

# **Kansas City Ballet Association**

Auditor's Report and Financial Statements

June 30, 2013 and 2012



**Kansas City Ballet Association**  
**June 30, 2013 and 2012**

**Contents**

**Independent Auditor’s Report on Financial Statements and  
Supplementary Information ..... 1**

**Financial Statements**

Statements of Financial Position ..... 3  
Statement of Activities – Year Ended June 30, 2013 ..... 4  
Statement of Activities – Year Ended June 30, 2012 ..... 5  
Statements of Cash Flows ..... 6  
Notes to Financial Statements ..... 7

**Supplementary Information**

Statement of Functional Expenses (Unrestricted) – Year Ended June 30, 2013 ..... 20  
Statement of Functional Expenses (Unrestricted) – Year Ended June 30, 2012 ..... 21

## Independent Auditor's Report Financial Statements and Supplementary Information

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, 2013 and 2012, 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, 2013 and 2012, 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  
October 28, 2013

**Kansas City Ballet Association**  
**Statements of Financial Position**  
**June 30, 2013 and 2012**

**Assets**

	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 848,634	\$ 601,275
Restricted cash and cash equivalents	21,710	208,203
Accounts receivable	52,586	65,258
Contributions and grants receivable	275,264	88,000
Costs incurred for future performances	42,836	75,644
Prepaid expenses and other	475,811	456,402
Music and choreographic rights, net of accumulated amortization; 2013 - \$154,435, 2012 - \$158,685	130,903	199,203
Investments	7,967,169	7,188,371
Investment in supporting organizations	65,104	44,261
Property and equipment, net of accumulated depreciation; 2013 - \$2,289,967, 2012 - \$1,984,842	989,034	1,242,226
Collections – artwork	111,344	111,344
Total assets	\$ 10,980,395	\$ 10,280,187

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 76,095	\$ 52,715
Accrued expenses	50,793	38,975
Advance ticket sales	574,083	589,780
Deferred revenue	169,744	157,544
Total liabilities	870,715	839,014

**Net Assets**

Unrestricted		
Working capital and undesignated reserve	184,086	479,514
Property and equipment	2,152,264	2,101,995
Temporarily restricted	961,011	693,995
Permanently restricted	6,812,319	6,165,669
Total net assets	10,109,680	9,441,173
Total liabilities and net assets	\$ 10,980,395	\$ 10,280,187

**Kansas City Ballet Association**  
**Statement of Activities**  
**Year Ended June 30, 2013**

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Working Capital and Undesignated Reserve	Property and Equipment	Total Unrestricted			
<b>Revenues, Gains and Other Support</b>						
Season and single ticket sales	\$ 2,885,080		\$ 2,885,080			\$ 2,885,080
School tuition	845,181		845,181			845,181
Interest and dividends	2,133		2,133	\$ 77,412		79,545
Net realized and unrealized gains				579,155		579,155
Other	42,643		42,643			42,643
	3,775,037		3,775,037	656,567		4,431,604
Contributions and grants						
Individuals/board	511,225		511,225	199,929	\$ 646,650	1,357,804
Business/corporate	206,202		206,202			206,202
Foundations	2,743,259		2,743,259			2,743,259
Kansas City Ballet Guild activities	368,750		368,750	10,079		378,829
Missouri Arts Council	22,028		22,028			22,028
National Endowment for the Arts	20,000		20,000			20,000
School/education	224,325		224,325			224,325
Other	3,335		3,335			3,335
Total contributions and grants	4,099,124		4,099,124	210,008	646,650	4,955,782
Net assets released from restrictions	238,312	\$ 361,247	599,559	(599,559)		-
Total revenues, gains and other support	8,112,473	361,247	8,473,720	267,016	646,650	9,387,386
<b>Expenses and Losses</b>						
Production	3,183,087		3,183,087			3,183,087
School	1,010,890		1,010,890			1,010,890
Marketing	795,525		795,525			795,525
General and administrative	2,999,517		2,999,517			2,999,517
Fundraising	418,882		418,882			418,882
Depreciation		310,978	310,978			310,978
Total expenses and losses	8,407,901	310,978	8,718,879			8,718,879
<b>Change in Net Assets</b>	(295,428)	50,269	(245,159)	267,016	646,650	668,507
<b>Net Assets, Beginning of Year</b>	479,514	2,101,995	2,581,509	693,995	6,165,669	9,441,173
<b>Net Assets, End of Year</b>	\$ 184,086	\$ 2,152,264	\$ 2,336,350	\$ 961,011	\$ 6,812,319	\$ 10,109,680

**Kansas City Ballet Association**  
**Statement of Activities**  
**Year Ended June 30, 2012**

	<u>Unrestricted</u>			<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>Working Capital and Undesignated Reserve</u>	<u>Property and Equipment</u>	<u>Total Unrestricted</u>			
<b>Revenues, Gains and Other Support</b>						
Season and single ticket sales	\$ 3,435,392		\$ 3,435,392			\$ 3,435,392
School tuition	863,364		863,364			863,364
Interest and dividends	4,496		4,496	\$ 55,903		60,399
Net realized and unrealized losses			-	(88,425)		(88,425)
Other	28,626		28,626			28,626
	<u>4,331,878</u>		<u>4,331,878</u>	<u>(32,522)</u>		<u>4,299,356</u>
Contributions and grants						
Individuals/board	242,690		242,690	289,811	\$ 1,239,000	1,771,501
Business/corporate	199,731		199,731	72,500		272,231
Foundations	1,408,736		1,408,736	478,696		1,887,432
Kansas City Ballet Guild activities	362,640		362,640			362,640
Missouri Arts Council	92,368		92,368			92,368
National Endowment for the Arts	20,000		20,000			20,000
School/education	201,150		201,150	8,500		209,650
Other	11,077		11,077			11,077
Total contributions and grants	<u>2,538,392</u>		<u>2,538,392</u>	<u>849,507</u>	<u>1,239,000</u>	<u>4,626,899</u>
Net assets released from restrictions	760,791	\$ 473,092	1,233,883	(1,233,883)		-
Total revenues, gains and other support	<u>7,631,061</u>	<u>473,092</u>	<u>8,104,153</u>	<u>(416,898)</u>	<u>1,239,000</u>	<u>8,926,255</u>
<b>Expenses and Losses</b>						
Production	3,192,300		3,192,300			3,192,300
School	983,447		983,447			983,447
Marketing	909,312		909,312			909,312
General and administrative	2,649,482		2,649,482			2,649,482
Fundraising	536,294		536,294			536,294
Depreciation		259,596	259,596			259,596
Total expenses and losses	<u>8,270,835</u>	<u>259,596</u>	<u>8,530,431</u>			<u>8,530,431</u>
<b>Change in Net Assets</b>	(639,774)	213,496	(426,278)	(416,898)	1,239,000	395,824
<b>Net Assets, Beginning of Year</b>	<u>1,119,288</u>	<u>1,888,499</u>	<u>3,007,787</u>	<u>1,110,893</u>	<u>4,926,669</u>	<u>9,045,349</u>
<b>Net Assets, End of Year</b>	<u>\$ 479,514</u>	<u>\$ 2,101,995</u>	<u>\$ 2,581,509</u>	<u>\$ 693,995</u>	<u>\$ 6,165,669</u>	<u>\$ 9,441,173</u>

**Kansas City Ballet Association**  
**Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Change in net assets	\$ 668,507	\$ 395,824
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	384,278	358,947
Net realized and unrealized (gains) losses on investments	(579,155)	88,425
Change in investment in supporting organization	(20,843)	66,337
Contributions received restricted for long-term investment	(646,650)	(1,239,000)
Contributions received restricted for acquisition of long-lived assets	(1,875)	(498,486)
Changes in		
Accounts receivable	12,672	(35,919)
Contributions and grants receivable	(187,264)	(33,750)
Costs incurred for future performances	32,808	(23,455)
Prepaid expenses and other	(19,409)	936,443
Accounts payable and accrued expenses	35,198	(23,709)
Advance ticket sales and deferred revenue	(3,497)	28,234
	<u>(325,230)</u>	<u>19,891</u>
<b>Investing Activities</b>		
Change in restricted cash and cash receipts	186,493	109,849
Purchase of music and choreography rights	(5,000)	(174,695)
Purchase of investments	(4,701,528)	(1,299,126)
Proceeds from sale of investments	4,501,885	64,258
Purchase of property and equipment	(57,786)	(937,212)
	<u>(75,936)</u>	<u>(2,236,926)</u>
<b>Financing Activities</b>		
Proceeds from contributions restricted for long-term investment	646,650	1,239,000
Proceeds from contributions restricted for acquisition of long-lived assets	1,875	498,486
	<u>648,525</u>	<u>1,737,486</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<u>247,359</u>	<u>(479,549)</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>601,275</u>	<u>1,080,824</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 848,634</u></u>	<u><u>\$ 601,275</u></u>



**Kansas City Ballet Association**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

**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. With a few exceptions, the Ballet is no longer subject to U.S. federal examinations by tax authorities for years before 2010.

***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, 2013 and 2012, cash equivalents consisted primarily of money market accounts.

At June 30, 2013, the Ballet's cash accounts exceeded federally insured limits by approximately \$835,000.

***Accounts Receivable***

At June 30, 2013 and 2012, 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, 2013 and 2012**

### ***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***

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.

### ***Collections – Art Work***

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

### ***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.

**Kansas City Ballet Association**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

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	2-3 years
Prairie Village campus	5 years
Sound, lighting and other equipment	3-10 years

***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, 2013 and 2012.

***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.

***Unrestricted Net Assets***

Unrestricted net assets consist of the following internally designated funds:

***Working Capital and Undesignated Reserve*** – Net assets that are not subject to donor-imposed stipulations.

***Property and Equipment*** – Net assets used to account for transactions relating to investment in properties, including the depreciation of physical assets.

***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***

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.

**Kansas City Ballet Association**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

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.

***Donated 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.

***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.

***Reclassifications***

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

# Kansas City Ballet Association

## Notes to Financial Statements

June 30, 2013 and 2012

### Note 2: Contributions Receivable

Contributions at June 30 consisted of the following unconditional promises to give discounted at a rate of 5%:

	<b>2013</b>	<b>2012</b>
Due within one year	\$ 205,035	\$ 88,000
Due in one to five years	74,000	-
	279,035	88,000
Less unamortized discount	(3,771)	-
	\$ 275,264	\$ 88,000

### Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

	<b>2013</b>	<b>2012</b>
Money market funds	\$ 308,608	\$ 400,788
Common stock	2,141,142	1,852,422
Equity mutual funds	2,827,529	2,214,255
Fixed income mutual funds	464,564	583,191
Government and agency bonds	1,051,939	1,043,568
Corporate bonds	719,044	506,894
Municipal bonds	24,036	-
Certificates of deposit	403,846	573,359
GKCCF money market pool	16,677	13,894
Accrued interest	9,784	-
	\$ 7,967,169	\$ 7,188,371

Total investment return (loss) is comprised of the following:

	<b>2013</b>	<b>2012</b>
Interest and dividend income	\$ 79,545	\$ 60,399
Net realized and unrealized gains (losses)	579,155	(88,425)
	\$ 658,700	\$ (28,026)

# Kansas City Ballet Association

## Notes to Financial Statements

June 30, 2013 and 2012

### **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 tables present 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, 2013 and 2012:

	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)
<b>June 30, 2013</b>				
Money market funds	\$ 308,608	\$ 308,608		
Common stock	2,141,142	2,141,142		
Equity mutual funds	2,827,529	2,827,529		
Fixed income mutual funds	464,564	464,564		
Government and agency bonds	1,051,939		\$ 1,051,939	
Corporate bonds	719,044		719,044	
Municipal bonds	24,036		24,036	
GKCCF money market pool	16,677		16,677	
	<u>\$ 7,553,539</u>	<u>\$ 5,741,843</u>	<u>\$ 1,811,696</u>	<u>\$ -</u>
<b>June 30, 2012</b>				
Money market funds	\$ 400,788	\$ 400,788		
Common stock	1,852,422	1,852,422		
Equity mutual funds	2,214,255	2,214,255		
Fixed income mutual funds	583,191	583,191		
Government and agency bonds	1,043,568		\$ 1,043,568	
Corporate bonds	506,894		506,894	
GKCCF money market pool	13,894		13,894	
	<u>\$ 6,615,012</u>	<u>\$ 5,050,656</u>	<u>\$ 1,564,356</u>	<u>\$ -</u>

# Kansas City Ballet Association

## Notes to Financial Statements

June 30, 2013 and 2012

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, 2013.

### 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 contributions solicited on behalf of the Ballet by the Guild amounting to \$368,750 and \$362,640 for the years ended June 30, 2013 and 2012, respectively.

### Note 5: Property and Equipment

Property and equipment at June 30 consisted of:

	<b>2013</b>	<b>2012</b>
Costume and production sets	\$ 1,851,282	\$ 1,813,810
Furniture and fixtures	511,155	511,155
Leasehold improvements	94,228	94,228
Prairie Village campus	50,000	50,000
Sound, lighting and other equipment	772,336	757,875
	<u>3,279,001</u>	<u>3,227,068</u>
Less accumulated depreciation	2,289,967	1,984,842
	<u>\$ 989,034</u>	<u>\$ 1,242,226</u>

# Kansas City Ballet Association

## Notes to Financial Statements

June 30, 2013 and 2012

### Note 6: Net Assets

#### *Temporarily Restricted Net Assets*

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

	<b>2013</b>	<b>2012</b>
Construction and facility costs	\$ 1,875	\$ 175,000
Endowment earnings over corpus	751,004	470,206
Other purposes	13,878	48,789
For periods after June 30	194,254	-
	\$ 961,011	\$ 693,995

#### *Permanently Restricted Net Assets*

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

	<b>2013</b>	<b>2012</b>
General operations	\$ 2,602,622	\$ 2,527,622
Bolendar facility	2,890,650	2,319,000
Dancer salaries	1,000,000	1,000,000
Scholarships	319,047	319,047
	\$ 6,812,319	\$ 6,165,669

#### *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.

	<b>2013</b>	<b>2012</b>
Construction and facility costs	\$ 361,247	\$ 473,092
General operations	122,764	5,590
Specific performances	-	625,201
Opening	-	130,000
Dancer salaries	50,049	-
Scholarships	16,710	-
Other purposes	48,789	-
	\$ 599,559	\$ 1,233,883



# Kansas City Ballet Association

## Notes to Financial Statements

June 30, 2013 and 2012

### 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, 2013 and 2012**

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, 2013 and 2012 were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2011	\$ -	\$ 497,138	\$ 4,926,669	\$ 5,423,807
Investment return				
Investment income	-	55,903	-	55,903
Net depreciation	-	(88,425)	-	(88,425)
Total investment return	-	(32,522)	-	(32,522)
Contributions	-	5,590	1,239,000	1,244,590
Endowment net assets, June 30, 2012	-	470,206	6,165,669	6,635,875
Investment return				
Investment income	-	77,412	-	77,412
Net appreciation	-	579,155	-	579,155
Total investment return	-	656,567	-	656,567
Contributions	-	-	646,650	646,650
Appropriation of endowment assets for expenditure	-	(375,769)	-	(375,769)
Endowment net assets, June 30, 2013	<u>\$ -</u>	<u>\$ 751,004</u>	<u>\$ 6,812,319</u>	<u>\$ 7,563,323</u>

**Kansas City Ballet Association**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

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

	<b>2013</b>	<b>2012</b>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation	<u>\$ 6,812,319</u>	<u>\$ 6,165,669</u>
Temporarily restricted net assets		
Term endowment funds	\$ 174,393	\$ 161,050
Portion of perpetual endowment funds subject to a time restriction under UPMIFA		
With purpose restrictions	205,364	72,197
Without purpose restrictions	<u>371,247</u>	<u>236,959</u>
	<u>\$ 751,004</u>	<u>\$ 470,206</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, 2013 and 2012.

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, 2013 and 2012**

#### **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 amount of \$20,000 for each of the years ended June 30, 2013 and 2012. The Missouri Arts Council (MAC), a state agency, provided program assistance funds of \$22,028 and \$92,368 for the years ended June 30, 2013 and 2012, 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. In return, the MCT set aside a 50% match of private funds raised. The MCT remains the owner of the matching funds and, therefore, such assets are not included on the accompanying financial statements.

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. In return, the MCT set aside a 50% match of private funds raised. The MCT remains the owner of the matching funds and, therefore, such assets are not included on the accompanying financial statements.

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. However, the payment of the 5% is contingent upon the Missouri Legislature appropriating and transferring funds to the MCT. It does not appear likely that the Missouri Legislature will appropriate or transfer the necessary funds to the MCT in the foreseeable future. Therefore, the 5% payment to the Ballet in future years is deemed not likely.

#### **Note 9: Power House Lease**

During 2010, the Ballet entered into a sublease and development agreement with Power House Master Tenant, LLC, for build-to-suit renovation and occupancy of certain property in Kansas City, Missouri. The term of the sublease is 19 years and commences on the project completion date, which was August 2011. Rent payments ranging from \$131,250 to \$134,917 are payable on the first day of each month.

#### **Note 10: Licensing Agreement**

During fiscal year 2011, the Ballet entered into a Licensing Agreement with the Kauffman Center for the Performing Arts (the Kauffman Center). The initial license term is 20 years with the right to extend that initial 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, 2013 and 2012**

**Note 11: Operating Leases**

The noncancellable operating lease for the Power House facility (*Note 10*) and the licensing agreement for the Kauffman Center (*Note 11*) expire in 2030 and 2031, respectively. 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:

2014	\$ 1,852,830
2015	1,847,726
2016	1,841,245
2017	1,816,989
2018	1,815,000
Thereafter	<u>22,431,250</u>
Total minimum lease payments	<u>\$ 31,605,040</u>

Rental expense for all operating leases was \$1,933,618 and \$1,730,652 for the years ended June 30, 2013 and 2012, respectively.

**Note 12: 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 one foundation comprised approximately 25% and 27% of the total contributions and grants revenue for the years ended June 30, 2013 and 2012, respectively.

## **Supplementary Information**

**Kansas City Ballet Association**  
**Statement of Functional Expenses**  
**(Unrestricted)**  
**Year Ended June 30, 2013**

	<b>Production</b>	<b>School</b>	<b>Marketing</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Depreciation</b>	<b>Total Expenses</b>
Salaries and benefits	\$ 2,140,269	\$ 772,304		\$ 732,736	\$ 301,113		\$ 3,946,422
Costumes and sets	95,338						95,338
Shoes	57,692						57,692
Orchestra	351,790						351,790
Guest artists	123,110						123,110
Theater rental	250,080						250,080
Lights and sound	51,176						51,176
Touring	1,249						1,249
Box office, ushers and security	62,178						62,178
Summer program		64,105					64,105
Supplies and expendables	7,575	3,133	\$ 5,250	8,629	1,829		26,416
Travel and training	8,849	14,831		7,107	49,693		80,480
Rent and maintenance	18,270	70,543		1,806,072			1,894,885
Utilities	1,360	15,783	24,215	203,611	9,590		254,559
Advertising/promotion		60,607	607,428				668,035
Insurance				47,080			47,080
Depreciation						\$ 310,978	310,978
Printing and publications		2,121	32,295	7,068	24,927		66,411
Ticket processing fees			62,465				62,465
Bank charges				4,931			4,931
Professional fees			35,000	117,236	16,450		168,686
Other	14,151	7,463	28,872	65,047	15,280		130,813
	<u>\$ 3,183,087</u>	<u>\$ 1,010,890</u>	<u>\$ 795,525</u>	<u>\$ 2,999,517</u>	<u>\$ 418,882</u>	<u>\$ 310,978</u>	<u>\$ 8,718,879</u>

**Kansas City Ballet Association**  
**Statement of Functional Expenses**  
**(Unrestricted)**  
**Year Ended June 30, 2012**

	<b>Production</b>	<b>School</b>	<b>Marketing</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Depreciation</b>	<b>Total Expenses</b>
Salaries and benefits	\$ 2,090,014	\$ 692,646		\$ 700,126	\$ 235,482		\$ 3,718,268
Costumes and sets	72,899						72,899
Shoes	53,759						53,759
Orchestra	379,841						379,841
Guest artists	168,759						168,759
Theater rental	240,000						240,000
Lights and sound	57,285						57,285
Touring	2,854						2,854
Box office, ushers and security	65,213						65,213
Summer program		94,678					94,678
ROAD program		1,404					1,404
Supplies and expendables	13,637	3,463	\$ 1,653	10,181	1,499		30,433
Travel and training	7,569	20,355		14,867	44,132		86,923
Rent and maintenance	18,270	72,078		1,549,899			1,640,247
Utilities	1,168	16,707	29,406	184,159	7,485		238,925
Advertising/promotion		61,335	649,646				710,981
Insurance				42,883			42,883
Depreciation						\$ 259,596	259,596
Printing and publications		8,899	55,061	7,742	22,710		94,412
Ticket processing fees			88,108				88,108
Bank charges				6,103			6,103
Professional fees			38,499	90,629	86,564		215,692
Other	21,032	11,882	46,939	42,893	138,422		261,168
	<u>\$ 3,192,300</u>	<u>\$ 983,447</u>	<u>\$ 909,312</u>	<u>\$ 2,649,482</u>	<u>\$ 536,294</u>	<u>\$ 259,596</u>	<u>\$ 8,530,431</u>