

Kansas City Ballet Association

Independent Auditor's Report and Financial Statements

June 30, 2017 and 2016

Kansas City Ballet Association
June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 31, 2017

Kansas City Ballet Association
Statements of Financial Position
June 30, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 1,539,724	\$ 1,163,983
Restricted cash and cash equivalents	44,060	74,131
Contributions, grants and accounts receivable	1,009,169	1,078,294
Prepaid expenses and other, net of accumulated amortization; 2017 - \$224,838, 2016 - \$243,935	286,710	696,383
Investments	11,174,229	10,406,190
Investment in supporting organization	55,466	52,804
Property and equipment, net of accumulated depreciation; 2017 - \$3,534,323, 2016 - \$2,996,390	<u>25,085,291</u>	<u>2,047,688</u>
Total assets	<u><u>\$ 39,194,649</u></u>	<u><u>\$ 15,519,473</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 279,378	\$ 146,317
Accrued expenses	163,407	145,883
Advance ticket sales	741,622	679,096
Deferred revenue	<u>334,849</u>	<u>368,181</u>
Total liabilities	<u>1,519,256</u>	<u>1,339,477</u>

Net Assets

Unrestricted	25,946,501	3,144,583
Temporarily restricted	3,272,239	2,583,297
Permanently restricted	<u>8,456,653</u>	<u>8,452,116</u>
Total net assets	<u>37,675,393</u>	<u>14,179,996</u>
Total liabilities and net assets	<u><u>\$ 39,194,649</u></u>	<u><u>\$ 15,519,473</u></u>

Kansas City Ballet Association
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Season and single ticket sales	\$ 3,875,485			\$ 3,875,485
School tuition	1,601,314			1,601,314
Interest and dividends	2,376	\$ 158,811		161,187
Net realized and unrealized gains		1,047,210		1,047,210
Other	149,496			149,496
	<u>5,628,671</u>	<u>1,206,021</u>		<u>6,834,692</u>
Contributions and grants				
Individuals/board	758,093	125,933	\$ 4,537	888,563
Business/corporate	237,183	10,000		247,183
Non-cash contribution	23,468,605			23,468,605
Foundations	1,276,100	742,000		2,018,100
Kansas City Ballet Guild activities	232,265			232,265
Missouri Arts Council	150,837			150,837
National Endowment for the Arts	20,000			20,000
School/education	208,445	5,000		213,445
	<u>26,351,528</u>	<u>882,933</u>	<u>4,537</u>	<u>27,238,998</u>
Net assets released from restrictions	<u>1,400,012</u>	<u>(1,400,012)</u>		<u>-</u>
Total revenues, gains and other support	<u>33,380,211</u>	<u>688,942</u>	<u>4,537</u>	<u>34,073,690</u>
Expenses and Losses				
Production	4,320,802			4,320,802
School	1,825,830			1,825,830
Marketing	1,238,966			1,238,966
General and administrative	2,630,266			2,630,266
Fundraising	562,429			562,429
	<u>10,578,293</u>			<u>10,578,293</u>
Total expenses and losses	<u>10,578,293</u>			<u>10,578,293</u>
Change in Net Assets	22,801,918	688,942	4,537	23,495,397
Net Assets, Beginning of Year	<u>3,144,583</u>	<u>2,583,297</u>	<u>8,452,116</u>	<u>14,179,996</u>
Net Assets, End of Year	<u>\$ 25,946,501</u>	<u>\$ 3,272,239</u>	<u>\$ 8,456,653</u>	<u>\$ 37,675,393</u>

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>
Total expenses and losses	<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
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ 23,495,397	\$ 456,655
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	550,433	404,400
Net realized and unrealized (gains) losses on investments	(1,047,210)	391,509
Net gain on sale of property and equipment	-	(43,000)
Change in investment in supporting organization	(2,662)	17,275
Contributions received restricted for long-term investment	(4,537)	(340,000)
Non cash contribution	(23,468,605)	-
Contributions received restricted for acquisition of long-lived assets	-	(794,211)
Changes in		
Accounts receivable	69,125	399,465
Contributions and grants receivable	(17,861)	46,889
Costs incurred for future performances	(19,612)	-
Prepaid expenses and other	416,785	(133,157)
Accounts payable and accrued expenses	150,585	(36,790)
Advance ticket sales and deferred revenue	29,194	38,487
	<u>151,032</u>	<u>407,522</u>
Investing Activities		
Change in restricted cash and cash receipts	30,071	92,925
Purchase of investments	(8,138,892)	(6,760,059)
Proceeds from sale of investments	8,418,063	6,237,179
Purchase of property and equipment	(106,931)	(1,232,881)
Proceeds from sale of property and equipment	-	43,000
	<u>202,311</u>	<u>(1,619,836)</u>
Financing Activities		
Proceeds from contributions restricted for long-term investment	4,537	340,000
Proceeds from contributions restricted for acquisition of long-lived assets	17,861	747,322
	<u>22,398</u>	<u>1,087,322</u>
Increase (Decrease) in Cash and Cash Equivalents	375,741	(124,992)
Cash and Cash Equivalents, Beginning of Year	<u>1,163,983</u>	<u>1,288,975</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,539,724</u>	<u>\$ 1,163,983</u>
Supplemental Cash Flows Information		
Non cash contribution	\$ 23,468,605	\$ -
Property and equipment purchases in accounts payable	-	25,156

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016, cash equivalents consisted primarily of money market accounts.

At June 30, 2017, the Ballet's cash accounts exceeded federally insured limits by approximately \$1,537,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. 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, 2017 and 2016

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
Building and Leasehold improvements	15-50 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, 2017 and 2016.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016

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.

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.

Subsequent to year end, the Ballet invested in a joint venture with Colorado Ballet and Royal Winnipeg Ballet to create a new production of “The Wonderful World of Oz” scheduled to be performed in 2018.

Note 2: Contributions, Grants and Accounts Receivable

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

	2017	2016
Due within one year	\$ 971,352	\$ 983,754
Due in one to five years	1,500	49,739
	972,852	1,033,493
Less		
Allowance for uncollectible contributions	(10,000)	(4,125)
	\$ 962,852	\$ 1,029,368

Approximately 72% and 68% of contributions receivable were from one donor for the years ended June 30, 2017 and 2016, respectively. Also, included in the contributions, grants and accounts receivable are \$46,317 and \$48,926 of accounts receivable for the years ended June 30, 2017 and 2016, respectively.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2017 and 2016

Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Money market funds	\$ 178,185	\$ 161,236
Common stock	1,132,083	1,955,187
Equity mutual funds	6,522,673	4,951,932
Fixed income mutual funds	328,254	391,553
Government and agency bonds	907,693	1,378,950
Corporate bonds	1,672,169	1,135,129
Municipal bonds	25,513	25,512
Certificates of deposit	407,659	406,691
	<u>\$ 11,174,229</u>	<u>\$ 10,406,190</u>

Total investment return is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 161,187	\$ 232,920
Net realized and unrealized gains (losses)	1,047,210	(391,509)
	<u>\$ 1,208,397</u>	<u>\$ (158,589)</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, 2017 and 2016

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, 2017 and 2016:

	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, 2017				
Money market funds	\$ 178,185	\$ 178,185		
Common stock	1,132,083	1,132,083		
Equity mutual funds	6,522,673	6,522,673		
Fixed income mutual funds	328,254	328,254		
Government and agency bonds	907,693		\$ 907,693	
Corporate bonds	1,672,169		1,672,169	
Municipal bonds	25,513		25,513	
	<u>\$ 10,766,570</u>	<u>\$ 8,161,195</u>	<u>\$ 2,605,375</u>	<u>\$ -</u>
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>

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, 2017.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2017 and 2016

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 \$232,265 and \$314,815 for the years ended June 30, 2017 and 2016, respectively.

Note 5: Property and Equipment

Property and equipment at June 30 consisted of:

	2017	2016
Costume and production sets	\$ 3,185,092	\$ 3,113,541
Furniture and fixtures	525,790	515,411
Leasehold improvements	23,620,597	150,137
Prairie Village campus	50,000	50,000
Sound, lighting and other equipment	1,126,791	1,103,645
Artwork	111,344	111,344
	<u>28,619,614</u>	<u>5,044,078</u>
Less accumulated depreciation	<u>3,534,323</u>	<u>2,996,390</u>
	<u>\$ 25,085,291</u>	<u>\$ 2,047,688</u>

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2017 and 2016

Note 6: Net Assets

Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
General operations	\$ 1,463,567	\$ 1,207,381
Bolender facility	604,405	244,428
Dancer salaries	124,090	44,543
Scholarships	71,196	43,574
Costumes	46,517	7,496
Music	78	-
For periods after June 30	957,061	1,030,657
Other purposes	5,325	5,218
	<u>\$ 3,272,239</u>	<u>\$ 2,583,297</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>2017</u>	<u>2016</u>
General operations	\$ 2,721,134	\$ 2,727,597
Bolender facility	4,164,997	4,154,997
Dancer salaries	1,000,000	1,000,000
Scholarships	319,522	319,522
Costumes	250,000	250,000
Music	1,000	-
	<u>\$ 8,456,653</u>	<u>\$ 8,452,116</u>

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2017 and 2016

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.

	2017	2016
General operations	\$ 211,905	\$ -
Dancer salaries	48,321	-
Bolender facility	161,407	-
Scholarships	19,867	19,834
Costumes	8,500	27,689
Time restrictions expired and other purposes	950,012	1,453,435
	\$ 1,400,012	\$ 1,500,958

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, 2017 and 2016

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, 2017 and 2016 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	\$ -	\$ 1,757,281	\$ 8,112,116	\$ 9,869,397
Investment return				
Investment income	-	230,542	-	230,542
Net depreciation	-	(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
Investment return				
Investment income	-	158,811	-	158,811
Net appreciation	-	1,047,210	-	1,047,210
Total investment return	-	1,206,021	-	1,206,021
Contributions	-	6,513	4,537	11,050
Appropriation of endowment assets for expenditure	-	(450,000)	-	(450,000)
Endowment net assets, June 30, 2017	\$ -	\$ 2,309,917	\$ 8,456,653	\$ 10,766,570

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2017 and 2016

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

	2017	2016
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation	\$ 8,456,653	\$ 8,452,116
Temporarily restricted net assets		
Term endowment funds	\$ 1,264,444	\$ 1,093,922
Portion of perpetual endowment funds subject to a time restriction under UPMIFA		
With purpose restrictions	577,670	164,585
Without purpose restrictions	467,803	288,876
	\$ 2,309,917	\$ 1,547,383

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, 2017 and 2016.

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, 2017 and 2016

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, 2017 and 2016, respectively. The Missouri Arts Council (MAC), a state agency, provided program assistance funds of \$150,837 and \$128,555 for the years ended June 30, 2017 and 2016, 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

Prior to December 2016, the Ballet leased the Bolender Center under a sublease agreement with Power House Master Tennant, LLC (which was subsequently assigned to DTC II, Inc. in December 2016) the master tenant agreement was set to expire in August 2030. Rent expense on this lease was \$817,354 and \$1,931,678 for the years ended June 30, 2017 and 2016, respectively.

In December 2016, Kansas City Ballet received a \$23,468,605 charitable donation from the Greater Kansas City Community Foundation. With these proceeds, the Ballet purchased the existing master lease agreement and all leasehold improvements from DTC II Inc. As a result, the Ballet recorded a one-time unrestricted gift of \$23,468,605 and an addition to fixed assets (leasehold improvements) of the same amount. This amount will be amortized over the remaining useful life of the fixed asset (44 years), resulting in an additional annual non-cash amortization expense of approximately \$527,000 per year.

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%.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2017 and 2016

The Ballet leases a dance facility in Johnson County, Kansas and office equipment that expire in various years through 2020. Future minimum payments under these agreements are:

2018	\$ 319,289
2019	257,168
2020	247,980
2021	242,660
2022	240,000
Thereafter	<u>2,200,000</u>
 Total minimum lease payments	 <u><u>\$ 3,507,097</u></u>

Rental expense for all operating leases was \$1,169,291 and \$1,931,678 for the years ended June 30, 2017 and 2016, respectively.

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:

Litigation

The Ballet is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Ballet. Events could occur that would change this estimate materially in the near term.

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 one foundation comprised approximately 89% and contributions from two foundations comprised approximately 64% of the total contributions and grants revenue for the years ended June 30, 2017 and 2016, respectively.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2017 and 2016

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, 2017

	Production	School	Marketing	General and Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 2,433,441	\$ 1,278,644	\$ 315,301	\$ 634,567	\$ 371,337	\$ 5,033,290
Costumes and sets	147,738					147,738
Shoes	98,619					98,619
Orchestra	472,634					472,634
Guest artists	117,055					117,055
Theater rental	252,194					252,194
Lights and sound	32,386					32,386
Box office, ushers and security	184,637					184,637
Summer program		192,145				192,145
Supplies and expendables	14,895	5,589	54,648	11,304	5,130	91,566
Travel and training	26,394	51,989		5,379	23,191	106,953
Rent and maintenance	30,714	83,862		1,054,133		1,168,709
Utilities	1,696	12,864		282,081		296,641
Advertising/promotion		56,191	592,854			649,045
Insurance				37,392		37,392
Depreciation	429,392	63,065	17,345	17,093	11,038	537,933
Printing and publications		407	66,817	4,121	9,087	80,432
Ticket processing fees			87,865			87,865
Bank charges				9,810		9,810
Professional fees			58,780	382,327	44,544	485,651
Other	79,007	81,074	45,356	192,059	98,102	495,598
	<u>\$ 4,320,802</u>	<u>\$ 1,825,830</u>	<u>\$ 1,238,966</u>	<u>\$ 2,630,266</u>	<u>\$ 562,429</u>	<u>\$ 10,578,293</u>

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>