

**LYRIC OPERA OF CHICAGO**  
Chicago, Illinois

**FINANCIAL STATEMENTS**  
June 30, 2018 and 2017

LYRIC OPERA OF CHICAGO

Chicago, Illinois

FINANCIAL STATEMENTS

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Lyric Opera of Chicago  
Chicago, Illinois

**Report on the Financial Statements**

We have audited the accompanying financial statements of Lyric Opera of Chicago (the Opera), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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 June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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(Continued)

***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statement of activities - column format is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
Crowe LLP

Chicago, Illinois  
October 18, 2018

LYRIC OPERA OF CHICAGO  
STATEMENTS OF FINANCIAL POSITION  
As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 3,490,867	\$ 4,179,325
Short-Term Investments	9,006,578	12,849,064
Ticket and Other Receivables	1,032,761	960,959
Pledge and Bequest Receivables, net	19,450,086	11,386,741
Deferred Production Costs and Other Assets	2,960,196	3,522,157
Total Current Assets	35,940,488	32,898,246
Long-Term Assets		
Pledge and Bequest Receivables, net	25,572,359	43,499,613
Long-Term Investments	189,005,947	183,790,164
Deferred Production Costs and Other Assets	236,565	381,065
Property and Equipment, net	42,611,556	45,323,381
Total Long-Term Assets	257,426,427	272,994,223
Total Assets	\$ 293,366,915	\$ 305,892,469
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts Payable and Other Liabilities	\$ 3,286,396	\$ 4,351,423
Deferred Ticket and Other Revenue	13,931,497	13,785,891
Severance Plans	751,796	707,928
Interest Rate Swap	883,167	1,154,258
Total Current Liabilities	18,852,856	19,999,500
Long-Term Liabilities		
Severance Plans	3,476,097	3,587,885
Debt Payable, net	65,048,714	64,995,565
Interest Rate Swap	6,127,990	8,320,190
Total Long-Term Liabilities	74,652,801	76,903,640
Total Liabilities	93,505,657	96,903,140
Net Assets		
Unrestricted	99,021,603	92,001,101
Temporarily Restricted	71,318,615	88,192,748
Permanently Restricted	29,521,040	28,795,480
Total Net Assets	199,861,258	208,989,329
Total Liabilities and Net Assets	\$ 293,366,915	\$ 305,892,469

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO  
 STATEMENTS OF ACTIVITIES  
 For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Changes in Unrestricted Net Assets</b>		
<b>Operating</b>		
Revenue and Support		
Revenue		
Ticket Sales	\$ 25,975,812	\$ 26,960,878
Spending Draw	9,114,038	8,703,754
Investment Income	190,975	465,408
Other	<u>6,756,153</u>	<u>5,106,934</u>
Total Revenue	<u>42,036,978</u>	<u>41,236,974</u>
Support		
Contributions and Fundraising Revenue, net	14,101,953	16,142,340
Net Assets Released from Restriction and Designation	<u>25,435,400</u>	<u>27,122,587</u>
Total Support	<u>39,537,353</u>	<u>43,264,927</u>
Total Operating Revenue and Support	<u>81,574,331</u>	<u>84,501,901</u>
Expenses		
Artistic, Production and Promotional	69,243,304	71,004,849
Administration	7,771,037	9,893,043
Development	<u>4,559,990</u>	<u>3,604,009</u>
Total Expenses	<u>81,574,331</u>	<u>84,501,901</u>
Change in Operating Net Assets	<u>\$ -</u>	<u>\$ -</u>

(Continued)

LYRIC OPERA OF CHICAGO  
STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Changes in Unrestricted Net Assets</b>		
<b>Non-Operating</b>		
Revenue and Support		
Contributions	\$ 1,004,119	\$ 125,619
Investment Gain, net of Spending Draw	202,633	7,694,196
Unrealized Gain on Interest Rate Swap	2,463,291	3,810,868
Other Revenue	19,777	6,710
Net Assets Released from Restriction and Designation	8,201,692	2,160,440
Total Revenue and Support	<u>11,891,512</u>	<u>13,797,833</u>
Expenses		
Depreciation	4,233,563	4,111,388
Other	637,447	943,127
Total Expenses	<u>4,871,010</u>	<u>5,054,515</u>
Change in Non-Operating Unrestricted Net Assets	<u>7,020,502</u>	<u>8,743,318</u>
Change in Unrestricted Net Assets	<u>7,020,502</u>	<u>8,743,318</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	12,822,992	11,802,767
Investment Income	3,939,967	6,481,607
Increase in Allowance for Doubtful Pledges Receivable	-	(500,000)
Net Assets Released from Restriction	<u>(33,637,092)</u>	<u>(29,283,027)</u>
Change in Temporarily Restricted Net Assets	<u>(16,874,133)</u>	<u>(11,498,653)</u>
<b>Changes in Permanently Restricted Net Assets</b>		
Contributions	<u>725,560</u>	<u>1,581,116</u>
Change in Net Assets	(9,128,071)	(1,174,219)
Net Assets at Beginning of Year	<u>208,989,329</u>	<u>210,163,548</u>
<b>Net Assets at End of Year</b>	<u>\$ 199,861,258</u>	<u>\$ 208,989,329</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ (9,128,071)	\$ (1,174,219)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation and Amortization	4,324,827	4,188,446
Net Realized and Unrealized Gains on Investments	(12,795,538)	(22,410,150)
Net Interest Rate Swap Settlements	1,128,829	1,338,620
Unrealized Gains on Interest Rate Swap	(2,463,291)	(3,810,868)
Contributions Permanently Restricted for Endowment	(725,560)	(1,581,116)
Loss on Bad Debt Related to Pledges Receivable	-	500,000
Decrease in Unrestricted and Temporarily Restricted Pledge and Bequest Receivables	9,863,909	10,602,710
(Increase) Decrease in Ticket and Other Receivables	(71,802)	876,420
Decrease in Deferred Production Costs and Other Assets	706,461	955,525
Decrease in Accounts Payable and Other Liabilities	(1,065,027)	(1,245,883)
Increase in Deferred Ticket and Other Revenue	145,606	630,002
Decrease in Severance Plans	(67,920)	(114,264)
Net Cash Used In Operating Activities	<u>(10,147,577)</u>	<u>(11,244,777)</u>
<b>Cash Flows from Investing Activities</b>		
Sale of Investments	49,449,117	51,503,574
Purchase of Investments	(38,026,876)	(37,941,002)
Net Interest Rate Swap Settlements	(1,128,829)	(1,338,620)
Fixed Asset Additions:		
Facilities	(265,578)	(351,862)
Equipment and Other Assets	(1,394,275)	(1,885,269)
Net Cash Provided By Investing Activities	<u>8,633,559</u>	<u>9,986,821</u>
<b>Cash Flows from Financing Activities</b>		
Contributions Permanently Restricted for Endowment	725,560	1,581,116
Proceeds from Borrowings	3,600,000	-
Repayments of Borrowings	(3,500,000)	-
Net Cash Provided by Financing Activities	<u>825,560</u>	<u>1,581,116</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(688,458)	323,160
Cash and Cash Equivalents at Beginning of Year	<u>4,179,325</u>	<u>3,856,165</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 3,490,867</u>	<u>\$ 4,179,325</u>
Supplemental Disclosure of Cash Flow Information		
Interest Paid	<u>\$ 2,021,366</u>	<u>\$ 1,926,255</u>

See accompanying notes to financial statements.



LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**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 engagement activities through Lyric Unlimited, 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 which are not subject to donor-imposed restrictions including the carrying value of physical properties (land, facilities and equipment). Items which 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, interest expense and other debt service costs, net assets released from donor restrictions to support operating activities, and distributions in accordance with the Opera's spending policies and capital campaigns.
- Non-Operating unrestricted net assets - include unrestricted investment returns in excess of the Opera's spending policy, capitalized property and equipment and its related depreciation, the actuarial change in severance plans' valuation, and the unrealized balance in the value of the swap. Unrestricted charitable gift annuities are also included in Revenue and Support as contributions.
- **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 restricted net assets.
- **Permanently Restricted Net Assets** - net assets subject to donor-imposed restrictions stipulating 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 three months or less.

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LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Short-Term Investments:** Short-term investments consist of short-term fixed income mutual funds.

**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 donor-imposed restrictions. 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 June 30, 2018 and 2017, contributors to the Opera have made unconditional promises to give, which are due as follows:

<u>June 30, 2018</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Less than one year	\$ 13,498,044	\$ 5,948,315	\$ 200,000	\$ 19,646,359
One to five years	584,245	19,081,405	100,000	19,765,650
More than five years	-	1,450,000	-	1,450,000
With no due date	75,000	7,755,788	1,060,827	8,891,615
Gross	14,157,289	34,235,508	1,360,827	49,753,624
Less discount	70,466	3,422,922	250,986	3,744,374
Less allowance	111,501	870,047	5,257	986,805
Net	<u>\$ 13,975,322</u>	<u>\$ 29,942,539</u>	<u>\$ 1,104,584</u>	<u>\$ 45,022,445</u>
<u>June 30, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Less than one year	\$ 3,967,986	\$ 8,103,566	\$ 300,000	\$ 12,371,552
One to five years	1,236,735	27,106,773	200,000	28,543,508
More than five years	-	4,225,000	-	4,225,000
With no due date	75,000	17,751,638	1,060,035	18,886,673
Gross	5,279,721	57,186,977	1,560,035	64,026,733
Less discount	112,948	6,968,862	256,534	7,338,344
Less allowance	269,471	1,527,307	5,257	1,802,035
Net	<u>\$ 4,897,302</u>	<u>\$ 48,690,808</u>	<u>\$ 1,298,244</u>	<u>\$ 54,886,354</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.

(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**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.

**Long-Term Investments:** Long-term investments, consisting primarily of publicly traded equity and fixed income mutual funds, alternative investments and real assets, are stated at fair value. For investment purposes, unrestricted funds are commingled with endowment funds to constitute the managed portfolio.

**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 consist of:

	<u>2018</u>	<u>2017</u>
Land	\$ 696,577	\$ 696,577
Equipment	18,053,974	16,244,201
Facilities	90,238,276	90,103,357
Work In Process	115,365	704,584
Less: accumulated depreciation	<u>66,492,636</u>	<u>62,425,338</u>
Net	<u>\$ 42,611,556</u>	<u>\$ 45,323,381</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.

On an ongoing basis, the Opera reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. As of June 30, 2018 and 2017, management believes that no impairments existed.

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

**Interest Rate Swap:** The Opera entered into an interest rate swap agreement as part of its interest rate risk management strategy, not for speculation. Although the Opera believes the derivative would qualify as a hedge, accounting standards for not-for-profits allow reporting the instrument as a freestanding derivative.

**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. Donated services and materials were \$1,421,181 and \$2,665,095 for the years ended June 30, 2018 and 2017, respectively.

During the years ended June 30, 2018 and 2017, substantial amounts of time were donated by volunteers to the Opera in its fundraising and outreach efforts. In accordance with accounting principles generally accepted in the United States of America such amounts were not recorded as contributions in the financial statements.

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(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**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 education and community engagement activities.

**Contributions and Fundraising Revenue, net:** Contributions and fundraising revenue, net, includes unrestricted Annual Campaign contributions and various fundraising special events contributions, admissions, sales, and related expenses. The following table summarizes the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Contributions and fundraising revenue	\$ 17,876,726	\$ 17,934,668
Special event expenses	<u>(3,774,773)</u>	<u>(1,792,328)</u>
Net	<u>\$ 14,101,953</u>	<u>\$ 16,142,340</u>

**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 \$3,219,624 and \$3,431,809 for the years ended June 30, 2018 and 2017, respectively. Prepaid advertising expenses, to be expensed in the following fiscal year, were \$303,951 and \$256,612 as of June 30, 2018 and 2017, 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.

**Recent Accounting Guidance:** In May 2014, the FASB issued (ASU) 2014-09, *Revenue from Contracts with Customers: Topic 606*. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective retrospectively for fiscal years beginning after December 15, 2017. The Opera does not expect the adoption of this ASU to have a significant impact on the Opera's June 30, 2019 financial statements.

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(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In February 2016, the FASB issued (ASU) 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Public business entities should apply the amendments for fiscal years beginning after December 15, 2018. The Opera has not yet implemented this ASU and is in the process of assessing the effect on the Opera's financial statements.

In August 2016, the FASB issued (ASU) 2016-14, *Not-for-Profit Entities: Topic 958*. The amendments in this Update affect not-for-profit entity's (NFP's) and the users of their general purpose financial statements. The amendments in this Update make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Opera is still determining the impacts of the adoption of this ASU on the financial statement presentation and notes.

**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 has concluded there were no material uncertain tax positions nor does the Opera expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Opera would recognize interest and penalties related to unrecognized tax positions in interest and income tax expense, respectively. However, the Opera has no amounts accrued for interest or penalties as of June 30, 2018 and 2017. There are no on-going federal, state or local tax audits.

**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.

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**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS** (Continued)

Accounting standards establish 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 Opera is permitted to use a practical expedient which allows for the measurement of the fair value based on the investee's net asset value per share or its equivalent. Investments using Net Asset Value (NAV) per share (or its equivalent) as a fair value expedient have not been classified in the fair value hierarchy. These investments are presented as "NAV" in the following tables to permit reconciliation of the fair value hierarchy table to the total investments at fair value presented in the Statements of Financial Position.

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 valued at NAV 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 the end of the fiscal year.

**Investment Strategies and Valuation Inputs**

**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.

**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. The Opera has full transparency to the holdings of the common trust funds, and the fair value of these investments and the limited partnership investment has been determined by the managers based on the market prices of the underlying holdings. The limited partnership is invested primarily in emerging market equity securities.

**Hedged Equities (Long/Short)** consists of funds which 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.

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**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENT** (Continued)

**Absolute Return** consists of funds which seek 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.

**Real Assets** consists of funds which invest in real estate, natural resources and credit.

- (1) Investments in real estate seek 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.
- (2) Natural resources consist of global investments in commodities such as metals and mining, gold and other precious metals and oil and gas exploration and production. Holdings may be comprised of equities, ETFs, debt, illiquid investments, derivatives, commodity futures and commodity future options.
- (3) Credit funds pursue investments in distressed residential mortgage market and opportunistic investments in corporate credit, real estate and asset-based lending. The funds may engage in hedging activities, including interest rate hedging, currency hedging, short sales, foreign exchange transactions, and other derivative contracts or instruments.

**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 inputs)[income approach].

**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 inputs)[income approach].

**Alternative Investments** consist of the hedged equities, absolute return and real assets investment categories. 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 or near the measurement date. In some instances, however, restrictions on redemptions, such as notice requirements, lock-ups and gates, may be in place such that investment redemption at NAV is not possible at the measurement date.

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(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS** (Continued)

The following table discloses additional information about investments recorded at fair value at June 30, 2018 and 2017:

<u>June 30, 2018</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Estimated Remaining Life</u>
Fixed income securities	\$ 21,303,860	\$ -	Daily	n/a
Equity securities	108,600,033	-	Daily to monthly	n/a
Hedged equities	26,306,780	-	Monthly to one year	n/a
Absolute return	30,036,541	-	Quarterly to three years	n/a
Real assets				
Credit and real estate	7,060,570	3,528,095	Not permitted	1-9 years
Natural resources	1,417	-	Monthly to quarterly	n/a
Investment assets held in trust	<u>4,703,324</u>	<u>-</u>	Not permitted	n/a
Total investments	<u>\$ 198,012,525</u>	<u>\$ 3,528,095</u>		
<u>June 30, 2017</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Estimated Remaining Life</u>
Fixed income securities	\$ 21,658,650	\$ -	Daily	n/a
Equity securities	103,518,839	-	Daily to monthly	n/a
Hedged equities	25,813,665	-	Monthly to one year	n/a
Absolute return	33,661,601	-	Quarterly to three years	n/a
Real assets				
Credit and real estate	7,459,906	4,602,517	Not permitted	1 - 10 years
Natural resources	1,417	-	Monthly to quarterly	n/a
Investment assets held in trust	<u>4,525,150</u>	<u>-</u>	Not permitted	n/a
Total investments	<u>\$ 196,639,228</u>	<u>\$ 4,602,517</u>		

At June 30, 2018, approximately \$1,921,414 of the Opera's alternative investments are in illiquid, special investments. Unfunded commitments represent capital calls which can be made at the discretion of the general partner within contractual limits. These commitments do not represent obligations required to be accrued on the Statements of Financial Position.

(Continued)



LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS** (Continued)

Assets and liabilities measured on a recurring basis at fair value at June 30, 2018 and 2017, are summarized below:

<u>June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Current assets:					
Fixed income securities	\$ 9,006,578	\$ -	\$ -	\$ -	\$ 9,006,578
Long-term assets:					
Fixed income securities	12,297,282	-	-	-	12,297,282
Equity securities					
Large cap	26,903,570	-	-	22,228,365	49,131,935
Small cap	16,191	-	-	7,459,713	7,475,904
International	27,714,334	-	-	24,277,860	51,992,194
Hedged equities	-	-	-	26,306,780	26,306,780
Absolute return	-	-	-	30,036,541	30,036,541
Real assets	-	-	-	7,061,987	7,061,987
Investment assets held in trust	-	-	4,703,324	-	4,703,324
Total long-term assets	<u>66,931,377</u>	<u>-</u>	<u>4,703,324</u>	<u>117,371,246</u>	<u>189,005,947</u>
 Total assets	 <u>\$ 75,937,955</u>	 <u>\$ -</u>	 <u>\$ 4,703,324</u>	 <u>\$ 117,371,246</u>	 <u>\$ 198,012,525</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Current liabilities:					
Interest rate swap	\$ -	\$ 883,167	\$ -	\$ -	\$ 883,167
Long-term liabilities:					
Interest rate swap	-	6,127,990	-	-	6,127,990
 Total liabilities	 <u>\$ -</u>	 <u>\$ 7,011,157</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 7,011,157</u>

(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Current assets:					
Fixed income securities	\$ 12,849,064	\$ -	\$ -	\$ -	\$ 12,849,064
Long-term assets:					
Fixed income securities	8,809,586	-	-	-	8,809,586
Equity securities					
Large cap	24,388,064	-	-	19,445,698	43,833,762
Small cap	20,923	-	-	6,791,853	6,812,776
International	31,543,824	-	-	21,328,477	52,872,301
Hedged equities	-	-	-	25,813,665	25,813,665
Absolute return	-	-	-	33,661,601	33,661,601
Real assets	-	-	-	7,461,323	7,461,323
Investment assets held in trust	-	-	4,525,150	-	4,525,150
Total long-term assets	<u>64,762,397</u>	<u>-</u>	<u>4,525,150</u>	<u>114,502,617</u>	<u>183,790,164</u>
 Total assets	 <u>\$ 77,611,461</u>	 <u>\$ -</u>	 <u>\$ 4,525,150</u>	 <u>\$ 114,502,617</u>	 <u>\$ 196,639,228</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Current liabilities:					
Interest rate swap	\$ -	\$ 1,154,258	\$ -	\$ -	\$ 1,154,258
Long-term liabilities:					
Interest rate swap	<u>-</u>	<u>8,320,190</u>	<u>-</u>	<u>-</u>	<u>8,320,190</u>
 Total liabilities	 <u>\$ -</u>	 <u>\$ 9,474,448</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 9,474,448</u>

The table below reconciles beginning and ending balances for Level 3 assets for the years ended June 30, 2018 and 2017:

Year ended <u>June 30, 2018</u>	<u>Investment Assets Held In Trust</u>
July 1, 2017	\$ 4,525,150
Distributions	(146,918)
Unrealized gains	<u>325,092</u>
June 30, 2018	<u>\$ 4,703,324</u>
Year ended <u>June 30, 2017</u>	<u>Investment Assets Held In Trust</u>
July 1, 2016	\$ 4,200,929
Distributions	(148,286)
Unrealized gains	<u>472,507</u>
June 30, 2017	<u>\$ 4,525,150</u>

The realized and unrealized gains on Level 3 investments still held at June 30, 2018 and 2017 were \$325,092 and \$472,507, respectively.

(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)**

**Investment Returns**

Investment returns for the years ended June 30, 2018 and 2017, are summarized as follows:

	<u>Unrestricted</u>		Temporarily	<u>Total</u>
	<u>Operating</u>	<u>Non-Operating</u>	<u>Restricted</u>	
<u>2018</u>				
Interest and dividends	\$ 166,901	\$ 1,202,450	\$ 489,536	\$ 1,858,887
Net realized and unrealized gains	24,074	8,973,473	3,797,991	12,795,538
Investment expenses	-	(859,252)	(347,560)	(1,206,812)
Total return on investments	<u>190,975</u>	<u>9,316,671</u>	<u>3,939,967</u>	<u>13,447,613</u>
Board authorized spending draw	<u>-</u>	<u>(9,114,038)</u>	<u>-</u>	<u>(9,114,038)</u>
Total return on investments, net of spending draw	<u>\$ 190,975</u>	<u>\$ 202,633</u>	<u>\$ 3,939,967</u>	<u>\$ 4,333,575</u>
	<u>Unrestricted</u>		Temporarily	
	<u>Operating</u>	<u>Non-Operating</u>	<u>Restricted</u>	<u>Total</u>
<u>2017</u>				
Interest and dividends	\$ 240,135	\$ 1,473,274	\$ 509,098	\$ 2,222,507
Net realized and unrealized gains	225,273	15,890,946	6,293,931	22,410,150
Investment expenses	-	(966,270)	(321,422)	(1,287,692)
Total return on investments	<u>465,408</u>	<u>16,397,950</u>	<u>6,481,607</u>	<u>23,344,965</u>
Board authorized spending draw	<u>-</u>	<u>(8,703,754)</u>	<u>-</u>	<u>(8,703,754)</u>
Total return on investments, net of spending draw	<u>\$ 465,408</u>	<u>\$ 7,694,196</u>	<u>\$ 6,481,607</u>	<u>\$ 14,641,211</u>

(Continued)

#### NOTE D – ENDOWMENT

The Opera's endowment is comprised of donor-restricted funds. Related net assets are classified and reported based on the existence or absence of donor-imposed restrictions.

The Opera has interpreted the State of Illinois' Uniform Prudent Management of Institutional Funds Act of 2006 (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 the original value of the gifts donated to the permanent endowment plus the original value of subsequent gifts to the permanent endowment. Accumulations to the donor-restricted permanent endowment net of Board authorized spending draws are classified as temporarily restricted net assets.

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.

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, commingled with other unrestricted funds, are managed on a total return basis taking into consideration the need to maintain the purchasing power of the managed portfolio as well as the need to support the Opera's mission.

Risk and return expectations for the managed portfolio 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 the managed portfolio is reported on a monthly basis with a target return of 8%.

The Opera's Board of Directors has approved a spending policy which allows for the transfer of 5% of the trailing twelve quarter balance of the managed portfolio at December 31 of the previous fiscal year, including endowment balances, to be used to support operations and fund debt service. The spending rate approximates the return objective of the fund allowing for the preservation of purchasing power and growth of the managed portfolio through investment returns in excess of the objective and new gifts.

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(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE D – ENDOWMENT** (Continued)

Endowment net asset composition by type of fund as of June 30, 2018 and 2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2018</u>			
Pledges receivable, net	\$ -	\$ 1,104,584	\$ 1,104,584
Donor restricted endowment funds	25,871,143	28,403,456	54,274,599
Interfund receivable	-	13,000	13,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total net assets	<u>\$ 25,871,143</u>	<u>\$ 29,521,040</u>	<u>\$ 55,392,183</u>
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2017</u>			
Pledges receivable, net	\$ -	\$ 1,298,244	\$ 1,298,244
Donor restricted endowment funds	24,362,226	27,484,236	51,846,462
Interfund receivable	-	13,000	13,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total net assets	<u>\$ 24,362,226</u>	<u>\$ 28,795,480</u>	<u>\$ 53,157,706</u>

Changes in endowment net assets for the years ended June 30, 2018 and 2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Year Ended June 30, 2018</u>			
Net assets at beginning of year	\$ 24,362,226	\$ 28,795,480	\$ 53,157,706
Investment return			
Investment income	141,976	-	141,976
Net appreciation (realized and unrealized)	3,797,991	-	3,797,991
Total investment return	<u>3,939,967</u>	<u>                    </u>	<u>3,939,967</u>
Contributions	-	725,560	725,560
Appropriation of endowment assets for expenditures	<u>(2,431,050)</u>	<u>                    </u>	<u>(2,431,050)</u>
Net assets at end of year	<u>\$ 25,871,143</u>	<u>\$ 29,521,040</u>	<u>\$ 55,392,183</u>

(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE D – ENDOWMENT** (Continued)

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Year Ended June 30, 2017</u>			
Net assets at beginning of year	\$ 20,281,523	\$ 27,214,364	\$ 47,495,887
Investment return			
Investment income	187,676	-	187,676
Net appreciation (realized and unrealized)	<u>6,293,931</u>	<u>-</u>	<u>6,293,931</u>
Total investment return	<u>6,481,607</u>	<u>-</u>	<u>6,481,607</u>
Contributions	-	1,581,116	1,581,116
Appropriation of endowment assets for expenditures	<u>(2,400,904)</u>	<u>-</u>	<u>(2,400,904)</u>
Net assets at end of year	<u>\$ 24,362,226</u>	<u>\$ 28,795,480</u>	<u>\$ 53,157,706</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. There were no deficiencies at June 30, 2018 or 2017.

**NOTE E – EMPLOYEE RETIREMENT BENEFITS**

**Defined Contribution Pension Plan:** On January 1, 2017, the Opera discontinued its qualified, non-contributory, defined contribution pension plan covering all full-time administrative non-union employees. Contributions to the plan had been made annually based on a formula including such factors as age, salary, and length of service. Total pension expense was \$0 and \$490,516 for the years ended June 30, 2018 and 2017, respectively.

**401(k) Plan:** 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 June 30, 2018 and 2017, the Opera contributed \$400,392 and \$93,211, respectively.

**Multiemployer Retirement Plans:** The Opera contributes to a number of defined benefit multi-employer pension plans under the terms of collective-bargaining agreements which cover its union-represented employees. The risks of participating in these multi-employer plans are different from single-employer plans in the following respects:

- a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

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(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE E – EMPLOYEE RETIREMENT BENEFITS** (Continued)

- c) If the Opera chooses to stop participating in any of its multi-employer plans, the Opera may be required to pay those plans an amount based on the Opera’s proportionate share of unfunded vested plan benefits, referred to as a withdrawal liability.

The Opera participates in eight multi-employer defined benefit plans, two of which are material to the Opera’s financial position. The Opera’s participation in the plans which cover Orchestra and Stagehand employees is outlined in the following table. “EIN/Pension Plan Number” provides the Employee Identification Number (EIN) and the three-digit plan number. The most recent Pension Protection Act (PPA) zone status available is for the plan’s year-end. The zone status is based on information that the Opera received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. “FIP/RP Status” indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. There have been no significant changes that affect the comparability of 2018 and 2017 contributions.

Pension Fund	<u>Orchestra</u>	<u>Stagehands</u>
	American Federation of Musicians and Employers’ Pension Fund	Stagehands Local Two Retirement Plan
EIN/pension plan number	51-6120204/001	36-6099766/001
Expiration date of collective bargaining agreement	06/30/2018	06/30/2023
Opera contributions –		
Fiscal 2018	\$1,035,014	\$606,265
Fiscal 2017	\$968,588	\$1,051,780
Plan year-end of most recent Form 5500 filing	03/31/2017	12/31/2016
PPA zone status –		
Most recent year	Red	Green
Two years prior	Red	Green
FIP/RP status	Implemented	Not applicable
Surcharge imposed	Yes	No
Opera contributed more than 5% of total contributions	No	Yes

The Opera contributed a total of \$125,139 and \$86,068 to six other defined benefit multi-employer plans in fiscal 2018 and 2017, respectively. The Opera also contributed \$1,688,230 and \$1,777,409 to various defined contribution multi-employer plans in fiscal 2018 and 2017, respectively.

**Severance Benefits:** 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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(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE E – EMPLOYEE RETIREMENT BENEFITS** (Continued)

The change in benefit obligations and the funded status of the plans for the years ended June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 4,295,813	\$ 4,410,077
Service cost	146,612	150,267
Interest cost	138,851	137,717
Actuarial loss/(gain)	240,376	(89,810)
Benefits paid	<u>(593,759)</u>	<u>(312,438)</u>
Benefit obligation, end of period	<u>\$ 4,227,893</u>	<u>\$ 4,295,813</u>
Funded Status		
Projected benefit obligation	\$ (4,227,893)	\$ (4,295,813)
Fair value of assets	<u>-</u>	<u>-</u>
Funded status	<u>\$ (4,227,893)</u>	<u>\$ (4,295,813)</u>

The components of net periodic benefit costs for the years ended June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 146,612	\$ 150,267
Interest cost	138,851	137,717
Amortization of		
Net transition obligation	19,382	19,382
Prior service cost	(21,112)	(21,112)
Net loss	<u>18,968</u>	<u>18,272</u>
Net periodic benefit cost	<u>\$ 302,701</u>	<u>\$ 304,526</u>

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 June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Net transition obligations	\$ 16,148	\$ 35,530
Prior service cost	3,415	(17,697)
Net actuarial loss	<u>780,018</u>	<u>558,610</u>
Net amount recognized	<u>\$ 799,581</u>	<u>\$ 576,443</u>

Severance costs included as a separate charge to net assets for the years ended June 30, 2018 and 2017, consisted primarily of actuarial losses/(gains) of approximately \$240,000 and \$(90,000), respectively.

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(Continued)



LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE E – EMPLOYEE RETIREMENT BENEFITS** (Continued)

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

		<u>2019</u>
Service cost	\$	141,182
Interest cost		143,911
Amortization of		
Net transition obligation		16,148
Prior service cost		(21,112)
Net loss		<u>23,216</u>
Net periodic benefit cost	\$	<u><u>303,345</u></u>

The key actuarial assumptions used were:

	<u>2018</u>	<u>2017</u>
To determine benefit obligation		
Discount rate	4.14%	3.87%
Expected rate of pay increases	1.00-1.50%	0.00-1.50%
To determine net periodic benefit:		
Discount rate	3.87%	3.61%
Expected rate of pay increase	1.00-1.50%	0.00-1.50%

Estimated benefit payments for future fiscal years are as follows:

2019	\$	751,797
2020		255,048
2021		221,074
2022		295,039
2023		354,292
2024-2028		1,781,418

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(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE F – RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS**

Restricted net assets are restricted for the following purposes:

	<u>2018</u>		<u>2017</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Future operating support	\$ 59,797,103	\$ 29,521,040	\$ 76,651,468	\$ 28,795,480
Equipment	<u>11,521,512</u>	<u>-</u>	<u>11,541,280</u>	<u>-</u>
Total	<u>\$ 71,318,615</u>	<u>\$ 29,521,040</u>	<u>\$ 88,192,748</u>	<u>\$ 28,795,480</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 years ended June 30, 2018 and 2017, are summarized as follows:

	<u>2018</u>	<u>2017</u>
Time restrictions:		
Operating support	<u>\$ 19,751,695</u>	<u>\$ 13,350,023</u>
	19,751,695	13,350,023
Purpose restrictions:		
Operating support	13,384,175	15,511,681
Equipment	<u>501,222</u>	<u>421,323</u>
	<u>13,885,397</u>	<u>15,933,004</u>
Total	<u>\$ 33,637,092</u>	<u>\$ 29,283,027</u>

**NOTE G – FUNDRAISING CAMPAIGNS**

In December 2012, the Board of Directors approved the Breaking New Ground strategic plan, which laid the foundation for the Breaking New Ground (BNG) campaign. The purpose of the campaign is to support operations of the Opera, increase the endowment, and fund stage and other equipment improvements. In fiscal 2014, the Campaign For Excellence, which was established for the purpose of supporting the operations of the Opera, subject to Finance Committee oversight, was merged with BNG. Management's use of BNG proceeds is subject to the oversight of the Finance Committee and approval of the Board of Directors.

For the years ended June 30, 2018 and 2017, the Board authorized a distribution of unrestricted proceeds of \$3,885,320 and \$6,470,934, respectively. Such amounts are included in net assets released from restriction and designation.

(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE H – BONDS PAYABLE**

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 have adjustable methods of interest rate determination and interest payment. As of June 30, 2018, the bonds operated in a mode where the interest rate was established each week and interest on the bonds was payable monthly. On June 30, 2018, the interest rate was 1.53%.

On March 13, 2018 the Opera 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 13, 2023. This replaced a previous agreement with certain banks that provided a credit facility (letter of credit) in the amount of \$63 million set to expire December 17, 2018. Under the terms of both agreements, 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%.

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

On March 13, 2018, the Opera redeemed and replaced its Illinois Finance Authority (IFA) issued \$3.5 million aggregate principal amount tax exempt Revenue Bond, Series 2008 with a \$3.6 million term loan. The \$3.6 million term loan has a fixed interest rate of 4.10%, payable monthly, and is set to expire March 12, 2028. Pursuant to the IFA 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 had a fixed interest rate of 4.8%, payable monthly.

Bond interest expense was \$912,066 and \$603,163 for the years ended June 30, 2018 and 2017, respectively.

Unamortized bond issuance costs were:

	<u>2018</u>	<u>2017</u>
Deferred bond issuance costs	\$ 2,394,947	\$ 2,347,620
Less: accumulated amortization	<u>1,643,661</u>	<u>1,643,185</u>
Net	<u>\$ 751,286</u>	<u>\$ 704,435</u>

Bond issuance costs are netted against long-term debt on the statements of financial position.

Future debt maturities are as follows:

March 12, 2028	\$ 3,600,000
December 1, 2028	<u>62,200,000</u>
Total	<u>\$ 65,800,000</u>

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(Continued)

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE I – 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 notional amount of \$40 million and expires December 1, 2028, and has no requirements for collateral posting. The Opera may terminate the interest rate swap early.

Summary information about the interest rate swap agreement as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Weighted average pay rates (fixed)	3.804%	3.804%
Weighted average one-month LIBOR (variable)	1.034%	0.498%

The interest rate swap is recorded at fair value as a liability on the statement of financial position. Interest expense, settled on a net basis, was \$1,128,829 and \$1,338,620 for the years ended June 30, 2018 and 2017, respectively.

**NOTE J – LINE OF CREDIT**

On October 26, 2015, the Board of Directors approved a resolution authorizing the Opera to establish a \$10,000,000 unsecured line of credit (LOC) with BMO Harris Bank, NA. The LOC, which terminates on December 15, 2018, has a variable rate of one month Libor plus 1.25% on borrowings and a .125% fee on the unused LOC. The LOC also requires a 90 consecutive day period each fiscal year in which there are no borrowings.

On March 13, 2018 the Opera replaced the BMO Harris Bank, NA LOC with a \$10 million unsecured LOC from Fifth Third Bank. The new LOC, which terminates on March 13, 2021, has a variable rate of 0.85% per annum plus the Libor rate on borrowings and a 0.10% fee on the unused LOC. The LOC also requires a 30 consecutive day period each fiscal year in which there are no borrowings.

As of June 30, 2018, the Opera has not borrowed on either LOC.

**NOTE K – COMMITMENTS AND CONTINGENCIES**

Contracts with Performers and Unions: Future commitments to artists are approximately \$5.4 million in 2018-19; \$3.6 million in 2019-20; \$1.9 million in 2020-21; and \$0.0 million in 2021-22.

The Opera has approximately \$0.3 million in outstanding commitments related to new productions, stage equipment and information technology investments.

The Opera has collective bargaining agreements with numerous unions. Contracts with the American Guild of Musical Artists (AGMA), which represents principal artists, choristers, ballet, and production staff, and the Chicago Federation of Musicians (CFM), which represents the orchestra, expired on June 30, 2018. The International Alliance of Theatrical Stage Employees, which represents the stagehands, expires on June 30, 2023.

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(Continued)

**NOTE K – COMMITMENTS AND CONTINGENCIES** (Continued)

Subsequent to year end, the Opera negotiated the contract with the CFM to expire on June 30, 2021. The Opera reached a contract agreement with AGMA that expires June 30, 2021, which is subject to ratification as of the report date.

The Opera has personal service contracts with four individuals, one through June 30, 2019 and three through June 30, 2021.

The Opera is the defendant in certain litigation arising in the ordinary course of business. In the opinion of management and outside legal counsel, such items are adequately covered by insurance or their ultimate outcome will not have a material impact on the financial position of the Opera.

**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 related to that person and 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 to conduct themselves in accordance with the Code of Business Conduct and Ethics approved by the Opera's Board of Directors and to sign an annual statement acknowledging their understanding of this Code.

**NOTE M – SUBSEQUENT EVENTS**

Management has performed an analysis of the activities and transactions subsequent to June 30, 2018, to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2018. Management has performed their analysis through October 18, 2018, the date the financial statements were issued, and has determined there are no subsequent events to disclose, outside of the event disclosed in Note K. Activities subsequent to this date have not been evaluated by management.

**SUPPLEMENTAL SCHEDULE**

LYRIC OPERA OF CHICAGO  
STATEMENT OF ACTIVITIES – COLUMN FORMAT  
For the Year Ended June 30, 2018 (with comparative 2017 totals)

	For the Year ended June 30, 2018						2017 <u>Total</u>
	Unrestricted		<u>Total</u>	Temporarily Restricted	Permanently Restricted	2018 <u>Total</u>	
	<u>Operating</u>	<u>Other</u>					
Revenue and Support							
Revenue							
Ticket Sales	\$ 25,975,812	\$ -	\$ 25,975,812	\$ -	\$ -	\$ 25,975,812	\$ 26,960,878
Spending Draw	9,114,038	-	9,114,038	-	-	9,114,038	8,703,754
Investment Income, net of Spending Draw	190,975	202,633	393,608	3,939,967	-	4,333,575	14,641,211
Other	6,756,153	19,776	6,775,929	-	-	6,775,929	5,113,644
Total Revenue	<u>42,036,978</u>	<u>222,409</u>	<u>42,259,387</u>	<u>3,939,967</u>	<u>-</u>	<u>46,199,354</u>	<u>55,419,487</u>
Support							
Contributions and Fundraising Revenue, net	14,101,953	1,004,119	15,106,072	12,822,992	725,560	28,654,624	29,651,842
Net Assets Released from Restriction and Designation	25,435,400	8,201,692	33,637,092	(33,637,092)	-	-	-
Increase in Allowance for Doubtful Pledges Receivable	-	-	-	-	-	-	(500,000)
Unrealized Gain on Interest Rate Swap	-	2,463,292	2,463,292	-	-	2,463,292	3,810,868
Total Support	<u>39,537,353</u>	<u>11,669,103</u>	<u>51,206,456</u>	<u>(20,814,100)</u>	<u>725,560</u>	<u>31,117,916</u>	<u>32,962,710</u>
Total Operating Revenue and Support	<u>81,574,331</u>	<u>11,891,512</u>	<u>93,465,843</u>	<u>(16,874,133)</u>	<u>725,560</u>	<u>77,317,270</u>	<u>88,382,197</u>
Expenses							
Artistic, Production, and Promotional	69,243,304	4,282,057	73,525,361	-	-	73,525,361	74,989,205
Administration	7,771,037	315,953	8,086,990	-	-	8,086,990	10,119,275
Development	4,559,990	273,000	4,832,990	-	-	4,832,990	4,447,936
Total Expenses	<u>81,574,331</u>	<u>4,871,010</u>	<u>86,445,341</u>	<u>-</u>	<u>-</u>	<u>86,445,341</u>	<u>89,556,416</u>
Change in Net Assets	<u>\$ -</u>	<u>\$ 7,020,502</u>	7,020,502	(16,874,133)	725,560	(9,128,071)	(1,174,219)
Net Assets at Beginning of Year			<u>92,001,101</u>	<u>88,192,748</u>	<u>28,795,480</u>	<u>208,989,329</u>	<u>210,163,548</u>
Net Assets at End of Year			<u>\$ 99,021,603</u>	<u>\$ 71,318,615</u>	<u>\$ 29,521,040</u>	<u>\$ 199,861,258</u>	<u>\$ 208,989,329</u>

See accompanying independent auditor's report.