

Kansas City Ballet Association

Independent Auditor's Report and Financial Statements

June 30, 2018 and 2017

Kansas City Ballet Association
June 30, 2018 and 2017

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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, 2018 and 2017, and the related statements of activities, functional expenses 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, 2018 and 2017, 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.

Emphasis of Matter

As described in *Note 2* to the financial statements, in 2018, the Kansas City Ballet Association adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

BKD, LLP

Kansas City, Missouri
November 28, 2018

Kansas City Ballet Association
Statements of Financial Position
June 30, 2018 and 2017

Assets

	2018	2017
Cash and cash equivalents	\$ 1,500,359	\$ 1,539,724
Restricted cash and cash equivalents	-	44,060
Contributions, grants and accounts receivable	933,752	1,009,169
Prepaid expenses and other, net of accumulated amortization; 2018 - \$231,838, 2017 - \$224,838	282,373	286,710
Investments	10,791,346	11,174,229
Investment in supporting organization	51,484	55,466
Investment in joint venture	320,000	-
Property and equipment, net of accumulated depreciation; 2018 - \$4,294,941, 2017 - \$3,534,323	24,419,065	25,085,291
Total assets	\$ 38,298,379	\$ 39,194,649

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 184,178	\$ 279,378
Accrued expenses	176,999	163,407
Advance ticket sales	818,798	741,622
Deferred revenue	293,296	334,849
Total liabilities	1,473,271	1,519,256

Net Assets

Without donor restrictions	25,598,691	25,946,501
With donor restrictions	11,226,417	11,728,892
Total net assets	36,825,108	37,675,393
Total liabilities and net assets	\$ 38,298,379	\$ 39,194,649

Kansas City Ballet Association
Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Season and single ticket sales	\$ 3,679,670		\$ 3,679,670
Touring	235,000		235,000
School tuition	1,608,999		1,608,999
Net investment return	2,786	\$ 787,420	790,206
Other	174,934	-	174,934
	<u>5,701,389</u>	<u>787,420</u>	<u>6,488,809</u>
Contributions and grants			
Individuals/board	593,253	71,014	664,267
Business/corporate	216,483	28,033	244,516
Foundations	645,891	711,792	1,357,683
Kansas City Ballet Guild activities	370,818	-	370,818
Missouri Arts Council	80,010	-	80,010
School/education	215,374	7,500	222,874
	<u>2,121,829</u>	<u>818,339</u>	<u>2,940,168</u>
Net assets released from restrictions	<u>2,108,234</u>	<u>(2,108,234)</u>	<u>-</u>
Total revenues, gains and other support	<u>9,931,452</u>	<u>(502,475)</u>	<u>9,428,977</u>
Expenses and Losses			
Production	4,861,171		4,861,171
School	1,975,514		1,975,514
Marketing	1,307,426		1,307,426
General and administrative	1,512,119		1,512,119
Fundraising	623,032		623,032
	<u>10,279,262</u>		<u>10,279,262</u>
Total expenses and losses	<u>10,279,262</u>		<u>10,279,262</u>
Change in Net Assets	(347,810)	(502,475)	(850,285)
Net Assets, Beginning of Year	<u>25,946,501</u>	<u>11,728,892</u>	<u>37,675,393</u>
Net Assets, End of Year	<u>\$ 25,598,691</u>	<u>\$ 11,226,417</u>	<u>\$ 36,825,108</u>

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

	Without Donor Restrictions	With Donor Restrictions	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
Net investment return	2,376	\$ 1,206,021	1,208,397
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	130,470	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>887,470</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>693,479</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	693,479	23,495,397
Net Assets, Beginning of Year	<u>3,144,583</u>	<u>11,035,413</u>	<u>14,179,996</u>
Net Assets, End of Year	<u>\$ 25,946,501</u>	<u>\$ 11,728,892</u>	<u>\$ 37,675,393</u>

Kansas City Ballet Association
Statement of Functional Expenses
Year Ended June 30, 2018

	Production	School	Marketing	General and Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 2,579,597	\$ 1,370,170	\$ 312,638	\$ 657,979	\$ 425,717	\$ 5,346,101
Costumes and sets	194,410	-	-	-	-	194,410
Shoes	85,140	-	-	-	-	85,140
Orchestra	491,934	-	-	-	-	491,934
Guest artists	170,431	-	-	-	-	170,431
Theater rental	238,523	-	-	-	-	238,523
Lights and sound	13,391	-	-	-	-	13,391
Touring	222,130	-	-	-	-	222,130
Box office, ushers and security	176,687	-	-	-	-	176,687
Summer program	-	195,702	-	-	-	195,702
Supplies and expendables	12,473	4,998	75,787	21,478	8,416	123,152
Travel and training	36,150	43,399	-	7,247	9,701	96,497
Rent and maintenance	30,233	78,866	-	245,909	-	355,008
Utilities	1,761	13,085	-	297,174	-	312,020
Advertising/promotion	-	50,107	657,275	-	-	707,382
Insurance	-	-	-	40,460	-	40,460
Depreciation	548,892	126,125	34,690	34,184	22,076	765,967
Printing and publications	-	2,522	67,993	4,734	16,987	92,236
Ticket processing fees	-	-	83,147	-	-	83,147
Bank charges	-	-	-	10,113	-	10,113
Professional fees	-	-	40,500	118,351	75,225	234,076
Other	59,419	90,540	35,396	74,490	64,910	324,755
	<u>\$ 4,861,171</u>	<u>\$ 1,975,514</u>	<u>\$ 1,307,426</u>	<u>\$ 1,512,119</u>	<u>\$ 623,032</u>	<u>\$ 10,279,262</u>

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
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ (850,285)	\$ 23,495,397
Items not requiring (providing) operating cash flows		
Depreciation and amortization	778,467	550,433
Net realized and unrealized gains on investments	(598,348)	(1,047,210)
Net gain on sale of property and equipment	(2,039)	-
Change in investment in supporting organization	3,982	(2,662)
Contributions received restricted for long-term investment	(58,854)	(4,537)
Non-cash contribution	(30,000)	(23,468,605)
Changes in		
Accounts receivable	(486)	69,125
Contributions and grants receivable	75,903	(17,861)
Costs incurred for future performances	(5,740)	(19,612)
Prepaid expenses and other	(2,423)	416,785
Accounts payable and accrued expenses	(83,636)	150,585
Advance ticket sales and deferred revenue	35,623	29,194
	<u>(737,836)</u>	<u>151,032</u>
Investing Activities		
Change in restricted cash and cash receipts	44,060	30,071
Investment in joint venture	(320,000)	-
Purchase of investments	(5,270,310)	(8,138,892)
Proceeds from sale of investments	6,251,541	8,418,063
Purchase of property and equipment	(66,174)	(106,931)
Proceeds from sale of property and equipment	500	-
	<u>639,617</u>	<u>202,311</u>
Financing Activities		
Proceeds from contributions restricted for long-term investment	58,854	4,537
Proceeds from contributions restricted for acquisition of long-lived assets	-	17,861
	<u>58,854</u>	<u>22,398</u>
Increase (Decrease) in Cash and Cash Equivalents	(39,365)	375,741
Cash and Cash Equivalents, Beginning of Year	<u>1,539,724</u>	<u>1,163,983</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,500,359</u>	<u>\$ 1,539,724</u>
Supplemental Cash Flows Information		
Property and equipment acquired through non-cash contributions	\$ 30,000	\$ 23,468,605
Property and equipment purchases in accounts payable	2,028	-

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2018 and 2017

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, 2018 and 2017, cash equivalents consisted primarily of money market accounts.

At June 30, 2018, the Ballet's cash accounts exceeded federally insured limits by approximately \$1,098,000.

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.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2018 and 2017

Investments and Net 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 other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as with or without donor restrictions 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.

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, 2018 and 2017.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2018 and 2017

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.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions, Grants and Accounts Receivable

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 revenue and net assets without donor restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions 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 net assets with donor restrictions as net assets without donor restrictions 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, 2018 and 2017, 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, 2018 and 2017

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.

Investment in Joint Venture

On August 18, 2017, the Ballet entered into a joint venture with the Colorado Ballet and Royal Winnipeg Ballet to create the Oz Ballet, LLC. The joint venture is for a new production of "The Wonderful World of Oz" scheduled to be performed in October of 2018. The Ballet accounts for its investment using the equity method, which represented \$320,000 and \$0 at June 30, 2018 and 2017, respectively. The Ballet's allocations of profit and loss are determined by the interest in the joint venture. The Ballet has funded its initial equity position of the joint venture. Once all entities have funded their equity position each entity will have a 33.3 percent interest in the joint venture.

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. The statements of functional expenses present the natural classification detail of expenses by function. 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.

Note 2: Change in Accounting Principle

In 2018, the Ballet adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2018 and 2017

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

This change had no impact on previously reported total change in net assets.

Note 3: Contributions, Grants and Accounts Receivable

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

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 839,697	\$ 971,352
Due in one to five years	70,000	1,500
	<u>909,697</u>	<u>972,852</u>
Less		
Unamortized discount	(12,698)	-
Allowance for uncollectible contributions	<u>(10,050)</u>	<u>(10,000)</u>
	<u>\$ 886,949</u>	<u>\$ 962,852</u>

Approximately 77 percent and 72 percent of contributions receivable were from one donor for the years ended June 30, 2018 and 2017, respectively. Also, included in the contributions, grants and accounts receivable are \$46,803 and \$46,317 of accounts receivable for the years ended June 30, 2018 and 2017, respectively.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2018 and 2017

Note 4: Investments and Investment Return

Investments at June 30 consisted of the following:

	2018	2017
Money market funds	\$ 216,019	\$ 178,185
Common stock	1,341,140	1,132,083
Equity mutual funds	6,840,696	6,522,673
Fixed income mutual funds	286,203	328,254
Government and agency bonds	624,580	907,693
Corporate bonds	1,049,033	1,672,169
Municipal bonds	24,998	25,513
Certificates of deposit	408,677	407,659
	\$ 10,791,346	\$ 11,174,229

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, 2018 and 2017

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, 2018 and 2017:

	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, 2018				
Money market funds	\$ 216,019	\$ 216,019		
Common stock	1,341,140	1,341,140		
Equity mutual funds	6,840,696	6,840,696		
Fixed income mutual funds	286,203	286,203		
Government and agency bonds	624,580	-	\$ 624,580	
Corporate bonds	1,049,033	-	1,049,033	
Municipal bonds	24,998	-	24,998	
	<u>\$ 10,382,669</u>	<u>\$ 8,684,058</u>	<u>\$ 1,698,611</u>	<u>\$ -</u>
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>

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, 2018.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2018 and 2017

Note 5: 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 \$370,818 and \$232,265 for the years ended June 30, 2018 and 2017, respectively.

Note 6: Property and Equipment

Property and equipment at June 30 consisted of:

	2018	2017
Costume and production sets	\$ 3,188,099	\$ 3,185,092
Furniture and fixtures	547,026	525,790
Leasehold improvements	23,627,597	23,620,597
Prairie Village campus	50,000	50,000
Sound, lighting and other equipment	1,159,940	1,126,791
Artwork	141,344	111,344
	<u>28,714,006</u>	<u>28,619,614</u>
Less accumulated depreciation	<u>4,294,941</u>	<u>3,534,323</u>
	<u>\$ 24,419,065</u>	<u>\$ 25,085,291</u>

Note 7: Note Payable to Bank

The Ballet has a \$400,000 bank line of credit expiring January, 18, 2019. At June 30, 2018 and 2017, there was \$0 borrowed against this line. The line is collateralized by the Ballet's assets. Interest is fixed at 2.25 percent and payable monthly.

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Note 8: Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30 are restricted for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose		
Promises to give, the proceeds from which have been restricted by donors for		
General operations	\$ 43,804	\$ -
Dance Day	5,000	10,000
Guild Archives	19,028	39,439
Wizard of Oz	-	80,000
Dance Festival	-	5,000
ROAD	14,160	16,705
Nutcracker	31,515	37,001
Other purposes	17,730	5,261
	<u>131,237</u>	<u>193,406</u>
Subject to the passage of time		
Promises to give that are not restricted by donors but which are unavailable for expenditure until due		
	<u>738,545</u>	<u>768,916</u>
Endowments		
General operations	3,635,410	4,184,765
Bolender facility	4,866,275	4,769,402
Dancer salaries	1,144,543	1,124,090
Scholarships	397,827	390,718
Costumes	306,460	296,517
Music	6,120	1,078
	<u>10,356,635</u>	<u>10,766,570</u>
Total net assets with donor restrictions	<u>\$ 11,226,417</u>	<u>\$ 11,728,892</u>

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Note 9: Net Assets Released from Restrictions

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

	2018	2017
Satisfaction of purpose restrictions		
Dance Day	\$ 10,000	\$ 10,000
Midsummer's Night Dream	-	5,000
Guild Archives	20,411	4,255
Wizard of Oz	80,000	-
Dance Festival	5,000	-
ROAD	16,705	-
Nutcracker	12,000	84,950
 Expiration of time restrictions	 764,118	 845,807
 Restricted-purpose spending-rate distributions and appropriations		
General operations	566,595	211,905
Dancer salaries	5,000	48,321
Bolender facility	604,405	161,407
Scholarships	24,000	19,867
Costumes	-	8,500
	\$ 2,108,234	\$ 1,400,012

Note 10: Endowment

The Ballet's endowment consists of approximately nine individual donor-restricted funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). 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 is subject to the *Uniform Prudent Management of Institutional Funds Act* as adopted in the state of Missouri (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net asset to net asset without donor restrictions. The governing body of the Ballet has interpreted UPMIFA

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as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Ballet considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. law. Additionally, 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

The composition of net assets by type of endowment fund at June 30, 2018 and 2017, was:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 10,044	\$ -	\$ 10,044
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	8,471,703	8,471,703
Accumulated investment gains	-	1,884,932	1,884,932
	\$ 10,044	\$ 10,356,635	\$ 10,366,679
Total endowment funds			
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 8,456,653	\$ 8,456,653
Accumulated investment gains	-	2,309,917	2,309,917
	\$ -	\$ 10,766,570	\$ 10,766,570
Total endowment funds			

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Changes in endowment net assets for the years ended June 30 were:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 10,766,570	\$ 10,766,570
Investment return, net	44	770,480	770,524
Contributions	10,000	19,585	29,585
Appropriation of endowment assets for expenditure	-	(1,200,000)	(1,200,000)
	<u>\$ 10,044</u>	<u>\$ 10,356,635</u>	<u>\$ 10,366,679</u>
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 9,999,499	\$ 9,999,499
Investment return, net	-	1,206,021	1,206,021
Contributions	-	11,050	11,050
Appropriation of endowment assets for expenditure	-	(450,000)	(450,000)
	<u>\$ -</u>	<u>\$ 10,766,570</u>	<u>\$ 10,766,570</u>

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, 2018 and 2017.

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.

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The Ballet has a policy (the spending policy) of appropriating for expenditure each year approximately 5 percent 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.

The Ballet began an endowment campaign with the goal of raising \$20 million. The campaign is expected to last until 2024.

Note 11: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2018, comprise the following:

	Financial Assets	Available Liquidity
Cash and cash equivalents	\$ 1,500,359	\$ 1,500,359
Contributions, grants and accounts receivable	933,752	858,375
Investments	10,791,346	971,947
	\$ 13,225,457	\$ 3,330,681

The Ballet receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended June 30, 2018, restricted contributions of \$742,260 were included in financial assets available to meet cash needs for general expenditures within one year.

The Ballet's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowment of \$10,000 is subject to an annual spending rate of 5 percent as described in *Note 9*. Although the Ballet does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary. To help manage unanticipated liquidity needs, the Ballet has committed lines of credit in the amount of \$400,000, which it could draw upon.

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The Ballet manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Ballet has a liquidity policy to maintain cash and cash equivalent balances at 20 percent of the total fiscal year's operating budget at all times. To achieve these targets, the Ballet forecasts its future cash flows and monitors its liquidity and reserves monthly. During the year ended June 30, 2018, the level of liquidity and reserves was managed within the policy requirements.

Note 12: 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, 2018 and 2017, respectively. The Missouri Arts Council (MAC), a state agency, provided program assistance funds of \$80,010 and \$150,837 for the years ended June 30, 2018 and 2017, 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 percent return from the MCT on these designated funds each year, contingent upon the Missouri Legislature appropriating and transferring funds to the MCT.

Note 13: Operating Leases and Licensing Agreement

Prior to December 2016, the Ballet leased the Bolender Center under a sublease agreement with Power House Master Tenant, 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 for the year ended June 30, 2017.

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.

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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 percent.

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:

2019	\$ 257,512
2020	248,460
2021	243,140
2022	240,480
2023	240,480
Thereafter	<u>1,960,240</u>
Total minimum lease payments	<u><u>\$ 3,190,312</u></u>

Rental expense for all operating leases was \$329,525 and \$1,169,291 for the years ended June 30, 2018 and 2017, respectively.

Note 14: 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.

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Contributions

Contributions from two foundations comprised approximately 37 percent and contributions from one foundation comprised approximately 89 percent of the total contributions and grants revenue for the years ended June 30, 2018 and 2017, respectively.

Note 15: Subsequent Events

Subsequent events have been evaluated through November 28, 2018, which is the date the financial statements were available to be issued.