
LYRIC OPERA QALICB, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Change In Accounting Principle

As discussed in Note 2 to the financial statements, during the year ending June 30, 2017, Lyric Opera QALICB, Inc. implemented new guidance within the Accounting Standards Codification which changed the presentation of debt issuance costs. Our opinion is not modified with respect to that matter.

RubinBrown LLP

October 31, 2017

LYRIC OPERA QALICB, INC.

STATEMENT OF FINANCIAL POSITION

Assets

	June 30,	
	2017	2016
Current Assets		
Cash and cash equivalents	\$ 114,832	\$ 114,719
Rental Property		
Land, buildings, improvements and furniture and equipment	10,333,408	10,333,408
Less: Accumulated depreciation	(1,266,645)	(1,050,707)
Net Property And Equipment	9,066,763	9,282,701
Total Assets	\$ 9,181,595	\$ 9,397,420

Liabilities And Net Assets

Current Liabilities		
Accrued interest	\$ 62,976	\$ 62,976
Long-Term Liabilities		
Long-term debt	10,290,000	10,290,000
Less: Unamortized debt issuance costs	88,964	98,089
Total Long-Term Liabilities	10,201,036	10,191,911
Total Liabilities	10,264,012	10,254,887
Unrestricted Net Deficit	(1,082,417)	(857,467)
Total Liabilities And Net Deficit	\$ 9,181,595	\$ 9,397,420

LYRIC OPERA QALICB, INC.

STATEMENT OF ACTIVITIES

	For The Years Ended June 30,	
	2017	2016
Revenue And Support		
Rental revenue	\$ 553,500	\$ 540,000
Interest	126	129
In-kind contributions	16,000	16,000
Total Revenue And Support	569,626	556,129
Program Service Expenses		
Bank fees	2,950	1,741
Professional services	27,675	26,602
Interest expense	261,721	262,413
Loan servicing fees	26,250	26,250
Contribution to Lyric Foundation	260,042	245,758
Depreciation expense	215,938	233,257
Total Program Service Expenses	794,576	796,021
Change In Net Assets	(224,950)	(239,892)
Unrestricted Net Deficit - Beginning Of Year	(857,467)	(617,575)
Unrestricted Net Deficit - End Of Year	\$ (1,082,417)	\$ (857,467)

LYRIC OPERA QALICB, INC.

STATEMENT OF CASH FLOWS

	For The Years	
	Ended June 30,	
	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ (224,950)	\$ (239,892)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of debt issuance costs reported as interest expense	9,125	9,125
Depreciation	215,938	233,257
Increase In Cash And Cash Equivalents	113	2,490
Cash And Cash Equivalents - Beginning Of Year	114,719	112,229
Cash And Cash Equivalents - End Of Year	\$ 114,832	\$ 114,719
Supplemental Cash Flow Information		
Interest paid	\$ 252,596	\$ 253,288

LYRIC OPERA QALICB, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 And 2016

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). One of the members of the QALICB's board is also a current member of the Lyric's board.

Description Of Program Services

All expenses in the accompanying statement of activities are related to leasing property to Lyric. The mission of the organization is to make Lyric Opera of Kansas City indispensable to the public through transformational opera experiences and broad service, which captures the hearts and minds of our communities.

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, 2017 and 2016.

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 \$2,500. 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, 2017 or 2016.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized using the straight-line method over the life of the related debt. The straight-line method is used as it is not materially different from the effective interest method. At June 30, 2017 and 2016, debt issuance costs totaled \$136,878 and the related accumulated amortization totaled \$47,914 and \$38,789, respectively. Amortization expense is included in interest expense on the statement of activities and amounted to \$9,125 for the years ended June 30, 2017 and 2016.

New Accounting Standard Implemented

During the year ended June 30, 2017, the QALICB implemented changes to the Accounting Standards Codification caused by Accounting Standards Update 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The objective of this change is to simplify the presentation of debt issuance costs. This amendment requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of the debt liability, consistent with the presentation of debt discounts. Previously, debt issuance costs were shown net of accumulated amortization on the statement of financial position as an asset.

The QALICB's implementation of this new accounting guidance resulted in certain presentation changes to the statement of financial position. The effect of these changes has been applied retrospectively. Rental property and long-term debt on the statement of financial position were reduced by \$88,964 and \$98,089 at June 30, 2017 and 2016, respectively, as a result of this change. This change had no effect on unrestricted net assets and had no effect on the change in net assets.

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 2013 and later remain subject to examination by taxing authorities.

Rental Revenue

The rental property is leased to 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 evaluated subsequent events through October 31, 2017, the date which the financial statements were available for issue.

LYRIC OPERA QALICB, INC.

Notes To Financial Statements (Continued)

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified, where appropriate, to conform to the presentation used in the in the 2017 financial statements. These reclassifications had no impact on the change in net assets.

3. Rental Property

Rental property consists of:

	<u>2017</u>	<u>2016</u>
Land	\$ 470,000	\$ 470,000
Michael & Ginger Frost Production Building	5,006,610	5,006,610
Beth Ingram Administration Building	4,372,997	4,372,997
Furniture and equipment	483,801	483,801
	<u>10,333,408</u>	<u>10,333,408</u>
Less: Accumulated depreciation	<u>(1,266,645)</u>	<u>(1,050,707)</u>
	<u>\$ 9,066,763</u>	<u>\$ 9,282,701</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 Lyric.

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 and \$188,105 for the years ended June 30, 2017 and 2016, respectively.

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 and \$65,183 for the years ended June 30, 2017 and 2016, respectively.

LYRIC OPERA QALICB, INC.

Notes To Financial Statements (Continued)

Scheduled annual maturities of long-term debt at June 30, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ —
2019	590,822
2020	333,178
2021	342,076
2022	350,550
Thereafter	8,673,374
	<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 Lyric, Lyric Opera of Kansas City Foundation (the Foundation) and 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, 2017, the QALICB made contributions of \$260,042 to the Foundation. The QALICB made contributions of \$245,758 to the Foundation during the year ended June 30, 2016.

For the years ended June 30, 2017 and 2016, the QALICB received contributed services from Lyric for accounting services totaling \$16,000. The value of contributed services is based on the cost recognized by Lyric for those services.

LYRIC OPERA QALICB, INC.

Notes To Financial Statements (Continued)

All rental property owned by the QALICB is leased to Lyric under an operating lease that expires in August 2041. Rental revenue amounted to \$553,500 and \$540,000 for the years ended June 30, 2017 and 2016, respectively. The following is a summary of minimum future base rentals to be received:

<u>Year</u>	<u>Amount</u>
2018	\$ 567,000
2019	567,000
2020	567,000
2021	581,175
2022	595,356
Thereafter	12,302,953
	<u>\$ 15,180,484</u>

6. Concentrations

Rental Revenue

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

Contribution Revenues

All contributions during the years ended June 30, 2017 and 2016 were provided by Lyric.

7. Guarantees

As part of the financing arrangements, Lyric and the QALICB have provided certain guarantees to 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 Lyric have agreed to guarantee against loss or recapture of NMTC arising from failure to comply with 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, Lyric agreed to guarantee lien-free completion of the construction of the Opera Center.