
LYRIC OPERA QALICB, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018

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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, 2018 and 2017, 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, 2018 and 2017, 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

December 17, 2018

LYRIC OPERA QALICB, INC.

STATEMENT OF FINANCIAL POSITION

Assets

	June 30,	
	2018	2017
Current Assets		
Cash and cash equivalents	\$ 114,936	\$ 114,832
Rental Property		
Land, buildings, improvements and furniture and equipment	10,333,408	10,333,408
Less: Accumulated depreciation	(1,482,001)	(1,266,645)
Net Property And Equipment	8,851,407	9,066,763
Total Assets	\$ 8,966,343	\$ 9,181,595

Liabilities And Net Assets

Current Liabilities		
Accounts payable	\$ 6,301	\$ —
Accrued interest	62,284	62,976
Total Current Liabilities	68,585	62,976
Long-Term Liabilities		
Long-term debt	10,290,000	10,290,000
Less: Unamortized debt issuance costs	(79,839)	(88,964)
Total Long-Term Liabilities	10,210,161	10,201,036
Total Liabilities	10,278,746	10,264,012
Unrestricted Net Deficit	(1,312,403)	(1,082,417)
Total Liabilities And Net Deficit	\$ 8,966,343	\$ 9,181,595

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

	For The Years Ended June 30,	
	2018	2017
Revenue And Support		
Rental revenue	\$ 567,000	\$ 553,500
Interest	128	126
In-kind contributions	16,000	16,000
Total Revenue And Support	583,128	569,626
Program Service Expenses		
Bank fees	3,009	2,950
Professional services	34,251	27,675
Interest expense	261,029	261,721
Loan servicing fees	26,250	26,250
Contribution to Lyric Foundation	273,219	260,042
Depreciation expense	215,356	215,938
Total Program Service Expenses	813,114	794,576
Change In Net Assets	(229,986)	(224,950)
Unrestricted Net Deficit - Beginning Of Year	(1,082,417)	(857,467)
Unrestricted Net Deficit - End Of Year	\$ (1,312,403)	\$ (1,082,417)

LYRIC OPERA QALICB, INC.

STATEMENT OF CASH FLOWS

	For The Years	
	Ended June 30,	
	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ (229,986)	\$ (224,950)
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	215,356	215,938
Changes in liabilities:		
Increase in accounts payable	6,301	—
Decrease in accrued interest	(692)	—
Increase In Cash And Cash Equivalents	104	113
Cash And Cash Equivalents - Beginning Of Year	114,832	114,719
Cash And Cash Equivalents - End Of Year	\$ 114,936	\$ 114,832
Supplemental Cash Flow Information		
Interest paid	\$ 252,596	\$ 252,596

LYRIC OPERA QALICB, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 And 2017

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 Lyric 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, 2018 and 2017.

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, 2018 or 2017.

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, 2018 and 2017, debt issuance costs totaled \$136,878 and the related accumulated amortization totaled \$57,039 and \$47,914, respectively. Amortization expense is included in interest expense on the statement of activities and amounted to \$9,125 for the years ended June 30, 2018 and 2017.

Income Taxes

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

LYRIC OPERA QALICB, INC.

Notes To Financial Statements (Continued)

The QALICB's tax returns for tax years 2014 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.

3. Rental Property

Rental property consists of:

	2018	2017
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	(1,482,001)	(1,266,645)
	<u>\$ 8,851,407</u>	<u>\$ 9,066,763</u>

4. Long-Term Debt

Financing was 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. The maturity date of both notes was July 2041. These notes payable had been secured by a deed of trust and assignments of leases and rents. Repayment of these notes payable was guaranteed by Lyric.

LYRIC OPERA QALICB, INC.

Notes To Financial Statements (Continued)

For the \$7,641,900 note payable, payments of interest were due quarterly until October 2018, when quarterly payments of \$108,956, including principal and interest, were payable until maturity. Interest expense related to this note payable was \$187,077 and \$187,591 for the years ended June 30, 2018 and 2017, respectively.

For the \$2,648,100 note payable, payments of interest were due quarterly until July 2018, when a principal payment of \$315,000 was due. Beginning in October 2018, quarterly payments of \$33,265, including principal and interest, were payable until maturity. Interest expense related to this note payable was \$64,827 and \$65,005 for the years ended June 30, 2018 and 2017, respectively.

Scheduled annual maturities of long-term debt at June 30, 2018 were as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 590,822
2020	333,178
2021	342,076
2022	350,550
2023	359,236
Thereafter	8,314,138
	<u>\$ 10,290,000</u>

Per Note 8, these notes were extinguished as part of the QALICB wind down on July 30, 2018.

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, 2018, the QALICB made contributions of \$273,219 to the Foundation. The QALICB made contributions of \$260,042 to the Foundation during the year ended June 30, 2017.

LYRIC OPERA QALICB, INC.

Notes To Financial Statements *(Continued)*

For the years ended June 30, 2018 and 2017, 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 amounted to \$567,000 and \$553,500 for the years ended June 30, 2018 and 2017, respectively. The following is a summary of minimum future base rentals to be received:

Year	Amount
2019	\$ 567,000
2020	567,000
2021	581,175
2022	595,356
2023	595,356
Thereafter	11,707,597
	<hr/>
	\$ 14,613,484

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, 2018 and 2017 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.

8. Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available for issue, which is the date of the Independent Auditors' Report.

On July 27, 2018, the Lyric, QALICB, and the Foundation reached the end of the seven-year compliance period for its federal New Market Tax Credit program. Under this program, \$3 million of federal income tax credits were contributed to incentivize investment in low income communities and thus, the Richard J. Stern Opera Center was created. On July 30, 2018, these partners, along with partners PNC Bank and AltCap, unwound the tax credit project, thereby transferring ownership of the Richard J. Stern Opera Center wholly to Lyric. The unwind transaction, including the transfer of ownership of the Opera Center from the QALICB to the Lyric, will appear in the financial statements of the fiscal year ending June 30, 2019. In addition, it is anticipated that the QALICB will be dissolved during the fiscal year ending June 30, 2019. As part of the unwind transaction, the long-term debt of the QALICB was extinguished.