

Kansas City Ballet Association

Auditor's Report and Financial Statements

June 30, 2015 and 2014

Kansas City Ballet Association
June 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 audit was 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 audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Kansas City, Missouri
November 6, 2015

Kansas City Ballet Association
Statements of Financial Position
June 30, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 1,288,975	\$ 838,482
Restricted cash and cash equivalents	167,056	21,651
Accounts receivable	53,715	38,717
Contributions and grants receivable	1,424,044	400,980
Costs incurred for future performances	60,854	42,192
Prepaid expenses and other	456,546	541,611
Music and choreographic rights, net of accumulated amortization; 2015 - \$225,169, 2014 - \$206,403	64,592	78,935
Investments	10,274,819	9,015,558
Investment in supporting organization	70,079	96,199
Property and equipment, net of accumulated depreciation; 2015 - \$2,877,149, 2014 - \$2,604,276	1,102,639	720,727
Collections – artwork	<u>111,344</u>	<u>111,344</u>
Total assets	<u><u>\$ 15,074,663</u></u>	<u><u>\$ 11,906,396</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 235,639	\$ 129,248
Accrued expenses	106,893	84,678
Advance ticket sales	716,884	553,017
Deferred revenue	<u>291,906</u>	<u>187,693</u>
Total liabilities	<u>1,351,322</u>	<u>954,636</u>

Net Assets

Unrestricted	2,337,213	2,036,825
Temporarily restricted	3,274,012	1,921,920
Permanently restricted	<u>8,112,116</u>	<u>6,993,015</u>
Total net assets	<u>13,723,341</u>	<u>10,951,760</u>
Total liabilities and net assets	<u><u>\$ 15,074,663</u></u>	<u><u>\$ 11,906,396</u></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	427,047	(427,047)		-
	<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	828,682			828,682
General and administrative	3,237,836			3,237,836
Fundraising	503,054			503,054
	<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
Statement of Activities
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Season and single ticket sales	\$ 3,386,682			\$ 3,386,682
School tuition	995,221			995,221
Interest and dividends	4,725	\$ 69,697		74,422
Net realized and unrealized gains		1,040,958		1,040,958
Other	72,243			72,243
	<u>4,458,871</u>	<u>1,110,655</u>		<u>5,569,526</u>
Contributions and grants				
Individuals/board	399,883	22,295	\$ 180,696	602,874
Business/corporate	253,280	99,187		352,467
Foundations	2,809,450	105,000		2,914,450
Kansas City Ballet Guild activities	370,767			370,767
Missouri Arts Council	27,683			27,683
School/education	298,305	5,000		303,305
	<u>4,159,368</u>	<u>231,482</u>	<u>180,696</u>	<u>4,571,546</u>
Net assets released from restrictions	381,228	(381,228)		-
Total revenues, gains and other support	<u>8,999,467</u>	<u>960,909</u>	<u>180,696</u>	<u>10,141,072</u>
Expenses and Losses				
Production	3,647,770			3,647,770
School	1,055,920			1,055,920
Marketing	1,014,850			1,014,850
General and administrative	3,137,872			3,137,872
Fundraising	442,580			442,580
	<u>9,298,992</u>			<u>9,298,992</u>
Total expenses and losses	<u>9,298,992</u>			<u>9,298,992</u>
Change in Net Assets	(299,525)	960,909	180,696	842,080
Net Assets, Beginning of Year	<u>2,336,350</u>	<u>961,011</u>	<u>6,812,319</u>	<u>10,109,680</u>
Net Assets, End of Year	<u>\$ 2,036,825</u>	<u>\$ 1,921,920</u>	<u>\$ 6,993,015</u>	<u>\$ 10,951,760</u>

Kansas City Ballet Association
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Activities		
Change in net assets	\$ 2,771,581	\$ 842,080
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	326,683	386,596
Net realized and unrealized gains on investments	(206,124)	(1,040,958)
Change in investment in supporting organization	26,120	(31,095)
Contributions received restricted for long-term investment	(1,119,101)	(180,696)
Contributions received restricted for acquisition of long-lived assets	(1,641,105)	(26,128)
Contribution of long-lived asset	-	(15,000)
Changes in		
Accounts receivable	(14,998)	28,869
Contributions and grants receivable	(23,064)	(140,716)
Costs incurred for future performances	(18,662)	644
Prepaid expenses and other	66,299	(84,566)
Accounts payable and accrued expenses	89,908	78,348
Advance ticket sales and deferred revenue	268,080	5,573
	<u>525,617</u>	<u>(177,049)</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Change in restricted cash and cash receipts	(145,405)	59
Purchase of investments	(8,388,069)	(3,392,313)
Proceeds from sale of investments	7,334,932	3,384,882
Purchase of property and equipment	(636,788)	(32,555)
	<u>(1,835,330)</u>	<u>(39,927)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from contributions restricted for long-term investment	1,119,101	180,696
Proceeds from contributions restricted for acquisition of long-lived assets	641,105	26,128
	<u>1,760,206</u>	<u>206,824</u>
Net cash provided by financing activities		
Increase (Decrease) in Cash and Cash Equivalents	450,493	(10,152)
Cash and Cash Equivalents, Beginning of Year	<u>838,482</u>	<u>848,634</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,288,975</u>	<u>\$ 838,482</u>
Supplemental Cash Flows Information		
Property and equipment purchases in accounts payable	\$ 38,698	\$ -

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2015 and 2014

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, 2015 and 2014, cash equivalents consisted primarily of money market accounts.

At June 30, 2015, the Ballet's cash accounts exceeded federally insured limits by approximately \$1,703,000.

Accounts Receivable

At June 30, 2015 and 2014, 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.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2015 and 2014

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.

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.

Costs Incurred for Future Performances and Advance Ticket Sales

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

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

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2015 and 2014

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, 2015 and 2014.

Collections – Art Work

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

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 and Contributions 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.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2015 and 2014

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.

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.

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 2014 financial statements to conform to the 2015 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.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2015 and 2014

Note 2: Contributions Receivable

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

	2015	2014
Due within one year	\$ 1,306,969	\$ 393,480
Due in one to five years	121,200	22,500
	1,428,169	415,980
Less		
Allowance for uncollectible contributions	(4,125)	(15,000)
	\$ 1,424,044	\$ 400,980

Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

	2015	2014
Money market funds	\$ 179,688	\$ 269,857
Common stock	1,984,990	2,629,973
Equity mutual funds	5,211,730	3,178,270
Fixed income mutual funds	539,852	420,715
Government and agency bonds	858,054	977,996
Corporate bonds	1,031,381	1,078,315
Municipal bonds	24,660	24,515
Certificates of deposit	405,422	404,209
GKCCF money market pool	22,163	15,650
Accrued interest	16,879	16,058
	\$ 10,274,819	\$ 9,015,558

Total investment return is comprised of the following:

	2015	2014
Interest and dividend income	\$ 90,834	\$ 74,422
Net realized and unrealized gains	206,124	1,040,958
	\$ 296,958	\$ 1,115,380

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2015 and 2014

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

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, 2015 and 2014:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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>
June 30, 2014				
Money market funds	\$ 269,857	\$ 269,857		
Common stock	2,629,973	2,629,973		
Equity mutual funds	3,178,270	3,178,270		
Fixed income mutual funds	420,715	420,715		
Government and agency bonds	977,996		\$ 977,996	
Corporate bonds	1,078,315		1,078,315	
Municipal bonds	24,515		24,515	
GKCCF money market pool	15,650		15,650	
	<u>\$ 8,595,291</u>	<u>\$ 6,498,815</u>	<u>\$ 2,096,476</u>	<u>\$ -</u>

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2015 and 2014

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, 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 \$248,366 and \$370,767 for the years ended June 30, 2015 and 2014, respectively.

Note 5: Property and Equipment

Property and equipment at June 30 consisted of:

	<u>2015</u>	<u>2014</u>
Costume and production sets	\$ 2,344,086	\$ 1,863,471
Furniture and fixtures	513,700	509,755
Leasehold improvements	110,728	109,228
Prairie Village campus	50,000	50,000
Sound, lighting and other equipment	961,274	792,549
	<u>3,979,788</u>	<u>3,325,003</u>
Less accumulated depreciation	<u>2,877,149</u>	<u>2,604,276</u>
	<u>\$ 1,102,639</u>	<u>\$ 720,727</u>

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2015 and 2014

Note 6: Net Assets

Temporarily Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
General operations	\$ 778,227	\$ 698,062
Bolender facility	689,910	675,215
Dancer salaries	177,930	136,403
Scholarships	70,892	78,568
Costumes	40,322	30,087
For periods after June 30	1,508,873	296,832
Other purposes	7,858	6,753
	<u>\$ 3,274,012</u>	<u>\$ 1,921,920</u>

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:

	<u>2015</u>	<u>2014</u>
General operations	\$ 2,477,622	\$ 2,477,622
Bolender facility	4,064,997	2,945,896
Dancer salaries	1,000,000	1,000,000
Scholarships	319,497	319,497
Costumes	250,000	250,000
	<u>\$ 8,112,116</u>	<u>\$ 6,993,015</u>

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2015 and 2014

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.

	2015	2014
General operations	\$ 30,000	\$ 90,442
Dancer salaries	-	102,963
Bolender facility	106,676	32,140
Scholarships	19,189	17,779
Time restrictions expired and other purposes	271,182	137,904
	\$ 427,047	\$ 381,228

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, 2015 and 2014

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, 2015 and 2014 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2013	\$ -	\$ 751,004	\$ 6,812,319	\$ 7,563,323
Investment return				
Investment income	-	69,697	-	69,697
Net appreciation	-	1,040,958	-	1,040,958
Total investment return	-	1,110,655	-	1,110,655
Contributions	-	-	180,696	180,696
Appropriation of endowment assets for expenditure	-	(243,325)	-	(243,325)
Endowment net assets, June 30, 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	<u>\$ -</u>	<u>\$ 1,757,281</u>	<u>\$ 8,112,116</u>	<u>\$ 9,869,397</u>

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2015 and 2014

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

	2015	2014
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation	\$ 8,112,116	\$ 6,993,015
Temporarily restricted net assets		
Term endowment funds	\$ 324,036	\$ 296,347
Portion of perpetual endowment funds subject to a time restriction under UPMIFA		
With purpose restrictions	697,917	656,614
Without purpose restrictions	735,328	665,373
	\$ 1,757,281	\$ 1,618,334

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, 2015 and 2014.

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, 2015 and 2014

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 \$20,000 and \$0 for the years ended June 30, 2015 and 2014, respectively. The Missouri Arts Council (MAC), a state agency, provided program assistance funds of \$81,707 and \$27,683 for the years ended June 30, 2015 and 2014, 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:

2016	\$ 1,904,790
2017	1,822,384
2018	1,817,280
2019	1,815,190
2020	1,815,000
Thereafter	<u>18,801,250</u>
Total minimum lease payments	<u>\$ 27,975,894</u>

Rental expense for all operating leases was \$1,908,038 and \$1,901,245 for the years ended June 30, 2015 and 2014, respectively.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2015 and 2014

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 60% and 50% of the total contributions and grants revenue for the years ended June 30, 2015 and 2014, 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, 2015

	Production	School	Marketing	General and Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 2,104,103	\$ 960,002		\$ 912,845	\$ 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>\$ 828,682</u>	<u>\$ 3,237,836</u>	<u>\$ 503,054</u>	<u>\$ 9,379,135</u>

Kansas City Ballet Association
Statement of Functional Expenses
Year Ended June 30, 2014

	Production	School	Marketing	General and Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 2,050,915	\$ 784,785		\$ 876,930	\$ 315,287	\$ 4,027,917
Costumes and sets	115,628					115,628
Shoes	62,967					62,967
Orchestra	438,634					438,634
Guest artists	146,785					146,785
Theater rental	232,256					232,256
Lights and sound	61,618					61,618
Box office, ushers and security	64,742					64,742
Summer program		85,981				85,981
ROAD program		800				800
Supplies and expendables	9,655	3,439	\$ 46,851	10,112	5,217	75,274
Travel and training	24,395	20,288		6,178	46,538	97,399
Rent and maintenance	18,270	65,488		1,827,206		1,910,964
Utilities	2,384	13,014		186,980	640	203,018
Advertising/promotion		62,517	679,892			742,409
Insurance				35,971		35,971
Depreciation	315,862					315,862
Printing and publications		2,361	43,865	17,720	14,705	78,651
Ticket processing fees			75,600			75,600
Bank charges				8,269		8,269
Professional fees			123,022	128,616	16,504	268,142
Other	103,659	17,247	45,620	39,890	43,689	250,105
	<u>\$ 3,647,770</u>	<u>\$ 1,055,920</u>	<u>\$ 1,014,850</u>	<u>\$ 3,137,872</u>	<u>\$ 442,580</u>	<u>\$ 9,298,992</u>