

LYRIC OPERA OF CHICAGO
Chicago, Illinois

FINANCIAL STATEMENTS
April 30, 2009 and 2008

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REPORT OF INDEPENDENT AUDITORS

The 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, 2009 and 2008, 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, 2009 and 2008, 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.

As discussed in Notes D and E to the financial statements, the Opera adopted Financial Accounting Standards Board Statement No. 157, *Fair Value Measurement* and FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)*, and *Enhanced Disclosures for All Endowment Funds*, respectively, during the year ended April 30, 2009.


Crowe Horwath LLP

Chicago, Illinois
July 13, 2009

LYRIC OPERA OF CHICAGO
STATEMENTS OF FINANCIAL POSITION
April 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 23,966,884	\$ 23,349,321
Pledge and Bequest Receivables, net	8,207,163	6,330,580
Ticket and Other Receivables	1,250,392	1,521,931
Deferred Production Costs and Other Assets	1,794,804	2,023,829
Short-Term Investments	-	3,961,126
Total Current Assets	35,219,243	37,186,787
Long-Term Assets		
Pledge and Bequest Receivables, net	17,893,413	22,359,697
Long-Term Investments	115,075,094	157,862,435
Deferred Bond Issuance Costs, net	1,333,740	1,327,727
Property and Equipment, net	54,527,413	52,485,815
Total Long-Term Assets	188,829,660	234,035,674
Total Assets	\$ 224,048,903	\$ 271,222,461
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable and Other Liabilities	\$ 5,032,950	\$ 4,933,447
Deferred Ticket and Other Revenue	13,102,512	17,246,372
Severance Plans	411,734	668,123
Bonds and Notes Payable	167,305	649,903
Total Current Liabilities	18,714,501	23,497,845
Long-Term Liabilities		
Severance Plans	2,570,493	3,047,195
Bonds and Notes Payable	65,700,000	62,367,305
Interest Rate Swap	8,519,792	3,772,155
Total Long-Term Liabilities	76,790,285	69,186,655
Total Liabilities	95,504,786	92,684,500
Net Assets		
Unrestricted	75,419,852	122,641,379
Temporarily Restricted	30,845,108	35,658,660
Permanently Restricted	22,279,157	20,237,922
Total Net Assets	128,544,117	178,537,961
Total Liabilities and Net Assets	\$ 224,048,903	\$ 271,222,461

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENT OF ACTIVITIES

For the Year Ended April 30, 2009, with Comparative Totals for the Year Ended April 30, 2008

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	2008
	Operating	Other	Total				Comparative Total
Operating Revenue and Support							
Ticket Sales	\$ 28,050,986	\$ -	\$ 28,050,986	\$ -	\$ -	\$ 28,050,986	\$ 27,431,991
Contributions	11,331,208	48,553	11,379,761	5,937,950	-	17,317,711	30,847,889
Other Fundraising Support	2,163,252	142,855	2,306,107	-	-	2,306,107	1,752,424
Donated Services and Materials	1,279,992	-	1,279,992	-	-	1,279,992	773,631
Investment Income	5,154,155	119,629	5,273,784	83,051	-	5,356,835	5,531,041
Net Realized and Unrealized Losses on Investments	-	(2,494,219)	(2,494,219)	-	-	(2,494,219)	(58,460)
Other Operating Revenue	3,725,964	(9,322)	3,716,642	-	-	3,716,642	3,706,910
Net Assets Released from Restrictions	<u>7,841,152</u>	<u>2,915,716</u>	<u>10,756,868</u>	<u>(10,756,868)</u>	-	-	-
Total Operating Revenue and Support	59,546,709	723,212	60,269,921	(4,735,867)	-	55,534,054	69,985,426
Operating Expenses							
Production, Artistic, and Promotional	47,071,851	2,654,641	49,726,492	-	-	49,726,492	46,427,640
Administrative	5,354,256	2,488,977	7,843,233	-	-	7,843,233	8,135,555
Fundraising	<u>5,956,380</u>	<u>378,663</u>	<u>6,335,043</u>	-	-	<u>6,335,043</u>	<u>5,489,327</u>
Total Operating Expenses	58,382,487	5,522,281	63,904,768	-	-	63,904,768	60,052,522
Changes in Net Assets from Operations	1,164,222	(4,799,069)	(3,634,847)	(4,735,867)	-	(8,370,714)	9,932,904
Non-Operating Revenue and Support							
Contributions	-	2,247,705	2,247,705	256,994	2,041,235	4,545,934	2,210,451
Spending Policy in Excess of Investment Return	-	(42,278,399)	(42,278,399)	-	-	(42,278,399)	(1,164,971)
Unrealized Loss on Interest Rate Swap	-	(4,747,637)	(4,747,637)	-	-	(4,747,637)	(2,235,244)
Other Revenue	-	7,032	7,032	-	-	7,032	6,800
Net Assets Released from Restrictions	-	<u>334,679</u>	<u>334,679</u>	<u>(334,679)</u>	-	-	-
Total Non-Operating Revenue and Support	-	(44,436,620)	(44,436,620)	(77,685)	2,041,235	(42,473,070)	(1,182,964)
Net Asset Transfers	(1,092,398)	1,092,398	-	-	-	-	-
Effect of Adoption of FASB Statement No. 158	-	-	-	-	-	-	(593,600)
Change in Severance Plans' Valuation	849,940	-	849,940	-	-	849,940	-
Changes in Net Assets	<u>\$ 921,764</u>	<u>\$ (48,143,291)</u>	<u>(47,221,527)</u>	<u>(4,813,552)</u>	<u>2,041,235</u>	<u>(49,993,844)</u>	<u>8,156,340</u>
Net Assets at Beginning 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>
Net Assets at End of Year			<u>\$ 75,419,852</u>	<u>\$ 30,845,108</u>	<u>\$ 22,279,157</u>	<u>\$ 128,544,117</u>	<u>\$178,537,961</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENT OF ACTIVITIES
For the Year Ended April 30, 2008

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Operating	Other	Total			
Operating Revenue and Support						
Ticket Sales	\$ 27,431,991	\$ -	\$ 27,431,991	\$ -	\$ -	\$ 27,431,991
Contributions	11,382,753	818,600	12,201,353	18,646,536	-	30,847,889
Other Fundraising Support	1,752,424	-	1,752,424	-	-	1,752,424
Donated Services and Materials	773,631	-	773,631	-	-	773,631
Investment Income	5,106,742	249,932	5,356,674	174,367	-	5,531,041
Net Realized and Unrealized Losses on Investments	-	(58,460)	(58,460)	-	-	(58,460)
Other Operating Revenue	3,712,431	(5,521)	3,706,910	-	-	3,706,910
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>
Total Operating Revenue and Support	56,471,913	4,266,925	60,738,838	9,246,588	-	69,985,426
Operating Expenses						
Production, Artistic, and Promotional	43,886,682	2,540,958	46,427,640	-	-	46,427,640
Administrative	5,154,671	2,980,884	8,135,555	-	-	8,135,555
Fundraising	<u>5,146,442</u>	<u>342,885</u>	<u>5,489,327</u>	<u>-</u>	<u>-</u>	<u>5,489,327</u>
Total Operating Expenses	54,187,795	5,864,727	60,052,522	-	-	60,052,522
Changes in Net Assets from Operations	2,284,118	(1,597,802)	686,316	9,246,588	-	9,932,904
Non-Operating Revenue and Support						
Contributions	-	748,932	748,932	77,795	1,383,724	2,210,451
Spending Policy in Excess of Investment Return	-	(1,164,971)	(1,164,971)	-	-	(1,164,971)
Unrealized Loss on Interest Rate Swap	-	(2,235,244)	(2,235,244)	-	-	(2,235,244)
Other Revenue	-	6,800	6,800	-	-	6,800
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>
Total Non-Operating Revenue and Support	-	(597,644)	(597,644)	(263,456)	(321,864)	(1,182,964)
Net Asset Transfers	(1,098,164)	1,098,164	-	-	-	-
Effect of Adoption of FASB Statement No. 158	(593,600)	-	(593,600)	-	-	(593,600)
Changes in Net Assets	<u>\$ 592,354</u>	<u>\$ (1,097,282)</u>	(504,928)	8,983,132	(321,864)	8,156,340
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>
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>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
(Decrease) Increase in Net Assets	\$ (49,993,844)	\$ 8,156,340
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,813,947	2,810,110
Net Realized and Unrealized Losses (Gains) on Investments	41,607,840	(1,779,793)
Unrealized Losses on Interest Rate Swap	4,747,637	2,235,244
Contributions Permanently Restricted for Endowment	(2,041,235)	(1,383,724)
Losses (Gains) on Sale/Disposal of Fixed Assets	20,188	(1,229)
Decrease (Increase) in Unrestricted and Temporarily Restricted Pledge and Bequest Receivables	1,929,230	(6,656,998)
Decrease in Ticket and Other Receivables	271,539	941,726
Decrease (Increase) in Deferred Production Costs and Other Assets	229,025	(426,573)
Increase in Accounts Payable and Other Liabilities	99,503	332,735
Decrease in Deferred Ticket and Other Revenue	(4,143,860)	(417,178)
(Decrease) Increase in Severance Plans	<u>(733,091)</u>	<u>675,239</u>
Net Cash (Used In) Provided by Operating Activities	(5,193,121)	4,485,899
 Cash Flows from Investing Activities		
Sale of Investments	37,835,483	92,937,020
Purchase of Investments	(32,694,856)	(74,712,180)
Proceeds from Sale of Fixed Assets	12,608	1,600
Fixed Asset Additions:		
Facilities	(4,055,973)	(735,968)
Other Assets	<u>(838,381)</u>	<u>(147,579)</u>
Net Cash Provided by Investing Activities	258,881	17,342,893
 Cash Flows from Financing Activities		
Permanently Restricted Endowment Proceeds	2,701,706	612,961
Proceeds from Borrowings	3,500,000	-
Repayments of Borrowings	<u>(649,903)</u>	<u>(628,789)</u>
Net Cash Provided by (Used In) Financing Activities	5,551,803	(15,828)
 Net Increase in Cash and Cash Equivalents	<u>617,563</u>	<u>21,812,964</u>
 Cash and Cash Equivalents at Beginning of Year	<u>23,349,321</u>	<u>1,536,357</u>
 Cash and Cash Equivalents at End of Year	<u>\$ 23,966,884</u>	<u>\$ 23,349,321</u>
 Supplemental Disclosure of Cash Flow Information		
Interest Paid	<u>\$ 2,032,580</u>	<u>\$ 2,392,078</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

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 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 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 endowment gifts. Unrestricted charitable gift annuities are recorded in Operating Revenue and Support as contributions.
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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

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, 2009 and 2008, 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 2009				
Less than one year	\$ 2,690,812	\$ 6,439,202	\$ 29,700	\$ 9,159,714
One to five years	806,000	10,883,047	449,437	12,138,484
More than five years	-	1,544,349	-	1,544,349
With no due date	<u>-</u>	<u>11,132,885</u>	<u>10,312</u>	<u>11,143,197</u>
Gross	3,496,812	29,999,483	489,449	33,985,744
Less discount	88,201	6,193,885	40,082	6,322,168
Less allowance	<u>171,000</u>	<u>1,337,000</u>	<u>55,000</u>	<u>1,563,000</u>
Net	<u>\$ 3,237,611</u>	<u>\$ 22,468,598</u>	<u>\$ 394,367</u>	<u>\$ 26,100,576</u>

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

	<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>

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 short-term treasury and agency securities with original maturities in excess of three months but less than one year.

Property and Equipment: Purchases of property and equipment 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>2009</u>	<u>2008</u>
Land	\$ 696,577	\$ 696,577
Equipment	6,585,287	6,024,031
Facilities	85,779,834	81,764,052
Less: accumulated depreciation	<u>38,534,285</u>	<u>35,998,845</u>
Net	<u>\$ 54,527,413</u>	<u>\$ 52,485,815</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.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

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 \$8,519,792 and \$3,772,155 as of April 30, 2009 and 2008, 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, 2009 and 2008, 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): Realized and unrealized investment gains or losses are reported as unrestricted 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 \$1,958,435 and \$1,770,541 for the years ended April 30, 2009 and 2008, respectively. Prepaid advertising expenses, to be expensed in the following fiscal year, were \$543,983 and \$564,409 as of April 30, 2009 and 2008, 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 2008 to conform to the presentation in fiscal 2009.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

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 during 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 audited net asset values as of their most recent audited financial statements, adjusted for cash receipts, cash disbursements, and other anticipated income or loss through April 30, 2009. Opera management has done considerable independent review of valuations reported by investment managers and does on occasion revalue investments. 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>2009</u>	<u>2008</u>
Equity Securities	\$ 46,859,555	\$ 75,443,681
Fixed Income Securities	15,717,430	10,845,705
Real Assets	2,892,034	5,310,268
Alternative investments:		
Hedged Equities	12,833,914	21,760,277
Absolute Return	31,262,767	39,665,239
Real Assets	2,678,453	1,930,445
Assets held in trust by others	<u>2,830,941</u>	<u>2,906,820</u>
Total investments	<u>\$ 115,075,094</u>	<u>\$ 157,862,435</u>

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE C - LONG-TERM INVESTMENTS (Continued)

The following tables summarize investment return for fiscal years 2009 and 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Fiscal 2009</u>				
Interest and dividends	\$ 1,552,295	\$ -	\$ -	\$ 1,552,295
Net realized and unrealized losses	<u>(41,607,840)</u>	<u>-</u>	<u>-</u>	<u>(41,607,840)</u>
Total return on long-term investments	(40,055,545)	-	-	(40,055,545)
Interest on short-term investments	556,711	83,051	-	639,762
Investment return designated for operations	<u>2,779,565</u>	<u>83,051</u>	<u>-</u>	<u>2,862,616</u>
Amounts designated for operations in excess of investment return	<u>\$ (42,278,399)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (42,278,399)</u>
<u>Fiscal 2008</u>				
Interest and dividends	\$ 1,149,026	\$ -	\$ -	\$ 1,149,026
Net realized and unrealized gains	<u>1,779,793</u>	<u>-</u>	<u>-</u>	<u>1,779,793</u>
Total return on long-term investments	2,928,819	-	-	2,928,819
Interest on short-term investments	1,204,424	174,367	-	1,378,791
Investment return designated for operations	<u>5,298,214</u>	<u>174,367</u>	<u>-</u>	<u>5,472,581</u>
Amounts designated for operations in excess of investment return	<u>\$ (1,164,971)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,164,971)</u>

The Opera has unfunded capital commitments for limited liability partnership agreements totaling approximately \$3.5 million as of April 30, 2009.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE D - FAIR VALUE MEASUREMENTS

Statement of Financial Accounting Standards No. 157, "Fair Value Measurement" (SFAS No. 157) defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Opera's principal or most advantageous market in an orderly transaction between market participants on the measurement date.

SFAS No. 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair values of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates (Level 2 inputs). The fair value of investments in limited liability partnerships are based on valuations provided by the external investment manager as of the date of their most recent audited financial statements, adjusted for cash receipts, cash disbursements, and other anticipated income or loss through April 30, 2009 (Level 3 inputs).

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE D - FAIR VALUE MEASUREMENTS (continued)

Assets and liabilities measured on a recurring basis at fair value at April 30, 2009, are summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Fixed Income Securities	\$ 15,717,430	\$ -	\$ -	\$ 15,717,430
Equity Securities	34,882,350	6,689,761	5,287,444	46,859,555
Hedge Funds	-	-	44,096,681	44,096,681
Real Assets	-	2,892,034	2,678,453	5,570,487
Investment Assets Held In Trust	-	-	2,830,941	2,830,941
	<u>\$ 50,599,780</u>	<u>\$ 9,581,795</u>	<u>\$ 54,893,519</u>	<u>\$ 115,075,094</u>
Liabilities:				
Interest Rate Swap	<u>\$ -</u>	<u>\$ 8,519,792</u>	<u>\$ -</u>	<u>\$ 8,519,792</u>

The table below reconciles beginning and ending balances for Level 3 assets and liabilities for the year ended April 30, 2009.

	Level 3 Positions
Balance as of April 30, 2008	\$73,721,631
Purchases and (sales), net	(7,239,254)
Realized losses	(2,542,829)
Unrealized losses	<u>(9,046,029)</u>
Balance as of April 30, 2009	<u>\$54,893,519</u>

NOTE E - ENDOWMENT

In August 2008, FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*. The FSP provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to UPMIFA and related disclosures. FSP 117-1 is effective for fiscal years ending after December 15, 2008. UPMIFA was enacted into law in Illinois as of June 30, 2009.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE E - ENDOWMENT (continued)

The Opera's endowment is comprised of both donor-restricted endowment funds and Board-designated funds to function as endowment. Net assets consisting of those funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Opera's Board of Directors believes that the Uniform Management of Institutional Funds Act (UMIFA) requires the preservation of the historical value of donor restricted endowment gifts unless the donor stipulates otherwise. As a consequence, the Opera classifies as permanently restricted net assets the original value of gifts to the permanent endowment.

The Investment Committee of the Board of Directors establishes policies and procedures concerning the management of endowment funds. These policies establish asset classes that are deemed suitable for investment of endowment funds which currently include investments in domestic and international equities, fixed income, alternative strategies and real assets. Endowment funds are managed on a total return basis taking into consideration the need to maintain the purchasing power of the funds as well as the need to support the Opera's mission. Risk and return expectations for the endowment funds are modeled using historical rates of return and volatility measures for various asset allocation scenarios. Investments are made in various asset classes based on policy requirements for a highly diversified portfolio in accordance with asset allocation guidelines. Actual allocations to an asset class are compared to target allocations and rebalanced as appropriate. The performance of endowment funds' investments is reported on a monthly basis and the annual real return objective is 5%.

The Opera's Board of Directors has approved a spending policy which allows for the transfer of 5% of the trailing twelve quarter endowment balance to be used to support operations and fund debt service for both fiscal 2009 and fiscal 2008. The spending rate approximates the return objective of the fund allowing for the preservation of purchasing power and growth of the endowment through investment returns in excess of the objective and new gifts.

Endowment net asset composition by type of fund as of April 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 1,227,841	\$ -	\$ 22,279,157	\$ 23,506,998
Board-designated funds	<u>95,439,880</u>	<u>-</u>	<u>-</u>	<u>95,439,880</u>
Total funds	<u>\$ 96,667,721</u>	<u>\$ -</u>	<u>\$ 22,279,157</u>	<u>\$118,946,878</u>

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE E - ENDOWMENT (continued)

Changes in endowment net assets for the year ended April 30, 2009:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Net assets at beginning of year	\$ 136,731,555	\$ -	\$ 20,237,922	\$156,969,477
Investment return				
Investment income, net	1,552,297	-	-	1,552,297
Net depreciation (realized and unrealized)	<u>(39,113,096)</u>	<u>-</u>	<u>-</u>	<u>(39,113,096)</u>
Total investment return	(37,560,799)	-	-	(37,560,799)
Contributions	2,227,705	-	2,041,235	4,268,940
Transfer	99,706	-	-	99,706
Appropriation of endowment assets for expenditures	<u>(4,830,446)</u>	<u>-</u>	<u>-</u>	<u>(4,830,446)</u>
Net assets at end of year	<u>\$ 96,667,721</u>	<u>\$ -</u>	<u>\$ 22,279,157</u>	<u>\$118,946,878</u>

Endowment net asset composition by type of fund as of April 30, 2008:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 8,685,872	\$ -	\$ 20,237,922	\$ 28,923,794
Board-designated funds	<u>128,045,683</u>	<u>-</u>	<u>-</u>	<u>128,045,683</u>
Total funds	<u>\$ 136,731,555</u>	<u>\$ -</u>	<u>\$ 20,237,922</u>	<u>\$156,969,477</u>

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE E - ENDOWMENT (continued)

Changes in endowment net assets for the year ended April 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at beginning of year	\$ 135,546,314	\$ -	\$ 20,559,786	\$156,106,100
Investment return				
Investment income, net	1,149,026	-	-	1,149,026
Net appreciation (realized and unrealized)	<u>1,896,180</u>	<u>-</u>	<u>-</u>	<u>1,896,180</u>
Total investment return	3,045,206	-	-	3,045,206
Contributions	748,932	-	1,383,724	2,132,656
Net assets released from restriction	1,705,588	-	(1,705,588)	-
Appropriation of endowment assets for expenditure	<u>(4,314,485)</u>	<u>-</u>	<u>-</u>	<u>(4,314,485)</u>
Net assets at end of year	<u>\$ 136,731,555</u>	<u>\$ -</u>	<u>\$ 20,237,922</u>	<u>\$156,969,477</u>

The fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor requires the Opera to retain as a fund of perpetual duration. At April 30, 2009 and 2008, these deficiencies, reported as unrestricted net assets, totaled \$2,296,164 and \$138,248, respectively. These deficiencies resulted from extraordinary market conditions in 2008.

NOTE F - 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 \$392,881 and \$369,974 for the years ended April 30, 2009 and 2008, 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, 2009 and 2008, the Opera contributed \$70,342 and \$66,215, respectively.

The Opera has contracted to make payments to multiemployer retirement plans for employees covered by collective bargaining agreements. Contributions to such plans total \$1,775,982 and \$1,556,770 for the years ended April 30, 2009 and 2008, respectively.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE F - 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.

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 adopted SFAS No. 158 on April 30, 2008.

The change in benefit obligations and the funded status of the plans for the years ended April 30, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 3,715,318	\$ 3,629,862
Service cost	120,152	137,261
Interest cost	220,124	191,905
Plan amendment	-	(78,009)
Actuarial (gain)/loss	(831,276)	100,258
Benefits paid	<u>(242,091)</u>	<u>(265,959)</u>
Benefit obligation, end of year	<u>\$ 2,982,227</u>	<u>\$ 3,715,318</u>
Funded Status		
Projected benefit obligation	\$ (2,982,227)	\$ (3,715,318)
Fair value of assets	<u>-</u>	<u>-</u>
Funded Status	<u>\$ (2,982,227)</u>	<u>\$ (3,715,318)</u>

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE F - EMPLOYEE RETIREMENT BENEFITS (Continued)

The components of net periodic severance costs for the years ended April 30, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Service cost	\$ 120,152	\$ 137,261
Interest cost	220,124	191,905
Amortization of:		
Net transition obligation	19,382	19,381
Prior service cost	(28,825)	(21,478)
Net gain	<u>28,107</u>	<u>20,529</u>
Net periodic severance costs	<u>\$ 358,940</u>	<u>\$ 347,598</u>

In accordance with SFAS No 158, severance costs not previously recognized as a component of the periodic severance cost, but included as a cumulative separate charge to net assets for the years ended April 30, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Net transition obligations	\$ 193,816	\$ 213,198
Prior service cost	(345,323)	(374,148)
Net actuarial (gain) loss	<u>(104,833)</u>	<u>754,550</u>
Net amount recognized	<u>\$ (256,340)</u>	<u>\$ 593,600</u>

Net periodic severance cost expected to be recognized in the next fiscal year is as follows:

	<u>2010</u>
Service cost	\$ 99,137
Interest cost	201,547
Amortization of:	
Net transition obligation	19,382
Prior service cost	(28,825)
Net gain	<u>(6,683)</u>
Net periodic severance cost	<u>\$ 284,558</u>

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE F - EMPLOYEE RETIREMENT BENEFITS (Continued)

The key actuarial assumptions used were:

	<u>2009</u>	<u>2008</u>
To determine benefit obligation:		
Discount rate	7.25%	6.5%
Expected rate of pay increases	3.5%	3.5%
To determine net periodic benefit:		
Discount rate	6.5%	6.0%
Expected rate of pay increases	3.5%	3.5%

Estimated benefit payments for future fiscal years are as follows:

2010	411,734
2011	126,154
2012	238,305
2013	126,866
2014	303,628
2015-2019	1,407,480

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

Restricted net assets are restricted for the following purposes:

	<u>2009</u>		<u>2008</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Future operating support	\$ 27,919,902	\$ 22,279,157	\$ 32,710,161	\$ 20,237,922
Capital campaign	196,908	-	242,083	-
Equipment	<u>2,728,298</u>	<u>-</u>	<u>2,706,416</u>	<u>-</u>
Total	<u>\$ 30,845,108</u>	<u>\$ 22,279,157</u>	<u>\$ 35,658,660</u>	<u>\$ 20,237,922</u>

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE G - 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, 2009 and 2008, are summarized as follows:

	<u>2009</u>	<u>2008</u>
Time restrictions:		
Operating support	\$ 5,316,853	\$ 5,261,844
Capital campaign	<u>202,725</u>	<u>215,464</u>
Subtotal	5,519,578	5,477,308
Purpose restrictions:		
Operating support	5,440,015	4,312,471
Equipment	<u>131,954</u>	<u>125,787</u>
Subtotal	<u>5,571,969</u>	<u>4,438,258</u>
Total	<u>\$ 11,091,547</u>	<u>\$ 9,915,566</u>

NOTE H - 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 year ended April 30, 2009, \$535,720 has been released to unrestricted net assets. Temporarily restricted net assets, as of April 30, 2009 and 2008, were \$679,634 and \$1,191,863, respectively.

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.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE I - LONG-TERM DEBT

On March 1, 1994, the Illinois Development Finance Authority (IDFA) issued and sold \$62.2 million aggregate principal amount of tax exempt 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 IDFA and the Opera, IDFA 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, 2009, 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, 2009, the interest rate was 0.33%.

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 1, 2010.

Because these bonds operate in a floating mode and are remarketed at par value weekly, their carrying values approximate fair value. Should the agent not be able to remarket the bonds, they become bank bonds under the letter of credit agreement.

On May 9, 2006, the Opera entered into an interest rate swap with the Bank of New York Mellon (BNYM) for the notional 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, 2009 and 2008, was \$1,038,022 and \$295,184, respectively.

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

On August 18, 2008, the Illinois Finance Authority (IFA) issued a \$3.5 million aggregate principal amount tax exempt Revenue Bond, Series 2008. Pursuant to the loan agreement, IFA loaned the proceeds of the bond to the Opera to provide funds to purchase, construct, and equip space for patron hospitality services, and to pay certain issuance costs incurred in connection with the issuance of the bond. The bond, payable August 1, 2018, has a fixed interest rate of 4.8%, payable monthly.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE I - LONG-TERM DEBT (Continued)

Bond interest expense was \$947,299 and \$2,009,388 for the years ended April 30, 2009 and 2008, respectively.

Unamortized bond issuance costs were:

	<u>2009</u>	<u>2008</u>
Deferred bond issuance costs	\$ 2,347,620	\$ 2,267,433
Less: accumulated amortization	<u>1,013,880</u>	<u>939,706</u>
Net	<u>\$ 1,333,740</u>	<u>\$ 1,327,727</u>

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, 2009 and 2008, the principal balance was \$167,305 and \$817,208, respectively.

Total interest expense for other debt was \$24,646 and \$54,483 for the years ended April 30, 2009 and 2008, respectively.

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

2010	\$ 167,305
2019	3,500,000
2029	<u>62,200,000</u>
Total	<u>\$ 65,867,305</u>

NOTE J - COMMITMENTS

Contracts with Performers and Unions: Substantially all contracts for the Opera's 2009-10 repertoire have been executed for or with principal artists. Future commitments to principal artists are approximately \$5.1 million in 2009-10, \$4.4 million in 2010-11, \$3.8 million in 2011-12, \$2.7 million in 2012-13, and \$1.2 million in 2013-14.

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

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2009 and 2008

NOTE J - COMMITMENTS (Continued)

Musical Artists, which represents principal artists, choristers, ballet, and production staff, and the International Alliance of Theatrical Stage Employees, which represents stagehands, expire April 30, 2009, April 30, 2011, and June 30, 2013, respectively. Negotiations for a new collective bargaining agreement between CFM and the Opera are in progress.

The Opera has personal service contracts with four individuals through May 31, 2015. The contracts call for annual salary and other benefits.

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, senior management and other designated members of staff. The Policy requires an annual disclosure statement identifying any business or financial interest in transactions between that party and the Opera which occurred in the current fiscal year as well as transactions planned for subsequent fiscal years.

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 Administrative 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 March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*. FASB Statement No. 161, which is effective for fiscal years beginning after November 15, 2008, expands the disclosure requirements in Statement No. 133 about an entity's derivative instruments and hedging activities. The Opera continues to assess the impact of the application of FASB Statement No. 161 on its financial statements.