
***THE LYRIC OPERA OF KANSAS
CITY FOUNDATION***
FINANCIAL STATEMENTS
JUNE 30, 2020

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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis Of Matter

As discussed in Note 2, The Lyric Opera of Kansas City Foundation adopted the provisions of Accounting Standards Update 2018-08: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. Our opinion is not modified with respect to this matter.

RubinBrown LLP

December 18, 2020

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

	Assets	
	June 30,	
	2020	2019
Current Assets		
Promises to give - short-term	\$ 1,000,000	\$ 1,000,000
Other Assets		
Investments	10,633,486	9,587,473
Promises to give - long-term	—	1,000,000
Total Other Assets	10,633,486	10,587,473
Total Assets	\$ 11,633,486	\$ 11,587,473

Net Assets		
Net Assets		
Without donor restrictions	\$ 1,826,595	\$ 1,778,729
With donor restrictions	9,806,891	9,808,744
Total Net Assets	\$ 11,633,486	\$ 11,587,473

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

STATEMENT OF ACTIVITIES For The Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues And Support			
Investment interest and dividends	\$ 200,287	\$ 14,329	\$ 214,616
Realized gains	271,636	18,601	290,237
Unrealized gains	1,601	2,503	4,104
Net assets released from restrictions	37,286	(37,286)	—
Total Revenues And Support	510,810	(1,853)	508,957
Expenses			
Grants to Lyric Opera	399,182	—	399,182
Professional services	32,345	—	32,345
Investment fees	31,417	—	31,417
Total Expenses	462,944	—	462,944
Change In Net Assets	47,866	(1,853)	46,013
Net Assets - Beginning Of Year	1,778,729	9,808,744	11,587,473
Net Assets - End Of Year	\$ 1,826,595	\$ 9,806,891	\$ 11,633,486

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

STATEMENT OF ACTIVITIES For The Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues And Support			
Contributions	\$ —	\$ 3,136,124	\$ 3,136,124
Contributions from Lyric Opera QALICB	—	9,000	9,000
Interest on note receivable	—	56,210	56,210
Investment interest and dividends	194,211	15,810	210,021
Realized gains	149,973	15,282	165,255
Unrealized gains	161,618	5,845	167,463
Net assets released from restrictions	8,070,906	(8,070,906)	—
Total Revenues And Support	8,576,708	(4,832,635)	3,744,073
Expenses			
Grants to Lyric Opera	488,360	—	488,360
Elimination of note receivable (Note 11)	7,896,600	—	7,896,600
Professional services	35,611	—	35,611
Investment fees	29,118	—	29,118
Interest expense	329	—	329
Total Expenses	8,450,018	—	8,450,018
Change In Net Assets	126,690	(4,832,635)	(4,705,945)
Net Assets - Beginning Of Year	1,652,039	14,641,379	16,293,418
Net Assets - End Of Year	\$ 1,778,729	\$ 9,808,744	\$ 11,587,473

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

STATEMENT OF CASH FLOWS

	For The Years Ended June 30,	
	2020	2019
Cash Flows From Operating Activities		
Change in net assets	\$ 46,013	\$ (4,705,945)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Realized gains on investments	(290,237)	(165,255)
Unrealized gains on investments	(4,104)	(167,463)
Elimination of note receivable (Note 11)	—	7,641,900
Elimination of interest receivable (Note 11)	—	254,700
Contributions restricted for long-term investment	(1,000,000)	(1,000,124)
Change in assets and liabilities:		
Promises to give	1,000,000	(2,000,000)
Net Cash Used In Operating Activities	(248,328)	(142,187)
Cash Flows From Investing Activities		
Sales of investments	248,328	200,196
Purchases of investments	(1,000,000)	(1,000,124)
Net Cash Used In Investing Activities	(751,672)	(799,928)
Cash Flows From Financing Activities		
Contributions restricted for long-term investment	1,000,000	1,000,124
Repayments on line of credit	—	(61,137)
Net Cash Provided By Financing Activities	1,000,000	938,987
Net Decrease In Cash And Cash Equivalents	—	(3,128)
Cash And Cash Equivalents - Beginning Of Year	—	3,128
Cash And Cash Equivalents - End Of Year	\$ —	\$ —
Supplemental Disclosure Of Cash Flow Information		
Interest paid	\$ —	\$ 329
Supplemental Disclosure Of Non-Cash Information		
Elimination of the interest receivable due to the unwind of the QALICB (Note 11)	—	254,700
Elimination of the note receivable due to the unwind of the QALICB (Note 11)	—	7,641,000

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 And 2019

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 was owned by Lyric Opera QALICB, Inc. (the QALICB) until July 2018 when the ownership of the Opera Center was transferred to the Lyric. 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

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 was to hold title to property, complete construction of the Opera Center and lease said property. The property was operated in such a way that it qualified 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). The QALICB reached the end of the seven-year compliance period for the NMTC program during the fiscal year ending June 30, 2019 and the QALICB was dissolved as part of the unwind transaction (Note 11).

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.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (*Continued*)

New Accounting Standard Implemented

As of July 1, 2019, the Foundation implemented Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, which provides enhanced guidance to assist organizations in evaluating whether transactions should be accounted for as contributions or reciprocal transactions. The implementation did not have a material impact on the Foundation's financial statements.

Basis Of Presentation

The financial statement presentation follows the requirements of accounting principles generally accepted in the United States of America by presenting assets and liabilities within similar groups and classifying them in ways that provide relevant information about their interrelationships, liquidity and financial flexibility. As a result, the Foundation is required to report information regarding its financial position and activities according to the following classes of net assets:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations as well as net assets designated by the Board of Trustees for specific purposes.

Net Assets With Donor Restrictions - This category includes net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time. Certain net assets in this category are subject to donor-imposed stipulations that they be invested in perpetuity to provide a source of income to be used for general or a specific purpose.

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.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements *(Continued)*

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 without donor restrictions unless the use is restricted by explicit donor stipulations or by law.

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.

Promises To Give

Unconditional promises to give are recognized as support in the period the promises are received. An allowance for uncollectible promises to give is provided based upon the Foundation's estimate of amounts which will ultimately not be collected. The estimate is based on historical collection experience and a review of the current status of existing promises to give. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual promises to give. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to promises to give. At June 30, 2020 and 2019, management has determined that no allowance is deemed necessary.

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, 2020 and 2019.

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.

Revenues And Support

Gifts of cash and other assets are reported as with or without donor restrictions, 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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 2016 and later remain subject to examination by taxing authorities.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (Continued)

3. Promises To Give

Promises to give consist of the following:

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ 1,000,000	\$ 1,000,000
Due in one to five years	—	1,000,000
	<u>\$ 1,000,000</u>	<u>\$ 2,000,000</u>

The Foundation considers these promises to give to be fully collectable. Therefore, no allowance for doubtful accounts has been recorded as of June 30, 2020 and 2019.

4. Investments

Investment securities and unrealized appreciation are as follows at June 30, 2020:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Pooled investments	\$ 7,862,862	\$ 10,429,829	\$ 2,566,967
Mutual funds	167,414	200,219	32,805
Money market funds	3,438	3,438	—
	<u>\$ 8,033,714</u>	<u>\$ 10,633,486</u>	<u>\$ 2,599,772</u>

Investment securities and unrealized appreciation were as follows at June 30, 2019:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Pooled investments	\$ 6,818,741	\$ 9,386,639	\$ 2,567,898
Mutual funds	167,414	195,184	27,770
Money market funds	5,650	5,650	—
	<u>\$ 6,991,805</u>	<u>\$ 9,587,473</u>	<u>\$ 2,595,668</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)

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 net assets with donor restriction (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 net assets with donor restriction is classified as either net assets with or without donor restriction based on the existence or absence of donor-imposed restrictions on the earnings of the endowment fund.

As of June 30, 2020, the endowment composition by net asset category consisted of the following:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment funds	\$ 1,826,595	\$ 8,806,891	\$ 10,633,486

As of June 30, 2019, the endowment composition by net asset category consisted of the following:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment funds	\$ 1,778,729	\$ 7,808,744	\$ 9,587,473

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (Continued)

The following is a reconciliation of the beginning and ending balances of the Foundation's endowment investments for 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance - July 1, 2019	\$ 1,778,729	\$ 7,808,744	\$ 9,587,473
Investment return			
Investment income	200,287	14,329	214,616
Net appreciation	273,237	21,104	294,341
Investment fees	(29,131)	(2,286)	(31,417)
Total Investment Return	444,393	33,147	477,540
Contributions	—	1,000,000	1,000,000
Appropriation of endowment assets for expenditure	(396,527)	(35,000)	(431,527)
Balance - June 30, 2020	\$ 1,826,595	\$ 8,806,891	\$ 10,633,486

The following is a reconciliation of the beginning and ending balances of the Foundation's endowment investments for 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance - July 1, 2018	\$ 1,652,039	\$ 6,802,788	\$ 8,454,827
Investment return			
Investment income	194,211	15,810	210,021
Net appreciation	311,591	21,127	332,718
Investment fees	(26,444)	(2,264)	(28,708)
Total Investment Return	479,358	34,673	514,031
Contributions	—	1,000,124	1,000,124
Appropriation of endowment assets for expenditure	(352,668)	(28,841)	(381,509)
Balance - June 30, 2019	\$ 1,778,729	\$ 7,808,744	\$ 9,587,473

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, 2020, the endowment fund had underwater funds of \$44,881. There was one underwater fund with a fair market value of \$3,113,119 and a cost basis of \$3,158,000. As of June 30, 2019, the endowment fund had no underwater funds.

This deficiency, which the Foundation believes is temporary, resulted from unfavorable market fluctuations. The Board determined that continued appropriation during fiscal years ended June 30, 2020 and 2019 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 the 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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 3,438	\$ —	\$ —	\$ 3,438
Mutual funds				
Fixed income	46,149	—	—	46,149
Domestic equity - large cap	67,664	—	—	67,664
Domestic equity - mid cap	20,948	—	—	20,948
Domestic equity - small cap	10,020	—	—	10,020
International equity	50,338	—	—	50,338
Other	5,100	—	—	5,100
Total Assets In The Fair Value Hierarchy	\$ 203,657	\$ —	\$ —	203,657
Pooled investments				
Money market pool (a)				23,006
Fixed income pool (a)				4,090,271
Equity pool (a)				<u>6,316,552</u>
Total Assets At Fair Value				<u>\$ 10,633,486</u>

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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 5,650	\$ —	\$ —	\$ 5,650
Mutual funds				
Fixed income	49,044	—	—	49,044
Domestic equity - large cap	60,589	—	—	60,589
Domestic equity - mid cap	19,128	—	—	19,128
Domestic equity - small cap	9,396	—	—	9,396
International equity	50,733	—	—	50,733
Other	6,294	—	—	6,294
Total Assets In The Fair Value Hierarchy	\$ 200,834	\$ —	\$ —	200,834
Pooled investments				
Money market pool (a)				19,969
Fixed income pool (a)				3,143,938
Equity pool (a)				<u>6,222,732</u>
Total Assets At Fair Value				<u>\$ 9,587,473</u>

- (a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Pooled Investments At Net Asset Value

The fair values of pooled investments have been estimated using the net asset value per share as a practical expedient for the pooled investments. These investments may be redeemed with 90 days notice. Pooled investments consisted of the following at June 30, 2020 and 2019:

- Money market pool – 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*)

- Fixed income pool – 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 mitigate 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.
- Equity pool – This category’s long-term investment objective is to seek competitive market returns so as 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, to provide protection in down and sideways equity markets.

During the years ended June 30, 2020 and 2019, 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 \$3,557,172 and \$2,548,236 are included within the investments of the Foundation on the accompanying statement of financial position at June 30, 2020 and 2019, 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. Net Assets With Donor Restrictions

Net assets with donor restrictions are subject to the following donor-imposed restrictions:

	<u>2020</u>	<u>2019</u>
Unappropriated endowment earnings	\$ 208,782	\$ 210,635
General endowment		
Income to be used for education programs	500,000	500,000
Income to be used for operations	8,098,109	7,098,109
Promises to give	1,000,000	2,000,000
	<u>\$ 9,806,891</u>	<u>\$ 9,808,744</u>

Net Assets Released From Restrictions

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

	<u>2020</u>	<u>2019</u>
Use in NMTC structure	\$ —	\$ 8,039,801
Grants to Lyric Opera	35,000	30,000
Other	2,286	1,105
	<u>\$ 37,286</u>	<u>\$ 8,070,906</u>

9. Line Of Credit

The Foundation had a revolving line of credit agreement with BOK Financial with a maximum limit of \$500,000 with a maturity date of September 13, 2018. The revolving line of credit had an interest rate based on the one-month LIBOR plus 2.5% resulting in an interest rate of 4.59% as of June 30, 2018. Effective July 23, 2018, all remaining principal and interest balances were paid in full. The line of credit was not extended past the maturity date.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (*Continued*)

10. 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 the Lyric for certain expenses Lyric incurred on its behalf. No payable was recorded as of June 30, 2020 and 2019.

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 prior to the wind down of the QALICB in July of 2018.

During the year ended June 30, 2019, the Foundation received contributions of \$9,000 from the QALICB.

During the years ended June 30, 2020 and 2019, the Foundation made grants totaling \$399,182 and \$488,360, respectively, to Lyric.

Additionally, in connection with the unwind transaction of the QALICB entity, the Foundation eliminated the note receivable of \$7,641,900 and corresponding interest receivable of \$254,700 (Note 11).

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (*Continued*)

11. QALICB Dissolution

On July 27, 2018, 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, appear in the consolidated financial statements of the Lyric during the fiscal year ending June 30, 2019. In addition, the QALICB was dissolved during the fiscal year ending June 30, 2019. As part of the unwind transaction, the note receivable and related interest receivable due to the Foundation were eliminated.

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 up to 5% from MCT matching funds. No distributions were received during the years ending June 30, 2020 and 2019.

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.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (*Continued*)

14. Concentrations

The Federal Deposit Insurance Corporation insures amounts up to the limit of \$250,000. The Foundation had no uninsured amounts at June 30, 2020 and June 30, 2019.

The promises to give of \$1,000,000 at June 30, 2020 and \$2,000,000 at June 30, 2019 is due from one donor.

15. Liquidity

As of June 30, 2020, the Foundation had \$257,700 of funds available for general expenditure for the next year. This represents the anticipated endowment distribution for the year ending June 30, 2021. The Foundation has five donor restricted endowment funds. Certain donor-restricted endowment funds have restrictions on how the income can be utilized, while the income from other donor-restricted endowment funds can be utilized for general expenditures of the Foundation. Grants are approved by the Foundation board per the Foundation's distribution policy. When grants are approved, requests for disbursement are made to fund managers and disbursed per the Foundation's instructions.

16. Functional Expense

The statement of functional expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Foundation are reported as specific to that functional area. At June 30, 2020 and 2019, no expenses required an allocation between multiple functional or program areas.

THE LYRIC OPERA OF KANSAS CITY FOUNDATION

Notes To Financial Statements (Continued)

The statement of functional expense for the year ended June 30, 2020 is as follows:

	Program Services	Management And General	Total
Grants and contributions	\$ 399,182	\$ —	\$ 399,182
Professional services	—	32,345	32,345
Bank and investment fees	—	31,417	31,417
	<u>\$ 399,182</u>	<u>\$ 63,762</u>	<u>\$ 462,944</u>

The statement of functional expense for the year ended June 30, 2019 is as follows:

	Program Services	Management And General	Total
Grants and contributions	\$ 488,360	\$ —	\$ 488,360
Elimination of note receivable due to the unwind of the QALICB (Note 11)	—	7,896,600	7,896,600
Professional services	—	35,611	35,611
Bank and investment fees	—	29,118	29,118
Interest expense	—	329	329
	<u>\$ 488,360</u>	<u>\$ 7,961,658</u>	<u>\$ 8,450,018</u>

17. 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.