112	\$ 585,109	\$(1,336,494)	\$ (78,732)	\$ 1,032,729	\$ 205,724	\$(10,008,207)
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities:							
Depreciation	-	-	1,324,412	-	-	1,324,412	1,333,120
Amortization of bond issuance costs	-	-	12,263	-	-	12,263	12,263
Realized and unrealized losses on investments	-	(1,929,883)	-	-	(726,766)	(2,656,649)	7,205,733
(Increase) decrease in:							
Tuition, interest and other receivables	10,521	6,375	-	-	-	16,896	(12,059)
Unconditional promises to give	22,265	537,436	-	73,484	(38,373)	594,812	757,634
Prepaid expenses and other current assets	(106,123)	(6,979)	-	-	-	(113,102)	224,387
Increase (decrease) in:							
Accounts payable and other liabilities	(305,085)	(86,362)	(5,890)	-	-	(397,337)	57,794
Deferred income	109,700	-	-	-	-	109,700	191,510
Net Cash Provided (Used) By Operating Activities	<u>(265,610)</u>	<u>(894,304)</u>	<u>(5,709)</u>	<u>(5,248)</u>	<u>267,590</u>	<u>(903,281)</u>	<u>(237,825)</u>
<b>Cash Flows From Investing Activities</b>							
Sales (purchases) of investments, net	133,947	894,304	-	-	(267,590)	760,661	741,333
Disbursements for property and equipment	-	-	(162,793)	-	-	(162,793)	(67,847)
Net Cash Provided (Used) By Investing Activities	<u>133,947</u>	<u>894,304</u>	<u>(162,793)</u>	<u>-</u>	<u>(267,590)</u>	<u>597,868</u>	<u>673,486</u>
<b>Cash Flows From Financing Activities</b>							
Increase in restricted cash	-	-	(181)	-	-	(181)	(1,448)
Net increase (decrease) in cash and cash equivalents	(131,663)	-	(168,683)	(5,248)	-	(305,594)	434,213
Cash and cash equivalents, beginning of year	<u>409,938</u>	<u>-</u>	<u>269,787</u>	<u>469,856</u>	<u>-</u>	<u>1,149,581</u>	<u>715,368</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 278,275</u>	<u>\$ -</u>	<u>\$ 101,104</u>	<u>\$ 464,608</u>	<u>\$ -</u>	<u>\$ 843,987</u>	<u>\$ 1,149,581</u>
<b>Supplemental Information</b>							
Interest paid						<u>\$ 21,734</u>	<u>\$ 133,148</u>

See notes to financial statements.

**SCHOOL OF AMERICAN BALLET, INC.****NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2010****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 75<sup>th</sup> anniversary with a series of commemorative programs, some of which continued into 2010.

**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**

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets.

**e - Student Financial Aid**

Of the combined tuition and room and board fees (Statement of Activities - Revenues and Support), approximately 36% and 38% represents financial aid in fiscal years 2010 and 2009, respectively.

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2010**

**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:

	<b>2010</b>	<b>2009</b>
Tuition	\$ 754,805	\$ 677,116
Room and board fees	465,382	458,430
	<b>\$1,220,187</b>	<b>\$1,135,546</b>

f - Rose Building Operating Expenses

Rose Building (Note 5b) operating expenses for fiscal years 2010 and 2009 was \$1,857,394 and \$1,933,911, 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:

	<b>2010</b>	<b>2009</b>
1) Teaching and other artistic programs	\$639,448	\$678,675
2) Student services and residence	972,004	994,208
3) General administration	114,773	121,813
4) Development	131,169	139,215

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, 2010****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****g - Investments (continued)**

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). Fair value measurements are not adjusted for transaction costs. A fair value hierarchy 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. Establishing the value of 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 - Deferred Income**

Deferred income includes tuition, room and board fees and other revenues relating to future periods and are recognized in the period the classes or other services take place.

**SCHOOL OF AMERICAN BALLET, INC.****NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2010****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****i - 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.

**j - 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.

**k - Prior Year information**

The financial information includes 2009 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 income categories from 2009 have been reclassified to conform with the 2010 presentation.

**l - Tax Status**

The School is a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as a corporation which is not a private foundation. Management has evaluated all income tax positions, including the position that the School is exempt from income taxes or not subject to income taxes on unrelated business income and concluded that no disclosures relating to uncertain tax positions are required in the financial statements.

**m - Subsequent Events**

The School has evaluated subsequent events through December 23, 2010, the date that the financial statements are considered available to be issued.

**Note 2 - Restrictions on Assets****a - Board Designated Endowment and Operating Reserve**

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 Notes 4 and 9, a portion of the income from the Board Designated Endowment is applied to scholarships, faculty salaries and other operating expenses.

In addition, the School's Board has designated funds to be allocated to an operating reserve, which will provide for additional tuition assistance over a four year period, and provide a reserve for operating and capital contingencies.

## SCHOOL OF AMERICAN BALLET, INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010

**Note 2 - Restrictions on Assets (continued)**a - Board Designated Endowment and Operating Reserve (continued)

Board designated net assets are comprised as follows:

	<u>2010</u>	<u>2009</u>
Funds functioning as endowment	\$22,351,426	\$22,496,317
Operating reserve	<u>1,543,217</u>	<u>813,217</u>
	<u>\$23,894,643</u>	<u>\$23,309,534</u>

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following:

	<u>2010</u>	<u>2009</u>
Future programs	\$653,721	\$682,140
Future periods	<u>46,200</u>	<u>96,513</u>
	<u>\$699,921</u>	<u>\$778,653</u>

c - Permanently Restricted Net Assets

Permanently restricted net assets represent contributions and other income 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>2010</u>	<u>2009</u>
	<u>General Operations</u>	<u>Board Designated Endowment</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>		
Due in less than one year	\$196,375	\$248,702	\$208,210	\$ -	\$ 653,287	\$1,141,932
Due in one to five years	<u>-</u>	<u>61,000</u>	<u>30,000</u>	<u>1,000,000</u>	<u>1,091,000</u>	<u>1,248,600</u>
	196,375	309,702	238,210	1,000,000	1,744,287	2,390,532
Less: Discount to present value	<u>-</u>	<u>(9,790)</u>	<u>(2,897)</u>	<u>(194,186)</u>	<u>(206,873)</u>	<u>(258,306)</u>
	<u>\$196,375</u>	<u>\$299,912</u>	<u>\$235,313</u>	<u>\$ 805,814</u>	<u>\$1,537,414</u>	<u>\$2,132,226</u>

No reserve for uncollectible amounts was required at August 31, 2010 or 2009.

## SCHOOL OF AMERICAN BALLET, INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010

**Note 4 - Investments**

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

	<u>2010</u>		<u>2009</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash at broker being held for investments	\$ 3,875,549	\$ 3,875,549	\$ 2,573,757	\$ 2,573,757
Marketable Securities				
Corporate stocks and mutual funds (equity)	10,746,272	10,545,818	14,833,494	14,465,617
Fixed income securities	11,633,941	11,069,460	18,603,704	17,518,915
Other Investments				
Investment funds and limited partnerships	<u>28,875,445</u>	<u>28,735,860</u>	<u>17,224,264</u>	<u>17,547,768</u>
	<u>\$55,131,207</u>	<u>\$54,226,687</u>	<u>\$53,235,219</u>	<u>\$52,106,057</u>

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:

	<u>2010</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash at broker being held for investments	\$ 3,875,549	\$3,875,549	\$ -	\$ -
Marketable Securities				
Corporate stocks and mutual funds (equity)	10,746,272	10,746,272	-	-
Fixed income securities	11,633,941	9,284,650	2,349,291	-
Other Investments				
Investment funds and limited partnerships	<u>28,875,445</u>	<u>-</u>	<u>6,870,462</u>	<u>22,004,983</u>
	<u>\$55,131,207</u>	<u>\$23,906,471</u>	<u>\$9,219,753</u>	<u>\$22,004,983</u>

The following summarizes changes in fair value of the School's Level 3 assets for the year ended August 31, 2010. The information reflects gains and losses for the full year for assets categorized as Level 3 as of August 31, 2010:

Balance - beginning of year	\$15,837,841
Management fees	(55,718)
Unrealized gains	858,665
Realized gains	65,948
Purchases	8,103,448
Redemptions	<u>(2,805,201)</u>
Balance - End of Year	<u>\$22,004,983</u>

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2010**

**Note 4 - Investments (continued)**

Included in investment funds are limited partnerships and investment companies which 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.

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 2010</u>	<u>Total 2009</u>
Interest and dividends	\$ -	\$1,086,079	\$181	\$ -	\$1,086,260	\$1,028,666
Net realized gains (losses)	-	<u>2,088,776</u>	-	<u>792,515</u>	<u>2,881,291</u>	<u>(5,225,919)</u>
Investment Income	-	3,174,855	181	792,515	3,967,551	(4,197,253)
Net unrealized losses on investments	-	<u>(158,893)</u>	-	<u>(65,749)</u>	<u>(224,642)</u>	<u>(1,979,814)</u>
Total Investment Return	<u>\$ -</u>	<u>\$3,015,962</u>	<u>\$181</u>	<u>\$726,766</u>	<u>\$3,742,909</u>	<u>\$(6,177,067)</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 2010 and 2009 draws of investment income for operations were determined to be 5.25% based on this formula. The Board approved the transfer to operations of \$2,985,488 and \$3,168,669 in 2010 and 2009, respectively.

**Note 5 - Constituency Agreements**

a - The School of American Ballet, Inc. is an official Constituent of Lincoln Center for the Performing Arts, Inc. ("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 years 2010 and 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.

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2010**

**Note 5 - Constituency Agreements (continued)**

- b - The School has entered into an agreement (the "Agreement") with various institutions and 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.
- c - 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 Development Project, Inc. has undertaken to raise 100% of the monies necessary for the capital costs of the related public spaces. As the redevelopment work nears completion, Lincoln Center Development Project, Inc. has become a single-member corporation with Lincoln Center as its sole member.
- d - 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 \$1,073,700 under this provision. The School also submitted and recorded an additional request for \$101,224 during 2010.

**Note 6 - Property, Equipment and Land**

Property, equipment and land consist of the following:

	<u>Life</u>	<u>2010</u>	<u>2009</u>
Furniture, equipment and computers	3-10 years	\$ 2,721,424	\$ 2,676,349
Capitalized construction costs of The Samuel B. and David Rose Building at Lincoln Center:			
Interior costs	20 years	9,140,963	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>
		37,760,870	37,598,077
Less: Accumulated depreciation		<u>(20,923,918)</u>	<u>(19,599,506)</u>
		16,836,952	17,998,571
Land		<u>2,067,047</u>	<u>2,067,047</u>
		<u>\$18,903,999</u>	<u>\$20,065,618</u>

**SCHOOL OF AMERICAN BALLET, INC.****NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2010****Note 6 - Property, Equipment and Land (continued)**

Total depreciation was \$1,324,412 and \$1,333,120 for the years ended August 31, 2010 and 2009, 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.

**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, 2010, this interest rate was 0.31%; it averaged 0.24% during 2010. The School has an option to convert the interest to a fixed rate. Interest expense for 2010 was \$20,614.

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 0.37% per annum, payable quarterly.

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2010**

**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 \$144,237 and \$312,057 during fiscal years 2010 and 2009, respectively. These contributions were based on contribution rates (5% in 2010 and 10% in 2009), of each participants' regular annual compensation.

**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 \$14,679,027 and \$13,952,261 at August 31, 2010 and 2009, 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.

The composition of the School's invested endowment funds, by type of fund and net asset classification, is summarized as follows:

	<b>2010</b>		
	<b><u>Board- Designated</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Donor-restricted endowment funds	\$ -	\$30,451,309	\$30,451,309
Board-designated endowment funds	<u>23,640,251</u>	<u>-</u>	<u>23,640,251</u>
Total Endowment Funds	<u>\$23,640,251</u>	<u>\$30,451,309</u>	<u>\$54,091,560</u>

## SCHOOL OF AMERICAN BALLET, INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010

**Note 9 - Endowment Funds (continued)**

Changes in the School's invested endowment funds are summarized as follows:

	<b>2010</b>		
	<b><u>Board- Designated</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Endowment funds, beginning of year	<u>\$22,604,672</u>	<u>\$29,456,953</u>	<u>\$52,061,625</u>
Investment Return:			
Investment income, net of fees and other expenses	707,415	-	707,415
Net appreciation (realized and unrealized)	<u>1,929,883</u>	<u>726,766</u>	<u>2,656,649</u>
Total Investment Return	<u>2,637,298</u>	<u>726,766</u>	<u>3,364,064</u>
Contributions, royalties and payments on pledges (net of revaluations)	<u>653,769</u>	<u>267,590</u>	<u>921,359</u>
Appropriation of endowment assets for expenditure	<u>(2,985,488)</u>	<u>-</u>	<u>(2,985,488)</u>
Transfer to board-designated operating reserve	<u>730,000</u>	<u>-</u>	<u>730,000</u>
Endowment Funds, End of Year	<u>\$23,640,251</u>	<u>\$30,451,309</u>	<u>\$54,091,560</u>

Included in board-designated endowment net assets is \$1,543,217 and \$813,217 for the years ended August 31, 2010 and 2009, respectively, 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.

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2010**

**Note 10 - Special Events**

The following is a summary of the net income generated by the fundraising benefits held in fiscal years 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Gross benefit income	\$2,334,412	\$2,184,613
Distributions to New York City Ballet (Benefit Partner) of Net Nutcracker Family Benefit income	<u>(188,225)</u>	<u>(198,229)</u>
	2,146,187	1,986,384
Direct expenses	<u>(334,900)</u>	<u>(366,004)</u>
	1,811,287	1,620,380
Indirect expenses	<u>(319,118)</u>	<u>(293,522)</u>
Net Income from Benefits	<u>\$1,492,169</u>	<u>\$1,326,858</u>

**Note 11 - 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.