




Kansas City Ballet Association

Independent Auditor's Report and Financial Statements

June 30, 2023 and 2022



Kansas City Ballet Association
June 30, 2023 and 2022

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Independent Auditor's Report

Board of Directors
Kansas City Ballet Association
Kansas City, Missouri

Opinion

We have audited the financial statements of Kansas City Ballet Association, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Kansas City Ballet Association as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of Kansas City Ballet Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 3* to the financial statements, in 2023, Kansas City Ballet Association adopted new accounting guidance for leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kansas City Ballet Association's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kansas City Ballet Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kansas City Ballet Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

FORVIS,LLP

Kansas City, Missouri
November 8, 2023

Kansas City Ballet Association
Statements of Financial Position
June 30, 2023 and 2022

Assets

	2023	2022
Cash and cash equivalents	\$ 2,858,822	\$ 3,879,585
Contributions and accounts receivable, net	631,138	1,118,786
Prepaid expenses and other, net of accumulated amortization; 2023 - \$161,917; 2022 - \$141,914	216,835	207,696
Investments	20,080,926	16,891,954
Investment in supporting organization	50,221	49,716
Investment in joint venture	42,114	102,283
Property and equipment, net of accumulated depreciation; 2023 - \$7,616,137; 2022 - \$6,790,754	22,758,291	21,778,541
Right-of-use asset - operating lease	1,783,699	-
Total assets	\$ 48,422,046	\$ 44,028,561

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 390,834	\$ 198,625
Accrued expenses	288,235	253,388
Deferred revenue	1,050,945	1,090,292
Operating lease liability	1,892,159	-
Total liabilities	3,622,173	1,542,305

Net Assets

Without donor restrictions	23,672,113	24,095,668
With donor restrictions	21,127,760	18,390,588
Total net assets	44,799,873	42,486,256
Total liabilities and net assets	\$ 48,422,046	\$ 44,028,561

Kansas City Ballet Association
Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Season and single ticket sales	\$ 4,252,347		\$ 4,252,347
Touring	270,000		270,000
School tuition	1,598,201		1,598,201
Net investment return	72,932	\$ 1,684,665	1,757,597
Other	274,506	-	274,506
	<u>6,467,986</u>	<u>1,684,665</u>	<u>8,152,651</u>
Contributions and grants			
Individuals/board	857,489	1,493,546	2,351,035
Business/corporate	210,849	1,000	211,849
Foundations	1,574,233	16,404	1,590,637
Kansas City Ballet Guild activities	349,658	-	349,658
Missouri Arts Council	630,500	-	630,500
School/Community Education	276,414	10,000	286,414
	<u>3,899,143</u>	<u>1,520,950</u>	<u>5,420,093</u>
Net assets released from restrictions	<u>468,443</u>	<u>(468,443)</u>	<u>-</u>
Total revenues, gains and other support	<u>10,835,572</u>	<u>2,737,172</u>	<u>13,572,744</u>
Expenses and Losses			
Production	5,399,835		5,399,835
School/Community Education	2,005,561		2,005,561
Marketing	1,128,467		1,128,467
General and administrative	1,827,423		1,827,423
Fundraising	897,841		897,841
	<u>11,259,127</u>		<u>11,259,127</u>
Total expenses and losses	<u>11,259,127</u>		<u>11,259,127</u>
Change in Net Assets	(423,555)	2,737,172	2,313,617
Net Assets, Beginning of Year	<u>24,095,668</u>	<u>18,390,588</u>	<u>42,486,256</u>
Net Assets, End of Year	<u>\$ 23,672,113</u>	<u>\$ 21,127,760</u>	<u>\$ 44,799,873</u>

Kansas City Ballet Association
Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Season and single ticket sales	\$ 2,943,070		\$ 2,943,070
School tuition	1,360,693		1,360,693
Net investment return (loss)	3,921	\$ (2,505,253)	(2,501,332)
Net gain on debt extinguishment	910,865	-	910,865
Other	178,835	-	178,835
	<u>5,397,384</u>	<u>(2,505,253)</u>	<u>2,892,131</u>
Contributions and grants			
Individuals/board	832,026	199,617	1,031,643
Business/corporate	182,078	-	182,078
Foundations	1,188,717	1,102,396	2,291,113
Shuttered Venue Operators Grant	2,442,148	-	2,442,148
Kansas City Ballet Guild activities	373,672	-	373,672
Missouri Arts Council	109,191	-	109,191
School/Community Education	119,802	75,000	194,802
	<u>5,247,634</u>	<u>1,377,013</u>	<u>6,624,647</u>
Net assets released from restrictions	<u>272,211</u>	<u>(272,211)</u>	<u>-</u>
	<u>10,917,229</u>	<u>(1,400,451)</u>	<u>9,516,778</u>
Expenses and Losses			
Production	5,015,918		5,015,918
School/Community Education	1,876,721		1,876,721
Marketing	1,021,767		1,021,767
General and administrative	1,693,187		1,693,187
Fundraising	674,864		674,864
	<u>10,282,457</u>		<u>10,282,457</u>
	<u>634,772</u>	<u>(1,400,451)</u>	<u>(765,679)</u>
Change in Net Assets			
Net Assets, Beginning of Year	<u>23,460,896</u>	<u>19,791,039</u>	<u>43,251,935</u>
Net Assets, End of Year	<u>\$ 24,095,668</u>	<u>\$ 18,390,588</u>	<u>\$ 42,486,256</u>

Kansas City Ballet Association
Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services		Supporting Services			Total Expenses
	Production	School/ Community Education	Marketing	General and Administrative	Fundraising	
Salaries and benefits	\$ 2,816,563	\$ 1,182,352	\$ 329,845	\$ 829,718	\$ 523,894	\$ 5,682,372
Costumes and sets	180,293	-	-	-	-	180,293
Shoes	97,137	-	-	-	-	97,137
Orchestra	542,580	-	-	-	-	542,580
Guest artists	122,857	-	-	-	-	122,857
Theater rental	277,922	-	-	-	-	277,922
Lights and sound	6,233	-	-	-	-	6,233
Touring	253,364	-	-	-	-	253,364
Box office, ushers and security	140,915	-	-	-	-	140,915
Summer program	-	274,343	-	-	-	274,343
ROAD program	-	167,296	-	-	-	167,296
Supplies and expendables	22,803	14,016	47,894	28,643	21,427	134,783
Travel and training	64,557	25,120	-	10,937	-	100,614
Rent and maintenance	143,531	52,328	-	200,457	-	396,316
Utilities	1,542	6,595	720	283,090	1,689	293,636
Advertising/promotion	-	23,626	491,006	-	-	514,632
Insurance	-	-	-	94,449	-	94,449
Depreciation	628,858	126,600	34,820	34,312	22,159	846,749
Printing and publications	-	125	57,435	5,411	18,425	81,396
Ticket processing fees	-	-	108,275	-	-	108,275
Bank charges	-	-	-	9,308	-	9,308
Professional fees	-	-	40,162	259,052	54,498	353,712
Other	100,680	133,160	18,310	72,046	255,749	579,945
	\$ 5,399,835	\$ 2,005,561	\$ 1,128,467	\$ 1,827,423	\$ 897,841	\$ 11,259,127

Kansas City Ballet Association
Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services		Supporting Services			Total Expenses
	Production	School/ Community Education	Marketing	General and Administrative	Fundraising	
Salaries and benefits	\$ 2,820,221	\$ 1,186,502	\$ 362,439	\$ 873,678	\$ 440,231	\$ 5,683,071
Costumes and sets	146,875	-	-	-	-	146,875
Shoes	89,286	-	-	-	-	89,286
Orchestra	436,693	-	-	-	-	436,693
Guest artists	178,676	-	-	-	-	178,676
Theater rental	313,994	-	-	-	-	313,994
Lights and sound	41,519	-	-	-	-	41,519
Box office, ushers and security	128,200	-	-	-	-	128,200
Summer program	-	150,852	-	-	-	150,852
ROAD program	-	171,573	-	-	-	171,573
Supplies and expendables	20,797	9,999	40,111	25,631	58,071	154,609
Travel and training	60,366	16,484	-	3,110	-	79,960
Rent and maintenance	34,596	51,760	-	200,484	-	286,840
Utilities	1,415	9,417	748	287,853	1,495	300,928
Advertising/promotion	-	21,609	412,607	-	-	434,216
Insurance	-	-	-	88,124	-	88,124
Depreciation	637,122	126,125	34,690	34,184	22,076	854,197
Printing and publications	-	-	47,041	4,652	20,633	72,326
Ticket processing fees	-	-	71,575	-	-	71,575
Bank charges	-	-	-	10,947	-	10,947
Professional fees	-	-	44,487	123,439	29,050	196,976
Other	106,158	132,400	8,069	41,085	103,308	391,020
	<u>\$ 5,015,918</u>	<u>\$ 1,876,721</u>	<u>\$ 1,021,767</u>	<u>\$ 1,693,187</u>	<u>\$ 674,864</u>	<u>\$ 10,282,457</u>

Kansas City Ballet Association
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Activities		
Change in net assets	\$ 2,313,617	\$ (765,679)
Items not requiring (providing) operating cash flows		
Depreciation and amortization	866,752	889,861
Net realized and unrealized (gains) losses on investments	(1,683,894)	2,496,929
Net loss on sale of property and equipment	(656)	-
Change in investment in joint venture and supporting organization	59,664	71,007
Contributions received restricted for long-term investment	(1,236,046)	(199,347)
Net gain on debt extinguishment	-	(910,865)
Noncash operating lease expense	73,404	-
Changes in		
Accounts receivable	(28,659)	241,039
Contributions receivable	516,307	447,524
Costs incurred for future performances	(7,697)	(25,325)
Prepaid expenses and other	(21,445)	96,814
Accounts payable and accrued expenses	106,062	96,996
Advance ticket sales and deferred revenue	(39,347)	174,605
Operating lease liabilities	35,056	-
Net cash provided by operating activities	<u>953,118</u>	<u>2,613,559</u>
Investing Activities		
Purchase of investments	(1,855,078)	(1,676,585)
Proceeds from sale of investments	350,000	925,291
Purchase of property and equipment	(1,704,849)	(207,310)
Net cash used in investing activities	<u>(3,209,927)</u>	<u>(958,604)</u>
Financing Activities		
Proceeds from contributions restricted for long-term investment	<u>1,236,046</u>	<u>199,347</u>
Net cash provided by financing activities	<u>1,236,046</u>	<u>199,347</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,020,763)	1,854,302
Cash and Cash Equivalents, Beginning of Year	<u>3,879,585</u>	<u>2,025,283</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,858,822</u>	<u>\$ 3,879,585</u>
Supplemental Cash Flows Information		
Property and equipment purchases in accounts payable	\$ 120,994	\$ -

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2023 and 2022

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. Uninvested cash and cash equivalents included in investment accounts, including endowment accounts, are not considered to be cash and cash equivalents. At June 30, 2023 and 2022, cash equivalents consisted primarily of money market accounts.

At June 30, 2023, the Ballet's cash accounts exceeded federally insured limits by approximately \$3,440,000.

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.

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, 2023 and 2022

Investments and Net Investment Return

The Ballet measures securities at fair value. Certificates of deposit are valued at amortized cost. 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 acquisitions over \$1,000 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, 2023 and 2022.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2023 and 2022

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 March 19, 2021, the Ballet received a loan in the amount of \$910,865 pursuant to the Paycheck 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*. Forgiveness of the loan was recognized as a gain in the financial statements in the accompanying statement of activities for the year ended June 30, 2022, which is the period the debt was 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 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:

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

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2023 and 2022

Nature of the Gift	Value Recognized
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.

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. There have been no volunteered services recognized in the years ended June 30, 2023 and 2022.

Investment in Supporting Organization

The Ballet and the Kansas City Ballet Guild (the Guild) are financially interrelated organizations. The Guild advocates for dance and ballet in the Kansas City community and provides financial assistance to the Ballet through special events.

The Ballet’s interest in the net assets of the Guild is accounted for in a manner similar to the equity method. Changes in the interest are included in the change in net assets. Transfers of assets between the Guild and the Ballet are recognized as increases or decreases in the interest in the net assets of the Guild with corresponding decreases or increases in the assets transferred and have no effect on the change in net assets.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2023 and 2022

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 \$42,114 and \$102,283 at June 30, 2023 and 2022, 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% 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.

Revision

An immaterial revision has been made to the 2022 financial statements for the disclosure of the disaggregation by restriction of net assets with donor restriction (see *Note 9*). This revision did not have a significant impact on the financial statement line items impacted.

Note 2: Revenues from Contracts with Customers

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.

Kansas City Ballet Association
Notes to Financial Statements
June 30, 2023 and 2022

As described in *Note 1*, the Ballet receives prepayments for tuition and tickets 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, 2023 and 2022, the Ballet has a liability for deposits and prepayments of approximately \$1,051,000 and \$1,090,000, 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.

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 years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Timing of revenue and recognition		
At a point in time	\$ 4,522,347	\$ 2,943,070
Over a period of time	1,598,201	1,360,693
Revenues not subject to Topic 606	<u>7,452,196</u>	<u>5,213,015</u>
	<u>\$ 13,572,744</u>	<u>\$ 9,516,778</u>

Contract Balances

The following table provides information about the Ballet's receivables and contract liabilities from contracts with customers:

	<u>2023</u>	<u>2022</u>
Accounts receivable, beginning of year	\$ 55,562	\$ 296,601
Accounts receivable, end of year	84,221	55,562
Contract liabilities, beginning of year	1,090,292	915,687
Contract liabilities, end of year	1,050,945	1,090,292

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.

Kansas City Ballet Association

Notes to Financial Statements

June 30, 2023 and 2022

Note 3: Leases

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented, or as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Ballet adopted Topic 842 on July 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Ballet elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Ballet did not elect the hindsight practical expedient in determining the lease term for existing leases as of July 1, 2022.

At the time of adoption, the Ballet had no lease agreements qualifying for capitalization and; therefore, no adjustment was needed at July 1, 2022.

Leases Accounting Policies

The Ballet determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Ballet determines lease classification as operating or finance at the lease commencement date.

The Ballet combines lease and nonlease components, such as common area and other maintenance costs, and accounts for them as a single lease component in calculating the ROU assets and lease liabilities for all of its leases.

At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Ballet has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that the Ballet is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

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The Ballet has elected not to record leases with an initial term of 12 months or less on the statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Lease

The Ballet has entered into the following lease arrangements:

Operating Lease

The Ballet leases office space for one building that expires in 2033. The agreement has two optional 5-year renewal terms. Lease payments have an escalating fee schedule, which increases by 1% in year 6. Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

Quantitative Disclosures

The lease cost and other required information for the year ended June 30, 2023 are:

Lease cost		
Operating lease cost	\$	108,460
Short-term lease cost		<u>55,668</u>
Total lease cost	\$	<u><u>164,128</u></u>
Other information		
Operating cash flows from operating leases	\$	-
Right-of-use assets obtained in exchange for operating lease liabilities		1,857,103
Weighted-average remaining lease term		
Operating leases		10.1
Weighted-average discount rate		
Operating leases		3.7%

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Future minimum lease payments and reconciliation to the statement of financial position at June 30, 2023, are as follows:

	Operating Lease
2024	\$ 186,657
2025	203,626
2026	203,626
2027	203,626
2028	203,626
Thereafter	1,294,584
Total future undiscounted lease payments	2,295,745
Less imputed interest	403,586
Lease liability	\$ 1,892,159

Note 4: Contributions and Accounts Receivable

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

	2023	2022
Due within one year	\$ 368,100	\$ 768,173
Due in one to five years	189,500	257,178
Due in five to ten years	-	70,000
	557,600	1,095,351
Less		
Unamortized discount	(6,581)	(13,111)
Allowance for uncollectible contributions	(4,102)	(19,016)
	\$ 546,917	\$ 1,063,224

Approximately 68% and 16% of contributions receivable were from one donor and two donors for the years ended June 30, 2023 and 2022, respectively. Also, included in the contributions, grants and accounts receivable are \$84,221 and \$55,562 of accounts receivable for the years ended June 30, 2023 and 2022, respectively.

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Note 5: Conditional Gifts

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

	2023	2022
Conditional promise to give at the donor's discretion	\$ 1,500,000	\$ 2,000,000

Note 6: Investments and Disclosures About Fair Value of Assets

Investments at June 30 consisted of the following:

	2023	2022
Money market funds	\$ 904,125	\$ 2,037,205
Common stock	3,937,958	3,372,503
Equity mutual funds	8,216,470	6,264,342
Fixed income mutual funds	5,009,706	3,333,076
Government and agency bonds	566,202	279,020
Corporate bonds	104,586	407,729
Certificates of deposit	415,261	414,846
Alternative investments	926,618	783,233
	\$ 20,080,926	\$ 16,891,954

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, 2023 and 2022:

	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, 2023				
Money market funds	\$ 904,125	\$ 904,125		
Common stock	3,937,958	3,937,958		
Equity mutual funds	8,216,470	8,216,470		
Fixed income mutual funds	5,009,706	5,009,706		
Government and agency bonds	566,202	-	\$ 566,202	
Corporate bonds	104,586	-	104,586	
Alternative investments				
Equity hedge fund	450,681	450,681	-	
Multi-strategy hedge fund	475,937	475,937	-	\$ -
	<u>\$ 19,665,665</u>	<u>\$ 18,994,877</u>	<u>\$ 670,788</u>	<u>\$ -</u>
June 30, 2022				
Money market funds	\$ 2,037,205	\$ 2,037,205		
Common stock	3,372,503	3,372,503		
Equity mutual funds	6,264,342	6,264,342		
Fixed income mutual funds	3,333,076	3,333,076		
Government and agency bonds	279,020	-	\$ 279,020	
Corporate bonds	407,729	-	407,729	\$ -
Alternative investments				
Equity hedge fund	395,443	395,443	-	
Multi-strategy hedge fund	387,790	387,790	-	-
	<u>\$ 16,477,108</u>	<u>\$ 15,790,359</u>	<u>\$ 686,749</u>	<u>\$ -</u>

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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, 2023.

Note 7: 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 \$349,658 and \$373,672 for the years ended June 30, 2023 and 2022, respectively.

Note 8: Property and Equipment

Property and equipment at June 30 consisted of:

	2023	2022
Costume and production sets	\$ 2,837,420	\$ 2,836,531
Furniture and fixtures	583,087	559,458
Leasehold improvements	25,424,077	23,715,999
Prairie Village campus	50,000	50,000
Sound, lighting and other equipment	1,338,500	1,265,963
Artwork	141,344	141,344
	30,374,428	28,569,295
Less accumulated depreciation	7,616,137	6,790,754
	\$ 22,758,291	\$ 21,778,541

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Notes to Financial Statements

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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:

	2023	2022
Subject to expenditure for specified purpose		
General operations	\$ 889,210	\$ 969,714
IDEA	13,000	-
Guild Archives	9,108	8,261
Dancer salaries	10,000	-
Pointe Shoes	17,500	-
KCBII	40,000	-
ROAD	32,000	-
Nutcracker	5,362	8,535
Other purposes	5,114	5,114
Promises to give, the proceeds from which have been restricted by donors for		
General operations	127,206	648,142
IDEA	10,000	-
Dancer salaries	10,000	70,000
Mixed Repertoire	-	2,000
Pointe Shoes	17,500	22,500
KCBII	40,000	100,000
ROAD	45,000	75,000
	1,271,000	1,909,266
Subject to the passage of time		
Promises to give that are not restricted by donors but which are unavailable for expenditure until due	258,500	50,000
Endowments		
General operations	9,671,481	7,907,960
Bolender facility	5,833,805	5,377,003
Dancer salaries	2,417,672	1,974,054
Scholarships	487,966	434,511
Costumes	340,533	308,400
Music	311,950	275,268
ROAD	130,725	119,457
Pointe Shoes	34,142	29,035
Archives	77,849	-
Mixed Repertoire	292,137	5,634
	19,598,260	16,431,322
Total net assets with donor restrictions	\$ 21,127,760	\$ 18,390,588

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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.

	2023	2022
Satisfaction of purpose restrictions		
Guild Archives	\$ -	\$ 1,003
Johnson County Renovation	270	77,654
IDEA	57,000	-
ROAD	8,000	2,500
Nutcracker	3,173	8,689
Other	-	22,601
Expiration of time restrictions	50,000	122,500
Restricted-purpose spending-rate distributions and appropriations		
General operations	350,000	-
Costumes	-	37,264
	\$ 468,443	\$ 272,211

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 assets 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, 2023 and 2022, was:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 67,429		\$ 67,429
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	\$ 15,324,487	15,324,487
Accumulated investment gains	-	4,273,773	4,273,773
	<u>\$ 67,429</u>	<u>\$ 19,598,260</u>	<u>\$ 19,665,689</u>
Total endowment funds	<u>\$ 67,429</u>	<u>\$ 19,598,260</u>	<u>\$ 19,665,689</u>
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 45,810		\$ 45,810
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	\$ 13,492,216	13,492,216
Accumulated investment gains	-	2,939,106	2,939,106
	<u>\$ 45,810</u>	<u>\$ 16,431,322</u>	<u>\$ 16,477,132</u>
Total endowment funds	<u>\$ 45,810</u>	<u>\$ 16,431,322</u>	<u>\$ 16,477,132</u>

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

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 45,810	\$ 16,431,322	\$ 16,477,132
Investment return, net	4,895	1,679,770	1,684,665
Contributions	16,724	1,837,168	1,853,892
Appropriation of endowment assets for expenditure	-	(350,000)	(350,000)
Endowment net assets, end of year	<u>\$ 67,429</u>	<u>\$ 19,598,260</u>	<u>\$ 19,665,689</u>
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 47,642	\$ 18,175,721	\$ 18,223,363
Investment return, net	(7,903)	(2,497,350)	(2,505,253)
Contributions	6,071	790,215	796,286
Appropriation of endowment assets for expenditure	-	(37,264)	(37,264)
Endowment net assets, end of year	<u>\$ 45,810</u>	<u>\$ 16,431,322</u>	<u>\$ 16,477,132</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, 2023 and 2022.

The Ballet has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Ballet must hold in perpetuity or for donor-specified periods. Under the Ballet's policies, endowment assets are invested in a manner that is intended to preserve and protect assets by earning a total return for each endowment appropriate to each fund's time horizon, liquidity needs and risk tolerance.

To satisfy its long-term rate of return objectives, the Ballet relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Ballet targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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The Ballet has a policy (the spending policy) of appropriating for expenditure each year approximately 5% 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. 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: Line of Credit

The Ballet has a \$1,000,000 revolving line of credit expiring in 2024. At June 30, 2023 and 2022, there were no borrowings against this line. The line is collateralized by substantially all of the Ballet’s assets. Interest varies with the bank’s prime rate less .75%, which was 7.5% and 5.5% at June 30, 2023 and 2022, respectively, and is payable monthly.

Note 13: 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:

	2023	
	Financial Assets	Available Liquidity
Cash and cash equivalents	\$ 2,858,822	\$ 2,858,822
Contributions, grants and accounts receivable	631,138	396,216
Investments	20,080,926	2,724,759
	\$ 23,570,886	\$ 5,979,797

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	2022	
	Financial Assets	Available Liquidity
Cash and cash equivalents	\$ 3,879,585	\$ 3,879,585
Contributions, grants and accounts receivable	1,118,786	160,750
Investments	16,891,954	2,289,766
	\$ 21,890,325	\$ 6,330,101

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, 2023 and 2022, restricted contributions of \$4,338,751 and \$3,190,149, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

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

The board-designated endowment is subject to an annual spending rate of 5% 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 a committed line of credit in the amount of \$1,000,000, 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% 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, 2023 and 2022, the level of liquidity and reserves was managed within the policy requirements.

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Note 14: Government Grants

The Ballet receives both federal and state government grants. The Missouri Arts Council (MAC), a state agency, provided program assistance funds of \$630,500 and \$109,191 for the years ended June 30, 2023 and 2022, respectively. During the year ended June 30, 2022, 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*.

Note 15: Licensing Agreement

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%. The Ballet has determined that the Licensing Agreement does not meet the definition of a lease under ASU 2016-02, *Leases* (Topic 842) due to inability to control the underlying asset associated with the agreement.

Future minimum payments under these agreements are:

2024	\$ 289,044
2025	294,828
2026	300,720
2027	306,732
2028	312,864
Thereafter	<u>1,053,725</u>
Total minimum commitment payments	<u>\$ 2,557,913</u>

License fees paid totaled approximately \$278,000 and \$313,000 for the years ended June 30, 2023 and 2022, respectively.

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Note 16: 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 two foundations and one foundation comprised approximately 24% and 36% of the total contributions and grants revenue for the years ended June 30, 2023 and 2022, respectively.

General Litigation

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

Note 17: Subsequent Events

Subsequent events have been evaluated through November 8, 2023, which is the date the financial statements were available to be issued.