NEW YORK--(BUSINESS WIRE)--Fitch Ratings has affirmed its 'AA' rating on the following series of cultural facilities revenue bonds issued by the Missouri Development Finance Board on behalf of the Nelson Gallery Foundation (NGF):

--$39.6 million, series 2012A;

--$28.4 million, series 2010A;

--$60 million variable-rate demand bonds (VRDBs), series 2008A (underlying).

The series 2008A VRDBs are supported by a standby bond purchase agreement (SBPA) provided by The Northern Trust Company (rated 'F1+' by Fitch).

In addition, Fitch affirms the implied general obligation rating on the Hall Family Foundation (HFF) at 'AAA/F1+' and the 'AAA/F1+' rating on NGF's $57 million of series 2004A VRDBs. The long- and short-term ratings on the series 2004A bonds are based on an irrevocable donation agreement between HFF and NGF. The 'F1+' rating is based on the internal liquidity of HFF. There is also supplemental liquidity support provided by an SBPA from The Northern Trust Company.

The Rating Outlook is Stable.

SECURITY

Revenue bonds are an unsecured general obligation of NGF, payable from all legally available funds.

KEY RATING DRIVERS

HEALTHY FINANCIAL CUSHION: NGF's healthy level of balance sheet resources, bolstered by robust fundraising and strong community support, continue to underpin the 'AA' rating. The financial cushion remains tempered by NGF's high reliance on investment income and philanthropy to support operations, both of which are subject to year-over-year market volatility.

OPERATING MARGIN VOLATILITY: As calculated by Fitch, NGF's operating margin on an unrestricted full-accrual basis, has been negative for four of the past six fiscal years (2009-2014), with board designated and endowment funds utilized to balance operations and support annual debt service obligations, based on a board approved spending policy.

HIGH DEBT BURDEN: NGF's high pro forma debt burden (including a large bullet payment in fiscal 2038) and significant variable-rate exposure remain primary credit concerns, although are partly offset by NGF's solid level of balance sheet resources; lack of additional debt plans or major capital needs; and management's conservative financial planning.

SEASONED MANAGEMENT TEAM: NGF continues to benefit from a stable and experienced senior management team that provides strong programmatic and financial oversight of the regionally-renowned Nelson-Atkins Museum (the museum).

INTERNAL LIQUIDITY: The 'F1+' rating on NGF's series 2004A VRDBs is based on HFF's ability to cover the maximum potential liquidity demands presented by the series 2004A bonds by at least 1.25 times (x) from internal resources, including cash; and highly liquid, highly rated investments.

RATING SENSITIVITIES

MARGIN EROSION: To the extent persistent negative operating results, on a full accrual basis, result in material erosion of financial resources, downward rating action may be warranted.

FINANCIAL MARKET VOLATILITY: Rating stability is predicated on NGF maintaining balance sheet resources at or near current levels to counterbalance its generally negative GAAP-based operating performance.

HFF FINANCIAL DETERIORATION: Erosion to HFF's internal resources to the point where the foundation could no longer cover the variable-rate obligation presented by NGF's series 2004A bonds by at least 1.25x, while unlikely, would put downward pressure on HFF's short-term rating.

CREDIT PROFILE

NGF is a 501(c)(3) organization created in 1954 by the Trustees of the William Rockhill Nelson Trust for the purpose of acquiring works of art for exhibition to the public and to own and operate the museum (originally founded in 1933), which is located in Kansas City, Missouri. The museum contains more than 33,500 works of art. Annual attendance totaled 431,467 during fiscal 2014, up from about 407,000 in fiscal 2013 and well ahead of the budgeted 360,000. The museum typically prepares its annual budget based on a conservative attendance estimate due to the difficulty in predicting future demand for planned exhibits.

FINANCIAL CUSHION OFFSETS WEAK MARGIN

NGF's healthy financial cushion remains one of its key credit strengths. Available funds, defined as cash and investments not permanently restricted, totaled $287.9 million as of April 30, 2014 (unaudited).

The available funds balance was up 4.7% from $274.9 million as of April 30, 2013, and up 28.2% since fiscal year-end 2009. Available funds covered fiscal 2014 operating expenses ($37.9 million) by a strong 759% and outstanding debt ($185 million) by a solid

156%. When excluding the HFF-supported series 2004A bonds, the available funds-to-debt ratio improves to 225%.

Fitch views the continued growth in balance sheet resources positively as NGF continues to rely heavily on its board designated and endowment funds to support operations and cover financial obligations. Due to NGF's high dependence on investment income, including annual distributions from its endowment and board designated funds (ranging between 5% and 6%) based on a board approved spending policy, and philanthropy, both of which are vulnerable to pressured economic conditions, preservation of balance sheet resources remains critical to rating stability. Investment income typically makes up at least one-third of NGF's total unrestricted operating revenue.

HIGH DEBT BURDEN

NGF's pro forma debt burden remains high. Pro forma maximum annual debt service (MADS) of about $61.8 million represented a very high 230% of fiscal 2014 unrestricted operating revenues. When fully amortizing NGF's $60 million bullet payment due on its series 2008A bonds in fiscal 2038, MADS is about $12.8 million, resulting in a much lower, but still high burden of about 48%. Concern over NGF's high debt burden is partially mitigated by its strong balance sheet cushion and lack of additional debt plans or major capital needs.

NGF's debt profile is roughly 37% fixed and 63% variable-rate. However, this includes the $57 million of series 2004A bonds that are paid by HFF on NGF's behalf. Excluding these bonds, the debt mix is more conservative at roughly 53% fixed and 47% variable-rate. As implied by its 'AA' rating, Fitch believes NGF retains sufficient financial flexibility and market access to manage the various risks attendant to variable-rate debt and bullet maturities. However, a prolonged trend of operating deficits on a full-accrual basis and/or a material erosion of balance sheet resources could stress NGF's credit profile and result in downward rating pressure.

HFF's LIQUID RESOURCES SUPPORT SHORT TERM OBLIGATIONS

HFF's 'AAA/F1+' rating reflects its substantial level of balance sheet resources. As of

Dec. 31, 2013, HFF's investment portfolio had a market value of $878.5 million (unaudited). The portfolio's most liquid holdings, including cash, cash equivalents, U.S. government obligations, and investment grade corporate debt, totaled about $103.8 million (after discounts based on asset type and maturity per Fitch's short-term rating criteria), providing solid 1.82x coverage of NGF's $57 million of series 2004A VRDBs. For an 'F1+' rating, Fitch typically expects coverage of at least 1.25x. HFF has no liabilities and the NGF donation agreement is the only debt which it has any direct or indirect obligation for payment.

Additional information is available at ' www.fitchratings.com '.

Applicable Criteria and Related Research:

--'U.S. Nonprofit Institutions Rating Criteria' (June 2014);

--'Rating U.S Public Finance Short-Term Debt' (December 2013);

--'Fitch Affirms The Nelson Gallery Foundation's (Missouri) Revs at 'AA'; Outlook Stable' (July 2013).

Applicable Criteria and Related Research:

U.S. Nonprofit Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749100

Rating U.S. Public Finance Short-Term Debt http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724680

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=838943