

LYRIC OPERA OF CHICAGO
Chicago, Illinois

FINANCIAL STATEMENTS
April 30, 2008 and 2007

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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
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, 2008 and 2007, 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, 2008 and 2007, 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.

A handwritten signature in black ink that reads "CROWE CHIZEK AND COMPANY LLC".

Crowe Chizek and Company LLC

Chicago, Illinois
August 11, 2008

LYRIC OPERA OF CHICAGO
STATEMENTS OF FINANCIAL POSITION
April 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 23,349,321	\$ 1,536,357
Pledge and Bequest Receivables - Current, net	6,330,580	6,019,904
Ticket and Other Receivables	1,521,931	2,463,657
Deferred Production Costs and Other Assets	2,023,829	1,597,256
Short-Term Investments	<u>3,961,126</u>	<u>22,344,278</u>
Total Current Assets	<u>37,186,787</u>	<u>33,961,452</u>
Long-Term Assets		
Pledge and Bequest Receivables - Long-Term, net	22,359,697	15,242,612
Long-Term Investments	157,862,435	155,924,331
Deferred Bond Issuance Costs, net	1,327,727	1,396,680
Property and Equipment, net	<u>52,485,815</u>	<u>54,343,795</u>
Total Long-Term Assets	<u>234,035,674</u>	<u>226,907,418</u>
Total Assets	<u>\$ 271,222,461</u>	<u>\$ 260,868,870</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable and Other Liabilities	\$ 4,933,447	\$ 4,600,712
Deferred Ticket and Other Revenue	17,246,372	17,663,550
Severance Plans - Current	668,123	265,959
Bonds and Notes Payable - Current	<u>649,903</u>	<u>628,789</u>
Total Current Liabilities	23,497,845	23,159,010
Long-Term Liabilities		
Severance Plans - Long-Term	3,047,195	2,774,120
Bonds and Notes Payable - Long-Term	62,367,305	63,017,208
Interest Rate Swap Contract	<u>3,772,155</u>	<u>1,536,911</u>
Total Long-Term Liabilities	69,186,655	67,328,239
Total Liabilities	<u>92,684,500</u>	<u>90,487,249</u>
Net Assets		
Unrestricted	122,641,379	123,146,307
Temporarily Restricted	35,658,660	26,675,528
Permanently Restricted	<u>20,237,922</u>	<u>20,559,786</u>
Total Net Assets	<u>178,537,961</u>	<u>170,381,621</u>
Total Liabilities and Net Assets	<u>\$ 271,222,461</u>	<u>\$ 260,868,870</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENT OF ACTIVITIES
For the Year Ended April 30, 2008, with Comparative Totals for the Year Ended April 30, 2007

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	2007
	Operating	Other	Total				Comparative Total
Operating Revenue and Support							
Ticket Sales	\$ 27,431,991	\$ -	\$ 27,431,991	\$ -	\$ -	\$ 27,431,991	\$ 26,978,098
Contributions	11,382,753	818,600	12,201,353	18,646,536	-	30,847,889	26,646,111
Other Fundraising Support	1,752,424	-	1,752,424	-	-	1,752,424	1,654,769
Donated Services and Materials	773,631	-	773,631	-	-	773,631	680,002
Investment Income	5,106,742	249,932	5,356,674	174,367	-	5,531,041	5,701,824
Net Realized and Unrealized Gains (Losses)							
on Investments	(7,341)	(63,981)	(71,322)	-	-	(71,322)	93,181
Other Operating Revenue	3,719,772	-	3,719,772	-	-	3,719,772	3,180,287
Net Assets Released from Restrictions	<u>6,311,941</u>	<u>3,262,374</u>	<u>9,574,315</u>	<u>(9,574,315)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Revenue and Support	<u>56,471,913</u>	<u>4,266,925</u>	<u>60,738,838</u>	<u>9,246,588</u>	<u>-</u>	<u>69,985,426</u>	<u>64,934,272</u>
Operating Expenses							
Production, Artistic, and Promotional	43,886,682	2,540,958	46,427,640	-	-	46,427,640	46,294,992
Administrative	5,154,671	2,980,884	8,135,555	-	-	8,135,555	7,858,051
Fundraising	<u>5,146,442</u>	<u>342,885</u>	<u>5,489,327</u>	<u>-</u>	<u>-</u>	<u>5,489,327</u>	<u>4,685,743</u>
Total Operating Expenses	<u>54,187,795</u>	<u>5,864,727</u>	<u>60,052,522</u>	<u>-</u>	<u>-</u>	<u>60,052,522</u>	<u>58,838,786</u>
Change in Net Assets from Operations	<u>2,284,118</u>	<u>(1,597,802)</u>	<u>686,316</u>	<u>9,246,588</u>	<u>-</u>	<u>9,932,904</u>	<u>6,095,486</u>
Non-Operating Revenue and Support							
Contributions	-	748,932	748,932	77,795	1,383,724	2,210,451	1,097,916
Investment Return (Less than) in Excess of Spending Policy	-	(1,165,049)	(1,165,049)	-	-	(1,165,049)	10,489,037
Unrealized Loss on Interest Rate Swap Contract	-	(2,235,244)	(2,235,244)	-	-	(2,235,244)	(1,536,911)
Other Revenue	-	6,878	6,878	-	-	6,878	21,929
Net Assets Released from Restrictions	<u>-</u>	<u>2,046,839</u>	<u>2,046,839</u>	<u>(341,251)</u>	<u>(1,705,588)</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenue and Support	<u>-</u>	<u>(597,644)</u>	<u>(597,644)</u>	<u>(263,456)</u>	<u>(321,864)</u>	<u>(1,182,964)</u>	<u>10,071,971</u>
Changes in Net Assets Before Transfers and Effect of Adoption of FASB Statement No. 158	2,284,118	(2,195,446)	88,672	8,983,132	(321,864)	8,749,940	16,167,457
Net Asset Transfers	(1,098,164)	1,098,164	-	-	-	-	-
Effect of Adoption of FASB Statement No. 158	<u>(593,600)</u>	<u>-</u>	<u>(593,600)</u>	<u>-</u>	<u>-</u>	<u>(593,600)</u>	<u>-</u>
Changes in Net Assets	<u>\$ 592,354</u>	<u>\$ (1,097,282)</u>	<u>(504,928)</u>	<u>8,983,132</u>	<u>(321,864)</u>	<u>8,156,340</u>	<u>16,167,457</u>
Net Assets at Beginning of Year			<u>123,146,307</u>	<u>26,675,528</u>	<u>20,559,786</u>	<u>170,381,621</u>	<u>154,214,164</u>
Net Assets at End of Year			<u>\$ 122,641,379</u>	<u>\$ 35,658,660</u>	<u>\$ 20,237,922</u>	<u>\$ 178,537,961</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, 2007

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Operating	Other	Total			
Operating Revenue 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 Support	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	<u>4,746,082</u>	<u>2,395,783</u>	<u>7,141,865</u>	<u>(7,141,865)</u>	-	-
Total Operating Revenue and Support	<u>54,310,651</u>	<u>3,514,218</u>	<u>57,824,869</u>	<u>7,109,403</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	<u>4,550,678</u>	<u>135,065</u>	<u>4,685,743</u>	-	-	<u>4,685,743</u>
Total Operating Expenses	<u>53,073,896</u>	<u>5,764,890</u>	<u>58,838,786</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>6,095,486</u>
Non-Operating Revenue 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
Unrealized Loss on Interest Rate Swap Contract	-	(1,536,911)	(1,536,911)	-	-	(1,536,911)
Other Revenue	-	21,929	21,929	-	-	21,929
Net Assets Released from Restrictions	-	<u>346,630</u>	<u>346,630</u>	<u>(346,630)</u>	-	-
Total Non-Operating Revenue and Support	<u>-</u>	<u>9,633,865</u>	<u>9,633,865</u>	<u>(322,169)</u>	<u>760,275</u>	<u>10,071,971</u>
Changes in Net Assets Before Transfers	1,236,755	7,383,193	8,619,948	6,787,234	760,275	16,167,457
Net Asset Transfers	<u>(1,106,182)</u>	<u>1,106,182</u>	-	-	-	-
Changes 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
STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Increase in Net Assets	\$ 8,156,340	\$ 16,167,457
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,810,110	2,815,025
Net Realized and Unrealized Gains on Investments	(2,027,318)	(14,009,545)
Unrealized Loss on Interest Rate Swap Contract	2,235,244	1,536,911
Contributions Permanently Restricted for Endowment	(1,383,724)	(760,275)
(Gains) Loss on Sale/Disposal of Fixed Assets	(1,229)	26,034
(Increase) Decrease in Pledge and Bequest Receivables - Current	(310,676)	493,360
Decrease (Increase) in Ticket and Other Receivables	941,726	(1,112,191)
(Increase) Decrease in Deferred Production Costs and Other Assets	(426,573)	464,500
Increase in Pledge and Bequest Receivables - Long-Term	(7,117,085)	(5,470,050)
Increase in Accounts Payable and Other Liabilities	332,735	102,749
(Decrease) Increase in Deferred Ticket and Other Revenue	(417,178)	781,385
Increase in Severance Plans - Current	402,164	270,713
Increase in Severance Plans - Long-Term	273,075	43,905
Net Cash Provided by Operating Activities	<u>3,467,611</u>	<u>1,349,978</u>
Cash Flows from Investing Activities		
Sale of Investments	95,730,054	57,558,683
Purchase of Investments	(77,257,689)	(62,541,342)
Proceeds from Sale of Fixed Assets	1,600	4,005
Fixed Asset Additions:		
Facilities	(735,968)	(1,416,840)
Other Assets	(147,579)	(419,903)
Net Cash Provided by (Used in) Investing Activities	<u>17,590,418</u>	<u>(6,815,397)</u>
Cash Flows from Financing Activities		
Contributions Permanently Restricted for Endowment	1,383,724	760,275
Repayments of Borrowings	(628,789)	(601,879)
Net Cash Provided by Financing Activities	<u>754,935</u>	<u>158,396</u>
Net Increase (Decrease) in Cash and Cash Equivalents	21,812,964	(5,307,023)
Cash and Cash Equivalents at Beginning of Year	<u>1,536,357</u>	<u>6,843,380</u>
Cash and Cash Equivalents at End of Year	<u>\$ 23,349,321</u>	<u>\$ 1,536,357</u>
Supplemental Disclosure of Cash Flow Information		
Interest Paid	\$ 2,392,078	\$ 2,409,508

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2008 and 2007

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. 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).

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

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2008 and 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **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.

Cash and Cash Equivalents: 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, 2008 and 2007, contributors to the Opera have made unconditional promises to give, which are due as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Fiscal 2008				
Less than one year	\$ 1,001,818	\$ 5,588,250	\$ 472,339	\$ 7,062,407
One to five years	349,361	14,631,538	700,000	15,680,899
More than five years	-	2,854,349	-	2,854,349
With no due date	<u>215,613</u>	<u>11,185,316</u>	<u>35,313</u>	<u>11,436,242</u>
Gross	1,566,792	34,259,453	1,207,652	37,033,897
Less discount	28,293	7,044,513	97,814	7,170,620
Less allowance	<u>27,000</u>	<u>1,091,000</u>	<u>55,000</u>	<u>1,173,000</u>
Net	<u>\$ 1,511,499</u>	<u>\$ 26,123,940</u>	<u>\$ 1,054,838</u>	<u>\$ 28,690,277</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2008 and 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Fiscal 2007				
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>

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 original 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 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>2008</u>	<u>2007</u>
Land	\$ 696,577	\$ 696,577
Equipment	6,024,031	5,967,073
Facilities	81,764,052	81,038,413
Less: accumulated depreciation	<u>35,998,845</u>	<u>33,358,268</u>
Net	<u>\$ 52,485,815</u>	<u>\$ 54,343,795</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, 2008 and 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$3,772,155 and \$1,536,911 as of April 30, 2008 and 2007, respectively.

Donated Services and Materials: The Opera records various types of in-kind support, including contributed services, equipment, and other goods. Contributions of tangible assets 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, 2008 and 2007, 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 fair 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 fair value of investments are reported as temporarily restricted.

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

Advertising Costs: Advertising costs are either expensed as incurred or charged to prepaid expenses when directly related to ticket sales for the following fiscal year. Advertising costs charged to expense were \$1,770,541 and \$1,747,653 for the years ended April 30, 2008 and 2007, respectively. Prepaid advertising expenses, to be expensed in the following fiscal year, were \$564,409 and \$585,170 as of April 30, 2008 and 2007, respectively.

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 2007 to conform to the presentation in fiscal 2008.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2008 and 2007

NOTE B - INCOME TAXES

The Opera is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement on Financial Accounting Standards No. 109, *Accounting for Income Taxes*. Lyric adopted FIN 48 for the year ended April 30, 2008. The adoption had no impact on these financial statements.

NOTE C - LONG-TERM INVESTMENTS

Publicly traded investments are carried at fair 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 of alternative investments is initially 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 does on occasion revalue investments downward. 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 the changes in the value of the investments may occur and that such changes could materially affect the Opera's financial statements.

Long-Term investments consist of:

	<u>2008</u>	<u>2007</u>
Equities	\$ 80,753,949	\$ 82,757,210
Bonds	10,845,705	11,980,602
Alternative investments		
Hedged Equities	21,760,277	22,233,326
Absolute Return	22,652,888	23,407,064
Portable Alpha	17,012,351	12,599,801
Real Assets	1,930,445	-
Assets held in trust by others	<u>2,906,820</u>	<u>2,946,328</u>
Total investments	<u>\$ 157,862,435</u>	<u>\$ 155,924,331</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2008 and 2007

NOTE C - LONG-TERM INVESTMENTS (Continued)

The Opera's Board of Directors has approved a spending policy on the funds functioning as endowment for both fiscal 2008 and fiscal 2007, calculated as 5% of the average fair value of the investments over the previous 12-quarter period ending December 31.

The following tables summarize investment return for fiscal years 2008 and 2007:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Fiscal 2008</u>				
Interest and dividends	\$ 888,561	\$ -	\$ -	\$ 888,561
Net realized and unrealized gains	<u>2,037,802</u>	<u>-</u>	<u>-</u>	<u>2,037,802</u>
Total return on long-term investments	2,926,363	-	-	2,926,363
Interest on short-term investments	1,204,424	174,367	-	1,378,791
Net realized and unrealized losses on short-term investments	<u>(10,484)</u>	<u>-</u>	<u>-</u>	<u>(10,484)</u>
Total return on short-term investments	1,193,940	174,367	-	1,368,307
Investment return designated for operations	<u>5,285,352</u>	<u>174,367</u>	<u>-</u>	<u>5,459,719</u>
Amounts designated for operations in excess of investment return	<u>\$ (1,165,049)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,165,049)</u>
<u>Fiscal 2007</u>				
Interest and dividends	\$ 1,227,286	\$ -	\$ -	\$ 1,227,286
Net realized and unrealized gains	<u>14,046,504</u>	<u>-</u>	<u>-</u>	<u>14,046,504</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>

As of April 30, 2008 the Opera has a capital commitment totaling \$3 million to a real estate investment fund.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
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NOTE D - 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 \$369,974 and \$329,776 for the years ended April 30, 2008 and 2007, 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, 2008 and 2007, the Opera contributed \$66,215 and \$61,559, respectively.

The Opera has contracted to make payments to multiemployer retirement plans for employees covered by collective bargaining agreements. Contributions to such plans total \$1,556,770 and \$1,483,681 for the years ended April 30, 2008 and 2007, respectively.

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 change in benefit obligations and the funded status of the plans for the years ended April 30, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 3,629,862	\$ 3,152,518
Service cost	137,261	124,460
Interest cost	191,905	180,927
Plan amendment	(78,009)	-
Actuarial loss	100,258	176,711
Benefits paid	<u>(265,959)</u>	<u>(4,754)</u>
Benefit obligation, end of year	<u>\$ 3,715,318</u>	<u>\$ 3,629,862</u>
Unfunded Status		
Projected benefit obligation	\$ (3,715,318)	\$ (3,629,862)
Fair value of assets	<u>-</u>	<u>-</u>
Funded Status	(3,715,318)	(3,629,862)
Unrecognized net transition obligation	-	232,579
Unrecognized prior service cost	-	(317,617)
Unrecognized net loss	<u>-</u>	<u>674,821</u>
Accrued cost	<u>\$ (3,715,318)</u>	<u>\$ (3,040,079)</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2008 and 2007

NOTE D - EMPLOYEE RETIREMENT BENEFITS (Continued)

In September 2006, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). The Opera has adopted SFAS No. 158 on April 30, 2008. As a result, the Opera accrued an additional liability and reduced unrestricted net assets by \$593,600.

The components of net periodic benefit costs for the years ended April 30, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Service cost	\$ 137,261	\$ 124,460
Interest cost	191,905	180,927
Amortization of:		
Net transition obligation	19,381	19,381
Prior service cost	(21,478)	(21,478)
Net loss	<u>20,529</u>	<u>16,081</u>
Net periodic benefit cost	<u>\$ 347,598</u>	<u>\$ 319,371</u>

The key actuarial assumptions used were:

	<u>2008</u>	<u>2007</u>
To determine benefit obligation:		
Discount rate	6.5%	6.0%
Expected rate of pay increases	3.5%	3.5%
To determine net periodic benefit:		
Discount rate	6.0%	6.25%
Expected rate of pay increases	3.5%	3.5%

Estimated benefit payments for future fiscal years are as follows:

2009	\$ 668,123
2010	221,834
2011	532,479
2012	130,490
2013	261,895
2014-2018	1,265,397

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2008 and 2007

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

Restricted net assets are restricted for the following purposes:

	<u>2008</u>		<u>2007</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Future operating support	\$ 32,710,161	\$ 20,237,922	\$ 23,813,572	\$ 20,559,786
Capital campaign	242,083	-	39,583	-
Equipment	<u>2,706,416</u>	<u>-</u>	<u>2,822,373</u>	<u>-</u>
Total	<u>\$ 35,658,660</u>	<u>\$ 20,237,922</u>	<u>\$ 26,675,528</u>	<u>\$ 20,559,786</u>

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, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Time restrictions:		
Operating support	\$ 5,261,844	\$ 3,954,740
Capital campaign	<u>215,464</u>	<u>222,810</u>
Subtotal	5,477,308	4,177,550
Purpose restrictions:		
Operating support	4,312,471	3,187,125
Equipment	<u>125,787</u>	<u>123,820</u>
Subtotal	<u>4,438,258</u>	<u>3,310,945</u>
Total	<u>\$ 9,915,566</u>	<u>\$ 7,488,495</u>

NOTE F - NATIONAL ENDOWMENT FOR THE ARTS (NEA) GRANTS

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, 2008 and 2007, there were no restrictions released to unrestricted net assets. Temporarily restricted net assets, as of April 30, 2008 and 2007, were \$1,191,863 and \$1,135,046, respectively.

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2008 and 2007

NOTE F - NATIONAL ENDOWMENT FOR THE ARTS (NEA) GRANTS (Continued)

In fiscal 1988, the NEA awarded a \$1 million challenge grant to the Opera restricted for permanent endowment. In November 2007, the Opera received authorization from the NEA allowing the Opera to convert the challenge grant from permanently restricted to unrestricted. During fiscal 2008, the Opera released \$1,705,588 from permanently restricted net assets. This amount represents both the \$1 million NEA grant, along with unrestricted matching funds of \$705,588.

NOTE G - 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, 2008, 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, 2008, the interest rate was 2.80%.

Bond interest expense was \$2,009,388 and \$2,263,637 for the years ended April 30, 2008 and 2007, respectively.

Unamortized bond issuance costs were:

	<u>2008</u>	<u>2007</u>
Deferred bond issuance costs	\$ 2,267,433	\$ 2,267,433
Less: accumulated amortization	<u>939,706</u>	<u>870,753</u>
Net	<u>\$ 1,327,727</u>	<u>\$ 1,396,680</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.

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
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NOTE G - LONG-TERM DEBT (Continued)

On May 9, 2006, the Opera entered into an interest rate swap with the Bank of New York Mellon (BNYM) for the notational amount of \$40 million. The Opera has agreed to pay BNYM interest at a fixed rate of 3.804% with the counterparty paying the Opera a floating rate based on 67% of 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, 2008 and 2007 was \$295,184 and \$93,295, respectively.

The fair values of derivative instruments are based upon valuation models used by the BNYM and represent the BNYM's good faith estimates of mid-market values of the referenced transactions.

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, 2008 and 2007, the principal balance was \$817,208 and \$1,437,233, respectively.

Other debt also includes an interest-free, three-year, note payable of \$32,138. At April 30, 2008 and 2007, the principal balance was \$0 and \$8,764, respectively.

Total interest expense for other debt was \$54,483 and \$84,050 for the years ended April 30, 2008 and 2007, respectively.

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

2009	\$ 649,903
2010	167,305
2029	<u>62,200,000</u>
Total	<u>\$ 63,017,208</u>

NOTE H - 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 June 28, 2007, the Opera satisfied the matching requirements of the challenge grant. The Opera has recorded income from the conditional challenge grant of \$2,000,000 and \$525,000 as of April 30, 2008 and 2007, respectively.

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LYRIC OPERA OF CHICAGO
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April 30, 2008 and 2007

NOTE I - 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, gifts, and bequests to CFE, which do not include radio broadcast support, total \$31,650,278 and \$19,237,300 as of April 30, 2008 and 2007, respectively.

NOTE J - COMMITMENTS

Contracts with Performers and Unions: Substantially all contracts for the Opera's 2008-09 repertoire have been executed for or with principal artists. Future commitments to principal artists are approximately \$5.8 million in 2008-09, \$4.9 million in 2009-10, \$3.9 million in 2010-11, \$2.8 million in 2011-12 and \$0.8 million in 2012-13.

The Opera has collective bargaining agreements with numerous unions. Contracts with the Chicago Federation of Musicians (CFM), which represents the orchestra, the American Guild of Musical Artists (AGMA), which represents principal artists, choristers, ballet, and production staff, and the International Alliance of Theatrical Stage Employees (IATSE), which represents stagehands, expire April 30, 2009, and April 30, 2011, and June 30, 2013, respectively.

The Opera has personal service contracts with three key individuals through April 30, 2012. 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, 2008, in connection with the storage construction project.

NOTE K - 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.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2008 and 2007

NOTE K - RELATED PARTIES, CONFLICTS OF INTEREST AND CODE OF CONDUCT
(Continued)

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 L - NEW ACCOUNTING PRONOUNCEMENT

In September 2006, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 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 No. 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 No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Management intends to adopt SFAS No. 157 for the year ended April 30, 2009. Additional disclosures will be required regarding 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.

NOTE M - SUBSEQUENT EVENT

On June 12, 2008, the Opera purchased approximately 6,800 square feet of additional space in the Civic Opera Building, to be used for patron hospitality, for \$1.8 million from Civic Opera, L.P. The Illinois Finance Authority has approved the issuance of \$3,500,000 of tax exempt revenue bonds and will loan the proceeds to the Opera during August 2008. The proceeds will cover the purchase and renovation of the space.