

Kansas City Ballet Association

Auditor's Report and Financial Statements

June 30, 2016 and 2015

Kansas City Ballet Association
June 30, 2016 and 2015

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Independent Auditor's Report

Board of Directors
Kansas City Ballet Association
Kansas City, Missouri

We have audited the accompanying financial statements of the Kansas City Ballet Association, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's 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 the Kansas City Ballet Association as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Kansas City, Missouri
October 25, 2016

Kansas City Ballet Association
Statements of Financial Position
June 30, 2016 and 2015

Assets

	2016	2015
Cash and cash equivalents	\$ 1,163,983	\$ 1,288,975
Restricted cash and cash equivalents	74,131	167,056
Contributions, grants and accounts receivable	1,078,294	1,477,759
Prepaid expenses and other, net of accumulated amortization; 2016 - \$243,935, 2015 - \$225,169	696,383	581,992
Investments	10,406,190	10,274,819
Investment in supporting organization	52,804	70,079
Property and equipment, net of accumulated depreciation; 2016 - \$2,996,390, 2015 - \$2,877,149	2,047,688	1,213,983
Total assets	\$ 15,519,473	\$ 15,074,663

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 146,317	\$ 235,639
Accrued expenses	145,883	106,893
Advance ticket sales	679,096	716,884
Deferred revenue	368,181	291,906
Total liabilities	1,339,477	1,351,322

Net Assets

Unrestricted	3,144,583	2,337,213
Temporarily restricted	2,583,297	3,274,012
Permanently restricted	8,452,116	8,112,116
Total net assets	14,179,996	13,723,341
Total liabilities and net assets	\$ 15,519,473	\$ 15,074,663

Kansas City Ballet Association
Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Season and single ticket sales	\$ 4,193,900			\$ 4,193,900
School tuition	1,418,953			1,418,953
Interest and dividends	2,378	\$ 230,542		232,920
Net realized and unrealized losses		(391,509)		(391,509)
Other	174,316			174,316
	<u>5,789,547</u>	<u>(160,967)</u>		<u>5,628,580</u>
Contributions and grants				
Individuals/board	510,461	1,710	\$ 340,000	852,171
Business/corporate	243,221	5,000		248,221
Foundations	2,729,600	964,500		3,694,100
Kansas City Ballet Guild activities	314,815			314,815
Missouri Arts Council	128,555			128,555
School/education	194,077			194,077
	<u>4,120,729</u>	<u>971,210</u>	<u>340,000</u>	<u>5,431,939</u>
Net assets released from restrictions	<u>1,500,958</u>	<u>(1,500,958)</u>		<u>-</u>
Total revenues, gains and other support	<u>11,411,234</u>	<u>(690,715)</u>	<u>340,000</u>	<u>11,060,519</u>
Expenses and Losses				
Production	4,123,056			4,123,056
School	1,538,950			1,538,950
Marketing	1,271,688			1,271,688
General and administrative	3,146,660			3,146,660
Fundraising	523,510			523,510
	<u>10,603,864</u>			<u>10,603,864</u>
Change in Net Assets	807,370	(690,715)	340,000	456,655
Net Assets, Beginning of Year	<u>2,337,213</u>	<u>3,274,012</u>	<u>8,112,116</u>	<u>13,723,341</u>
Net Assets, End of Year	<u>\$ 3,144,583</u>	<u>\$ 2,583,297</u>	<u>\$ 8,452,116</u>	<u>\$ 14,179,996</u>

Kansas City Ballet Association
Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Season and single ticket sales	\$ 3,289,590			\$ 3,289,590
School tuition	1,310,831			1,310,831
Interest and dividends	2,146	\$ 88,688		90,834
Net realized and unrealized gains		206,124		206,124
Other	73,861			73,861
	<u>4,676,428</u>	<u>294,812</u>		<u>4,971,240</u>
Contributions and grants				
Individuals/board	522,440	22,405	\$ 1,119,101	1,663,946
Business/corporate	178,525	5,000		183,525
Foundations	3,269,501	1,395,699		4,665,200
Kansas City Ballet Guild activities	187,543	60,823		248,366
Missouri Arts Council	81,707			81,707
School/education	336,332	400		336,732
	<u>4,576,048</u>	<u>1,484,327</u>	<u>1,119,101</u>	<u>7,179,476</u>
Net assets released from restrictions	<u>427,047</u>	<u>(427,047)</u>		<u>-</u>
Total revenues, gains and other support	<u>9,679,523</u>	<u>1,352,092</u>	<u>1,119,101</u>	<u>12,150,716</u>
Expenses and Losses				
Production	3,512,569			3,512,569
School	1,296,994			1,296,994
Marketing	1,089,358			1,089,358
General and administrative	2,977,160			2,977,160
Fundraising	503,054			503,054
	<u>9,379,135</u>			<u>9,379,135</u>
Total expenses and losses	<u>9,379,135</u>			<u>9,379,135</u>
Change in Net Assets	300,388	1,352,092	1,119,101	2,771,581
Net Assets, Beginning of Year	<u>2,036,825</u>	<u>1,921,920</u>	<u>6,993,015</u>	<u>10,951,760</u>
Net Assets, End of Year	<u>\$ 2,337,213</u>	<u>\$ 3,274,012</u>	<u>\$ 8,112,116</u>	<u>\$ 13,723,341</u>

Kansas City Ballet Association
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	\$ 456,655	\$ 2,771,581
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	404,400	326,683
Net realized and unrealized (gains) losses on investments	391,509	(206,124)
Net gain on sale of property and equipment	(43,000)	-
Change in investment in supporting organization	17,275	26,120
Contributions received restricted for long-term investment	(340,000)	(1,119,101)
Contributions received restricted for acquisition of long-lived assets	(794,211)	(1,641,105)
Changes in		
Accounts receivable	399,465	(14,998)
Contributions and grants receivable	46,889	(23,064)
Costs incurred for future performances	-	(18,662)
Prepaid expenses and other	(133,157)	66,299
Accounts payable and accrued expenses	(36,790)	89,908
Advance ticket sales and deferred revenue	38,487	268,080
	<u>407,522</u>	<u>525,617</u>
Net cash provided by operating activities		
Investing Activities		
Change in restricted cash and cash receipts	92,925	(145,405)
Purchase of investments	(6,760,059)	(8,388,069)
Proceeds from sale of investments	6,237,179	7,334,932
Purchase of property and equipment	(1,232,881)	(636,788)
Proceeds from sale of property and equipment	43,000	-
	<u>(1,619,836)</u>	<u>(1,835,330)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from contributions restricted for long-term investment	340,000	1,119,101
Proceeds from contributions restricted for acquisition of long-lived assets	747,322	641,105
	<u>1,087,322</u>	<u>1,760,206</u>
Net cash provided by financing activities		
Increase (Decrease) in Cash and Cash Equivalents	(124,992)	450,493
Cash and Cash Equivalents, Beginning of Year	<u>1,288,975</u>	<u>838,482</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,163,983</u>	<u>\$ 1,288,975</u>
Supplemental Cash Flows Information		
Property and equipment purchases in accounts payable	\$ 25,156	\$ 38,698

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2016 and 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Kansas City Ballet Association (the Ballet) is a not-for-profit organization whose mission and principal activities are to stage and promote classical ballet in Kansas City, Missouri, and surrounding states. The Ballet's revenues and other support are derived principally from contributions and ticket sales.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Ballet is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Ballet is subject to federal income tax on any unrelated business taxable income. The Ballet files tax returns in the U.S. federal jurisdiction.

Cash and Cash Equivalents

The Ballet considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, cash equivalents consisted primarily of money market accounts.

At June 30, 2016, the Ballet's cash accounts exceeded federally insured limits by approximately \$1,421,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investments in the GKCCF money market pool are valued at net asset value which estimates fair value. Certificates of deposit are valued at the lower of cost or fair value. Investment return includes dividend, interest and realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2016 and 2015

The Ballet maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Prepaid Expenses and Other

Prepaid expenses and other consisted of general prepaid balances in addition to costs incurred for future performances and music and choreographic rights.

Costs incurred for future performances relate to performances to be presented in the next fiscal year. Ticket sales for future performances are recorded as advance ticket sales and deferred until the performance is presented.

Music and choreographic rights are stated at cost less accumulated amortization. Amortization is charged to expense in the fiscal year their respective performances take place or the date the rights expire.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Costume and production sets	3-10 years
Furniture and fixtures	5 years
Leasehold improvements	15 years
Prairie Village campus	5 years
Sound, lighting and other equipment	3-10 years

The Ballet capitalizes works of art at appraised or estimated fair value at the date of donation, as applicable.

Long-lived Asset Impairment

The Ballet evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2016 and 2015.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2016 and 2015

Deferred Revenue

Deferred revenue represents tuition payments received in advance relating to the School operated by the Ballet. Revenue is recognized during the school year.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Ballet has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Ballet in perpetuity.

Contributions, Grants and Accounts Receivable

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

At June 30, 2016 and 2015, accounts receivable primarily consisted of ticket, tuition and other receivables. If necessary, the Ballet will record an allowance for doubtful accounts, which is based upon a review of the outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances.

Contributed Services

Volunteers donate a significant amount of time in the Ballet's program services and fundraising activities. These services do not require specialized skills and the value of donated services has not been recognized in the financial statements.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2016 and 2015

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on major programs and supporting services benefited.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 2: Contributions, Grants and Accounts Receivable

Contributions at June 30 consisted of the following unconditional promises to give:

	2016	2015
Due within one year	\$ 983,754	\$ 1,306,969
Due in one to five years	49,739	121,200
	1,033,493	1,428,169
Less		
Allowance for uncollectible contributions	(4,125)	(4,125)
	\$ 1,029,368	\$ 1,424,044

Also, included in the contributions, grants and accounts receivable are \$48,926 and \$53,715 of accounts receivable for the years ended June 30, 2016 and 2015, respectively.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2016 and 2015

Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

	2016	2015
Money market funds	\$ 161,236	\$ 179,688
Common stock	1,955,187	1,984,990
Equity mutual funds	4,951,932	5,211,730
Fixed income mutual funds	391,553	539,852
Government and agency bonds	1,378,950	858,054
Corporate bonds	1,135,129	1,031,381
Municipal bonds	25,512	24,660
Certificates of deposit	406,691	405,422
GKCCF money market pool	-	22,163
Accrued interest	-	16,879
	<u>\$ 10,406,190</u>	<u>\$ 10,274,819</u>

Total investment return is comprised of the following:

	2016	2015
Interest and dividend income	\$ 232,920	\$ 90,834
Net realized and unrealized gains	<u>(391,509)</u>	<u>206,124</u>
	<u>\$ (158,589)</u>	<u>\$ 296,958</u>

Recurring Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2016 and 2015

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Money market funds	\$ 161,236	\$ 161,236		
Common stock	1,955,187	1,955,187		
Equity mutual funds	4,951,932	4,951,932		
Fixed income mutual funds	391,553	391,553		
Government and agency bonds	1,378,950		\$ 1,378,950	
Corporate bonds	1,135,129		1,135,129	
Municipal bonds	25,512		25,512	
	<u>\$ 9,999,499</u>	<u>\$ 7,459,908</u>	<u>\$ 2,539,591</u>	<u>\$ -</u>
June 30, 2015				
Money market funds	\$ 179,688	\$ 179,688		
Common stock	1,984,990	1,984,990		
Equity mutual funds	5,211,730	5,211,730		
Fixed income mutual funds	539,852	539,852		
Government and agency bonds	858,054		\$ 858,054	
Corporate bonds	1,031,381		1,031,381	
Municipal bonds	24,660		24,660	
GKCCF money market pool	22,163		22,163	
	<u>\$ 9,852,518</u>	<u>\$ 7,916,260</u>	<u>\$ 1,936,258</u>	<u>\$ -</u>

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2016.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2016 and 2015

Note 4: Investment in Supporting Organization

The Ballet and Kansas City Ballet Guild (the Guild) organize and sponsor fundraising events, the proceeds of which are donated to the Ballet. Included in the statements of activities are net contributions solicited on behalf of the Ballet by the Guild amounting to \$314,815 and \$248,366 for the years ended June 30, 2016 and 2015, respectively.

Note 5: Property and Equipment

Property and equipment at June 30 consisted of:

	2016	2015
Costume and production sets	\$ 3,113,541	\$ 2,344,086
Furniture and fixtures	515,411	513,700
Leasehold improvements	150,137	110,728
Prairie Village campus	50,000	50,000
Sound, lighting and other equipment	1,103,645	961,274
Artwork	111,344	111,344
	<u>5,044,078</u>	<u>4,091,132</u>
Less accumulated depreciation	<u>2,996,390</u>	<u>2,877,149</u>
	<u>\$ 2,047,688</u>	<u>\$ 1,213,983</u>

Note 6: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 were available for the following purposes or periods:

	2016	2015
General operations	\$ 1,207,381	\$ 778,227
Bolender facility	244,428	689,910
Dancer salaries	44,543	177,930
Scholarships	43,574	70,892
Costumes	7,496	40,322
For periods after June 30	1,030,657	1,508,873
Other purposes	5,218	7,858
	<u>\$ 2,583,297</u>	<u>\$ 3,274,012</u>

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2016 and 2015

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 consisted of the following funds in which the income is restricted for the following:

	2016	2015
General operations	\$ 2,727,597	\$ 2,477,622
Bolender facility	4,154,997	4,064,997
Dancer salaries	1,000,000	1,000,000
Scholarships	319,522	319,497
Costumes	250,000	250,000
	<u>\$ 8,452,116</u>	<u>\$ 8,112,116</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying restricted purposes or by occurrence of other events specified by donors.

	2016	2015
General operations	\$ -	\$ 30,000
Bolender facility	-	106,676
Scholarships	19,834	19,189
Costumes	27,689	-
Time restrictions expired and other purposes	1,453,435	271,182
	<u>\$ 1,500,958</u>	<u>\$ 427,047</u>

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2016 and 2015

Note 7: Endowment

The Ballet's endowment consists of nine individual donor-restricted funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Ballet's governing body has interpreted the Uniform Prudent Management of Institutional Funds Act as adopted in the state of Missouri (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Ballet classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Ballet in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Ballet considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Ballet and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Ballet
7. Investment policies of the Ballet

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2016 and 2015

The composition of donor-restricted endowment fund net assets at June 30 and the changes in endowment net assets for the years ended June 30, 2016 and 2015 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	\$ -	\$ 1,618,334	\$ 6,993,015	\$ 8,611,349
Investment return				
Investment income	-	88,688	-	88,688
Net appreciation	-	206,124	-	206,124
Total investment return	-	294,812	-	294,812
Contributions	-	-	1,119,101	1,119,101
Appropriation of endowment assets for expenditure	-	(155,865)	-	(155,865)
Endowment net assets, June 30, 2015	-	1,757,281	8,112,116	9,869,397
Investment return				
Investment income	-	230,542	-	230,542
Net appreciation	-	(391,509)	-	(391,509)
Total investment return	-	(160,967)	-	(160,967)
Contributions	-	-	340,000	340,000
Appropriation of endowment assets for expenditure	-	(48,931)	-	(48,931)
Endowment net assets, June 30, 2016	\$ -	\$ 1,547,383	\$ 8,452,116	\$ 9,999,499

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2016 and 2015

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets as of June 30 consisted of:

	2016	2015
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation	\$ 8,452,116	\$ 8,112,116
Temporarily restricted net assets		
Term endowment funds	\$ 1,093,922	\$ 324,036
Portion of perpetual endowment funds subject to a time restriction under UPMIFA		
With purpose restrictions	164,585	697,917
Without purpose restrictions	288,876	735,328
	\$ 1,547,383	\$ 1,757,281

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Ballet is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. The Ballet did not have any deficiencies of this nature at June 30, 2016 and 2015.

The Ballet has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Ballet must hold in perpetuity or for donor-specified periods. Under the Ballet's policies, endowment assets are invested in a manner that is intended to preserve and protect assets by earning a total return for each endowment appropriate to each fund's time horizon, liquidity needs and risk tolerance.

To satisfy its long-term rate of return objectives, the Ballet relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Ballet targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Ballet has a policy (the spending policy) of appropriating for expenditure each year no more than 5% of its endowment fund's average fair value over the prior three years through the year end preceding the year in which expenditure is planned. Accordingly, over the long term, the Ballet expects the current spending policy to preserve the endowment assets held in perpetuity and facilitate the funding of current and future charitable needs.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2016 and 2015

Note 8: Government Grants

The Ballet receives both federal and state government grants. The National Endowment for the Arts, a federal agency, provided grants for services in the amounts of \$0 and \$20,000 for the years ended June 30, 2016 and 2015, respectively. The Missouri Arts Council (MAC), a state agency, provided program assistance funds of \$128,555 and \$81,707 for the years ended June 30, 2016 and 2015, respectively.

During 2001, the Ballet entered into a matching grant with the Missouri Cultural Trust Fund (MCT). The grant guidelines were for the Ballet to raise \$1,281,750 in endowment funds from private donors by June 30, 2001, solely to support the Ballet and its mission. During 2002, the Ballet entered into an additional separate matching grant with the MCT. The grant guidelines were for the Ballet to raise \$1,000,000 in funds from private donors for the construction and operation of a new building. The agreements for the two matching grants discussed above state that the Ballet will receive a 5% return from the MCT on these designated funds each year, contingent upon the Missouri Legislature appropriating and transferring funds to the MCT.

Note 9: Operating Leases and Licensing Agreement

The Ballet has entered into a Licensing Agreement with the Kauffman Center for the Performing Arts (the Kauffman Center). The initial license term expires in 2031 with the right to extend the term for three subsequent 10-year terms. Under the Licensing Agreement, the Ballet is required to pay the Kauffman Center an initial annual license fee of \$240,000 for use of their facilities commencing September 1, 2011. The initial license fee will be increased annually by the greater of (i) the CPI increase for the previous calendar year or (ii) the increase in the Kauffman Center's operating costs for the facilities not to exceed 5%.

The Ballet leases the Bolender Center in Kansas City, Missouri under a sublease agreement expiring in August 2030. The Ballet also leases a dance facility in Johnson County, Kansas and office equipment that expire in various years through 2017. Future minimum payments under these agreements are:

2017	\$ 1,895,574
2018	1,893,037
2019	1,832,032
2020	1,822,980
2021	1,817,660
Thereafter	<u>16,986,250</u>
Total minimum lease payments	<u><u>\$ 26,247,533</u></u>

Rental expense for all operating leases was \$1,931,678 and \$1,908,038 for the years ended June 30, 2016 and 2015, respectively.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2016 and 2015

Note 10: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. These matters include the following:

Investments

The Ballet invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Contributions

Contributions from two foundations comprised approximately 64% and 60% of the total contributions and grants revenue for the years ended June 30, 2016 and 2015, respectively.

Depreciation

Significant estimates used in determining depreciation expense are described in Note 1.

Functional Allocation of Expenses

Significant estimates involved in functional expense allocations are described in Note 1.

Supplementary Information

Kansas City Ballet Association
Statement of Functional Expenses
Year Ended June 30, 2016

	Production	School	Marketing	General and Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 2,390,083	\$ 1,090,045	\$ 219,802	\$ 800,395	\$ 361,798	\$ 4,862,123
Costumes and sets	173,071					173,071
Shoes	87,379					87,379
Orchestra	498,035					498,035
Guest artists	115,088					115,088
Theater rental	252,456					252,456
Lights and sound	41,917					41,917
Box office, ushers and security	69,727					69,727
Summer program		142,769				142,769
ROAD program		11,101				11,101
Supplies and expendables	12,954	11,146	53,008	11,676	4,220	93,004
Travel and training	20,572	47,189		11,516	78,332	157,609
Rent and maintenance	24,780	86,891		1,818,864		1,930,535
Utilities	2,163	15,552		263,218	480	281,413
Advertising/promotion		57,269	750,620			807,889
Insurance				40,355		40,355
Depreciation	385,634					385,634
Printing and publications			67,167	8,879	15,185	91,231
Ticket processing fees			84,967			84,967
Bank charges				7,922		7,922
Professional fees			45,518	136,980	29,410	211,908
Other	49,197	76,988	50,606	46,855	34,085	257,731
	<u>\$ 4,123,056</u>	<u>\$ 1,538,950</u>	<u>\$ 1,271,688</u>	<u>\$ 3,146,660</u>	<u>\$ 523,510</u>	<u>\$ 10,603,864</u>

Kansas City Ballet Association
Statement of Functional Expenses
Year Ended June 30, 2015

	Production	School	Marketing	General and Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 2,104,103	\$ 960,002	\$ 260,676	\$ 652,169	\$ 349,306	\$ 4,326,256
Costumes and sets	118,333					118,333
Shoes	83,950					83,950
Orchestra	372,014					372,014
Guest artists	125,056					125,056
Theater rental	230,956					230,956
Lights and sound	16,400					16,400
Box office, ushers and security	69,745					69,745
Summer program		139,212				139,212
ROAD program		5,681				5,681
Supplies and expendables	12,344	6,819	\$ 58,689	16,207	7,067	101,126
Travel and training	26,853	29,026		11,480	86,351	153,710
Rent and maintenance	21,645	66,039		1,839,471		1,927,155
Utilities	2,338	14,561		186,928	880	204,707
Advertising/promotion		49,078	471,883			520,961
Insurance				44,349		44,349
Depreciation	293,574					293,574
Printing and publications		1,966	66,487	5,429	25,990	99,872
Ticket processing fees			88,948			88,948
Bank charges				7,630		7,630
Professional fees			107,462	140,354	27,115	274,931
Other	35,258	24,610	35,213	73,143	6,345	174,569
	<u>\$ 3,512,569</u>	<u>\$ 1,296,994</u>	<u>\$ 1,089,358</u>	<u>\$ 2,977,160</u>	<u>\$ 503,054</u>	<u>\$ 9,379,135</u>