



METROPOLITAN OPERA ASSOCIATION, INC.

Consolidated Financial Statements

July 31, 2020 and 2019

(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 Metropolitan Opera Association, Inc., which comprise the consolidated balance sheets as of July 31, 2020 and 2019, 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 Metropolitan Opera Association, Inc. as of July 31, 2020 and 2019, 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.

KPMG LLP

December 22, 2020

METROPOLITAN OPERA ASSOCIATION, INC.

Consolidated Balance Sheets

July 31, 2020 and 2019

(In thousands)

Assets	2020	2019
Cash and cash equivalents	\$ 7,013	5,817
Accounts receivable	8,171	4,249
Contributions receivable, net (notes 2 and 12)	100,495	96,973
Prepaid production and telecast costs	4,988	10,160
Other assets	11,849	4,764
Investments (notes 4 and 9)	317,215	301,364
Interests in split-interest agreements (note 4)	8,679	11,826
Property and equipment, net (note 5)	70,351	62,085
Total assets	<u>\$ 528,761</u>	<u>497,238</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 26,193	27,630
Borrowings under line of credit (note 6)	57,000	45,500
Deferred revenue	22,872	42,108
Other liabilities	22,490	21,720
Long-term debt (note 6)	86,170	89,143
Unfunded accumulated benefit obligation (note 7)	190,278	123,461
Total liabilities	<u>405,003</u>	<u>349,562</u>
Net assets (accumulated deficit) (notes 8 and 9):		
Net assets (accumulated deficit) without donor restrictions	(280,490)	(212,870)
Net assets with donor restrictions	404,248	360,546
Total net assets	<u>123,758</u>	<u>147,676</u>
Total liabilities and net assets	<u>\$ 528,761</u>	<u>497,238</u>

See accompanying notes to consolidated financial statements.

METROPOLITAN OPERA ASSOCIATION, INC.

Consolidated Statements of Activities

Years ended July 31, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Changes in net assets without donor restrictions:		
Operating revenues:		
Contributions and bequests	\$ 111,384	137,042
Net assets released from restrictions	<u>31,402</u>	<u>28,942</u>
	142,786	165,984
Opera activities:		
Box office and tours (inclusive of in-kind ticket and ticket discount program contributions of \$2.4 million and \$3.5 million in 2020 and 2019, respectively)	63,031	85,054
Media revenues	22,145	28,439
Other revenues	3,816	5,034
Ballet and other presentations	1,769	7,900
Investment return – authorized spending amount (notes 4 and 9)	13,062	12,737
Other income (note 4)	<u>16,353</u>	<u>6,034</u>
Total	<u>262,962</u>	<u>311,182</u>
Operating expenses (note 10):		
Opera activities:		
Performances	161,264	199,423
Media	25,399	28,027
New productions	14,155	14,200
Other	7,166	8,021
Ballet and other presentations	2,037	6,400
Opera House	21,290	21,308
General management (note 6)	19,353	22,037
Fund-raising expenses	<u>12,298</u>	<u>12,907</u>
Total	<u>262,962</u>	<u>312,323</u>
Deficiency of operating revenues over expenses	—	(1,141)
Nonoperating:		
Investment return in excess of (less than) spending amount (note 4)	292	(437)
Other components of net periodic pension cost (note 7)	(6,037)	(5,231)
Pension-related changes other than net periodic pension cost (note 7)	(62,141)	(37,588)
Other	<u>266</u>	<u>(3,172)</u>
Decrease in net assets without donor restrictions	<u>(67,620)</u>	<u>(47,569)</u>
Changes in net assets with donor restrictions:		
Contributions and bequests for:		
Operations	59,015	13,294
Capital	931	11,478
Endowment	10,900	13,100
Investment return (loss), net (note 4)	4,339	(4,624)
Other	(81)	(367)
Net assets released from restrictions	<u>(31,402)</u>	<u>(28,942)</u>
Increase in net assets with donor restrictions	<u>43,702</u>	<u>3,939</u>
Change in net assets	(23,918)	(43,630)
Net assets:		
Beginning of year	<u>147,676</u>	<u>191,306</u>
End of year	<u>\$ 123,758</u>	<u>147,676</u>

See accompanying notes to consolidated financial statements.

METROPOLITAN OPERA ASSOCIATION, INC.

Consolidated Statements of Cash Flows

Years ended July 31, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (23,918)	(43,630)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	5,305	5,371
Pension-related changes other than net periodic pension cost	62,141	37,588
Net gains on investments	(16,705)	(3,223)
Change in value of interests in split-interest agreements	(150)	(710)
Contributions of net assets with perpetual restrictions	(10,900)	(13,100)
Contributions restricted for investments in property and equipment	(931)	(11,478)
Changes in operating assets and liabilities:		
Accounts receivable	(3,922)	(179)
Contributions receivable, net	(7,404)	(8,357)
Prepaid production and other assets	(1,913)	6,645
Interests in split-interest agreements	3,297	12,170
Accounts payable, accrued expenses, and other liabilities	1,668	(4,360)
Unfunded accumulated benefit obligation	4,676	(614)
Deferred revenue	(19,236)	(7,507)
Net cash used in operating activities	<u>(7,992)</u>	<u>(31,384)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(13,539)	(8,629)
Decrease in accounts payable for acquisitions of property and equipment	(2,335)	—
Purchases of investments	(261,294)	(97,741)
Proceeds from sale of investments	262,003	92,068
Net cash used in investing activities	<u>(15,165)</u>	<u>(14,302)</u>
Cash flows from financing activities:		
Borrowings under line of credit	73,954	114,500
Repayments of line of credit	(62,454)	(85,000)
Repayments of long-term debt	(3,005)	(2,955)
Cash contributions for net assets with perpetual restrictions	11,525	14,330
Cash received for contributions restricted for investments in property and equipment	4,188	6,069
Net cash provided by financing activities	<u>24,208</u>	<u>46,944</u>
Net increase in cash and cash equivalents	1,051	1,258
Cash, cash equivalents, and restricted cash at beginning of year	6,338	5,080
Cash, cash equivalents, and restricted cash at end of year	\$ <u>7,389</u>	\$ <u>6,338</u>
Reconciliation of cash, cash equivalent, and restricted cash reported within the consolidated statement of financial position that sum to the total of the same such accounts shown above:		
Cash and cash equivalents	\$ 7,013	5,817
Restricted cash included in investments	376	521
Cash, cash equivalents, and restricted cash	\$ <u>7,389</u>	\$ <u>6,338</u>
Supplemental information:		
Cash paid for interest	\$ 5,542	5,609
Increase in accounts payable for acquisitions of property and equipment	—	3,814

See accompanying notes to consolidated financial statements.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

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

Organization

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, 2020, 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 amended during fiscal 2020 and 2021 to provide additional resources for operations and capital initiatives. The Met's operating results are balanced.

As a result of the COVID pandemic, the Met cancelled its live season at the opera house and related Live in HD transmissions beginning with an initial cancellation date of March 12; and later cancelled its FY2020-2021 season for further safety measures. The Met has undertaken alternative measures to present encores, recitals, opera streaming and virtual galas in an effort to maintain the connection between the Met and its audience. In addition, the Met initiated an emergency fundraising campaign to offset funding losses created by the box office cancellations. As of July 31, 2020, the Met has raised \$79.3 million in the campaign. Expense reductions have been achieved from a series of furloughs to both union and administrative staff. The Met has maintained coverage for employees who participated in the Met welfare plans. The Met is currently in negotiations with several of its unions with a focus on improving operating efficiencies and reducing expenses.

Based upon the most recent information available and the Met's strategic planning and continued efforts to generate new revenue and reduce expenses further, the Met estimates that it will have sufficient liquidity through December 2021 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

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

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

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

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 1 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.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

(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, 2020, the Met raised \$240 million under the Opera Fund, of which \$21 million was recognized as contributions without donor restrictions during the year ended July 31, 2020.

In addition, the Met launched an overall "Protect the Met" campaign in direct response to the cancellation of performances due to the pandemic. Through July 31, 2020, the Met raised \$79.3 million for this emergency campaign, of which \$42.5 million was recognized as contributions without donor restrictions during the year ended July 31, 2020.

Fundraising expenses reflected in the accompanying consolidated statements of activities of \$12.3 million and \$12.9 million have been incurred to raise contributions and bequests, including contributions and bequests with donor restrictions, totaling \$182.2 million and \$174.9 million in 2020 and 2019, respectively.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

(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. Revenue associated with the license of software is recognized when access to the software and code is provided to the licensee and is included in other income.

(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 \$14.0 million and \$16.1 million in 2020 and 2019, 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 \$657,000 and \$770,000 in 2020 and 2019, 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.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

(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, 2020 and 2019.

(k) Recently Adopted Accounting Standard

During 2020, the Met adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU requires that a statement of cash flows 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 impact of this adoption was not significant to the consolidated financial statements.

(l) New Authoritative Accounting Pronouncement

In February 2016, 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, after all deferrals, are effective for annual periods beginning after December 15, 2019. The Met is in the process of evaluating the impact of this ASU and plans to adopt the provisions of ASU No. 2016-02 in fiscal 2021.

(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):

	<u>2020</u>	<u>2019</u>
Within one year	\$ 40,862	41,749
One to five years	60,314	58,271
More than five years	<u>3,923</u>	<u>2,381</u>
Total	105,099	102,401

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

	2020	2019
Less:		
Allowance for uncollectibility	\$ (580)	(580)
Discount to present value discount rate used ranging from 1.62%–3.602%	(4,024)	(4,848)
	\$ 100,495	96,973

As of July 31, 2020 and 2019, contributions receivable included approximately \$55.8 million and \$55.2 million, respectively, due from ten donors. During the years ended July 31, 2020 and 2019, contributions revenue included approximately \$70.8 million and \$73.1 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, 2020	Resources appropriated by the Board and available in FY21	Total
		(In thousands)	
Financial assets available within one year:			
Cash and cash equivalents	\$ 7,013	—	7,013
Accounts receivable	8,171	—	8,171
Contributions receivable (due in one year or less)	40,862	—	40,862
Spending distribution from endowment funds	—	13,326	13,326
Total financial assets available within one year	56,046	13,326	69,372
Other liquidity resources:			
Bank line of credit (\$57 million outstanding at July 31, 2020)	43,000	—	43,000
Board-designated endowment	14,359	—	14,359
Total financial assets available within one year and other liquidity resources	\$ 113,405	13,326	126,731

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

	<u>Resources available at July 31, 2019</u>	<u>Resources appropriated by the Board and available in FY20</u> (In thousands)	<u>Total</u>
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	\$ <u>86,400</u>	<u>13,463</u>	<u>99,863</u>

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.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

(4) Investments

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

	2020	2019
Endowment investments:		
Cash equivalents and short-term investments	\$ 16,947	17,220
Fixed income	29,462	27,334
U.S. equities	16,412	18,026
Global equities (including alternative investments)	147,674	144,188
Other alternative investment strategies	98,697	86,353
	309,192	293,121
Other investments:		
Cash equivalents and short-term investments	1,241	725
Fixed income	3,904	4,299
U.S. equities	2,228	1,881
Global equities	257	828
Balanced mutual funds	330	491
Alternative investments	63	19
	8,023	8,243
	\$ 317,215	301,364

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

	2020	2019
Investments, beginning of year	\$ 301,364	292,088
Investment return:		
Interest and dividends	2,768	6,245
Net gains	16,705	3,223
Less investment expenses paid	(1,949)	(1,222)
Investment return	17,524	8,246
Gifts and other additions	38,045	34,325
Amounts utilized for operations:		
Investment return authorized spending amount	(13,463)	(12,805)
Other transfers	(26,255)	(20,490)
Investments, end of year	\$ 317,215	301,364

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

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

	2020	2019
Investment return authorized spending amount included in:		
Operating revenues without donor restrictions	\$ 13,062	12,737
Donor restricted investment returns	401	68
	13,463	12,805
Other investment (loss) return included in other income or in other changes in net assets without donor restrictions	(717)	315
Investment return greater than (less than) authorized spending amount	4,631	(5,129)
Investment return	\$ 17,377	7,991

Management's estimate of the remaining life of the (nonredeemable) limited partnerships held in the Met's investment portfolio at July 31, 2020 and 2019 of \$14.2 million and \$7.7 million, respectively, is one to twelve years. At July 31, 2020, the Met had unpaid investment consultant and custodian fees of \$418,000. At July 31, 2020, the Met had unfunded outstanding commitments, net of investments already made, totaling \$25.8 million.

The redeemable alternative investment funds included in the Met's investment portfolio at July 31, 2020 and 2019 are redeemable based on the following terms and conditions (in thousands):

	2020	2019
Semi-monthly redemption with 3–15 days' notice	\$ 27,257	35,373
Monthly redemption with 6–62 days' notice	21,517	35,092
Monthly redemption with 95 days' notice	7,953	7,436
Quarterly redemption with 30 days' notice subject to 1 year lock up	—	3,387
Quarterly redemption with 45 days' notice	7,644	—
Quarterly redemption with 60–61 days' notice	15,119	—
Quarterly redemption with 60–90 days' notice subject to lock ups and/or gates	58,942	49,849
Quarterly redemption with 180 days' notice subject to 1 year lock up	—	3,353
Annual redemption with 90 days' notice	758	1,018
Bi-annual redemption with 100 days' notice	22,482	33,869
Bi-annual redemption with 123 days' notice subject to 2 year lock up	16,986	16,979
	\$ 178,658	186,356

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

The following tables present the fair value hierarchy of assets that are measured at fair value on a recurring basis at July 31, 2020 and 2019 (in thousands):

	<u>2020 Total</u>	<u>Level 1</u>	<u>Level 3</u>	<u>Investments at net asset value</u>
Investments:				
Cash equivalents and short-term investments	\$ 18,188	18,188	—	—
Fixed income:				
Common trust fund	422	422	—	—
Exchange traded funds	358	358	—	—
Mutual fund	29,462	29,462	—	—
U.S. government obligations	3,124	3,124	—	—
U.S. equities:				
Managed accounts	3	3	—	—
Mutual funds	27	27	—	—
Exchange traded funds	18,221	18,221	—	—
Common trust funds	389	389	—	—
Global equities:				
Managed accounts	33,690	33,690	—	—
Mutual funds	11,525	11,525	—	—
Exchange traded funds	8,580	8,580	—	—
Limited partnerships	29,652	—	—	29,652
Other	64,484	—	—	64,484
Balanced mutual funds	330	330	—	—
Alternative investments:				
Long/short equity	27,790	—	—	27,790
Absolute return	27,959	—	—	27,959
Credit	28,773	—	—	28,773
Private equity	14,238	—	—	14,238
	<u>\$ 317,215</u>	<u>124,319</u>	<u>—</u>	<u>192,896</u>
Interests in split-interest agreements	\$ 8,679	—	8,679	—

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

	<u>2019 Total</u>	<u>Level 1</u>	<u>Level 3</u>	<u>Investments at net asset value</u>
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
	<u>\$ 301,364</u>	<u>107,262</u>	<u>—</u>	<u>194,102</u>
Interests in split-interest agreements	\$ 11,826	—	11,826	—

For the year ended July 31, 2020, interests in split-interest agreements increased by new agreements of \$26,000, increased by net investment gains of \$150,000, and decreased by terminations of \$3,323,000. 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.

Information with respect to investment strategies for alternative investments in 2020 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.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

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):

	2020	2019
Land	\$ 80	80
Warehouses	1,604	1,604
Leasehold improvements	31,812	31,777
Furniture, fixtures, and other, including information systems equipment	46,105	44,406
Theatrical equipment	61,898	58,770
Construction in progress	24,933	16,256
	166,432	152,893
Less accumulated depreciation and amortization	(96,081)	(90,808)
	\$ 70,351	62,085

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. Construction in progress include costs associated with the Met Opera vertical expansion and the Travertine restoration. The commitments to complete these projects at July 31, 2020 are approximately \$16.6 million.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

(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 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 11); (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.

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 (0.087% and 2.23438% at July 31, 2020 and 2019, respectively) plus 1.25% or the Prime Rate. The Met is charged a fee of 0.25% on their unborrowed portion of the New Line of Credit and Letter of Credit.

In July 2020, the New Line of Credit agreement was amended providing for a temporary increase in the line amount to \$100 million until December 31, 2020, at which point the maximum line will return to \$67 million. In December 2020, another amendment was executed extending the temporary increase in the line amount of \$100 million to February 28, 2021. The agreement also provided for the potential conversion of the additional \$33 million to a four-year term loan. The maximum additional commitment for the Letter of Credit was reduced to \$13.5 million (\$11.2 million was outstanding as of July 31, 2020). In addition, borrowings under the New Line of Credit now bear interest at LIBOR plus 1.75% or the Prime Rate. The outstanding amount was also amended to waive the reduction in the outstanding amount for the second twelve consecutive month period and to reduce the outstanding amount for the remaining three twelve consecutive month periods to \$41.25 million, \$32.5 million, and \$23.75 million. The Met is currently negotiating with the bank to amend the provisions of the entire credit facility.

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, 2020.

Interest expense related to borrowings under the lines of credit was approximately \$1.7 million and \$1.8 million for 2020 and 2019, respectively, and is included in general management expenses. At July 31, 2020 and 2019, the amount outstanding under the New Line of Credit was \$57 million (of which \$30 million was borrowed at the rate of LIBOR plus 1.75% and \$27 million was borrowed at the Prime Rate (3.25% as of July 31, 2020)) and \$45.5 million (of which \$36 million was borrowed at the rate of LIBOR plus 1.25% and \$9.5 million was borrowed at the Prime Rate (5.5% as of July 31, 2019)), respectively.

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

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

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 expense for the Bonds for the years ended July 31, 2020 and 2019 was \$3.7 million and \$3.8 million, respectively, 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):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending July 31:			
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
2025	2,680	3,340	6,020
Thereafter	<u>74,390</u>	<u>34,036</u>	<u>108,426</u>
	86,890	\$ <u>51,641</u>	<u>138,531</u>
Bond issuance costs	<u>(720)</u>		
	<u>\$ 86,170</u>		

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 was due on July 31, 2020 and interest was payable on every January 31 and July 31 of each calendar year at the rate of 1.29% per annum. As of July 31, 2020, there

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

was no outstanding balance on the loan. Interest expense of approximately \$5,000 for the year ended July 31, 2020 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 as is follows (in thousands):

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 331,596	294,621
Service cost	6,883	6,075
Interest cost	12,433	13,173
Plan amendments	—	6,853
Actuarial losses	68,408	28,348
Benefits paid and expected expenses	(18,376)	(17,474)
Benefit obligation at end of year	400,944	331,596
Change in plan assets:		
Fair value of plan assets at beginning of year	208,135	208,134
Actual return	12,706	5,757
Employer contributions	8,245	11,920
Benefits paid and actual expenses	(18,420)	(17,676)
Fair value of plan assets at end of year	210,666	208,135
Funded status	\$ (190,278)	(123,461)
Components of net periodic cost:		
Service cost	\$ 6,883	6,075
Interest cost	12,433	13,173
Expected return on plan assets	(15,989)	(15,808)
Other, net	9,593	7,866
Net periodic cost	\$ 12,920	11,306

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Items not yet recognized as a component of net periodic benefit cost:		
Unrecognized prior service cost	\$ 5,746	7,388
Unrecognized net loss	<u>187,782</u>	<u>123,999</u>
Total	<u>\$ 193,528</u>	<u>131,387</u>
Weighted average assumptions used to determine net periodic benefit costs:		
Discount rate	3.81 %	4.46 %
Expected long-term return on plan assets	7.47	7.47
Weighted average assumptions used to determine benefit obligations:		
Discount rate	2.42 %	3.81 %

During the years ended July 31, 2020 and 2019, a net debit of \$62.1 million and \$37.6 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):

	<u>2020</u>	<u>2019</u>
Net actuarial loss	\$ 71,734	38,602
Prior service cost	—	6,853
Amortization of prior service cost	(1,641)	(2,530)
Amortization of actuarial loss	<u>(7,952)</u>	<u>(5,337)</u>
	<u>\$ 62,141</u>	<u>37,588</u>

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 \$13,072,000 and \$808,000, respectively.

The accumulated benefit obligation for the Plan at July 31, 2020 and 2019 was \$400,944,000 and \$331,596,000, respectively.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

The Met expects to contribute at least the minimum required amount of approximately \$24.6 million to the Plan in fiscal year 2021. Benefit payments, which reflect expected future service as appropriate, are expected to be paid as follows (in thousands):

	<u>Amount</u>
Year(s) ending July 31:	
2021	\$ 18,312
2022	18,706
2023	18,924
2024	18,900
2025	19,078
2026–2030	97,590

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, 2020 and 2019 by asset category are as follows:

<u>Asset category</u>	2020 Target policy allocation	Percentage of plan assets	
		2020	2019
Fixed income, including credit and cash	0%–15%	11 %	5 %
Domestic and international equity	30–65	53	59
Alternative investments:			
Liquid alternatives (absolute return, hedged equity)	0–30	23	20
Private equity	0–25	6	3
Inflation hedges/real assets/other	0–25	7	13
Total		<u>100 %</u>	<u>100 %</u>

Management's estimate of remaining life of the (nonredeemable) private debt and private equity held in the Plan's investment portfolio at July 31, 2020 and 2019 of \$24.4 million and \$8.8 million, respectively, is one to twelve years and three to thirteen years, respectively. At July 31, 2020, the Plan had outstanding unfunded commitments, net of investments already made, totaling \$35 million.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

The redeemable alternative investment funds included in the Plan's investment portfolio at July 31, 2020 and 2019 are redeemable based on the following terms and conditions (in thousands):

	<u>2020</u>	<u>2019</u>
Semi-monthly redemption with 3–15 days' notice	\$ 22,296	35,144
Monthly redemption with 6–62 days' notice	17,019	40,047
Monthly redemption with 95 days' notice	5,302	4,958
Quarterly redemption with 30 days' notice subject to 1 year lock up	—	5,083
Quarterly redemption with 45 days' notice	6,498	—
Quarterly redemption with 60 days' notice	7,059	7,412
Quarterly redemption with 60–90 days' notice subject to lock ups and/or gates	56,030	47,950
Quarterly redemption with 180–185 days' notice subject to lock ups and/or gates	3,300	5,624
Annual redemption with 90 days' notice	758	1,018
Bi-annual redemption with 123 days' notice subject to 2 year lock up	13,522	13,516
Total	<u>\$ 131,784</u>	<u>160,752</u>

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, 2020 and 2019 (in thousands):

	<u>2020 Total</u>	<u>Level 1</u>	<u>Investments at net asset value</u>
Cash equivalents and short-term investments	\$ 3,273	3,273	—
Fixed income – mutual fund	19,940	19,940	—
U.S. equities – exchange traded funds	13,623	13,623	—
Global equities:			
Mutual fund	15,608	15,608	—
Exchange traded fund	6,976	6,976	—
Limited partnerships	23,670	—	23,670
Other	52,594	—	52,594
Alternative investments:			
Long/short equity	24,652	—	24,652
Absolute return	23,188	—	23,188
Credit	3,300	—	3,300
Private debt	11,782	—	11,782
Private equity	12,060	—	12,060
Total pension assets	<u>\$ 210,666</u>	<u>59,420</u>	<u>151,246</u>

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

	<u>2019 Total</u>	<u>Level 1</u>	<u>Investments at net asset value</u>
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	<u>\$ 208,135</u>	<u>38,545</u>	<u>169,590</u>

Information with respect to investment strategies and redemption terms for alternative investments in 2020 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 Debt: Includes privately held investments in debt obligations across a variety of sectors and strategies including healthcare, real estate, technology, and distressed.

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.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

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 \$9,130,000 and \$12,231,000 in 2020 and 2019, 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, 2019 valuation, the plan's funded percentage is 96.3%. The plan was not in endangered, critical, or critical and declining status in the Plan Year. The collective bargaining agreement requiring contributions to the plan expired July 31, 2020. Negotiations are ongoing. The contributions by the Met to the union pension fund were approximately \$2,177,000 and \$3,023,000 for the years ended July 31, 2020 and 2019, respectively. The contributions by the Met to the annuity fund were approximately \$4,129,000 and \$5,807,000 for the years ended July 31, 2020 and 2019, 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, 2019 valuation, the plan's funded percentage is 102.8%. The plan was not in endangered, critical, or critical and declining status during the plan year. 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 \$380,000 and \$518,000 for the years ended July 31, 2020 and 2019, respectively. The contributions by the Met to the annuity fund were approximately \$320,000 and \$413,000 for the years ended July 31, 2020 and 2019, respectively.
- The Met participates in a multi-employer union pension plan, the Pension Fund of Local 829. As of the January 1, 2019 valuation, the plan's funded percentage is 103.0%. The plan was not in endangered, critical, or critical and declining status in the plan year. A collective bargaining agreement requiring contributions to the plan expired July 31, 2020. Negotiations are ongoing. The contributions by the Met to the union pension fund were approximately \$291,000 and \$341,000 for the years ended July 31, 2020 and 2019, respectively. The contributions by the Met to the annuity fund were approximately \$174,000 and \$241,000 for the years ended July 31, 2020 and 2019, 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, 2019 valuation, the plan's funded percentage is 59.2%. The plan is considered to be in critical and declining status because the plan's actuary determined that (i) the plan was projected to become insolvent during the plan year ending March 31, 2037, (ii) 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, 2020 and (iii) 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 \$507,000 and \$660,000 for the years ended July 31, 2020 and 2019, respectively.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

- Amounts contributed to the other union plans (nine in FY20 and ten in FY19) amounted to \$1,152,000 and \$1,229,000 for the years ended July 31, 2020 and 2019, respectively. One collective bargaining agreement expired July 31, 2019, and negotiations for a successor agreement is ongoing. Three collective bargaining agreements expired July 31, 2020, and negotiations for successor agreements are ongoing. One collective bargaining agreement is in place for the period from August 1, 2006 to July 31, 2021. One agreement is in place for the period from August 1, 2018 to July 31, 2022. Two agreements are in place for the period from August 1, 2019 to July 31, 2022.

(8) Net Assets

Net assets with donor restrictions comprised the following at July 31, 2020 and 2019 (in thousands):

	2020	2019
Net assets with time or purpose restrictions:		
Subject to expenditure when a specified event occurs:		
Future operating activities (time restricted)	\$ 44,013	7,470
New productions	15,513	15,260
Capital	27,960	32,318
Interests in charitable trusts and pooled income funds	3,193	6,083
Telecast and other media activities	3,391	4,937
Save the Met Broadcast	2,981	2,671
Other program activities	7,209	7,225
Endowment draw appropriation restricted for program	570	168
	<u>104,830</u>	<u>76,132</u>
Endowment returns subject to future appropriation:		
Future operating activities (time restricted)	31,601	25,255
New productions	3,652	3,183
Telecast and other media activities	1,647	1,601
Save the Met Broadcast	659	596
Other program activities	6,071	5,320
Underwater endowments	(3,339)	(700)
	<u>40,291</u>	<u>35,255</u>
Total net assets restricted by time or purpose	<u>145,121</u>	<u>111,387</u>

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

	2020	2019
Net assets with perpetual restrictions – income for:		
New York Season	\$ 147,330	126,285
New productions	70,660	70,418
Telecasts and other media	15,233	15,245
Young artists	17,158	17,092
Other specified activities	8,746	20,119
Total net assets with perpetual restrictions	259,127	249,159
Total net assets with donor restrictions	\$ 404,248	360,546

Included in net assets with donor restrictions in fiscal 2020 and 2019 is approximately \$475,000 and \$530,000, 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, 2020 and 2019, the value of such funds included in net assets with donor restrictions to be held in perpetuity was \$66.7 million and \$67.3 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 equivalents.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

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% for both of the years ended July 31, 2020 and 2019.

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 \$3,339,000 and \$700,000 as of July 31, 2020 and 2019, respectively. The original book value of these funds was \$105.1 million and \$25.8 million, as of July 31, 2020 and 2019, 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, 2020 and 2019 (in thousands):

	Without donor restrictions	With donor restrictions		Total funds as of July 31, 2020
		Original gift	Accumulated gains/gift	
Donor-restricted funds	\$ —	255,041	39,792	294,833
Board-designated funds	14,359	—	—	14,359
Total endowment net assets	\$ 14,359	255,041	39,792	309,192

	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

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

Changes in endowment funds for the year ended July 31, 2020 (in thousands):

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, July 31, 2019, as restated	\$ 14,285	278,836	293,121
Investment return, net	13,537	3,739	17,276
Contributions	—	12,258	12,258
Appropriation for expenditure	(13,463)	—	(13,463)
Endowment net assets, July 31, 2020	<u>\$ 14,359</u>	<u>294,833</u>	<u>309,192</u>

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	<u>\$ 14,285</u>	<u>278,836</u>	<u>293,121</u>

(10) Functional Classification of Expenses

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

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

Expenses by functional classification are allocated based on time, effort, and usage and have been distributed for the years ended July 31, 2020 and 2019 as follows (in thousands):.

	<u>Compensation and benefits</u>	<u>Supplies, services and other</u>	<u>Interest</u>	<u>Depreciation and amortization</u>	<u>Total operating expenses</u>	<u>Other components of net periodic pension cost</u>	<u>2020 Total expenses</u>
Opera activities:							
Performances	\$ 142,253	19,011	—	—	161,264	4,349	165,613
Media	17,392	8,007	—	—	25,399	532	25,931
New productions	7,041	7,114	—	—	14,155	215	14,370
Other	3,432	3,734	—	—	7,166	105	7,271
Ballet and other presentations	1,697	340	—	—	2,037	52	2,089
Opera house	8,944	7,075	—	5,271	21,290	273	21,563
Total program expenses	180,759	45,281	—	5,271	231,311	5,526	236,837
General management	9,477	4,398	5,444	34	19,353	291	19,644
Fundraising	7,184	5,114	—	—	12,298	220	12,518
Total expenses	<u>\$ 197,420</u>	<u>54,793</u>	<u>5,444</u>	<u>5,305</u>	<u>262,962</u>	<u>6,037</u>	<u>268,999</u>

	<u>Compensation and benefits</u>	<u>Supplies, services and other</u>	<u>Interest</u>	<u>Depreciation and amortization</u>	<u>Total operating expenses</u>	<u>Other components of net periodic pension cost</u>	<u>2019 Total expenses</u>
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	<u>\$ 239,183</u>	<u>62,142</u>	<u>5,626</u>	<u>5,372</u>	<u>312,323</u>	<u>5,231</u>	<u>317,554</u>

(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. The letter of credit amount was lowered to \$11.4 million in October 2019 and to \$11.2 million in July 2020.

METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2020 and 2019

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 \$558,000 and \$484,000 due from the Guild at July 31, 2020 and 2019, respectively. Revenues from the Guild were \$5.4 million and \$5.8 million for the years ended July 31, 2020 and 2019, respectively.

The Met receives contributions from its Board members, and as of July 31, 2020 and 2019, \$28.3 million and \$29.4 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, 2020 through December 22, 2020, which was the date the consolidated financial statements were available to be issued. No subsequent event disclosures were identified, other than what has been disclosed in the notes to the consolidated financial statements.