

**SCHOOL OF AMERICAN BALLET, INC.**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2015**



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of School of American Ballet, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited School of American Ballet, Inc.'s 2014 financial statements, and our report dated January 13, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Lotz + Carr, LLP*

New York, New York  
January 8, 2016

## SCHOOL OF AMERICAN BALLET, INC.

## STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2015 Total	2014 Total	
	General Operations	Board Designated and Other (Note 2a)	Plant					Total Unrestricted
<b>Assets</b>								
Current Assets								
Cash and cash equivalents (Notes 1b and 3)	\$ 347,342	\$ 117,057	\$ 738,448	\$ 1,202,847	\$ -	\$ 5,000	\$ 1,207,847	\$ 566,077
Tuition, interest and other receivables	94,205	9,225	-	103,430	-	5,000	108,430	81,859
Unconditional promises to give (Notes 1c and 4)	547,840	133,786	487,500	1,169,126	447,500	1,760,000	3,376,626	959,788
Prepaid expenses and other current assets	127,192	8,139	-	135,331	-	-	135,331	253,119
Total Current Assets	<u>1,116,579</u>	<u>268,207</u>	<u>1,225,948</u>	<u>2,610,734</u>	<u>447,500</u>	<u>1,770,000</u>	<u>4,828,234</u>	<u>1,860,843</u>
Other Assets								
Investments, at fair value (Notes 1e, 1f and 5)	1,528,465	32,490,560	-	34,019,025	940,054	26,926,626	61,885,705	66,455,245
Interfund receivable (payable)	(126,289)	-	(120,814)	(247,103)	247,103	-	-	-
Unconditional promises to give (Notes 1c and 4)	-	269,740	-	269,740	239,064	4,661,976	5,170,780	1,078,734
Property, equipment and land, at cost, less accumulated depreciation (Notes 1d, 6, 7 and 8)	-	-	19,547,692	19,547,692	-	-	19,547,692	16,697,818
Capitalized financing costs, net of accumulated amortization (Note 1d)	-	-	304,518	304,518	-	-	304,518	308,786
<b>Total Assets</b>	<u>\$2,518,755</u>	<u>\$33,028,507</u>	<u>\$20,957,344</u>	<u>\$56,504,606</u>	<u>\$ 1,873,721</u>	<u>\$33,358,602</u>	<u>\$91,736,929</u>	<u>\$86,401,426</u>
<b>Liabilities and Net Assets</b>								
Liabilities								
Current Liabilities								
Accounts payable and other liabilities	\$1,267,269	\$ -	\$ 2,265,159	\$ 3,532,428	\$ -	\$ -	\$ 3,532,428	\$ 1,002,674
Deferred income (Note 1g)	1,203,223	-	-	1,203,223	-	10,000	1,213,223	1,202,336
Total Current Liabilities	<u>2,470,492</u>	<u>-</u>	<u>2,265,159</u>	<u>4,735,651</u>	<u>-</u>	<u>10,000</u>	<u>4,745,651</u>	<u>2,205,010</u>
Financing obligation payable (Note 8)	-	-	8,600,000	8,600,000	-	-	8,600,000	8,600,000
Obligation under interest rate swap (Note 8)	-	-	138,439	138,439	-	-	138,439	179,833
Total Liabilities	<u>2,470,492</u>	<u>-</u>	<u>11,003,598</u>	<u>13,474,090</u>	<u>-</u>	<u>10,000</u>	<u>13,484,090</u>	<u>10,984,843</u>
Commitments (Notes 6 and 13)								
Net Assets (Note 2)								
Unrestricted	48,263	33,028,507	9,953,746	43,030,516	-	-	43,030,516	45,136,671
Temporarily restricted	-	-	-	-	1,873,721	-	1,873,721	3,198,512
Permanently restricted	-	-	-	-	-	33,348,602	33,348,602	27,081,400
Total Net Assets	<u>48,263</u>	<u>33,028,507</u>	<u>9,953,746</u>	<u>43,030,516</u>	<u>1,873,721</u>	<u>33,348,602</u>	<u>78,252,839</u>	<u>75,416,583</u>
<b>Total Liabilities and Net Assets</b>	<u>\$2,518,755</u>	<u>\$33,028,507</u>	<u>\$20,957,344</u>	<u>\$56,504,606</u>	<u>\$ 1,873,721</u>	<u>\$33,358,602</u>	<u>\$91,736,929</u>	<u>\$86,401,426</u>

See notes to financial statements.

## SCHOOL OF AMERICAN BALLET, INC.

## STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2015 Total	2014 Total	
	General Operations	Board Designated and Other (Note 2a)	Plant					Total Unrestricted
<b>Revenue</b>								
Tuition and fees (Note 1g)	\$ 3,234,568	\$ -	\$ -	\$ 3,234,568	\$ -	\$ -	\$ 3,234,568	\$ 3,137,049
Room and board fees	1,535,109	-	-	1,535,109	-	-	1,535,109	1,627,278
Scholarships applied to student income (Note 10)	(1,732,842)	-	-	(1,732,842)	-	-	(1,732,842)	(1,598,124)
Net tuition, fees, room and board fees	3,036,835	-	-	3,036,835	-	-	3,036,835	3,166,203
Other income	291,479	-	83	291,562	-	34,958	326,520	363,369
Total Revenue	3,328,314	-	83	3,328,397	-	34,958	3,363,355	3,529,572
<b>Support</b>								
Contributions (Note 6)	2,438,799	606,019	2,492,500	5,537,318	820,252	7,238,158	13,595,728	3,498,903
Special events revenue (Note 11)	2,799,835	-	-	2,799,835	-	-	2,799,835	2,558,766
Less: Special events direct expenses (Note 11)	(377,136)	-	-	(377,136)	-	-	(377,136)	(344,028)
Net assets released from restrictions								
Satisfaction of time and program restrictions (\$303,784 in 2014)	483,384	-	-	483,384	(483,384)	-	-	-
Total Support	5,344,882	606,019	2,492,500	8,443,401	336,868	7,238,158	16,018,427	5,713,641
<b>Investment Income Available for Operations</b>								
Per Board-approved spending policy (Notes 5 and 9) (\$2,786,710 in 2014)	2,830,914	(1,622,502)	-	1,208,412	(1,208,412)	-	-	-
Total Revenue, Support and Investment Income Available for Operations	11,504,110	(1,016,483)	2,492,583	12,980,210	(871,544)	7,273,116	19,381,782	9,243,213
<b>Expenses</b>								
Program Services								
Teaching and other artistic programs	5,050,906	-	374,147	5,425,053	-	-	5,425,053	5,141,969
Student services and residence	3,236,919	-	441,301	3,678,220	-	-	3,678,220	3,562,271
Supporting Services								
General administration	1,308,622	-	375,985	1,684,607	-	-	1,684,607	1,524,218
Development	1,506,754	-	76,748	1,583,502	-	-	1,583,502	1,515,479
Total Expenses	11,103,201	-	1,268,181	12,371,382	-	-	12,371,382	11,743,937
Increase (Decrease) in Net Assets Before Item Below (carried forward)	400,909	(1,016,483)	1,224,402	608,828	(871,544)	7,273,116	7,010,400	(2,500,724)

See notes to financial statements.

## SCHOOL OF AMERICAN BALLET, INC.

## STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	Unrestricted			Temporarily Restricted (Note 2b)	Permanently Restricted (Note 2c)	2015 Total	2014 Total	
	General Operations	Board Designated and Other (Note 2a)	Plant					Total Unrestricted
Increase (Decrease) in Net Assets Before Item Below (brought forward)	\$ 400,909	\$ (1,016,483)	\$1,224,402	\$ 608,828	\$ (871,544)	\$ 7,273,116	\$ 7,010,400	\$ (2,500,724)
Appropriations (Note 12)	(396,365)	(47,880)	444,245	-	-	-	-	-
Increase (Decrease) in Net Assets Before Non-Operating Activities	4,544	(1,064,363)	1,668,647	608,828	(871,544)	7,273,116	7,010,400	(2,500,724)
<b>Non-Operating Activities</b>								
Investment income (Notes 1e and 5)	-	3,363,693	-	3,363,693	1,764,763	346,509	5,474,965	8,349,345
Net unrealized gains on investments (Notes 1e and 5)	-	(5,489,780)	-	(5,489,780)	(2,138,773)	(1,304,997)	(8,933,550)	(646,447)
Direct investment expenses	-	(208,276)	-	(208,276)	(79,237)	(47,426)	(334,939)	(342,583)
Capital campaign expenses	-	(400,876)	-	(400,876)	-	-	(400,876)	(142,662)
Gift annuity expense	-	(21,138)	-	(21,138)	-	-	(21,138)	(8,100)
Change in fair value of interest rate swap (Note 8)	-	-	41,394	41,394	-	-	41,394	(207,272)
Increase (Decrease) in Non-Operating Activities	-	(2,756,377)	41,394	(2,714,983)	(453,247)	(1,005,914)	(4,174,144)	7,002,281
Increase (decrease) in net assets	4,544	(3,820,740)	1,710,041	(2,106,155)	(1,324,791)	6,267,202	2,836,256	4,501,557
Net assets, beginning of year (Note 2b)	43,719	36,849,247	8,243,705	45,136,671	3,198,512	27,081,400	75,416,583	70,915,026
<b>Net Assets, End of Year</b>	<u>\$ 48,263</u>	<u>\$33,028,507</u>	<u>\$9,953,746</u>	<u>\$43,030,516</u>	<u>\$ 1,873,721</u>	<u>\$33,348,602</u>	<u>\$78,252,839</u>	<u>\$75,416,583</u>

See notes to financial statements.

## SCHOOL OF AMERICAN BALLET, INC.

## STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$2,836,256	\$4,501,557
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	959,351	874,903
Amortization of bond issuance costs	12,263	12,263
Amortization of swap transaction costs	3,001	3,001
Net realized and unrealized (gains) losses on investments	4,228,234	(6,959,478)
Change in fair value of interest rate swap	(41,394)	207,272
Cash received from permanently restricted contributions and other income	(1,858,237)	(134,669)
(Increase) decrease in:		
Tuition, interest and other receivables	(26,571)	(51,620)
Unconditional promises to give	(6,508,884)	(97,455)
Prepaid expenses and other current assets	117,788	(149,134)
Increase (decrease) in:		
Accounts payable and other liabilities	323,143	(13,577)
Deferred income	10,887	126,459
Net Cash Provided (Used) By Operating Activities	<u>55,837</u>	<u>(1,680,478)</u>
<b>Cash Flows From Investing Activities</b>		
Sales (purchases) of investments, net	341,306	1,996,448
Disbursements for property and equipment	(1,602,614)	(347,500)
Cash received from permanently restricted contributions and other income	1,858,237	134,669
Net Cash Provided By Investing Activities	<u>596,929</u>	<u>1,783,617</u>
<b>Cash Flows From Financing Activities</b>		
Payments of financing costs	(10,996)	-
Net increase in cash and cash equivalents	641,770	103,139
Cash and cash equivalents, beginning of year	<u>566,077</u>	<u>462,938</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$1,207,847</u>	<u>\$ 566,077</u>
<b>Supplemental Information</b>		
Interest paid (bond issue and related interest swap)	<u>\$ 213,897</u>	<u>\$ 215,577</u>

See notes to financial statements.

**SCHOOL OF AMERICAN BALLET, INC.****NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2015****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

The School of American Ballet, Inc. ("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 its 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.

**d - Property, Equipment and Capitalized Financing Costs**

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

Capitalized financing costs are amortized over the lives of the respective loans. Accumulated amortization was \$122,118 and \$106,855 at August 31, 2015 and 2014, respectively.

**e - Investments**

The School reflects investments at fair value in the statement of financial position. Interest, dividends and realized and unrealized 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, 2015****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****e - Investments (continued)**

The fair values of investment funds and 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.

**f - Fair Value Measurements**

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.

**SCHOOL OF AMERICAN BALLET, INC.****NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2015****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****f - Fair Value Measurements (continued)**

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds, as opposed to direct interests in those funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the fund's interest therein, its classification in Level 2 or 3 is based on the School's ability to redeem its interest at or near the measurement date. If the interests can be redeemed in the near term (within 90 days), the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

**g - 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.

**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.

**j - 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. The School's tax returns are generally subject to examination by taxing authorities for a period of three years from the date of filing.

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2015**

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

k - Subsequent Events

The School has evaluated subsequent events through January 8, 2016, the date that the financial statements are considered available to be issued.

**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 9, a portion of the income from the board designated endowment is applied to scholarships, faculty salaries and other operating expenses.

In addition, the School's Board has designated funds to be allocated to an operating reserve, which provides for operating and capital contingencies, including current and anticipated major Rose Building repair projects, and additional tuition assistance funding.

As more fully described in Note 9, there is a deficiency in donor restricted endowment funds which is included below. This deficiency is currently offset by the board designated endowment.

Board designated net assets are comprised as follows:

	<u>2015</u>	<u>2014</u>
Board designated endowment	\$34,774,032	\$38,595,251
Donor restricted endowment (deficiency)	(3,427,481)	(3,475,839)
Operating reserve	<u>1,681,956</u>	<u>1,729,835</u>
	<u>\$33,028,507</u>	<u>\$36,849,247</u>

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2015**

**Note 2 - Restrictions on Assets (continued)**

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following:

	<b>2015</b>	<b>2014</b>
Future programs	\$ 756,944	\$ 411,186
Future periods	176,723	185,613
Accumulated endowment earnings	940,054	2,601,713
	<b>\$1,873,721</b>	<b>\$3,198,512</b>

Temporarily restricted net assets at August 31, 2014, have been restated to include accumulated investment earnings of endowment funds reflecting surplus balances.

c - Permanently Restricted Net Assets

Permanently restricted net assets consist of donor restricted funds.

**Note 3 - Concentration of Credit Risk**

The School maintains significant cash balances at two financial institutions, which at times exceed federally insured limits.

**Note 4 - Unconditional Promises to Give**

Unconditional promises to give are due as follows:

	<b>Unrestricted</b>		<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2015 Total</b>	<b>2014 Total</b>
	<b>General Operations</b>	<b>Board Designated</b>				
Due in less than one year	\$1,035,340	\$133,786	\$447,500	\$1,760,000	\$3,376,626	\$ 959,788
Due in one to five years	-	289,073	257,500	4,990,000	5,536,573	1,141,240
Less: Discount to present value	-	(19,333)	(18,436)	(328,024)	(365,793)	(62,506)
	-	269,740	239,064	4,661,976	5,170,780	1,078,734
Total 2015	\$1,035,340	\$403,526	\$686,564	\$6,421,976	\$8,547,406	
Total 2014	\$ 544,288	\$194,504	\$356,603	\$ 943,127		\$2,038,522

Unconditional promises to give due after one year have been discounted to net present value using a discount rate of 3% per annum. No reserve for uncollectible amounts was required at August 31, 2015 or 2014.

## SCHOOL OF AMERICAN BALLET, INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2015

**Note 5 - Investments**

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

	<u>2015</u>		<u>2014</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash held for investment	\$ 5,516,364	\$ 5,516,364	\$ 3,082,885	\$ 3,082,885
Investment Funds				
Equity	33,052,563	36,037,832	35,530,937	32,607,031
Fixed income	7,313,145	7,442,691	7,298,341	7,088,211
Alternative Investments				
Hedge fund investments	15,001,752	13,387,667	19,491,757	15,179,643
Real estate	<u>1,001,881</u>	<u>1,072,676</u>	<u>1,051,325</u>	<u>1,135,450</u>
	<u>\$61,885,705</u>	<u>\$63,457,230</u>	<u>\$66,455,245</u>	<u>\$59,093,220</u>

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

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

	<u>2015</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash held for investment	\$ 5,516,364	\$ 5,516,364	\$ -	\$ -
Investment Funds				
Equity	33,052,563	21,614,709	11,437,854	-
Fixed income	7,313,145	5,352,567	1,960,578	-
Alternative Investments				
Hedge fund investments	15,001,752	-	6,359,660	8,642,092
Real estate	<u>1,001,881</u>	<u>-</u>	<u>-</u>	<u>1,001,881</u>
	<u>\$61,885,705</u>	<u>\$32,483,640</u>	<u>\$19,758,092</u>	<u>\$9,643,973</u>

## SCHOOL OF AMERICAN BALLET, INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2015

Note 5 - Investments (continued)

	<b>2014</b>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash held for investment	\$ 3,082,885	\$ 3,082,885	\$ -	\$ -
Investment Funds				
Equity	35,530,937	25,437,634	10,093,303	-
Fixed income	7,298,341	5,307,808	1,990,533	-
Alternative Investments				
Hedge fund investments	19,491,757	-	5,364,563	14,127,194
Real estate	<u>1,051,325</u>	<u>-</u>	<u>-</u>	<u>1,051,325</u>
	<u>\$66,455,245</u>	<u>\$33,828,327</u>	<u>\$17,448,399</u>	<u>\$15,178,519</u>

The following summarizes changes in fair value of the School's Level 3 assets for the year ended August 31, 2015:

Balance, beginning of year	\$15,178,519
Unrealized losses	(2,458,809)
Realized gains	2,370,899
Purchases	5,109,846
Redemptions	(9,548,560)
Reclassification of investment	(1,006,476)
Investment income	1,833
Management fees	<u>(3,279)</u>
Balance, End of Year	<u>\$ 9,643,973</u>

The alternative investments included in the School's investment portfolios are redeemable based upon the following terms and conditions at August 31, 2015:

Daily redemption	\$ 1,339,803
Quarterly redemption	8,053,874
Annual redemption	3,575,119
No opportunity for discretionary redemption	2,449,093
Investment redeemed - waiting for release	<u>585,744</u>
	<u>\$16,003,633</u>

Management estimates that the majority of the alternative investments for which there is no opportunity for discretionary redemption could be liquidated within five years.

The School recognizes transfers between levels of the fair value hierarchy on the date of the event or changes in circumstances that caused the transfer. There were no transfers to or from level 1.

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2015**

**Note 5 - Investments (continued)**

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 769,649	\$ 743,420
Net realized gains	<u>4,705,316</u>	<u>7,605,925</u>
Investment Income	5,474,965	8,349,345
Net unrealized losses on investments	(8,933,550)	(646,447)
Direct investment expenses	<u>(334,939)</u>	<u>(342,583)</u>
Total Investment Return	<u><u>\$(3,793,524)</u></u>	<u><u>\$7,360,315</u></u>

The School's alternative investments are diversified across two basic investment strategies as follows:

*Hedge Fund Investments*

The School invests in a range of hedge fund strategies that encompass both direct fund investments as well as fund of funds investments. The underlying investments of this alternative asset category encompass a broad spectrum of strategies primarily involving marketable securities and with an ultimate objective of taking advantage of market mispricings to generate attractive risk-adjusted returns with limited market sensitivity. The mix of underlying investments includes event-driven strategies seeking to exploit mispricings driven by shorter term market events such as a merger, spinoff, corporate reorganization or transition. Underlying investments also include strategies seeking to benefit from providing capital to companies in distress, working through bankruptcy or requiring short term infusions of liquidity. Further, the hedge funds' strategies also incorporate long/short equity investments in which managers seek to generate returns on both long and short positions in marketable equities, thereby seeking equity-like returns with reduced volatility and greater downside protection.

*Real Estate*

The School invests in illiquid, limited partnership investments in real estate opportunities via funds of funds. The underlying partnerships invest in the debt and equity of real estate investments focused on the purchase and development, improvement, and management of residential, commercial and industrial real estate. Value added is sought through improvements in rental income and gains from the eventual property sales.

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2015**

**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 2015 and 2014, the Consolidated Fund drive paid \$129,113 for each year to the School for operating support and in return, the School solicited 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 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 monthly charges are based on the School's share of the costs to operate the completed facility.

Rose Building operating expenses for fiscal years 2015 and 2014 were \$2,273,541 and \$2,076,363, respectively. This amount is allocated to the appropriate departments to represent normal operating usage patterns partially based on cubic feet and partially based on additional building projects undertaken, relating directly to specific departments. The totals per department were:

	<u>2015</u>	<u>2014</u>
1) Teaching and other artistic programs	\$ 780,991	\$ 711,141
2) Student services and residence	1,192,169	1,091,706
3) General administration	140,178	127,641
4) Development	<u>160,203</u>	<u>145,875</u>
	<u>\$2,273,541</u>	<u>\$2,076,363</u>



**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2015**

**Note 7 - Property, Equipment and Land**

Property, equipment and land consist of the following:

	<u>Life</u>	<u>2015</u>	<u>2014</u>
Furniture, equipment and computers	3-10 years	\$ 2,992,143	\$ 2,885,867
Capitalized construction costs:			
Interior costs	20 years	9,804,899	9,723,826
Core and shell costs	20-40 years	19,500,264	19,310,983
New studio construction costs	30 years	7,307,784	7,307,784
Building renovations in progress		<u>3,432,595</u>	<u>-</u>
		43,037,685	39,228,460
Less: Accumulated depreciation		<u>(25,557,040)</u>	<u>(24,597,689)</u>
		17,480,645	14,630,771
Land		<u>2,067,047</u>	<u>2,067,047</u>
		<u>\$19,547,692</u>	<u>\$16,697,818</u>

Total depreciation expense for the years ended August 31, 2015 and 2014 was \$959,351 and \$874,903, respectively.

**Note 8 - Financing Obligation**

On August 8, 2006, The Trust for Cultural Resources of the City of New York (the "Trust") issued Revenue Bonds, Series 2006 (the "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 (the "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 were released to the School upon presentation of eligible costs relating to the Project to Bank of New York. The Bond proceeds have been fully expended.

Neither the Series 2006 Bonds nor the School's obligations 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.

**SCHOOL OF AMERICAN BALLET, INC.****NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2015****Note 8 - Financing Obligation (continued)**

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. The School is exploring refinancing options due to the upcoming expiration date.

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, 2015, this interest rate was 0.02%; it averaged 0.04% during 2015. 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 (the "Swap") with the Bank. 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, 2015 for the fair value of future new payments forecasted under the Swap.

Bond interest expense for 2015 and 2014 was \$3,561 and \$4,912, respectively. Net payments under the Swap transaction for 2015 and 2014 were \$209,946 and \$210,596, respectively. The net effective interest rate of the combined bond issue and Swap transaction was 2.48% for 2015 and 2.51% for 2014.

**Note 9 - Endowment Funds**

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

Consistent with 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 gifts specify that realized and unrealized gains and losses be retained in permanently restricted net assets. The fair value of these gifts and accumulated realized and unrealized gains and losses were \$8,903,107 and \$9,909,022 at August 31, 2015 and 2014, respectively.

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2015**

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

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School.

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.

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:

	<b>2015</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor-restricted endowment funds	\$ (3,427,481)	\$940,054	\$26,926,626	\$24,439,199
Board designated endowment funds	<u>33,695,357</u>	-	-	<u>33,695,357</u>
Total Endowment Funds	<u>\$30,267,876</u>	<u>\$940,054</u>	<u>\$26,926,626</u>	<u>\$58,134,556</u>
	<b>2014</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (3,475,839)	\$2,601,713	\$26,068,601	\$25,194,475
Board designated endowment funds	<u>37,089,964</u>	-	-	<u>37,089,964</u>
Total Endowment Funds	<u>\$33,614,125</u>	<u>\$2,601,713</u>	<u>\$26,068,601</u>	<u>\$62,284,439</u>

## SCHOOL OF AMERICAN BALLET, INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2015

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

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

	<b>2015</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment funds, beginning of year	<u>\$33,614,125</u>	<u>\$2,601,713</u>	<u>\$26,068,601</u>	<u>\$62,284,439</u>
Investment Return:				
Investment income, net of fees and other expenses	243,976	218,670	(47,426)	415,220
Net appreciation (realized and unrealized)	<u>(2,338,577)</u>	<u>(671,917)</u>	<u>(958,489)</u>	<u>(3,968,983)</u>
Total Investment Return	<u>(2,094,601)</u>	<u>(453,247)</u>	<u>(1,005,915)</u>	<u>(3,553,763)</u>
Contributions, royalties and payments on pledges	<u>370,854</u>	-	<u>1,863,940</u>	<u>2,234,794</u>
Appropriation of endowment assets for expenditure	<u>(1,622,502)</u>	<u>(1,208,412)</u>	-	<u>(2,830,914)</u>
Endowment Funds, End of Year	<u>\$30,267,876</u>	<u>\$ 940,054</u>	<u>\$26,926,626</u>	<u>\$58,134,556</u>
	<b>2014</b>			
	<b>* Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment funds, beginning of year	<u>\$31,087,889</u>	<u>\$1,442,860</u>	<u>\$25,041,756</u>	<u>\$57,572,505</u>
Investment Return:				
Investment income, net of fees and other expenses	212,753	198,094	(52,931)	357,916
Net appreciation (realized and unrealized)	<u>3,865,832</u>	<u>1,632,394</u>	<u>1,015,853</u>	<u>6,514,079</u>
Total Investment Return	<u>4,078,585</u>	<u>1,830,488</u>	<u>962,922</u>	<u>6,871,995</u>
Contributions, royalties and payments on pledges	<u>562,726</u>	-	<u>63,923</u>	<u>626,649</u>
Appropriation of endowment assets for expenditure	<u>(2,115,075)</u>	<u>(671,635)</u>	-	<u>(2,786,710)</u>
Endowment Funds, End of Year	<u>\$33,614,125</u>	<u>\$2,601,713</u>	<u>\$26,068,601</u>	<u>\$62,284,439</u>

\* The permanently restricted endowment is comprised of a significant number of donor funds. Some of these funds reflect an excess of earnings over appropriations, some reflect deficits of earnings over appropriations, and some have negative earnings because of unrealized losses allocated to the permanently restricted portion of the endowment fund. The endowment balances at September 1, 2013, were reclassified to reflect as temporarily restricted the earnings over appropriations of those funds that had surpluses and as unrestricted for those funds that had deficits. In addition, certain 2014 unrestricted allocations were changed to exclude operating balances.

**SCHOOL OF AMERICAN BALLET, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2015**

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

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 \$2,487,427 and \$874,126 at August 31, 2015 and 2014, respectively.

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 fiscal year. The School's draw of investment income for operations has been set by the School's Board of Directors at 5% based on this formula which is consistent with NYPMIFA guidelines. The Board approved the transfer to operations of \$2,830,914 in 2015 and \$2,786,710 in 2014.

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.

All of the School's investments are pooled to facilitate their management. The School manages its pooled investments on a total return basis. The School's investment guidelines anticipate allocation of funds across a number of asset classes. Dividends, interest and net realized and unrealized gains (losses) are allocated to the various funds.

**Note 10 - Student Financial Aid**

Of the combined tuition and room and board fees (Statement of Activities - Revenues and Support), approximately 36% and 34% represents financial aid in fiscal years 2015 and 2014, respectively.

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

	<u>2015</u>	<u>2014</u>
Tuition	\$1,169,880	\$1,071,557
Room and board fees	<u>562,962</u>	<u>526,567</u>
	1,732,842	1,598,124
External academic expenses and other student aid	<u>290,776</u>	<u>245,274</u>
	<u>\$2,023,618</u>	<u>\$1,843,398</u>

## SCHOOL OF AMERICAN BALLET, INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2015

**Note 11 - Special Events**

The following is a summary of the net income generated by fundraising benefits held in fiscal years 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Gross benefit income	\$2,799,835	\$2,558,766
Direct expenses	<u>(377,136)</u>	<u>(344,028)</u>
	2,422,699	2,214,738
Indirect expenses	<u>(269,553)</u>	<u>(247,074)</u>
Net Income from Benefits	<u>\$2,153,146</u>	<u>\$1,967,664</u>

**Note 12 - Appropriations**

Appropriations for the years ended August 31, 2015 and 2014 are as follows:

	<u>2015</u>			<u>2014</u>		
	<u>General Operations</u>	<u>Board Designated and Other</u>	<u>Plant</u>	<u>General Operations</u>	<u>Board Designated and Other</u>	<u>Plant</u>
Transfer for:						
Rose building plant improvement	\$ -	\$(152,880)	\$152,880	\$ -	\$(152,670)	\$152,670
Other capital expenditures	-	-	-	(206,389)	-	206,389
Supplemental scholarships	-	-	-	86,512	(86,512)	-
Board designated operating reserve	(105,000)	105,000	-	(150,000)	150,000	-
Capital campaign expenses	-	-	-	(142,662)	142,662	-
Financing obligation fees	<u>(291,365)</u>	<u>-</u>	<u>291,365</u>	<u>(293,987)</u>	<u>-</u>	<u>293,987</u>
	<u>\$(396,365)</u>	<u>\$ (47,880)</u>	<u>\$444,245</u>	<u>\$(706,526)</u>	<u>\$ 53,480</u>	<u>\$653,046</u>

**Note 13 - Retirement and Pension Plans****a - 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 \$187,017 and \$198,878 during fiscal years 2015 and 2014, 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, 2015**

**Note 13 - Retirement and Pension Plans (continued)**

**b - Union Pension Plan**

The School contributes to a multiemployer defined benefit pension plan benefitting unionized employees. The School employs orchestra members generally for a week or less. This orchestra accompanies the School's annual workshop performance at the end of the Winter Term. Orchestra personnel are union represented under a collective-bargaining agreement. The risks of participating in this multiemployer plan are:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the School chooses to stop participating in its multiemployer plan, the School may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The School's participation in this plan is summarized below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. The most recent Pension Protection Act (PPA) zone status available in 2015 and 2014 is for the plan's year-end at March 31, 2015 and 2014, respectively. The zone status is based on information that the School received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject, as applicable.

<u>Pension Fund</u>	<u>EIN/Pension Plan Number</u>	<u>Pension Protection Act Zone Status</u>		<u>FIP/RP Status Pending/Implemented</u>	<u>Contributions of the School</u>		<u>Surcharge Imposed</u>	<u>Expiration Date of Collective Bargaining Agreement</u>
		<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>		
Associated Musicians of Greater New York Local 802, American Federation of Musicians AFL-CIO	51-6120204/001	Red	Red	Implemented	<u>\$10,614</u>	<u>\$10,205</u>	Yes	December 31, 2017

The School's contributions to this plan listed above are not greater than 5% of the total plan contributions.

**SCHOOL OF AMERICAN BALLET, INC.****NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2015****Note 14 - 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.