

SCHOOL OF AMERICAN BALLET, INC.

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

AUGUST 31, 2007

SCHOOL OF AMERICAN BALLET, INC.

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INDEPENDENT AUDITOR'S 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, 2007, 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 2006 financial statements and, in our report dated November 2, 2006, 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, 2007, 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 30, 2007

SCHOOL OF AMERICAN BALLET, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007 WITH COMPARATIVE TOTALS FOR 2006

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2007 Total	2006 Total	
	General Operations	Board Designated Endowment (Note 2a)	Plant					Total
Assets								
Current Assets								
Cash and cash equivalents (Note 1b)	\$ 247,129	\$ -	\$ 230,350	\$ 477,479	\$ 237,087	\$ -	\$ 714,566	\$ 1,217,017
Tuition, interest and other receivables	13,603	33,419	-	47,022	-	-	47,022	21,305
Unconditional promises to give (Notes 1c and 3)	182,486	1,336,132	250,000	1,768,618	223,250	-	1,991,868	952,362
Prepaid expenses and other current assets	225,812	-	-	225,812	-	-	225,812	163,386
Total Current Assets	<u>669,030</u>	<u>1,369,551</u>	<u>480,350</u>	<u>2,518,931</u>	<u>460,337</u>	<u>-</u>	<u>2,979,268</u>	<u>2,354,070</u>
Other Assets								
Investments, at market value (Notes 1g, and 4)	699,143	34,061,478	-	34,760,621	-	30,450,478	65,211,099	56,520,066
Unconditional promises to give (Notes 1c and 3)	-	1,124,933	-	1,124,933	56,447	696,091	1,877,471	1,700,372
Property and equipment, at cost, less accumulated depreciation (Notes 1d , 5, 6 and 7)	-	-	22,055,479	22,055,479	-	-	22,055,479	19,154,906
Capitalized financing costs (Note 7)	-	-	343,356	343,356	-	-	343,356	359,619
Restricted cash - proceeds from financing (Note 7)	-	-	918,370	918,370	-	-	918,370	5,822,491
Total Assets	<u>\$1,368,173</u>	<u>\$36,555,962</u>	<u>\$23,797,555</u>	<u>\$61,721,690</u>	<u>\$ 516,784</u>	<u>\$31,146,569</u>	<u>\$93,385,043</u>	<u>\$85,911,524</u>
Liabilities and Net Assets								
Liabilities								
Accounts payable and other liabilities	\$ 588,825	\$ 227,921	\$ -	\$ 816,746	\$ -	\$ -	\$ 816,746	\$ 429,666
Construction accounts payable (Note 7)	-	-	146,052	146,052	-	-	146,052	1,102,695
Deferred income	754,553	-	-	754,553	-	-	754,553	508,991
Total Liabilities	<u>1,343,378</u>	<u>227,921</u>	<u>146,052</u>	<u>1,717,351</u>	<u>-</u>	<u>-</u>	<u>1,717,351</u>	<u>2,041,352</u>
Financing obligation payable (Note 7)	-	-	8,600,000	8,600,000	-	-	8,600,000	8,600,000
Commitments (Notes 5 and 8)								
Net Assets	<u>24,795</u>	<u>36,328,041</u>	<u>15,051,503</u>	<u>51,404,339</u>	<u>516,784</u>	<u>31,146,569</u>	<u>83,067,692</u>	<u>75,270,172</u>
Total Liabilities and Net Assets	<u>\$1,368,173</u>	<u>\$36,555,962</u>	<u>\$23,797,555</u>	<u>\$61,721,690</u>	<u>\$ 516,784</u>	<u>\$31,146,569</u>	<u>\$93,385,043</u>	<u>\$85,911,524</u>

See notes to financial statements.

SCHOOL OF AMERICAN BALLET, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2007 WITH COMPARATIVE TOTALS FOR 2006

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2007 Total	2006 Total
	General Operations	Board Designated Endowment (Note 2a)	Plant				
Revenue (Excluding Public Support)							
Tuition (Note 1e)	\$1,324,348	\$ -	\$ -	\$ 1,324,348	\$ -	\$ -	\$ 1,318,553
Room and board fees	1,173,894	-	-	1,173,894	-	-	1,078,734
Workshop tickets and other program fees	137,799	-	-	137,799	-	-	111,350
Other income	193,451	-	-	193,451	-	-	176,725
Interest and dividends (Notes 1g and 4)	30,384	-	-	30,384	-	-	26,033
Total Revenue	<u>2,859,876</u>	<u>-</u>	<u>-</u>	<u>2,859,876</u>	<u>-</u>	<u>-</u>	<u>2,711,395</u>
Expenses							
Teaching and other artistic programs	3,626,647	-	431,166	4,057,813	-	-	3,773,208
Student financial aid (Note 1e)	1,133,635	-	-	1,133,635	-	-	1,060,598
Student services and residence	2,155,577	-	508,555	2,664,132	-	-	2,492,154
General administration	1,074,414	3,000	89,653	1,167,067	-	-	1,228,226
Development	1,286,892	-	88,444	1,375,336	-	-	1,249,651
Total Expenses	<u>9,277,165</u>	<u>3,000</u>	<u>1,117,818</u>	<u>10,397,983</u>	<u>-</u>	<u>-</u>	<u>9,803,837</u>
Deficiency of revenue over expenses before support and items shown below	<u>(6,417,289)</u>	<u>(3,000)</u>	<u>(1,117,818)</u>	<u>(7,538,107)</u>	<u>-</u>	<u>-</u>	<u>(7,092,442)</u>
Support							
Contributions (Note 5)	1,947,272	2,702,959	535,000	5,185,231	438,221	681,230	4,614,268
Special events revenue (Note 9)	1,928,689	-	-	1,928,689	-	-	1,676,028
Less: Special events direct expenses (Note 9)	(577,475)	-	-	(577,475)	-	-	(355,369)
Net assets released from restriction							
Satisfaction of time and program restrictions	272,468	-	-	272,468	(272,468)	-	-
Total Support	<u>3,570,954</u>	<u>2,702,959</u>	<u>535,000</u>	<u>6,808,913</u>	<u>165,753</u>	<u>681,230</u>	<u>5,934,927</u>
(Deficiency) excess of revenue and support over expenses before items shown below	<u>(2,846,335)</u>	<u>2,699,959</u>	<u>(582,818)</u>	<u>(729,194)</u>	<u>165,753</u>	<u>681,230</u>	<u>(1,157,515)</u>
Investment income available for operations							
Per Board approved spending policy (Notes 1g and 4)	<u>2,847,997</u>	<u>(2,847,997)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Net Assets before Non Operating Activities	<u>1,662</u>	<u>(148,038)</u>	<u>(582,818)</u>	<u>(729,194)</u>	<u>165,753</u>	<u>681,230</u>	<u>(1,157,515)</u>
Non Operating Activities - Changes from Investments							
Investment income (Notes 1g and 4)	-	3,068,812	-	3,068,812	-	968,933	5,246,735
Net unrealized (losses) gains on investments (Notes 1g and 4)	-	2,915,144	-	2,915,144	-	1,084,268	(375,689)
Direct investment expenses	-	(357,426)	-	(357,426)	-	-	(367,470)
Increase in Non Operating Activities	<u>-</u>	<u>5,626,530</u>	<u>-</u>	<u>5,626,530</u>	<u>-</u>	<u>2,053,201</u>	<u>4,503,576</u>
Changes in net assets	1,662	5,478,492	(582,818)	4,897,336	165,753	2,734,431	3,346,061
Net assets, beginning of year	23,133	30,849,549	15,634,321	46,507,003	351,031	28,412,138	71,924,111
Net Assets, End of Year	<u>\$ 24,795</u>	<u>\$36,328,041</u>	<u>\$15,051,503</u>	<u>\$51,404,339</u>	<u>\$ 516,784</u>	<u>\$31,146,569</u>	<u>\$75,270,172</u>

See notes to financial statements.

SCHOOL OF AMERICAN BALLET, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2007 WITH COMPARATIVE TOTALS FOR 2006

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2007 Total	2006 Total	
	General Operations	Board Designated Endowment (Note 2a)	Plant					Total
Cash Flows From Operating Activities								
Changes in net assets	\$ 1,662	\$5,478,492	\$ (582,818)	\$4,897,336	\$ 165,753	\$2,734,431	\$ 7,797,520	\$ 3,346,061
Adjustments to reconcile changes in net assets to cash provided (used) by operating activities:								
Depreciation	-	-	1,105,555	1,105,555	-	-	1,105,555	969,574
Amortization of bond issuance costs	-	-	12,263	12,263	-	-	12,263	-
Realized and unrealized gains on investments	-	(4,668,342)	-	(4,668,342)	-	(2,053,201)	(6,721,543)	(3,887,396)
(Increase) decrease in:								
Tuition, interest and other receivables	(8,241)	(17,476)	-	(25,717)	-	-	(25,717)	3,405
Unconditional promises to give	54,519	(1,023,637)	(250,000)	(1,219,118)	(86,447)	88,960	(1,216,605)	(1,259,611)
Prepaid expenses and other current assets	(87,309)	24,883	-	(62,426)	-	-	(62,426)	159,933
Increase (decrease) in:								
Accounts payable and other liabilities	340,811	46,269	(956,643)	(569,563)	-	-	(569,563)	1,097,509
Deferred income	245,562	-	-	245,562	-	-	245,562	93,652
Net Cash Provided (Used) By Operating Activities	<u>547,004</u>	<u>(159,811)</u>	<u>(671,643)</u>	<u>(284,450)</u>	<u>79,306</u>	<u>770,190</u>	<u>565,046</u>	<u>523,127</u>
Cash Flows From Investing Activities								
Sales (purchase) of investments, net	(699,143)	(500,157)	-	(1,199,300)	-	(770,190)	(1,969,490)	963,918
Disbursements for property and equipment	-	-	(4,006,128)	(4,006,128)	-	-	(4,006,128)	(3,695,672)
Net Cash Used By Investing Activities	<u>(699,143)</u>	<u>(500,157)</u>	<u>(4,006,128)</u>	<u>(5,205,428)</u>	<u>-</u>	<u>(770,190)</u>	<u>(5,975,618)</u>	<u>(2,731,754)</u>
Cash Flows From Financing Activities								
Capitalized financing costs	-	-	4,000	4,000	-	-	4,000	(359,619)
Proceeds from bonds	-	-	-	-	-	-	-	8,600,000
Restricted cash	-	-	4,904,121	4,904,121	-	-	4,904,121	(5,822,491)
Net Cash Provided By Financing Activities	<u>-</u>	<u>-</u>	<u>4,908,121</u>	<u>4,908,121</u>	<u>-</u>	<u>-</u>	<u>4,908,121</u>	<u>2,417,890</u>
Net increase (decrease) in cash and cash equivalents	(152,139)	(659,968)	230,350	(581,757)	79,306	-	(502,451)	209,263
Cash and cash equivalents, beginning of year	<u>399,268</u>	<u>659,968</u>	<u>-</u>	<u>1,059,236</u>	<u>157,781</u>	<u>-</u>	<u>1,217,017</u>	<u>1,007,754</u>
Cash and Cash Equivalents, End of Year	<u>\$247,129</u>	<u>\$ -</u>	<u>\$ 230,350</u>	<u>\$ 477,479</u>	<u>\$ 237,087</u>	<u>\$ -</u>	<u>\$ 714,566</u>	<u>\$ 1,217,017</u>

See notes to financial statements.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

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. The School maintains a 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

Cash and cash equivalents consist of the following as of August 31:

	2007	2006
Checking, savings and credit union account balances	\$710,816	\$ 283,477
Mutual fund - Money market accounts	-	928,143
Petty cash	3,750	5,397
	\$714,566	\$1,217,017

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 36% represents financial aid in fiscal years 2007 and 2006, respectively.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

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:

	2007	2006
Tuition	\$559,727	\$528,389
Residence	371,374	343,323
Other financial aid	6,600	5,640
	\$937,701	\$877,352

f - Rose Building Operating Expense

Rose Building operating expense for fiscal years 2007 and 2006 was \$1,842,469 and \$1,617,318, 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:

	2007	2006
1) Teaching and other Artistic Programs	\$675,586	\$630,754
2) Student Services and Residence	907,042	743,966
3) General administration	121,259	113,213
4) Development	138,582	129,385

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.

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.

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.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

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

j - Prior Year information

The financial information includes 2006 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.

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 2002, the Board also directed that portions of certain unrestricted major gifts would be held as a general building reserve account, in order to provide for the School's future growth. During 2007, the Board restored the funds in this account to funds functioning as endowment. In addition, certain principal amounts have been designated to fund an operating reserve.

Board designated net assets are comprised as follows:

	<u>2007</u>	<u>2006</u>
Funds functioning as endowment	\$35,959,824	\$28,882,317
Building reserve	-	1,599,015
Operating reserve	<u>368,217</u>	<u>368,217</u>
	<u>\$36,328,041</u>	<u>\$30,849,549</u>

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following:

	<u>2007</u>	<u>2006</u>
Future programs	\$416,524	\$200,969
Future periods	<u>100,260</u>	<u>150,062</u>
	<u>\$516,784</u>	<u>\$351,031</u>

c - Permanently Restricted Net Assets

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

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

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

In addition, certain of these contributions specify that realized and unrealized gains and losses be retained in the permanently restricted net assets. The fair value of these funds amounts to \$16,960,551 and \$14,811,072 at August 31, 2007 and 2006, 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.

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>2007</u>	<u>2006</u>
	<u>General Operations</u>	<u>Board Designated Endowment</u>	<u>Plant</u>				
Due in less than one year	\$182,486	\$1,336,132	\$250,000	\$223,250	\$ -	\$1,991,868	\$ 952,362
Due in one to five years	-	<u>1,283,300</u>	-	<u>65,000</u>	<u>1,000,000</u>	<u>2,348,300</u>	<u>2,200,000</u>
	<u>182,486</u>	2,619,432	250,000	288,250	1,000,000	4,340,168	3,152,362
Less: Discount	-	<u>(158,367)</u>	-	<u>(8,553)</u>	<u>(303,909)</u>	<u>(470,829)</u>	<u>(499,628)</u>
	<u>\$182,486</u>	<u>\$2,461,065</u>	<u>\$250,000</u>	<u>\$279,697</u>	<u>\$ 696,091</u>	<u>\$3,869,339</u>	<u>\$2,652,734</u>

No reserve for uncollectible amounts was required at August 31, 2007 or 2006.

Note 4 - Investments

Investments are reflected at fair value and consist of the following:

	<u>2007</u>		<u>2006</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Marketable Securities				
Corporate stocks and mutual funds (equity)	\$34,706,352	\$25,733,314	\$31,782,296	\$25,517,801
Mutual funds and U.S. Treasury bill (fixed income)	12,140,553	12,297,498	11,806,675	11,919,192
Cash at broker being held for investments	4,742,063	4,742,063	6,144,261	6,144,261
Other Investments				
Investment funds	<u>13,622,131</u>	<u>11,000,000</u>	<u>6,786,834</u>	<u>5,500,000</u>
	<u>\$65,211,099</u>	<u>\$53,772,875</u>	<u>\$56,520,066</u>	<u>\$49,081,254</u>

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

Note 4 - Investments (continued)

The fair value of all School investments at the following dates was:

August 31, 2004	\$47,787,529
“ “ 2005	53,596,588
“ “ 2006	56,520,066
“ “ 2007	65,211,099

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

	<u>General Operations</u>	<u>Board Designated Endowment</u>	<u>Permanently Restricted</u>	<u>Total 2007</u>	<u>Total 2006</u>
Interest and dividends	\$30,384	\$1,315,614	\$ -	\$1,345,998	\$1,009,683
Net realized gains	<u>-</u>	<u>1,753,198</u>	<u>968,933</u>	<u>2,722,131</u>	<u>4,263,085</u>
Investment income	30,384	3,068,812	968,933	4,068,129	5,272,768
Net unrealized gains (losses) on investments	<u>-</u>	<u>2,915,144</u>	<u>1,084,268</u>	<u>3,999,412</u>	<u>(375,689)</u>
Total Investment Return	<u>\$30,384</u>	<u>\$5,983,956</u>	<u>\$2,053,201</u>	<u>\$8,067,541</u>	<u>\$4,897,079</u>

The School utilizes a board approved spending policy providing income for operations. It is calculated using a 3 year average of the total market value of investments as of February 28 for the three preceding fiscal years. Based on an average of the investment market values at August 31, 2007 and 2006, the School's 2007 draw of investment income for operations was 4.68%.

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 2007, the Consolidated Fund drive paid \$129,113 to the School and in return, the School solicits corporate contributions only for special purposes. The School additionally received \$111,000 in shared proceeds from the Lincoln Center Alternative Investment Gala.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

Note 5 - Constituency Agreements (continued)

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.

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. With completion of its construction of two new studios in 2007, the School has submitted its first application for funds under this provision.

Note 6 - Property, Equipment and Land

Property, equipment and land consist of the following:

	<u>Life</u>	<u>2007</u>	<u>2006</u>
Furniture, equipment and computers	3-10 years	\$ 2,143,771	\$ 1,797,021
Capitalized construction costs of The Samuel B. and David Rose Building at Lincoln Center:			
Interior costs	20 years	8,952,278	8,932,278
Core and shell costs	20-40 years	18,613,064	18,613,064
New studio construction costs		<u>7,239,967</u>	<u>3,600,589</u>
		36,949,080	32,942,952
Less: Accumulated depreciation		<u>(16,960,648)</u>	<u>(15,855,093)</u>
		19,988,432	17,087,859
Land		<u>2,067,047</u>	<u>2,067,047</u>
		<u>\$22,055,479</u>	<u>\$19,154,906</u>

SCHOOL OF AMERICAN BALLET, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2007****Note 6 - Property, Equipment and Land (continued)**

Total depreciation was \$1,105,555 and \$969,574 for the years ended August 31, 2007 and 2006, 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. At August 31, 2007, the School has commitments of \$82,483 for contracts related to the construction projects.

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, 2007, this interest rate was 3.84%; it averaged 3.61% during 2007. 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.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

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 10% of each participant's regular annual compensation 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 \$240,576 and \$262,186, during fiscal years 2007 and 2006, respectively.

Note 9 - Special Events

The following is a summary of the net income generated by the fundraising benefits held in fiscal years 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Gross benefit income *	\$2,164,500	\$1,833,713
Distributions to New York City Ballet (Benefit Partner) of Net Nutcracker Family Benefit income	<u>(235,811)</u>	<u>(157,685)</u>
	1,928,689	1,676,028
Direct expenses	<u>(577,475)</u>	<u>(355,369)</u>
	1,351,214	1,320,659
Indirect expenses	<u>(256,941)</u>	<u>(230,411)</u>
Net Income from Benefits	<u>\$1,094,273</u>	<u>\$1,090,248</u>

* Net of temporarily restricted releases of \$2,500 and \$5,000 in 2007 and 2006, respectively.

Note 10 - 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.

ADDITIONAL INFORMATION



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**INDEPENDENT AUDITOR'S REPORT ON
ADDITIONAL INFORMATION**

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

Our report on our audit of the basic financial statements of the School of American Ballet, Inc. for 2007 appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended August 31, 2007 with comparative totals for 2006, the Schedules of: Support; Net Assets Released from Restriction and Rose Building Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lutz + Carr, LLP

New York, New York
November 30, 2007

SCHOOL OF AMERICAN BALLET, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2007 WITH COMPARATIVE TOTALS FOR 2006

	Program Services			Supporting Services		2007	2006
	Teaching and Other Artistic Programs	Student Financial Aid	Student Services and Residence	General Administration	Development	Total Expenses	Total Expenses
General Operations Expenses							
Salaries and fees	\$1,889,401	\$ -	\$ 433,356	\$ 595,402	\$ 552,522	\$ 3,470,681	\$3,454,762
Social security taxes	146,145	-	32,259	41,527	33,807	253,738	241,243
Retirement plans	151,379	-	26,691	50,050	12,456	240,576	262,186
Personnel-related insurance	194,448	-	86,463	53,002	43,490	377,403	347,097
Guest instructor fees	6,124	-	-	-	-	6,124	1,931
Advertising/public relations	85,024	-	-	-	53,723	138,747	153,804
Archive	25,000	-	-	-	-	25,000	29,279
Audition tour and community outreach	49,589	-	-	-	-	49,589	44,448
Board of Directors	-	-	-	22,028	5,778	27,806	26,785
Rose Building operating expenses (Note 1f)	675,586	-	907,042	121,259	138,582	1,842,469	1,617,318
Choreography workshop	4,963	-	-	-	-	4,963	5,343
Computers	-	-	5,374	1,201	1,947	8,522	11,804
Consultant fees	-	-	164	-	75	239	13,561
Credit card and bank fees	-	-	-	37,713	36,097	73,810	63,546
Dining Hall meal plans	-	-	342,997	-	-	342,997	332,483
Planned giving	-	-	-	-	950	950	6,253
Donor groups	-	-	-	-	36,737	36,737	61,304
Cultivation and mail campaigns	-	-	-	-	42,791	42,791	40,586
Health supply and services	-	-	107,096	-	-	107,096	94,973
Insurance	-	-	-	17,338	-	17,338	21,857
Lists, books, subscriptions and research	-	-	-	212	10,637	10,849	11,680
Miscellaneous	8,968	-	4,672	8,528	13,555	35,723	19,537
Lincoln Kirstein Celebrations	47,695	-	-	-	-	47,695	-
Pilates program	-	-	45,000	-	-	45,000	38,975
Printing, photography and graphics	34,876	-	6,462	-	7,249	48,587	58,395
Repairs and maintenance	12,875	-	13,706	11,829	18,611	57,021	37,667
Professional fees	-	-	-	80,995	-	80,995	72,617
Supplies, postage and newsletter	11,423	-	15,182	9,393	14,575	50,573	44,611
Financial aid: Tuition (Note 1e)	-	559,727	-	-	-	559,727	528,389
Financial aid: Residence (Note 1e)	-	371,374	-	-	-	371,374	343,323
Student activities, subsidies	4,606	202,534	36,743	-	-	243,883	236,240
Telephone	3,248	-	13,400	5,412	3,467	25,527	27,282
M. L. Wien Awards	50,230	-	-	-	-	50,230	50,044
Sub-total (carried forward)	<u>3,401,580</u>	<u>1,133,635</u>	<u>2,076,607</u>	<u>1,055,889</u>	<u>1,027,049</u>	<u>8,694,760</u>	<u>8,299,323</u>

See independent auditor's report on additional information.

SCHOOL OF AMERICAN BALLET, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2007 WITH COMPARATIVE TOTALS FOR 2006

	Program Services			Supporting Services		2007	2006
	Teaching and Other Artistic Programs	Student Financial Aid	Student Services and Residence	General Administration	Development	Total Expenses	Total Expenses
Sub-total (brought forward)	\$3,401,580	\$1,133,635	\$2,076,607	\$ 1,055,889	\$ 1,027,049	\$ 8,694,760	\$8,299,323
General Operations Expenses (continued)							
Residence hall summer space rental	-	-	73,152	-	-	73,152	60,480
Special events expenses (Note 9)	-	-	-	-	256,941	256,941	230,411
Staff travel, subscriptions and dues	-	-	5,818	9,147	2,902	17,867	22,739
Workshop performance	225,067	-	-	-	-	225,067	210,310
Bond administrative fees	-	-	-	9,378	-	9,378	-
Total General Operations Expenses	<u>3,626,647</u>	<u>1,133,635</u>	<u>2,155,577</u>	<u>1,074,414</u>	<u>1,286,892</u>	<u>9,277,165</u>	<u>8,823,263</u>
Depreciation (Notes 1d and 7)	431,166	-	508,555	77,390	88,444	1,105,555	969,574
Amortization of bond issuance costs (Note 7)	-	-	-	12,263	-	12,263	-
Vladmiroff-Dubrovskia Fund grant	-	-	-	3,000	-	3,000	11,000
Total Expenses, 2007	<u>\$4,057,813</u>	<u>\$1,133,635</u>	<u>\$2,664,132</u>	<u>\$ 1,167,067</u>	<u>\$ 1,375,336</u>	<u>\$10,397,983</u>	
Total Expenses, 2006	<u>\$3,773,208</u>	<u>\$1,060,598</u>	<u>\$2,492,154</u>	<u>\$ 1,228,226</u>	<u>\$ 1,249,651</u>		<u>\$9,803,837</u>

See independent auditor's report on additional information.

**SCHOOL OF AMERICAN BALLET, INC.
SCHEDULE OF SUPPORT
YEAR ENDED AUGUST 31, 2007**

<u>NAME</u>	<u>Unrestricted</u>			<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>TOTAL</u>
	<u>General Operations</u>	<u>Board Designated Endowment</u>	<u>Plant</u>			
GOVERNMENT						
New York City Department of Cultural Affairs	\$ 20,000			\$ 35,000		
Empire State Development Corporation			250,000			
<u>TOTAL GOVERNMENT</u>	<u>20,000</u>	<u>-</u>	<u>250,000</u>	<u>35,000</u>	<u>-</u>	<u>305,000</u>
CORPORATIONS						
The Walt Disney Foundation	5,000					
Freed of London, Ltd.	30,000					
Macy's	7,000					
Lincoln Center Corporate Fund	129,113					
Lincoln Center Alternative Investment Gala	111,000					
Lincoln Center Constituent Challenge Fund		788,632				
<u>TOTAL CORPORATIONS</u>	<u>282,113</u>	<u>788,632</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,070,745</u>
FOUNDATIONS						
The Aeroflex Foundation				10,000		
The Theodore H. Barth Foundation	5,000					
The William Bass Charitable Foundation					2,500	
The Morris S. and Florence H. Bender Foundation	15,000					
The Mary Duke Biddle Foundation	5,000					
The Bodman Foundation	25,000					
The Brown Foundation, Inc.		200,000				
Mary Livingston Griggs and Mary Griggs Burke Foundation	4,500					
The Louis Calder Foundation			150,000			
Rubin Cohen Foundation, Ltd.	1,000					
The Cowles Charitable Trust	7,500					
The Gladys Kriebel Delmas Foundation	25,000					
Geraldine R. Dodge Foundation	10,000					
The Max and Victoria Dreyfus Foundation	10,000					
The Ferriday Fund	5,000					
The Freylinghuysen Foundation	5,000					
The Horace W. Goldsmith Foundation	75,000			75,000		
Florence Gould Foundation	7,330					
The Harkness Foundation for Dance	25,000		35,000			
Mary W. Harriman Foundation	5,000					
Geoffrey C. Hughes Foundation	25,000					

See independent auditor's report on additional information.

**SCHOOL OF AMERICAN BALLET, INC.
SCHEDULE OF SUPPORT
YEAR ENDED AUGUST 31, 2007**

<u>NAME</u>	<u>Unrestricted</u>			<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>TOTAL</u>
	<u>General Operations</u>	<u>Board Designated Endowment</u>	<u>Plant</u>			
Christian A. Johnson Endeavor Foundation	\$ 25,000					
LCU Foundation				\$ 30,000		
The Charles Henry Leach, II Foundation	34,000					
Phillip and Janice Levin Foundation	15,000					
Joseph F. McCrindle Foundation	2,500					
The Ambrose Monell Foundation	75,000					
Newman's Own	1,000					
New York Community Trust				50,000		
Oceanic Heritage Foundation				40,000		
The Overbrook Foundation				7,500		
The Jerome Robbins Foundation	15,000			30,000		
The May and Samuel Rudin Family Foundation				5,000		
The Fan Fox and Leslie R. Samuels Foundation, Inc.	35,000					
The Scherman Foundation	12,500			12,500		
The Shubert Foundation	40,000					
The Starr Foundation					200,000	
John W. and Laura S. Stewart Foundation	1,000					
The Weinger Foundation				10,000		
TOTAL FOUNDATIONS	<u>511,330</u>	<u>200,000</u>	<u>185,000</u>	<u>270,000</u>	<u>202,500</u>	<u>1,368,830</u>
INDIVIDUALS						
Board of Directors	360,264	1,482,262		20,000	20,000	
Advisory Council	168,870	46,250		8,274		
Director's Circle	267,285	150,000		113,500	9,905	
Inner Circle/Patrons Circle	189,551	100	100,000		4,891	
Association Gifts	137,928	650			179,393	
Miscellaneous Individual Gifts and Bequests	9,931	30,860			231,394	
TOTAL INDIVIDUALS	<u>1,133,829</u>	<u>1,710,122</u>	<u>100,000</u>	<u>141,774</u>	<u>445,583</u>	<u>3,531,308</u>
Adjustment in discount to present value	-	4,205	-	(8,553)	33,147	28,799
TOTAL SUPPORT	<u>\$1,947,272</u>	<u>\$ 2,702,959</u>	<u>\$ 535,000</u>	<u>\$ 438,221</u>	<u>\$ 681,230</u>	<u>\$ 6,304,682</u>

See independent auditor's report on additional information.

**SCHOOL OF AMERICAN BALLET, INC.
SCHEDULE OF NET ASSETS RELEASED FROM RESTRICTION
YEAR ENDED AUGUST 31, 2007**

<u>NAME</u>	<u>Unrestricted General Operations</u>
CORPORATIONS	
Citigroup	\$30,000
<u>TOTAL CORPORATIONS</u>	<u>30,000</u>
 FOUNDATIONS	
The Aeroflex Foundation	10,000
The Irene Diamond Fund	50,000
The Horace W. Goldsmith Foundation	75,000
LCU Foundation	30,000
New York Community Trust	15,000
Oceanic Heritage Foundation	5,000
Overbrook Foundation	7,500
May and Samuel Rudin Family Foundation	5,000
Peter Jay Sharp Foundation	12,500
The Weinger Foundation	10,000
<u>TOTAL FOUNDATIONS</u>	<u>220,000</u>
 INDIVIDUALS	
Board of Directors	5,968
Advisory Council	4,000
Director's Circle	10,000
<u>TOTAL INDIVIDUALS</u>	<u>19,968</u>
 SPECIAL EVENT REVENUE	
Corporate Advisory Board Event	2,500
<u>TOTAL SPECIAL EVENT REVENUE</u>	<u>2,500</u>
 TOTAL NET ASSETS RELEASED FROM RESTRICTION	 <u>\$ 272,468</u>

See independent auditor's report on additional information.

SCHOOL OF AMERICAN BALLET, INC.
SCHEDULE OF ROSE BUILDING OPERATING EXPENSES
YEARS ENDED AUGUST 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Utilities	\$ 371,492	\$ 366,450
Building staff - management and engineers	347,229	284,819
Cleaning	244,290	231,389
Security	369,767	305,249
Tools and supply	84,270	54,542
Lincoln Center, Inc. support services	33,534	30,813
Insurance	112,803	115,251
Service and maintenance contracts	86,560	76,592
Garbage removal	20,115	15,735
Maintenance, repair and replacement	37,262	17,078
Improvement and repair reserve fund	92,103	88,409
Miscellaneous	<u>43,044</u>	<u>30,991</u>
 Total	 <u><u>\$1,842,469</u></u>	 <u><u>\$1,617,318</u></u>

See independent auditor's report on additional information.