

LYRIC OPERA OF CHICAGO
Chicago, Illinois

FINANCIAL STATEMENTS
June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

(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 19, 2020

LYRIC OPERA OF CHICAGO
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 3,016,280	\$ 4,437,386
Short-Term Investments	18,476,005	30,479,261
Ticket and Other Receivables	2,397,792	679,798
Pledge and Bequest Receivables, net	5,432,166	7,645,050
Deferred Production Costs and Other Assets	<u>905,300</u>	<u>2,787,710</u>
Total Current Assets	30,227,543	46,029,205
Long-Term Assets		
Pledge and Bequest Receivables, net	21,937,669	24,154,852
Long-Term Investments	179,197,843	187,950,143
Deferred Production Costs and Other Assets	492,220	59,298
Property and Equipment, net	<u>37,783,075</u>	<u>40,081,169</u>
Total Long-Term Assets	<u>239,410,807</u>	<u>252,245,462</u>
Total Assets	<u>\$ 269,638,350</u>	<u>\$ 298,274,667</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable and Other Liabilities	\$ 2,648,115	\$ 3,266,213
Deferred Ticket and Other Revenue	10,130,692	15,366,103
Severance Plans	644,150	658,973
Interest Rate Swap	<u>1,479,416</u>	<u>1,002,096</u>
Total Current Liabilities	14,902,373	20,293,385
Long-Term Liabilities		
Severance Plans	3,706,372	3,596,283
Debt Payable, net	65,212,171	65,130,443
Interest Rate Swap	<u>10,252,110</u>	<u>8,046,711</u>
Total Long-Term Liabilities	<u>79,170,653</u>	<u>76,773,437</u>
Total Liabilities	94,073,026	97,066,822
Net Assets		
Without Donor Restrictions	87,066,225	106,245,882
With Donor Restrictions		
Time or Purpose	58,630,979	65,365,455
Perpetual	<u>29,868,120</u>	<u>29,596,508</u>
Total With Donor Restrictions	<u>88,499,099</u>	<u>94,961,963</u>
Total Net Assets	<u>175,565,324</u>	<u>201,207,845</u>
Total Liabilities and Net Assets	<u>\$ 269,638,350</u>	<u>\$ 298,274,667</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
 STATEMENTS OF ACTIVITIES
 For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Changes in Net Assets Without Donor Restrictions		
Operating		
Revenue and Support		
Revenue		
Ticket Sales	\$ 15,483,046	\$ 30,174,416
Spending Draw	16,037,524	9,160,795
Investment Return	559,792	335,013
Other	<u>3,951,448</u>	<u>6,330,476</u>
Total Revenue	<u>36,031,810</u>	<u>46,000,700</u>
Support		
Contributions and Fundraising Revenue, net	17,905,579	14,165,679
Net Assets Released from Restriction and Designation	<u>17,868,561</u>	<u>16,361,221</u>
Total Support	<u>35,774,140</u>	<u>30,526,900</u>
Total Operating Revenue and Support	<u>71,805,950</u>	<u>76,527,600</u>
Expenses		
Artistic, Production and Promotional	59,811,753	64,334,005
Administration	7,297,337	7,435,652
Development	<u>4,696,860</u>	<u>4,757,943</u>
Total Expenses	<u>71,805,950</u>	<u>76,527,600</u>
Change in Net Assets from Operations	<u>\$ -</u>	<u>\$ -</u>

(Continued)

LYRIC OPERA OF CHICAGO
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Changes in Net Assets Without Donor Restrictions		
Non-Operating		
Revenue and Support		
Contributions	\$ 9,006,283	\$ 9,106,155
Investment Return, net of Spending Draw	(17,833,625)	(3,647,554)
Unrealized Loss on Interest Rate Swap	(2,682,719)	(2,037,649)
Other Revenue	69,188	62,439
Net Assets Released from Restriction and Designation	<u>(2,150,620)</u>	<u>2,492,771</u>
Total Revenue and Support	<u>(13,591,493)</u>	<u>5,976,162</u>
Expenses		
Depreciation	3,959,704	4,211,994
Other	<u>1,628,460</u>	<u>515,338</u>
Total Expenses	<u>5,588,164</u>	<u>4,727,332</u>
Change in Non-Operating Net Assets Without Donor Restrictions	<u>(19,179,657)</u>	<u>1,248,830</u>
Change in Net Assets Without Donor Restrictions	<u>(19,179,657)</u>	<u>1,248,830</u>
 Changes in Net Assets With Donor Restrictions		
Contributions	9,845,400	16,916,984
Investment Return	(590,323)	2,034,765
Net Assets Released from Restriction	<u>(15,717,941)</u>	<u>(18,853,992)</u>
Change in Net Assets With Donor Restrictions	<u>(6,462,864)</u>	<u>97,757</u>
Change in Net Assets	(25,642,521)	1,346,587
Net Assets at Beginning of Year	<u>201,207,845</u>	<u>199,861,258</u>
Net Assets at End of Year	<u>\$ 175,565,324</u>	<u>\$ 201,207,845</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (25,642,521)	\$ 1,346,587
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities:		
Depreciation and Amortization	4,041,433	4,293,723
Net Realized and Unrealized Losses (Gains) on Investments	3,574,539	(5,888,278)
Net Interest Rate Swap Settlements	1,084,158	896,545
Unrealized Loss on Interest Rate Swap	2,682,719	2,037,649
Contributions With Donor Restrictions for Endowment	(271,612)	(75,467)
Contributions Restricted for Capital Investment	(976,591)	(4,793,311)
Decrease in Pledge and Bequest Receivables	4,430,067	13,222,543
(Increase) Decrease in Ticket and Other Receivables	(1,717,994)	352,963
Decrease in Deferred Production Costs and Other Assets	1,449,488	349,753
Decrease in Accounts Payable and Other Liabilities	(618,098)	(20,183)
(Decrease) Increase in Deferred Ticket and Other Revenue	(5,235,411)	1,434,606
Increase in Severance Plans	<u>95,266</u>	<u>27,363</u>
Net Cash (Used In) Provided by Operating Activities	(17,104,557)	13,184,493
Cash Flows from Investing Activities		
Sale of Investments	73,365,368	55,002,521
Purchase of Investments	(56,184,351)	(69,531,121)
Net Interest Rate Swap Settlements	(1,084,158)	(896,545)
Fixed Asset Additions:		
Facilities	(400,860)	(442,523)
Equipment and Other Assets	<u>(1,260,751)</u>	<u>(1,239,084)</u>
Net Cash Provided By (Used in) Investing Activities	14,435,248	(17,106,752)
Cash Flows from Financing Activities		
Contributions With Donor Restrictions for Endowment	271,612	75,467
Contributions Restricted for Capital Investment	<u>976,591</u>	<u>4,793,311</u>
Net Cash Provided by Financing Activities	<u>1,248,203</u>	<u>4,868,778</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(1,421,106)	946,519
Cash and Cash Equivalents at Beginning of Year	<u>4,437,386</u>	<u>3,490,867</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,016,280</u>	<u>\$ 4,437,386</u>
Supplemental Disclosure of Cash Flow Information		
Interest Paid	<u>\$ 2,031,942</u>	<u>\$ 2,022,265</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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). As of June 30, 2019, the Lyric Opera of Chicago and the Patrick G and Shirley W Ryan Opera Center merged, with the Lyric Opera of Chicago being the surviving entity. The Lyric Opera of Chicago will continue to carry out the programs offered by the Ryan Opera Center. These programs include offering year-round training and performance opportunities to the artists and performers of the Ryan Opera Center.

Basis of Accounting: The accounting records of the Opera are maintained on the accrual basis.

Basis of Presentation: Resources of the Opera are classified for reporting purposes into the following two net asset categories according to the existence or absence of donor-imposed restrictions:

- **Net Assets Without Donor Restrictions** - 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 gifts without donor restriction and gifts with donor restriction whose donor-imposed or time restrictions were met during the fiscal year.
- **Operating and Non-Operating Activities:** Within net assets without donor restrictions are:
 - Operating net assets without donor restrictions – include all operating revenue and expenses without donor restrictions 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 net assets without donor restrictions – include investment returns in excess of/less than the Opera's spending policy without donor restrictions, depreciation of property and equipment, the actuarial change in severance plans' valuation, and the unrealized balance in the value of the swap. Charitable gift annuities without donor restrictions are also included in Non-Operating Revenue and Support as contributions.
- **Net Assets With Donor Restrictions** - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained 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.

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

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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 without donor restrictions or with donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions 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 without donor restrictions, except for production sponsorship where the contribution is classified as with donor restrictions until the opening of the production.

As of June 30, 2020 and 2019, contributors to the Opera have made unconditional promises to give, which are due as follows:

<u>June 30, 2020</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Less than one year	\$ 2,274,571	\$ 3,311,826	\$ 5,586,397
One to five years	515,917	16,029,741	16,545,658
More than five years	-	450,000	450,000
With no due date	<u>75,000</u>	<u>9,044,715</u>	<u>9,119,715</u>
Gross	2,865,488	28,836,282	31,701,770
Less discount	44,152	3,737,756	3,781,908
Less allowance	<u>279,017</u>	<u>271,010</u>	<u>550,027</u>
Net	<u>\$ 2,542,319</u>	<u>\$ 24,827,516</u>	<u>\$ 27,369,835</u>
<u>June 30, 2019</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Less than one year	\$ 4,254,902	\$ 4,068,539	\$ 8,323,441
One to five years	129,592	17,106,690	17,236,282
More than five years	-	1,900,000	1,900,000
With no due date	<u>75,000</u>	<u>9,033,724</u>	<u>9,108,724</u>
Gross	4,459,494	32,108,953	36,568,447
Less discount	57,976	3,964,059	4,022,035
Less allowance	<u>264,000</u>	<u>482,510</u>	<u>746,510</u>
Net	<u>\$ 4,137,518</u>	<u>\$ 27,662,384</u>	<u>\$ 31,799,902</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, 2020 and 2019

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, funds without donor restriction are commingled with endowment funds to constitute the managed portfolio.

Property and Equipment: Purchases of property and equipment greater than \$5,000 and \$3,500 for the fiscal years 2020 and 2019, respectively, 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>2020</u>	<u>2019</u>
Land	\$ 696,577	\$ 696,577
Equipment	17,698,007	18,863,125
Facilities	90,864,018	90,668,458
Work In Process	1,225,840	507,485
Less: accumulated depreciation	<u>72,701,367</u>	<u>70,654,476</u>
Net	<u>\$ 37,783,075</u>	<u>\$ 40,081,169</u>

Donated assets, or assets acquired with gifts with donor restrictions to the purchase of long-lived assets, are reclassified to net assets without donor restrictions when they are placed into service.

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, 2020 and 2019, 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 \$601,421 and \$283,541 for the years ended June 30, 2020 and 2019, respectively.

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LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (Continued)

During the years ended June 30, 2020 and 2019, 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.

Realized and Unrealized Investment Gains (Losses): Changes in the fair value of investments are reported as realized and unrealized investment gains or losses without donor restrictions unless a donor restricts income for a specific purpose. If the earnings are on assets with donor restrictions and not yet appropriated for expenditure, changes in the fair value of investments are reported as with donor restrictions.

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 Annual Campaign contributions and various fundraising special events contributions without donor restrictions, admissions, sales, and related expenses. The following table summarizes this information for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Contributions and fundraising revenue	\$ 19,180,964	\$ 15,687,512
Special event expenses	<u>(1,275,385)</u>	<u>(1,521,833)</u>
Net	<u>\$ 17,905,579</u>	<u>\$ 14,165,679</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 \$2,744,726 and \$3,447,331 for the years ended June 30, 2020 and 2019, respectively. Prepaid advertising expenses, to be expensed in the following fiscal year, were \$256,970 and \$368,196 as of June 30, 2020 and 2019, 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 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 and not-for-profits that have issued conduit debt should apply the amendments for fiscal years beginning after December 15, 2019. The Opera has not yet implemented this ASU and is in the process of assessing the effect on the Opera's financial statements.

Reclassifications: Certain amounts previously reported in the 2019 financial statements have been reclassified to conform to the 2020 presentation. The reclassifications did not affect the net assets or the changes in net assets for the year ended June 30, 2019.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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 does not have nor does it anticipate any interest and penalties related to unrecognized tax positions in interest and income tax expense as of June 30, 2020 and June 30, 2019. There are no on-going federal, state or local 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.

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.

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NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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.

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].

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

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.

Within the international equities and absolute return investment groups, \$10 million and \$2.5 million, respectively, were committed through capital calls prior to June 30, 2020. However, the investment accounts were not made active until July 1, 2020.

The following table discloses additional information about investments recorded at fair value at June 30, 2020 and 2019:

<u>June 30, 2020</u>	<u>Fair Value</u>	<u>Commitments</u>	<u>Terms</u>	<u>Remaining Life</u>
Fixed income securities	\$ 39,417,703	\$ -	Daily	n/a
Equity securities	103,677,508	-	Daily to monthly	n/a
Hedged equities	20,202,819	-	Monthly to one year	n/a
Absolute return	24,079,875	-	Quarterly to three years or not permitted	n/a
Real assets				
Credit and real estate	5,856,066	5,351,621	Not permitted	1-10 years
Natural resources	11	-	Not permitted	n/a
Investment assets held in trust	<u>4,439,866</u>	<u>-</u>	Not permitted	n/a
Total investments	<u>\$ 197,673,848</u>	<u>\$ 5,351,621</u>		
<u>June 30, 2019</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Estimated Remaining Life</u>
Fixed income securities	\$ 47,269,502	\$ -	Daily	n/a
Equity securities	110,324,663	-	Daily to monthly	n/a
Hedged equities	18,717,537	-	Monthly to one year	n/a
Absolute return	29,959,210	-	Monthly to three years or not permitted	n/a
Real assets				
Credit and real estate	7,541,871	2,927,952	Daily or Not permitted	1-8 years
Natural resources	671	-	Monthly to quarterly	n/a
Investment assets held in trust	<u>4,615,950</u>	<u>-</u>	Not permitted	n/a
Total investments	<u>\$ 218,429,404</u>	<u>\$ 2,927,952</u>		

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

At June 30, 2020, \$419,529 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.

Assets and liabilities measured on a recurring basis at fair value at June 30, 2020 and 2019, are summarized below:

<u>June 30, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Current assets:					
Fixed income securities	\$ 18,476,005	\$ -	\$ -	\$ -	\$ 18,476,005
Long-term assets:					
Fixed income securities	20,941,698	-	-	-	20,941,698
Equity securities					
Large cap	26,598,771	-	-	22,279,901	48,878,672
Small cap	8,344	-	-	7,227,826	7,236,170
International	15,862,073	-	-	31,700,593	47,562,666
Hedged equities	-	-	-	20,202,819	20,202,819
Absolute return	-	-	-	24,079,875	24,079,875
Real assets	-	-	-	5,856,077	5,856,077
Investment assets held in trust	-	-	4,439,866	-	4,439,866
Total long-term assets	<u>63,410,886</u>	<u>-</u>	<u>4,439,866</u>	<u>111,347,091</u>	<u>179,197,843</u>
 Total assets	 <u>\$ 81,886,891</u>	 <u>\$ -</u>	 <u>\$ 4,439,866</u>	 <u>\$ 111,347,091</u>	 <u>\$ 197,673,848</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Current liabilities:					
Interest rate swap	\$ -	\$ 1,479,416	\$ -	\$ -	\$ 1,479,416
Long-term liabilities:					
Interest rate swap	-	10,252,110	-	-	10,252,110
 Total liabilities	 <u>\$ -</u>	 <u>\$ 11,731,526</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 11,731,526</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

<u>June 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Current assets:					
Fixed income securities	\$ 30,479,261	\$ -	\$ -	\$ -	\$ 30,479,261
Long-term assets:					
Fixed income securities	16,790,241	-	-	-	16,790,241
Equity securities					
Large cap	31,961,927	-	-	20,736,957	52,698,884
Small cap	9,874	-	-	7,223,719	7,233,593
International	27,933,615	-	-	22,458,571	50,392,186
Hedged equities	-	-	-	18,717,537	18,717,537
Absolute return	-	-	-	29,959,210	29,959,210
Real assets	-	-	-	7,542,542	7,542,542
Investment assets held in trust	-	-	4,615,950	-	4,615,950
Total long-term assets	<u>76,695,657</u>	<u>-</u>	<u>4,615,950</u>	<u>106,638,536</u>	<u>187,950,143</u>
 Total assets	 <u>\$ 107,174,918</u>	 <u>\$ -</u>	 <u>\$ 4,615,950</u>	 <u>\$ 106,638,536</u>	 <u>\$ 218,429,404</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Current liabilities:					
Interest rate swap	\$ -	\$ 1,002,096	\$ -	\$ -	\$ 1,002,096
Long-term liabilities:					
Interest rate swap	-	8,046,711	-	-	8,046,711
 Total liabilities	 <u>\$ -</u>	 <u>\$ 9,048,807</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 9,048,807</u>

The table below reconciles beginning and ending balances for Level 3 assets for the years ended June 30, 2020 and 2019:

<u>Year ended</u> <u>June 30, 2020</u>	<u>Investment Assets</u> <u>Held In Trust</u>
July 1, 2019	\$ 4,615,950
Distributions	(155,748)
Unrealized losses	<u>(20,336)</u>
June 30, 2020	<u>\$ 4,439,866</u>
 <u>Year ended</u> <u>June 30, 2019</u>	 <u>Investment Assets</u> <u>Held In Trust</u>
July 1, 2018	\$ 4,703,324
Distributions	(153,063)
Unrealized gains	<u>65,689</u>
June 30, 2019	<u>\$ 4,615,950</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

The realized and unrealized gains (losses) on Level 3 investments still held at June 30, 2020 and 2019 were \$(20,336) and \$65,689, respectively.

Investment Returns

Investment returns for the years ended June 30, 2020 and 2019, are summarized as follows:

	<u>Without Donor Restrictions</u>		<u>With Donor</u>	
	<u>Operating</u>	<u>Non-Operating</u>	<u>Restrictions</u>	<u>Total</u>
<u>2020</u>				
Interest and dividends	\$ 611,304	\$ 2,060,741	\$ 694,502	\$ 3,366,547
Net realized and unrealized losses	(51,512)	(2,645,469)	(877,559)	(3,574,540)
Investment expenses	-	(1,211,373)	(407,266)	(1,618,639)
Total return on investments	559,792	(1,796,101)	(590,323)	\$ (1,826,632)
Board authorized spending draw	-	(16,037,524)	-	(16,037,524)
Total return on investments, net of spending draw	<u>\$ 559,792</u>	<u>\$ (17,833,625)</u>	<u>\$ (590,323)</u>	<u>\$ (17,864,156)</u>

	<u>Without Donor Restrictions</u>		<u>With Donor</u>	
	<u>Operating</u>	<u>Non-Operating</u>	<u>Restrictions</u>	<u>Total</u>
<u>2019</u>				
Interest and dividends	\$ 537,834	\$ 2,039,298	\$ 753,669	\$ 3,330,801
Net realized and unrealized gains (losses)	(202,821)	4,445,206	1,645,893	5,888,278
Investment expenses	-	(971,263)	(364,797)	(1,336,060)
Total return on investments	335,013	5,513,241	2,034,765	\$ 7,883,019
Board authorized spending draw	-	(9,160,795)	-	(9,160,795)
Total return on investments, net of spending draw	<u>\$ 335,013</u>	<u>\$ (3,647,554)</u>	<u>\$ 2,034,765</u>	<u>\$ (1,277,776)</u>

(Continued)

NOTE D – ENDOWMENT

The Opera's endowment is comprised of perpetual donor-restricted funds.

The Opera has interpreted the State of Illinois' Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Opera retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. Accumulations to the donor-restricted endowment net of Board authorized spending draws are classified as net assets with donor restrictions.

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 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. In the event an endowment fund falls 20% below the level the donor has required the Opera to retain, an analysis of the fund will be undertaken to determine future spending distributions. In the event an endowment fund falls 25% below the level the donor has required the Opera to retain, future spending distributions will be suspended until the fund again exceeds the 25% level. There were four endowment funds with a total fair value of \$0.6 million that were deficient up to 3.5% at June 30, 2020 and no deficiencies at June 30, 2019.

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 funds without donor restrictions, 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%.

(Continued)

LYRIC OPERA OF CHICAGO
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

NOTE D – ENDOWMENT (Continued)

The Opera's Board of Directors has approved a spending policy which allows for the transfer of 5% of the average of the market values 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.

Endowment net asset composition by type of fund as of June 30, 2020 and 2019:

	<u>With Donor Restrictions</u>
<u>June 30, 2020</u>	
Pledges receivable, net	\$ 941,664
Interfund receivable	13,000
Donor restricted endowment funds	
Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor	28,913,456
Accumulated investment gains	<u>22,329,088</u>
Total donor restricted endowment funds	<u>51,242,544</u>
Total net assets	<u>\$ 52,197,208</u>
<u>June 30, 2019</u>	
Pledges receivable, net	\$ 1,020,052
Interfund receivable	13,000
Donor restricted endowment funds	
Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor	28,563,456
Accumulated investment gains	<u>25,389,588</u>
Total donor restricted endowment funds	<u>53,953,044</u>
Total net assets	<u>\$ 54,986,096</u>

(Continued)

LYRIC OPERA OF CHICAGO
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

NOTE D – ENDOWMENT (Continued)

Changes in endowment net assets for the years ended June 30, 2020 and 2019:

	<u>With Donor Restrictions</u>
<u>Year Ended June 30, 2020</u>	
Net assets at beginning of year	\$ 54,986,096
Investment return	
Investment income	331,374
Net appreciation (realized and unrealized)	<u>(877,559)</u>
Total investment return	(546,185)
Contributions	271,612
Appropriation of endowment assets for expenditures	<u>(2,514,315)</u>
Net assets at end of year	<u>\$ 52,197,208</u>
	<u>With Donor Restrictions</u>
<u>Year Ended June 30, 2019</u>	
Net assets at beginning of year	\$ 55,392,183
Investment return	
Investment income	388,874
Net appreciation (realized and unrealized)	<u>1,645,893</u>
Total investment return	2,034,767
Contributions	75,467
Appropriation of endowment assets for expenditures	<u>(2,516,321)</u>
Net assets at end of year	<u>\$ 54,986,096</u>

(Continued)

NOTE E – EMPLOYEE RETIREMENT BENEFITS

401(k) Plan: The Opera 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, 2020 and 2019, the Opera contributed \$578,902 and \$564,481, 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.
- 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. Lyric has been advised that the American Federation of Musicians and Employers' Pension Fund is entering critical and declining status for the plan year beginning April 1, 2019. This means that the Fund is projected to run out of money to pay benefits (or become "insolvent") within 20 years. The Fund Trustees filed a Multiemployer Pension Reform Act (MPRA) application to the U.S. Department of the Treasury on December 30, 2019. It was denied on August 11, 2020. The Fund Trustees are preparing to file a second MPRA application to the U.S. Department of the Treasury. As of this date, there have been no significant changes that affect the comparability of 2020 and 2019 contributions.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE E – EMPLOYEE RETIREMENT BENEFITS (Continued)

	<u>Orchestra</u>	<u>Stagehands</u>
Pension Fund	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	6/30/2021	6/30/2023
Opera contributions –		
Fiscal 2020	\$1,193,934	\$717,277
Fiscal 2019	\$1,031,029	\$679,466
Plan year-end of most recent Form 5500 filing	3/31/2019	12/31/2018
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 \$86,554 and \$122,193 to six other defined benefit multi-employer plans in fiscal 2020 and 2019, respectively. The Opera also contributed \$1,480,586 and \$1,580,606 to various defined contribution multi-employer plans in fiscal 2020 and 2019, 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.

The change in benefit obligations and the funded status of the plans for the years ended June 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 4,255,256	\$ 4,227,893
Service cost	151,799	141,182
Interest cost	126,230	143,911
Actuarial loss/(gain)	953,950	162,367
Benefits paid	<u>(1,136,713)</u>	<u>(420,097)</u>
Benefit obligation, end of period	<u>\$ 4,350,522</u>	<u>\$ 4,255,256</u>
Funded Status		
Projected benefit obligation	\$ (4,350,522)	\$ (4,255,256)
Fair value of assets	<u>-</u>	<u>-</u>
Funded status	<u>\$ (4,350,522)</u>	<u>\$ (4,255,256)</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE E – EMPLOYEE RETIREMENT BENEFITS (Continued)

The components of net periodic benefit costs for the years ended June 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Service cost	\$ 151,799	\$ 141,182
Interest cost	126,230	143,911
Amortization of		
Net transition obligation	-	16,148
Prior service cost	(21,112)	(21,112)
Net loss	<u>29,842</u>	<u>23,216</u>
Net periodic benefit cost	<u>\$ 286,759</u>	<u>\$ 303,345</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, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Prior service cost	\$ 45,639	\$ 24,527
Net actuarial loss	<u>1,843,277</u>	<u>919,170</u>
Net amount recognized	<u>\$ 1,888,916</u>	<u>\$ 943,697</u>

Severance costs included as a separate charge to net assets for the years ended June 30, 2020 and 2019, consisted primarily of actuarial losses/(gains) of approximately \$954,000 and \$162,000, respectively.

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

	<u>2021</u>
Service cost	\$ 165,400
Interest cost	100,072
Amortization of	
Prior service cost	(21,112)
Net loss	<u>78,634</u>
Net periodic benefit cost	<u>\$ 322,994</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE E – EMPLOYEE RETIREMENT BENEFITS (Continued)

The key actuarial assumptions used were:

	<u>2020</u>	<u>2019</u>
To determine benefit obligation		
Discount rate	2.70%	3.51%
Expected rate of pay increases	1.00-1.50%	1.00-1.50%
To determine net periodic benefit:		
Discount rate	2.70%	3.51%
Expected rate of pay increase	1.00-1.50%	1.00-1.50%

Estimated benefit payments for future fiscal years are as follows:

2021	\$ 644,151
2022	198,236
2023	345,272
2024	341,984
2025	285,505
2026-2030	1,523,585

NOTE F – NET ASSETS WITH DONOR RESTRICTIONS AND NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net Assets with Donor Restrictions are restricted for the following purposes:

	<u>2020</u> With Donor Restrictions	<u>2019</u> With Donor Restrictions
Subject to the passage of time:		
Future operating support	<u>\$ 50,969,075</u>	<u>\$ 57,494,383</u>
Subject to expenditure for specified purpose:		
Equipment	<u>7,661,904</u>	<u>7,871,072</u>
Endowments:		
Future operating support	<u>29,868,120</u>	<u>29,596,508</u>
Total	<u>\$ 88,499,099</u>	<u>\$ 94,961,963</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE F – NET ASSETS WITH DONOR RESTRICTIONS AND NET ASSETS RELEASED FROM DONOR RESTRICTIONS (Continued)

Net Assets with donor restrictions 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, 2020 and 2019, are summarized as follows:

	<u>2020</u>	<u>2019</u>
Time restrictions:		
Operating support	\$ 11,920,944	\$ 7,406,328
	<u>11,920,944</u>	<u>7,406,328</u>
Purpose restrictions:		
Operating support	3,775,997	10,173,068
Equipment	<u>21,000</u>	<u>1,274,596</u>
	<u>3,796,997</u>	<u>11,447,664</u>
Total	<u>\$ 15,717,941</u>	<u>\$ 18,853,992</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. The fund balances of the Breaking New Ground Fund are \$14,237,481 and \$24,249,675 for the years ended June 30, 2020 and 2019, respectively.

For the years ended June 30, 2020 and 2019, the Board authorized a distribution of proceeds without donor restrictions of \$8,400,923 and \$1,369,527, respectively. Such amounts are included in net assets released from restriction and designation.

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, 2020, 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, 2020, the interest rate was 0.15%.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE H – BONDS PAYABLE (Continued)

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 that expired 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 \$890,993 and \$1,128,312 for the years ended June 30, 2020 and 2019, respectively.

Unamortized bond issuance costs were:

	<u>2020</u>	<u>2019</u>
Deferred bond issuance costs	\$ 2,394,947	\$ 2,394,947
Less: accumulated amortization	<u>1,807,118</u>	<u>1,725,390</u>
Net	<u>\$ 587,829</u>	<u>\$ 669,557</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>

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.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE I – DERIVATIVE FINANCIAL INSTRUMENT (Continued)

Summary information about the interest rate swap agreement as of June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Weighted average pay rates (fixed)	3.804%	3.804%
Weighted average one-month LIBOR (variable)	0.977%	1.574%

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 \$1,084,158 and \$896,545 for the years ended June 30, 2020 and 2019, respectively.

NOTE J – LINE OF CREDIT

On March 13, 2018, the Board of Directors approved a resolution authorizing the Opera to establish a \$10,000,000 unsecured line of credit (LOC) with Fifth Third Bank. The 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, 2020 and 2019, the Opera has not borrowed on the LOC.

NOTE K – COMMITMENTS AND CONTINGENCIES

Contracts with Performers and Unions: Future commitments to artists are approximately \$4.0 million in 2020-21; \$2.5 million in 2021-22; \$1.3 million in 2022-23; and \$0.5 million in 2023-24.

The Opera has approximately \$92,132 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, expire on June 30, 2021. The International Alliance of Theatrical Stage Employees, which represents the stagehands, expires on June 30, 2023.

The Opera has personal service contracts with four individuals, one through December 31, 2020, two through June 30, 2021, and one through June 30, 2026.

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.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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 - LIQUIDITY AND AVAILABILITY

The Opera's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 3,016,280	\$ 4,437,386
Short-Term Investments	18,476,005	30,479,261
Ticket and Other Receivables	897,792	679,798
Current Pledge and Bequest Receivables		
Without Donor Restriction	<u>2,274,571</u>	<u>4,254,902</u>
Total	<u>\$ 24,664,648</u>	<u>\$ 39,851,347</u>

As part of the Opera's liquidity management, the Opera invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Opera has a committed line of credit in the amount of \$10 million upon which it could draw. The use of this line of credit is generally restricted to the extent that the Opera is in need of liquidity to fund program-related obligations.

The Opera's long-term investment funds consist of donor-restricted endowments and funds designated by the board as long-term investments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Opera's unrestricted long-term investments of \$128 million are subject to Board approved spending policies. Although the Opera does not intend to spend from the unrestricted long-term investments (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

(Continued)

LYRIC OPERA OF CHICAGO
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

NOTE M - LIQUIDITY AND AVAILABILITY (Continued)

As part of the Opera's liquidity management plan, the Opera invests cash in excess of daily requirements in short-term investments and money market funds.

NOTE N – FUNCTIONAL ALLOCATION OF EXPENSES

The Opera's functional allocation of expenses as of June 30, 2020 are as follows:

	2020			
	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, Benefits, & Employment Taxes	\$ 39,977,541	\$ 3,935,680	\$ 3,584,588	\$ 47,497,809
Contracted Services & Professional Fees	5,641,769	437,353	554,562	6,633,684
Production Costs	3,781,582	-	-	3,781,582
Advertising and Promotions	2,084,267	3,534	180,098	2,267,899
Occupancy	1,904,441	246,433	66,369	2,217,243
Office Expense	605,621	335,727	208,869	1,150,217
Travel	718,040	85,839	134,787	938,666
Other Expenses	3,759,906	1,394,141	408,011	5,562,058
Other Debt Service Costs	589,020	88,745	3,672	681,437
Interest	1,829,903	179,354	11,408	2,020,665
Depreciation & Amortization	3,583,805	457,628	-	4,041,433
In-Kind Goods & Services	-	601,421	-	601,421
	<u>\$ 64,475,895</u>	<u>\$ 7,765,855</u>	<u>\$ 5,152,364</u>	<u>\$ 77,394,114</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE N – FUNCTIONAL ALLOCATION OF EXPENSES (Continued)

The Opera's functional allocation of expenses as of June 30, 2019 are as follows:

	2019			<u>Total</u>
	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	
Salaries, Benefits, & Employment Taxes	\$ 40,313,730	\$ 4,105,673	\$ 3,287,888	\$ 47,707,291
Contracted Services & Professional Fees	6,972,088	463,774	587,419	8,023,281
Production Costs	3,903,666	-	-	3,903,666
Advertising and Promotions	2,856,865	5,759	89,680	2,952,304
Occupancy	1,787,256	216,497	70,052	2,073,805
Office Expense	646,594	337,525	187,690	1,171,809
Travel	1,039,513	126,721	193,886	1,360,120
Other Expenses	4,579,418	1,652,702	537,398	6,769,518
Other Debt Service Costs	592,933	97,024	3,697	693,654
Interest	1,831,796	179,003	11,421	2,022,220
Depreciation & Amortization	3,869,160	424,563	-	4,293,723
In-Kind Goods & Services	-	283,541	-	283,541
	<u>\$ 68,393,019</u>	<u>\$ 7,892,782</u>	<u>\$ 4,969,131</u>	<u>\$ 81,254,932</u>

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and related benefits expenses are allocated based on time worked in a department. Most expenses are directly charged to the department/function incurring the expense. However, occupancy costs are allocated based on square footage.

NOTE O – REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Opera's revenue from contracts with customers in the scope of ASC 606 is recognized within the following categories for the years ended June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Operating revenue		
Ticket sales	\$ 15,483,046	\$ 30,174,416
Restaurant & Concession Sales	951,003	1,767,692
Facility Rentals	1,463,354	1,612,351
Production Rentals	<u>218,070</u>	<u>502,930</u>
 Total	 <u>\$ 18,115,473</u>	 <u>\$ 34,057,389</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE O – REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

A description of the Opera's revenue streams accounted for under ASC 606 follows:

Ticket sales: The Opera sells tickets to attend the Opera's performances and events, either through subscription sales or through single ticket sales. Ticket sales are recognized as revenue at the point of performance. Ticket fees are recognized as revenue in the fiscal year that the performance occurred.

Restaurant and Concession Sales: The Opera sells food and beverages to performance attendees through its restaurants and concession stands. Sales are recognized as revenue at the point of sale.

Facility Rentals: The Opera rents the use of its theater space, labor, and food and beverage services to individuals, corporations, and non-profits. Rental revenue, including the deposit, is recognized as revenue in the month the rental event occurred.

Production Rentals: The Opera rents the use of its productions and costumes to other performing arts organizations. Production rental revenue, including the deposit, is recognized as revenue in the fiscal year the contract obligations are performed.

NOTE P – IMPACT OF COVID-19

The operations and operating results of Lyric Opera have been materially impacted by the COVID-19 pandemic and government actions taken in response to the pandemic. On March 12, 2020, the State of Illinois and City of Chicago mandated the cancellation of all large-scale events exceeding 1,000 individuals. On March 13, 2020, Lyric Opera announced the cancellation of the remainder of its spring season and no performances were held through the remainder of the 2020 fiscal year.

Financial Impact of Pandemic on FY 2020:

As a direct result of the cancellation of all performances from March 13 – June 30, 2020, the Opera had revenues less than budget by \$12.8 million in ticket sales revenue and \$1.2 million in associated concessions and ancillary revenue. Management was able to mitigate losses through 1.) cancelled production cost savings, and 2.) administrative hiring freezes, position furloughs and hours reductions, position eliminations and temporary pay reductions for its highest paid non-union employees. Management also applied for the Employee Retention Credit under the CARES Act for a credit of \$1.2 million, of which \$0.4 million was received as of June 30, 2020.

In response to the loss of earned revenue, the Opera launched the Heroes' Fund fundraising initiative. Production sponsors and major donors have redirected over \$5.6 million of restricted contributions to general operating support, committed \$3.3 million in new contributions and donated \$1.1 million in ticket revenue to help offset lost revenue. A supplemental draw on the Opera's Board designated unrestricted long-term investments of \$6.2 million was approved by the Executive Committee of the Board to provide the remaining support needed for operations.

(Continued)

NOTE P – IMPACT OF COVID-19 (Continued)

Risks and Uncertainties Heading into FY 2021:

On June 16, 2020, due to continuing limits on the size of allowed gatherings, Lyric Opera announced the cancellation of the fall (2020/2021) season, scheduled to open on September 17, 2020 and end November 29, 2020. The 2020/2021 season was to include the first year of residency of the Joffrey Ballet, who has also cancelled their fall and spring seasons. Cost reductions and staff changes remain in effect through the end of the calendar year. The viability of a spring season will be assessed in late fall based upon the guidelines imposed by the State of Illinois and City of Chicago. Baseline operations will be supported through additional fundraising and supplemental draws on the board designated unrestricted endowment fund.

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, expire on June 30, 2021. The International Alliance of Theatrical Stage Employees, which represents the stagehands, expires on June 30, 2023.

Subsequent to year end, the Opera requested that these contracts be reopened for discussion, in light of the financial impact of COVID-19. Discussions around payment for fiscal year 2021 cancelled performances are ongoing.

NOTE Q – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2020, to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2020. Management has performed their analysis through October 19, 2020, the date the financial statements were issued. 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, 2020 (with comparative 2019 totals)

	For the Year ended June 30, 2020					
	Without Donor Restrictions			With Donor	2020	2019
	Operating	Other	Total	Restrictions	Total	Total
Operating revenue and support						
Revenue						
Ticket Sales	\$ 15,483,046	\$ -	\$ 15,483,046	\$ -	\$ 15,483,046	\$ 30,174,416
Investment return designated for operations	16,037,524	(16,037,524)	-	-	-	-
Interest Income	559,792	-	559,792	-	559,792	335,013
Other	3,951,448	69,188	4,020,636	-	4,020,636	6,392,915
Total Revenue	<u>36,031,810</u>	<u>(15,968,336)</u>	<u>20,063,474</u>	<u>-</u>	<u>20,063,474</u>	<u>36,902,344</u>
Support						
Contributions and Fundraising Revenue, net	17,905,579	6,283	17,911,862	9,573,788	27,485,650	31,113,351
Net Assets Released from Restriction and Designation	17,868,561	(2,150,620)	15,717,941	(15,717,941)	-	-
Total Support	<u>35,774,140</u>	<u>(2,144,337)</u>	<u>33,629,803</u>	<u>(6,144,153)</u>	<u>27,485,650</u>	<u>31,113,351</u>
Total Operating Revenue and Support	<u>71,805,950</u>	<u>(18,112,673)</u>	<u>53,693,277</u>	<u>(6,144,153)</u>	<u>47,549,124</u>	<u>68,015,695</u>
Operating activities						
Artistic, Production, and Promotional	59,811,753	4,664,142	64,475,895	-	64,475,895	68,393,019
Administration	7,297,337	468,518	7,765,855	-	7,765,855	7,892,782
Development	4,696,860	455,504	5,152,364	-	5,152,364	4,969,131
Total operating expenses	<u>71,805,950</u>	<u>5,588,164</u>	<u>77,394,114</u>	<u>-</u>	<u>77,394,114</u>	<u>81,254,932</u>
Change in net assets before non-operating activities	<u>\$ -</u>	<u>\$ (23,700,837)</u>	<u>\$ (23,700,837)</u>	<u>\$ (6,144,153)</u>	<u>\$ (29,844,990)</u>	<u>\$ (13,239,237)</u>
Non-operating activities						
Gifts restricted to endowment	-	-	-	271,612	271,612	75,467
Bequests board designated for investment	-	9,000,000	9,000,000	-	9,000,000	9,000,000
Investments excluding investment return designated for operations	-	(1,796,101)	(1,796,101)	(590,323)	(2,386,424)	7,548,006
Unrealized loss on interest rate swap	-	(2,682,719)	(2,682,719)	-	(2,682,719)	(2,037,649)
Total non-operating activities	<u>-</u>	<u>4,521,180</u>	<u>4,521,180</u>	<u>(318,711)</u>	<u>4,202,469</u>	<u>14,585,824</u>
Change in Net Assets			<u>(19,179,657)</u>	<u>(6,462,864)</u>	<u>(25,642,521)</u>	<u>1,346,587</u>
Net Assets at Beginning of Year			<u>106,245,882</u>	<u>94,961,963</u>	<u>201,207,845</u>	<u>199,861,258</u>
Net Assets at End of Year			<u>\$ 87,066,225</u>	<u>\$ 88,499,099</u>	<u>\$ 175,565,324</u>	<u>\$ 201,207,845</u>

See accompanying independent auditor's report.