



**METROPOLITAN OPERA ASSOCIATION, INC.**

Consolidated Financial Statements

July 31, 2021 and 2020

(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, 2021 and 2020, 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2021 and 2020, 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 2(l) to the consolidated financial statements, Metropolitan Opera Association, Inc. adopted Financial Accounting Standard Board Accounting Standards Update No. 2016-02, *Leases*, as amended, during the year ended July 31, 2021. Our opinion is not modified with respect to this matter.

KPMG LLP

December 17, 2021

**METROPOLITAN OPERA ASSOCIATION, INC.**

Consolidated Balance Sheets

July 31, 2021 and 2020

(In thousands)

<b>Assets</b>	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 18,187	7,013
Accounts receivable	10,264	8,171
Contributions receivable, net (notes 2 and 13)	96,593	100,495
Prepaid production and telecast costs	9,846	4,988
Other assets	10,508	11,849
Right-of-use assets (note 6)	10,888	—
Investments (notes 4 and 10)	383,101	317,215
Interests in split-interest agreements (note 4)	10,737	8,679
Property and equipment, net (note 5)	77,412	70,351
Total assets	<u>\$ 627,536</u>	<u>528,761</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 23,815	26,193
Borrowings under line of credit (note 7)	57,000	57,000
Deferred revenue	23,624	22,872
Other liabilities	19,838	22,490
Lease liabilities (note 6)	10,908	—
Long-term debt (note 7)	83,858	86,170
Unfunded accumulated benefit obligation (note 8)	118,884	190,278
Total liabilities	<u>337,927</u>	<u>405,003</u>
Net assets (accumulated deficit) (notes 9 and 10):		
Net assets (accumulated deficit) without donor restrictions	(213,630)	(280,490)
Net assets with donor restrictions	503,239	404,248
Total net assets	<u>289,609</u>	<u>123,758</u>
Total liabilities and net assets	<u>\$ 627,536</u>	<u>528,761</u>

See accompanying notes to consolidated financial statements.

**METROPOLITAN OPERA ASSOCIATION, INC.**

Consolidated Statements of Activities

Years ended July 31, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Changes in net assets without donor restrictions:		
Operating revenues:		
Contributions and bequests	\$ 80,022	111,384
Net assets released from restrictions	<u>18,966</u>	<u>31,402</u>
	98,988	142,786
Opera activities:		
Box office and tours (inclusive of in-kind ticket and ticket discount program contributions \$2.4 million in 2020)	—	63,031
Media revenues	11,006	22,145
Other revenues	567	3,816
Ballet and other presentations	—	1,769
Investment return – authorized spending amount (notes 4 and 10)	11,788	13,062
Other income (note 4)	<u>6,226</u>	<u>16,353</u>
Total	<u>128,575</u>	<u>262,962</u>
Operating expenses (note 11):		
Opera activities:		
Performances	60,023	161,264
Media	18,247	25,399
New productions	—	14,155
Other	4,508	7,166
Ballet and other presentations	130	2,037
Opera House	15,560	21,290
General management (note 7)	19,200	19,353
Fund-raising expenses	<u>10,907</u>	<u>12,298</u>
Total	<u>128,575</u>	<u>262,962</u>
Operating revenues over expenses	—	—
Nonoperating:		
Contributions	1,750	—
Investment return (less than) in excess of spending amount (note 4)	(885)	292
Other components of net periodic pension cost (note 8)	(7,252)	(6,037)
Pension-related changes other than net periodic pension cost (note 8)	73,070	(62,141)
Other	<u>177</u>	<u>266</u>
Increase (decrease) in net assets without donor restrictions	<u>66,860</u>	<u>(67,620)</u>
Changes in net assets with donor restrictions:		
Contributions and bequests for:		
Operations	48,132	59,015
Capital	—	931
Endowment	3,334	10,900
Investment return, net (note 4)	64,461	4,339
Other	2,030	(81)
Net assets released from restrictions	<u>(18,966)</u>	<u>(31,402)</u>
Increase in net assets with donor restrictions	<u>98,991</u>	<u>43,702</u>
Change in net assets	165,851	(23,918)
Net assets:		
Beginning of year	<u>123,758</u>	<u>147,676</u>
End of year	\$ <u>289,609</u>	\$ <u>123,758</u>

See accompanying notes to consolidated financial statements.

**METROPOLITAN OPERA ASSOCIATION, INC.**

Consolidated Statements of Cash Flows

Years ended July 31, 2021 and 2020

(In thousands)

	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:		
Change in net assets	\$ 165,851	(23,918)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,157	5,305
Pension-related changes other than net periodic pension cost	(73,070)	62,141
Net gains on investments	(75,617)	(16,705)
Change in value of interests in split-interest agreements	(2,297)	(150)
Contributions of net assets with perpetual restrictions	(3,334)	(10,900)
Contributions restricted for investments in property and equipment	—	(931)
In-kind donations of artwork	(1,900)	—
Changes in operating assets and liabilities:		
Accounts receivable	(2,093)	(3,922)
Contributions receivable, net	1,488	(7,404)
Prepaid production and other assets	(3,517)	(1,913)
Right-of-use assets	1,771	—
Interests in split-interest agreements	239	3,297
Accounts payable, accrued expenses, and other liabilities	(6,498)	1,668
Unfunded accumulated benefit obligation	1,676	4,676
Deferred revenue	752	(19,236)
Lease liabilities	(1,751)	—
Net cash provided by (used in) operating activities	6,857	(7,992)
Cash flows from investing activities:		
Acquisition of property and equipment	(9,418)	(13,539)
Proceeds from sale of artwork	600	—
Decrease in accounts payable for acquisitions of property and equipment	—	(2,335)
Purchases of investments	(205,346)	(261,294)
Proceeds from sale of investments	215,104	262,003
Net cash provided by (used in) investing activities	940	(15,165)
Cash flows from financing activities:		
Borrowings under line of credit	24,000	73,954
Repayments of line of credit	(24,000)	(62,454)
Repayments of long-term debt	(2,344)	(3,005)
Cash contributions for net assets with perpetual restrictions	3,908	11,525
Cash received for contributions restricted for investments in property and equipment	1,840	4,188
Net cash provided by financing activities	3,404	24,208
Net increase in cash and cash equivalents	11,201	1,051
Cash, cash equivalents, and restricted cash at beginning of year	7,389	6,338
Cash, cash equivalents, and restricted cash at end of year	\$ 18,590	7,389
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	\$ 18,187	7,013
Restricted cash included in investments	403	376
Cash, cash equivalents, and restricted cash	\$ 18,590	7,389
Supplemental information:		
Cash paid for interest	\$ 5,272	5,542
Right-of-use assets obtained in exchange for lease liabilities	12,648	—
Increase in accounts payable for acquisitions of property and equipment	1,468	—

See accompanying notes to consolidated financial statements.

## METROPOLITAN OPERA ASSOCIATION, INC.

Notes to Consolidated Financial Statements

July 31, 2021 and 2020

### **(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, 2021, net assets without donor restrictions increased primarily due to a decrease in the unfunded accumulated pension benefit obligation as a result of a higher discount rate. As discussed in note 7, 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.

The COVID-19 pandemic caused the Met to cancel its live season at the opera house and related Live in HD transmissions from March 12, 2020 through its FY 2020–2021 season. During the pandemic, the Met launched an emergency fundraising campaign to offset losses created by the cancellation of performances; initiated virtual programs that included free nightly streaming of operas and pay-per-view recitals as part of an effort to stay connected to its audience; reduced expenses, including furloughs of staff; concluded collective bargaining negotiations with its major unions; and, as noted above, amended its credit facility. Its operating results for the year ended July 31, 2021 are balanced. The Met re-opened in September 2021 with strict vaccination requirements for both audience and staff, and has successfully completed scheduled performances to date.

Based upon the most recent information available, the Met estimates that it will have sufficient liquidity through December 2022 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).

## METROPOLITAN OPERA ASSOCIATION, INC.

### Notes to Consolidated Financial Statements

July 31, 2021 and 2020

#### *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 9 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. In FY21, during the pandemic closure, New York Season expenses include compensation expenses for both working and furloughed employees as well as expenses related to set storage and leases.
- 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



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Notes to Consolidated Financial Statements

July 31, 2021 and 2020

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. 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.

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#### **(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) Leases**

The Met determines if an arrangement is a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the consolidated balance sheets. ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term using the risk-free rate of return for the lease term. The ROU asset also includes any prepaid rent, while excluding lease incentives and initial direct costs incurred, if any. Lease expense for operating minimum lease payments is recognized on a straight-line basis over the full lease term.

#### **(f) 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.

Fundraising expenses reflected in the accompanying consolidated statements of activities of \$10.9 million and \$12.3 million have been incurred to raise contributions and bequests totaling \$133.2 million and \$182.2 million in 2021 and 2020, respectively.

#### **(g) 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.

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### Notes to Consolidated Financial Statements

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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.

#### **(h) 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. There was no such revenue recognized for ticket sales during the year ended July 31, 2021 due to the closure and cancellation of live performances. *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.

#### **(i) 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 \$5.1 million and \$14.0 million in 2021 and 2020, 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 was approximately \$657,000 in 2020, 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. Due to the closure, there were no related tickets in 2021.

#### **(j) 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, 2021 and 2020

**(k) 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, 2021 and 2020.

**(l) Recently Adopted Accounting Standard**

The Met adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, on August 1, 2020. The update required the recognition of right-of-use (ROU) assets and lease liabilities in the consolidated balance sheet and the disclosure of qualitative and quantitative information about leasing arrangements. The Met elected the effective date method to adopt this standard. All leases that existed at the effective date were recognized and measured using a modified retrospective approach without restating prior comparative periods. The Met elected to utilize the practical expedients made available, including the package of practical expedients to not reassess whether a contract is, or contains, a lease, the lease classification and initial direct costs.

As a result of the adoption, the Met recognized ROU assets and lease liabilities of approximately \$5.8 million as of August 1, 2020. During the year ended July 31, 2021, the Met recognized additional ROU assets and lease liabilities of approximately \$6.8 million.

**(2) Contributions Receivable**

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

	<u>2021</u>	<u>2020</u>
Within one year	\$ 35,022	40,862
One to five years	64,345	60,314
More than five years	<u>1,413</u>	<u>3,923</u>
Total	100,780	105,099
Less:		
Allowance for uncollectibility	(580)	(580)
Discount to present value discount rate used ranging from 1.62%–3.602%	<u>(3,607)</u>	<u>(4,024)</u>
	<u>\$ 96,593</u>	<u>100,495</u>

As of July 31, 2021 and 2020, contributions receivable included approximately \$53.1 million and \$55.8 million, respectively, due from ten donors. During the years ended July 31, 2021 and 2020, contributions revenue included approximately \$46.5 million and \$70.8 million, respectively, from ten donors.

**METROPOLITAN OPERA ASSOCIATION, INC.**

Notes to Consolidated Financial Statements

July 31, 2021 and 2020

**(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 7 for information about the Met's line of credit.

	<b>Resources available at July 31, 2021</b>	<b>Resources appropriated by the Board and available in FY22</b>	<b>Total</b>
		(In thousands)	
Financial assets available within one year:			
Cash and cash equivalents	\$ 18,187	—	18,187
Accounts receivable	10,264	—	10,264
Contributions receivable (due in one year or less)	35,022	—	35,022
Spending distribution from endowment funds	—	14,395	14,395
Total financial assets available within one year	63,473	14,395	77,868
Other liquidity resources:			
Bank line of credit (\$57 million outstanding at July 31, 2021)	43,000	—	43,000
Board-designated endowment	14,362	—	14,362
Total financial assets available within one year and other liquidity resources	\$ 120,835	14,395	135,230

As noted in Note 7, in October 2021, \$33 million of the \$100 million line of credit was converted to a term loan payable over four years. Approximate \$5 million is scheduled to be repaid in FY22.

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	<u>Resources available at July 31, 2020</u>	<u>Resources appropriated by the Board and available in FY21</u> (In thousands)	<u>Total</u>
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	<u>—</u>	<u>13,326</u>	<u>13,326</u>
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	<u>14,359</u>	<u>—</u>	<u>14,359</u>
Total financial assets available within one year and other liquidity resources	<u>\$ 113,405</u>	<u>13,326</u>	<u>126,731</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.

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**(4) Investments**

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

	<u>2021</u>	<u>2020</u>
Endowment investments:		
Cash equivalents and short-term investments	\$ 27,523	16,947
Cash pending investment	2,513	—
Fixed income	43,013	29,462
U.S. equities	11,828	16,412
Commodities	2,946	—
Global equities (including alternative investments)	182,141	147,674
Other alternative investment strategies	105,985	98,697
	<u>375,949</u>	<u>309,192</u>
Other investments:		
Cash equivalents and short-term investments	449	1,241
Fixed income	4,273	3,904
U.S. equities	2,147	2,228
Global equities	209	257
Balanced mutual funds	74	330
Alternative investments	—	63
	<u>7,152</u>	<u>8,023</u>
	<u>\$ 383,101</u>	<u>317,215</u>

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July 31, 2021 and 2020

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

	<b>2021</b>	<b>2020</b>
Investments, beginning of year	\$ 317,215	301,364
Investment return:		
Interest and dividends	3,451	2,768
Net gains	75,617	16,705
Less investment expenses paid	(2,436)	(1,949)
Investment return	76,632	17,524
Gifts and other additions	11,072	38,045
Amounts utilized for operations:		
Investment return authorized spending amount	(13,326)	(13,463)
Other transfers	(8,492)	(26,255)
Investments, end of year	\$ 383,101	317,215

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

	<b>2021</b>	<b>2020</b>
Investment return authorized spending amount included in:		
Operating revenues without donor restrictions	\$ 11,788	13,062
Donor restricted investment returns	1,538	401
	13,326	13,463
Other investment loss included in other income or in other changes in net assets without donor restrictions	(270)	(717)
Investment return greater than authorized spending amount	63,576	4,631
Investment return	\$ 76,632	17,377

Management's estimate of the remaining life of the (nonredeemable) limited partnerships held in the Met's investment portfolio at July 31, 2021 and 2020 of \$33.5 million and \$14.2 million, respectively, is eight to ten years. At July 31, 2021, the Met had unpaid investment consultant and custodian fees of approximately \$1.4 million. At July 31, 2021, the Met had unfunded outstanding commitments, net of investments already made, totaling \$17.2 million.



**METROPOLITAN OPERA ASSOCIATION, INC.**

Notes to Consolidated Financial Statements

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The redeemable alternative investment funds included in the Met's investment portfolio at July 31, 2021 and 2020 are redeemable based on the following terms and conditions (in thousands):

	<u>2021</u>	<u>2020</u>
Semi-monthly redemption with 3–15 days' notice	\$ 38,126	27,257
Monthly redemption with 6–62 days' notice	31,350	21,517
Monthly redemption with 95 days' notice	8,358	7,953
Quarterly redemption with 45 days' notice	8,571	7,644
Quarterly redemption with 60–61 days' notice	31,935	15,119
Quarterly redemption with 60–90 days' notice subject to lock ups and/or gates	56,381	58,942
Annual redemption with 90 days' notice	—	758
Bi-annual redemption with 100 days' notice	—	22,482
Bi-annual redemption with 123 days' notice subject to 2 year lock up	18,680	16,986
	<u>\$ 193,401</u>	<u>178,658</u>

**METROPOLITAN OPERA ASSOCIATION, INC.**

Notes to Consolidated Financial Statements

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The following tables present the fair value hierarchy of assets that are measured at fair value on a recurring basis at July 31, 2021 and 2020 (in thousands):

	<u>2021 Total</u>	<u>Level 1</u>	<u>Level 3</u>	<u>Investments at net asset value</u>
Investments:				
Cash equivalents and short-term investments	\$ 27,972	27,972	—	—
Cash pending investment	2,513	2,513	—	—
Fixed income:				
Common trust fund	455	455	—	—
Exchange traded funds	1,915	1,915	—	—
Mutual funds	43,788	43,788	—	—
U.S. government obligations	1,128	1,128	—	—
U.S. equities:				
Managed accounts	78	78	—	—
Mutual funds	60	60	—	—
Exchange traded funds	13,468	13,468	—	—
Common trust funds	2,946	2,946	—	—
Commodities:				
Exchange traded funds	369	369	—	—
Global equities:				
Managed accounts	41,962	41,962	—	—
Mutual funds	17,465	17,465	—	—
Exchange traded funds	1,980	1,980	—	—
Limited partnerships	50,418	—	—	50,418
Other	70,525	—	—	70,525
Balanced mutual funds	74	74	—	—
Alternative investments:				
Long/short equity	33,077	—	—	33,077
Absolute return	32,649	—	—	32,649
Credit	7,114	—	—	7,114
Private equity	33,145	—	—	33,145
	<u>\$ 383,101</u>	<u>156,173</u>	<u>—</u>	<u>226,928</u>
Interests in split-interest agreements	\$ 10,737	—	10,737	—

**METROPOLITAN OPERA ASSOCIATION, INC.**

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	<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	—

For the year ended July 31, 2021, interests in split-interest agreements increased by new agreements of \$21,000, increased by net investment gains of \$2,297,000, and decreased by terminations of \$260,000. 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.

Information with respect to investment strategies for alternative investments in 2021 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).

**METROPOLITAN OPERA ASSOCIATION, INC.**

Notes to Consolidated Financial Statements

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*Long/short equity:* Includes investments that take long and short positions in stocks to capitalize on opportunities 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):

	2021	2020
Land	\$ 80	80
Warehouses	1,604	1,604
Leasehold improvements	32,039	31,812
Furniture, fixtures, and other, including information systems equipment	47,663	46,105
Theatrical equipment	61,898	61,898
Construction in progress	35,334	24,933
	178,618	166,432
Less accumulated depreciation and amortization	(101,206)	(96,081)
	\$ 77,412	70,351

In fiscal 2017, City of New York (the City) spent \$1.5 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 fly system equipment and the travertine restoration. The contractual commitments remaining to complete these projects at July 31, 2021 are approximately \$6.8 million.

**METROPOLITAN OPERA ASSOCIATION, INC.**

Notes to Consolidated Financial Statements

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**(6) Leases**

In accordance with ASU 2016-02, *Leases* (Topic 842), the Met determines if an arrangement is a lease at the inception of the contract. The right-of-use (ROU) assets represent the right to use the underlying assets for the lease term and the lease liabilities represent the obligation to make lease payments arising from the leases. ROU assets and lease liabilities are recognized at commencement date based on the present value of least payments over the lease term. The risk-free US Treasury rate for the respective lease term, which is derived from information available at the lease commencement date, is used to determine the present value of lease payments for the portfolio of leases.

The Met's operating leases are primarily for warehouse and storage facilities, containers for set storage, and equipment. Warehouse and storage facilities lease agreements typically have initial terms of 2 to 5 years, container leases have initial terms of 2 to 4 years, and equipment leases have initial terms between 1 and 4 years. Leases with an initial term of 12 months or less (short-term leases) are not recorded in the consolidated balance sheets.

The leases include one or more options to renew at the Met's discretion, with renewals that extend the lease term from 1 to 5 years. Renewal options are assessed at the commencement date, modification date and when a reassessment event has occurred. The renewal option is included in the lease term when it is reasonably certain to be exercised.

When leases include rental escalation clauses, they are factored into the Met's determination of lease expense when appropriate. Escalations based on an index, such as the Consumer Price Index, are estimated at the commencement date and differences to the initial estimate are treated as variable lease payments. The lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

The weighted average lease terms and discount rates for operating leases at July 31, 2021 are presented in the following table:

Weighted average remaining lease term (years)	3.8 years
Weighted average discount rate	0.183 %

Operating lease cash outflows paid for amounts included in the measurement of lease liabilities was approximately \$1.8 million for the fiscal year ended July 31, 2021.

**METROPOLITAN OPERA ASSOCIATION, INC.**

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Future minimum rental payments as of July 31, 2021 under noncancelable operating leases which expire between 2022 and 2026 are presented in the following table (in thousands):

Year ending July 31:		
2022	\$	3,147
2023		2,813
2024		2,359
2025		2,208
2026		421
		<hr/>
Total lease payments	\$	<u>10,948</u>

The Met has variable and short-term leases for storage space, auto rental, theatrical and office equipment rentals, and data storage.

Rental expense under operating leases, including short-term leases, was approximately \$4.8 million for the year ended July 31, 2021. Unamortized imputed interest at July 31, 2021 is \$40.

**(7) Debt**

*Line of Credit and Term Loan*

In November 2018, the Met terminated an existing line of credit and entered into an agreement for a line of credit with a different financial institution (the 2018 Line of Credit). The 2018 Line of Credit is in the amount of \$67 million and was scheduled to expire in November 2023. The outstanding amount could 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 2018 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 12) 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 2018 Line of Credit bore interest at LIBOR (0.0905% and 0.087% at July 31, 2021 and 2020, respectively) plus 1.25% or the Prime Rate. The Met was charged a fee of 0.25% on their unborrowed portion of the 2018 Line of Credit and Letter of Credit.

In July 2020, the 2018 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 would return to \$67 million. Later amendments were executed through October 2021 extending the temporary increase in the line amount of \$100 million. The maximum additional commitment for the Letter of Credit was reduced to \$13.5 million (\$10 million was outstanding as of July 31, 2021). Borrowings under the 2018 Line of Credit bore interest at LIBOR plus 1.75% or the Prime Rate. The agreement was also amended to waive the reduction in the outstanding amount for the second twelve consecutive month period which was during FY 2021 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.

In addition to regular reporting requirements, the Met was required to comply with certain financial covenants related to minimum net assets as well as an interest coverage ratio. The Met was in compliance with the financial covenants at July 31, 2021.

## METROPOLITAN OPERA ASSOCIATION, INC.

### Notes to Consolidated Financial Statements

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In October 2021, the 2018 Line of Credit was replaced with a new syndicated Credit Facility with two financial institutions (the 2021 Credit Facility). The agreement provides for a \$67 million line of credit (the 2021 Line of Credit) which expires in October 2025, a \$33 million term loan (the 2021 Term Loan), and a \$13.5 million letter of credit (the 2021 Letter of Credit) commitment. Borrowings under the 2021 Line of Credit bear interest at LIBOR (with a LIBOR floor of 0.75%) plus 2.15%. There is no required thirty-day reduction in the outstanding amount during the course of the year. In addition to regular reporting requirements, the Met must comply with certain financial covenants related to minimum net assets as well as a debt service coverage ratio.

Borrowings under the 2021 Term Loan bear interest at LIBOR (with a LIBOR floor of 0.75%) plus 2.5%. Quarterly principal payments are required commencing October 31, 2021 as follows:

Year(s) ending July 31:		
2022	\$	4,952
2023		5,776
2024		6,600
2025		6,600
At termination October 2025		<u>9,072</u>
	\$	<u><u>33,000</u></u>

Interest expense related to borrowings under the 2018 Line of Credit was approximately \$1.4 million and \$1.7 million for 2021 and 2020, respectively, and is included in general management expenses. At July 31, 2021 and 2020, the amount outstanding under the 2018 Line of Credit was \$57 million (borrowed at the rate of LIBOR plus 1.75%) and \$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)), respectively.

#### *Long-term Debt*

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 funded 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

**METROPOLITAN OPERA ASSOCIATION, INC.**

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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, 2021 and 2020 was \$3.7 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):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year(s) ending July 31:			
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
2026	2,790	3,232	6,022
Thereafter	71,600	30,804	102,404
	84,545	\$ 47,965	132,510
Unamortized bond issuance costs	(687)		
	\$ 83,858		

**(8) 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 separate lines within the change in net assets without donor restrictions, apart from expenses and service cost.





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During the years ended July 31, 2021 and 2020, a net credit of \$73.1 million and a net debit of \$62.1 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):

	<b>2021</b>	<b>2020</b>
Net actuarial (gain) loss	\$ (59,054)	71,734
Amortization of prior service cost	(808)	(1,641)
Amortization of actuarial loss	(13,208)	(7,952)
	\$ (73,070)	62,141

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 \$9,599,000 and \$638,000, respectively.

The accumulated benefit obligation for the Plan at July 31, 2021 and 2020 was \$380,266,000 and \$400,944,000, respectively.

The Met expects to contribute at least the minimum required amount of approximately \$6.7 million to the Plan in fiscal year 2022. Benefit payments, which reflect expected future service as appropriate, are expected to be paid as follows (in thousands):

	<b>Amount</b>
Year(s) ending July 31:	
2022	\$ 19,172
2023	19,290
2024	19,201
2025	19,491
2026	19,692
2027–2031	98,351

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.

**METROPOLITAN OPERA ASSOCIATION, INC.**

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The Plan's weighted average asset allocations at July 31, 2021 and 2020 by asset category are as follows:

<u>Asset category</u>	<u>2021 Target policy allocation</u>	<u>Percentage of plan assets</u>	
		<u>2021</u>	<u>2020</u>
Fixed income, including credit and cash	0%-15%	10 %	11 %
Domestic and international equity	30-65	48	53
Alternative investments:			
Liquid alternatives (absolute return, hedged equity)	0-30	23	23
Private equity	0-25	11	6
Inflation hedges/real assets/other	0-25	8	7
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, 2021 and 2020 of \$44.8 million and \$19.5 million, respectively, is three to eleven and one to twelve years, respectively. At July 31, 2021, the Plan had outstanding unfunded commitments, net of investments already made, totaling \$27.6 million.

The redeemable alternative investment funds (including global equities measured at NAV) included in the Plan's investment portfolio at July 31, 2021 and 2020 are redeemable based on the following terms and conditions (in thousands):

	<u>2021</u>	<u>2020</u>
Semi-monthly redemption with 3–15 days' notice	\$ 31,757	22,296
Monthly redemption with 6–62 days' notice	25,032	17,019
Monthly redemption with 95 days' notice	5,572	5,302
Quarterly redemption with 45 days' notice	7,310	6,498
Quarterly redemption with 60 days' notice	9,145	7,059
Quarterly redemption with 60–90 days' notice (some subject to lock ups and/or gates)	51,450	56,030
Quarterly redemption with 180–185 days' notice subject to lock ups and/or gates	—	3,300
Annual redemption with 90 days' notice	—	758
Bi-annual redemption with 123 days' notice subject to 2 year lock up	13,946	13,522
Total	<u>\$ 144,212</u>	<u>131,784</u>

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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, 2021 and 2020 (in thousands):

	<u>2021 Total</u>	<u>Level 1</u>	<u>Investments at net asset value</u>
Cash equivalents and short-term investments	\$ 5,761	5,761	—
Cash pending investment	1,795	1,795	—
Fixed income – mutual fund	18,121	18,121	—
U.S. equities – exchange traded fund	14,372	14,372	—
Commodities – exchange traded fund	1,995	1,995	—
Global equities:			
Mutual fund	21,768	21,768	—
Exchange traded fund	10,335	10,335	—
Limited partnerships	37,340	—	37,340
Other	41,163	—	41,163
Alternative investments:			
Long/short equity	29,156	—	29,156
Absolute return	30,059	—	30,059
Credit	5,082	—	5,082
Private debt	15,398	—	15,398
Private equity	29,037	—	29,037
Total pension assets	<u>\$ 261,382</u>	<u>74,147</u>	<u>187,235</u>

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	<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>

Information with respect to investment strategies and redemption terms for alternative investments in 2021 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.

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*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.

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 \$1,663,000 and \$9,130,000 in 2021 and 2020, 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, 2020 valuation, the Plan's funded percentage is 97.1%. 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, 2021. A memorandum of agreement is in place for the period from August 1, 2021 to July 31, 2025. The contributions by the Met to the union pension fund were approximately \$314,000 and \$2,177,000 for the years ended July 31, 2021 and 2020, respectively. The contributions by the Met to the annuity fund were approximately \$571,000 and \$4,129,000 for the years ended July 31, 2021 and 2020, 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, 2020 valuation, the Plan's funded percentage is 102.6%. 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 \$88,000 and \$380,000 for the years ended July 31, 2021 and 2020, respectively. The contributions by the Met to the annuity fund were approximately \$35,000 and \$320,000 for the years ended July 31, 2021 and 2020, respectively.
- The Met participates in a multi-employer union pension plan, the Pension Fund of Local 829. As of the January 1, 2020 valuation, the Plan's funded percentage is 97.5%. 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, 2021. A memorandum of agreement is in place for the period from August 1, 2021 to July 31, 2025. The contributions by the Met to the union pension fund were approximately \$160,000 and \$291,000 for the years ended July 31, 2021 and 2020, respectively. The contributions by the Met to the annuity fund were approximately \$62,000 and \$174,000 for the years ended July 31, 2021 and 2020, 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, 2020 valuation, the Plan's funded percentage is 53.6%. 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, 2035, (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, 2021 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

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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 was in place for the period from August 1, 2018 to July 31, 2021. A new memorandum of agreement is in place for the period from August 1, 2021 to July 31, 2025. The contributions by the Met to the union pension fund were approximately \$40,000 and \$507,000 for the years ended July 31, 2021 and 2020, respectively.

- Amounts contributed to the other eleven union plans amounted to \$392,000 and \$1,152,000 for the years ended July 31, 2021 and 2020, 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, 2018 to July 31, 2022. Two memoranda of agreement are in place for the period from August 1, 2019 to July 31, 2022. One collective bargaining agreement is in place for the period from August 1, 2019 to July 31, 2022. One memorandum of agreement is in place for the period from August 1, 2020 to July 31, 2025. One memorandum of agreement is in place for the period from August 1, 2021 to July 31, 2025. One collective bargaining agreement is in place for the period from August 1, 2021 to July 31, 2029.

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**(9) Net Assets**

Net assets with donor restrictions comprised the following at July 31, 2021 and 2020 (in thousands):

	<b>2021</b>	<b>2020</b>
Net assets with time or purpose restrictions:		
Subject to expenditure when a specified event occurs:		
Future operating activities (time restricted)	\$ 58,728	44,013
New productions	27,827	15,513
Capital	27,751	27,960
Interests in charitable trusts and pooled income funds	4,168	3,193
Telecast and other media activities	2,391	3,391
Save the Met Broadcast	6,400	2,981
Other program activities	7,774	7,209
Endowment draw appropriation restricted for program	2,108	570
	137,147	104,830
Endowment returns subject to future appropriation:		
Future operating activities (time restricted)	60,253	31,601
New productions	10,730	3,652
Telecast and other media activities	3,460	1,647
Save the Met Broadcast	883	659
Other program activities	16,140	6,071
Underwater endowments	—	(3,339)
	91,466	40,291
Total net assets restricted by time or purpose	228,613	145,121
Net assets with perpetual restrictions – income for:		
New York Season	150,801	147,330
New productions	81,821	70,660
Telecasts and other media	16,117	15,233
Young artists	17,190	17,158
Other specified activities	8,697	8,746
	274,626	259,127
Total net assets with perpetual restrictions	274,626	259,127
Total net assets with donor restrictions	\$ 503,239	404,248



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Included in net assets with donor restrictions in fiscal 2021 and 2020 is approximately \$419,000 and \$475,000, 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, 2021 and 2020, the value of such funds included in net assets with donor restrictions to be held in perpetuity was \$78.2 million and \$66.7 million, respectively.

#### **(10) 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.

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, 2021 and 2020.

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 as of July 31, 2020. The original book value of these funds was \$105.1 million with deficiencies as of July 31,

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2020. This deficiency results from the combination of unfavorable market fluctuations and spending subsequent to the investment of perpetual donor-restricted contributions. There were no funds with deficiencies as of July 31, 2021.

The Met's endowment funds consist of the following at July 31, 2021 and 2020 (in thousands):

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>		<b>Total funds as of July 31, 2021</b>
		<b>Original gift</b>	<b>Accumulated gains/gift</b>	
Donor-restricted funds	\$ —	270,421	91,166	361,587
Board-designated funds	14,362	—	—	14,362
Total endowment net assets	\$ <u>14,362</u>	<u>270,421</u>	<u>91,166</u>	<u>375,949</u>

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

Changes in endowment funds for the year ended July 31, 2021 (in thousands):

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Endowment net assets, July 31, 2020	\$ 14,359	294,833	309,192
Investment return, net	13,329	62,644	75,973
Contributions	—	4,110	4,110
Appropriation for expenditure	<u>(13,326)</u>	<u>—</u>	<u>(13,326)</u>
Endowment net assets, July 31, 2021	\$ <u>14,362</u>	<u>361,587</u>	<u>375,949</u>

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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
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	<u>(13,463)</u>	<u>—</u>	<u>(13,463)</u>
Endowment net assets, July 31, 2020	\$ <u>14,359</u>	<u>294,833</u>	<u>309,192</u>

**(11) 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, 2021 and 2020 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>2021 Total expenses</u>
Opera activities:							
Performances	\$ 56,927	3,096	—	—	60,023	4,954	64,977
Media	7,208	11,039	—	—	18,247	627	18,874
Other	2,197	2,311	—	—	4,508	191	4,699
Ballet and other presentations	—	130	—	—	130	—	130
Opera house	<u>4,875</u>	<u>5,560</u>	<u>—</u>	<u>5,125</u>	<u>15,560</u>	<u>424</u>	<u>15,984</u>
Total program expenses	71,207	22,136	—	5,125	98,468	6,196	104,664
General management	7,697	6,397	5,074	32	19,200	670	19,870
Fundraising	<u>4,439</u>	<u>6,468</u>	<u>—</u>	<u>—</u>	<u>10,907</u>	<u>386</u>	<u>11,293</u>
Total expenses	\$ <u>83,343</u>	<u>35,001</u>	<u>5,074</u>	<u>5,157</u>	<u>128,575</u>	<u>7,252</u>	<u>135,827</u>

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	<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	\$ 197,420	54,793	5,444	5,305	262,962	6,037	268,999

**(12) Commitments and Contingencies**

The Met has a letter of credit which serves as security with an insurance company for unpaid workers' compensation claims. The letter of credit amount was \$11.2 million until July 1, 2021 when it was lowered to \$10 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.

**(13) 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 \$643,000 and \$558,000 due from the Guild at July 31, 2021 and 2020, respectively. Revenues from the Guild were \$5.8 million and \$5.4 million for the years ended July 31, 2021 and 2020, respectively.

The Met receives contributions from its Board members, and as of July 31, 2021 and 2020, \$21.7 million and \$28.3 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.

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**(14) 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, 2021 through December 17, 2021, 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.