

# **Kansas City Ballet Association**

Independent Auditor's Report and Financial Statements

June 30, 2020 and 2019



**Kansas City Ballet Association**  
**June 30, 2020 and 2019**

**Contents**

<b>Independent Auditor’s Report.....</b>	<b>1</b>
<b>Financial Statements</b>	
Statements of Financial Position .....	3
Statement of Activities – Year Ended June 30, 2020 .....	4
Statement of Activities – Year Ended June 30, 2019 .....	5
Statement of Functional Expenses – Year Ended June 30, 2020 .....	6
Statement of Functional Expenses – Year Ended June 30, 2019 .....	7
Statements of Cash Flows .....	8
Notes to Financial Statements .....	9

## 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, 2020 and 2019, 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, 2020 and 2019, 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 1* to the financial statements, in 2020, the Ballet adopted ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

**BKD, LLP**

Kansas City, Missouri  
November 17, 2020

**Kansas City Ballet Association**  
**Statements of Financial Position**  
**June 30, 2020 and 2019**

**Assets**

	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 1,050,046	\$ 1,395,724
Contributions and accounts receivable	2,362,290	4,067,611
Prepaid expenses and other, net of accumulated amortization; 2020 - \$88,750, 2019 - \$72,500	276,513	419,542
Investments	14,362,787	12,287,028
Investment in supporting organization	42,470	26,646
Investment in joint venture	262,915	307,225
Property and equipment, net of accumulated depreciation; 2020 - \$5,862,696, 2019 - \$5,065,977	23,205,536	23,729,105
Total assets	\$ 41,562,557	\$ 42,232,881

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 76,429	\$ 267,090
Accrued expenses	413,565	216,292
Advance ticket sales	617,466	628,994
Deferred revenue	-	345,657
Note payable	910,800	-
Total liabilities	2,018,260	1,458,033

**Net Assets**

Without donor restrictions	23,079,226	24,785,960
With donor restrictions	16,465,071	15,988,888
Total net assets	39,544,297	40,774,848
Total liabilities and net assets	\$ 41,562,557	\$ 42,232,881

**Kansas City Ballet Association**  
**Statement of Activities**  
**Year Ended June 30, 2020**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Season and single ticket sales	\$ 3,317,107		\$ 3,317,107
School tuition	1,327,176		1,327,176
Net investment return	5,485	\$ 343,040	348,525
Other	230,516	-	230,516
	<u>4,880,284</u>	<u>343,040</u>	<u>5,223,324</u>
Contributions and grants			
Individuals/board	914,364	853,050	1,767,414
Business/corporate	194,565	50,250	244,815
Foundations	477,771	264,507	742,278
Kansas City Ballet Guild activities	295,444	-	295,444
Missouri Arts Council	99,891	-	99,891
School/education	246,036	-	246,036
	<u>2,228,071</u>	<u>1,167,807</u>	<u>3,395,878</u>
Net assets released from restrictions	1,034,664	(1,034,664)	-
	<u>8,143,019</u>	<u>476,183</u>	<u>8,619,202</u>
<b>Expenses and Losses</b>			
Production	4,513,297		4,513,297
School	1,907,916		1,907,916
Marketing	1,116,833		1,116,833
General and administrative	1,563,086		1,563,086
Fundraising	748,621		748,621
	<u>9,849,753</u>		<u>9,849,753</u>
<b>Change in Net Assets</b>	(1,706,734)	476,183	(1,230,551)
<b>Net Assets, Beginning of Year</b>	<u>24,785,960</u>	<u>15,988,888</u>	<u>40,774,848</u>
<b>Net Assets, End of Year</b>	<u>\$ 23,079,226</u>	<u>\$ 16,465,071</u>	<u>\$ 39,544,297</u>

**Kansas City Ballet Association**  
**Statement of Activities**  
**Year Ended June 30, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Season and single ticket sales	\$ 3,983,970		\$ 3,983,970
School tuition	1,611,617		1,611,617
Net investment return	5,312	\$ 658,564	663,876
Other	167,765	-	167,765
	<u>5,768,664</u>	<u>658,564</u>	<u>6,427,228</u>
Contributions and grants			
Individuals/board	543,486	4,483,255	5,026,741
Business/corporate	249,423	5,000	254,423
Foundations	667,900	1,080,562	1,748,462
Kansas City Ballet Guild activities	300,163	-	300,163
Missouri Arts Council	109,936	-	109,936
National Endowment for the Arts	15,000	-	15,000
School/education	303,070	3,000	306,070
	<u>2,188,978</u>	<u>5,571,817</u>	<u>7,760,795</u>
Net assets released from restrictions	<u>1,467,910</u>	<u>(1,467,910)</u>	<u>-</u>
Total revenues, gains and other support	<u>9,425,552</u>	<u>4,762,471</u>	<u>14,188,023</u>
<b>Expenses and Losses</b>			
Production	4,694,449		4,694,449
School	1,975,251		1,975,251
Marketing	1,173,481		1,173,481
General and administrative	1,576,539		1,576,539
Fundraising	818,563		818,563
	<u>10,238,283</u>		<u>10,238,283</u>
Total expenses and losses	<u>10,238,283</u>		<u>10,238,283</u>
<b>Change in Net Assets</b>	(812,731)	4,762,471	3,949,740
<b>Net Assets, Beginning of Year</b>	<u>25,598,691</u>	<u>11,226,417</u>	<u>36,825,108</u>
<b>Net Assets, End of Year</b>	<u>\$ 24,785,960</u>	<u>\$ 15,988,888</u>	<u>\$ 40,774,848</u>

**Kansas City Ballet Association**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2020**

	Program Services		Supporting Services			Total Expenses
	Production	School	Marketing	General and Administrative	Fundraising	
Salaries and benefits	\$ 2,761,133	\$ 1,427,204	\$ 297,099	\$ 711,627	\$ 506,704	\$ 5,703,767
Costumes and sets	101,694	-	-	-	-	101,694
Shoes	81,136	-	-	-	-	81,136
Orchestra	452,022	-	-	-	-	452,022
Guest artists	59,807	-	-	-	-	59,807
Theater rental	200,947	-	-	-	-	200,947
Lights and sound	7,175	-	-	-	-	7,175
Box office, ushers and security	133,056	-	-	-	-	133,056
Summer program	-	123,521	-	-	-	123,521
Supplies and expendables	11,566	3,467	57,450	14,751	9,583	96,817
Travel and training	24,527	29,733	-	3,295	7,858	65,413
Rent and maintenance	34,295	70,242	-	225,883	-	330,420
Utilities	759	7,862	-	275,353	-	283,974
Advertising/promotion	-	41,873	512,311	-	-	554,184
Insurance	-	-	-	41,520	-	41,520
Depreciation	609,994	126,125	34,690	34,184	22,076	827,069
Printing and publications	-	1,006	57,014	4,259	14,233	76,512
Ticket processing fees	-	-	95,246	-	-	95,246
Bank charges	-	-	-	10,414	-	10,414
Professional fees	-	-	38,250	129,181	46,461	213,892
Other	35,186	76,883	24,773	112,619	141,706	391,167
	<u>\$ 4,513,297</u>	<u>\$ 1,907,916</u>	<u>\$ 1,116,833</u>	<u>\$ 1,563,086</u>	<u>\$ 748,621</u>	<u>\$ 9,849,753</u>



**Kansas City Ballet Association**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2019**

	<u>Program Services</u>		<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Production</u>	<u>School</u>	<u>Marketing</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
Salaries and benefits	\$ 2,681,825	\$ 1,355,436	\$ 298,176	\$ 666,556	\$ 487,876	\$ 5,489,869
Costumes and sets	136,011	-	-	-	-	136,011
Shoes	90,369	-	-	-	-	90,369
Orchestra	461,924	-	-	-	-	461,924
Guest artists	197,825	-	-	-	-	197,825
Theater rental	245,044	-	-	-	-	245,044
Lights and sound	39,905	-	-	-	-	39,905
Touring	210	-	-	-	-	210
Box office, ushers and security	136,922	-	-	-	-	136,922
Summer program	-	199,518	-	-	-	199,518
Supplies and expendables	12,664	6,140	70,356	12,885	14,295	116,340
Travel and training	40,052	37,512	-	4,553	16,361	98,478
Rent and maintenance	34,225	93,820	-	261,605	-	389,650
Utilities	1,996	8,977	-	284,387	-	295,360
Advertising/promotion	-	52,644	505,052	-	-	557,696
Insurance	-	-	-	47,699	-	47,699
Depreciation	553,960	126,125	34,690	34,184	22,076	771,035
Printing and publications	-	117	77,341	10,581	19,825	107,864
Ticket processing fees	-	-	97,452	-	-	97,452
Bank charges	-	-	-	9,044	-	9,044
Professional fees	-	-	58,239	125,064	52,773	236,076
Other	61,517	94,962	32,175	119,981	205,357	513,992
	<u>\$ 4,694,449</u>	<u>\$ 1,975,251</u>	<u>\$ 1,173,481</u>	<u>\$ 1,576,539</u>	<u>\$ 818,563</u>	<u>\$ 10,238,283</u>

**Kansas City Ballet Association**  
**Statements of Cash Flows**  
**Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating Activities</b>		
Change in net assets	\$ (1,230,551)	\$ 3,949,740
Items not requiring (providing) operating cash flows		
Depreciation and amortization	843,319	789,285
Net realized and unrealized gains on investments	(348,525)	(648,159)
Net loss on sale of property and equipment	15,000	-
Change in investment in joint venture and supporting organization	28,486	37,613
Contributions received restricted for long-term investment	(788,890)	(4,449,927)
Non-cash contribution	(250,000)	-
Changes in		
Accounts receivable	61,261	(45,766)
Contributions and grants receivable	1,644,060	(3,088,093)
Costs incurred for future performances	23,407	13,056
Prepaid expenses and other	103,372	(168,475)
Accounts payable and accrued expenses	6,612	124,233
Advance ticket sales and deferred revenue	(357,185)	(137,443)
	<u>(249,634)</u>	<u>(3,623,936)</u>
<b>Investing Activities</b>		
Purchase of investments	(2,537,416)	(2,022,916)
Proceeds from sale of investments	810,182	1,175,393
Purchase of property and equipment	(68,500)	(83,103)
	<u>(1,795,734)</u>	<u>(930,626)</u>
<b>Financing Activities</b>		
Proceeds from contributions restricted for long-term investment	788,890	4,449,927
Proceeds from issuance of note payable	910,800	-
	<u>1,699,690</u>	<u>4,449,927</u>
<b>Decrease in Cash and Cash Equivalents</b>	(345,678)	(104,635)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,395,724</u>	<u>1,500,359</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,050,046</u>	<u>\$ 1,395,724</u>
<b>Supplemental Cash Flows Information</b>		
Property and equipment acquired through non-cash contributions	\$ (250,000)	\$ -

**Kansas City Ballet Association**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

**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, 2020 and 2019, cash equivalents consisted primarily of money market accounts.

At June 30, 2020, the Ballet's cash accounts exceeded federally insured limits by approximately \$921,000.

***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, 2020 and 2019

### ***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	3-50 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, 2020 and 2019.

# Kansas City Ballet Association

## Notes to Financial Statements

### June 30, 2020 and 2019

**Deferred Revenue**

Deferred revenue represents tuition payments received in advance relating to the School operated by the Ballet and ticket payments received for future performances. Revenue is recognized during the school year and when the performances occur.

**Paycheck Protection Program Loan**

The Ballet received \$910,800 pursuant to the Payroll Protection Program established by the CARES Act and has elected to account for the funding as a note payable in accordance with ASC Topic 470, Debt. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as a gain in the financial statements in the period the debt is legally released. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to any gain recognized.

**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**

Contributions are provided to the Ballet either with or without restrictions placed on the gift by the donor or grantor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<i>Conditional gifts, with or without restrictions</i>	
Gifts that depend on the Ballet overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restrictions</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

# **Kansas City Ballet Association**

## **Notes to Financial Statements**

### **June 30, 2020 and 2019**

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

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 statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Support funded by grants is recognized as the Ballet meets the conditions prescribed by the grant agreement. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

#### ***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 related to program services and fundraising activity has not been recognized in the financial statements. During the year ended June 30, 2020, a company volunteered services to recreate the Ballet's website. These services require specialized skills and the value of the donated service of \$250,000 has 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" which was performed in October 2018. The Ballet accounts for its investment using the equity method, which represented \$262,915 and \$307,225 at June 30, 2020 and 2019, 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.

**Kansas City Ballet Association**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

**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.

**Change in Accounting Principle**

On July 1, 2019, the Ballet adopted the Financial Accounting Standards Board Accounting Standards Update 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using a modified prospective method of adoption to agreements that were not complete as of or entered into after the effective date.

The core guidance in ASU 2018-08 is to provide guidance around the determination of distinguishing contributions versus exchange transactions. In addition, the standard clarified the requirements for determining whether a contribution is conditional. Adoption of ASU 2018-08 did not have a material impact on the financial statements.

**Note 2: Contributions and Accounts Receivable**

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

	<b>2020</b>	<b>2019</b>
Due within one year	\$ 884,686	\$ 2,121,680
Due in one to five years	1,459,456	1,949,957
Due in five to ten years	85,000	20,000
	2,429,142	4,091,637
Less		
Unamortized discount	(50,878)	(56,696)
Allowance for uncollectible contributions	(47,282)	(59,899)
	<b>\$ 2,330,982</b>	<b>\$ 3,975,042</b>

Approximately 74 percent of contributions receivable were from two donors for the year ended June 30, 2020 and approximately 80 percent of contributions receivable was from one donor for the year ended June 30, 2019. Also, included in the contributions, grants and accounts receivable are \$31,308 and \$92,569 of accounts receivable for the years ended June 30, 2020 and 2019, respectively.

# Kansas City Ballet Association

## Notes to Financial Statements

June 30, 2020 and 2019

### Note 3: Conditional Gifts

The Ballet has received the following conditional promises to give at June 30, 2020 and 2019 that are not recognized in the financial statements:

	<u>2020</u>	<u>2019</u>
Conditional promise to give upon the donor's discretion	\$ 166,666	\$ 333,332

### Note 4: Investments

Investments at June 30 consisted of the following:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 1,327,378	\$ 1,043,910
Common stock	1,130,139	1,044,579
Equity mutual funds	7,295,590	6,629,648
Fixed income mutual funds	317,662	320,656
Government and agency bonds	1,683,366	1,126,534
Corporate bonds	2,170,666	1,686,020
Municipal bonds	25,000	25,165
Certificates of deposit	412,986	410,516
	<u>\$ 14,362,787</u>	<u>\$ 12,287,028</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, 2020 and 2019

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, 2020 and 2019:

	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, 2020</b>				
Money market funds	\$ 1,327,378	\$ 1,327,378		
Common stock	1,130,139	1,130,139		
Equity mutual funds	7,295,590	7,295,590		
Fixed income mutual funds	317,662	317,662		
Government and agency bonds	1,683,366	-	\$ 1,683,366	
Corporate bonds	2,170,666	-	2,170,666	
Municipal bonds	25,000	-	25,000	\$ -
	<u>\$ 13,949,801</u>	<u>\$ 10,070,769</u>	<u>\$ 3,879,032</u>	<u>\$ -</u>
<b>June 30, 2019</b>				
Money market funds	\$ 1,043,910	\$ 1,043,910		
Common stock	1,044,579	1,044,579		
Equity mutual funds	6,629,648	6,629,648		
Fixed income mutual funds	320,656	320,656		
Government and agency bonds	1,126,534	-	\$ 1,126,534	
Corporate bonds	1,686,020	-	1,686,020	
Municipal bonds	25,165	-	25,165	\$ -
	<u>\$ 11,876,512</u>	<u>\$ 9,038,793</u>	<u>\$ 2,837,719</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, 2020.

**Kansas City Ballet Association**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

**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 \$295,444 and \$300,163 for the years ended June 30, 2020 and 2019, respectively.

**Note 6: Property and Equipment**

Property and equipment at June 30 consisted of:

	<b>2020</b>	<b>2019</b>
Costume and production sets	\$ 3,306,347	\$ 3,254,380
Furniture and fixtures	564,714	549,981
Leasehold improvements	23,612,597	23,627,597
Prairie Village campus	50,000	50,000
Sound, lighting and other equipment	1,393,230	1,171,780
Artwork	141,344	141,344
	29,068,232	28,795,082
Less accumulated depreciation	5,862,696	5,065,977
	<b>\$ 23,205,536</b>	<b>\$ 23,729,105</b>

**Note 7: Note Payable to Bank**

The Ballet has a \$400,000 bank line of credit expiring January 19, 2021. At June 30, 2020 and 2019, there were no borrowings against this line. The line is collateralized by the Ballet's assets. Interest is fixed at 2.60 percent and payable monthly.

# Kansas City Ballet Association

## Notes to Financial Statements

June 30, 2020 and 2019

### Note 8: Net Assets with Donor Restrictions

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

	2020	2019
<b>Subject to expenditure for specified purpose</b>		
Promises to give, the proceeds from which have been restricted by donors for		
General operations	\$ 2,040,481	\$ 3,000,149
Guild Archives	9,264	13,820
KCBII	25,000	60,000
ROAD	57,500	176,546
Nutcracker	67,223	22,223
Other purposes	5,841	8,782
	2,205,309	3,281,520
 <b>Subject to the passage of time</b>		
Promises to give that are not restricted by donors but which are unavailable for expenditure until due		
	349,600	868,810
 <b>Endowments</b>		
General operations	6,462,472	4,900,020
Bolender facility	5,022,288	4,887,384
Dancer salaries	1,427,600	1,149,366
Scholarships	401,905	404,518
Costumes	292,777	283,341
Music	166,130	105,333
ROAD	111,583	108,596
Pointe Shoes	20,304	-
Mixed Repertoire	5,103	-
	13,910,162	11,838,558
Total net assets with donor restrictions	\$ 16,465,071	\$ 15,988,888

# Kansas City Ballet Association

## Notes to Financial Statements

June 30, 2020 and 2019

### 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.

	2020	2019
Satisfaction of purpose restrictions		
Dance Day	\$ -	\$ 5,000
Guild Archives	4,556	27
KCBII	35,000	-
ROAD	139,046	9,160
Nutcracker	5,000	7,625
Other	6,752	22,265
Expiration of time restrictions	824,310	723,833
Restricted-purpose spending-rate distributions and appropriations		
General operations	-	206,278
Dancer salaries	-	154,494
Bolender facility	-	314,000
Scholarships	20,000	20,435
Costumes	-	4,793
	\$ 1,034,664	\$ 1,467,910

### 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 assets to net asset without donor restrictions. The governing body of the Ballet has interpreted UPMIFA 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

**Kansas City Ballet Association**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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, 2020 and 2019, was:

	<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board-designated endowment funds	\$ 10,607	\$ -	\$ 10,607
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	11,760,206	11,760,206
Accumulated investment gains	-	2,149,956	2,149,956
	<u>\$ 10,607</u>	<u>\$ 13,910,162</u>	<u>\$ 13,920,769</u>
Total endowment funds			
	<u>\$ 10,607</u>	<u>\$ 13,910,162</u>	<u>\$ 13,920,769</u>
	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board-designated endowment funds	\$ 10,607	\$ -	\$ 10,607
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	10,009,316	10,009,316
Accumulated investment gains	-	1,829,242	1,829,242
	<u>\$ 10,607</u>	<u>\$ 11,838,558</u>	<u>\$ 11,849,165</u>
Total endowment funds			
	<u>\$ 10,607</u>	<u>\$ 11,838,558</u>	<u>\$ 11,849,165</u>

**Kansas City Ballet Association**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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

	<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 10,607	\$ 11,838,558	\$ 11,849,165
Investment return, net	-	314,008	314,008
Contributions	-	1,777,596	1,777,596
Appropriation of endowment assets for expenditure	-	(20,000)	(20,000)
Endowment net assets, end of year	<u>\$ 10,607</u>	<u>\$ 13,910,162</u>	<u>\$ 13,920,769</u>
	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 10,044	\$ 10,356,635	\$ 10,366,679
Investment return, net	563	644,310	644,873
Contributions	-	1,537,613	1,537,613
Appropriation of endowment assets for expenditure	-	(700,000)	(700,000)
Endowment net assets, end of year	<u>\$ 10,607</u>	<u>\$ 11,838,558</u>	<u>\$ 11,849,165</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, 2020 and 2019.

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.

# Kansas City Ballet Association

## Notes to Financial Statements

June 30, 2020 and 2019

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 comprise the following:

	<b>2020</b>	
	<b>Financial Assets</b>	<b>Available Liquidity</b>
Cash and cash equivalents	\$ 1,050,046	\$ 1,050,046
Contributions, grants and accounts receivable	2,362,290	272,689
Investments	14,362,787	917,169
	\$ 17,775,123	\$ 2,239,904
	<b>2019</b>	
	<b>Financial Assets</b>	<b>Available Liquidity</b>
Cash and cash equivalents	\$ 1,395,724	\$ 1,395,724
Contributions, grants and accounts receivable	4,067,611	1,001,349
Investments	12,287,028	816,438
	\$ 17,750,363	\$ 3,213,511

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 years ended June 30, 2020 and 2019, restricted contributions of \$0 and \$841,000, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

# Kansas City Ballet Association

## Notes to Financial Statements

### June 30, 2020 and 2019

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 10*. 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.

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 years ended June 30, 2020 and 2019, 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 \$15,000 for the years ended June 30, 2020 and 2019, respectively. The Missouri Arts Council (MAC), a state agency, provided program assistance funds of \$99,891 and \$109,936 for the years ended June 30, 2020 and 2019, 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.



**Kansas City Ballet Association**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

**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 Tennant, LLC (which was subsequently assigned to DTC II, Inc. in December 2016). The master tenant agreement was set to expire in August 2030.

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 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:

2021	\$ 89,562
2022	265,598
2023	265,598
2024	264,399
2025	264,000
Thereafter	<u>1,628,000</u>
Total minimum lease payments	<u>\$ 2,777,157</u>

Rental expense for all operating leases was \$287,258 and \$334,468 for the years ended June 30, 2020 and 2019, respectively.

**Kansas City Ballet Association**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

**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:

***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 12 percent and 48 percent of the total contributions and grants revenue for the years ended June 30, 2020 and 2019, respectively.

***Coronavirus Events***

As a result of the SARS-CoV-2 virus and the incidence of COVID-19, the state of Missouri has issued shelter-in-place orders and other measures around public gatherings and business operations to slow the spread of the virus. As a result of this guidance, the Ballet has significantly curtailed its operations. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

**Note 15: Subsequent Events**

Subsequent events have been evaluated through November 17, 2020, which is the date the financial statements were available to be issued.