

SCHOOL OF AMERICAN BALLET, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2012



LU TZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of School of American Ballet, Inc. (a not-for-profit corporation) as of August 31, 2012, 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 2011 financial statements, and in our report dated April 19, 2012, 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, 2012, 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 17, 2012

SCHOOL OF AMERICAN BALLET, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012 WITH COMPARATIVE TOTALS FOR 2011

	Unrestricted				Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2012 Total	2011 Total
	General Operations	Board Designated and Other (Note 2a)	Plant	Total				
Assets								
Current Assets								
Cash and cash equivalents (Notes 1b and 3)	\$ 299,109	\$ 109,573	\$ 657	\$ 409,339	\$ 384,484	\$ -	\$ 793,823	\$ 541,832
Tuition, interest and other receivables	18,036	10,525	-	28,561	-	-	28,561	14,814
Unconditional promises to give (Notes 1c and 4)	294,491	187,500	-	481,991	153,500	250,000	885,491	669,414
Prepaid expenses and other current assets	75,757	7,477	-	83,234	-	-	83,234	104,031
Total Current Assets	687,393	315,075	657	1,003,125	537,984	250,000	1,791,109	1,330,091
Other Assets								
Investments, at fair value (Notes 1g and 5)	1,051,830	33,906,653	-	34,958,483	-	24,095,988	59,054,471	58,736,232
Unconditional promises to give (Notes 1c and 4)	-	300,696	-	300,696	89,201	886,404	1,276,301	1,274,630
Property and equipment, at cost, less accumulated depreciation (Notes 1d , 6 , 7 and 8)	-	-	17,406,563	17,406,563	-	-	17,406,563	17,897,360
Capitalized financing costs	-	-	339,314	339,314	-	-	339,314	305,737
Restricted cash - proceeds from financing (Note 8)	-	-	60,755	60,755	-	-	60,755	99,860
Total Assets	\$1,739,223	\$34,522,424	\$17,807,289	\$54,068,936	\$ 627,185	\$25,232,392	\$79,928,513	\$79,643,910
Liabilities and Net Assets								
Liabilities								
Accounts payable and other liabilities	\$ 690,422	\$ 25,834	\$ 45,940	\$ 762,196	\$ -	\$ -	\$ 762,196	\$ 871,247
Deferred income (Note 1h)	1,010,508	-	-	1,010,508	-	-	1,010,508	929,766
	1,700,930	25,834	45,940	1,772,704	-	-	1,772,704	1,801,013
Financing obligation payable (Note 8)	-	-	8,600,000	8,600,000	-	-	8,600,000	8,600,000
Obligation under interest rate swap (Note 8)	-	-	464,244	464,244	-	-	464,244	-
Total Liabilities	1,700,930	25,834	9,110,184	10,836,948	-	-	10,836,948	10,401,013
Commitments (Notes 6 and 9)								
Net Assets								
Unrestricted	38,293	34,496,590	8,697,105	43,231,988	-	-	43,231,988	44,192,803
Temporarily restricted	-	-	-	-	627,185	-	627,185	427,764
Permanently restricted	-	-	-	-	-	25,232,392	25,232,392	24,622,330
Total Net Assets	38,293	34,496,590	8,697,105	43,231,988	627,185	25,232,392	69,091,565	69,242,897
Total Liabilities and Net Assets	\$1,739,223	\$34,522,424	\$17,807,289	\$54,068,936	\$ 627,185	\$25,232,392	\$79,928,513	\$79,643,910

See notes to financial statements.

SCHOOL OF AMERICAN BALLET, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2012 WITH COMPARATIVE TOTALS FOR 2011

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2012 Total	2011 Total
	General Operations	Board Designated and Other (Note 2a)	Plant				
Revenue (Excluding Public Support)							
Tuition (Note 1e)	\$2,536,729	\$ -	\$ -	\$ 2,536,729	\$ -	\$ -	\$ 2,344,179
Room and board fees	1,460,302	-	-	1,460,302	-	-	1,383,568
Workshop tickets and other program fees	271,883	-	-	271,883	-	-	297,476
Other income	244,386	-	3,510	247,896	-	14,365	306,901
Interest and dividends (Notes 1g and 5)	-	-	77	77	-	-	279
Total Revenue	4,513,300	-	3,587	4,516,887	-	14,365	4,332,403
Expenses							
Program Services							
Teaching and other artistic programs	4,667,289	-	341,282	5,008,571	-	-	4,781,429
Student financial aid (Note 1e)	1,673,652	-	-	1,673,652	-	-	1,638,168
Student services and residence	2,538,587	-	402,537	2,941,124	-	-	2,886,907
Supporting Services							
General administration	995,642	-	360,903	1,356,545	-	-	1,159,902
Development	1,349,237	-	70,006	1,419,243	-	-	1,336,217
Total Expenses	11,224,407	-	1,174,728	12,399,135	-	-	11,802,623
Excess (deficiency) of revenue over expenses before support and items shown below	(6,711,107)	-	(1,171,141)	(7,882,248)	-	14,365	(7,470,220)
Support							
Contributions (Note 6)	2,281,029	278,360	-	2,559,389	504,905	600,300	3,098,231
Special events revenue (Note 11)	2,042,808	-	-	2,042,808	-	-	2,066,630
Less: Special events direct expenses (Note 11)	(254,564)	-	-	(254,564)	-	-	(275,972)
Revaluation of unconditional promises to give	-	-	-	-	-	-	(2,565)
Net assets released from restriction							
Satisfaction of time and program restrictions (\$435,257 in 2011)	305,484	-	-	305,484	(305,484)	-	-
Total Support	4,374,757	278,360	-	4,653,117	199,421	600,300	4,886,324
Excess (deficiency) of revenue and support over expenses before items shown below	(2,336,350)	278,360	(1,171,141)	(3,229,131)	199,421	614,665	(2,583,896)
Investment income available for operations							
Per Board approved spending policy (Notes 5 and 10) (\$2,837,539 in 2011)	2,864,515	(1,644,509)	-	1,220,006	(1,220,006)	-	-
Increase (Decrease) in Net Assets before Appropriations (carried forward)	528,165	(1,366,149)	(1,171,141)	(2,009,125)	(1,020,585)	614,665	(2,583,896)

See notes to financial statements.

SCHOOL OF AMERICAN BALLET, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2012 WITH COMPARATIVE TOTALS FOR 2011

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2012 Total	2011 Total	
	General Operations	Board Designated and Other (Note 2a)	Plant					Total Unrestricted
Increase (Decrease) in Net Assets before Appropriations (brought forward)	\$ 528,165	\$ (1,366,149)	\$(1,171,141)	\$ (2,009,125)	\$(1,020,585)	\$ 614,665	\$ (2,415,045)	\$ (2,583,896)
Appropriations								
Transfer from board designated operating reserve for plant improvement	-	(218,100)	218,100	-	-	-	-	-
Transfer from board designated operating reserve for supplemental scholarship (\$29,000 in 2011)	58,000	(58,000)	-	-	-	-	-	-
Transfer to board designated operating reserve (\$540,000 in 2011)	(178,000)	178,000	-	-	-	-	-	-
Financing obligation fees and property and equipment costs (\$109,356 in 2011)	(405,737)	-	405,737	-	-	-	-	-
Increase (Decrease) in Net Assets Before Non Operating Activities	2,428	(1,464,249)	(547,304)	(2,009,125)	(1,020,585)	614,665	(2,415,045)	(2,583,896)
Non Operating Activities								
Investment income (Notes 1g and 5)	-	699,851	-	699,851	638,125	86,754	1,424,730	1,493,798
Net unrealized gains on investments (Notes 1g and 5)	-	971,941	-	971,941	369,407	219,826	1,561,174	3,913,586
Direct investment expenses	-	(159,238)	-	(159,238)	(74,267)	(24,442)	(257,947)	(283,273)
Donor restriction adjustments	-	-	-	-	286,741	(286,741)	-	-
Change in fair value of interest rate swap (Note 8)	-	-	(464,244)	(464,244)	-	-	(464,244)	-
Increase (Decrease) in Non Operating Activities	-	1,512,554	(464,244)	1,048,310	1,220,006	(4,603)	2,263,713	5,124,111
Increase (decrease) in net assets	2,428	48,305	(1,011,548)	(960,815)	199,421	610,062	(151,332)	2,540,215
Net assets, beginning of year	35,865	34,448,285	9,708,653	44,192,803	427,764	24,622,330	69,242,897	66,702,682
Net Assets, End of Year	\$ 38,293	\$34,496,590	\$ 8,697,105	\$43,231,988	\$ 627,185	\$25,232,392	\$69,091,565	\$69,242,897

See notes to financial statements.

SCHOOL OF AMERICAN BALLET, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2012 WITH COMPARATIVE TOTALS FOR 2011

	Unrestricted			Total Unrestricted	Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2012 Total	2011 Total
	General Operations	Board Designated and Other (Note 2a)	Plant					
Cash Flows From Operating Activities								
Increase (decrease) in net assets	\$ 2,428	\$ 48,305	\$(1,011,548)	\$ (960,815)	\$ 199,421	\$ 610,062	\$ (151,332)	\$2,540,215
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:								
Depreciation	-	-	875,081	875,081	-	-	875,081	1,072,853
Amortization of bond issuance costs	-	-	12,263	12,263	-	-	12,263	12,263
Amortization of swap transaction costs	-	-	2,751	2,751	-	-	2,751	-
Net realized and unrealized gains on investments	-	(1,518,300)	-	(1,518,300)	(619,562)	(306,580)	(2,444,442)	(4,626,891)
Change in fair value of interest rate swap	-	-	464,244	464,244	-	-	464,244	-
(Increase) decrease in:								
Tuition, interest and other receivables	(6,447)	(7,300)	-	(13,747)	-	-	(13,747)	(6,116)
Unconditional promises to give	26,487	148,398	-	174,885	(102,333)	(290,300)	(217,748)	(406,630)
Prepaid expenses and other current assets	20,797	-	-	20,797	-	-	20,797	60,897
Increase (decrease) in:								
Accounts payable and other liabilities	(90,613)	(28,427)	9,989	(109,051)	-	-	(109,051)	(20,655)
Deferred income	80,742	-	-	80,742	-	-	80,742	116,454
Net Cash Provided (Used) By Operating Activities	<u>33,394</u>	<u>(1,357,324)</u>	<u>352,780</u>	<u>(971,150)</u>	<u>(522,474)</u>	<u>13,182</u>	<u>(1,480,442)</u>	<u>(1,257,610)</u>
Cash Flows From Investing Activities								
Sales (purchases) of investments, net	178,609	1,353,214	-	1,531,823	619,562	(25,182)	2,126,203	1,021,866
Disbursements for property and equipment	-	-	(384,284)	(384,284)	-	-	(384,284)	(66,214)
Net Cash Provided (Used) By Investing Activities	<u>178,609</u>	<u>1,353,214</u>	<u>(384,284)</u>	<u>1,147,539</u>	<u>619,562</u>	<u>(25,182)</u>	<u>1,741,919</u>	<u>955,652</u>
Cash Flows From Financing Activities								
(Increase) decrease in restricted cash	-	-	39,105	39,105	-	-	39,105	(197)
Capital financing costs	-	-	(48,591)	(48,591)	-	-	(48,591)	-
Net Cash Used By Financing Activities	<u>-</u>	<u>-</u>	<u>(9,486)</u>	<u>(9,486)</u>	<u>-</u>	<u>-</u>	<u>(9,486)</u>	<u>(197)</u>
Net increase (decrease) in cash and cash equivalents	212,003	(4,110)	(40,990)	166,903	97,088	(12,000)	251,991	(302,155)
Cash and cash equivalents, beginning of year	<u>87,106</u>	<u>113,683</u>	<u>41,647</u>	<u>242,436</u>	<u>287,396</u>	<u>12,000</u>	<u>541,832</u>	<u>843,987</u>
Cash and Cash Equivalents, End of Year	<u>\$299,109</u>	<u>\$ 109,573</u>	<u>\$ 657</u>	<u>\$ 409,339</u>	<u>\$ 384,484</u>	<u>\$ -</u>	<u>\$ 793,823</u>	<u>\$ 541,832</u>
Supplemental Information								
Interest paid (bond issue and related interest swap)							<u>\$ 201,977</u>	<u>\$ 20,414</u>

See notes to financial statements.

SCHOOL OF AMERICAN BALLET, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2012****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

The School of American Ballet, Inc. (the "School") was founded in 1934 by George Balanchine and Lincoln Kirstein. It is 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.

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 discount rates of 3% and 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 34% and 37% represents financial aid in fiscal years 2012 and 2011, respectively.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

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:

	2012	2011
Tuition	\$ 842,945	\$ 874,036
Room and board fees	506,495	498,345
	\$1,349,440	\$1,372,381

f - Rose Building Operating Expenses

Rose Building operating expenses for fiscal years 2012 and 2011 were \$2,047,463 and \$1,994,423, respectively (Note 6b). This amount is allocated partially based on cubic feet to the appropriate 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:

	2012	2011
1) Teaching and other artistic programs	\$ 706,190	\$ 692,161
2) Student services and residence	1,069,661	1,036,046
3) General administration	126,752	124,234
4) Development	144,860	141,982
	\$2,047,463	\$1,994,423

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.

SCHOOL OF AMERICAN BALLET, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2012****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****g - Investments (continued)**

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.

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 involves 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.

SCHOOL OF AMERICAN BALLET, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2012****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****g - Investments (continued)**

The School's investments in limited partnerships are classified within Levels 2 and 3 of the fair value hierarchy. The values 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.

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 - 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. Contributions to the School are tax deductible to contributors as provided by law. Management has evaluated all income tax positions and concluded that no disclosures relating to uncertain tax positions are required in the financial statements. Generally, the Organization's tax returns for years prior to 2009 are no longer subject to examination by taxing authorities.

l - Subsequent Events

The School has evaluated subsequent events through December 17, 2012, the date that the financial statements are considered available to be issued.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

Note 2 - Restrictions on Assets

a - Board Designated and Other

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 5 and 10, 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 is currently providing for additional tuition assistance over a four year period, and provides a reserve for operating and capital contingencies, including current and anticipated major Rose Building repair projects.

As more fully described in Note 10, there is a deficiency in donor restricted endowment funds which is included below.

Board designated net assets are comprised as follows:

	<u>2012</u>	<u>2011</u>
Board designated endowment	\$34,039,979	\$33,712,046
Donor restricted endowment (deficiency)	(1,499,506)	(1,317,978)
Operating reserve	<u>1,956,117</u>	<u>2,054,217</u>
	<u>\$34,496,590</u>	<u>\$34,448,285</u>

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following:

	<u>2012</u>	<u>2011</u>
Future programs	\$464,446	\$325,164
Future periods	<u>162,739</u>	<u>102,600</u>
	<u>\$627,185</u>	<u>\$427,764</u>

c - Permanently Restricted Net Assets

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

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

Note 3 - Concentration of Credit Risk

The School maintains significant cash balances at one financial institution, which at times exceeds federally insured limits.

Note 4 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012</u>	<u>2011</u>
	<u>General Operations</u>	<u>Board Designated</u>				
Due in less than one year	\$294,491	\$187,500	\$153,500	\$ 250,000	\$ 885,491	\$ 669,414
Due in one to five years	-	321,548	95,000	1,000,000	1,416,548	1,465,100
	294,491	509,048	248,500	1,250,000	2,302,039	2,134,514
Less: Discount to present value	-	(20,852)	(5,799)	(113,596)	(140,247)	(190,470)
	<u>\$294,491</u>	<u>\$488,196</u>	<u>\$242,701</u>	<u>\$1,136,404</u>	<u>\$2,161,792</u>	<u>\$1,944,044</u>

No reserve for uncollectible amounts was required at August 31, 2012 or 2011.

Note 5 - Investments

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

	<u>2012</u>		<u>2011</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash at broker being held for investments	\$ 604,463	\$ 604,463	\$ 962,192	\$ 962,192
Marketable Securities				
Corporate stocks and mutual funds (equity)	16,709,849	14,975,806	8,911,498	7,605,134
Fixed income securities	8,910,566	8,165,978	8,949,339	8,502,824
Other Investments				
Investment funds and limited partnerships	<u>32,829,593</u>	<u>28,928,944</u>	<u>39,913,203</u>	<u>36,496,681</u>
	<u>\$59,054,471</u>	<u>\$52,675,191</u>	<u>\$58,736,232</u>	<u>\$53,566,831</u>

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

Note 5 - Investments (continued)

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

	2012			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash held for investments	\$ 604,463	\$ 604,463	\$ -	\$ -
Marketable Securities				
Corporate stocks and mutual funds (equity)	16,709,849	13,937,344	2,772,505	-
Fixed income securities	8,910,566	5,624,275	3,286,291	-
Other Investments				
Investment funds and limited partnerships	<u>32,829,593</u>	<u>-</u>	<u>7,512,979</u>	<u>25,316,614</u>
	<u>\$59,054,471</u>	<u>\$20,166,082</u>	<u>\$13,571,775</u>	<u>\$25,316,614</u>

	2011			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash held for investments	\$ 962,192	\$ 962,192	\$ -	\$ -
Marketable Securities				
Corporate stocks and mutual funds (equity)	8,911,498	8,911,498	-	-
Fixed income securities	8,949,339	5,778,891	3,170,448	-
Other Investments				
Investment funds and limited partnerships	<u>39,913,203</u>	<u>4,317,710</u>	<u>11,089,108</u>	<u>24,506,385</u>
	<u>\$58,736,232</u>	<u>\$19,970,291</u>	<u>\$14,259,556</u>	<u>\$24,506,385</u>

The following summarizes changes in fair value of the School's Level 3 assets for the year ended August 31, 2012. The information reflects gains and losses for the full year for assets categorized as Level 3 as of August 31, 2012:

Balance, beginning of year	\$24,506,385
Management fees	(90,131)
Unrealized gains	1,238,538
Realized gains	281,722
Purchases	1,133,887
Redemptions	<u>(1,753,787)</u>
Balance, End of Year	<u>\$25,316,614</u>

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

Note 5 - 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 other investments included in the School's investment portfolios are redeemable based upon the following terms and conditions as of August 31, 2012:

Monthly redemption	\$ 7,512,495
Quarterly redemption	6,095,502
Annual redemption	18,461,282
No opportunity for redemption - real estate	<u>759,830</u>
	<u>\$32,829,109</u>

The following summarizes investment return in the statement of activities as of August 31:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 541,462	\$ 780,493
Net realized gains	<u>883,268</u>	<u>713,305</u>
Investment Income	1,424,730	1,493,798
Net unrealized gains on investments	1,561,174	3,913,586
Direct investment expenses	<u>(257,947)</u>	<u>(283,273)</u>
Total Investment Return	<u>\$2,727,957</u>	<u>\$5,124,111</u>

The School utilizes a Board approved spending policy providing income for operations. It is calculated using a twenty-quarter average of the total market value of investments as of the last day of February of the preceding year. The School's 2012 draw of investment income for operations was determined to be 5% based on this formula. The Board approved the transfer to operations of \$2,864,515 in 2012 and \$2,837,539 in 2011.

SCHOOL OF AMERICAN BALLET, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2012****Note 6 - 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 2012 and 2011, the Consolidated Fund drive paid \$129,113 to the School for operating support and in return, the School solicits corporate contributions only for special purposes.
- b - The School 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 charges are 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 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 payments of \$1,207,260 under this provision. The School also submitted and recorded an additional request for \$13,000 during 2012.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

Note 7 - Property, Equipment and Land

Property, equipment and land consist of the following:

	<u>Life</u>	<u>2012</u>	<u>2011</u>
Furniture, equipment and computers	3-10 years	\$ 2,796,901	\$ 2,778,769
Capitalized construction costs of The Samuel B. and David Rose Building at Lincoln Center:			
Interior costs	20 years	9,276,554	9,144,832
Core and shell costs	20-40 years	18,831,164	18,613,064
New studio construction costs	30 years	<u>7,306,749</u>	<u>7,290,419</u>
		38,211,368	37,827,084
Less: Accumulated depreciation		<u>(22,871,852)</u>	<u>(21,996,771)</u>
		15,339,516	15,830,313
Land		<u>2,067,047</u>	<u>2,067,047</u>
		<u>\$17,406,563</u>	<u>\$17,897,360</u>

Total depreciation was \$875,081 and \$1,072,853 for the years ended August 31, 2012 and 2011, respectively.

Note 8 - 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, currently Wells Fargo Bank ("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.

SCHOOL OF AMERICAN BALLET, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2012****Note 8 - Financing Obligation (continued)**

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 & Smith, Inc., the Remarketing Agent. As of August 31, 2012, this interest rate was 0.19%; it averaged 0.16% during 2012. The School has an option to convert the interest to a fixed rate.

On October 1, 2011, the School entered into an interest rate swap contract ("Swap") with Wells Fargo. The agreement ends on October 1, 2031, but may be terminated after August 1, 2016 without penalty. Under the Swap contract, the School will pay interest at a fixed rate of 2.72% and receives interest at 63% of one month LIBOR plus 0.17%. This Swap is designed to limit the risk of changes in the interest payments on the bonds. The carrying amount of the Swap will be adjusted annually to its fair value at the end of the year. Due to market expectation that interest rates will be lower than the fixed rate being paid by the School, a liability resulted at August 31, 2012 for the fair value of future new payments forecasted under the Swap.

Bond interest expense for 2012 and 2011 was \$13,345 and \$19,799, respectively. Net payments under the Swap transaction were \$188,480 from inception, October 1, 2011 through August 31, 2012. The net effective interest rate of the combined bond issue and Swap transaction was 2.54% for the year.

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.

Note 9 - 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 three years. The retirement plan expense amounted to \$182,161 and \$165,749 during fiscal years 2012 and 2011, respectively. These contributions were based on a contribution rate of 5% of each participant's regular annual compensation.

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

Note 10 - 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 the New York Prudent Management of Institutional Funds Act (NYPMIFA), the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. 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 \$8,413,521 and \$9,401,726 at August 31, 2012 and 2011, 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 performance, and the physical therapy program. The accumulated earnings of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School.

In accordance with NYPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (i) the duration and preservation of the endowment fund;
- (ii) the purposes of the School and the endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of the School;
- (vii) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the School; and
- (viii) the investment policy of the School

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

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted endowment funds	\$ (1,499,506)	\$ -	\$24,095,988	\$22,596,482
Board designated endowment funds	<u>33,378,126</u>	<u>-</u>	<u>-</u>	<u>33,378,126</u>
Total Endowment Funds	<u>\$31,878,620</u>	<u>\$ -</u>	<u>\$24,095,988</u>	<u>\$55,974,608</u>

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

Note 10 - Endowment Funds (continued)

	<u>2011</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor restricted endowment funds	\$ (1,317,978)	\$ -	\$23,764,226	\$22,446,248
Board designated endowment funds	<u>33,090,581</u>	<u>-</u>	<u>-</u>	<u>33,090,581</u>
Total Endowment Funds	<u>\$31,772,603</u>	<u>\$ -</u>	<u>\$23,764,226</u>	<u>\$55,536,829</u>

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

	<u>2012</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment funds, beginning of year	<u>\$31,772,603</u>	<u>\$ -</u>	<u>\$23,764,226</u>	<u>\$55,536,829</u>
Reclassification of donor restrictions	<u>-</u>	<u>286,741</u>	<u>(286,741)</u>	<u>-</u>
Investment Return:				
Investment income, net of fees and other expenses	157,677	132,175	(24,442)	265,410
Net appreciation (realized and unrealized)	<u>1,180,034</u>	<u>801,090</u>	<u>306,580</u>	<u>2,287,704</u>
Total Investment Return	<u>1,337,711</u>	<u>933,265</u>	<u>282,138</u>	<u>2,553,114</u>
Contributions rewarded, royalties and payments on pledges (net of revaluations)	<u>412,815</u>	<u>-</u>	<u>336,365</u>	<u>749,180</u>
Appropriation of endowment assets for expenditure	<u>(1,644,509)</u>	<u>(1,220,006)</u>	<u>-</u>	<u>(2,864,515)</u>
Endowment Funds, End of Year	<u>\$31,878,620</u>	<u>\$ -</u>	<u>\$24,095,988</u>	<u>\$55,974,608</u>

SCHOOL OF AMERICAN BALLET, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

Note 10 - Endowment Funds (continued)

	2011			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$31,120,038	\$ -	\$22,971,522	\$54,091,560
Investment Return:				
Investment income, net of fees and other expenses	303,937	238,311	(45,028)	497,220
Net appreciation (realized and unrealized)	<u>2,898,260</u>	<u>982,470</u>	<u>731,057</u>	<u>4,611,787</u>
Total Investment Return	<u>3,202,197</u>	<u>1,220,781</u>	<u>686,029</u>	<u>5,109,007</u>
Contributions rewarded, royalties and payments on pledges (net of revaluations)	<u>610,343</u>	<u>-</u>	<u>106,675</u>	<u>717,018</u>
Appropriation of endowment assets for expenditure	<u>(1,616,758)</u>	<u>(1,220,781)</u>	<u>-</u>	<u>(2,837,539)</u>
Reclassification of investments relating to operating reserve	<u>(1,543,217)</u>	<u>-</u>	<u>-</u>	<u>(1,543,217)</u>
Endowment Funds, End of Year	<u>\$31,772,603</u>	<u>\$ -</u>	<u>\$23,764,226</u>	<u>\$55,536,829</u>

The fair value of assets associated with individual donor restricted endowment funds may fall below the level required to be retained as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$1,499,506 and \$1,317,978 at August 31, 2012 and 2011, respectively.

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.

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, 2012

Note 11 - Special Events

The following is a summary of the net income generated by the fundraising benefits held in fiscal years 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Gross benefit income	\$2,042,808	\$2,066,630
Direct expenses	<u>(254,564)</u>	<u>(275,972)</u>
	1,788,244	1,790,658
Indirect expenses	<u>(255,633)</u>	<u>(252,208)</u>
Net Income from Benefits	<u>\$1,532,611</u>	<u>\$1,538,450</u>

Note 12 - Functional Allocation of Expenses

The cost of providing the various program and 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.