

LYRIC OPERA OF CHICAGO
Chicago, Illinois

FINANCIAL STATEMENTS
April 30, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 Horwath LLP

Chicago, Illinois
August 16, 2010

LYRIC OPERA OF CHICAGO
STATEMENTS OF FINANCIAL POSITION
April 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,709,670	\$ 23,966,884
Pledge and Bequest Receivables, net	9,263,388	8,207,163
Ticket and Other Receivables	1,405,474	1,250,392
Deferred Production Costs and Other Assets	2,362,415	1,794,804
Short-Term Investments	<u>20,917,252</u>	<u>-</u>
Total Current Assets	35,658,199	35,219,243
Long-Term Assets		
Pledge and Bequest Receivables, net	17,413,960	17,893,413
Long-Term Investments	151,199,365	115,075,094
Deferred Bond Issuance Costs, net	1,256,682	1,333,740
Property and Equipment, net	<u>52,642,483</u>	<u>54,527,413</u>
Total Long-Term Assets	222,512,490	188,829,660
Total Assets	<u>\$ 258,170,689</u>	<u>\$ 224,048,903</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable and Other Liabilities	\$ 4,995,041	\$ 5,032,950
Deferred Ticket and Other Revenue	12,658,007	13,102,512
Severance Plans	173,481	411,734
Note Payable	-	167,305
Interest Rate Swap	<u>1,382,176</u>	<u>1,443,114</u>
Total Current Liabilities	19,208,705	20,157,615
Long-Term Liabilities		
Severance Plans	3,191,258	2,570,493
Bonds Payable	65,700,000	65,700,000
Interest Rate Swap	<u>4,674,401</u>	<u>7,076,678</u>
Total Long-Term Liabilities	73,565,659	75,347,171
Total Liabilities	92,774,364	95,504,786
Net Assets		
Unrestricted	100,921,660	75,419,852
Temporarily Restricted	41,826,812	30,845,108
Permanently Restricted	<u>22,647,853</u>	<u>22,279,157</u>
Total Net Assets	165,396,325	128,544,117
Total Liabilities and Net Assets	<u>\$ 258,170,689</u>	<u>\$ 224,048,903</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENT OF ACTIVITIES
For the Year Ended April 30, 2010, with Comparative Totals for the Year Ended April 30, 2009

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	2009
	Operating	Other	Total				Total
Operating Revenue and Support							
Ticket Sales	\$ 24,363,752	\$ -	\$ 24,363,752	\$ -	\$ -	\$ 24,363,752	\$ 28,050,986
Contributions	10,884,051	68,116	10,952,167	7,792,195	-	18,744,362	17,317,711
Other Fundraising Support	1,171,789	-	1,171,789	-	-	1,171,789	2,306,107
Donated Services and Materials	610,476	-	610,476	-	-	610,476	1,279,992
Endowment Spending Draw	4,652,894	2,471,866	7,124,760	-	-	7,124,760	6,812,774
Investment Income	474,253	2,187,524	2,661,777	74,077	-	2,735,854	(1,966,538)
Other Operating Revenue	3,679,354	-	3,679,354	-	-	3,679,354	3,725,964
Net Assets Released from Restrictions	<u>7,812,275</u>	<u>3,057,106</u>	<u>10,869,381</u>	<u>(10,869,381)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Revenue and Support	53,648,844	7,784,612	61,433,456	(3,003,109)	-	58,430,347	57,526,996
Operating Expenses							
Production, Artistic, and Promotional	46,015,940	2,852,902	48,868,842	-	-	48,868,842	49,726,492
Administrative	5,294,262	2,549,204	7,843,466	-	-	7,843,466	7,843,233
Fundraising	<u>4,244,956</u>	<u>101,718</u>	<u>4,346,674</u>	<u>-</u>	<u>-</u>	<u>4,346,674</u>	<u>6,344,365</u>
Total Operating Expenses	55,555,158	5,503,824	61,058,982	-	-	61,058,982	63,914,090
Changes in Net Assets from Operations	(1,906,314)	2,280,788	374,474	(3,003,109)	-	(2,628,635)	(6,387,094)
Non-Operating Revenue and Support							
Contributions	-	10,560,601	10,560,601	17,383	368,696	10,946,680	4,545,934
Investment Return in Excess of (Less than)							
Amounts Designated for Operations	-	18,989,992	18,989,992	7,455,209	-	26,445,201	(44,262,019)
Unrealized Gain (Loss) on Interest Rate Swap	-	2,463,215	2,463,215	-	-	2,463,215	(4,747,637)
Other Revenue	-	6,630	6,630	-	-	6,630	7,032
Net Assets Released from Restrictions	<u>-</u>	<u>1,503,199</u>	<u>1,503,199</u>	<u>(1,503,199)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenue and Support	-	33,523,637	33,523,637	5,969,393	368,696	39,861,726	(44,456,690)
Net Asset Transfers	1,906,314	(9,921,734)	(8,015,420)	8,015,420	-	-	-
Change in Severance Plans' Valuation	-	(380,883)	(380,883)	-	-	(380,883)	849,940
Changes in Net Assets	<u>\$ -</u>	<u>\$ 25,501,808</u>	25,501,808	10,981,704	368,696	36,852,208	(49,993,844)
Net Assets at Beginning 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>
Net Assets at End of Year			<u>\$ 100,921,660</u>	<u>\$ 41,826,812</u>	<u>\$ 22,647,853</u>	<u>\$ 165,396,325</u>	<u>\$ 128,544,117</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENT OF ACTIVITIES
For the Year Ended April 30, 2009

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Operating	Other	Total			
Operating Revenue and Support						
Ticket Sales	\$ 28,050,986	\$ -	\$ 28,050,986	\$ -	\$ -	\$ 28,050,986
Contributions	11,331,208	48,553	11,379,761	5,937,950	-	17,317,711
Other Fundraising Support	2,163,252	142,855	2,306,107	-	-	2,306,107
Donated Services and Materials	1,279,992	-	1,279,992	-	-	1,279,992
Endowment Spending Draw	4,829,154	1,983,620	6,812,774	-	-	6,812,774
Investment Income	325,001	(2,374,590)	(2,049,589)	83,051	-	(1,966,538)
Other Operating Revenue	3,725,964	-	3,725,964	-	-	3,725,964
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>	<u>-</u>	<u>-</u>
Total Operating Revenue and Support	59,546,709	2,716,154	62,262,863	(4,735,867)	-	57,526,996
Operating Expenses						
Production, Artistic, and Promotional	47,071,851	2,654,641	49,726,492	-	-	49,726,492
Administrative	5,354,256	2,488,977	7,843,233	-	-	7,843,233
Fundraising	<u>5,956,380</u>	<u>387,985</u>	<u>6,344,365</u>	<u>-</u>	<u>-</u>	<u>6,344,365</u>
Total Operating Expenses	58,382,487	5,531,603	63,914,090	-	-	63,914,090
Changes in Net Assets from Operations	<u>1,164,222</u>	<u>(2,815,449)</u>	<u>(1,651,227)</u>	<u>(4,735,867)</u>	<u>-</u>	<u>(6,387,094)</u>
Non-Operating Revenue and Support						
Contributions	-	2,247,705	2,247,705	256,994	2,041,235	4,545,934
Investment Return Less than Amounts Designated for Operations	-	(44,262,019)	(44,262,019)	-	-	(44,262,019)
Unrealized Loss on Interest Rate Swap	-	(4,747,637)	(4,747,637)	-	-	(4,747,637)
Other Revenue	-	7,032	7,032	-	-	7,032
Net Assets Released from Restrictions	<u>-</u>	<u>334,679</u>	<u>334,679</u>	<u>(334,679)</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenue and Support	-	(46,420,240)	(46,420,240)	(77,685)	2,041,235	(44,456,690)
Net Asset Transfers	(1,092,398)	1,092,398	-	-	-	-
Change in Severance Plans' Valuation	-	849,940	849,940	-	-	849,940
Changes in Net Assets	<u>\$ 71,824</u>	<u>\$ (47,293,351)</u>	<u>(47,221,527)</u>	<u>(4,813,552)</u>	<u>2,041,235</u>	<u>(49,993,844)</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>
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>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets	\$ 36,852,208	\$ (49,993,844)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,982,074	2,813,947
Net Realized and Unrealized (Gains) Losses on Investments	(34,472,890)	41,607,840
Net Interest Rate Swap Settlements	1,443,114	954,566
Unrealized (Gains) Losses on Interest Rate Swap	(2,463,215)	4,747,637
Contributions Permanently Restricted for Endowment	(368,696)	(2,041,235)
Losses on Sale/Disposal of Fixed Assets	7,767	20,188
(Increase) Decrease in Pledge and Bequest Receivables	(601,385)	1,929,230
(Increase) Decrease in Ticket and Other Receivables	(155,082)	271,539
(Increase) Decrease in Deferred Production Costs and Other Assets	(567,611)	229,025
(Decrease) Increase in Accounts Payable and Other Liabilities	(37,909)	99,503
Decrease in Deferred Ticket and Other Revenue	(444,505)	(4,143,860)
Increase (Decrease) in Severance Plans	<u>382,512</u>	<u>(733,091)</u>
Net Cash Provided by (Used In) Operating Activities	2,556,382	(4,238,555)
 Cash Flows from Investing Activities		
Sale of Investments	36,994,849	37,835,483
Purchase of Investments	(59,563,482)	(32,694,856)
Net Interest Rate Swap Settlements	(1,443,114)	(954,566)
Proceeds from Sale of Fixed Assets	809	12,608
Fixed Asset Additions:		
Facilities	(760,943)	(4,055,973)
Other Assets	<u>(267,719)</u>	<u>(838,381)</u>
Net Cash Used In Investing Activities	(25,039,600)	(695,685)
 Cash Flows from Financing Activities		
Contributions Permanently Restricted for Endowment	393,309	2,701,706
Proceeds from Borrowings	-	3,500,000
Repayments of Borrowings	<u>(167,305)</u>	<u>(649,903)</u>
Net Cash Provided by Financing Activities	226,004	5,551,803
 Net (Decrease) Increase in Cash and Cash Equivalents	<u>(22,257,214)</u>	<u>617,563</u>
 Cash and Cash Equivalents at Beginning of Year	<u>23,966,884</u>	<u>23,349,321</u>
 Cash and Cash Equivalents at End of Year	<u>\$ 1,709,670</u>	<u>\$ 23,966,884</u>
 Supplemental Disclosure of Cash Flow Information		
Interest Paid	<u>\$ 1,752,569</u>	<u>\$ 2,032,580</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

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.

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 and Campaign for Excellence in accordance with the Opera's spending policies.
- 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, unrestricted endowment gifts, and the actuarial change in severance plans' valuation. Unrestricted charitable gift annuities are recorded in Operating Revenue and Support as contributions.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Net asset transfers for the year ending April 30, 2010, consist of the following:

	<u>Operating Unrestricted</u>	<u>Other Unrestricted</u>	<u>Temporarily Restricted</u>
Facility maintenance	\$ (425,000)	\$ 425,000	\$ -
Fixed asset additions	(443,844)	443,844	-
Campaign for Excellence	2,775,158	(2,775,158)	-
UPMIFA reclassification	-	(8,015,420)	8,015,420
	<u>\$ 1,906,314</u>	<u>\$ (9,921,734)</u>	<u>\$ 8,015,420</u>

Net asset transfers for the year ending April 30, 2009, consist of the following:

	<u>Operating Unrestricted</u>	<u>Other Unrestricted</u>	<u>Temporarily Restricted</u>
Facility maintenance	\$ (684,000)	\$ 684,000	\$ -
Fixed asset additions	(408,398)	408,398	-
	<u>\$ (1,092,398)</u>	<u>\$ 1,092,398</u>	<u>\$ -</u>

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

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2010 and 2009, 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 2010				
Less than one year	\$ 4,620,404	\$ 5,149,125	\$ 197,437	\$ 9,966,966
One to five years	1,851,500	9,625,912	240,000	11,717,412
More than five years	-	843,557	-	843,557
With no due date	<u>-</u>	<u>11,224,181</u>	<u>14,795</u>	<u>11,238,976</u>
Gross	6,471,904	26,842,775	452,232	33,766,911
Less discount	138,199	5,370,887	27,477	5,536,563
Less allowance	<u>161,000</u>	<u>1,337,000</u>	<u>55,000</u>	<u>1,553,000</u>
Net	<u>\$ 6,172,705</u>	<u>\$ 20,134,888</u>	<u>\$ 369,755</u>	<u>\$ 26,677,348</u>
	<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>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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: Short-term investments consist of a short-term fixed income mutual fund.

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>2010</u>	<u>2009</u>
Land	\$ 696,577	\$ 696,577
Equipment	6,771,278	6,585,287
Facilities	86,463,127	85,779,834
Less: accumulated depreciation	<u>41,288,499</u>	<u>38,534,285</u>
Net	<u>\$ 52,642,483</u>	<u>\$ 54,527,413</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.

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, 2010 and 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

During the fiscal years ended April 30, 2010 and 2009, 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 realized and unrealized investment gains or losses unless a donor temporarily restricts income for a specific purpose. If the earnings are on permanently restricted assets and not yet appropriated for expenditure, 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 \$1,779,044 and \$1,680,391 for the years ended April 30, 2010 and 2009, respectively. Prepaid advertising expenses, to be expensed in the following fiscal year, were \$458,827 and \$494,595 as of April 30, 2010 and 2009, 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 2009 to conform to the presentation in fiscal 2010. These reclassifications did not affect the change in net assets or total net assets.

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.

The Opera adopted guidance issued by the Financial Accounting Standards Board (FASB) on accounting for uncertainty in tax positions. The adoption of this guidance had no effect on the Opera's financial position. Management believes the Opera has no material unrecognized income tax benefits, including any potential loss of its tax exempt status. The Opera has no ongoing federal, state or local tax audits, however, the Opera's tax returns for 2007 and subsequent years are open to examination.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined 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.

FASB 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 value 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, 2010 and 2009 (Level 2 and Level 3 inputs).

During the year ended April 30, 2010, the Opera adopted new guidance related to fair value measurements and disclosures of investments in certain entities which do not have a quoted market price but which calculate net asset value (NAV) per share or its equivalent. As a practical expedient, the Opera is permitted to measure the fair value of an investment in an investee within the scope of the amendments based on the investee's NAV per share or its equivalent. As a result of applying the practical expedient, the fair value of the Opera's investments in certain funds in Level 2 and Level 3 was determined using the NAV and certain investments were reclassified from Level 3 to Level 2.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

Assets and liabilities measured on a recurring basis at fair value at April 30, 2010, are summarized below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current Assets:				
Fixed Income Securities	\$ 20,917,252	\$ -	\$ -	\$ 20,917,252
Long-Term Assets:				
Fixed Income Securities	\$ 22,820,757	\$ -	\$ -	\$ 22,820,757
Equity Securities	40,049,649	30,504,738	-	70,554,387
Alternative Investments				
Hedged Equities	-	3,245,123	14,084,692	17,329,815
Absolute Return	-	4,355,225	29,300,429	33,655,654
Real Assets	-	1,521,760	1,719,668	3,241,428
Investment Assets Held In Trust				
	-	-	<u>3,597,324</u>	<u>3,597,324</u>
Total Long-Term Assets	<u>62,870,406</u>	<u>39,626,846</u>	<u>48,702,113</u>	<u>151,199,365</u>
Total Assets	<u>\$ 83,787,658</u>	<u>\$ 39,626,846</u>	<u>\$ 48,702,113</u>	<u>\$ 172,116,617</u>
Current Liabilities:				
Interest Rate Swap	\$ -	\$ 1,382,176	\$ -	\$ 1,382,176
Long-Term Liabilities:				
Interest Rate Swap	<u>\$ -</u>	<u>\$ 4,674,401</u>	<u>\$ -</u>	<u>\$ 4,674,401</u>
Total Liabilities	<u>\$ -</u>	<u>\$ 6,056,577</u>	<u>\$ -</u>	<u>\$ 6,056,577</u>

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Long-Term Assets:				
Fixed Income Securities	\$ 15,717,430	\$ -	\$ -	\$ 15,717,430
Equity Securities	34,882,350	9,581,795	5,287,444	49,751,589
Alternative Investments				
Hedged Equities	-	-	12,833,914	12,833,914
Absolute Return	-	-	31,608,871	31,608,871
Real Assets	-	-	2,332,349	2,332,349
Investment Assets Held In Trust				
	-	-	<u>2,830,941</u>	<u>2,830,941</u>
Total Long-Term Assets	<u>\$ 50,599,780</u>	<u>\$ 9,581,795</u>	<u>\$ 54,893,519</u>	<u>\$ 115,075,094</u>
Current Liabilities:				
Interest Rate Swap	\$ -	\$ 1,443,114	\$ -	\$ 1,443,114
Long-Term Liabilities:				
Interest Rate Swap	<u>\$ -</u>	<u>\$ 7,076,678</u>	<u>\$ -</u>	<u>\$ 7,076,678</u>
Total Liabilities	<u>\$ -</u>	<u>\$ 8,519,792</u>	<u>\$ -</u>	<u>\$ 8,519,792</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

Fixed Income Securities consist of mutual funds which are primarily invested in debt securities. The fair value of mutual funds, which are readily marketable, is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Equity Securities consist of mutual funds, common trust funds, and a limited partnership, all of which are primarily invested in equity securities. The fair value of mutual funds, which are readily marketable, is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). The Opera has full transparency to the holdings of the common trust funds, and the fair value of these investment funds has been determined by the managers based on the market prices of the underlying holdings (Level 2 inputs). The limited partnership is invested primarily in emerging market equities (Level 2 and Level 3 inputs). As of April 30, 2010, there were no unfunded future commitments to partnership investments, however, there may be restrictions on redemptions from time to time.

Alternative Investments consist of investments where there may be no active market. The Opera generally uses the net asset value (NAV), but incorporates information such as historical and current performance of underlying assets, liquidity terms of the investment agreements, completed or pending transactions in the underlying or a comparable investment, and overall market conditions in determining valuations. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values, and holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, or appraisals. In some instances, the Opera possesses the ability to redeem its investment at the NAV at the measurement date (Level 2 inputs). In some instances, however, restrictions on redemptions, such as lock-ups and gates, may be in place such that investment redemption at NAV is not possible at the measurement date (Level 3 inputs).

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.

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

Description of Alternative Investments and Liquidity:

The Opera's alternative investments consist of investments in:

- (1) Hedged Equities (Long/Short) - The investment objective of these funds is to seek above-average returns in all market environments. The funds invest in both long and short securities to mitigate market risk. Certain investment funds concentrate their investment programs in specific industries, sectors or market capitalization. In addition, the funds may utilize leverage, options, futures, commodities or other derivatives and may invest in non-U.S. securities and illiquid securities. These investments may be subject to redemption restrictions for varying periods of up to three years.
- (2) Absolute Return - The investment objective of these funds is to generate attractive, risk-adjusted returns across all market environments. In pursuing this investment objective, the funds generally employ multiple strategies, including without limitation, (i) credit and volatility-driven strategies such as the trading of convertible, asset-backed, mortgage-backed, high-yield and distressed instruments, credit, fixed-income and capital structure arbitrage, and private placements, (ii) equity strategies, including fundamental and quantitative long-short, long only and short only equity trades, and relative value-driven equity strategies and (iii) investments in commodity derivatives and physical commodities. At April 30, 2010, \$6.2 million of these investments were subject to quarterly redemption restrictions. The balance is subject to redemptions in installments over a period of up to three years. While \$1.8 million of these investments were gated at April 30, 2010, all may contain gates or side-pocket positions which would additionally restrict the liquidity of these investments.
- (3) Real Assets - As of April 30, 2010, the Opera had investments in three funds: real estate, natural resources and distressed credit.
 - a. The real estate fund, fair valued at \$0.2 million, seeks to capitalize on relative value and opportunities across various property types, geographic regions and strategies through value-added real estate investments primarily in the United States. The fund seeks a return of 18% and to double its equity. There is a three to five year holding period. As of April 30, 2010, the Opera had unfunded commitments of \$2.2 million (Level 3).

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

- b. The natural resources fund, fair valued at \$1.5 million, is a limited partnership which invests globally in commodities such as metals and mining, gold and other precious metals and oil and gas exploration and production. The fund may invest in equities, ETFs, debt, illiquid investments, derivatives, commodity futures and commodity future options. The fund may be redeemed on a quarterly basis with 60 days' notice, however there may be illiquid investments of up to 25% and the fund may be gated (Level 2).
- c. The distressed credit fund, fair valued at \$1.4 million, pursues distressed investments in the residential mortgage market and opportunistic investments in corporate credit, real estate and asset-based lending. The fund may engage in hedging activities, including interest rate hedging, currency hedging, short sales, foreign exchange transactions, and other derivative contracts or instruments. The commitment to the fund expires in October, 2011. As of April 30, 2010, the Opera had unfunded commitments of \$2.3 million. The Opera also had an additional commitment of \$3.0 million to a second distressed credit fund as of April 30, 2010 (Level 3).

Assets Held in Trust - The Opera is the beneficiary of two endowment funds managed by the Chicago Community Trust. The fair value of beneficial interests is determined based upon the Opera's proportional interest in the fair value of the underlying trust assets. The underlying trust assets are either readily marketable and have fair values which are determined by obtaining quoted market prices in active markets, or are determined by the trust using information provided by the related investment manager (Level 3).

Interest Rate Swap - The fair value of the swap is computed using the present value of cash flows based on the notional amount, term, and fixed and variable interest rates contained in the contract. The model prices the instrument at an exit value were the agreement terminated at the date of valuation. Significant fair value inputs can be verified and do not involve management judgments (Level 2).

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

The table below reconciles beginning and ending balances for Level 3 assets for the years ended April 30, 2010 and 2009:

	<u>Equity Securities</u>	<u>Hedged Equities</u>	<u>Absolute Return</u>	<u>Real Assets</u>	<u>Assets Held In Trust</u>	<u>Total</u>
April 30, 2009	\$ 5,287,444	\$ 12,833,914	\$ 31,608,871	\$ 2,332,349	\$ 2,830,941	\$ 54,893,519
Transfers to Level 2	(5,287,444)	(2,863,693)	(3,497,396)	(962,779)	-	(12,611,312)
Purchases and (sales), net	-	2,656,624	(4,419,770)	(1,545,980)	(126,403)	(3,435,529)
Unrealized gains	-	1,365,583	4,976,788	1,383,803	892,786	8,618,960
Realized gains	-	<u>92,264</u>	<u>631,936</u>	<u>512,275</u>	-	<u>1,236,475</u>
April 30, 2010	<u>\$ -</u>	<u>\$ 14,084,692</u>	<u>\$ 29,300,429</u>	<u>\$ 1,719,668</u>	<u>\$ 3,597,324</u>	<u>\$ 48,702,113</u>

	<u>Equity Securities</u>	<u>Hedged Equities</u>	<u>Absolute Return</u>	<u>Real Assets</u>	<u>Assets Held In Trust</u>	<u>Total</u>
April 30, 2008	\$ 7,517,259	\$ 21,760,276	\$ 39,665,240	\$ 1,930,445	\$ 2,906,820	\$ 73,780,040
Purchases and (sales), net	-	(4,280,952)	(6,335,945)	2,582,460	795,184	(7,239,253)
Unrealized losses	(2,229,815)	(2,503,913)	(1,319,092)	(2,180,556)	(871,063)	(9,104,439)
Realized losses	-	<u>(2,141,497)</u>	<u>(401,332)</u>	-	-	<u>(2,542,829)</u>
April 30, 2009	<u>\$ 5,287,444</u>	<u>\$ 12,833,914</u>	<u>\$ 31,608,871</u>	<u>\$ 2,332,349</u>	<u>\$ 2,830,941</u>	<u>\$ 54,893,519</u>

The following tables summarize investment return for fiscal years 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Long-term investments		
Interest and dividends	\$ 1,483,018	\$ 1,552,295
Net realized and unrealized gains (losses)	<u>34,472,890</u>	<u>(41,607,840)</u>
Total return on long-term investments	35,955,908	(40,055,545)
Interest on short-term investments	<u>349,907</u>	<u>639,762</u>
Total return on investments	36,305,815	(39,415,783)
Less:		
Endowment spending policy	7,124,760	6,812,774
Investment income designated for operations	<u>2,735,854</u>	<u>(1,966,538)</u>
Investment return in excess of (less than) amounts designated for operations	<u>\$ 26,445,201</u>	<u>\$ (44,262,019)</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE D - ENDOWMENT

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

On June 30, 2009, the State of Illinois enacted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Opera has interpreted the State of Illinois' UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Opera classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) donor-restricted accumulations to the permanent endowment. Beginning in Fiscal 2010, the portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until those amounts are appropriated for expenditure by the Opera in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Opera considers the following factors, among others, in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Opera and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Opera; and
- The investment policies of the Opera.

On June 30, 2009, the Opera adopted UPFIMA and reclassified \$8,015,420 from unrestricted net assets to temporarily restricted net assets.

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.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE D - ENDOWMENT (Continued)

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 2010 and fiscal 2009. 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, 2010:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Pledges receivable, net	\$ 4,507,719	\$ -	\$ 369,755	\$ 4,877,474
Donor restricted endowment funds	-	14,242,133	22,223,098	36,465,231
Board designated funds	106,202,191	-	-	106,202,191
Accrued expenses	(29,056)	-	-	(29,056)
Interfund (payable) receivable	(55,000)	-	55,000	-
Total net assets	<u>\$ 110,625,854</u>	<u>\$14,242,133</u>	<u>\$ 22,647,853</u>	<u>\$147,515,840</u>

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

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Pledges receivable, net	\$ 1,378,902	\$ -	\$ 394,367	\$ 1,773,269
Donor restricted endowment funds	5,893,817	-	21,829,790	27,723,607
Board designated funds	80,856,333	-	-	80,856,333
Accrued expenses	(18,758)	-	-	(18,758)
Interfund receivable	8,557,427	-	55,000	8,612,427
Total net assets	<u>\$ 96,667,721</u>	<u>\$ -</u>	<u>\$ 22,279,157</u>	<u>\$118,946,878</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE D - ENDOWMENT (Continued)

Changes in endowment net assets for the year ended April 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at beginning of year	\$ 96,667,721	\$ -	\$ 22,279,157	\$118,946,878
Investment return				
Investment income, net	1,143,574	339,460	-	1,483,034
Net appreciation (realized and unrealized)	<u>24,778,069</u>	<u>7,115,749</u>	-	<u>31,893,818</u>
Total investment return	25,921,643	7,455,209	-	33,376,852
Contributions	10,560,601	-	368,696	10,929,297
Net assets released from restriction	1,228,496	(1,228,496)	-	-
Interfund additions	2,471,865	-	-	2,471,865
Interfund elimination	(11,084,292)	-	-	(11,084,292)
Appropriation of endowment assets for expenditures	(7,124,760)	-	-	(7,124,760)
Net asset reclassification based on UPMIFA	<u>(8,015,420)</u>	<u>8,015,420</u>	-	-
Net assets at end of year	<u>\$110,625,854</u>	<u>\$ 14,242,133</u>	<u>\$ 22,647,853</u>	<u>\$147,515,840</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently 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>(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
Interfund additions	1,982,328	-	-	1,982,328
Appropriation of endowment assets for expenditures	<u>(6,812,774)</u>	-	-	<u>(6,812,774)</u>
Net assets at end of year	<u>\$ 96,667,721</u>	<u>\$ -</u>	<u>\$ 22,279,157</u>	<u>\$118,946,878</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE D - ENDOWMENT (Continued)

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, the deficiencies, reported as unrestricted net assets, totaled \$1,017,554. The deficiency resulted from extraordinary market conditions in 2008 and early 2009. There were no deficiencies at April 30, 2010.

NOTE E - 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 \$441,146 and \$392,881 for the years ended April 30, 2010 and 2009, 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, 2010 and 2009, the Opera contributed \$76,181 and \$70,342, respectively.

The Opera has contracted to make payments to multiemployer retirement plans for employees covered by collective bargaining agreements. Contributions to such plans total \$1,643,168 and \$1,775,982 for the years ended April 30, 2010 and 2009, respectively.

On April 30, 2010, the Opera was notified by the American Federation of Musicians and Employers' Pension Fund, the multiemployer retirement plan for the Opera's musicians, that it is underfunded to the point of "critical status", as defined by the Pension Protection Act of 2006. As a part of the rehabilitation plan to emerge from critical status, the Opera has agreed to increase its contribution to the plan from 10.0% to 10.4% of gross wages beginning June 1, 2010, and to 10.9% of gross wages beginning April 1, 2011.

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.

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE E - EMPLOYEE RETIREMENT BENEFITS (Continued)

The change in benefit obligations and the funded status of the plans for the years ended April 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 2,982,227	\$ 3,715,318
Service cost	99,137	120,152
Interest cost	201,547	220,124
Actuarial loss (gain)	364,757	(831,276)
Benefits paid	<u>(282,929)</u>	<u>(242,091)</u>
 Benefit obligation, end of year	 <u>\$ 3,364,739</u>	 <u>\$ 2,982,227</u>
Unfunded Status		
Projected benefit obligation	\$ (3,364,739)	\$ (2,982,227)
Fair value of assets	<u>-</u>	<u>-</u>
Funded Status	<u>\$ (3,364,739)</u>	<u>\$ (2,982,227)</u>

The components of net periodic benefit costs for the years ended April 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 99,137	\$ 120,152
Interest cost	201,547	220,124
Amortization of:		
Net transition obligation	19,382	19,382
Prior service cost	(28,825)	(28,825)
Net (gain) loss	<u>(6,683)</u>	<u>28,107</u>
 Net periodic benefit cost	 <u>\$ 284,558</u>	 <u>\$ 358,940</u>

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE E - EMPLOYEE RETIREMENT BENEFITS (Continued)

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, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Net transition obligations	\$ 174,434	\$ 193,816
Prior service cost	(316,498)	(345,323)
Net actuarial loss (gain)	<u>266,607</u>	<u>(104,833)</u>
Net amount recognized	<u>\$ 124,543</u>	<u>\$ (256,340)</u>

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

	<u>2011</u>
Service cost	\$ 103,677
Interest cost	191,476
Amortization of:	
Net transition obligation	19,382
Prior service cost	(28,825)
Net loss	<u>5,973</u>
Net periodic benefit cost	<u>\$ 291,683</u>

The key actuarial assumptions used were:

	<u>2010</u>	<u>2009</u>
To determine benefit obligation:		
Discount rate	6.0%	7.25%
Expected rate of pay increases	3.0%	3.5%
To determine net periodic benefit:		
Discount rate	7.25%	6.5%
Expected rate of pay increases	3.5%	3.5%

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE E - EMPLOYEE RETIREMENT BENEFITS (Continued)

Estimated benefit payments for future fiscal years are as follows:

2011	\$ 173,481
2012	249,866
2013	135,303
2014	318,971
2015	182,127
2016-2020	\$ 1,601,472

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

Restricted net assets are restricted for the following purposes:

	<u>2010</u>		<u>2009</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Future operating support	\$ 39,159,884	\$ 22,647,853	\$ 28,019,001	\$ 22,279,157
Equipment	<u>2,666,928</u>	<u>-</u>	<u>2,826,107</u>	<u>-</u>
Total	<u>\$ 41,826,812</u>	<u>\$ 22,647,853</u>	<u>\$ 30,845,108</u>	<u>\$ 22,279,157</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, 2010 and 2009, are summarized as follows:

	<u>2010</u>	<u>2009</u>
Time restrictions:		
Operating support	\$ 5,020,332	\$ 5,519,578
Purpose restrictions:		
Operating support	7,190,878	5,440,015
Equipment	<u>161,370</u>	<u>131,954</u>
	<u>7,352,248</u>	<u>5,571,969</u>
Total	<u>\$ 12,372,580</u>	<u>\$ 11,091,547</u>

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

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

In fiscal 1991, the NEA awarded a \$1 million challenge grant to the Opera, and by fiscal 1992, all of the challenge grant and matching contributions of \$3 million were received. Under terms of the grant, unspent challenge grant and matching proceeds, along with investment income, are temporarily restricted until eligible production costs have been incurred. For the year ended April 30, 2009, \$535,720 was released to unrestricted net assets. Temporarily restricted net assets, as of April 30, 2010 and 2009, were \$710,726 and \$679,634, respectively.

NOTE H - 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 of the Finance Committee and approval of the Board of Directors. Gross pledges and gifts to CFE, which do not include radio broadcast support, totaled \$31.7 million at the conclusion of the campaign in early Fiscal 2008.

For the year ending April 30, 2010, the Opera appropriated \$2,775,158 from the CFE to support operations.

NOTE I - BONDS AND NOTE PAYABLE

Bonds: 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, 2010, 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, 2010, the interest rate was 0.27%.

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, 2012. Under the terms of that agreement, should the bonds become unmarketable, the Opera would be required to pay off such amounts within two years. Interest on such amounts would not exceed the prime rate plus 2%.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE I - BONDS AND NOTE PAYABLE (Continued)

Because these bonds operate in a floating interest rate mode and are remarketed at par value weekly, their carrying values approximate fair value.

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.

Bond interest expense was \$300,817 and \$947,299 for the years ended April 30, 2010 and 2009, respectively.

Unamortized bond issuance costs were:

	<u>2010</u>	<u>2009</u>
Deferred bond issuance costs	\$ 2,347,620	\$ 2,347,620
Less: accumulated amortization	<u>1,090,938</u>	<u>1,013,880</u>
Net	<u>\$ 1,256,682</u>	<u>\$ 1,333,740</u>

Note Payable: 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 required quarterly amortization of the principal. At April 30, 2010 and 2009, the principal balance was \$0 and \$167,305, respectively.

Total interest expense for the note was \$1,301 and \$24,646 for the years ended April 30, 2010 and 2009, respectively.

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

2019	\$ 3,500,000
2029	<u>62,200,000</u>
Total	<u>\$ 65,700,000</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE J - DERIVATIVE FINANCIAL INSTRUMENT

On May 9, 2006, the Opera entered into an interest rate swap agreement with the Bank of New York Mellon (BNYM) in order to hedge overall exposure to variable rate debt. 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 interest rate swap agreement has a notational amount of \$40 million and expires December 1, 2028. The Opera may terminate the interest rate swap early.

Summary information about the interest rate swap agreement as of April 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Weighted average pay rates (fixed)	3.804%	3.804%
Weighted average one-month LIBOR (variable)	0.263%	1.809%

The interest rate swap is recorded as a liability on the statement of financial position. The following table presents the net amounts recorded in the statements of activities related to the interest rate swap:

	<u>2010</u>	<u>2009</u>
Unrealized gain (loss) in interest rate swap agreement	\$ 2,463,215	\$ (4,747,637)
Interest expense	1,450,687	1,038,022

The net settlements on the interest rate swap agreement are included as other unrestricted administrative expenses and totaled \$1,443,114 and \$954,566 for the years ended April 30, 2010 and 2009, respectively.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE K - COMMITMENTS

Contracts with Performers and Unions: Substantially all contracts for the Opera's 2010-11 repertoire have been executed for or with principal artists. Future commitments to principal artists are approximately \$5.0 million in 2010-11, \$4.3 million in 2011-12, \$3.4 million in 2012-13, \$3.1 million in 2013-14, and \$0.4 million in 2014-15.

The Opera has collective bargaining agreements with numerous unions. Contracts with the American Guild of Musical Artists, which represents principal artists, choristers, ballet, and production staff, the Chicago Federation of Musicians, which represents the orchestra, and the International Alliance of Theatrical Stage Employees, which represents stagehands, expire April 30, 2011, April 30, 2012, and June 30, 2013, respectively.

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

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

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

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

The Opera requires each 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.

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
April 30, 2010 and 2009

NOTE M - NEW ACCOUNTING PRONOUNCEMENTS

During 2009, the Financial Accounting Standards Board (FASB) issued *The FASB Accounting Standards Codification™ (Codification) and the Hierarchy of Generally Accepted Accounting Principles (GAAP)*. The Codification is the single source of authoritative U.S. GAAP, and supersedes all existing accounting and reporting standards. This Statement is effective for financial periods ending after September 15, 2009.

In January 2010, the FASB updated the requirements for fair value measurements and associated disclosures provided in financial statements. The Opera will be required to disclose significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers and disclose the purchases, sales, issuances and settlements for Level 3 fair value measurements. *Accounting Standards Update (ASU) No. 2010-06* requires the Opera to provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. ASU No. 2010-06 will become effective for years beginning after December 15, 2009, with the exception of the Level 3 disclosures. Those disclosures will become effective for years beginning after December 15, 2010.

NOTE N - SUBSEQUENT EVENT

In May 2009, the FASB issued a statement on subsequent events, which introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the financial statement date.

Management has performed an analysis of the activities and transactions subsequent to April 30, 2010, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended April 30, 2010. Management has performed their analysis through August 16, 2010, the date the financial statements were available to be issued. Activities subsequent to this date have not been evaluated by management.

On June 9, 2010, the City of Chicago (City) approved a Redevelopment Agreement (RDA) between the City and the Opera. Under the terms of that agreement, the Opera will complete the restoration of certain doors, windows and exterior elements of the Civic Opera Building owned by the Opera during 2010 and 2011. The City of Chicago will reimburse up to 25% of the estimated project cost of \$1.9 million if the Opera complies with the terms of the RDA.