

Kansas City Ballet Association

Independent Auditor's Report and Financial Statements

June 30, 2021 and 2020

Kansas City Ballet Association
June 30, 2021 and 2020

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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 (the Ballet), which comprise the statements of financial position as of June 30, 2021 and 2020, 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, 2021 and 2020, 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 discussed in *Note 2* to the financial statements, in 2021, the Ballet adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

BKD, LLP

Kansas City, Missouri
November 9, 2021

Kansas City Ballet Association
Statements of Financial Position
June 30, 2021 and 2020

Assets

	2021	2020
Cash and cash equivalents	\$ 2,025,283	\$ 1,050,046
Contributions and accounts receivable, net	1,807,349	2,362,290
Prepaid expenses and other, net of accumulated amortization; 2021 - \$106,250, 2020 - \$88,750	314,849	276,513
Investments	18,637,589	14,362,787
Investment in supporting organization	39,832	42,470
Investment in joint venture	183,174	262,915
Property and equipment, net of accumulated depreciation; 2021 - \$5,941,356, 2020 - \$5,862,696	22,453,061	23,205,536
Total assets	\$ 45,461,137	\$ 41,562,557

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 95,790	\$ 76,429
Accrued expenses	286,860	413,565
Advance ticket sales	483,371	617,466
Deferred revenue	432,316	-
Note payable	910,865	910,800
Total liabilities	2,209,202	2,018,260

Net Assets

Without donor restrictions	23,460,896	23,079,226
With donor restrictions	19,791,039	16,465,071
Total net assets	43,251,935	39,544,297
Total liabilities and net assets	\$ 45,461,137	\$ 41,562,557

Kansas City Ballet Association
Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Season and single ticket sales	\$ 44,163		\$ 44,163
School tuition	755,048		755,048
Net investment return	2,522	\$ 3,302,643	3,305,165
Net gain on debt extinguishment	910,800	-	910,800
Employer retention credit	1,271,790	-	1,271,790
Other	73,314	-	73,314
	<u>3,057,637</u>	<u>3,302,643</u>	<u>6,360,280</u>
Contributions and grants			
Individuals/board	1,070,346	375,176	1,445,522
Business/corporate	143,160	-	143,160
Foundations	1,326,325	30,624	1,356,949
Kansas City Ballet Guild activities	197,362	-	197,362
Missouri Arts Council	104,920	-	104,920
School/education	113,061	2,500	115,561
	<u>2,955,174</u>	<u>408,300</u>	<u>3,363,474</u>
Net assets released from restrictions	<u>384,975</u>	<u>(384,975)</u>	<u>-</u>
Total revenues, gains and other support	<u>6,397,786</u>	<u>3,325,968</u>	<u>9,723,754</u>
Expenses and Losses			
Production	2,579,291		2,579,291
School	1,223,150		1,223,150
Marketing	395,943		395,943
General and administrative	1,429,669		1,429,669
Fundraising	388,063		388,063
	<u>6,016,116</u>		<u>6,016,116</u>
Total expenses and losses	<u>6,016,116</u>		<u>6,016,116</u>
Change in Net Assets	381,670	3,325,968	3,707,638
Net Assets, Beginning of Year	<u>23,079,226</u>	<u>16,465,071</u>	<u>39,544,297</u>
Net Assets, End of Year	<u>\$ 23,460,896</u>	<u>\$ 19,791,039</u>	<u>\$ 43,251,935</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
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)	-
Total revenues, gains and other support	<u>8,143,019</u>	<u>476,183</u>	<u>8,619,202</u>
Expenses and Losses			
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>
Total expenses and losses	<u>9,849,753</u>		<u>9,849,753</u>
Change in Net Assets	(1,706,734)	476,183	(1,230,551)
Net Assets, Beginning of Year	<u>24,785,960</u>	<u>15,988,888</u>	<u>40,774,848</u>
Net Assets, End of Year	<u>\$ 23,079,226</u>	<u>\$ 16,465,071</u>	<u>\$ 39,544,297</u>

Kansas City Ballet Association
Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services		Supporting Services			Total Expenses
	Production	School	Marketing	General and Administrative	Fundraising	
Salaries and benefits	\$ 1,655,186	\$ 972,873	\$ 264,776	\$ 553,442	\$ 316,293	\$ 3,762,570
Costumes and sets	7,985	-	-	-	-	7,985
Shoes	31,649	-	-	-	-	31,649
Orchestra	735	-	-	-	-	735
Guest artists	36,510	-	-	-	-	36,510
Theater rental	52,948	-	-	-	-	52,948
Lights and sound	1,580	-	-	-	-	1,580
Box office, ushers and security	63,345	-	-	-	-	63,345
Supplies and expendables	1,078	2,252	16,407	17,144	8,067	44,948
Travel and training	5,999	367	-	968	3,013	10,347
Rent and maintenance	34,596	71,312	-	258,796	-	364,704
Utilities	1,131	8,493	-	278,138	-	287,762
Advertising/promotion	-	6,408	12,704	-	-	19,112
Insurance	-	-	-	58,008	-	58,008
Depreciation	627,913	126,125	34,690	34,184	22,076	844,988
Printing and publications	-	-	16,051	2,734	9,566	28,351
Ticket processing fees	-	-	13,910	-	-	13,910
Bank charges	-	-	-	9,435	-	9,435
Professional fees	-	-	32,400	126,082	17,217	175,699
Other	58,636	35,320	5,005	90,738	11,831	201,530
	<u>\$ 2,579,291</u>	<u>\$ 1,223,150</u>	<u>\$ 395,943</u>	<u>\$ 1,429,669</u>	<u>\$ 388,063</u>	<u>\$ 6,016,116</u>

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

	<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	\$ 2,761,133	\$ 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
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 3,707,638	\$ (1,230,551)
Items not requiring (providing) operating cash flows		
Depreciation and amortization	862,488	843,319
Net realized and unrealized gains on investments	(3,305,165)	(348,525)
Net loss on sale of property and equipment	-	15,000
Change in investment in joint venture and supporting organization	82,379	28,486
Contributions received restricted for long-term investment	(370,176)	(788,890)
Non-cash contribution	-	(250,000)
Net gain on debt extinguishment	(910,800)	-
Changes in		
Accounts receivable	(265,293)	61,261
Contributions and grants receivable	820,234	1,644,060
Costs incurred for future performances	24,366	23,407
Prepaid expenses and other	(80,202)	103,372
Accounts payable and accrued expenses	(134,977)	6,612
Advance ticket sales and deferred revenue	298,221	(357,185)
	<u>728,713</u>	<u>(249,634)</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Purchase of investments	(13,782,124)	(2,537,416)
Proceeds from sale of investments	12,812,487	810,182
Purchase of property and equipment	(64,880)	(68,500)
	<u>(1,034,517)</u>	<u>(1,795,734)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from contributions restricted for long-term investment	370,176	788,890
Proceeds from issuance of note payable	910,865	910,800
	<u>1,281,041</u>	<u>1,699,690</u>
Net cash provided by financing activities		
Increase (Decrease) in Cash and Cash Equivalents	975,237	(345,678)
Cash and Cash Equivalents, Beginning of Year	<u>1,050,046</u>	<u>1,395,724</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,025,283</u>	<u>\$ 1,050,046</u>
Supplemental Cash Flows Information		
Property and equipment acquired through non-cash contributions	\$ -	\$ (250,000)
Property and equipment purchases in accounts payable	(27,633)	-

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2021 and 2020

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, 2021 and 2020, cash equivalents consisted primarily of money market accounts.

At June 30, 2021, the Ballet's cash accounts exceeded federally insured limits by approximately \$1,872,000.

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, 2021 and 2020

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, 2021 and 2020.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2021 and 2020

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.

Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*. On April 3, 2020, the Ballet received a loan in the amount of \$910,800 pursuant to the Payroll Protection Program (PPP) 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. Forgiveness of the loan is recognized as a gain in the financial statements in the accompanying statement of activities for the year ended June 30, 2021, which is the period the debt was legally released. On March 19, 2021, the Ballet received an additional loan in the amount of \$910,865. The Ballet anticipates using all of the proceeds to make eligible payments and, therefore, expects substantially all of the loan will be forgiven. 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. The Ballet has also applied for the employer payroll tax credit provisions which permit a payroll tax credit each calendar quarter in an amount equal to 50 percent of qualified wages limited to \$10,000 per quarter per employee. The estimated quarterly payroll tax credit for the year ended June 30, 2021 is approximately \$1,270,000.

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.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2021 and 2020

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:

Nature of the Gift	Value Recognized
<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

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.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2021 and 2020

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 required specialized skills and the value of the donated service of \$250,000 has been recognized in the accompanying statement of activities for the year ended June 30, 2020.

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 future performances of "The Wonderful World of Oz" which was first performed in October 2018. The Ballet accounts for its investment using the equity method, which represented \$183,174 and \$262,915 at June 30, 2021 and 2020, 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.

Note 2: Change in Accounting Principle

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), that replaces existing revenue recognition guidance. The new standard requires organizations to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2021 and 2020

The Ballet adopted this standard on July 1, 2020, using a modified retrospective approach. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous revenue recognition guidance in ASC Topic 605 — *Revenue Recognition*. The Ballet has applied the new standard to all contracts.

The Ballet's adoption of Topic 606 did not result in a material change to the timing of revenue recognition.

Performance Obligations

Revenue from contracts with customers are reported at an amount that reflects the consideration to which the Ballet expects to be entitled in exchange for providing goods and services.

Ticket Sales – Ticket sales and associated fees are transactional in nature and involve a customer purchasing admission to a show. Revenues are earned at the point in time of the customer attending the show.

School Tuition – Revenue from contracts with students for tuition is reported at the amount that reflects the consideration to which the Ballet expects to be entitled in exchange for providing instruction and other services. Revenue is recognized as performance obligations are satisfied, which is ratably over the academic term.

Significant Judgments

The Ballet determines transaction price based on standard charges for goods and services provided.

From time to time the Ballet will receive prepayments of customer balances resulting in a contract liability. These amounts are excluded from revenues and are recorded as liabilities until the performance obligation is satisfied. As of June 30, 2021 and 2020, the Ballet has a liability for deposits and prepayments of approximately \$916,000 and \$617,000, respectively.

The Ballet estimates the transaction price for customers based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments and discounts. Subsequent changes that are determined to be the result of an adverse change in the customer's ability to pay are recorded as bad debt expense.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2021 and 2020

Disaggregation of Revenue

The Ballet has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic conditions and the customer's sales mix. The following table presents the Ballet's revenues disaggregated by the timing of such revenue recognized during the year ended June 30, 2021:

Timing of revenue and recognition	
At a point in time	\$ 44,163
Over a period of time	755,048
Revenues not subject to Topic 606	<u>8,924,543</u>
	<u>\$ 9,723,754</u>

Contract Costs

The Ballet has applied the practical expedient provided by FASB ASC 340-40-25-4, and all incremental contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Ballet would have recognized is one year or less in duration.

Note 3: Contributions and Accounts Receivable

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

	<u>2021</u>	<u>2020</u>
Due within one year	\$ 729,164	\$ 884,686
Due in one to five years	755,032	1,459,456
Due in five to ten years	<u>75,000</u>	<u>85,000</u>
	1,559,196	2,429,142
Less		
Unamortized discount	(18,915)	(50,878)
Allowance for uncollectible contributions	<u>(29,533)</u>	<u>(47,282)</u>
	<u>\$ 1,510,748</u>	<u>\$ 2,330,982</u>

Approximately 74 percent of contributions receivable were from two donors for the years ended June 30, 2021 and 2020. Also, included in the contributions, grants and accounts receivable are \$296,601 and \$31,308 of accounts receivable for the years ended June 30, 2021 and 2020, respectively.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2021 and 2020

Note 4: Conditional Gifts

The Ballet has received the following conditional promises to give at June 30, 2021 and 2020 that are not recognized in the financial statements:

	2021	2020
Conditional promise to give at the donor's discretion	\$ -	\$ 166,666

Note 5: Investments

Investments at June 30 consisted of the following:

	2021	2020
Money market funds	\$ 2,320,124	\$ 1,327,378
Common stock	3,818,363	1,130,139
Equity mutual funds	7,855,599	7,295,590
Fixed income mutual funds	1,411,801	317,662
Government and agency bonds	821,744	1,683,366
Corporate bonds	1,995,732	2,170,666
Municipal bonds	-	25,000
Certificates of deposit	414,226	412,986
	\$ 18,637,589	\$ 14,362,787

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

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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, 2021 and 2020:

	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, 2021				
Money market funds	\$ 2,320,124	\$ 2,320,124		
Common stock	3,818,363	3,818,363		
Equity mutual funds	7,855,599	7,855,599		
Fixed income mutual funds	1,411,801	1,411,801		
Government and agency bonds	821,744	-	\$ 821,744	
Corporate bonds	1,995,732	-	1,995,732	\$ -
	<u>\$ 18,223,363</u>	<u>\$ 15,405,887</u>	<u>\$ 2,817,476</u>	<u>\$ -</u>
June 30, 2020				
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>

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, 2021.

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Note 6: 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 \$197,362 and \$295,444 for the years ended June 30, 2021 and 2020, respectively.

Note 7: Property and Equipment

Property and equipment at June 30 consisted of:

	2021	2020
Costume and production sets	\$ 2,805,728	\$ 3,306,347
Furniture and fixtures	559,458	564,714
Leasehold improvements	23,612,597	23,612,597
Prairie Village campus	50,000	50,000
Sound, lighting and other equipment	1,225,290	1,393,230
Artwork	141,344	141,344
	28,394,417	29,068,232
Less accumulated depreciation	5,941,356	5,862,696
	\$ 22,453,061	\$ 23,205,536

Note 8: Notes Payable to Bank

The Ballet has a \$400,000 bank line of credit expiring January 19, 2022. At June 30, 2021 and 2020, 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.

As described in *Note 1*, on April 3, 2020, the Ballet received a loan in the amount of \$910,800 pursuant to the Payroll Protection Program (PPP) established by the *CARES Act* and 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. Forgiveness of the loan is recognized as a gain in the financial statements in the accompanying statement of activities for the year ended June 30, 2021, which is the period the debt was legally released. The Ballet received a second PPP loan on March 19, 2021 in the amount of \$910,865. The Ballet anticipates using all of the proceeds to make eligible payments and, therefore, expects substantially all of the loan will be forgiven. If the terms of the forgiveness are not met, the loan will be required to be repaid at 1 percent interest on a monthly basis through its maturity date of March 2026. During the deferred repayment period, no payment of principal, interest, or fees is required on the note. However, interest shall continue to accrue during the deferred payment period.

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Note 9: Net Assets with Donor Restrictions

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

	2021	2020
Subject to expenditure for specified purpose		
Promises to give, the proceeds from which have been restricted by donors for		
General operations	\$ 1,253,780	\$ 2,040,481
Guild Archives	9,264	9,264
Dancer salaries	80,000	-
Music	4,409	-
Mixed Repertoire	3,000	-
Pointe Shoes	27,500	-
KCBII	-	25,000
ROAD	-	57,500
Nutcracker	17,223	67,223
Other purposes	-	5,841
	1,395,176	2,205,309
Subject to the passage of time		
Promises to give that are not restricted by donors but which are unavailable for expenditure until due		
	172,500	349,600
Endowments		
General operations	8,542,773	6,462,472
Bolender facility	6,196,359	5,022,288
Dancer salaries	2,152,190	1,427,600
Scholarships	501,658	401,905
Costumes	398,543	292,777
Music	264,543	166,130
ROAD	137,678	111,583
Pointe Shoes	23,210	20,304
Mixed Repertoire	6,409	5,103
	18,223,363	13,910,162
Total net assets with donor restrictions	\$ 19,791,039	\$ 16,465,071

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Note 10: 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.

	2021	2020
Satisfaction of purpose restrictions		
Guild Archives	\$ -	\$ 4,556
KCBII	25,000	35,000
ROAD	57,500	139,046
Nutcracker	50,000	5,000
Other	58,875	6,752
Expiration of time restrictions	193,600	824,310
Restricted-purpose spending-rate distributions and appropriations		
Scholarships	-	20,000
	\$ 384,975	\$ 1,034,664

Note 11: 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 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

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maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. 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, 2021 and 2020, was:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 47,642	\$ -	\$ 47,642
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	12,694,098	12,694,098
Accumulated investment gains	-	5,481,623	5,481,623
	<u>\$ 47,642</u>	<u>\$ 18,175,721</u>	<u>\$ 18,223,363</u>
Total endowment funds			
	<u>\$ 47,642</u>	<u>\$ 18,175,721</u>	<u>\$ 18,223,363</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
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>

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

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 10,607	\$ 13,910,162	\$ 13,920,769
Investment return, net	3,371	3,299,272	3,302,643
Contributions	33,664	966,287	999,951
Endowment net assets, end of year	<u>\$ 47,642</u>	<u>\$ 18,175,721</u>	<u>\$ 18,223,363</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
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>

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, 2021 and 2020.

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 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.

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In 2018, the Ballet began an endowment campaign with the goal of raising \$20 million. The campaign is expected to last until 2024.

Note 12: 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:

	2021	
	Financial Assets	Available Liquidity
Cash and cash equivalents	\$ 2,025,283	\$ 2,025,283
Contributions, grants and accounts receivable	1,807,349	401,789
Investments	18,637,589	1,675,045
	\$ 22,470,221	\$ 4,102,117
	2020	
	Financial Assets	Available Liquidity
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

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, 2021 and 2020, there were no restricted contributions 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.

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The board-designated endowment of \$10,000 is subject to an annual spending rate of 5 percent as described in *Note 11*. 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, 2021 and 2020, the level of liquidity and reserves was managed within the policy requirements.

Note 13: 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 for the years ended June 30, 2021 and 2020. The Missouri Arts Council (MAC), a state agency, provided program assistance funds of \$104,920 and \$99,891 for the years ended June 30, 2021 and 2020, respectively.

Note 14: 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.

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 was not required to pay a licensing fee during the year ended June 30, 2021 due to the Kaufman Center not being utilized by the Ballet.

The Ballet leased a dance facility in Johnson County, Kansas that expired in 2021 and office equipment that expire in various years through 2026. Future minimum payments under these agreements are:

2022	\$ 303,962
2023	244,143
2024	243,744
2025	243,744
2026	243,744
Thereafter	<u>1,200,000</u>
 Total minimum lease payments	 <u><u>\$ 2,479,337</u></u>

Rental expense for all operating leases was \$135,591 and \$287,258 for the years ended June 30, 2021 and 2020, respectively.

Note 15: 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.

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Contributions

Contributions from one foundation comprised approximately 23 percent and 12 percent of the total contributions and grants revenue for the years ended June 30, 2021 and 2020, respectively.

Note 16: Subsequent Events

Subsequent events have been evaluated through November 9, 2021, which is the date the financial statements were available to be issued.

Subsequent to June 30, 2021, the Ballet was awarded approximately \$2,440,000 under the Small Business Administration's (SBA) Shuttered Venue Operators Grant program (SVOG). The SVOG program was established by the *Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act*, and amended by the *American Rescue Plan Act*.