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***LYRIC OPERA QALICB, INC.***

*FINANCIAL STATEMENTS*

*JUNE 30, 2016*

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RubinBrown LLP  
Certified Public Accountants  
& Business Consultants

10975 Grandview Drive  
Suite 600  
Overland Park, KS 66210

T 913.491.4144  
F 913.491.6821

W rubinbrown.com  
E info@rubinbrown.com

## 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, 2016 and 2015, 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, 2016 and 2015, 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 13, 2016

**LYRIC OPERA QALICB, INC.**

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**STATEMENT OF FINANCIAL POSITION**

**Assets**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 114,719	\$ 112,229
<b>Rental Property</b>		
Land, buildings, improvements and furniture and equipment	10,470,286	10,470,286
Less: Accumulated depreciation	(1,089,496)	(847,114)
<b>Net Property And Equipment</b>	<b>9,380,790</b>	<b>9,623,172</b>
<b>Total Assets</b>	<b>\$ 9,495,509</b>	<b>\$ 9,735,401</b>

**Liabilities And Net Assets**

<b>Current Liabilities</b>		
Accrued interest	\$ 62,976	\$ 62,976
<b>Long-Term Liabilities</b>		
Long-term debt	10,290,000	10,290,000
<b>Unrestricted Net Assets</b>	<b>(857,467)</b>	<b>(617,575)</b>
<b>Total Liabilities And Net Assets</b>	<b>\$ 9,495,509</b>	<b>\$ 9,735,401</b>

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**LYRIC OPERA QALICB, INC.****STATEMENT OF ACTIVITIES**

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	<b>For The Years Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenue And Support</b>		
Rental revenue	\$ 540,000	\$ 540,000
Interest	129	150
In-kind contributions	16,000	16,000
<b>Total Revenue And Support</b>	<b>556,129</b>	<b>556,150</b>
<b>Program Service Expenses</b>		
Bank fees	1,741	469
Professional services	26,600	28,475
Interest expense	253,288	252,596
Loan servicing fees	26,250	26,250
Contribution to Lyric Foundation	245,758	249,395
Depreciation expense	242,384	248,811
<b>Total Program Service Expenses</b>	<b>796,021</b>	<b>805,996</b>
<b>Change In Net Assets</b>	<b>(239,892)</b>	<b>(249,846)</b>
<b>Unrestricted Net Assets - Beginning Of Year</b>	<b>(617,575)</b>	<b>(367,729)</b>
<b>Unrestricted Net Assets - End Of Year</b>	<b>\$ (857,467)</b>	<b>\$ (617,575)</b>

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**LYRIC OPERA QALICB, INC.**

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**STATEMENT OF CASH FLOWS**

	<b>For The Years</b>	
	<b>Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (239,892)	\$ (249,846)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	242,384	248,811
Changes in liabilities:		
Decrease in accounts payable	—	(2,300)
<b>Increase (Decrease) In Cash And Cash Equivalents</b>	<b>2,492</b>	<b>(3,335)</b>
<b>Cash And Cash Equivalents - Beginning Of Year</b>	<b>112,229</b>	<b>115,564</b>
<b>Cash And Cash Equivalents - End Of Year</b>	<b>\$ 114,719</b>	<b>\$ 112,229</b>
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 253,288	\$ 252,596

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# LYRIC OPERA QALICB, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 And 2015

### 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 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, 2016 and 2015.

#### 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.**

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### 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, 2016 or 2015.

#### **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 2012 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.

## LYRIC OPERA QALICB, INC.

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### Notes To Financial Statements (Continued)

#### 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 October 13, 2016, the date which the financial statements were available for issue.

### 3. Rental Property

Rental property consists of:

	<u>2016</u>	<u>2015</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>(1,089,496)</u>	<u>(847,114)</u>
	<u>\$ 9,380,790</u>	<u>\$ 9,623,172</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.

## LYRIC OPERA QALICB, INC.

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### 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 \$188,105 and \$187,591 for the years ended June 30, 2016 and 2015, 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 \$65,183 and \$65,005 for the years ended June 30, 2016 and 2015, respectively.

Scheduled annual maturities of long-term debt at June 30, 2016 are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ —
2018	—
2019	590,822
2020	333,178
2021	342,076
Thereafter	9,023,924
	<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, 2016, the QALICB made contributions of \$245,758 to the Foundation. The QALICB made contributions of \$249,395 to the Foundation during the year ended June 30, 2015.

## **LYRIC OPERA QALICB, INC.**

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### Notes To Financial Statements *(Continued)*

For the years ended June 30, 2016 and 2015, 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.

All rental property owned by the QALICB is leased to Lyric under an operating lease that expires in August 2041. Rental revenue for the years ended June 30, 2016 and 2015 amounted to \$540,000. The following is a summary of minimum future base rentals to be received:

<u>Year</u>	<u>Amount</u>
2017	\$ 553,500
2018	567,000
2019	567,000
2020	567,000
2021	581,175
Thereafter	12,898,306
	<u>\$ 15,733,981</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, 2016 and 2015 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.

**Completion Guarantee**

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