# METROPOLITAN OPERA ASSOCIATION, INC.

Consolidated Financial Statements

July 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

**Independent Auditors' Report**

The Board of Managing Directors
Metropolitan Opera Association, Inc.:

We have audited the accompanying consolidated financial statements of the Metropolitan Opera Association, Inc., which comprise the consolidated balance sheets as of July 31, 2019 and 2018, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 organization'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 consolidated 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 consolidated financial statements referred to above present fairly in all material respects, the financial position of the Metropolitan Opera Association, Inc. as of July 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Emphasis of Matter*

As discussed in note 1 to the consolidated financial statements, in 2019, the Metropolitan Opera Association, Inc. adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to these matters.

KPMG LLP

December 17, 2019

**METROPOLITAN OPERA ASSOCIATION, INC.**

Consolidated Balance Sheets

July 31, 2019 and 2018

(In thousands)

| **Assets** | | **2019** | **2018** |
|---|---|---|---|
| Cash and cash equivalents | $ | 5,817 | 4,939 |
| Accounts receivable | | 4,249 | 4,070 |
| Contributions receivable, net (notes 2 and 12) | | 96,973 | 84,437 |
| Prepaid production and telecast costs | | 10,160 | 16,780 |
| Other assets | | 4,764 | 4,789 |
| Investments (notes 4 and 9) | | 301,364 | 292,088 |
| Interests in split-interest agreements (note 4) | | 11,826 | 23,286 |
| Property and equipment, net (note 5) | | 62,085 | 54,980 |
| Total assets | $ | 497,238 | 485,369 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | $ | 27,630 | 29,824 |
| Borrowings under line of credit (note 6) | | 45,500 | 16,000 |
| Deferred revenue | | 42,108 | 49,615 |
| Other liabilities | | 21,720 | 20,072 |
| Long-term debt (note 6) | | 89,143 | 92,065 |
| Unfunded accumulated benefit obligation (note 7) | | 123,461 | 86,487 |
| Total liabilities | | 349,562 | 294,063 |
| Net assets (accumulated deficit) (notes 8 and 9): | | | |
| Net assets (accumulated deficit) without donor restrictions | | (212,870) | (165,301) |
| Net assets with donor restrictions | | 360,546 | 356,607 |
| Total net assets | | 147,676 | 191,306 |
| Total liabilities and net assets | $ | 497,238 | 485,369 |

See accompanying notes to consolidated financial statements.

**METROPOLITAN OPERA ASSOCIATION, INC.**

Consolidated Statements of Activities

Years ended July 31, 2019 and 2018

(In thousands)

| | 2019 | 2018 |
|---|---|---|
| Changes in net assets without donor restrictions: | | |
| Operating revenues: | | |
| Contributions and bequests | $ 137,042 | 112,873 |
| Net assets released from restrictions | 28,942 | 33,312 |
| | 165,984 | 146,185 |
| Opera activities: | | |
| Box office and tours (inclusive of in-kind ticket and ticket discount program contributions of $3.5 million and $3.9 million in 2019 and 2018, respectively) | 85,054 | 86,688 |
| Media revenues | 28,439 | 28,240 |
| Other revenues | 5,034 | 4,862 |
| Ballet and other presentations | 7,900 | 8,750 |
| Investment return – authorized spending amount (notes 4 and 9) | 12,737 | 12,809 |
| Other income (note 4) | 6,034 | 6,326 |
| Total | 311,182 | 293,860 |
| Operating expenses (note 10): | | |
| Opera activities: | | |
| Performances | 199,423 | 183,368 |
| Media | 28,027 | 27,479 |
| New productions | 14,200 | 14,226 |
| Other | 8,021 | 7,866 |
| Ballet and other presentations | 6,400 | 7,204 |
| Opera House | 21,308 | 21,039 |
| General management (note 6) | 22,037 | 22,139 |
| Fund-raising expenses | 12,907 | 12,546 |
| Total | 312,323 | 295,867 |
| Deficiency of operating revenues over expenses | (1,141) | (2,007) |
| Nonoperating: | | |
| Investment return (less than) in excess of spending amount (note 4) | (437) | 976 |
| Other components of net periodic pension cost (note 7) | (5,231) | (8,018) |
| Pension-related changes other than net periodic pension cost (note 7) | (37,588) | 17,197 |
| Other | (3,172) | (1,609) |
| (Decrease) increase in net assets without donor restrictions | (47,569) | 6,539 |
| Changes in net assets with donor restrictions: | | |
| Contributions and bequests for: | | |
| Operations | 13,294 | 23,043 |
| Capital | 11,478 | 11,533 |
| Endowment | 13,100 | 1,583 |
| Investment return, net (note 4) | (4,624) | 1,070 |
| Other | (367) | 2,394 |
| Net assets released from restrictions | (28,942) | (33,312) |
| Increase in net assets with donor restrictions | 3,939 | 6,311 |
| Change in net assets | (43,630) | 12,850 |
| Net assets: | | |
| Beginning of year, as adjusted (note 1) | 191,306 | 178,456 |
| End of year | $ 147,676 | 191,306 |

See accompanying notes to consolidated financial statements.

**METROPOLITAN OPERA ASSOCIATION, INC.**

Consolidated Statements of Cash Flows

Years ended July 31, 2019 and 2018

(In thousands)

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (43,630) | 12,850 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 5,371 | 5,378 |
| Pension-related changes other than net periodic pension cost | 37,588 | (17,197) |
| Net gains on investments | (3,223) | (13,555) |
| Change in value of interests in split-interest agreements | (640) | (1,966) |
| Contributions of net assets with perpetual restrictions | (13,100) | (1,583) |
| Contributions restricted for investments in property and equipment | (11,478) | (11,533) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (179) | (792) |
| Contributions receivable, net | (8,357) | 8,576 |
| Prepaid production and other assets | 6,645 | (7,728) |
| Interests in split-interest agreements | 12,100 | 210 |
| Accounts payable, accrued expenses, and other liabilities | (4,974) | 9,097 |
| Deferred revenue | (7,507) | 6,966 |
| Net cash used in operating activities | (31,384) | (11,277) |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (8,629) | (9,931) |
| Purchases of investments | (97,741) | (221,214) |
| Proceeds from sale of investments | 91,688 | 228,546 |
| Net cash used in investing activities | (14,682) | (2,599) |
| Cash flows from financing activities: | | |
| Borrowings under line of credit | 114,500 | 36,500 |
| Repayments of line of credit | (85,000) | (31,500) |
| Borrowings under long-term debt | — | 2,162 |
| Repayments of long-term debt | (2,955) | (2,917) |
| Cash contributions for net assets with perpetual restrictions | 14,330 | 5,001 |
| Cash received for contributions restricted for investments in property and equipment | 6,069 | 5,923 |
| Net cash provided by financing activities | 46,944 | 15,169 |
| Net increase in cash and cash equivalents | 878 | 1,293 |
| Cash and cash equivalents, beginning of year | 4,939 | 3,646 |
| Cash and cash equivalents, end of year | $ 5,817 | 4,939 |
| Supplemental information: | | |
| Cash paid for interest | $ 5,609 | 3,871 |
| Increase in accounts payable for acquisitions of property and equipment | 3,814 | — |

See accompanying notes to consolidated financial statements.

## (1) Organization, Business Matters, Financial Statement Presentation, and Summary of Significant Accounting Policies

*Organization*

The Metropolitan Opera Association, Inc. (the Met) is a not-for-profit membership corporation incorporated in the State of New York, and organized for the primary purpose of sustaining, encouraging, and promoting musical art, and educating the general public about music, particularly opera.

The Met has a wholly owned for-profit subsidiary, Impresario, LLC, which has developed and licensed box office and development software to other not-for-profit organizations. The consolidated financial statements also include the Metropolitan Opera Endowment Trust (the Trust). The Trust is governed by a Trust Committee. Vacancies on the Trust Committee, which governs the Trust, are filled by the Met's appointment.

*Business Matters*

For the year ended July 31, 2019, the Met had operating expenses in excess of operating revenues of approximately $1.1 million. Net assets without donor restrictions decreased primarily due to an increase in the unfunded accumulated pension benefit obligation as a result of a lower discount rate. As discussed in note 6, the Met's credit facility was restructured during fiscal 2019 to provide resources for operations and capital initiatives. Based upon the most recent information available and the Met's strategic planning and continued efforts to grow revenue and reduce expenses further, the Met estimates that it will have sufficient liquidity through December 2020 to support operations.

*Financial Statement Presentation*

The consolidated financial statements of the Met are presented using the accrual basis of accounting. All intercompany balances and transactions have been eliminated in consolidation.

### *(a) Net Asset Classifications*

The Met's consolidated financial statements present information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

*Net Assets Without Donor Restrictions*

Net assets without donor restrictions are available for use at the discretion of the Board of Managing Directors and/or management for general operating and non-operating purposes. The Board has designated a portion of net assets without donor restrictions as a quasi-endowment (an amount to be treated by management as if it were part of the donor restricted endowment).

*Net Assets With Donor Restrictions*

Net assets with donor restrictions consist of net assets whose use is limited by donor-imposed, time and/or purpose restrictions.

The Met reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the consolidated statements of activities as net assets released from restrictions. Donor restrictions whose restrictions are met in the same reporting period have been reported as without donor restrictions in the consolidated statements of activities.

Some net assets with donor restrictions include a stipulation that assets provided be maintained in perpetuity while permitting the Met to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a Board-approved spending policy.

See note 8 for more information on the composition of net assets.

***(b) Presentation of Revenues and Expenses***

The following is an explanation of certain revenue and expense categories presented in the consolidated statements of activities:

- Opera activities – Revenues and expenses directly related to the production and presentation of opera performances.
- Ballet and other presentations – Revenues and expenses directly related to the presentation of attractions other than opera, where the Met either presents the attractions or licenses the Metropolitan Opera House at Lincoln Center (the Opera House) to third parties.
- Opera House – Expenses directly related to managing and operating the Opera House. The majority of Opera House expenses relate to program activities.
- General management – Expenses related to the overall operation of the Met that are not related to any single program or other supporting service.
- Fund-raising – Expenses related to the solicitation of contributions to the Met.

***(c) Measure of Operations***

The Met’s excess (deficiency) of operating revenues over operating expenses (the Measure of Operations) includes all operating revenues and expenses without donor restrictions that are an integral part of its programs and supporting activities, including contributions without donor restrictions and net assets released from donor restrictions to support its operating activities. The Measure of Operations also includes distributions from the endowment made in accordance with the Met’s spending policy. The Measure of Operations excludes investment return which exceeds or is less than the distribution determined by the spending policy, retirement plan adjustments, capital contributions and net assets released for capital, adjustments to the discount on multi-year pledges, changes in the value of split-interest agreements, and nonrecurring activities.

***(d) Use of Estimates***

The preparation of the consolidated 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 reported amounts of assets and liabilities and disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions include the allowances for uncollectible receivables, the present value of multi-year contributions receivable, the valuation of investments, actuarial assumptions, and the allocation of expenses to functional classifications.

*Summary of Significant Accounting Policies*

The following is a summary of significant accounting policies:

***(a) Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs to the valuation techniques used to measure fair value are prioritized by giving the highest priority to unadjusted quoted or published prices in active markets for identical assets or liabilities (Level l measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted or published prices in active markets for identical assets or liabilities that the Met has the ability to access at the measurement date.

Level 2 Inputs other than quoted or published prices included in Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The fair value of the Met's investments is presented in note 3.

***(b) Cash Equivalents and Cash Flows***

Cash equivalents include short-term investments purchased with original maturities of three months or less, except for those cash equivalents held for long-term investment purposes. Contributions of donated financial assets that are not restricted for long-term purposes and are sold immediately are reported as operating activities in the consolidated statements of cash flows. Otherwise, such amounts are reported as investing or financing activities.

***(c) Investments***

Investments in marketable equity securities in managed accounts and debt securities, and exchange-traded mutual funds, are reported at fair value based on quoted or published market prices.

The fair value of the Met's interest in business trusts and other alternative investments is reported at net asset value, as a practical expedient. The Met reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the net asset values of these investments. These estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

### *(d) Property, Equipment, and Depreciation*

Property and equipment including leasehold improvements are carried at cost, less accumulated depreciation or amortization. Depreciation and amortization are recorded as operating expenses using the straight-line method based on estimated useful lives of 5 to 30 years.

### *(e) Contributions and Bequests*

Contributions and unconditional promises to give are reported as revenues in the period they are received or made, respectively. Contributions with both a barrier and a right of return or release from obligation are considered conditional and are recognized when the barrier is met. Contributed securities are recorded at fair value as of the date of the contribution. Unconditional bequests (donations received under terms of a will) are reported as revenues when notification of the bequest is received and the amount is reasonably determinable and the probate court declares the will valid. Contributions to be received after one year are discounted to present value of future cash flows at a risk-adjusted rate. Amortization of the discount is recorded as other change in net assets in accordance with the donor-imposed restrictions, if any, on the contributions.

The Met is currently in the middle of a ten-year fundraising campaign. The overall campaign seeks to raise a combined $695 million over ten years, including $70 million for endowment, $320 million for the Opera Fund, $100 million for capital projects, $130 million for new productions, and $75 million for other purposes. Through July 31, 2019, the Met raised $207 million under the Opera Fund, of which $56 million was recognized as contributions without donor restrictions during the year ended July 31, 2019.

Fundraising expenses reflected in the accompanying consolidated statements of activities of $12.9 million and $12.5 million have been incurred to raise contributions and bequests, including contributions and bequests with donor restrictions, totaling $174.9 million and $149.2 million in 2019 and 2018, respectively.

### *(f) Split-Interest Agreements*

The Met has received contributions in the form of charitable gift annuities, under which the Met agrees to pay the donor or the donor's designee a fixed amount for a period of time. The obligation is recorded at its present value in other liabilities. The difference between the assets received and the obligation is reported in other changes in net assets without donor restrictions.

The Met has interests in charitable remainder and other trusts, and remainder interests in a pooled income fund held by a third-party trustee. These interests are reported at their present value and, when received, are included in contribution revenue with donor restrictions. Charitable gift annuities, other charitable remainder trusts, and pooled income funds are discounted based on the rate at the time of the gift.

### *(g) Revenue Recognition*

Ticket sales are recognized in the consolidated statements of activities as box office revenue on a specific performance basis. Advance ticket sales, representing the receipt of payments for ticket sales for the next opera season, are reported as deferred revenue in the consolidated balance sheets and recognized as revenue in the subsequent year. *Live in HD* program media revenue is recognized in the year the showing takes place. Media subscription revenue is recognized over the period of the subscription. Media royalty revenue is recognized over the period of the royalty and as the products are delivered. Ballet and other presentation revenue, including payments for licensing fees and expense reimbursements, are recognized as the events occur.

***(h) Operating Expenses***

Costumes and scenery costs for recurring productions are charged to expense when incurred. Production costs (labor and materials) relating to future new productions and significant improvements necessary for the production of revivals are deferred.

Marketing expenses for the Met's programs are charged to expense as incurred. Total marketing expenses recognized were $16.1 million and $15.4 million in 2019 and 2018, respectively. Such amounts, which represent management and general activities, are included in performance expense in the accompanying consolidated statements of activities.

The Met provides tickets for fund-raising and media purposes at no cost. The value of these tickets is approximately $770,000 and $737,000 in 2019 and 2018, respectively, and appears in both revenue and expenses in the accompanying consolidated statements of activities. The revenue is included as part of box office revenue; the expenses appear as performance, media, or fund-raising expenses.

***(i) Risks and Uncertainties***

The Met invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

***(j) Income Taxes***

The Met and the Trust are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Impresario, LLC is considered a disregarded entity for tax purposes. Management believes that the Met will continue to be exempt from taxes and that the Met has taken no significant uncertain tax positions.

The Met recognizes the effect of income tax positions only of those positions are more likely than not of being sustained. Income generated from activities unrelated to the Met's exempt purposes is subject to tax. The Met did not have any material unrelated business income tax liability for the years ended July 31, 2019 and 2018.

***(k) Recently Adopted Accounting Standards***

During 2019, the Met adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).*

ASU No. 2016-14 reduces the number of net asset classes from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets. Additionally, it expands the quantitative and qualitative disclosures regarding liquidity and availability of resources and requires expenses to be reported by both their natural and functional classification in one location. The ASU has been applied retrospectively.

ASU No. 2018-08 helps an entity evaluate whether it should account for a grant (or similar transaction) as a contribution or as an exchange transaction. The ASU also clarifies and expands the criteria for determining whether a contribution is conditional, which may delay recognition of contribution revenue (recipient) or expense (resource provided). The implementation of this ASU did not have a significant impact on the financial statements.

ASU No. 2014-09 introduces a five-step model and related application guidance for revenue recognition. The core principle of this standard is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expected to be entitled in exchange for those goods or services. The standard also provides guidance on when costs to obtain a contract can be capitalized. The ASU has been applied retrospectively.

The effect on the Met's net asset balances at July 31, 2017 as a result of implementing ASU No. 2016-14 and ASU No. 2014-09 are as follows (in thousands):

| | | ASU 2016-14 Classifications | | |
|---|---|---|---|---|
| | | **Without donor restrictions** | **With donor restrictions** | **Total net assets** |
| Net assets, as previously presented: | | | | |
| Unrestricted | $ | (171,432) | — | (171,432) |
| Temporarily restricted | | — | 114,216 | 114,216 |
| Permanently restricted | | — | 236,375 | 236,375 |
| Net assets, as previously presented | | (171,432) | 350,591 | 179,159 |
| Adjustment to implement ASU 2016-14: | | | | |
| Underwater endowments | | 295 | (295) | — |
| Adjustment to implement ASU 2014-09: | | | | |
| Recognition of contract costs | | (703) | — | (703) |
| Net assets, as adjusted | $ | (171,840) | 350,296 | 178,456 |

The effect on the Met's net asset balances at July 31, 2018 as a result of implementing ASU No. 2016-14 and ASU No. 2014-09 are as follows:

| | | ASU 2016-14 Classifications | | |
|---|---|---|---|---|
| | | **Without donor restrictions** | **With donor restrictions** | **Total net assets** |
| Net assets, as previously presented: | | | | |
| Unrestricted | $ | (164,785) | — | (164,785) |
| Temporarily restricted | | — | 119,041 | 119,041 |
| Permanently restricted | | — | 237,806 | 237,806 |
| Net assets, as previously presented | | (164,785) | 356,847 | 192,062 |
| Adjustment to implement ASU 2016-14: | | | | |
| Underwater endowments | | 240 | (240) | — |
| Adjustment to implement ASU 2014-09: | | | | |
| Recognition of contract costs | | (756) | — | (756) |
| Net assets, as adjusted | $ | (165,301) | 356,607 | 191,306 |

The effect on the Met's other 2018 financial statement line items as a result of implementing ASU No. 2016-14 and ASU No. 2014-09 are as follows:

| | | **Amounts, as originally presented** | **Adjustments** | **Amounts, as adjusted** |
|---|---|---|---|---|
| Other assets (a) | $ | 5,545 | (756) | 4,789 |
| Operating expenses (a) | | 295,814 | 53 | 295,867 |
| Investment return, nonoperating (b) | | 1,031 | (55) | 976 |
| Investment return, with donor restrictions (b) | | 1,015 | 55 | 1,070 |

(a) impact of implementing ASU 2014-09, recognition of contract costs
(b) impact of implementing ASU 2016-14, recognition of earnings on underwater endowments

***(l) New Authoritative Accounting Pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. It also requires lessors to classify leases as sales-type, direct financing, or operating leases. The provisions in this ASU are effective for annual periods beginning after December 15, 2018. The Met is in the process of evaluating the impact of this ASU. The Met plans to adopt the provisions of ASU No. 2016-02 in fiscal 2020.

The FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU requires that a statement of cash flow explains the change during the period in the total cash, and cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Met is in the process of evaluating the impact of this ASU. The Met plans to adopt the provisions of ASU 2016-18 in fiscal 2020.

***(m) Reclassifications***

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

## (2) Contributions Receivable

Contributions receivable as of July 31 are scheduled to be collected as follows (in thousands):

| | | 2019 | 2018 |
|---|---|---|---|
| Within one year | $ | 41,749 | 34,722 |
| One to five years | | 58,271 | 51,364 |
| More than five years | | 2,381 | 2,950 |
| Total | | 102,401 | 89,036 |
| Less: | | | |
| Allowance for uncollectibility | | (580) | (540) |
| Discount to present value discount rate used ranging from 1.62% – 3.60% | | (4,848) | (4,059) |
| | $ | 96,973 | 84,437 |

As of July 31, 2019 and 2018, contributions receivable included approximately $55.2 million and $40.1 million, respectively, due from ten donors. During the years ended July 31, 2019 and 2018, contributions revenue included $73.1 million and $56.4 million, respectively, from ten donors.

## (3) Liquidity and Availability of Financial Resources

The Met has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, a line of credit, and the authorization to borrow from its board-designated endowment for operating cash purposes. See Note 6 for information about the Met’s line of credit.

| | Resources available at July 31, 2019 | Resources appropriated by the Board and available in FY20 | Total |
|---|---|---|---|
| | | (In thousands) | |
| Financial assets available within one year: | | | |
| Cash and cash equivalents | $ 5,817 | — | 5,817 |
| Accounts receivable | 4,249 | — | 4,249 |
| Contributions receivable (due in one year or less) | 40,549 | — | 40,549 |
| Spending distribution from endowment funds | — | 13,463 | 13,463 |
| Total financial assets available within one year | 50,615 | 13,463 | 64,078 |
| Other liquidity resources: | | | |
| Bank line of credit ($45.5 million outstanding at July 31, 2019) | 21,500 | — | 21,500 |
| Board-designated endowment | 14,285 | — | 14,285 |
| Total financial assets available within one year and other liquidity resources | $ 86,400 | 13,463 | 99,863 |

The Met regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Met considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities considered to be general and fundraising expenditures.

The Met also considers all sources of revenue, including box office, media, presentations, other revenue, and donor contributions. The latter is an especially important source of liquidity, as the Met relies on significant gifts to fund operations each year.

## (4) Investments

Investments consist of the following as of July 31 (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Endowment investments: | | |
| Cash equivalents and short-term investments | $ 17,220 | 23,535 |
| Cash pending investment | — | 11,950 |
| Fixed income | 27,334 | 22,706 |
| U.S. equities | 18,026 | 13,644 |
| Global equities (including alternative investments) | 144,188 | 133,919 |
| Other alternative investment strategies | 86,353 | 78,083 |
| | 293,121 | 283,837 |
| Other investments: | | |
| Cash equivalents and short-term investments | 725 | 201 |
| Fixed income | 4,299 | 3,928 |
| U.S. equities | 1,881 | 2,509 |
| Global equities | 828 | 912 |
| Balanced mutual funds | 491 | 667 |
| Alternative investments | 19 | 34 |
| | 8,243 | 8,251 |
| | $ 301,364 | 292,088 |

Investment activity is summarized below for the years ended July 31 (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Investments, beginning of year | $ 292,088 | 285,865 |
| Investment return: | | |
| Interest and dividends | 6,245 | 3,609 |
| Net gains | 3,223 | 13,555 |
| Less investment expenses paid | (1,222) | (2,334) |
| Investment return | 8,246 | 14,830 |
| Gifts and other additions | 34,325 | 25,427 |
| Amounts utilized for operations: | | |
| Investment return authorized spending amount | (12,805) | (12,849) |
| Other transfers | (20,490) | (21,185) |
| Investments, end of year | $ 301,364 | 292,088 |

Investment return is presented in the consolidated statements of activities as follows for the years ended July 31 (in thousands):

| | | 2019 | 2018 |
|---|---|---|---|
| Investment return authorized spending amount included in: | | | |
| Operating revenues without donor restrictions | $ | 12,737 | 12,809 |
| Donor restricted investment returns | | 68 | 40 |
| | | 12,805 | 12,849 |
| Other investment return included in other income or in other changes in net assets without donor restrictions | | 315 | 156 |
| Investment return (less than) greater than authorized spending amount | | (5,129) | 2,006 |
| Investment return | $ | 7,991 | 15,011 |

Management's estimate of the remaining life of the (nonredeemable) limited partnerships held in the Met's investment portfolio at July 31, 2019 and 2018 of $7.7 million and $3.9 million, respectively, is one to fifteen years. At July 31, 2019, the Met had unpaid investment consultant fees of $565,000. At July 31, 2019, the Met had unfunded outstanding commitments, net of investments already made, totaling $34 million.

The redeemable alternative investment funds included in the Met's investment portfolio at July 31, 2019 and 2018 are redeemable based on the following terms and conditions (in thousands):

| | | 2019 | 2018 |
|---|---|---|---|
| Semi-monthly redemption with 3-15 days' notice | $ | 35,373 | 35,164 |
| Monthly redemption with 6–62 days' notice | | 35,092 | 25,898 |
| Monthly redemption with 95 days' notice | | 7,436 | 6,865 |
| Quarterly redemption with 30 days' notice subject to 1 year lock up | | 3,387 | 2,757 |
| Quarterly redemption with 60 days' notice | | — | 8,284 |
| Quarterly redemption with 60–90 days' notice subject to lock ups and/or gates | | 49,849 | 35,004 |
| Quarterly redemption with 180 days' notice subject to 1 year lock up | | 3,353 | 3,755 |
| Annual redemption with 90 days' notice | | 1,018 | 4,684 |
| Bi-annual redemption with 100 days' notice | | 33,869 | 32,256 |
| Bi-annual redemption with 123 days' notice subject to 2 year lock up | | 16,979 | 14,230 |
| | $ | 186,356 | 168,897 |

The following tables present the fair value hierarchy of assets that are measured at fair value on a recurring basis at July 31, 2019 and 2018 (in thousands):

| | 2019 Total | Level 1 | Level 3 | Investments at net asset value |
|---|---|---|---|---|
| Investments: | | | | |
| Cash equivalents and short-term investments | $ 17,945 | 17,945 | — | — |
| Fixed income: | | | | |
| Common trust fund | 392 | 392 | — | — |
| Exchange traded funds | 384 | 384 | — | — |
| Mutual fund | 27,334 | 27,334 | — | — |
| U.S. government obligations | 3,523 | 3,523 | — | — |
| U.S. equities: | | | | |
| Managed accounts | 12 | 12 | — | — |
| Mutual funds | 6,516 | 6,516 | — | — |
| Exchange traded funds | 13,007 | 13,007 | — | — |
| Common trust funds | 372 | 372 | — | — |
| Global equities: | | | | |
| Managed accounts | 14,209 | 14,209 | — | — |
| Mutual funds | 16,285 | 16,285 | — | — |
| Exchange traded funds | 6,767 | 6,767 | — | — |
| Limited partnerships | 43,342 | — | — | 43,342 |
| Common trust funds | 25 | 25 | — | — |
| Other | 64,388 | — | — | 64,388 |
| Balanced mutual funds | 491 | 491 | — | — |
| Alternative investments: | | | | |
| Long/short equity | 20,839 | — | — | 20,839 |
| Absolute return | 23,918 | — | — | 23,918 |
| Credit | 33,869 | — | — | 33,869 |
| Private equity | 7,746 | — | — | 7,746 |
| | $ 301,364 | 107,262 | — | 194,102 |
| Interests in split-interest agreements | $ 11,826 | — | 11,826 | — |



(Continued)

| | | 2018 Total | Level 1 | Level 3 | Investments at net asset value |
|---|---|---|---|---|---|
| Investments: | | | | | |
| Cash equivalents and short-term investments | $ | 23,736 | 23,736 | — | — |
| Cash pending investment | | 11,950 | 11,950 | — | — |
| Fixed income: | | | | | |
| Common trust fund | | 394 | 394 | — | — |
| Exchange traded funds | | 398 | 398 | — | — |
| Mutual fund | | 22,706 | 22,706 | — | — |
| U.S. government obligations | | 3,136 | 3,136 | — | — |
| U.S. equities: | | | | | |
| Mutual funds | | 6,202 | 6,202 | — | — |
| Exchange traded funds | | 9,124 | 9,124 | — | — |
| Common trust funds | | 826 | 826 | — | — |
| Global equities: | | | | | |
| Managed accounts | | 14,332 | 14,332 | — | — |
| Mutual funds | | 13,749 | 13,749 | — | — |
| Exchange traded funds | | 12,066 | 12,066 | — | — |
| Limited partnerships | | 36,972 | — | — | 36,972 |
| Common trust funds | | 26 | 26 | — | — |
| Other | | 57,687 | — | — | 57,687 |
| Balanced mutual funds | | 667 | 667 | — | — |
| Alternative investments: | | | | | |
| Long/short equity | | 16,240 | — | — | 16,240 |
| Absolute return | | 17,458 | — | — | 17,458 |
| Credit | | 40,540 | — | — | 40,540 |
| Private equity | | 3,879 | — | — | 3,879 |
| | $ | 292,088 | 119,312 | — | 172,776 |
| Interests in split-interest agreements | $ | 23,286 | — | 23,286 | — |

For the year ended July 31, 2019, interests in split-interest agreements increased by new agreements of $30,000, increased by net investment gains of $710,000, and decreased by terminations of $12,200,000. For the year ended July 31, 2018, interests in split-interest agreements increased by new agreements of $211,000, increased by net investment gains of $1,755,000, and decreased by terminations of $210,000.

Information with respect to investment strategies for alternative investments in 2019 is as follows:

*Global equities limited partnerships*: Includes international investments, including funds with publicly listed equities that seek to achieve an attractive long-term rate of return and to outperform the MSCI World Index.

*Global equities other*: Includes investments in other global equity investment managers that are not limited partnerships (e.g., Common and Group Trusts and Cayman Feeder Funds).

*Long/short equity*: Includes investments that take long and short positions in stocks to capitalize on angles in the market.

*Absolute return*: Includes investments that seek to generate returns that are not correlated with equity markets. Typical strategies include those who underwrite and capitalize on the successful completion of mergers and acquisitions, follow a systematic, quantitative equity market neutral strategy, and investments in fully collateralized reinsurance contracts.

*Credit*: Includes investments across the credit spectrum, including investments in residential mortgage-backed securities and bank loans.

*Private equity:* Includes investments in various vehicles with strategies including technology, global co-investment in middle market and large cap buyouts, distressed and turnaround opportunities, middle market industrials, credit and multi-strategy hedge funds, financial services and funds that are in liquidation status.

## (5) Property and Equipment

Property and equipment as of July 31 are summarized by major classification as follows (in thousands):

| | | 2019 | 2018 |
|---|---|---|---|
| Land | $ | 80 | 80 |
| Warehouses | | 1,604 | 1,604 |
| Leasehold improvements | | 31,777 | 28,430 |
| Furniture, fixtures, and other, including information systems equipment | | 44,406 | 41,510 |
| Theatrical equipment | | 58,770 | 58,553 |
| Construction in progress | | 16,256 | 10,273 |
| | | 152,893 | 140,450 |
| Less accumulated depreciation and amortization | | (90,808) | (85,470) |
| | $ | 62,085 | 54,980 |

In fiscal 2017, City of New York (the City) spent $1.483 million related to the Met's roof renovation and fly rigging projects. The City's investment of capital funding obligates the Met to operate the facility and/or maintain equipment for the respective bonding term as a nonprofit entity, open to and used and maintained for the benefit of the people of the City for cultural, educational, or artistic uses and/or related purposes approved by the City.

## (6) Long-Term Debt and Line of Credit

As of July 31, 2018, the Met maintained a bank line of credit of $30 million (the Line of Credit). The outstanding balance on this line of credit was $16 million at July 31, 2018. The Line of Credit was extended to expire on September 30, 2019. The Met pledged: (i) certain artwork to collateralize the Line of Credit and the $11.6 million standby letter of credit facility (the Letter of Credit) (see note 9); (ii) certain endowment funds totaling $23.4 million for which the respective donors have agreed to allow such funds to serve as collateral for the Line of Credit; and (iii) a warehouse to collateralize the Letter of Credit. Borrowings under the Line of Credit bore interest at LIBOR (3.45325% at July 31, 2018) plus 1.50% or the Prime Rate. The Line of Credit was charged a fee of 0.25% on the unborrowed portion of the line.

In November 2018, the Met terminated the Line of Credit and entered into an agreement for a Line of Credit with a different financial institution (the New Line of Credit). The New Line of Credit is in the amount of $67 million and will expire in November 2023. The outstanding amount may not exceed $50 million, $41.25 million, $32.5 million, $23.75 million, and $15 million for thirty consecutive days during each twelve consecutive month period, respectively. For the New Line of Credit and an additional $11.6 million standby letter of credit facility (with a maximum additional commitment for the Letter of Credit of $15 million) (the Letter of Credit) (see note 11) the Met pledged: (i) certain artwork; (ii) certain endowment funds for which the respective donors have agreed to allow such funds to serve as collateral; and (iii) pledged receivables of the Met. Borrowings under the New Line of Credit bear interest at LIBOR (2.23438% at July 31, 2019) plus 1.25%. The Met is charged a fee of 0.25% on their unborrowed portion of the New Line of Credit and Letter of Credit. In addition to regular reporting requirements, the Met must comply with certain financial covenants related to minimum net assets as well as an interest coverage ratio. The Met is in compliance with financial covenants at July 31, 2019.

Interest expense related to borrowings under the lines of credit was approximately $1.8 million and $714,000 for 2019 and 2018, respectively, and is included in general management expenses. At July 31, 2019, the amount outstanding under the New Line of Credit was $45.5 million.

In December 2012, the Met issued The Metropolitan Opera Taxable Bonds, Series 2012 (the Bonds) in the amount of $100 million. The proceeds were used to repay $33.2 million outstanding on a $35 million bank loan, amounts outstanding under the $30 million Line of Credit, and terminate a related interest rate swap agreement. In addition, the proceeds fund working capital and operating expenses of the Met. Pursuant to various agreements, including an “Indenture of Trust” (the Indenture), the Met is obligated to make required payments of principal, sinking fund installments, and interest on the Bonds. No collateral is required under the Bonds.

The Bonds comprise, at par, $20.355 million of fixed rate serial bonds with maturity dates commencing October 1, 2014 and annually thereafter until October 1, 2022, and $79.645 million of fixed rate term bonds with mandatory sinking fund requirements commencing October 1, 2023 and annually thereafter until final maturity on October 1, 2042. The fixed rate serial bonds bear interest at rates ranging from 1.000% to 3.128% payable each April 1 and October 1 commencing October 1, 2013. The fixed rate term bonds bear interest at rates ranging from 3.728% to 4.524%, payable each April 1 and October 1, commencing October 1, 2013. The Bonds are subject to optional redemption by the Met prior to maturity on any business day. The Bonds are also subject to mandatory redemption pursuant to Sinking Fund installments at the redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest. The Bonds may also be redeemed prior to maturity at the election of the Met at a price equal to the greater of 100% of the principal to be redeemed and the sum of the discounted present value of the remaining scheduled payments, plus accrued interest. The discount rate is a treasury rate plus, in the case of the bonds maturing October 1, 2014 through October 1, 2022, 20 basis points, and plus, in the case of the bonds maturing October 1, 2027, October 1, 2032, and October 1, 2042, 30 basis points.

In connection with the issuance of the Bonds, bond issuance costs of $968,000 have been deferred and included as a reduction to the bond liability and are being amortized over the life of the Bonds. Interest



(Continued)

expense for the Bonds for each of the years ended July 31, 2019 and 2018 was $3.8 million, and is included in general management expenses.

The minimum annual payments for principal and interest related to long-term debt are as follows (in thousands):

| | | Principal | | Interest | Total |
|---|---|---|---|---|---|
| Year(s) ending July 31: | | | | | |
| 2020 | $ | 2,285 | | 3,736 | 6,021 |
| 2021 | | 2,345 | | 3,676 | 6,021 |
| 2022 | | 2,415 | | 3,609 | 6,024 |
| 2023 | | 2,485 | | 3,535 | 6,020 |
| 2024 | | 2,575 | | 3,445 | 6,020 |
| Thereafter | | 77,070 | | 37,376 | 114,446 |
| | | 89,175 | $ | 55,377 | 144,552 |
| Bond issuance costs | | (752) | | | |
| | $ | 88,423 | | | |

In September 2017, the Met entered into a promissory note agreement with a Board member in the amount of $2.2 million. The balance of the loan is due on July 31, 2020 and interest is payable on every January 31 and July 31 of each calendar year at the rate of 1.29% per annum. As of July 31, 2019, $720,000 outstanding on the loan is included in long-term debt payable. Interest expense of approximately $14,000 for the year ended July 31, 2019 is included in general management expenses.

## (7) Retirement Plans

The Met has a defined benefit pension plan (the Plan), which covers many of its employees. Benefits are based on years of service and employees' compensation. The Met uses a July 31 measurement date.

The Met's policy is to fund amounts not less than the minimum statutory funding requirements. The Met recognizes the Plan's funded status as an asset or a liability and recognizes the changes in its funded status in the year in which the changes occur through a separate lines within the change in net assets without donor restrictions, apart from expenses and service cost.

Financial information regarding the Plan as of July 31 follows (in thousands):

| | | 2019 | 2018 |
|---|---|---|---|
| Change in benefit obligation: | | | |
| Benefit obligation at beginning of year | $ | 294,621 | 301,010 |
| Service cost | | 6,075 | 6,376 |
| Interest cost | | 13,173 | 12,285 |
| Plan amendments | | 6,853 | — |
| Actuarial (gains) losses | | 28,348 | (10,949) |
| Benefits paid and expected expenses | | (17,474) | (16,458) |
| Special termination benefits | | — | 2,357 |
| Benefit obligation at end of year | | 331,596 | 294,621 |
| Change in plan assets: | | | |
| Fair value of plan assets at beginning of year | | 208,134 | 199,962 |
| Actual return | | 5,757 | 13,240 |
| Employer contributions | | 11,920 | 11,759 |
| Benefits paid and actual expenses | | (17,676) | (16,827) |
| Fair value of plan assets at end of year | | 208,135 | 208,134 |
| Funded status | $ | (123,461) | (86,487) |

| | | 2019 | 2018 |
|---|---|---|---|
| Components of net periodic cost: | | | |
| Service cost | $ | 6,075 | 6,377 |
| Interest cost | | 13,173 | 12,284 |
| Expected return on plan assets | | (15,808) | (15,436) |
| Other, net | | 7,866 | 8,813 |
| Net periodic cost | | 11,306 | 12,038 |
| Special termination benefits | | — | 2,357 |
| Net periodic cost after special termination benefits | $ | 11,306 | 14,395 |
| Items not yet recognized as a component of net periodic benefit cost: | | | |
| Unrecognized prior service cost | $ | 7,388 | 3,064 |
| Unrecognized net loss | | 123,999 | 90,735 |
| Total | $ | 131,387 | 93,799 |
| Weighted average assumptions used to determine net periodic benefit costs: | | | |
| Discount rate | | 4.46 % | 4.09 % |
| Expected long-term return on plan assets | | 7.47 | 7.47 |
| Weighted average assumptions used to determine benefit obligations: | | | |
| Discount rate | | 3.81 % | 4.46 % |

In September 2017, the Plan was amended to allow eligible employees to participate in the 2017 Voluntary Retirement Program and receive an enhanced pension benefit. Special termination benefits of $2.4 million are included above in net periodic cost above.

In October 2018, the Plan was amended to reflect certain amendments agreed to in collective bargaining between the Met and certain unions and to revise the procedures for disability benefit claims and appeals to comply with new regulations under ERISA.

During the years ended July 31, 2019 and 2018, a net debit of $37.6 million and a net credit of $17.2 million, respectively was reported as pension-related changes other than net period pension cost. The components of the net change are as follows (in thousands):

| | | 2019 | 2018 |
|---|---|---|---|
| Net actuarial loss (gain) | $ | 38,602 | (8,385) |
| Prior service cost | | 6,853 | — |
| Amortization of prior service cost | | (2,530) | (1,891) |
| Amortization of actuarial loss | | (5,337) | (6,921) |
| | $ | 37,588 | (17,197) |

The amortization of net loss and amortization of prior service costs expected to be recognized as a component of net periodic pension cost over the next twelve months are $7,522,000 and $1,641,000, respectively.

The accumulated benefit obligation for the Plan at July 31, 2019 and 2018 was $331,596,000 and $294,621,000, respectively.

The Met expects to contribute at least the minimum required amount of approximately $10.6 million to the Plan in fiscal year 2020. Benefit payments, which reflect expected future service as appropriate, are expected to be paid as follows (in thousands):

| | | Amount |
|---|---|---|
| Year(s) ending July 31: | | |
| 2020 | $ | 17,501 |
| 2021 | | 17,860 |
| 2022 | | 18,317 |
| 2023 | | 18,575 |
| 2024 | | 18,542 |
| 2025–2029 | | 95,877 |

The expected long-term rate of return for the Plan’s total assets is based on the Plan’s investment policy. The primary long-term investment objectives are to hold, protect, and invest the assets as directed and determined by the Investment Committee. Consistent with prudent standards for preservation of capital and maintenance of liquidity, the goal is to earn the highest possible total rate of return consistent with the Plan’s tolerance for risk. The asset allocation should reflect the proper balance of the Plan’s need for liquidity, preservation of purchasing power, risk tolerance and meeting the short and long term obligations of the Plan.

The Plan's weighted average asset allocations at July 31, 2019 and 2018 by asset category are as follows:

| Asset category | 2019 Target policy allocation | Percentage of plan assets 2019 | Percentage of plan assets 2018 |
|---|---|---|---|
| Fixed income, including credit and cash | 0%–30% | 5 % | 14 % |
| Domestic and international equity | 30–65 | 59 | 61 |
| Alternative investments: | | | |
| Liquid alternatives (absolute return, hedged equity) | 0–30 | 20 | 15 |
| Private equity | 0–25 | 3 | — |
| Inflation hedges/real assets/other | 0–25 | 13 | 10 |
| Total | | 100 % | 100 % |

Management's estimate of remaining life of the (nonredeemable) private debt and private equity held in the Plan's investment portfolio at July 31, 2019 is three to thirteen years. At July 31, 2019, the Plan had outstanding unfunded commitments, net of investments already made, totaling $28.2 million.

The redeemable alternative investment funds included in the Plan's investment portfolio at July 31, 2019 and 2018 are redeemable based on the following terms and conditions (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Semi-monthly redemption with 3 -15 days' notice | $ 35,144 | 34,771 |
| Monthly redemption with 6–62 days' notice | 40,047 | 36,221 |
| Monthly redemption with 95 days' notice | 4,958 | 4,577 |
| Quarterly redemption with 30 days' notice subject to 1 year lock up | 5,083 | 2,757 |
| Quarterly redemption with 60 days' notice | 7,412 | 6,129 |
| Quarterly redemption with 60-90 days' notice subject to lock ups and / or gates | 47,950 | 30,949 |
| Quarterly redemption with 180-185 days' notice subject to lock ups and / or gates | 5,624 | 2,816 |
| Annual redemption with 90 days' notice | 1,018 | 4,684 |
| Bi-annual redemption with 123 days' notice subject to 2 year lock up | 13,516 | 11,345 |
| Total | $ 160,752 | 134,249 |



(Continued)

The following tables present the fair value hierarchy of the Plan's assets that are measured at fair value on a recurring basis at July 31, 2019 and 2018 (in thousands):

| | | 2019 Total | Level 1 | Investments at net asset value |
|---|---|---|---|---|
| Cash equivalents and short-term investments | $ | 4,732 | 4,732 | — |
| Fixed income – mutual fund | | 5,532 | 5,532 | — |
| U.S. equities – Exchange traded funds | | 5,980 | 5,980 | — |
| Global equities: | | | | |
| Mutual fund | | 16,016 | 16,016 | — |
| Exchange traded fund | | 6,285 | 6,285 | — |
| Limited partnerships | | 41,322 | — | 41,322 |
| Other | | 54,092 | — | 54,092 |
| Alternative investments: | | | | |
| Long/short equity | | 22,900 | — | 22,900 |
| Absolute return | | 18,606 | — | 18,606 |
| Credit | | 20,605 | — | 20,605 |
| Private debt | | 6,388 | — | 6,388 |
| Private equity | | 5,677 | — | 5,677 |
| Total pension assets | $ | 208,135 | 38,545 | 169,590 |

| | | 2018 Total | Level 1 | Investments at at net asset value |
|---|---|---|---|---|
| Cash equivalents and short-term investments | $ | 2,277 | 2,277 | — |
| Cash pending investment | | 7,110 | 7,110 | — |
| Fixed income – mutual fund | | 18,840 | 18,840 | — |
| U.S. equities: | | | | |
| Managed accounts | | 8,102 | 8,102 | — |
| Exchange traded fund | | 13,288 | 13,288 | — |
| Global equities: | | | | |
| Mutual fund | | 10,549 | 10,549 | — |
| Exchange traded fund | | 10,702 | 10,702 | — |
| Limited partnerships | | 48,373 | — | 48,373 |
| Other | | 36,471 | — | 36,471 |
| Alternative investments: | | | | |
| Long/short equity | | 15,605 | — | 15,605 |
| Absolute return | | 15,130 | — | 15,130 |
| Credit | | 20,798 | — | 20,798 |
| Private equity | | 889 | — | 889 |
| Total pension assets | $ | 208,134 | 70,868 | 137,266 |

Information with respect to investment strategies and redemption terms for alternative investments in 2019 is as follows:

*Global equities limited partnerships*: Includes international investments, including funds with publicly listed equities that seek to achieve an attractive long-term rate of return and to outperform the MSCI World Index.

*Global equities other:* Includes investments in other global equity investment managers that are not limited partnerships.

*Long/short equity*: Includes investments that take long and short positions in stocks to capitalize on changes in the market including investments in U.S. based downstream and midstream energy companies.

*Absolute return:* Includes investments that seek to generate returns that are not correlated with equity markets. Typical strategies include those who underwrite and capitalize on the successful completion of mergers and acquisitions, those who follow a systematic, quantitative equity market neutral strategy, and investments in fully collateralized reinsurance contracts.

*Credit:* Includes investments across the credit spectrum, including investments in residential mortgage-backed securities and bank loans.

*Private Equity:* Includes funds that investment in various vehicles with strategies including technology, global co-investment in middle market and large cap buyouts, distressed and turnaround opportunities, and middle market industrials.

*Private Debt:* Includes privately held investments in debt obligations across a variety of sectors and strategies including healthcare, real estate, technology, and distressed.

Certain employees not covered by the Plan are covered by multi-employer plans as part of collective bargaining agreements. Amounts contributed to these union plans were approximately $12,231,000 and $11,713,000 in 2019 and 2018, respectively. The zone status of the multi-employer plans is based on information from the respective unions and, as required by the Pension Protection Act (PPA), is certified by the Plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. A summary of these plans follows:

- The Met participates in a multi-employer union pension plan, the Pension Fund of Local No. 1 of I.A.T.S.E. As of the January 1, 2018 valuation, the plan's funded percentage is 96.8% which is in the green zone. The collective bargaining agreement requiring contributions to the plan expired July 31, 2014. A memorandum of agreement is in place for the period from August 1, 2014 to July 31, 2020. The contributions by the Met to the union pension fund were approximately $3,023,000 and $2,860,000 for the years ended July 31, 2019 and 2018, respectively. The contributions by the Met to the annuity fund were approximately $5,807,000 and $5,537,000 for the years ended July 31, 2019 and 2018, respectively.
- The Met participates in a multi-employer union pension plan, the Pension Fund of Local 764 I.A.T.S.E. As of the January 1, 2018 valuation, the plan's funded percentage is 107.2% which is in the green zone. The collective bargaining agreement requiring contributions to the plan expired July 31, 2018. A memorandum of agreement is in place for the period from August 1, 2018 to July 31, 2022. The contributions by the Met to the union pension fund were approximately $518,000 and $508,000 for the years ended July 31, 2019 and 2018, respectively. The contributions by the Met to the annuity fund were approximately $413,000 and $395,000 for the years ended July 31, 2019 and 2018, respectively.
- The Met participates in a multi-employer union pension plan, the Pension Fund of Local 829. As of the January 1, 2018 valuation, the plan's funded percentage is 103.9% which is in the green zone. A collective bargaining agreement requiring contributions is in place for the period from August 1, 2014 to July 31, 2020. The contributions by the Met to the union pension fund were approximately $341,000 and $377,000 for the years ended July 31, 2019 and 2018, respectively. The contributions by the Met to the annuity fund were approximately $241,000 and $268,000 for the years ended July 31, 2019 and 2018, respectively.
- The Met participates in a multi-employer union pension plan, the American Federation of Musicians and Employers' Pension Fund. As of the April 1, 2018 valuation, the plan's funded percentage is 61.8%; however, the plan is considered to be in critical status because (i) the plan was in critical status last year, and, over the next nine years, it is projected to have an accumulated funding deficiency for the plan year ending March 31, 2019 and (ii) the sum of the plan's normal cost and interest on the unfunded benefits for the current plan year exceeds the present value of all expected contributions for the year; the present value of vested benefits of inactive participants is greater than the present value of vested benefits of active participants; and over the next four plan years, the plan is projected to have an accumulated funding deficiency in the plan year noted above. The collective bargaining agreement requiring contributions to the plan expired July 31, 2018. A memorandum of agreement is in place for the period from August 1, 2018 to July 31, 2021. The contributions by the Met to the union pension

fund were approximately $660,000 and $600,000 for the years ended July 31, 2019 and 2018, respectively.

- Amounts contributed to the other union plans (ten in FY19 and nine in FY18) amounted to $1,229,000 and $1,167,000 for the years ended July 31, 2019 and 2018, respectively. Two collective bargaining agreements expired July 31, 2019. One collective bargaining agreement is now in place for one of those unions for the period from August 1, 2019 to July 31, 2022. The other union agreement is still being negotiated. Two memorandums of agreement are in place for the period from August 1, 2014 to July 31, 2020. One memorandum of agreement is in place for the period from August 1, 2018 to July 31, 2020. One memorandum of agreement is in place for the period from August 1, 2018 to July 31, 2021. One collective bargaining agreement is in place for the period from August 1, 2006 to July 31, 2021. Two memorandums of agreement are in place for the period from August 1, 2018 to July 31, 2022. One union, whose agreement expired July 31, 2019, is currently being negotiated with.

**(8) Net Assets**

Net assets with donor restrictions comprised the following at July 31, 2019 and 2018 (in thousands):

| | | 2019 | 2018 |
|---|---|---|---|
| Net assets with time or purpose restrictions: | | | |
| Subject to expenditure when a specified event occurs: | | | |
| Future operating activities (time restricted) | $ | 7,470 | 6,715 |
| New productions | | 15,260 | 19,470 |
| Capital | | 32,318 | 21,726 |
| Interests in charitable trusts and pooled income funds | | 6,083 | 18,344 |
| Telecast and other media activities | | 4,937 | 3,943 |
| Save the Met Broadcast | | 2,671 | 2,425 |
| Other program activities | | 7,225 | 7,780 |
| Endowment draw appropriation restricted for program | | 168 | 185 |
| | | 76,132 | 80,588 |
| Endowment returns subject to future appropriation: | | | |
| Future operating activities (time restricted) | | 25,255 | 26,149 |
| New productions | | 3,183 | 4,076 |
| Telecast and other media activities | | 1,601 | 2,519 |
| Save the Met Broadcast | | 596 | 630 |
| Other program activities | | 5,320 | 5,078 |
| Underwater endowments | | (700) | (240) |
| | | 35,255 | 38,212 |
| Total net assets restricted by time or purpose | | 111,387 | 118,800 |

| | | 2019 | 2018 |
|---|---|---|---|
| Net assets with perpetual restrictions – income for: | | | |
| New York Season | $ | 126,285 | 123,821 |
| New productions | | 70,418 | 72,485 |
| Telecasts and other media | | 15,245 | 15,401 |
| Young artists | | 17,092 | 17,060 |
| Other specified activities | | 20,119 | 9,039 |
| Total net assets with perpetual restrictions | | 249,159 | 237,806 |
| Total net assets with donor restrictions | $ | 360,546 | 356,606 |

Included in net assets with donor restrictions in fiscal 2019 and 2018 is approximately $530,000 and $586,000, respectively, expended for capital appropriations funded by the City relating to the Met's fly rigging system.

Included in net assets with perpetual restrictions are two donor-restricted gifts that require the use of a spending rate to be applied to such funds. Investment income greater than the spending rate is required to be reinvested in the fund and, accordingly, is classified as net assets with donor restrictions to be held in perpetuity. In addition, net assets with donor restrictions to be held in perpetuity include other funds that allow only interest and dividends to be spent and net appreciation is required to be reinvested in the fund and, accordingly, is classified as net assets with donor restrictions to be held in perpetuity. At July 31, 2019 and 2018, the value of such funds included in net assets with donor restrictions to be held in perpetuity was $67.3 million and $69.1 million, respectively.

## (9) Endowment Funds

The Met's endowment consists of approximately 300 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Met to function as endowment funds, and related net assets are classified and reported based on the existence or absence of donor-imposed restrictions.

The Met is subject to the NYPMIFA and in the case of the Trust, the New York State trust laws. The Met has interpreted NYPMIFA as allowing it to appropriate for expenditure or accumulate so much of the donor-restricted endowment fund as is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument absent explicit donor stipulations to the contrary.

The investment objective of the Met's endowment investment portfolio is to attain an average annual total return that exceeds inflation within acceptable levels of risk over a full market cycle. Prudent investment risks are taken with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent committee acting in a similar capacity and familiar with the endowment investment matters would use in investing fund assets. The assets are managed on a total return basis. The Investment Committee of the Board of Managing Directors has adopted long term asset allocation range targets for equities, fixed income, real estate, private equity and other alternative investments, and cash.

The Met's Board of Managing Directors approved a spending policy under which an annually approved portion of investment return is authorized to fund current operations. This spending amount represents the Met's determination of a prudent amount of the fair value of the endowment investments available as needed for current operations. This determination is made in accordance with NYPMIFA and New York State trust laws. The Board of Managing Directors approved an overall spending rate of 5.0% for both of the years ended July 31, 2019 and 2018.

The Met considers donor restrictions and follows the guidelines of applicable law in determining spending amounts. When permissible, the Met will appropriate funding from underwater funds using various rates dependent on the percentage of market value to book value. The rate decreases as the percentage of market value relative to book value decreases. From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the historic dollar amount of the fund. Deficiencies of this nature that are reported in net assets with donor restrictions totaled approximately $700,000 and $240,000 as of July 31, 2019 and 2018, respectively. The original book value of these funds was $25.8 million and $12.6 million, as of July 31, 2019 and 2018, respectively. This deficiency results from the combination of unfavorable market fluctuations and spending subsequent to the investment of perpetual donor-restricted contributions.

The Met's endowment funds consist of the following at July 31, 2019 and 2018 (in thousands):

| | | Without donor restrictions | With donor restrictions | | Total funds as of July 31, 2019 |
|---|---|---|---|---|---|
| | | | Original gift | Accumulated gains/gift | |
| Donor-restricted funds | $ | — | 244,081 | 34,755 | 278,836 |
| Board-designated funds | | 14,285 | — | — | 14,285 |
| Total endowment net assets | $ | 14,285 | 244,081 | 34,755 | 293,121 |

| | | Without donor restrictions | With donor restrictions | | Total funds as of July 31, 2018 |
|---|---|---|---|---|---|
| | | | Original gift | Accumulated gains/gift | |
| Donor-restricted funds | $ | — | 231,632 | 37,714 | 269,346 |
| Board-designated funds | | 14,491 | — | — | 14,491 |
| Total endowment net assets | $ | 14,491 | 231,632 | 37,714 | 283,837 |



(Continued)

Changes in endowment funds for the year ended July 31, 2019 (in thousands):

| | | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|---|
| Endowment net assets, July 31, 2018, as restated | $ | 14,491 | 269,346 | 283,837 |
| Investment return, net | | 12,599 | (4,846) | 7,753 |
| Contributions | | — | 14,336 | 14,336 |
| Appropriation for expenditure | | (12,805) | — | (12,805) |
| Endowment net assets, July 31, 2019 | $ | 14,285 | 278,836 | 293,121 |

Changes in endowment funds for the year ended July 31, 2018 (in thousands):

| | | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|---|
| Endowment net assets, July 31, 2017, as restated | $ | 13,759 | 263,307 | 277,066 |
| Investment return, net | | 13,581 | 702 | 14,283 |
| Contributions | | — | 5,337 | 5,337 |
| Appropriation for expenditure | | (12,849) | — | (12,849) |
| Endowment net assets, July 31, 2018, as restated | $ | 14,491 | 269,346 | 283,837 |

## (10) Functional Classification of Expenses

The Met’s program services include Opera activities, Ballet and other presentations, and management of the Opera House.

Expenses by functional classification are allocated based on time, effort, and usage and have been distributed for the years ended July 31, 2019 and 2018 as follows (in thousands):

| | Compensation and benefits | Supplies, services and other | Interest | Depreciation | Total operating expenses | Other components of net periodic pension cost | 2019 Total expenses |
|---|---|---|---|---|---|---|---|
| Opera activities: | | | | | | | |
| Performances | $ 174,210 | 25,213 | — | — | 199,423 | 3,825 | 203,248 |
| Media | 19,949 | 8,078 | — | — | 28,027 | 438 | 28,465 |
| New productions | 9,033 | 5,167 | — | — | 14,200 | 198 | 14,398 |
| Other | 3,446 | 4,575 | — | — | 8,021 | 76 | 8,097 |
| Ballet and other presentations | 5,879 | 521 | — | — | 6,400 | 129 | 6,529 |
| Opera house | 8,925 | 7,043 | — | 5,340 | 21,308 | 196 | 21,504 |
| Total program expenses | 221,442 | 50,597 | — | 5,340 | 277,379 | 4,862 | 282,241 |
| General management | 10,740 | 5,639 | 5,626 | 32 | 22,037 | 236 | 22,273 |
| Fundraising | 7,001 | 5,906 | — | — | 12,907 | 133 | 13,040 |
| Total expenses | $ 239,183 | 62,142 | 5,626 | 5,372 | 312,323 | 5,231 | 317,554 |

| | Compensation and benefits | Supplies, services and other | Interest | Depreciation | Total operating expenses | Other components of net periodic pension cost | 2018 Total expenses |
|---|---|---|---|---|---|---|---|
| Opera activities: | | | | | | | |
| Performances | $ 161,788 | 21,580 | — | — | 183,368 | 5,761 | 189,129 |
| Media | 18,369 | 9,110 | — | — | 27,479 | 653 | 28,132 |
| New productions | 9,596 | 4,630 | — | — | 14,226 | 342 | 14,568 |
| Other | 3,371 | 4,495 | — | — | 7,866 | 120 | 7,986 |
| Ballet and other presentations | 6,654 | 550 | — | — | 7,204 | 237 | 7,441 |
| Opera house | 8,542 | 7,273 | — | 5,224 | 21,039 | 304 | 21,343 |
| Total program expenses | 208,320 | 47,638 | — | 5,224 | 261,182 | 7,417 | 268,599 |
| General management | 11,173 | 6,261 | 4,551 | 154 | 22,139 | 398 | 22,537 |
| Fundraising | 6,817 | 5,729 | — | — | 12,546 | 203 | 12,749 |
| Total expenses | $ 226,310 | 59,628 | 4,551 | 5,378 | 295,867 | 8,018 | 303,885 |

## (11) Commitments and Contingencies

The Met has a letter of credit with a bank in the amount of $11.6 million, which serves as security with an insurance company for unpaid workers' compensation claims. In October 2019, the letter of credit amount was lowered to $11.4 million.

The Opera House is leased, under an operating lease agreement, from Lincoln Center for the Performing Arts, Inc. On January 30, 2014, the Met exercised its option to renew the lease for the period from June 1, 2016 until May 31, 2041. The Met has an additional option to renew for a further 25-year period after 2041. Under the terms of the lease, the Met is obligated to pay the expenses of maintaining and operating the Opera House and the Met's portion of the expenses for the common facilities of Lincoln Center.

### (12) Related Parties

The Metropolitan Opera Guild (the Guild) is an independent not-for-profit organization that, in addition to carrying out its own educational program activities, makes contributions to the Met. Certain officers of the Guild are members of the Met's Board of Managing Directors. The Met also maintains the membership records of the Guild and the Guild remits to the Met its membership revenues less the operating expenses of its magazine. Included in contributions receivable is approximately $484,000 and $464,000 due from the Guild at July 31, 2019 and 2018, respectively. Revenues from the Guild were $5.8 million and $6.1 million for the years ended July 31, 2019 and 2018, respectively.

The Met receives contributions from its Board members, and as of July 31, 2019 and 2018, $29.4 million and $23.5 million, respectively, are included in contribution receivables in the accompanying consolidated balance sheets. In addition, Board members contribute to the Met through their affiliated foundations and corporations.

### (13) Subsequent Events

In connection with the preparation of the consolidated financial statements, the Met evaluated events after the consolidated balance sheet date of July 31, 2019 through December 17, 2019, which was the date the consolidated financial statements were available to be issued. No subsequent events disclosures were identified.