

**SCHOOL OF AMERICAN BALLET, INC.**

**FINANCIAL STATEMENTS  
AND  
ADDITIONAL INFORMATION**

**AUGUST 31, 2008**

**SCHOOL OF AMERICAN BALLET, INC.**

**TABLE OF CONTENTS**

	<b>Page</b>
Independent Auditor's Report .....	1
<b>Financial Statements</b>	
Statement of Financial Position .....	2
Statement of Activities .....	3
Statement of Cash Flows .....	4
Notes to Financial Statements .....	5-12
<b>Additional Information</b>	
Independent Auditor's Report on Additional Information .....	14
Schedule of Functional Expenses .....	15-16
Schedule of Support .....	17-18
Schedule of Net Assets Released from Restriction .....	19
Schedule of Rose Building Operating Expenses .....	20



## 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, 2008, 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 2007 financial statements and, in our report dated November 21, 2007, 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, 2008, 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 14, 2008

## SCHOOL OF AMERICAN BALLET, INC.

## STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008 WITH COMPARATIVE TOTALS FOR 2007

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2008 Total	2007 Total	
	General Operations	Board Designated Endowment (Note 2a)	Plant					Total
<b>Assets</b>								
Current Assets								
Cash and cash equivalents (Note 1b)	\$ 477,361	\$ -	\$ 54,344	\$ 531,705	\$ 183,663	\$ -	\$ 715,368	\$ 714,566
Tuition, interest and other receivables	5,535	8,000	-	13,535	-	-	13,535	47,022
Unconditional promises to give (Notes 1c and 3)	165,810	661,837	408,465	1,236,112	231,150	-	1,467,262	1,991,868
Prepaid expenses and other current assets	199,517	4,167	-	203,684	-	-	203,684	225,812
Total Current Assets	<u>848,223</u>	<u>674,004</u>	<u>462,809</u>	<u>1,985,036</u>	<u>414,813</u>	<u>-</u>	<u>2,399,849</u>	<u>2,979,268</u>
Other Assets								
Investments, at market value (Notes 1g, and 4)	690,972	29,612,161	-	30,303,133	-	30,879,152	61,182,285	65,211,099
Unconditional promises to give (Notes 1c and 3)	-	667,689	-	667,689	24,013	730,896	1,422,598	1,877,471
Property and equipment, at cost, less accumulated depreciation (Notes 1d , 5, 6 and 7)	-	-	21,330,891	21,330,891	-	-	21,330,891	22,055,479
Capitalized financing costs (Note 7)	-	-	337,375	337,375	-	-	337,375	343,356
Restricted cash - proceeds from financing (Note 7)	-	-	98,034	98,034	-	-	98,034	918,370
Prepaid expenses and other assets	-	-	72,529	72,529	-	-	72,529	-
<b>Total Assets</b>	<u>\$1,539,195</u>	<u>\$30,953,854</u>	<u>\$22,301,638</u>	<u>\$54,794,687</u>	<u>\$ 438,826</u>	<u>\$31,610,048</u>	<u>\$86,843,561</u>	<u>\$93,385,043</u>
<b>Liabilities and Net Assets</b>								
Liabilities								
Accounts payable and other liabilities	\$ 999,848	\$ 213,843	\$ -	\$ 1,213,691	\$ -	\$ -	\$ 1,213,691	\$ 816,746
Construction accounts payable (Note 7)	-	-	12,603	12,603	-	-	12,603	146,052
Deferred income	512,102	-	-	512,102	-	-	512,102	754,553
Total Liabilities	<u>1,511,950</u>	<u>213,843</u>	<u>12,603</u>	<u>1,738,396</u>	<u>-</u>	<u>-</u>	<u>1,738,396</u>	<u>1,717,351</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>27,245</u>	<u>30,740,011</u>	<u>13,689,035</u>	<u>44,456,291</u>	<u>438,826</u>	<u>31,610,048</u>	<u>76,505,165</u>	<u>83,067,692</u>
<b>Total Liabilities and Net Assets</b>	<u>\$1,539,195</u>	<u>\$30,953,854</u>	<u>\$22,301,638</u>	<u>\$54,794,687</u>	<u>\$ 438,826</u>	<u>\$31,610,048</u>	<u>\$86,843,561</u>	<u>\$93,385,043</u>

See notes to financial statements.

## SCHOOL OF AMERICAN BALLET, INC.

## STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2008 WITH COMPARATIVE TOTALS FOR 2007

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2008 Total	2007 Total
	General Operations	Board Designated Endowment (Note 2a)	Plant				
Revenue (Excluding Public Support)							
Tuition (Note 1e)	\$1,675,245	\$ -	\$ -	\$ 1,675,245	\$ -	\$ -	\$ 1,324,348
Room and board fees	1,226,559	-	-	1,226,559	-	-	1,173,894
Workshop tickets and other program fees	133,959	-	-	133,959	-	-	137,799
Other income	226,146	-	-	226,146	-	-	193,451
Interest and dividends (Notes 1g and 4)	9,532	-	-	9,532	-	-	30,384
Total Revenue	<u>3,271,441</u>	<u>-</u>	<u>-</u>	<u>3,271,441</u>	<u>-</u>	<u>-</u>	<u>2,859,876</u>
Expenses							
Teaching and other artistic programs	3,727,563	-	509,238	4,236,801	-	-	4,057,813
Student financial aid (Note 1e)	1,250,841	-	-	1,250,841	-	-	1,133,635
Student services and residence	2,230,084	-	600,639	2,830,723	-	-	2,664,132
General administration	1,209,692	-	352,846	1,562,538	-	-	1,167,067
Development	1,422,872	-	104,459	1,527,331	-	-	1,375,336
Total Expenses	<u>9,841,052</u>	<u>-</u>	<u>1,567,182</u>	<u>11,408,234</u>	<u>-</u>	<u>-</u>	<u>10,397,983</u>
Deficiency of revenue over expenses before support and items shown below	<u>(6,569,611)</u>	<u>-</u>	<u>(1,567,182)</u>	<u>(8,136,793)</u>	<u>-</u>	<u>-</u>	<u>(7,538,107)</u>
Support							
Contributions (Note 5)	1,795,664	439,842	154,434	2,389,940	307,066	1,901,453	6,304,682
Special events revenue (Note 9)	1,864,717	-	-	1,864,717	-	-	1,692,878
Less: Special events direct expenses (Note 9)	(369,006)	-	-	(369,006)	-	-	(341,664)
Revaluation of unconditional promises to give Net assets released from restriction	-	-	-	-	(23,250)	-	-
Satisfaction of time and program restrictions	361,774	-	-	361,774	(361,774)	-	-
Total Support	<u>3,653,149</u>	<u>439,842</u>	<u>154,434</u>	<u>4,247,425</u>	<u>(77,958)</u>	<u>1,901,453</u>	<u>7,655,896</u>
(Deficiency) excess of revenue and support over expenses before items shown below	<u>(2,916,462)</u>	<u>439,842</u>	<u>(1,412,748)</u>	<u>(3,889,368)</u>	<u>(77,958)</u>	<u>1,901,453</u>	<u>117,789</u>
Investment income available for operations Per Board approved spending policy (Notes 1g and 4)	<u>3,119,192</u>	<u>(3,119,192)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Net Assets before appropriations	202,730	(2,679,350)	(1,412,748)	(3,889,368)	(77,958)	1,901,453	117,789
Appropriations:							
Transfer to board designated operating reserve	(150,000)	150,000	-	-	-	-	-
Bond administrative fees	(50,280)	-	50,280	-	-	-	-
Changes in Net Assets before Non Operating Activities	<u>2,450</u>	<u>(2,529,350)</u>	<u>(1,362,468)</u>	<u>(3,889,368)</u>	<u>(77,958)</u>	<u>1,901,453</u>	<u>117,789</u>
Non Operating Activities - Changes from Investments							
Investment income (Notes 1g and 4)	-	3,355,810	-	3,355,810	-	798,286	4,037,745
Net unrealized (losses) gains on investments (Notes 1g and 4)	-	(6,092,988)	-	(6,092,988)	-	(2,236,260)	3,999,412
Direct investment expenses	-	(321,502)	-	(321,502)	-	-	(357,426)
(Decrease) Increase in Non Operating Activities	<u>-</u>	<u>(3,058,680)</u>	<u>-</u>	<u>(3,058,680)</u>	<u>-</u>	<u>(1,437,974)</u>	<u>7,679,731</u>
Changes in net assets	2,450	(5,588,030)	(1,362,468)	(6,948,048)	(77,958)	463,479	7,797,520
Net assets, beginning of year	24,795	36,328,041	15,051,503	51,404,339	516,784	31,146,569	75,270,172
<b>Net Assets, End of Year</b>	<u>\$ 27,245</u>	<u>\$30,740,011</u>	<u>\$13,689,035</u>	<u>\$44,456,291</u>	<u>\$ 438,826</u>	<u>\$31,610,048</u>	<u>\$83,067,692</u>

See notes to financial statements.

## SCHOOL OF AMERICAN BALLET, INC.

## STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2008 WITH COMPARATIVE TOTALS FOR 2007

	Unrestricted				Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2008 Total	2007 Total
	General Operations	Board Designated Endowment (Note 2a)	Plant	Total				
<b>Cash Flows From Operating Activities</b>								
Changes in net assets	\$ 2,450	\$(5,588,030)	\$(1,362,468)	\$(6,948,048)	\$ (77,958)	\$ 463,479	\$(6,562,527)	\$7,797,520
Adjustments to reconcile changes in net assets to cash provided (used) by operating activities:								
Depreciation	-	-	1,305,738	1,305,738	-	-	1,305,738	1,105,555
Amortization of bond issuance costs	-	-	12,263	12,263	-	-	12,263	12,263
Realized and unrealized (gains) losses on investments	-	3,870,154	-	3,870,154	-	1,437,974	5,308,128	(6,721,543)
(Increase) decrease in:								
Tuition, interest and other receivables	8,068	25,419	-	33,487	-	-	33,487	(25,717)
Unconditional promises to give	16,676	1,131,539	(158,465)	989,750	24,534	(34,805)	979,479	(1,216,605)
Prepaid expenses and other current assets	26,295	(4,167)	(72,529)	(50,401)	-	-	(50,401)	(62,426)
Increase (decrease) in:								
Accounts payable and other liabilities	411,023	(14,078)	-	396,945	-	-	396,945	(569,563)
Deferred income	(242,451)	-	-	(242,451)	-	-	(242,451)	245,562
Net Cash Provided (Used) By Operating Activities	<u>222,061</u>	<u>(579,163)</u>	<u>(275,461)</u>	<u>(632,563)</u>	<u>(53,424)</u>	<u>1,866,648</u>	<u>1,180,661</u>	<u>565,046</u>
<b>Cash Flows From Investing Activities</b>								
Sales (purchase) of investments, net	8,171	579,163	-	587,334	-	(1,866,648)	(1,279,314)	(1,969,490)
Disbursements for property and equipment	-	-	(714,599)	(714,599)	-	-	(714,599)	(4,006,128)
Net Cash Provided (Used) By Investing Activities	<u>8,171</u>	<u>579,163</u>	<u>(714,599)</u>	<u>(127,265)</u>	<u>-</u>	<u>(1,866,648)</u>	<u>(1,993,913)</u>	<u>(5,975,618)</u>
<b>Cash Flows From Financing Activities</b>								
Capitalized financing costs	-	-	(6,282)	(6,282)	-	-	(6,282)	4,000
Restricted cash	-	-	820,336	820,336	-	-	820,336	4,904,121
Net Cash Provided By Financing Activities	<u>-</u>	<u>-</u>	<u>814,054</u>	<u>814,054</u>	<u>-</u>	<u>-</u>	<u>814,054</u>	<u>4,908,121</u>
Net increase (decrease) in cash and cash equivalents	230,232	-	(176,006)	54,226	(53,424)	-	802	(502,451)
Cash and cash equivalents, beginning 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>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 477,361</u>	<u>\$ -</u>	<u>\$ 54,344</u>	<u>\$ 531,705</u>	<u>\$ 183,663</u>	<u>\$ -</u>	<u>\$ 715,368</u>	<u>\$ 714,566</u>
<b>Supplemental information</b>								
Interest paid							<u>\$ 225,601</u>	<u>\$ 303,721</u>

See notes to financial statements.

**SCHOOL OF AMERICAN BALLET, INC.****NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2008****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 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 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 34% and 38% represents financial aid in fiscal years 2008 and 2007, respectively.

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008**

**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>2008</b>	<b>2007</b>
Tuition	\$611,755	\$559,727
Residence	377,784	371,374
Other financial aid	6,800	6,600
	<b>\$996,339</b>	<b>\$937,701</b>

f - Rose Building Operating Expense

Rose Building operating expense for fiscal years 2008 and 2007 was \$1,948,392 and \$1,842,469, 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>2008</b>	<b>2007</b>
1) Teaching and other Artistic Programs	\$693,766	\$675,586
2) Student Services and Residence	987,793	907,042
3) General administration	124,522	121,259
4) Development	142,311	138,582

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, 2008**

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

j - Prior Year information

The financial information includes 2007 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 addition, certain principal amounts have been designated to fund an operating reserve.

Board designated net assets are comprised as follows:

	<u>2008</u>	<u>2007</u>
Funds functioning as endowment	\$30,221,794	\$35,959,824
Operating reserve	<u>518,217</u>	<u>368,217</u>
	<u>\$30,740,011</u>	<u>\$36,328,041</u>

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following:

	<u>2008</u>	<u>2007</u>
Future programs	\$372,376	\$416,524
Future periods	<u>66,450</u>	<u>100,260</u>
	<u>\$438,826</u>	<u>\$516,784</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, 2008

**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 was \$15,722,577 and \$16,960,551 at August 31, 2008 and 2007, 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>2008</u>	<u>2007</u>
	<u>General Operations</u>	<u>Board Designated Endowment</u>	<u>Plant</u>				
Due in less than one year	\$165,810	\$ 661,837	\$408,465	\$231,150	\$ -	\$1,467,262	\$1,991,868
Due in one to five years	-	746,600	-	26,950	1,000,000	1,773,550	2,348,300
	165,810	1,408,437	408,465	258,100	1,000,000	3,240,812	4,340,168
Less: Discount	-	(78,911)	-	(2,937)	(269,104)	(350,952)	(470,829)
	<u>\$165,810</u>	<u>\$1,329,526</u>	<u>\$408,465</u>	<u>\$255,163</u>	<u>\$ 730,896</u>	<u>\$2,889,860</u>	<u>\$3,869,339</u>

No reserve for uncollectible amounts was required at August 31, 2008 or 2007.

**Note 4 - Investments**

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

	<u>2008</u>		<u>2007</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Marketable Securities				
Corporate stocks and mutual funds (equity)	\$26,744,997	\$25,578,036	\$34,706,352	\$25,733,314
Mutual funds and U.S. Treasury bill (fixed income)	12,068,194	12,047,603	12,140,553	12,297,498
Cash at broker being held for investments	4,447,670	4,447,670	4,742,063	4,742,063
Other Investments				
Investment funds	<u>17,921,424</u>	<u>16,000,000</u>	<u>13,622,131</u>	<u>11,000,000</u>
	<u>\$61,182,285</u>	<u>\$58,073,309</u>	<u>\$65,211,099</u>	<u>\$53,772,875</u>

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008**

**Note 4 - Investments (continued)**

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

Year ending August 31,	2005	\$53,596,588
“ “ “ “	2006	56,520,066
“ “ “ “	2007	65,211,099
“ “ “ “	2008	61,182,285

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 2008</u>	<u>Total 2007</u>
Interest and dividends	\$9,532	\$ 1,132,976	\$ -	\$ 1,142,508	\$1,345,998
Net realized gains	<u>-</u>	<u>2,222,834</u>	<u>798,286</u>	<u>3,021,120</u>	<u>2,722,131</u>
Investment income	9,532	3,355,810	798,286	4,163,628	4,068,129
Net unrealized gains (losses) on investments	<u>-</u>	<u>(6,092,988)</u>	<u>(2,236,260)</u>	<u>(8,329,248)</u>	<u>3,999,412</u>
Total Investment Return	<u>\$9,532</u>	<u>\$(2,737,178)</u>	<u>\$(1,437,974)</u>	<u>\$(4,165,620)</u>	<u>\$8,067,541</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, 2008 and 2007, the School's 2008 draw of investment income for operations was 4.94%.

**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 2008, 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. The School additionally received \$57,763 in shared proceeds from the Lincoln Center Alternative Investment Gala.

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008**

**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 applications for funds under this provision. The School was awarded \$784,632 in 2007 which was received during fiscal year 2008. The School also submitted and recorded a subsequent request for \$144,731 during 2008 which was received in September 2008.

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

Property, equipment and land consist of the following:

	<u>Life</u>	<u>2008</u>	<u>2007</u>
Furniture, equipment and computers	3-10 years	\$ 2,608,502	\$ 2,143,771
Capitalized construction costs of The Samuel B. and David Rose Building at Lincoln Center:			
Interior costs	20 years	9,023,245	8,952,278
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>7,239,967</u>
		37,530,230	36,949,080
Less: Accumulated depreciation		<u>(18,266,386)</u>	<u>(16,960,648)</u>
		19,263,844	19,988,432
Land		<u>2,067,047</u>	<u>2,067,047</u>
		<u>\$21,330,891</u>	<u>\$22,055,479</u>

**SCHOOL OF AMERICAN BALLET, INC.****NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2008****Note 6 - Property, Equipment and Land (continued)**

Total depreciation was \$1,305,738 and \$1,105,555 for the years ended August 31, 2008 and 2007, 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, 2008, this interest rate was 1.65%; it averaged 2.46% during 2008. 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, 2008**

**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 \$292,546 and \$240,576, during fiscal years 2008 and 2007, respectively.

**Note 9 - Special Events**

The following is a summary of the net income generated by the fundraising benefits held in fiscal years 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Gross benefit income *	\$2,117,965	\$1,928,689
Distributions to New York City Ballet (Benefit Partner) of Net Nutcracker Family Benefit income	<u>(253,248)</u>	<u>(235,811)</u>
	1,864,717	1,692,878
Direct expenses	<u>(369,006)</u>	<u>(341,664)</u>
	1,495,711	1,351,214
Indirect expenses	<u>(274,711)</u>	<u>(256,941)</u>
Net Income from Benefits	<u>\$1,221,000</u>	<u>\$1,094,273</u>

\* Net of temporarily restricted releases of \$5,000 and \$2,500 in 2008 and 2007, 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**



**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 2008 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, 2008 with comparative totals for 2007, 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 14, 2008

## SCHOOL OF AMERICAN BALLET, INC.

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2008 WITH COMPARATIVE TOTALS FOR 2007

	Program Services			Supporting Services		2008	2007
	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	\$1,953,762	\$ -	\$ 405,577	\$ 711,581	\$ 632,840	\$ 3,703,760	\$ 3,470,681
Social security taxes	147,276	-	29,041	44,996	44,402	265,715	253,738
Retirement plans	174,504	-	29,960	54,609	33,473	292,546	240,576
Personnel-related insurance	148,193	-	64,151	64,613	68,559	345,516	377,403
Guest instructor fees	8,274	-	-	-	-	8,274	6,124
Advertising/public relations	135,432	-	-	-	55,004	190,436	138,747
Archive	25,168	-	-	-	-	25,168	25,000
Audition tour and community outreach	53,413	-	-	-	-	53,413	49,589
Board of Directors	-	-	-	21,702	6,409	28,111	27,806
Rose Building operating expenses (Note 1f)	693,766	-	987,793	124,522	142,311	1,948,392	1,842,469
Choreography workshop	4,722	-	-	-	-	4,722	4,963
Computer expenses	507	-	7,380	859	1,360	10,106	8,522
Consultant fees	1,257	-	250	30	11,369	12,906	239
Credit card and bank fees	-	-	-	31,399	29,981	61,380	73,810
Dining Hall meal plans	-	-	363,167	-	-	363,167	342,997
Planned giving	-	-	-	-	4,312	4,312	950
Donor groups	-	-	-	-	31,919	31,919	36,737
Cultivation and mail campaigns	-	-	-	-	16,987	16,987	42,791
Health supplies and services	-	-	122,085	-	-	122,085	107,096
Insurance	-	-	-	16,711	-	16,711	17,338
Lists, books, subscriptions and research	-	-	198	515	9,327	10,040	10,849
Miscellaneous	12,727	-	5,336	6,987	13,266	38,316	35,723
Lincoln Kirstein Celebrations	2,517	-	-	-	-	2,517	47,695
Pilates program	-	-	45,750	-	-	45,750	45,000
Printing, photography and graphics	37,422	-	5,653	-	10,425	53,500	48,587
Equipment and piano maintenance, repairs	24,855	-	12,651	12,656	14,714	64,876	57,021
Professional fees	-	-	-	93,382	-	93,382	80,995
Supplies, postage and newsletter	14,868	-	15,338	11,574	11,995	53,775	50,573
Financial aid: Tuition (Note 1e)	-	611,755	-	-	-	611,755	559,727
Financial aid: Residence (Note 1e)	-	377,784	-	-	-	377,784	371,374
Academic subsidies and student activities	15,009	261,302	28,075	-	-	304,386	243,883
Telephone	3,469	-	10,221	6,350	3,733	23,773	25,527
M. L. Wien Awards	50,000	-	-	-	-	50,000	50,230
Sub-total (carried forward)	3,507,141	1,250,841	2,132,626	1,202,486	1,142,386	9,235,480	8,694,760

See independent auditor's report on additional information.

## SCHOOL OF AMERICAN BALLET, INC.

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2008 WITH COMPARATIVE TOTALS FOR 2007

	Program Services			Supporting Services		2008	2007
	Teaching and Other Artistic Programs	Student Financial Aid	Student Services and Residence	General Administration	Development	Total Expenses	Total Expenses
Sub-total (brought forward)	\$3,507,141	\$1,250,841	\$2,132,626	\$ 1,202,486	\$ 1,142,386	\$ 9,235,480	\$ 8,694,760
General Operations Expenses (continued)							
Residence hall summer space rental	-	-	91,872	-	-	91,872	73,152
Special events expenses (Note 9)	-	-	-	-	274,711	274,711	256,941
Staff travel and meetings	-	-	5,586	7,206	5,775	18,567	17,867
Workshop performance	214,262	-	-	-	-	214,262	225,067
Kennedy Center performance	6,160	-	-	-	-	6,160	-
Bond administrative fees	-	-	-	-	-	-	9,378
Total General Operations Expenses	<u>3,727,563</u>	<u>1,250,841</u>	<u>2,230,084</u>	<u>1,209,692</u>	<u>1,422,872</u>	<u>9,841,052</u>	<u>9,277,165</u>
Plant Expenses							
Depreciation (Notes 1d and 6)	509,238	-	600,639	91,402	104,459	1,305,738	1,105,555
Amortization of bond issuance costs	-	-	-	12,263	-	12,263	12,263
Bond administrative fees	-	-	-	58,503	-	58,503	-
Bond interest expense	-	-	-	190,678	-	190,678	-
Total Plant Expenses	<u>509,238</u>	<u>-</u>	<u>600,639</u>	<u>352,846</u>	<u>104,459</u>	<u>1,567,182</u>	<u>1,117,818</u>
Vladmiroff-Dubrovskia Fund grant	-	-	-	-	-	-	3,000
Total Expenses, 2008	<u>\$4,236,801</u>	<u>\$1,250,841</u>	<u>\$2,830,723</u>	<u>\$ 1,562,538</u>	<u>\$ 1,527,331</u>	<u>\$11,408,234</u>	
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>

See independent auditor's report on additional information.

**SCHOOL OF AMERICAN BALLET, INC.  
SCHEDULE OF SUPPORT  
YEAR ENDED AUGUST 31, 2008**

<u>NAME</u>	<u>Unrestricted</u>			<u>Temporarily Restricted</u>	<u>Permanently Restricted Endowment</u>	<u>TOTAL</u>
	<u>General Operations</u>	<u>Board Designated Endowment</u>	<u>Plant</u>			
<b>GOVERNMENT</b>						
New York City Economic Development Corporation	\$	\$	\$ 158,465	\$	\$	\$
TOTAL GOVERNMENT	-	-	158,465	-	-	158,465
<b>CORPORATIONS</b>						
Citi Foundation	20,000					
Freed of London, Ltd.	30,000					
Hill Corporation	2,000					
Lehman Brothers Foundation	10,000					
Mattel Children's Foundation	5,000					
Lincoln Center Corporate Fund	129,113					
Lincoln Center Alternative Investment Gala	57,763					
Lincoln Center Constituent Challenge Fund		144,731				
TOTAL CORPORATIONS	253,876	144,731	-	-	-	398,607
<b>FOUNDATIONS</b>						
The Aeroflex Foundation				10,000		
The Theodore H. Barth Foundation	5,000					
The Morris S. and Florence H. Bender Foundation	15,000					
The Mary Duke Biddle Foundation	5,000					
Mary Livingston Griggs and Mary Griggs Burke Foundation	4,500			9,900		
Chisholm Foundation	5,000					
Rubin Cohen Foundation, Ltd.	750					
Columbus Citizens Foundation	1,500					
The Cowles Charitable Trust	7,500					
The Gladys Kriebel Delmas Foundation	25,000					
The Irene Diamond Fund	50,000					
Geraldine R. Dodge Foundation	10,000					
The Max and Victoria Dreyfus Foundation	10,000					
The Freylinghuysen Foundation	5,000					
The Horace W. Goldsmith Foundation	75,000			75,000		
Florence Gould Foundation	7,800					
The Harkness Foundation for Dance	25,000					
Mary W. Harriman Foundation	5,000					
Geoffrey C. Hughes Foundation	25,000					
Christian A. Johnson Endeavor Foundation	20,000					
LCU Foundation				30,000		
The Charles Henry Leach, II Foundation	45,000					

See independent auditor's report on additional information.

**SCHOOL OF AMERICAN BALLET, INC.  
SCHEDULE OF SUPPORT  
YEAR ENDED AUGUST 31, 2008**

<u>NAME</u>	<u>Unrestricted</u>			<u>Temporarily Restricted</u>	<u>Permanently Restricted Endowment</u>	<u>TOTAL</u>
	<u>General Operations</u>	<u>Board Designated Endowment</u>	<u>Plant</u>			
Phillip and Janice Levin Foundation	\$ 15,000	\$	\$	\$	\$	\$
Joseph F. McCrindle Foundation	2,500					
The Ambrose Monell Foundation	75,000					
Newman's Own	1,000					
The Overbrook Foundation				7,500		
The May and Samuel Rudin Family Foundation				5,000		
The Fan Fox and Leslie R. Samuels Foundation, Inc.	35,000					
The Shubert Foundation	40,000					
The Starr Foundation					200,000	
John W. and Laura S. Stewart Foundation	1,000					
The Weininger Foundation				10,000		
Prior year grant adjustment	4,031		(4,031)			
TOTAL FOUNDATIONS	<u>520,581</u>	<u>-</u>	<u>(4,031)</u>	<u>147,400</u>	<u>200,000</u>	<u>863,950</u>
<b>INDIVIDUALS</b>						
Board of Directors	246,924	178,305		100,000		
Advisory Council	172,550	12,500		5,000		
Director's Circle	301,386			28,900	96,000	
Inner Circle/Patrons Circle	178,312			10,500	7,651	
Association Gifts	113,463			9,650		
Miscellaneous Individual Gifts and Bequests	8,572	24,850			1,562,997	
TOTAL INDIVIDUALS	<u>1,021,207</u>	<u>215,655</u>	<u>-</u>	<u>154,050</u>	<u>1,666,648</u>	<u>3,057,560</u>
Adjustment in discount to present value	-	79,456	-	5,616	34,805	119,877
<b>TOTAL SUPPORT</b>	<u>\$ 1,795,664</u>	<u>\$ 439,842</u>	<u>\$ 154,434</u>	<u>\$ 307,066</u>	<u>\$ 1,901,453</u>	<u>\$ 4,598,459</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, 2008**

<b>NAME</b>	<b>Unrestricted General Operations</b>
<b>CORPORATIONS</b>	
New York City Department of Cultural Affairs	\$ 35,000
<b>TOTAL GOVERNMENT</b>	<b>35,000</b>
 <b>FOUNDATIONS</b>	
The Aeroflex Foundation	10,000
The Horace W. Goldsmith Foundation	75,000
LCU Foundation	30,000
Oceanic Heritage Foundation	5,000
The Overbrook Foundation	7,500
The Jerome Robbins Foundation	30,000
The May and Samuel Rudin Family Foundation	5,000
The Scherman Foundation	12,500
The Weininger Foundation	10,000
<b>TOTAL FOUNDATIONS</b>	<b>185,000</b>
 <b>INDIVIDUALS</b>	
Board of Directors	70,000
Director's Circle	63,500
Lincoln Kirstein Celebrations	3,274
<b>TOTAL INDIVIDUALS</b>	<b>136,774</b>
 <b>SPECIAL EVENT REVENUE</b>	
Corporate Advisory Board Event	5,000
<b>TOTAL SPECIAL EVENT REVENUE</b>	<b>5,000</b>
 <b>TOTAL NET ASSETS RELEASED FROM RESTRICTION</b>	 <b>\$ 361,774</b>

See independent auditor's report on additional information.

## SCHOOL OF AMERICAN BALLET, INC.

## SCHEDULE OF ROSE BUILDING OPERATING EXPENSES

YEARS ENDED AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Utilities	\$ 378,341	\$ 371,492
Building staff - management and engineers	370,456	347,229
Cleaning	272,542	244,290
Security	412,503	369,767
Tools and supply	83,467	84,270
Lincoln Center, Inc. support services	35,186	33,534
Insurance	118,326	112,803
Service and maintenance contracts	96,370	86,560
Garbage removal	19,284	20,115
Maintenance, repair and replacement	40,028	37,262
Improvement and repair reserve fund	87,240	92,103
Miscellaneous	<u>34,649</u>	<u>43,044</u>
 Total	 <u><u>\$1,948,392</u></u>	 <u><u>\$1,842,469</u></u>

See independent auditor's report on additional information.