

LYRIC OPERA OF CHICAGO
Chicago, Illinois

FINANCIAL STATEMENTS
April 30, 2006 and 2005

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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, 2006 and 2005, 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, 2006 and 2005, 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 9, 2006

LYRIC OPERA OF CHICAGO
 STATEMENTS OF FINANCIAL POSITION
 April 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 6,843,380	\$ 650,260
Pledge and Bequest Receivables - Current, net	6,513,264	5,352,914
Ticket and Other Receivables	1,351,466	3,508,448
Deferred Production Costs and Other Assets	2,061,756	1,460,550
Short-Term Investments at Market Value	<u>18,361,236</u>	<u>19,559,879</u>
Total Current Assets	<u>35,131,102</u>	<u>30,532,051</u>
Long-Term Assets		
Pledge and Bequest Receivables - Long-Term, net	9,772,562	3,605,661
Long-Term Investments at Market Value	140,915,169	127,980,251
Deferred Bond Issuance Costs, net	1,465,633	1,534,586
Property and Equipment, net	<u>55,283,163</u>	<u>57,434,808</u>
Total Long-Term Assets	<u>207,436,527</u>	<u>190,555,306</u>
Total Assets	<u>\$ 242,567,629</u>	<u>\$ 221,087,357</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable and Other Liabilities	\$ 7,223,424	\$ 7,102,536
Deferred Ticket and Other Revenue	16,882,165	17,672,089
Bonds and Notes Payable - Current	<u>601,879</u>	<u>574,354</u>
Total Current Liabilities	24,707,468	25,348,979
Long-Term Liabilities		
Bonds and Notes Payable - Long-Term	<u>63,645,997</u>	<u>64,247,876</u>
Total Liabilities	<u>88,353,465</u>	<u>89,596,855</u>
Net Assets		
Unrestricted	114,526,359	100,787,786
Temporarily Restricted	19,888,294	11,111,843
Permanently Restricted	<u>19,799,511</u>	<u>19,590,873</u>
Total Net Assets	<u>154,214,164</u>	<u>131,490,502</u>
Total Liabilities and Net Assets	<u>\$ 242,567,629</u>	<u>\$ 221,087,357</u>

See accompanying notes to financial statements.

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

	Operating	Other Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	42,635,252	2,499,889	45,135,141	-	-	45,135,141
Administrative	4,656,712	2,711,585	7,368,297	-	-	7,368,297
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 After Transfers	<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
STATEMENT OF ACTIVITIES
For the Year Ended April 30, 2005

	<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	\$ 30,069,943	\$ -	\$ 30,069,943	\$ -	\$ -	\$ 30,069,943
Contributions	9,619,860	166,049	9,785,909	6,284,012	-	16,069,921
Other Fundraising Revenue	1,903,607	27,105	1,930,712	-	-	1,930,712
Donated Services and Materials	637,927	-	637,927	-	-	637,927
Investment Income	4,569,098	5,652	4,574,750	30,051	-	4,604,801
Net Realized and Unrealized Gains on Investments	43,364	38,799	82,163	1,498	-	83,661
Other Operating Revenue	3,711,427	-	3,711,427	-	-	3,711,427
Net Assets Released from Restrictions	<u>12,168,041</u>	<u>(165,517)</u>	<u>12,002,524</u>	<u>(12,002,524)</u>	<u>-</u>	<u>-</u>
Total Operating Revenues and Support	<u>62,723,267</u>	<u>72,088</u>	<u>62,795,355</u>	<u>(5,686,963)</u>	<u>-</u>	<u>57,108,392</u>
Operating Expenses						
Production, Artistic, and Promotional	50,955,201	2,597,738	53,552,939	-	-	53,552,939
Administrative	4,875,882	1,795,383	6,671,265	-	-	6,671,265
Fundraising	<u>5,524,738</u>	<u>57,125</u>	<u>5,581,863</u>	<u>-</u>	<u>-</u>	<u>5,581,863</u>
Total Operating Expenses	<u>61,355,821</u>	<u>4,450,246</u>	<u>65,806,067</u>	<u>-</u>	<u>-</u>	<u>65,806,067</u>
Change in Net Assets from Operations	<u>1,367,446</u>	<u>(4,378,158)</u>	<u>(3,010,712)</u>	<u>(5,686,963)</u>	<u>-</u>	<u>(8,697,675)</u>
Non-Operating Revenues and Support						
Contributions	-	989,633	989,633	103,994	1,386,767	2,480,394
Investment Return in Excess of Spending Policy	-	4,416,288	4,416,288	-	-	4,416,288
Other Revenues	-	97,822	97,822	-	-	97,822
Gain on Sale of Property	-	861,528	861,528	-	-	861,528
Net Assets Released from Restrictions	<u>-</u>	<u>787,620</u>	<u>787,620</u>	<u>(787,620)</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenues and Support	<u>-</u>	<u>7,152,891</u>	<u>7,152,891</u>	<u>(683,626)</u>	<u>1,386,767</u>	<u>7,856,032</u>
Change in Net Assets Before Transfers	1,367,446	2,774,733	4,142,179	(6,370,589)	1,386,767	(841,643)
Net Asset Transfers	<u>(1,037,867)</u>	<u>1,037,867</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets After Transfers	<u>\$ 329,579</u>	<u>\$ 3,812,600</u>	4,142,179	(6,370,589)	1,386,767	(841,643)
Net Assets at Beginning of Year			<u>96,645,607</u>	<u>17,482,432</u>	<u>18,204,106</u>	<u>132,332,145</u>
Net Assets at End of Year			<u>\$ 100,787,786</u>	<u>\$ 11,111,843</u>	<u>\$ 19,590,873</u>	<u>\$ 131,490,502</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 22,723,662	\$ (841,643)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,935,979	2,912,270
Net Realized and Unrealized Gains on Investments	(18,033,267)	(6,731,145)
Contributions Permanently Restricted for Endowment	(970,159)	(2,021,553)
Gain on Sale/Disposal of Fixed Assets	-	(862,341)
(Increase) Decrease in Pledge and Bequest Receivables - Current	(1,160,350)	2,012,094
Decrease (Increase) in Ticket and Other Receivables	2,156,982	(2,203,822)
(Increase) Decrease in Deferred Production Costs and Other Assets	(601,206)	828,973
(Increase) Decrease in Pledge and Bequest Receivables - Long-Term	(6,166,901)	832,929
Increase in Accounts Payable and Other Liabilities	120,888	19,193
Decrease in Deferred Ticket and Other Revenue	<u>(789,924)</u>	<u>(1,312,466)</u>
Net Cash Provided by (Used in) Operating Activities	<u>215,704</u>	<u>(7,367,511)</u>
Cash Flows from Investing Activities		
Sale of Investments	100,699,621	42,795,529
Purchase of Investments	(94,402,629)	(38,283,120)
Proceeds from Sale of Fixed Assets	-	994,879
Fixed Asset Additions:		
Facilities	(218,882)	(1,305,825)
Other Assets	<u>(496,499)</u>	<u>(1,301,863)</u>
Net Cash Provided by Investing Activities	<u>5,581,611</u>	<u>2,899,600</u>
Cash Flows from Financing Activities		
Contributions Permanently Restricted for Endowment	970,159	2,021,553
Proceeds from Borrowings	-	3,029,942
Repayments of Borrowings	<u>(574,354)</u>	<u>(407,712)</u>
Net Cash Provided by Financing Activities	<u>395,805</u>	<u>4,643,783</u>
Net Increase in Cash and Cash Equivalents	6,193,120	175,872
Cash and Cash Equivalents at Beginning of Year	<u>650,260</u>	<u>474,388</u>
Cash and Cash Equivalents at End of Year	<u>\$ 6,843,380</u>	<u>\$ 650,260</u>
Supplemental Disclosure of Cash Flow Information		
Interest Paid	\$ 1,858,814	\$ 1,006,985

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2006 and 2005

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 training for young artists through the Lyric Opera Center for American Artists (LOCAA).

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

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 represent 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 the Opera's 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.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2006 and 2005

NOTE A SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 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 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.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2006 and 2005

NOTE A SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of April 30, 2006, 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>
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	215,613	221,016	-	436,629
Gross	<u>2,503,300</u>	<u>15,997,790</u>	<u>1,078,629</u>	<u>19,579,719</u>
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 mutual fund 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>2006</u>	<u>2005</u>
Land	\$ 696,577	\$ 696,577
Equipment	6,177,338	5,727,367
Facilities	79,653,041	79,434,159
Less: accumulated depreciation	<u>31,243,793</u>	<u>28,423,295</u>
Net	<u>\$ 55,283,163</u>	<u>\$ 57,434,808</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2006 and 2005

NOTE A SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Long-Term Investments: Publicly traded investments are carried at fair market value based on quoted market prices. Investments in limited partnerships are carried at fair market value as determined by the limited partnerships.

Investments consist of:

	<u>2006</u>	<u>2005</u>
Equities	\$ 72,103,529	\$ 71,684,438
Bonds	12,941,911	21,058,807
Alternative investments	53,587,964	33,082,924
Assets held in trust by others	<u>2,281,765</u>	<u>2,154,082</u>
Total investments	<u>\$ 140,915,169</u>	<u>\$ 127,980,251</u>

Alternative investments represent limited partnership interests held by the Opera in funds which invest in public and private securities and use hedged equity and absolute return strategies. Terms and conditions, including liquidity provisions, vary by fund.

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

The Opera's Board of Directors has approved a spending policy on the funds functioning as endowment for both fiscal 2006 and fiscal 2005, calculated as 5% of the average market value of the investments over the preceding 12-quarter period ended December 31. Also, a supplemental 1% spending draw was approved for fiscal 2005 to offset additional costs associated with the 50th Anniversary season.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2006 and 2005

NOTE A SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following tables summarize investment returns for fiscal years 2006 and 2005:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</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>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	<u>(54,175)</u>	<u>(4,930)</u>	<u>(59,105)</u>
Total return on short-term investments	<u>530,405</u>	<u>58,467</u>	<u>588,872</u>
Investment return designated for operations	<u>4,692,706</u>	<u>58,467</u>	<u>4,751,173</u>
Investment return in excess of amounts designated for operations	<u>\$ 15,834,620</u>	<u>\$ -</u>	<u>\$15,834,620</u>
<u>Fiscal 2005</u>			
Interest and dividends	\$ 1,963,752	\$ -	\$ 1,963,752
Net realized and unrealized gains	<u>6,685,273</u>	<u>-</u>	<u>6,685,273</u>
Total return on long-term investments	8,649,025	-	8,649,025
Interest on short-term investments	386,982	30,051	417,033
Net realized and unrealized gains	<u>44,374</u>	<u>1,498</u>	<u>45,872</u>
Total return on short-term investments	<u>431,356</u>	<u>31,549</u>	<u>462,905</u>
Investment return designated for operations	<u>4,664,093</u>	<u>31,549</u>	<u>4,695,642</u>
Investment return in excess of amounts designated for operations	<u>\$ 4,416,288</u>	<u>\$ -</u>	<u>\$ 4,416,288</u>

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

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.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2006 and 2005

NOTE A SIGNIFICANT ACCOUNTING POLICIES (Continued)

During the fiscal years ended April 30, 2006 and 2005, 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.

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 \$364,307 and \$404,450 for the years ended April 30, 2006 and 2005, 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, 2006 and 2005, the Opera contributed \$70,732 and \$72,083, respectively.

The Opera has contracted to make payments to multiemployer retirement plans for employees covered by collective bargaining agreements. Contributions to such plans total \$1,361,737 and \$1,627,077 for the years ended April 30, 2006 and 2005, respectively.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2006 and 2005

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. Benefits are based on a combination of wages, age, and length of service.

The following table summarizes the benefit plans for the years ended April 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Benefit obligation	\$ 3,152,518	\$ 3,366,611
Fair value of plan assets	<u>-</u>	<u>-</u>
Unfunded status	\$ 3,152,518	\$ 3,366,611
Accrued benefit cost	\$ 2,725,462	\$ 2,591,503
Benefit cost	\$ 332,814	\$ 293,619
Plan participant contributions	-	-
Benefits paid	\$ 198,856	-
Actuarial assumptions:		
Discount rate on benefit obligation	6.25%	5.5%
Long-term expected rate of return on plan assets	N/A	N/A

NOTE C RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

Restricted net assets are restricted for the following purposes:

	<u>2006</u>		<u>2005</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Future operating support	\$ 16,704,170	\$ 19,799,511	\$ 7,886,261	\$ 19,590,873
Capital campaign	237,931	-	148,556	-
Equipment	<u>2,946,193</u>	<u>-</u>	<u>3,077,026</u>	<u>-</u>
Total	<u>\$ 19,888,294</u>	<u>\$ 19,799,511</u>	<u>\$ 11,111,843</u>	<u>\$ 19,590,873</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2006 and 2005

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 years ended April 30, 2006 and 2005, are summarized as follows:

	<u>2006</u>	<u>2005</u>
Time restrictions:		
Operating support	\$ 1,578,341	\$ 1,753,634
Capital campaign	<u>306,394</u>	<u>656,787</u>
Subtotal	1,884,735	2,410,421
Purpose restrictions:		
Operating support	3,651,363	10,248,890
Equipment	<u>130,833</u>	<u>130,833</u>
Subtotal	<u>3,782,196</u>	<u>10,379,723</u>
 Total	 <u>\$ 5,666,931</u>	 <u>\$ 12,790,144</u>

NOTE D COMMITMENTS

Contracts with Performers and Unions: Substantially all contracts for the Opera's 2006-2007 repertoire have been executed for or with principal artists. Future commitments to principal artists are approximately \$7.7 million in 2006-07; \$4.8 million in 2007-08; \$3.2 million in 2008-09; and \$2.4 million in 2009-10. 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, which represents principal artists, choristers, ballet, and production staff, and the International Alliance of Theatrical Stage Employees, which represents stagehands, expire June 15, 2006, May 1, 2007, and June 30, 2009, respectively. Negotiations for a new collective bargaining agreement between CFM and the Opera are in progress.

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

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2006 and 2005

NOTE E NATIONAL ENDOWMENT FOR THE ARTS (NEA) GRANT

During the year ended February 28, 1991, the NEA awarded a \$1 million challenge grant to the Opera. All of the challenge grant and matching contributions of \$3 million were received as of April 30, 1992.

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, 2006 and 2005, there were no amounts released to unrestricted net assets. Temporarily restricted net assets, as of April 30, 2006 and 2005, were \$1,085,487 and \$1,052,547, respectively.

NOTE F 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, 2006, 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, 2006, the interest rate was 3.83%.

Bond interest expense was \$1,782,891 and \$977,017 for the years ended April 30, 2006 and 2005, respectively.

Unamortized bond issuance costs were:

	<u>2006</u>	<u>2005</u>
Deferred bond issuance costs	\$ 2,267,433	\$ 2,267,433
Less: accumulated amortization	<u>801,800</u>	<u>732,847</u>
Net	<u>\$ 1,465,633</u>	<u>\$ 1,534,586</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.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2006 and 2005

NOTE F LONG-TERM DEBT (Continued)

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 payments. At April 30, 2006 and 2005, the principal balance was \$2,028,988 and \$2,593,648, respectively.

Other debt also includes an interest free, three year note payable of \$32,138. At April 30, 2006 and 2005, the principal balance was \$18,888 and \$28,582, respectively.

Total interest expense for other debt was \$111,213 and \$112,050 for the years ended April 30, 2006 and 2005, respectively.

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

2007	\$ 601,879
2008	628,788
2009	649,904
2010	167,305
2029	<u>62,200,000</u>
Total	<u>\$ 64,247,876</u>

NOTE G SUBSEQUENT EVENT

On May 9, 2006, the Opera entered into an interest rate swap to reduce the Opera's exposure to future interest rate hikes and to take advantage of current low rates. The notional amount of the transaction was \$40,000,000 with a December 1, 2028 termination. The swap agreement contains provisions which mitigate counterparty risk and also provide the Opera with an option to terminate the swap at any time at market. The Opera is required to pay a fixed rate of 3.804% monthly and is entitled to receive 67% of one month LIBOR in return from the counterparty.