

LYRIC OPERA OF CHICAGO
Chicago, Illinois

FINANCIAL STATEMENTS
April 30, 2007 and 2006

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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors of Lyric Opera of Chicago
Chicago, Illinois

We have audited the accompanying statements of financial position of Lyric Opera of Chicago (the Opera) as of April 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Opera's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lyric Opera of Chicago as of April 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Chicago, Illinois
June 28, 2007

LYRIC OPERA OF CHICAGO
 STATEMENTS OF FINANCIAL POSITION
 April 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,536,357	\$ 6,843,380
Pledge and Bequest Receivables - Current, net	6,019,904	6,513,264
Ticket and Other Receivables	2,463,657	1,351,466
Deferred Production Costs and Other Assets	1,597,256	2,061,756
Short-Term Investments	<u>22,344,278</u>	<u>18,361,236</u>
Total Current Assets	<u>33,961,452</u>	<u>35,131,102</u>
Long-Term Assets		
Pledge and Bequest Receivables - Long-Term, net	15,242,612	9,772,562
Long-Term Investments	155,924,331	140,915,169
Deferred Bond Issuance Costs, net	1,396,680	1,465,633
Property and Equipment, net	<u>54,343,795</u>	<u>55,283,163</u>
Total Long-Term Assets	<u>226,907,418</u>	<u>207,436,527</u>
Total Assets	<u>\$ 260,868,870</u>	<u>\$ 242,567,629</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable and Other Liabilities	\$ 7,640,791	\$ 7,223,424
Deferred Ticket and Other Revenue	17,663,550	16,882,165
Bonds and Notes Payable - Current	<u>628,789</u>	<u>601,879</u>
Total Current Liabilities	25,933,130	24,707,468
Long-Term Liabilities		
Bonds and Notes Payable - Long-Term	63,017,208	63,645,997
Interest Rate Swap Contract	<u>1,536,911</u>	<u>-</u>
Total Long-Term Liabilities	64,554,119	63,645,997
Total Liabilities	<u>90,487,249</u>	<u>88,353,465</u>
Net Assets		
Unrestricted	123,146,307	114,526,359
Temporarily Restricted	26,675,528	19,888,294
Permanently Restricted	<u>20,559,786</u>	<u>19,799,511</u>
Total Net Assets	<u>170,381,621</u>	<u>154,214,164</u>
Total Liabilities and Net Assets	<u>\$ 260,868,870</u>	<u>\$ 242,567,629</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENT OF ACTIVITIES
For the Year Ended April 30, 2007

	<u>Operating</u>	<u>Other Unrestricted</u>	<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Revenues and Support						
Ticket Sales	\$ 26,978,098	\$ -	\$ 26,978,098	\$ -	\$ -	\$ 26,978,098
Contributions	11,710,993	808,291	12,519,284	14,126,827	-	26,646,111
Other Fundraising Revenue	1,613,080	41,689	1,654,769	-	-	1,654,769
Donated Services and Materials	680,002	-	680,002	-	-	680,002
Investment Income	5,443,157	133,090	5,576,247	125,577	-	5,701,824
Net Realized and Unrealized Gains (Losses) on Investments	(41,048)	135,365	94,317	(1,136)	-	93,181
Other Operating Revenue	3,180,287	-	3,180,287	-	-	3,180,287
Net Assets Released from Restrictions	4,746,082	2,395,783	7,141,865	(7,141,865)	-	-
Total Operating Revenues and Support	<u>54,310,651</u>	<u>3,514,218</u>	<u>57,824,869</u>	<u>7,109,403</u>	<u>-</u>	<u>64,934,272</u>
Operating Expenses						
Production, Artistic, and Promotional	43,691,118	2,603,874	46,294,992	-	-	46,294,992
Administrative	4,832,100	3,025,951	7,858,051	-	-	7,858,051
Fundraising	4,550,678	135,065	4,685,743	-	-	4,685,743
Total Operating Expenses	<u>53,073,896</u>	<u>5,764,890</u>	<u>58,838,786</u>	<u>-</u>	<u>-</u>	<u>58,838,786</u>
Change in Net Assets from Operations	<u>1,236,755</u>	<u>(2,250,672)</u>	<u>(1,013,917)</u>	<u>7,109,403</u>	<u>-</u>	<u>6,095,486</u>
Non-Operating Revenues and Support						
Contributions	-	313,180	313,180	24,461	760,275	1,097,916
Investment Return in Excess of Spending Policy	-	10,489,037	10,489,037	-	-	10,489,037
Other Revenues	-	21,929	21,929	-	-	21,929
Net Assets Released from Restrictions	-	346,630	346,630	(346,630)	-	-
Total Non-Operating Revenues and Support	<u>-</u>	<u>11,170,776</u>	<u>11,170,776</u>	<u>(322,169)</u>	<u>760,275</u>	<u>11,608,882</u>
Change in Net Assets Before Transfers and Unrealized Loss on Interest Rate Swap Contract	1,236,755	8,920,104	10,156,859	6,787,234	760,275	17,704,368
Net Asset Transfers	(1,106,182)	1,106,182	-	-	-	-
Unrealized Loss on Interest Rate Swap Contract	<u>-</u>	<u>(1,536,911)</u>	<u>(1,536,911)</u>	<u>-</u>	<u>-</u>	<u>(1,536,911)</u>
Change in Net Assets	<u>\$ 130,573</u>	<u>\$ 8,489,375</u>	8,619,948	6,787,234	760,275	16,167,457
Net Assets at Beginning of Year			<u>114,526,359</u>	<u>19,888,294</u>	<u>19,799,511</u>	<u>154,214,164</u>
Net Assets at End of Year			<u>\$ 123,146,307</u>	<u>\$ 26,675,528</u>	<u>\$ 20,559,786</u>	<u>\$ 170,381,621</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENT OF ACTIVITIES
For the Year Ended April 30, 2006

	<u>Operating</u>	<u>Other Unrestricted</u>	<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Revenues and Support						
Ticket Sales	\$ 27,296,502	\$ -	\$ 27,296,502	\$ -	\$ -	\$ 27,296,502
Contributions	10,769,211	188,818	10,958,029	14,369,776	-	25,327,805
Other Fundraising Revenue	2,327,933	-	2,327,933	-	-	2,327,933
Donated Services and Materials	1,160,500	-	1,160,500	-	-	1,160,500
Investment Income	4,597,701	20,450	4,618,151	63,397	-	4,681,548
Net Realized and Unrealized Gains (Losses) on Investments	(46,029)	120,584	74,555	(4,930)	-	69,625
Other Operating Revenue	2,712,122	-	2,712,122	-	-	2,712,122
Net Assets Released from Restrictions	5,011,778	217,926	5,229,704	(5,229,704)	-	-
Total Operating Revenues and Support	<u>53,829,718</u>	<u>547,778</u>	<u>54,377,496</u>	<u>9,198,539</u>	<u>-</u>	<u>63,576,035</u>
Operating Expenses						
Production, Artistic, and Promotional	42,561,084	2,499,889	45,060,973	-	-	45,060,973
Administrative	4,730,880	2,711,585	7,442,465	-	-	7,442,465
Fundraising	5,253,180	74,475	5,327,655	-	-	5,327,655
Total Operating Expenses	<u>52,545,144</u>	<u>5,285,949</u>	<u>57,831,093</u>	<u>-</u>	<u>-</u>	<u>57,831,093</u>
Change in Net Assets from Operations	<u>1,284,574</u>	<u>(4,738,171)</u>	<u>(3,453,597)</u>	<u>9,198,539</u>	<u>-</u>	<u>5,744,942</u>
Non-Operating Revenues and Support						
Contributions	-	885,860	885,860	15,139	208,638	1,109,637
Investment Return in Excess of Spending Policy	-	15,834,620	15,834,620	-	-	15,834,620
Other Revenues	-	34,463	34,463	-	-	34,463
Net Assets Released from Restrictions	-	437,227	437,227	(437,227)	-	-
Total Non-Operating Revenues and Support	<u>-</u>	<u>17,192,170</u>	<u>17,192,170</u>	<u>(422,088)</u>	<u>208,638</u>	<u>16,978,720</u>
Change in Net Assets Before Transfers	1,284,574	12,453,999	13,738,573	8,776,451	208,638	22,723,662
Net Asset Transfers	<u>(1,073,832)</u>	<u>1,073,832</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>\$ 210,742</u>	<u>\$ 13,527,831</u>	13,738,573	8,776,451	208,638	22,723,662
Net Assets at Beginning of Year			<u>100,787,786</u>	<u>11,111,843</u>	<u>19,590,873</u>	<u>131,490,502</u>
Net Assets at End of Year			<u>\$ 114,526,359</u>	<u>\$ 19,888,294</u>	<u>\$ 19,799,511</u>	<u>\$ 154,214,164</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities		
Increase in Net Assets	\$ 16,167,457	\$ 22,723,662
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,815,025	2,935,979
Net Realized and Unrealized Gains on Investments	(14,009,545)	(18,033,267)
Unrealized Loss on Interest Rate Swap Contract	1,536,911	-
Contributions Permanently Restricted for Endowment	(1,452,059)	(970,159)
Loss on Sale/Disposal of Fixed Assets	26,034	-
Decrease (Increase) in Pledge and Bequest Receivables - Current	493,360	(1,160,350)
(Increase) Decrease in Ticket and Other Receivables	(1,112,191)	2,156,982
Decrease (Increase) in Deferred Production Costs and Other Assets	464,500	(601,206)
Increase in Pledge and Bequest Receivables - Long-Term	(5,470,050)	(6,166,901)
Increase in Accounts Payable and Other Liabilities	417,367	120,888
Increase (Decrease) in Deferred Ticket and Other Revenue	<u>781,385</u>	<u>(789,924)</u>
Net Cash Provided by Operating Activities	<u>658,194</u>	<u>215,704</u>
Cash Flows from Investing Activities		
Sale of Investments	57,558,683	100,699,621
Purchase of Investments	(62,541,342)	(94,402,629)
Proceeds from Sale of Fixed Assets	4,005	-
Fixed Asset Additions:		
Facilities	(1,416,840)	(218,882)
Other Assets	<u>(419,903)</u>	<u>(496,499)</u>
Net Cash (Used in) Provided by Investing Activities	<u>(6,815,397)</u>	<u>5,581,611</u>
Cash Flows from Financing Activities		
Contributions Permanently Restricted for Endowment	1,452,059	970,159
Repayments of Borrowings	<u>(601,879)</u>	<u>(574,354)</u>
Net Cash Provided by Financing Activities	<u>850,180</u>	<u>395,805</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(5,307,023)	6,193,120
Cash and Cash Equivalents at Beginning of Year	<u>6,843,380</u>	<u>650,260</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,536,357</u>	<u>\$ 6,843,380</u>
Supplemental Disclosure of Cash Flow Information		
Interest Paid	\$ 2,409,508	\$ 1,858,814

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities: Lyric Opera of Chicago (the Opera) is a not-for-profit corporation incorporated in the State of Illinois that is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Opera's primary purpose is to sponsor, produce, and encourage opera and musical performances. The Opera's operations include international grand opera, educational and community activities, other musical performances and the training for young artists through the Patrick G. and Shirley W. Ryan Opera Center (the Ryan Opera Center, formerly known as the Lyric Opera Center for American Artists).

Basis of Accounting: The accounting records of the Opera are maintained on the accrual basis and include the operations of the Ryan Opera Center.

Basis of Presentation: Resources of the Opera are classified for reporting purposes into the following three net asset categories according to the existence or absence of donor-imposed restrictions:

- **Unrestricted Net Assets** - net assets that are not subject to donor-imposed restrictions including the carrying value of physical properties (land, facilities and equipment). Items that increase or decrease this net asset category include revenues - principally ticket sales and investment income unless donor-restricted, and all expenses of the Opera. This category also includes unrestricted gifts, including those designated by the Opera's Board of Directors to function as a working capital reserve, and restricted gifts whose donor-imposed or time restrictions were met during the fiscal year.

Net asset transfers represents transfers for Board approved reserves for maintenance of the facility, funding for production storage needs, and for fixed asset additions funded through the annual operating budget.

Within unrestricted net assets are:

- Operating unrestricted net assets - include all unrestricted operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating activities, and distributions from funds functioning as endowment in accordance with the Opera's spending policy.
- Other unrestricted net assets - include investment returns on funds functioning as endowment in excess of the Opera's spending policy, unless such returns are restricted by the donor, capitalized property and equipment and its related depreciation, interest expense and other bond costs, and

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

unrestricted gifts designated by the Board for working capital reserve purposes. Unrestricted charitable gift annuities are recorded in Operating Revenues and Support as other unrestricted contributions.

- **Temporarily Restricted Net Assets** - net assets subject to donor-imposed restrictions that may be met either by actions of the Opera or the passage of time. Items that increase this net asset category are gifts for which donor-imposed restrictions have not been met.
- **Permanently Restricted Net Assets** - net assets subject to donor-imposed restrictions stipulating that the corpus be held in perpetuity.

Statements of Cash Flows: Cash and cash equivalents consist of highly liquid, interest-bearing, investments with original maturities of less than three months.

Pledge and Bequest Receivables: Contributions, including cash or other assets, as well as unconditional promises to give, are recognized in the period received.

Contributions are classified as unrestricted or restricted support based on the donor's intent. When a donor restriction expires (i.e., when a stipulated time restriction ends or a purpose restriction is met), the Opera reclassifies the temporarily restricted net assets to unrestricted net assets and reports these assets as released from restriction. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the Opera classifies the support as unrestricted, except for production sponsorship where the contribution is classified as temporarily restricted until the opening of the production.

As of April 30, 2007 and 2006, contributors to the Opera have made unconditional promises to give, which are due as follows:

<u>Fiscal 2007</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Less than one year	\$ 1,770,543	\$ 4,966,145	\$ 32,600	\$ 6,769,288
One to five years	244,880	14,470,419	311,000	15,026,299
More than five years	2,000	3,140,183	-	3,142,183
With no due date	<u>215,613</u>	<u>232,515</u>	<u>14,014</u>	<u>462,142</u>
Gross	2,233,036	22,809,262	357,614	25,399,912
Less discount	63,473	2,881,384	18,539	2,963,396
Less allowance	<u>28,000</u>	<u>1,091,000</u>	<u>55,000</u>	<u>1,174,000</u>
Net	<u>\$ 2,141,563</u>	<u>\$ 18,836,878</u>	<u>\$ 284,075</u>	<u>\$ 21,262,516</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

<u>Fiscal 2006</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Less than one year	\$ 1,580,839	\$ 5,082,603	\$ 734,029	\$ 7,397,471
One to five years	702,848	9,949,994	344,600	10,997,442
More than five years	4,000	744,177	-	748,177
With no due date	<u>215,613</u>	<u>221,016</u>	<u>-</u>	<u>436,629</u>
Gross	2,503,300	15,997,790	1,078,629	19,579,719
Less discount	139,001	1,923,123	46,769	2,108,893
Less allowance	<u>29,000</u>	<u>1,101,000</u>	<u>55,000</u>	<u>1,185,000</u>
Net	<u>\$ 2,335,299</u>	<u>\$ 12,973,667</u>	<u>\$ 976,860</u>	<u>\$ 16,285,826</u>

Unconditional pledges expected to be received over more than one year are recorded by the Opera at their net realizable value using a discount rate equivalent to treasury yields.

Deferred Production Costs: Expenditures for scenery, costumes, and stage properties are recorded as deferred production costs if specifically related to productions of future opera seasons and expensed if used in productions of the current opera season.

Short-Term Investments: These investments are held in a short-term fixed income treasury and agency securities with maturities in excess of three months.

Property and Equipment: Purchases of property and equipment greater than \$3,500 that have a useful life of more than one year are capitalized at their original cost or estimated fair market value at the date of donation. Provisions for depreciation are computed on the straight-line method based on estimated useful lives ranging from three to forty years.

Property and equipment consists of:

	<u>2007</u>	<u>2006</u>
Land	\$ 696,577	\$ 696,577
Equipment	5,967,073	6,177,338
Facilities	81,038,413	79,653,041
Less: accumulated depreciation	<u>33,358,268</u>	<u>31,243,793</u>
Net	<u>\$ 54,343,795</u>	<u>\$ 55,283,163</u>

Donated assets, or assets acquired with gifts restricted to the purchase of long-lived assets, are reclassified to unrestricted net assets as depreciation is recognized.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Investments: Publicly traded investments are carried at fair market value based on quoted market prices. Alternative investments represent limited partnership interests held by the Opera in funds which invest in public and private securities and whose terms and conditions, including liquidity provisions, vary by fund. Fair value is based on valuations determined by the investment manager using quoted prices, values for similar assets, generally recognized valuation methods, or cost when no other basis is appropriate. Opera management has done considerable independent review of valuations reported by investment managers and based on that review, the Opera believes the carrying amounts for alternative investments are reasonable and prudent estimates of fair value. Actual results, however, could differ from these estimates and such differences could be material.

The Opera's investment portfolio is subject to various risks, such as interest rate, market, and credit risks. Because of these risks, it is possible that changes in the value of the investments may occur and that such changes could materially affect the Opera's financial statements.

Investments consist of:

	<u>2007</u>	<u>2006</u>
Equities	\$ 82,757,210	\$ 72,103,529
Bonds	11,980,602	12,941,911
Alternative investments		
Hedged Equities	22,233,326	23,757,002
Absolute Return	23,407,064	17,141,950
Portable Alpha	12,599,801	12,689,012
Assets held in trust by others	<u>2,946,328</u>	<u>2,281,765</u>
Total investments	<u>\$ 155,924,331</u>	<u>\$ 140,915,169</u>

The Opera's Board of Directors has approved a spending policy on the funds functioning as endowment for both fiscal 2007 and fiscal 2006, calculated as 5% of the average market value of the investments over the 12-quarter period ending December 31.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following tables summarize investment returns for fiscal years 2007 and 2006:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<u>Fiscal 2007</u>				
Interest and dividends	\$ 1,386,035	\$ -	\$ -	\$ 1,386,035
Net realized and unrealized gains	<u>13,887,755</u>	<u>-</u>	<u>-</u>	<u>13,887,755</u>
Total return on long-term investments	15,273,790	-	-	15,273,790
Interest on short-term investments	922,016	125,577	-	1,047,593
Net realized and unrealized losses on short-term investments	<u>(36,205)</u>	<u>(1,136)</u>	<u>-</u>	<u>(37,341)</u>
Total return on short-term investments	885,811	124,441	-	1,010,252
Investment return designated for operations	<u>5,670,564</u>	<u>124,441</u>	<u>-</u>	<u>5,795,005</u>
Investment return in excess of amounts designated for operations	<u>\$ 10,489,037</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,489,037</u>
<u>Fiscal 2006</u>				
Interest and dividends	\$ 1,904,549	\$ -	\$ -	\$ 1,904,549
Net realized and unrealized gains	<u>18,092,372</u>	<u>-</u>	<u>-</u>	<u>18,092,372</u>
Total return on long-term investments	19,996,921	-	-	19,996,921
Interest on short-term investments	584,580	63,397	-	647,977
Net realized and unrealized losses on short-term investments	<u>(54,175)</u>	<u>(4,930)</u>	<u>-</u>	<u>(59,105)</u>
Total return on short-term investments	530,405	58,467	-	588,872
Investment return designated for operations	<u>4,692,706</u>	<u>58,467</u>	<u>-</u>	<u>4,751,173</u>
Investment return in excess of amounts designated for operations	<u>\$ 15,834,620</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,834,620</u>

Deferred Ticket Revenue: Deferred ticket revenue relates to ticket sales for the following opera season.

Derivative Financial Instrument: The Opera uses an interest rate swap to hedge overall exposure to variable rate debt. The swap agreement is recorded as a liability with a fair value of \$1,536,911 as of April 30, 2007.

Donated Services and Materials: The Opera records various types of in-kind support, including contributed services, equipment, and other goods. Contributions of tangible assets

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

and services are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or assets.

During the fiscal years ended April 30, 2007 and 2006, substantial amounts of time were donated by volunteers to the Opera in its fundraising and outreach efforts. In accordance with generally accepted accounting principles such amounts were not recorded as contributions in the financial statements.

Realized and Unrealized Investment Gains (Losses): Changes in the market value of investments are reported as unrestricted unrealized investment gains or losses unless a donor temporarily restricts income for a specific purpose. In those cases, changes in the market value of investments are reported as temporarily restricted.

Other Operating Revenue: Other operating revenue includes revenues from various sources such as facilities rentals, concessions, production rentals, and educational activities.

Use of Estimates: 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 reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Reclassifications: Certain prior year amounts have been reclassified in fiscal 2006 to conform to the presentation in fiscal 2007.

NOTE B - EMPLOYEE RETIREMENT BENEFITS

The Opera maintains a qualified, non-contributory, defined contribution pension plan covering all full-time administrative non-union employees. Contributions to the plan are made annually based on a formula including such factors as age, salary, and length of service. Total pension expense was \$329,776 and \$364,307 for the years ended April 30, 2007 and 2006, respectively.

The Opera also provides a 401(k) plan which allows eligible full-time administrative non-union employees to make elective deferrals. The Opera makes a matching contribution based on a percentage of each employee's deferral. For the years ended April 30, 2007 and 2006, the Opera contributed \$61,559 and \$70,732, respectively.

The Opera has contracted to make payments to multiemployer retirement plans for employees covered by collective bargaining agreements. Contributions to such plans total \$1,483,681 and \$1,361,737 for the years ended April 30, 2007 and 2006, respectively.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2007 and 2006

NOTE B - EMPLOYEE RETIREMENT BENEFITS (Continued)

In addition to contributions to multiemployer retirement plans, the Opera provides severance benefits for the orchestra, chorus, production staff, and dancers. Severance benefits are based on a combination of wages, age, and length of service.

The following table summarizes the severance plans for the years ended April 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Severance obligation	\$ (3,629,862)	\$ (3,152,518)
Fair value of plan assets	<u>-</u>	<u>-</u>
Unfunded status	\$ (3,629,862)	\$ (3,152,518)
Accrued severance cost	\$ 3,040,079	\$ 2,725,462
Severance cost	\$ 319,371	\$ 332,814
Plan participant contributions	-	-
Severance paid	\$ 4,754	\$ 198,856
Actuarial assumptions:		
Discount rate on severance obligation	6.00%	6.25%
Long-term expected rate of return on plan assets	N/A	N/A

In September 2006, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". This standard will require the Opera to recognize the full unfunded liability of the severance plans on the Opera's financial statements as of April 30, 2008, the end of the 2008 fiscal year. If the statement were adopted as of April 30, 2007, the required total Statement of Financial Position adjustment would be an increase in the liability of \$589,783.

NOTE C - RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

Restricted net assets are restricted for the following purposes:

	<u>2007</u>		<u>2006</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Future operating support	\$ 23,813,572	\$ 20,559,786	\$ 16,704,170	\$ 19,799,511
Capital campaign	39,583	-	237,931	-
Equipment	<u>2,822,373</u>	<u>-</u>	<u>2,946,193</u>	<u>-</u>
Total	<u>\$ 26,675,528</u>	<u>\$ 20,559,786</u>	<u>\$ 19,888,294</u>	<u>\$ 19,799,511</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2007 and 2006

NOTE C - RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS (Continued)

Temporarily restricted net assets are released from restrictions either by the passage of time or by the fulfillment of a purpose. Restrictions released during the year ended April 30, 2007 and 2006, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Time restrictions:		
Operating support	\$ 3,954,740	\$ 1,578,341
Capital campaign	<u>222,810</u>	<u>306,394</u>
Subtotal	4,177,550	1,884,735
Purpose restrictions:		
Operating support	3,187,125	3,651,363
Equipment	<u>123,820</u>	<u>130,833</u>
Subtotal	<u>3,310,945</u>	<u>3,782,196</u>
Total	<u>\$ 7,488,495</u>	<u>\$ 5,666,931</u>

NOTE D - NATIONAL ENDOWMENT FOR THE ARTS (NEA) GRANT

In fiscal 1991, the NEA awarded a \$1 million challenge grant to the Opera, and by fiscal 1992, all of the challenge grant and matching contributions of \$3 million were received. Under terms of the grant, unspent challenge grant and matching proceeds, along with investment income, are temporarily restricted until eligible production costs have been incurred. For the years ended April 30, 2007 and 2006, there were no restrictions released to unrestricted net assets. Temporarily restricted net assets, as of April 30, 2007 and 2006, were \$1,135,046 and \$1,085,487, respectively.

NOTE E - LONG-TERM DEBT

Tax Exempt Debt: On March 1, 1994, the Illinois Development Finance Authority (the Authority) issued and sold \$62.2 million aggregate principal amount of Variable/Fixed Rate Demand Revenue Bonds, Series 1994 (Lyric Opera of Chicago Project). Pursuant to a Loan Agreement dated as of February 1, 1994 between the Authority and the Opera, the Authority loaned the proceeds of the bonds to the Opera to provide funds to acquire, construct, renovate, remodel, and equip the facility used by the Opera in the production and performance of its programs, to pay interest on the bonds, and to pay certain costs incurred in connection with the issuance of the bonds. The bonds, payable December 1, 2028, have adjustable methods of interest rate determination and interest payment. As of April 30, 2007, the bonds operated in a mode where the interest rate was established each week and interest on the bonds was payable monthly. On April 30, 2007, the interest rate was 3.93%.

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2007 and 2006

NOTE E - LONG-TERM DEBT (Continued)

Bond interest expense was \$2,263,637 and \$1,782,891 for the years ended April 30, 2007 and 2006, respectively.

Unamortized bond issuance costs were:

	<u>2007</u>	<u>2006</u>
Deferred bond issuance costs	\$ 2,267,433	\$ 2,267,433
Less: accumulated amortization	<u>870,753</u>	<u>801,800</u>
Net	<u>\$ 1,396,680</u>	<u>\$ 1,465,633</u>

The Opera has agreed to certain financial and operating covenants in an agreement with certain banks providing a credit facility (letter of credit) in the amount of \$63 million which expires March 2, 2009.

On May 9, 2006, the Opera entered into an interest rate swap with the Bank of New York (BNY) for the notational amount of \$40 million. The Opera has agreed to pay BNY a 3.804% fixed rate of interest with the counterparty paying a floating rate based on 67% of the one-month LIBOR. The swap agreement expires December 1, 2028, but allows for the Opera to terminate earlier at its discretion. Total net interest expense related to the swap agreement for the year ended April 30, 2007 was \$93,295.

Other Debt: On June 25, 2004, the Opera borrowed \$3,000,000 for five years at a fixed rate of 4.65% in order to purchase land and equipment and to build a storage facility for scenery, costumes and props in Chicago. The terms of the unsecured note payable require quarterly amortization of the principal. At April 30, 2007 and 2006, the principal balance was \$1,437,233 and \$2,028,988, respectively.

Other debt also includes an interest free, three year, note payable of \$32,138. At April 30, 2007 and 2006, the principal balance was \$8,764 and \$18,888 respectively.

Total interest expense for other debt was \$84,050 and \$111,213 for the years ended April 30, 2007 and 2006, respectively.

All Debt: Future maturities for the years ending April 30 are as follows:

2008	\$ 628,789
2009	649,903
2010	167,305
2029	<u>62,200,000</u>
Total	<u>\$ 63,645,997</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2007 and 2006

NOTE F - CONDITIONAL GIFTS RADIO BROADCASTS

The Opera has received a \$2 million challenge grant to underwrite the opening night live broadcasts and national syndication through fiscal 2012. The gift is conditional on the Opera raising an additional \$2 million. Income from the grant is recognized as the match is met. As of April 30, 2007, \$525,000 of the conditional challenge grant has been recorded as income. As of June 28, 2007, the Opera has satisfied the matching requirements of the challenge grant.

NOTE G - CAMPAIGN FOR EXCELLENCE

In November, 2005, the Board of Directors approved the establishment of a \$25 million campaign, known as the Campaign for Excellence (CFE), for the purpose of supporting the operations of the Opera. Management's use of CFE proceeds is subject to the oversight and approval of the Board of Directors' Finance Committee.

Pledges and gifts to CFE, which do not include radio broadcast support, total \$19,237,300 as of April 30, 2007. In addition, the Opera has received commitments to CFE through planned gifts of \$10,950,000 as of April 30, 2007, but these commitments have not been recognized by the Opera because they are revocable.

NOTE H - COMMITMENTS

Contracts with Performers and Unions: Substantially all contracts for the Opera's 2007-08 repertoire have been executed for or with principal artists. Future commitments to principal artists are approximately \$5.5 million in 2007-08, \$4.5 million in 2008-09, \$3.7 million in 2009-10, and \$1.6 million in 2010-11.

The Opera has collective bargaining agreements with numerous unions. Contracts with the American Guild of Musical Artists (AGMA), which represents principal artists, choristers, ballet, and production staff, the International Alliance of Theatrical Stage Employees, which represents stagehands, and the Chicago Federation of Musicians (CFM), which represents the orchestra, expire May 1, 2007, June 30, 2008, and April 30, 2009, respectively. Negotiations for a new collective bargaining agreement between AGMA and the Opera are in progress.

The Opera has personal service contracts with three key individuals through May 31, 2010. The contracts call for annual salary and other benefits.

The Opera has entered into an irrevocable letter of credit with the City of Chicago in the aggregate amount of \$97,625 expiring July 17, 2007 in connection with the storage construction project.

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2007 and 2006

NOTE I - RELATED PARTIES, CONFLICTS OF INTEREST AND CODE OF CONDUCT

The Opera maintains a Conflict of Interest Policy which applies to all Directors, officers of auxiliary organizations authorized by the Opera as well as senior management and other designated members of staff. The Policy requires each person to whom the policy applies complete an annual disclosure statement which identifies a business or financial interest of that person which is planning to engage in a business transaction with the Opera or has engaged in a business transaction with the Opera during the preceding year.

The Policy forbids such individuals from voting on or using their personal influence in connection with such transactions. In the event the Opera does conduct business with a related party, the financial terms of those relationships are reported annually to the Audit Committee, whose members must be independent per the terms of its charter.

The Opera requires each non-union employee conduct themselves in accordance with the Code of Business Conduct and Ethics approved by the Opera's Board of Directors and sign an annual statement acknowledging their understanding of this Code.

NOTE J - NEW ACCOUNTING PRONOUNCEMENT

In September 2006, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157). This standard clarifies the definition of fair value for reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. In future reporting periods, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of activities for a fiscal period.