
***THE LYRIC OPERA OF KANSAS
CITY FOUNDATION***
FINANCIAL STATEMENTS
JUNE 30, 2017

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Independent Auditors' Report

Board of Trustees
The Lyric Opera of Kansas City Foundation
Kansas City, Missouri

Report On The Financial Statements

We have audited the accompanying financial statements of The Lyric Opera of Kansas City Foundation, 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 The Lyric Opera of Kansas City Foundation 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.

RubinBrown LLP

October 31, 2017

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

| | Assets | |
|-----------------------------|----------------------|----------------------|
| | June 30, | |
| | 2017 | 2016 |
| Current Assets | | |
| Cash and cash equivalents | \$ 4,581 | \$ 189,444 |
| Interest receivable | 43,425 | 43,425 |
| Total Current Assets | 48,006 | 232,869 |
| Other Assets | | |
| Investments | 8,262,933 | 7,661,685 |
| Note receivable | 7,641,900 | 7,641,900 |
| Interest receivable | 178,375 | 146,329 |
| Total Other Assets | 16,083,208 | 15,449,914 |
| Total Assets | \$ 16,131,214 | \$ 15,682,783 |

Liabilities And Net Assets

| | | |
|---|----------------------|----------------------|
| Current Liabilities | | |
| Accounts payable | \$ 664 | \$ — |
| Revolving line of credit | 49,983 | 469,804 |
| Total Current Liabilities | 50,647 | 469,804 |
| Net Assets | | |
| Unrestricted | 1,474,949 | 930,232 |
| Temporarily restricted | 8,007,633 | 7,684,762 |
| Permanently restricted | 6,597,985 | 6,597,985 |
| Total Net Assets | 16,080,567 | 15,212,979 |
| Total Liabilities And Net Assets | \$ 16,131,214 | \$ 15,682,783 |

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

STATEMENT OF ACTIVITIES For The Year Ended June 30, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-------------------------------|-------------------------------|----------------------|
| Revenues And Support | | | | |
| Contributions from Lyric Opera | \$ — | \$ 360,669 | \$ — | \$ 360,669 |
| Contributions from Lyric Opera QALICB | — | 260,042 | — | 260,042 |
| Interest on note receivable | — | 206,463 | — | 206,463 |
| Investment interest and dividends | 157,089 | 13,724 | — | 170,813 |
| Realized gains | 95,198 | 8,872 | — | 104,070 |
| Unrealized gains | 658,606 | 46,172 | — | 704,778 |
| Net assets released from restrictions | 573,071 | (573,071) | — | — |
| Total Revenues And Support | 1,483,964 | 322,871 | — | 1,806,835 |
| Expenses | | | | |
| Grants to Lyric Opera | 867,137 | — | — | 867,137 |
| Professional services | 37,210 | — | — | 37,210 |
| Investment fees | 29,322 | — | — | 29,322 |
| Interest expense | 5,578 | — | — | 5,578 |
| Total Expenses | 939,247 | — | — | 939,247 |
| Change In Net Assets | 544,717 | 322,871 | — | 867,588 |
| Net Assets - Beginning Of Year | 930,232 | 7,684,762 | 6,597,985 | 15,212,979 |
| Net Assets - End Of Year | \$ 1,474,949 | \$ 8,007,633 | \$ 6,597,985 | \$ 16,080,567 |

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

STATEMENT OF ACTIVITIES For The Year Ended June 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---------------------------------------|-------------------|---------------------------|---------------------------|----------------------|
| Revenues And Support | | | | |
| Contributions from Lyric Opera | \$ — | \$ 801,866 | \$ — | \$ 801,866 |
| Contributions from Lyric Opera QALICB | — | 245,758 | — | 245,758 |
| Contributions | 5,000 | — | — | 5,000 |
| Interest on note receivable | — | 205,646 | — | 205,646 |
| Investment interest and dividends | 144,436 | 12,576 | — | 157,012 |
| Realized gains | 14,776 | 2,021 | — | 16,797 |
| Unrealized losses | (135,435) | (1,319) | — | (136,754) |
| Net assets released from restrictions | 585,213 | (585,213) | — | — |
| Total Revenues And Support | 613,990 | 681,335 | — | 1,295,325 |
| Expenses | | | | |
| Grants to Lyric Opera | 842,593 | — | — | 842,593 |
| Professional services | 33,524 | — | — | 33,524 |
| Investment fees | 28,827 | — | — | 28,827 |
| Interest expense | 36,392 | — | — | 36,392 |
| Total Expenses | 941,336 | — | — | 941,336 |
| Change In Net Assets | (327,346) | 681,335 | — | 353,989 |
| Net Assets - Beginning Of Year | 1,257,578 | 7,003,427 | 6,597,985 | 14,858,990 |
| Net Assets - End Of Year | \$ 930,232 | \$ 7,684,762 | \$ 6,597,985 | \$ 15,212,979 |

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

STATEMENT OF CASH FLOWS

| | For The Years Ended June 30, | |
|--|---------------------------------|--------------------|
| | 2017 | 2016 |
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 867,588 | \$ 353,989 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Realized gains on investments | (104,070) | (16,797) |
| Unrealized (gains) losses on investments | (704,778) | 136,754 |
| Increase in interest receivable | (32,046) | (31,296) |
| Increase in accounts payable | 664 | — |
| Net Cash Provided By Operating Activities | 27,358 | 442,650 |
| Cash Flows From Investing Activities | | |
| Withdrawals of restricted cash | — | 500,000 |
| Sales of investments | 207,600 | 201,246 |
| Net Cash Provided By Investing Activities | 207,600 | 701,246 |
| Cash Flows From Financing Activities | | |
| Repayment of long term debt | — | (1,262,753) |
| Draws on line of credit | 48,828 | — |
| Repayments on line of credit | (468,649) | — |
| Net Cash Used In Financing Activities | (419,821) | (1,262,753) |
| Net Decrease In Cash And Cash Equivalents | (184,863) | (118,857) |
| Cash And Cash Equivalents - Beginning Of Year | 189,444 | 308,301 |
| Cash And Cash Equivalents - End Of Year | \$ 4,581 | \$ 189,444 |
| Supplemental Disclosure Of Cash Flow Information | | |
| Interest paid | \$ 5,578 | \$ 36,392 |
| Transfer of term loan balance to revolving line of credit | — | 469,804 |

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 And 2016

1. Organization

The Lyric Opera of Kansas City Foundation (the Foundation) is a not-for-profit public benefit corporation incorporated as a supporting organization of the Lyric Opera of Kansas City, Inc. (Lyric). The goal of the Foundation is to fund artistic advancement and enhance the quality of Lyric's productions through its permanent endowment. The Foundation also loaned funds to a related entity and entered into a debt agreement to facilitate the construction of the Richard J. Stern Opera Center (the Opera Center) which is occupied by Lyric and owned by Lyric Opera QALICB, Inc. (the QALICB). The Foundation's revenues and support are derived primarily from contributions and investment earnings.

These financial statements represent only the accounts and activities of the Foundation.

Description Of Program Services

All expenses in the accompanying statement of activities are related to support provided to either Lyric or the QALICB. 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. 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 the Internal Revenue Code (IRC) §45(d).

2. Summary Of Significant Accounting Policies

Basis Of Accounting

The accompanying financial statements of the Foundation 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 Foundation 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 LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements *(Continued)*

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.

Cash And Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. Excluded from this definition of cash equivalents are such amounts that are included in donor-restricted endowment accounts. At June 30, 2017 and 2016, cash equivalents consisted of a money market account.

Investments

Investments in equity securities having a readily determinable fair value are carried at fair value. Investment return includes dividends, interest and other investment income, and realized and unrealized gains and losses on investments carried at fair value.

Investment return is reflected in the statement of activities as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investments for a portion of its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated 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.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (*Continued*)

Notes Receivable

Notes receivable are carried at unpaid principal balances, less an allowance for uncollectible amounts. The allowance for uncollectible amounts is increased by charges to the change in net assets and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Foundation's review of specific notes, adverse situations that may affect the borrower's ability to repay and current economic conditions. Past due status is determined based on contractual terms. Notes are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Foundation's practice is to charge off any note or portion of a note when the note is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, or for other reasons. Management determined that there was no allowance for uncollectible amounts required at June 30, 2017 or 2016.

Notes are placed on nonaccrual status when management believes, after considering economic conditions, business conditions and collection efforts that the notes are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off or an allowance is established by a charge to expense. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

Interest on notes is recognized over the term of the note and is calculated using the simple-interest method on principal amounts outstanding.

Temporarily And Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation, or on behalf of the Foundation, in perpetuity.

Interest and dividends from permanently restricted investments are credited to unrestricted net assets unless donor stipulations restrict the use of such earnings.

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.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (Continued)

Income Taxes

The Foundation is exempt from income taxes as a public charity under Section 509(a)(3) of the IRC and a similar section of state law.

The Foundation's tax returns for tax years 2013 and later remain subject to examination by taxing authorities.

Subsequent Events

Management has evaluated subsequent events through October 31, 2017, the date which the financial statements were available for issue.

3. Investments

Investment securities and unrealized appreciation are as follows at June 30, 2017:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Appreciation</u> |
|--------------------|---------------------|---------------------|--------------------------------|
| Pooled investments | \$ 5,965,730 | \$ 8,062,090 | \$ 2,096,360 |
| Mutual funds | 169,103 | 196,310 | 27,207 |
| Money market funds | 4,533 | 4,533 | — |
| | <u>\$ 6,139,366</u> | <u>\$ 8,262,933</u> | <u>\$ 2,123,567</u> |

Investment securities and unrealized appreciation were as follows at June 30, 2016:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Appreciation</u> |
|--------------------|---------------------|---------------------|--------------------------------|
| Pooled investments | \$ 6,064,785 | \$ 7,474,924 | \$ 1,410,139 |
| Mutual funds | 172,667 | 181,317 | 8,650 |
| Money market funds | 5,444 | 5,444 | — |
| | <u>\$ 6,242,896</u> | <u>\$ 7,661,685</u> | <u>\$ 1,418,789</u> |

Pooled investments primarily consist of marketable equity and debt securities, and are managed by the Greater Kansas City Community Foundation within its investment portfolio.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (Continued)

4. Note Receivable

The Foundation has provided financing to Lyric Opera Investment Fund, LLC in the form of a \$7,641,900 promissory note maturing in July 2041. The note bears interest at a fixed rate of 2.608% per annum. Quarterly interest-only payments based on a pay rate of 2.248% are due until October 2018, when quarterly payments of \$114,242, including principal and interest, are payable through maturity. The note is secured by Lyric Opera Investment Fund, LLC's membership interest in KCMO CDE VII, LLC. All interest receivable amounts reflected in the accompanying statement of financial position relate to this note receivable.

5. Endowments

The Foundation's endowment consists of several donor-restricted funds established for a variety of purposes. As required by U.S. generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as either temporarily restricted net assets or unrestricted net assets based on the existence or absence of donor-imposed restrictions on the earnings of the endowment fund.

As of June 30, 2017, the endowment composition by net asset category consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------|
| Donor-restricted endowment funds | \$ 1,474,949 | \$ 189,999 | \$ 6,597,985 | \$ 8,262,933 |

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements *(Continued)*

As of June 30, 2016, the endowment composition by net asset category consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|--------------|---------------------------|---------------------------|--------------|
| Donor-restricted endowment funds | \$ 930,232 | \$ 164,974 | \$ 6,597,985 | \$ 7,693,191 |

The following is a reconciliation of the beginning and ending balances of the Foundation's endowment investments for 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|--------------|
| Balance - July 1, 2016 | \$ 930,232 | \$ 164,974 | \$ 6,597,985 | \$ 7,693,191 |
| Investment return | | | | |
| Investment income | 157,089 | 13,724 | — | 170,813 |
| Net appreciation | 753,804 | 55,044 | — | 808,848 |
| Investment fees | (25,329) | (2,237) | — | (27,566) |
| Total Investment Return | 885,564 | 66,531 | — | 952,095 |
| Appropriation of endowment assets for expenditure | (340,847) | (41,506) | — | (382,353) |
| Balance - June 30, 2017 | \$ 1,474,949 | \$ 189,999 | \$ 6,597,985 | \$ 8,262,933 |

The following is a reconciliation of the beginning and ending balances of the Foundation's endowment investments for 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|--------------|
| Balance - July 1, 2015 | \$ 1,257,578 | \$ 158,830 | \$ 6,597,985 | \$ 8,014,393 |
| Investment return | | | | |
| Investment income | 144,436 | 12,576 | — | 157,012 |
| Net appreciation (depreciation) | (120,659) | 702 | — | (119,957) |
| Investment fees | (25,008) | (2,134) | — | (27,142) |
| Total Investment Return | (1,231) | 11,144 | — | 9,913 |
| Contributions | 5,000 | — | — | 5,000 |
| Appropriation of endowment assets for expenditure | (331,115) | (5,000) | — | (336,115) |
| Balance - June 30, 2016 | \$ 930,232 | \$ 164,974 | \$ 6,597,985 | \$ 7,693,191 |

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (*Continued*)

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. As of June 30, 2017, the endowment fund had underwater funds of \$920. As of June 20, 2016, the endowment fund had underwater funds of \$53,674. This represents less than 1% of the Foundation's donor restricted endowment funds as of both June 30, 2017 and 2016. This amount is reported in unrestricted net assets. These deficiencies, which the Foundation believes are temporary, resulted from unfavorable market fluctuations. The Board determined that continued appropriation during fiscal years ended June 30, 2017 and 2016 was prudent.

Return Objectives And Risk Parameters

The Foundation has adopted an investment policy that seeks to earn the highest possible return given the risk tolerance established by the Foundation in order to preserve the purchasing power of the Foundation assets. Under this policy, the Foundation targets an average annualized rate of return approximately 4% greater than the rate of inflation as measured by the Consumer Price Index (CPI), compounded annually. Actual returns in any given year may vary from this amount.

Strategies Employed For Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation targets a diversified asset allocation of both equities and fixed income securities.

Equities are to represent from 60% to 80% of the market value of total fund assets, with a targeted average of approximately 70% of the market value of total fund assets. The term "equities" includes common stock, convertible bonds and convertible stock.

Fixed income obligations are to represent from 20% to 40% of the market value of total fund assets, with a targeted average of approximately 30% of the market value of total fund assets. The term "fixed income" indicates contractual payments that have a specific maturity date greater than one year.

All investment management has been delegated to the Greater Kansas City Community Foundation, aside from the Lyric Opera of Kansas City Foundation-Polsky account, which is managed by the Bank of the Midwest.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (*Continued*)

Spending Policy

The Foundation has established a distribution policy that seeks to provide appropriate, adequate and on-going current or annual support to Lyric to ensure its long-term future in continuing to provide cultural excellence and/or educational value as a civic institution within the Kansas City community. This distribution policy is applicable to all endowment funds of the Foundation that do not have specific donor restrictions on how distributions are to be made.

The annual level of support to be provided by the Foundation to Lyric pursuant to the distribution policy for any given fiscal year is determined by 4% of the three-year rolling average of fiscal year-end balances for the Missouri Cultural Trust Fund and the Foundation endowment account.

However, in any year that the above formula results in a grant below the previous year, the previous year's grant amount should be maintained as long as it represents no more than 4.5% of the three-year rolling average of fiscal year-end balances for the Missouri Cultural Trust Fund and the Foundation endowment account.

6. Fair Value Measurements

The Foundation follows an established framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under these rules are described below:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets; |

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (*Continued*)

- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Money Market Funds And Mutual Funds

Valued at the net asset value (NAV) of shares held by the Foundation at year end.

Pooled Investments

Valued at the NAV of shares held by the Foundation at year end. The unit value or NAV is determined by the Foundation based on the total fair value of the pooled investments divided by the number of units held by the Foundation at year end. The investments are redeemable at NAV under agreements with the Greater Kansas City Community Foundation.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|------------|--------------|---------|--------------|
| Money market funds | \$ 4,533 | \$ — | \$ — | \$ 4,533 |
| Mutual funds | | | | |
| Fixed income | 49,916 | — | — | 49,916 |
| Domestic equity - large cap | 60,764 | — | — | 60,764 |
| Domestic equity - mid cap | 15,016 | — | — | 15,016 |
| Domestic equity - small cap | 12,453 | — | — | 12,453 |
| International equity | 52,662 | — | — | 52,662 |
| Other | 5,499 | — | — | 5,499 |
| Pooled investments | | | | |
| Money market pool (a) | — | 17,808 | — | 17,808 |
| Fixed income pool (b) | — | 2,784,012 | — | 2,784,012 |
| Equity pool (c) | — | 5,260,270 | — | 5,260,270 |
| | \$ 200,843 | \$ 8,062,090 | \$ — | \$ 8,262,933 |

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|------------|--------------|---------|--------------|
| Money market funds | \$ 5,444 | \$ — | \$ — | \$ 5,444 |
| Mutual funds | | | | |
| Fixed income | 45,552 | — | — | 45,552 |
| Domestic equity - large cap | 57,783 | — | — | 57,783 |
| Domestic equity - mid cap | 11,659 | — | — | 11,659 |
| Domestic equity - small cap | 11,655 | — | — | 11,655 |
| International equity | 48,287 | — | — | 48,287 |
| Other | 6,381 | — | — | 6,381 |
| Pooled investments | | | | |
| Money market pool (a) | — | 16,460 | — | 16,460 |
| Fixed income pool (b) | — | 2,238,230 | — | 2,238,230 |
| Equity pool (c) | — | 5,220,234 | — | 5,220,234 |
| | \$ 186,761 | \$ 7,474,924 | \$ — | \$ 7,661,685 |

- (a) This category includes high-quality short-term money market instruments that present minimal credit risk. The investment objective is current income while preserving assets and maintaining liquidity and investment quality.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (*Continued*)

- (b) This category is managed on a total return basis with capital preservation and current income to help meet spending requirements as a primary objective. A secondary objective is to provide a source of diversification for donor portfolios, thus seeking to dampen portfolio volatility. The overall performance of this category is to meet or exceed the performance of the Barclays Capital Aggregate Bond index over a three- to five-year time period.

- (c) This category's long-term investment objective is to seek competitive market returns so as to preserve and grow the portfolio, provide cash flows to fund distributions and to preserve the purchasing power of the funds to meet charitable needs now and those in the future, and to outperform an appropriate blended market benchmark, net of all fees, over a three to five year time period. The investment program of this category is designed to fully participate in strong equity markets, but more importantly provide protection in down and sideways equity markets.

During the years ended June 30, 2017 and 2016, there were no changes in the methods or assumptions utilized to derive the fair value of the Foundation's assets.

7. Beneficial Interest In Perpetual Trust

Lyric had a beneficial interest in a perpetual trust that consisted of a promise to give from a perpetual trust created by an independent donor, which was not in the possession or control of Lyric, but was held and administered by an advisory committee consisting of at least three members, but no more than five members. This committee was required to include at least one representative from Lyric. On June 8, 2009, the advisory committee approved the transfer of the advisory committee's duties to the Foundation. As a result, the trust's assets totaling \$1,460,340 and \$1,362,290 are included within the investments of the Foundation on the accompanying statement of financial position at June 30, 2017 and 2016, respectively. Lyric receives an annual donation in an amount equal to 5% of the average fair market value of the trust's assets.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements *(Continued)*

8. Long-Term Debt

In order to provide funding needed for the New Markets Tax Credit transaction, the Foundation entered into a term loan agreement with BOK Financial (f/k/a Bank of Kansas City) for an amount of \$3,985,882 at an interest rate of 4.26%. The loan matured in July 2016. Interest-only payments were due monthly. Terms of this agreement dictate that beginning 12 months after the closing date, the Foundation must maintain a separate account at BOK Financial as security with a minimum balance of \$500,000. Commencing in July 2012, the Foundation began also making quarterly principal payments in an amount equal to the excess amount held in the separate account as calculated by BOK Financial. The loan is secured by substantially all assets of the Foundation.

In July 2015, this loan agreement with BOK Financial was modified to reduce the minimum balance of the separate account to be maintained at BOK Financial from \$500,000 to \$100,000. Additionally, this modification required a one-time principal payment of \$400,000 that was made in July 2015 in addition to the quarterly principal payments.

The Foundation made \$1,262,753 of principal payments related to this agreement during the year ended June 30, 2016.

9. Line Of Credit

Effective June 16, 2016, the Foundation opened a revolving line-of-credit agreement with BOK Financial with a maximum limit of \$500,000 maturing in June 2017. The revolving line of credit has an interest rate based on the one-month LIBOR plus 2.5% resulting in an interest rate of 2.95% as of June 30, 2016. On the effective date, the remaining \$469,804 balance on the term loan was transferred to the revolving line of credit. There were no principal payments made on the line of credit through June 30, 2016. The transfer of the term loan balance to the revolving line of credit effectively closed the term loan. During 2017 the line of credit was renewed with a maximum limit of \$500,000 maturing in June 2018. The interest rate was 3.72% at June 30, 2017.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (Continued)

10. Temporarily And Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|---------------------|---------------------|
| Endowment funds income restricted | | |
| as to purpose | \$ 189,999 | \$ 164,974 |
| Use in NMTC structure | <u>7,817,634</u> | <u>7,519,788</u> |
| | <u>\$ 8,007,633</u> | <u>\$ 7,684,762</u> |

Permanently restricted net assets at June 30 are held as follows:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Held in perpetuity - proceeds unrestricted | \$ 6,097,985 | \$ 6,097,985 |
| Held in perpetuity - proceeds for education | <u>500,000</u> | <u>500,000</u> |
| | <u>\$ 6,597,985</u> | <u>\$ 6,597,985</u> |

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

| | <u>2017</u> | <u>2016</u> |
|-----------------------|-------------------|-------------------|
| Use in NMTC structure | \$ 559,078 | \$ 576,392 |
| Grants to Lyric Opera | 10,000 | 5,000 |
| Other | <u>3,993</u> | <u>3,821</u> |
| | <u>\$ 573,071</u> | <u>\$ 585,213</u> |

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (*Continued*)

11. Related Party Transactions

The Foundation was formed to benefit, perform the functions of and carry out the charitable purposes of Lyric. At the discretion of the Foundation's Board of Trustees, it may hold and reinvest earnings, distribute its earnings to Lyric, or use its earnings for any purpose that furthers the charitable purposes of Lyric. Distributions of principal by the Foundation are prohibited by its articles of incorporation, the terms of specific bequests and by specific agreements. The Foundation is required to maintain an independent Board of Trustees and officers. Lyric may not require distributions of the Foundation's earnings to be made to it or on its behalf.

The Foundation has agreed to reimburse Lyric for certain expenses Lyric incurred on its behalf. No payable was recorded as of June 30, 2017 and 2016.

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

During the year ended June 30, 2017, the Foundation received contributions for purposes of paying down long-term debt of \$260,042 and \$360,669 from the QALICB and Lyric, respectively.

During the year ended June 30, 2016, the Foundation received contributions for purposes of paying down long-term debt of \$245,758 and \$801,866 from the QALICB and Lyric, respectively.

During the years ended June 30, 2017 and 2016, the Foundation made grants totaling \$867,137 and \$842,593, respectively, to Lyric.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements *(Continued)*

12. Missouri Cultural Trust Fund

Lyric has entered into a matching grant with the Missouri Cultural Trust Fund (MCT). The grant guidelines were for Lyric to raise up to \$3,700,000 (approximately \$3,152,000 was actually raised) in endowment funds from private donors by June 30, 2001, solely to support Lyric and its mission. Such funds are currently maintained by the Greater Kansas City Community Foundation on behalf of the Foundation. In return, the MCT set aside approximately \$1,576,000, or a 50% match of private funds raised, in the MCT. The MCT remains the owner of the \$1,576,000 of matching funds and, therefore, such assets are not included in the accompanying financial statements. Lyric receives distributions of 5% from MCT matching funds. Distributions from the MCT to Lyric for the years ended June 30, 2017 and 2016 were \$78,927.

13. Risks And Uncertainties

The Foundation 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 changes could materially affect the amounts reported in the statement of financial position.

14. Concentrations

The Foundation maintains a bank account with a bank located in the metropolitan Kansas City area. The Federal Deposit Insurance Corporation insures amounts up to the limit of \$250,000. The Foundation had no uninsured amounts at June 30, 2017 and June 30, 2016.