METROPOLITAN OPERA ASSOCIATION, INC.

Consolidated Financial Statements

July 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of the Metropolitan Opera Association, Inc., which comprise the consolidated balance sheets as of July 31, 2015 and 2014, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of the Metropolitan Opera Association, Inc. as of July 31, 2015 and 2014, 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 18, 2015

METROPOLITAN OPERA ASSOCIATION, INC.

Consolidated Balance Sheets

July 31, 2015 and 2014

(In thousands)

Assets		**2015**	**2014**
Cash and cash equivalents	$	4,590	2,138
Accounts receivable		4,517	4,139
Contributions receivable, net (notes 2 and 10)		100,072	79,051
Prepaid production and telecast costs		11,418	12,138
Other assets (note 5)		6,535	5,870
Investments (notes 3 and 8)		307,119	298,443
Interests in split-interest agreements (note 3)		21,156	22,172
Property and equipment, net (note 4)		51,094	48,369
Total assets	$	506,501	472,320
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	25,948	24,324
Borrowings under line of credit (note 5)		17,000	17,000
Deferred revenue		47,801	40,259
Other liabilities		18,970	16,832
Long-term debt (note 5)		97,895	100,000
Unfunded accumulated benefit obligation (note 6)		88,243	74,998
Total liabilities		295,857	273,413
Net assets (notes 7 and 8):			
Unrestricted (accumulated deficit):			
Unfunded accumulated benefit obligation		(88,243)	(74,998)
Accumulated losses on endowment funds		(191)	(115)
Other		(71,095)	(70,928)
Total accumulated deficit – unrestricted		(159,529)	(146,041)
Temporarily restricted		140,049	119,066
Permanently restricted		230,124	225,882
Total net assets		210,644	198,907
Total liabilities and net assets	$	506,501	472,320

See accompanying notes to consolidated financial statements.

METROPOLITAN OPERA ASSOCIATION, INC.

Consolidated Statements of Activities

Years ended July 31, 2015 and 2014

(In thousands)

	2015	2014
Change in unrestricted net assets:		
Operating revenues:		
Contributions and bequests	$ 121,734	98,348
Net assets released from restrictions	28,107	36,647
	149,841	134,995
Opera activities:		
Box office and tours	90,942	91,319
Media revenues	31,908	31,567
Other revenues	4,912	4,345
Ballet and other presentations	8,096	7,413
Investment return and bequest authorized spending amount (notes 3 and 8)	15,950	15,800
Other income (note 3)	9,103	8,034
Total	310,752	293,473
Operating expenses:		
Opera activities:		
Performances	195,409	198,608
Media	29,146	29,905
New productions	17,042	16,814
Other expenses	7,751	8,389
Ballet and other presentations	7,147	7,248
Opera House	19,879	18,526
General management (note 5)	19,840	20,365
Fund-raising expenses	13,483	15,526
Total	309,697	315,381
Excess (deficiency) of operating revenues over expenses	1,055	(21,908)
Nonoperating:		
Net assets released for capital	84	2,767
Investment return less than spending amount (note 3)	(1,026)	(160)
Pension plan changes other than net periodic cost (note 6)	(12,008)	(5,911)
Change in value of interests in split-interest agreements	(821)	(3)
Other	(772)	(1,833)
Decrease in unrestricted net assets	(13,488)	(27,048)
Change in temporarily restricted net assets:		
Contributions and bequests for operations	49,400	26,139
Contributions and bequests for capital	84	754
Investment return, net (note 3)	451	7,535
Change in value of interests in split-interest agreements	278	1,400
Other	(1,039)	2,407
Net assets released from restrictions:		
For operations	(28,107)	(36,647)
For capital	(84)	(2,767)
Increase (decrease) in temporarily restricted net assets	20,983	(1,179)
Change in permanently restricted net assets:		
Endowment contributions	4,550	160
Investment return, net (note 3)	921	1,543
Other	(324)	(999)
Change in value of interests in split-interest agreements	(905)	450
Increase in permanently restricted net assets	4,242	1,154
Change in net assets	11,737	(27,073)
Net assets:		
Beginning of year	198,907	225,980
End of year	$ 210,644	198,907

See accompanying notes to consolidated financial statements.

METROPOLITAN OPERA ASSOCIATION, INC.

Consolidated Statements of Cash Flows

Years ended July 31, 2015 and 2014

(In thousands)

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	11,737	(27,073)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		4,770	4,550
Pension plan changes other than net periodic cost		12,008	5,911
Net gains on investments		(13,557)	(21,591)
Contributions permanently restricted for endowment		(4,550)	(160)
Contributions restricted for investments in property and equipment		(84)	(754)
Changes in operating assets and liabilities:			
Accounts receivable		(378)	(327)
Contributions receivable, net		(17,757)	(122)
Prepaid production and other assets		23	(1,025)
Interests in split-interest agreements		1,016	(1,848)
Accounts payable, accrued expenses, and other liabilities		4,999	2,279
Deferred revenue		7,542	79
Net cash provided by (used in) operating activities		5,769	(40,081)
Cash flows from investing activities:			
Acquisition of property and equipment		(7,463)	(7,056)
Purchases of investments		(161,433)	(88,244)
Proceeds from sale of investments		166,314	114,224
Net cash (used in) provided by investing activities		(2,582)	18,924
Cash flows from financing activities:			
Borrowings under line of credit		22,500	17,000
Repayment of line of credit		(22,500)	—
Repayment of long-term debt		(2,105)	—
Cash contributions for permanently restricted endowment		400	2,441
Cash received for contributions restricted for investments in property and equipment		970	2,042
Net cash (used in) provided by financing activities		(735)	21,483
Net increase in cash and cash equivalents		2,452	326
Cash and cash equivalents, beginning of year		2,138	1,812
Cash and cash equivalents, end of year	$	4,590	2,138
Supplemental information:			
Cash paid for interest	$	4,264	5,282

See accompanying notes to consolidated financial statements.

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

Organization

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

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

Business Matters

For the fiscal year ended July 31, 2015, the Met had operating revenues in excess of expenses of approximately $1.1 million. This result was achieved through new union agreements, spending reductions, and increased contributions from donors following the launch of a new fundraising drive. Nevertheless, unrestricted net assets decreased principally due to an increase in the unfunded accumulated pension benefit obligation. This increase was caused primarily by updated mortality tables. As discussed in note 5, the line of credit has been extended to September 30, 2016. Based upon the most recent information available and the Met's actions taken to improve access to cash and reduce costs, the Met estimates that it has sufficient liquidity through July 31, 2016 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 changes in net assets in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- Unrestricted – Includes all resources over which the Board of Managing Directors has discretionary control.
- Temporarily restricted – Includes net assets subject to donor-imposed restrictions that permit the Met to expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Met in accordance with those specified by the donor. Restricted contributions and investment income from endowment funds whose restrictions are met in the same reporting period are reported as increases in unrestricted net assets. To the extent not satisfied and placed in service in the same period, the Met reports contributions that must be used to acquire property and equipment as temporarily restricted net assets. When the restriction has been satisfied and the acquired assets are placed in service, the temporarily restricted net assets are reclassified to unrestricted net assets, except as disclosed in note 7. The Met follows the provisions of Accounting Standards Codification (ASC) 958, Section 205-45, *Classification of Donor*

Restricted Endowment Funds Subject to UPMIFA, which requires the portion of a donor-restricted endowment fund that is not classified as permanently restricted to be classified as temporarily restricted net assets until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by the New York Prudent Management of Institutional Funds Act (NYPMIFA).

- Permanently restricted – Includes net assets subject to donor-imposed restrictions that stipulate that the original contribution be maintained permanently, but permits the Met to expend part or all of the income and, in some cases, all or part of the appreciation, derived for either specified or unrestricted purposes. In addition, permanently restricted net assets include certain gifts that require the use of a spending rate.

(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 unrestricted operating revenues and expenses that are an integral part of its programs and supporting activities, including unrestricted contributions 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 net gains and losses on the endowment, which exceed or are less than the distribution determined by the spending policy, retirement plan adjustments, capital contributions, 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 prices in active markets for identical assets or liabilities (Level l measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

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

Level 1 Inputs that reflect unadjusted quoted 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 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 and investment funds that are redeemable at or near the balance sheet date (generally within 90 days).

Level 3 Inputs that are unobservable and investment funds that are not redeemable at or near the balance sheet date.

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. The carrying value of the Met’s short-term financial instruments approximates fair value because of their short maturity. The carrying value of contributions receivable approximates their fair value. The carrying amount of annuity and other split-interest obligations approximates fair value because these instruments are recorded at the estimated net present value of future cash flows. These estimated fair values, however, involves unobservable inputs considered to be Level 3 in the fair value hierarchy. At July 31, 2015, the fair value of long-term debt is approximately $93.5 million. The estimated fair value of the Met’s long-term debt is based on the discounted future cash payments to be made for each issue. The discount used approximates current market rates for loans of similar maturities and credit quality and is considered Level 2 in the fair value hierarchy.

(b) Cash Equivalents and Cash Flows

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

(c) Investments

Investments in marketable equity securities in managed accounts and debt securities, and exchange-traded mutual funds, are reported at fair value based on quoted 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. 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, which is considered Level 3 in the fair value hierarchy. Amortization of the discount is recorded as other change in net assets in accordance with the donor-imposed restrictions, if any, on the contributions.

In fiscal 2010, the Met established the Opera Company Fund (the Opera Fund) with a $110 million goal as part of a larger fundraising campaign. Through July 31, 2014, the Met raised $113.8 million under the Opera Fund campaign. Contributions to the Opera Fund were recognized as unrestricted revenue up to a cumulative limit each year, as predetermined by the Met's Board of Managing Directors.

In fiscal 2015, the Met began a new five-year campaign. The overall campaign seeks to raise a combined $600 million over five years, including $300 million for endowment, $137 million for the Opera Fund, $64 million for capital projects, $61 million for new productions, and $38 million for other purposes. Through July 31, 2015, the Met raised $47.7 million under the Opera Fund campaign of which $31.75 million was recognized as unrestricted revenue for the year ended July 31, 2015.

Fundraising expenses reflected in the accompanying consolidated statements of activities of $13.5 million and $15.5 million have been incurred to raise contributions and bequests, including temporarily and permanently restricted contributions and bequests, totaling $176 million and $125 million in 2015 and 2014, respectively.

(f) Split-Interest Agreements

The Met receives 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 the change in value of interests in split-interest agreements in unrestricted net assets.

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 temporarily or permanently restricted contribution revenue, depending on 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) Box Office and Live in HD Media Revenues

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. *Live in HD* program media revenue is recognized in the year the showing takes place.

(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 are deferred until the year in which the production is first presented.

Marketing expenses for the Met's programs are charged to expense as incurred, except for direct response marketing and other expenses incurred related to the following season when the related revenues are recognized. Such deferred costs were approximately $1.1 million and $913,000 at July 31, 2015 and 2014, respectively. Total marketing expenses recognized were $14.1 million and $15.0 million in 2015 and 2014, respectively. Such amounts, which represent management and general activities, are included in performance expense in the accompanying consolidated statements of activities.

On occasion, the Met provides tickets for fund-raising and media purposes at no cost. The value of these tickets is approximately $829,000 and $1 million in 2015 and 2014, respectively, and appears in both revenue and expenses in the accompanying consolidated statements of activities. The revenue is included as part of box office revenue; the expenses appear as performance, media, or fund-raising expenses.

(i) Risks and Uncertainties

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

(j) Income Taxes

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

(k) 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):

		2015	2014
Within one year	$	43,327	36,958
One to five years		59,096	36,613
More than five years		1,050	8,763
Total		103,473	82,334
Less allowance for uncollectibility		(600)	(325)
Less discount to present value (average discount rate used is 1.62% and 2.08% for 2015 and 2014, respectively)		(2,801)	(2,958)
	$	100,072	79,051

In 2015 and 2014, contributions receivable include approximately $63.4 million and $49.4 million, respectively, due from ten donors.

(3) Investments

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

		2015	2014
Endowment investments:			
Cash equivalents and short-term investments	$	10,788	23,616
Fixed income		38,100	32,216
U.S. equities		114,146	103,796
Global equities (including alternative investments)		62,740	63,227
Other alternative investment strategies		40,124	42,373
		265,898	265,228
Other investments:			
Cash equivalents and short-term investments		31,722	22,078
Fixed income		1,894	1,859
U.S. equities		3,993	3,884
Global equities		1,921	1,733
Balanced mutual funds		1,242	2,965
Alternative investments		449	696
		41,221	33,215
	$	307,119	298,443

Investment activity is summarized below for the years ended July 31, 2015 and 2014 (in thousands):

		2015	2014
Investments, beginning of year	$	298,443	302,832
Investment return:			
Interest and dividends		4,027	4,645
Net gains		13,557	21,591
Less investment expenses		(1,035)	(751)
Investment return		16,549	25,485
Gifts and other additions		40,610	24,455
Amounts utilized for operations:			
Investment return authorized spending amount		(16,060)	(15,800)
Transfers to fund Save the Met Broadcasts		(6,800)	(6,800)
Other transfers		(25,623)	(31,729)
Investments, end of year	$	307,119	298,443

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

		2015	2014
Investment return authorized spending amount included in:			
Unrestricted operating revenues	$	15,950	15,800
Temporarily restricted investment return		110	—
		16,060	15,800
Other investment return included in other income or change in value of split-interest agreements		253	767
Investment return greater than authorized spending amount		236	8,918
Investment return	$	16,549	25,485

At July 31, 2015, the Met had outstanding commitments, net of investments already made, to invest in a private equity fund totaling $296 thousand.

Management’s estimate of the remaining life of the (nonredeemable) limited partnerships held in the Met’s investment portfolio at July 31, 2015 and 2014 of $5.4 million and $6 million, respectively, is one to five years.

The redeemable alternative investment funds included in the Met’s investment portfolio at July 31, 2015 and 2014 are redeemable based on the following terms and conditions (in thousands):

		2015	2014
Daily	$	96	107
Fortnightly redemption with 3 days’ notice		13,107	11,477
Monthly redemption with 6–60 days’ notice		9,685	15,545
Quarterly redemption with 30 days’ notice (subject to initial lock-up)		32,914	28,293
Quarterly redemption with 65 days’ notice		13,908	13,815
Annual redemption with 45–90 days’ notice		13,223	14,214
Other		1,922	3,952
	$	84,855	87,403

The following tables present the fair value hierarchy of assets that are measured at fair value on a recurring basis at July 31, 2015 and 2014 (in thousands):

	2015 Total	Level 1	Level 2	Level 3
Investments:				
Cash equivalents and short-term investments	$ 42,510	42,510	—	—
Fixed income:				
Common trust fund	926	—	926	—
Mutual fund	38,991	38,991	—	—
U.S. government obligations	77	77	—	—
U.S. equities:				
Managed accounts	101,863	101,863	—	—
Mutual funds	14,950	14,950	—	—
Common trust funds	1,326	—	1,326	—
Global equities:				
Business trusts	9,685	—	9,685	—
Common trust funds	828	—	828	—
Mutual funds	14,143	14,143	—	—
Limited partnerships	40,005	—	13,107	26,898
Balanced mutual funds	1,242	1,242	—	—
Alternative investments:				
Multi-strategy – limited partnerships	15,830	—	13,908	1,922
Long/short equity – limited liability company	6,016	—	—	6,016
Distressed securities – limited partnerships	15,276	—	—	15,276
Private equity	3,355	—	—	3,355
Real estate investment trust	96	—	96	—
	$ 307,119	213,776	39,876	53,467
Interests in split-interest agreements	$ 21,156	—	—	21,156

		2014 Total	Level 1	Level 2	Level 3
Investments:					
Cash equivalents and short-term investments	$	45,694	45,694	—	—
Fixed income:					
Common trust fund		975	—	975	—
Mutual fund		33,023	33,023	—	—
U.S. government obligations		77	77	—	—
U.S. equities:					
Managed accounts		92,520	92,520	—	—
Mutual funds		13,735	13,735	—	—
Common trust funds		1,425	—	1,425	—
Global equities:					
Business trusts		9,676	—	9,676	—
Common trust funds		932	—	932	—
Mutual funds		13,661	13,661	—	—
Limited liability company		5,869	—	5,869	—
Limited partnerships		34,822	—	11,477	23,345
Balanced mutual funds		2,965	2,965	—	—
Alternative investments:					
Multi-strategy – limited partnerships		16,814	—	13,815	2,999
Long/short equity – limited partnership		982	—	—	982
Long/short equity – limited liability company		4,948	—	—	4,948
Distressed securities – limited partnerships		16,597	—	—	16,597
Private equity		3,621	—	—	3,621
Real estate investment trust		107	—	107	—
	$	298,443	201,675	44,276	52,492
Interests in split-interest agreements	$	22,172	—	—	22,172

The following tables present the Met's activity for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at July 31 (in thousands):

	2015					
	Multi-strategy	Distressed securities	Global equities	Private equity	Long/short equity	Total
Beginning balance	$ 2,999	16,597	23,345	3,621	5,930	52,492
Net appreciation (depreciation) in fair value	3,151	(717)	3,553	(55)	1,068	7,000
Redemptions	(4,228)	(604)	—	(211)	(982)	(6,025)
Ending balance	$ 1,922	15,276	26,898	3,355	6,016	53,467

	2014					
	Multi-strategy	Distressed securities	Global equities	Private equity	Long/short equity	Total
Beginning balance	$ 7,465	14,651	21,266	4,323	—	47,705
Net appreciation (depreciation) in fair value	397	2,961	2,079	(494)	(52)	4,891
Transfer from Level 2	—	—	—	—	982	982
Purchases	444	—	—	—	5,000	5,444
Redemptions	(5,307)	(1,015)	—	(208)	—	(6,530)
Ending balance	$ 2,999	16,597	23,345	3,621	5,930	52,492

For the year ended July 31, 2015, interests in split-interest agreements increased by new agreements of $117,000, decreased by net investment losses of $827,000, and decreased by terminations of $306,000. For the year ended July 31, 2014, interests in split-interest agreements increased by new agreements of $139,000 and increased by net investment gains of $1,709,000.

Information with respect to investment strategies and redemption terms for alternative investments in 2015 is as follows:

Global equities business trust: comprised of an international equity investment that permits monthly redemptions.

Global equities – limited liability company: This investment objective is to achieve long-term capital appreciation by investing in publicly traded equity, fixed income, and other types of securities including common stocks, securities convertible into common stock, and rights and warrants to purchase common stock that are trading at what the investment manager believes to be a discount to their net asset value. Redemptions are allowed monthly with 30 days' prior written notice. In 2015, this investment was redeemed.

Global equities – limited partnerships: One limited partnership's investment objective is to achieve compound annual long-term returns that are superior to the Morgan Stanley World Cap Index; however, it is not managed to mirror the geographic or industry composition of any index. The initial commitment is nonredeemable for sixty months expiring July 31, 2016. The other limited partnership's investment objective is to seek to achieve an attractive long-term rate of return and to outperform the MSCI World (Net) Index over a full market cycle. Redemptions are allowed fortnightly.

Multi-strategy – limited partnerships: One multi-strategy fund with an event driven focus seeks to exploit situations in which announced or anticipated events create opportunities to invest in securities and other financial instruments at a discount to their exit values. Redemptions are allowed quarterly with 65 days' prior written notice. Another multi-strategy fund seeks to deliver superior risk adjusted returns over a multi-year period with an absolute return orientation. A full redemption has been requested. A third fund's goal is to achieve annual returns superior to long-term equity market returns with low beta and low volatility. A full redemption has been requested. The remaining investment in the funds where redemption has been requested includes illiquid investments that are redeemable as they are fully monetized.

Long/short equity – limited partnership: The long/short hedge fund seeks appreciation through investments in a number of long/short equity positions. The fund was redeemed during the year ended July 31, 2014. The remaining holdback amount was received during the year ended July 31, 2015.

Long/short equity – limited liability company: Seeks to provide compound annual long-term returns before incentive allocations that are superior to the broad market averages, while seeking to have less risk than the overall stock market. Redemptions are allowed with receipt of 30 days' prior written notice as of the last business day of the fiscal quarter ending on or immediately after the end of the 36th month following January 1, 2014. Fees of 3%, 2%, or 1% apply to withdrawals during the commitment period.

Distressed securities – limited partnerships: Seeks to achieve superior risk-adjusted returns over time primarily through investment opportunities that are generated by the various phases of the credit cycles. One fund is in the stage of making quarterly distributions as investments are liquidated. The other distressed fund provides for annual redemptions.

Private equity: includes investments that are focused on the financial services sector and funds that are in liquidation status via special purpose vehicles. In 2012, an investment was added whose purpose is to make capital investments by investing primarily in companies related to China, Hong Kong, or Taiwan. Redemptions are issued periodically as determined by the manager.

(4) Property and Equipment

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

		2015	2014
Land	$	91	91
Warehouses		1,773	1,773
Leasehold improvements		27,267	27,180
Furniture, fixtures, and other, including information systems equipment		34,904	32,337
Theatrical equipment		52,551	50,021
Construction in progress		4,617	2,338
		121,203	113,740
Less accumulated depreciation and amortization		(70,109)	(65,371)
	$	51,094	48,369

(5) Long-Term Debt and Line of Credit

The Met maintains a bank line of credit of $30 million (the Line of Credit). The Line of Credit was extended on September 30, 2015 and expires September 30, 2016. The Line of Credit amount is $30 million for the period from September 30, 2015 through June 29, 2016; $23 million from June 30, 2016 through July 30, 2016; $19 million from July 31, 2016 through August 31, 2016; and $7.5 million from September 1, 2016 to September 30, 2016. The line year is the period from October 1, 2015 to September 30, 2016, and each subsequent one-year period. The Met has pledged: (i) certain artwork to collateralize the Line of Credit and the $11.6 million standby letter of credit facility (the Letter of Credit) (see note 9); (ii) certain endowment funds totaling $22.7 million for which the respective donors have agreed to allow such funds to serve as collateral for the Line of Credit; and (iii) a warehouse to collateralize the Letter of Credit. Borrowings under the Line of Credit bear interest at LIBOR plus 1.50% or the Prime Rate. The Line of Credit is charged a fee of 0.25% on the unborrowed portion of the line. Interest expense related to borrowings under the Line of Credit was approximately $343,000 and $238,000 for 2015 and 2014, respectively, and is included in general management expenses. At both July 31, 2015 and 2014, the amount outstanding under the Line of Credit was $17 million.

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

The Bonds comprise, at par, $20.355 million of fixed rate serial bonds with maturity dates commencing October 1, 2014 and annually thereafter until October 1, 2022, and $79.645 million of fixed rate term bonds with mandatory sinking fund requirements commencing October 1, 2023 and annually thereafter until final maturity on October 1, 2042. The fixed rate serial bonds bear interest at rates ranging from 1.000% to 3.128%

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

In connection with the issuance of the Bonds, bond issuance costs of $968,000 have been deferred and included in other assets and are being amortized over the life of the Bonds. Interest expense for the Bonds for each of the years ended July 31, 2015 and 2014 was $3.9 million and is included in general management expenses.

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

		Principal	Interest	Total
Year(s) ending July 31:				
2016	$	2,130	3,897	6,027
2017		2,160	3,867	6,027
2018		2,195	3,830	6,025
2019		2,235	3,787	6,022
2020		2,285	3,736	6,021
Thereafter		86,890	51,640	138,530
	$	97,895	70,757	168,652

(6) 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 line within the change in unrestricted net assets, apart from expenses, to the extent those changes are not included in the net periodic cost.

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

		2015	2014
Change in benefit obligation:			
Benefit obligation at beginning of year	$	266,954	244,333
Service cost		5,339	5,210
Interest cost		11,660	11,744
Actuarial losses		14,059	17,860
Benefits paid		(13,609)	(12,193)
Benefit obligation at end of year		284,403	266,954
Change in plan assets:			
Fair value of plan assets at beginning of year		191,956	175,981
Actual return		8,425	18,168
Employer contributions		9,265	10,297
Benefits paid and actual expenses		(13,486)	(12,490)
Fair value of plan assets at end of year		196,160	191,956
Funded status	$	(88,243)	(74,998)
Components of net periodic cost:			
Service cost	$	5,339	5,210
Interest cost		11,660	11,744
Expected return on plan assets		(14,790)	(13,751)
Other, net		8,293	7,829
Net periodic cost	$	10,502	11,032
Items not yet recognized as a component of net periodic benefit cost:			
Unrecognized prior service cost	$	8,816	11,564
Unrecognized net loss		95,758	81,002
Total	$	104,574	92,566
Weighted average assumptions used to determine net periodic benefit costs:			
Discount rate		4.44%	4.84%
Expected long-term return on plan assets		8.00	8.00
Weighted average assumptions used to determine benefit obligations:			
Discount rate		4.43%	4.44%

The net loss expected to be recognized as a component of net periodic pension cost over the next twelve months is $7,797,000. This includes the amortization of the net loss and the amortization of prior service costs.

The accumulated benefit obligation for the Plan at July 31, 2015 and 2014 was $284,403,000 and $266,954,000, respectively.

The Met expects to contribute at least the minimum required amount of approximately $8.7 million to the Plan in fiscal year 2016. Benefit payments, which reflect expected future service as appropriate, are expected to be paid as follows (in thousands):

	Amount
Year(s) ending July 31:	
2016	$ 14,437
2017	14,960
2018	15,487
2019	15,852
2020	16,144
2021–2025	86,148

The expected long-term rate of return for the Plan's total assets is based on the Plan's investment policy. The investment policy is to maximize the rate of return on assets with the objective of ensuring a total return that will preserve and enhance the principal and provide sufficient liquidity to meet benefit obligations. In order to minimize risks, the Plan's assets are diversified within the fixed income and equity portions of the portfolio. The Plan's weighted average asset allocations at July 31, 2015 and 2014 by asset category are as follows:

Asset category	Target policy allocation	Percentage of plan assets 2015	Percentage of plan assets 2014
Domestic and international fixed income	0%–40%	27%	23%
Domestic and international equity	0–50	68	68
Alternative assets and private equity	0–25	5	9
Total		100%	100%

A mutual fund with a balanced investment allocation is allocated to the respective asset category in the table above.

The following table presents the fair value hierarchy of the pension assets that are measured at fair value on a recurring basis at July 31, 2015 (in thousands):

	2015 Total	Level 1	Level 2	Level 3
Cash equivalents and short-term investments	$ 5,247	5,247	—	—
Fixed income – mutual fund	32,790	32,790	—	—
U.S. equity:				
Managed accounts	57,025	57,025	—	—
Mutual fund	4,840	4,840	—	—
Common trust fund	10,266	—	10,266	—
Global equity:				
Limited partnership	18,998	—	18,998	—
Business trust	16,562	—	16,562	—
Balanced fund – mutual fund	40,871	40,871	—	—
Other alternative investments	9,561	—	9,561	—
Total pension assets	$ 196,160	140,773	55,387	—

The following table presents the fair value hierarchy of the pension assets that are measured at fair value on a recurring basis at July 31, 2014 (in thousands):

	2014 Total	Level 1	Level 2	Level 3
Cash equivalents and short-term investments	$ 5,853	5,853	—	—
Fixed income – mutual fund	22,458	22,458	—	—
U.S. equity:				
Managed accounts	51,888	51,888	—	—
Mutual fund	4,132	4,132	—	—
Common trust fund	9,237	—	9,237	—
Global equity:				
Limited partnership	16,637	—	16,637	—
Limited liability company	4,044	—	4,044	—
Business trust	16,533	—	16,533	—
Balanced fund – mutual fund	51,628	51,628	—	—
Other alternative investments	9,546	—	9,546	—
Total pension assets	$ 191,956	135,959	55,997	—

The alternative investment funds included in the Met's pension asset portfolio at July 31, 2015 and 2014 are redeemable based on the following terms and conditions (in thousands):

		2015	2014
Daily redemption with 1 day's notice	$	10,266	9,237
Fortnightly redemption with 3 days' notice		18,998	16,637
Monthly with 6 days' notice		16,562	16,533
Monthly with 30 days' notice		—	4,044
Quarterly with 65 days' notice		9,561	9,546
Total	$	55,387	55,997

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 $4,947,000 and $5,079,000 in 2015 and 2014, 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. The most recent PPA zone status as of January 31, 2015 reports that the plan's funded percentage is 97.3% and that it is in the green zone. The collective bargaining agreement requiring contributions to the plan expired July 31, 2014. A memorandum of agreement is in place for the period from August 1, 2014 to July 31, 2020. The contributions by the Met to the union pension fund were $3,004,000 and $3,104,000 for the years ended July 31, 2015 and 2014, 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, 2014 valuation, the plan's funded percentage is 113.3% and it is in the green zone. The collective bargaining agreement requiring contributions to the plan expired July 31, 2014. A memorandum of agreement is in place for the period from August 1, 2014 to July 31, 2018. The contributions by the Met to the union pension fund were $513,000 and $515,000 for the years ended July 31, 2015 and 2014, 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, 2014 valuation, the plan's funded percentage is 85.7%; however, the plan is considered to be in critical status because (i) the plan was in critical status last year, and, over the next nine years, it is projected to have an accumulated funding deficiency for the plan year ending March 31, 2019 and (ii) the sum of the plan's normal cost and interest on the unfunded benefits for the current plan year exceeds the present value of all expected contributions for the year; the present value of vested benefits of inactive participants is greater than the present value of vested benefits of active participants; and over the next four plan years, the plan is projected to have an accumulated funding deficiency in the plan year noted above. The collective bargaining agreement requiring contributions to the plan expired July 31, 2014. A memorandum of agreement is in place for the period from August 1, 2014 to July 31, 2018. The contributions by the Met to the union pension fund were $511,000 and $494,000 for the years ended July 31, 2015 and 2014, respectively.

- Amounts contributed to eleven other union plans amounted to $919,000 and $966,000 for the years ended July 31, 2015 and 2014, respectively. The expiration of eight of the collective bargaining agreements requiring contributions expired July 31, 2014. Three memorandums of agreement are in place for the period from August 1, 2014 to July 31, 2018. Three memorandums of agreement are in place for the period from August 1, 2014 to July 31, 2019. Two memorandums of agreement are in place for the period from August 1, 2014 to July 31, 2020. A six-month extension for one union in place until January 31, 2015 was extended to September 30, 2015 and is currently being negotiated. Of the two other unions for whom contributions are made, one agreement expires December 31, 2015, and one other agreement expired in 2006 and a new agreement is not in place.

(7) Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for specified purposes or are time restricted as of July 31 as follows (in thousands):

	2015	2014
Program activities:		
A combination of new productions, tours, educational, or audience outreach programs	$ 25,143	24,353
New productions	26,331	23,526
Telecasts and other media activities	12,046	8,593
Save the Met Broadcasts	10,873	10,373
Young artists and other specified activities	9,711	9,741
Future operating activities (time restricted)	29,802	15,319
Endowment draw appropriation restricted for program	110	—
Capital	11,787	11,787
Other time restrictions including interests in charitable trusts and pooled income funds	14,246	15,374
	$ 140,049	119,066

Included in temporarily restricted net assets in both fiscal 2015 and 2014 is $754,000 expended for capital appropriations funded by the City of New York (the City) relating to the Met's fly rigging system. 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.

(b) Permanently Restricted Net Assets

Permanently restricted net assets as of July 31 consist of endowment contributions and interests in charitable trusts from which investment income is or will be available to support unrestricted or donor-specified activities, as follows (in thousands):

		2015	2014
Income for:			
New York Season (unrestricted)	$	110,930	108,133
New productions		73,006	72,479
Telecasts		14,470	14,162
Young artists		19,614	20,179
Other specified activities		12,104	10,929
	$	230,124	225,882

Included in permanently restricted net assets 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 permanently restricted. In addition, permanently restricted net assets 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 permanently restricted. At July 31, 2015 and 2014, the value of such funds included in permanently restricted net assets was $71.2 million and $70.2 million, respectively.

(8) Endowment Funds

The Met’s endowment consists of approximately 260 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 investment portfolio is to provide that future growth of the portfolio is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the endowment fund. The objective of the investment program is to enhance the portfolio’s long-term viability by maximizing the value of the portfolio with prudent level of risk. The assets are managed on a total return basis. The Investment Committee of the Board of Managing Directors has adopted long-term asset allocation policy mid-range targets for equities, fixed income, and alternative investments.

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. For the year ended July 31, 2015, the Board of Managing Directors approved an overall spending rate of 6%.

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 unrestricted net assets totaled approximately $191,000 and $115,000 as of July 31, 2015 and 2014, respectively. This deficiency results from unfavorable market fluctuations subsequent to the investment of permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the donor-restricted endowment fund to the required level will be classified as an increase in unrestricted net assets.

The Met's endowment fund consists of the following at July 31, 2015 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted	$	(191)	34,350	217,630	251,789
Board-designated		14,109	—	—	14,109
Total endowment net assets	$	13,918	34,350	217,630	265,898

The Met's endowment fund consists of the following at July 31, 2014 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted	$	(115)	33,746	216,309	249,940
Board-designated		15,288	—	—	15,288
Total endowment net assets	$	15,173	33,746	216,309	265,228

(Continued)

Changes in endowment funds for the year ended July 31, 2015 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 31, 2014	$ 15,173	33,746	216,309	265,228
Investment return, net	14,695	212	921	15,828
Contributions	—	502	400	902
Appropriation for expenditure	(15,950)	(110)	—	(16,060)
Endowment net assets, July 31, 2015	$ 13,918	34,350	217,630	265,898

Changes in endowment funds for the year ended July 31, 2014 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 31, 2013	$ 14,863	26,109	212,325	253,297
Investment return, net	16,110	7,107	1,543	24,760
Contributions	—	530	2,441	2,971
Appropriation for expenditure	(15,800)	—	—	(15,800)
Endowment net assets, July 31, 2014	$ 15,173	33,746	216,309	265,228

(9) 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 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.

(10) Related Party

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 $597,000 and $604,000 due from the

(Continued)

Guild at July 31, 2015 and 2014, respectively. Revenues from the Guild were $6.1 million and $6.4 million for the years ended July 31, 2015 and 2014, respectively.

(11) 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, 2015 through December 18, 2015, which was the date the consolidated financial statements were available to be issued and has concluded that there are no other subsequent events requiring disclosure.