
LYRIC OPERA QALICB, INC.

FINANCIAL STATEMENTS

JUNE 30, 2015

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Independent Auditors' Report

Board of Trustees
Lyric Opera QALICB, Inc.
Kansas City, Missouri

Report On The Financial Statements

We have audited the accompanying financial statements of Lyric Opera QALICB, Inc., which comprise the statement of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 Lyric Opera QALICB, Inc. as of June 30, 2015 and 2014, 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.

RubinBrown LLP

November 6, 2015

LYRIC OPERA QALICB, INC.

STATEMENT OF FINANCIAL POSITION

Assets

	June 30,	
	2015	2014
Current Assets		
Cash and cash equivalents	\$ 112,229	\$ 115,564
Rental Property		
Land, buildings, improvements and furniture and equipment	10,470,286	10,470,286
Less: Accumulated depreciation	(847,114)	(598,303)
Net Property And Equipment	9,623,172	9,871,983
Total Assets	\$ 9,735,401	\$ 9,987,547

Liabilities And Net Assets

Current Liabilities		
Accounts payable	\$ —	\$ 2,300
Accrued interest	62,976	62,976
Total Current Liabilities	62,976	65,276
Long-Term Liabilities		
Long-term debt	10,290,000	10,290,000
Unrestricted Net Assets	(617,575)	(367,729)
Total Liabilities And Net Assets	\$ 9,735,401	\$ 9,987,547

LYRIC OPERA QALICB, INC.

STATEMENT OF ACTIVITIES

	For The Years Ended June 30,	
	2015	2014
Revenue And Support		
Rental revenue	\$ 540,000	\$ 540,000
Interest	150	158
In-kind contributions	16,000	16,000
Total Revenue And Support	556,150	556,158
Program Service Expenses		
Bank fees	469	638
Professional services	28,475	25,600
Interest expense	252,596	252,596
Loan servicing fees	26,250	26,250
Contribution to Lyric Foundation	249,395	597,895
Depreciation expense	248,811	248,811
Total Program Service Expenses	805,996	1,151,790
Change In Net Assets	(249,846)	(595,632)
Unrestricted Net Assets - Beginning Of Year	(367,729)	227,903
Unrestricted Net Assets - End Of Year	\$ (617,575)	\$ (367,729)

LYRIC OPERA QALICB, INC.

STATEMENT OF CASH FLOWS

	For The Years Ended June 30,	
	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ (249,846)	\$ (595,632)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	248,811	248,811
Changes in liabilities:		
Increase (decrease) in accounts payable	(2,300)	800
Net Cash Used In Operating Activities	(3,335)	(346,021)
Decrease In Cash And Cash Equivalents	(3,335)	(346,021)
Cash And Cash Equivalents - Beginning Of Year	115,564	461,585
Cash And Cash Equivalents - End Of Year	\$ 112,229	\$ 115,564
Supplemental Cash Flow Information		
Interest paid	\$ 252,596	\$ 252,596

LYRIC OPERA QALICB, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 And 2014

1. Organization

The Lyric Opera QALICB, Inc. (QALICB) was formed June 1, 2011 for the exclusive benefit of the Lyric Opera of Kansas City, Inc. (Lyric). The QALICB's purpose is to hold title to property, complete construction of the Opera Center and lease said property. The property is operated in such a way that it qualifies as a Qualified Active Low-Income Community Business under the definition of the New Markets Tax Credit (NMTC) Program under Internal Revenue Code (IRC) §45(d). The QALICB's board consists of three current members of the Lyric's board.

Description Of Program Services

All expenses in the accompanying statement of activities are related to leasing property to the Lyric. The Lyric's primary purpose is to enrich the lives of people of all ages and backgrounds by offering a broad repertoire of professional operatic experiences.

2. Summary Of Significant Accounting Policies

Basis Of Accounting

The accompanying financial statements of the QALICB have been prepared on the accrual basis of accounting.

Basis Of Presentation

The financial statement presentation follows U.S. generally accepted accounting principles related to not-for-profit organizations. Under these principles, the QALICB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The QALICB has only unrestricted net assets at June 30, 2015 and 2014.

Estimates And Assumptions

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 amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

LYRIC OPERA QALICB, INC.

Notes To Financial Statements *(Continued)*

Cash And Cash Equivalents

The QALICB considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Rental Property

The QALICB capitalizes all expenditures for rental property over \$500. Rental property is stated at cost at the date of the acquisition, or fair value at the date of donation, in the case of a gift, less accumulated depreciation. Maintenance and repairs are charged to expense as incurred. When items of property or equipment are sold or retired, the related cost is removed from the accounts and any gain or loss is included in the statement of activities. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line basis. Useful lives are as follows:

Building and improvements	50 years
Furniture and equipment	5 - 20 years

The QALICB reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the rental property to the future net undiscounted cash flow expected to be generated by the rental property, including the residual value of the property. If the property is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property exceeds the fair value of such property. There was no impairment loss recognized for the years ended June 30, 2015 and 2014.

Income Taxes

The QALICB is exempt from income taxes under Section 501(a) of the IRC and a similar section of state law.

The QALICB's tax returns for tax years 2011 and later remain subject to examination by taxing authorities.

LYRIC OPERA QALICB, INC.

Notes To Financial Statements (Continued)

Rental Revenue

The rental property is leased to the Lyric under an operating lease. Rental revenue is recorded on a straight-line basis over the term of the lease.

Restricted And Unrestricted Support

Gifts of cash and other assets are reported as unrestricted, temporarily restricted or permanently restricted, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Subsequent Events

Management has evaluated subsequent events through November 6, 2015, the date which the financial statements were available for issue.

3. Rental Property

Rental property consists of:

	<u>2015</u>	<u>2014</u>
Land	\$ 470,000	\$ 470,000
Michael & Ginger Frost Production Building	5,006,610	5,006,610
Beth Ingram Administration Building	4,509,875	4,509,875
Furniture and equipment	483,801	483,801
	<u>10,470,286</u>	<u>10,470,286</u>
Less: Accumulated depreciation	<u>(847,114)</u>	<u>(598,303)</u>
	<u>\$ 9,623,172</u>	<u>\$ 9,871,983</u>

4. Long-Term Debt

Financing is being provided in the form of two notes payable in the amounts of \$7,641,900 and \$2,648,100, respectively, with KCMO CDE VII, LLC. Both notes bear interest at 2.42% per annum for a term of 360 months. Both notes mature in July 2041. These notes payable have been secured by a deed of trust and assignments of leases and rents. Repayment of these notes payable has been guaranteed by the Lyric.

LYRIC OPERA QALICB, INC.

Notes To Financial Statements (Continued)

For the \$7,641,900 note payable, payments of interest are due quarterly until October 2018, when quarterly payments of \$108,956 including principal and interest are payable until maturity. Interest expense related to this note payable was \$187,591 for the years ending June 30, 2015 and 2014.

For the \$2,648,100 note payable, payments of interest are due quarterly until July 2018, when a principal payment of \$315,000 is due. Beginning in October 2018, quarterly payments of \$33,265 including principal and interest are payable until maturity. Interest expense related to this note payable was \$65,005 for the years ending June 30, 2015 and 2014.

Scheduled annual maturities of long-term debt at June 30, 2015 are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ —
2017	—
2018	—
2019	590,822
2020	333,178
Thereafter	9,366,000
	<u>\$ 10,290,000</u>

5. Related Party Transactions

The Managing Member of the KCMO CDE VII, LLC, with a 0.01% ownership interest, is Kansas City, Missouri Community Development CDE. The Investor Member of the KCMO CDE VII, LLC, with a 99.99% ownership interest is Lyric Opera Investment Fund, LLC. The QALICB received its initial loan funding from KCMO CDE VII, LLC whose funding was received through transactions involving the Lyric, the Lyric Opera of Kansas City Foundation (the Foundation) and the Lyric Opera Investment Fund, LLC, whose sole member is PNC New Markets Investments Partners, LLC. All of these entities are considered related parties.

During the year ended June 30, 2015, the QALICB made contributions of \$249,395 to the Foundation. The QALICB made contributions of \$597,895 to the Foundation during the year ended June 30, 2014.

For the years ended June 30, 2015 and 2014, the QALICB received contributed services from the Lyric for accounting services totaling \$16,000. The value of contributed services is based on the cost recognized by the Lyric for those services.

LYRIC OPERA QALICB, INC.

Notes To Financial Statements (Continued)

All rental property owned by the QALICB is leased to the Lyric under an operating lease that expires in December 2041. Rental revenue for the years ended June 30, 2015 and 2014 amounted to \$540,000. The following is a summary of minimum future base rentals to be received:

<u>Year</u>	<u>Amount</u>
2016	\$ 540,000
2017	553,500
2018	567,000
2019	567,000
2020	567,000
Thereafter	14,202,074
	<u>\$ 16,996,574</u>

6. Concentrations

Rental Revenue

All rental revenue is provided through the property leasing arrangement with the Lyric.

Contribution Revenues

All contributions during the years ended June 30, 2015 and 2014 were provided by the Lyric.

7. Guarantees

As part of the financing arrangements, the Lyric and the QALICB have provided certain guarantees to the KCMO CDE VII, LLC and PNC New Markets Investment Partners, LLC.

Tax Credit Delivery And Recapture Guarantees

Pursuant to the Unconditional Guaranty Agreement, the QALICB and the Lyric have agreed to guarantee against loss or recapture of NMTC arising from failure to comply with the IRC and Treasury Regulations related to the NMTC program. This guarantee will be up to the full amount of any recapture and/or lost credits, including interest and penalties thereon.

LYRIC OPERA QALICB, INC.

Notes To Financial Statements *(Continued)*

Completion Guarantee

Pursuant to the Guaranty Agreement, the Lyric agreed to guarantee lien-free completion of the construction of the Opera Center.