

EISNERAMPER

THE METROPOLITAN OPERA GUILD, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

EISNERAMPER
LLP



INDEPENDENT AUDITORS' REPORT

Board of Directors
The Metropolitan Opera Guild, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of The Metropolitan Opera Guild (the "Guild"), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Guild's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Metropolitan Opera Guild, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

EISNERAMPER LLP
New York, New York
November 20, 2018



THE METROPOLITAN OPERA GUILD, INC.

Balance Sheets

	June 30,	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 951,341	\$ 1,203,386
Accounts receivable, net	180,377	2,200,793
Contributions, pledges and government grants receivable, net	246,132	78,080
Investments	10,014,796	10,239,342
Inventory	44,332	42,100
Deposits, deferred expenses, and other assets	311,527	259,314
Property and equipment, net	136,892	111,389
Samuel B. and David Rose Building - lease costs and leasehold improvements, net	<u>2,266,725</u>	<u>2,371,236</u>
	<u>\$ 14,152,122</u>	<u>\$ 16,505,640</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 365,571	\$ 1,435,489
Deferred revenue:		
Membership	1,053,465	942,302
Opera News	66,015	76,475
Loan payable under bank line-of-credit	2,865,000	4,365,000
Accrued pension benefit liability	<u>4,719,341</u>	<u>5,955,052</u>
	<u>9,069,392</u>	<u>12,774,318</u>
Total liabilities		
Commitments and contingency (see Note M)		
Net assets:		
Unrestricted:		
Accrued pension liability	(4,719,341)	(5,955,052)
Rose Building Fund	2,266,725	2,371,236
Unrestricted - other	<u>6,623,387</u>	<u>6,023,892</u>
	4,170,771	2,440,076
Temporarily restricted	463,800	843,087
Permanently restricted	<u>448,159</u>	<u>448,159</u>
	<u>5,082,730</u>	<u>3,731,322</u>
Total net assets	<u>\$ 14,152,122</u>	<u>\$ 16,505,640</u>

See notes to financial statements.

THE METROPOLITAN OPERA GUILD, INC.

Statement of Activities Year Ended June 30, 2018

(with summarized financial information for June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Operating activities:					
Support and revenue:					
Publication sales and advertising	\$ 1,199,228			\$ 1,199,228	\$ 1,388,900
Membership dues	6,957,031			6,957,031	7,236,408
Contributions (including donated services of \$1,844,142 and \$1,991,856 for 2018 and 2017, respectively, and donated legal service of \$15,058 for 2018)	2,277,718	\$ 152,500		2,430,218	3,170,932
Special events (including donated auction items of \$105,500 and \$37,168 for 2018 and 2017, respectively, and contributions of \$532,500 and \$465,395 for 2018 and 2017, respectively)	1,313,983			1,313,983	1,275,536
Education program fees	608,765			608,765	607,277
Legacies and bequests	882,733			882,733	186,783
Investment returns based on spending rate, net	770,000			770,000	830,000
Other income	104,921			104,921	63,392
Total support and revenue before release of net assets from restrictions	14,114,379	152,500		14,266,879	14,759,228
Net assets released from restrictions	578,456	(578,456)		0	0
Total support and revenue	14,692,835	(425,956)		14,266,879	14,759,228
Expenses:					
Program services:					
Donation to Metropolitan Opera Association, Inc.	6,131,983			6,131,983	6,276,268
Costs of publications for members and subscribers	2,147,308			2,147,308	2,254,537
Educational programs	1,508,996			1,508,996	1,479,130
Total program services	9,788,287			9,788,287	10,009,935
Supporting services:					
Management and general	1,503,116			1,503,116	1,473,475
Fund-raising and membership development:					
Fund-raising	709,414			709,414	659,160
Membership development	1,844,142			1,844,142	1,991,856
Total fund-raising and membership development	2,553,556			2,553,556	2,651,016
Total expenses	13,844,959			13,844,959	14,134,426
Change in net assets before non-operating activities	847,876	(425,956)		421,920	624,802
Non-operating activities:					
(Losses) gains in excess of authorized spending rate, net	(145,904)	46,669		(99,235)	479,209
Increase in value of interest-rate-swap agreement	88,932			88,932	124,018
Proceeds from the sale of memorabilia collection	23,366			23,366	1,017,595
Donation to the Metropolitan Opera Association Inc. (see Note F)					(50,721)
Pension-related changes other than periodic costs	916,425			916,425	1,319,957
Change in net assets	1,730,695	(379,287)		1,351,408	3,514,860
Net assets, beginning of year	2,440,076	843,087	\$ 448,159	3,731,322	216,462
Net assets, end of year	\$ 4,170,771	\$ 463,800	\$ 448,159	\$ 5,082,730	\$ 3,731,322

See notes to financial statements.

THE METROPOLITAN OPERA GUILD, INC.

Statement of Activities Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>
Operating activities:				
Support and revenue:				
Publication sales and advertising	\$ 1,388,900			\$ 1,388,900
Membership dues	7,236,408			7,236,408
Contributions (including donated services of \$1,991,856)	2,607,249	\$ 563,683		3,170,932
Special events (including donated auction items of \$37,168 and contributions of \$465,395)	1,275,536			1,275,536
Education program fees	607,277			607,277
Legacies and bequests	186,783			186,783
Investment returns based on spending rate	830,000			830,000
Other income	<u>63,392</u>			<u>63,392</u>
Total support and revenue before release of net assets from restrictions	14,195,545	563,683		14,759,228
Net assets released from restrictions	<u>62,865</u>	<u>(49,706)</u>	<u>\$ (13,159)</u>	<u>0</u>
Total support and revenue	<u>14,258,410</u>	<u>513,977</u>	<u>(13,159)</u>	<u>14,759,228</u>
Expenses:				
Program services:				
Donation to Metropolitan Opera Association, Inc.	6,276,268			6,276,268
Costs of publications for members and subscribers	2,254,537			2,254,537
Educational programs	<u>1,479,130</u>			<u>1,479,130</u>
Total program services	<u>10,009,935</u>			<u>10,009,935</u>
Supporting services:				
Management and general	<u>1,473,475</u>			<u>1,473,475</u>
Fund-raising and membership development:				
Fund-raising	659,160			659,160
Membership development	<u>1,991,856</u>			<u>1,991,856</u>
Total fund-raising and membership development	<u>2,651,016</u>			<u>2,651,016</u>
Total expenses	<u>14,134,426</u>			<u>14,134,426</u>
Change in net assets before non-operating activities	123,984	513,977	(13,159)	624,802
Non-operating activities:				
Gains in excess of authorized spending rate, net	411,855	67,354		479,209
Increase in value of interest-rate-swap agreements	124,018			124,018
Proceeds from the sale of memorabilia collection	1,017,595			1,017,595
Donation to the Metropolitan Opera Association Inc. (see Note F)	(50,721)			(50,721)
Pension-related changes other than periodic costs	<u>1,319,957</u>			<u>1,319,957</u>
Change in net assets	2,946,688	581,331	(13,159)	3,514,860
Net assets, beginning of year	<u>(506,612)</u>	<u>261,756</u>	<u>461,318</u>	<u>216,462</u>
Net assets, end of year	<u>\$ 2,440,076</u>	<u>\$ 843,087</u>	<u>\$ 448,159</u>	<u>\$ 3,731,322</u>

See notes to financial statements.

THE METROPOLITAN OPERA GUILD, INC.

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 1,351,408	\$ 3,514,860
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debts expense	7,590	22,525
Depreciation and amortization	209,074	194,862
Net realized gains on investments	(1,080,986)	(410,923)
Net unrealized losses (gains) on investments	477,171	(652,020)
Donated stock		(24,084)
Proceeds from the sale of donated stock		24,147
Changes in:		
Accounts receivable	2,012,826	(1,911,201)
Contributions receivable	(168,052)	32,069
Inventory	(2,232)	(13,089)
Deposits, deferred expenses, and other assets	(52,213)	(50,480)
Accounts payable and accrued expenses	(1,069,918)	895,584
Deferred revenue	100,703	(254,589)
Accrued pension benefit liability	(1,235,711)	(1,526,644)
Net cash provided by (used in) operating activities	<u>549,660</u>	<u>(158,983)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	13,448,690	7,919,460
Purchases of investments	(12,620,329)	(4,479,295)
Purchases of property and equipment	(130,066)	(58,628)
Net cash provided by investing activities	<u>698,295</u>	<u>3,381,537</u>
Cash flows from financing activities:		
Repayments on borrowings under bank line-of-credit	(1,500,000)	(2,500,000)
Net cash used in financing activities	<u>(1,500,000)</u>	<u>(2,500,000)</u>
Net change in cash and cash equivalents	(252,045)	722,554
Cash and cash equivalents, beginning of year	<u>1,203,386</u>	<u>480,832</u>
Cash and cash equivalents, end of year	<u>\$ 951,341</u>	<u>\$ 1,203,386</u>
Supplemental disclosures of cash flow information:		
Donated services	\$ 1,859,200	\$ 1,991,856
Noncash donation of goods	\$ 105,500	\$ 37,168
Interest paid during the year	\$ 117,947	\$ 125,739

See notes to financial statements.

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The Metropolitan Opera Guild, Inc. (the "Guild"), incorporated in New York in 1936, is organized (i) to develop, support, and cultivate a wider public interest in the Metropolitan Opera and the art form at-large, (ii) to further musical education and appreciation, and (iii) to sponsor and give assistance to operatic, musical and cultural programs, as well as other activities of an educational character.

The Guild also provides educational programs for schoolchildren and teachers, as well as for the general public, and seeks grants and contributions from foundations, corporations, and individuals to support its programs.

The Guild is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code"), and from state and local taxes under comparable laws, except for certain types of income subject to unrelated business income tax. The Guild is also associated with the Metropolitan Opera Association, Inc. (the "Met"), a not-for-profit organization that operates the Metropolitan Opera performing company and provides various membership services to the Guild. (See Notes F and J.)

[2] Basis of accounting:

The financial statements of the Guild have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP").

[3] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, support and revenue, expenses, and non-operating activities, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

[4] Cash and cash equivalents:

For financial-reporting purposes, the Guild considers all highly liquid investments, with maturities of three months or less when purchased, to be cash equivalents. Cash equivalents considered to be part of the Guild's investment portfolio are reported as investments in the financial statements.

[5] Investments:

The Guild's investments in mutual funds are reported at their fair values in the balance sheets based on quoted market prices. Cash equivalents held as part of the investment portfolio are also included in the balances reported as investments.

The Guild's investments, in general, are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment vehicles, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[5] Investments: (continued)

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the statement of activities as increases or decreases in unrestricted net assets, unless their use is restricted on a temporary or permanent basis through donor stipulation. Realized gains and losses on investments are determined by comparison of the cost of each acquisition to the proceeds received at the time of disposition. Unrealized gains and losses on investments are determined by comparing an investment's cost to its fair value at the end of each year. The earnings from dividends and interest are recognized when earned.

Investment expenses include the services fees and costs of bank trustees, investment managers and custodians. The balances of investment management fees disclosed in Note C are those specific fees charged by the Guild's various investment managers in each fiscal year; however, they do not include those fees that are embedded in various other investment accounts and transactions.

Donated securities are recorded at their estimated fair values, or by their net asset values as determined by the Guild's management. The Guild's policy is to sell the donated securities immediately, and accordingly, for purposes of the statements of cash flows, donated securities and the proceeds generated from their sale are included within operating activities.

[6] Derivatives:

A derivative financial instrument, consisting of an interest-rate-swap contract, is measured at fair value. The fair value of an interest-rate-swap agreement is the estimated amount that an entity would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The Guild reports the fair value of its interest-rate-swap agreement in either deposits, deferred expenses, and other assets or in accounts payable and accrued expenses, as appropriate, on the balance sheets, whereas the corresponding change in the fair value of this swap is reported as the change in value of interest-rate-swap agreement in the statement of activities (see Note K).

[7] Property and equipment:

Property and equipment are stated at their original costs at the dates of acquisition, or, if contributed, at their estimated fair values at the dates of donation, less accumulated depreciation. The Guild capitalizes as assets those items of property and equipment that both have a cost of \$2,500 or more and useful lives greater than one year; whereas the costs of minor repairs and maintenance are expensed as incurred. Depreciation is provided using the straight-line method over five to 15 years, which are the estimated useful lives of the furniture, fixtures, and equipment. The costs of leasehold improvements are amortized over the remaining lease term, or the useful lives of the improvements, whichever is shorter.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2018 and 2017, respectively, and in the opinion of management, there were no impairments. However, it is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[8] Inventory:

Inventory consists of paper held for use in printing *Opera News* magazine. The Guild reports all inventory at the lower of cost or market value, with cost determined by using the first-in, first-out ("FIFO") method.

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Collections:

The Guild has maintained a collection of various opera-related memorabilia over the years. As of June 30, 2018, the majority of the collection has been sold. All remaining collection items are catalogued and preserved, and activities verifying their existence and assessing their condition are performed regularly. In accordance with the collection policies of museums, the cost or value of these collections is not included in the balance sheets.

[10] Accrued vacation:

Accrued vacation is included as a liability on the balance sheets within accounts payable and accrued expenses and represents the Guild's obligation for the potential cost of unused employee vacation time that would be payable in the event that these employees left the Guild; the obligation is recalculated every year. At June 30, 2018 and 2017, the accrued vacation obligation was approximately \$189,000 and \$181,000, respectively.

[11] Net assets:

(i) *Unrestricted:*

Unrestricted net assets represent those resources that are not subject to donor restrictions and are available for current operations.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that are subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), as well as those resources for which the use has been restricted by donors to specific purposes and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished or funds are appropriated through an action of the Board of Directors, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as "net assets released from program restrictions."

(iii) *Permanently restricted:*

Permanently restricted net assets represent those resources the principal of which is originally restricted into perpetuity by its donors. The purposes for which the income and net capital appreciation arising from the underlying assets may be used depend on the wishes of the donor. Under the terms of NYPMIFA, those earnings are classified as temporarily restricted in the statement of activities, pending appropriation by the Board of Directors.

[12] Revenue recognition:

(i) *Publication sales:*

Payments for subscriptions to *Opera News* magazine are recognized as income over the period during which the subscriptions are fulfilled.

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[12] Revenue recognition: (continued)

(ii) *Membership dues:*

Amounts received from members (i) consist of payments for the privileges of membership, and (ii) an unrestricted contribution to the Guild. A portion of membership dues is deferred and recognized as income upon the periodic publication of *Opera News* magazine. The remainder is recognized as contribution income in the period in which it is received.

(iii) *Contributions:*

Contributions to the Guild are recognized as revenue upon the receipt of cash, or of other assets, or of unconditional pledges. Contributions are recorded as either temporarily or permanently restricted if they are received with either donor stipulations or time considerations as to their use. Conditional contributions are recorded when the conditions have been met, and, if received in advance, are recognized in the balance sheets as funds received in advance. The Guild records bequest income at the time it has established the right to a bequest and the proceeds are measurable. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

[13] Donated goods and services:

For recognition of donated goods and services in the Guild's financial statements, such goods or services must (i) create or enhance non-financial assets and (ii) typically need to be acquired if not provided by donation. Additionally, recognition of donated services must (i) require a specialized skill, and (ii) be provided by individuals possessing these skills. Donated goods and services are recorded as support at their estimated fair values at the dates of donation and are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Donated goods and services are reported as both contributions and offsetting expenses in the statement of activities.

The Guild received donated auction items in conjunction with the annual event of \$105,500 and \$37,168 during fiscal-year 2018 and 2017, respectively. In addition, the Guild received donated legal services of \$15,058 in fiscal-year 2018.

[14] Measure of operations:

As detailed in its statements of activities, the Guild includes in the definition of operating activities those categories of support and revenue and of expenses that are an integral part of its programs and supporting activities, including an authorized allocation of investment earnings made in accordance with its spending policy. Non-operating activities include (i) investment earnings greater than or less than the authorized spending limit, (ii) the change in value of interest-rate-swap agreements, (iii) pension-related changes other than periodic costs, and (iv) other one-time revenue or charge events.

[15] Functional allocation of expenses:

The costs of providing the Guild's various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated by management among program, management and general and fund-raising and membership-development categories, using appropriate measurement methodologies.

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[16] Advertising:

The Guild expenses the costs of advertising for its program and magazine, including merchandise marketed through catalogues. Advertising expense for fiscal-years 2018 and 2017 was approximately \$120,000 and \$138,000, respectively.

[17] Income tax uncertainties:

The Guild is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, as it relates to accounting and reporting for uncertainty in income taxes. Since the Guild has always recorded the potential tax liability for unrelated business taxes, and due to its general tax-exempt status, management believes ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Guild's financial statements.

At June 30, 2018 and 2017, the Guild had federal and state net operating loss carryforwards which may be offset against future taxable income.

[18] Upcoming accounting change:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 will amend financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: i) net asset classifications, ii) investment returns, iii) expense categorizations, iv) liquidity and availability of resources, and v) the presentation of operating cash flows. The new standard will be effective for fiscal years beginning after December 15, 2017. The Guild will adopt this pronouncement for fiscal-year 2019.

[19] Subsequent events:

The Guild has evaluated all subsequent events through November 20, 2018, the date on which the financial statements were available to be issued.

NOTE B - RECEIVABLES

[1] Contributions, pledges and government grant receivable:

At each fiscal year-end, the Guild's contributions receivable consisted of unconditional promises, primarily in the form of pledges, grants and bequests. All amounts are scheduled to be received within one year. Based on management's past experience, an amount of approximately \$12,000 and \$9,000 was reserved for uncollectible accounts for fiscal-years 2018 and 2017, respectively.

[2] Accounts receivable:

At each fiscal year-end, other receivables consisted of amounts due to the Guild for exchange-type transactions. All amounts are due within one year. Based on management's past experience, an amount of approximately \$15,000 was reserved for uncollectible accounts in both fiscal years.

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE C - INVESTMENTS

At each fiscal year-end, investments consisted of the following:

	June 30,			
	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	\$ 158,869	\$ 158,869	\$ 294,320	\$ 294,320
Mutual funds:				
Fixed-income	3,277,306	3,334,583	3,088,465	3,076,030
Equity	<u>6,578,621</u>	<u>6,421,767</u>	<u>6,856,557</u>	<u>6,292,244</u>
	<u>\$ 10,014,796</u>	<u>\$ 9,915,219</u>	<u>\$ 10,239,342</u>	<u>\$ 9,662,594</u>

During each fiscal year, investment (losses) earnings consisted of the following:

	Year Ended June 30, 2018		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 123,125	\$ 9,207	\$ 132,332
Net realized gains on investments	1,005,776	75,210	1,080,986
Net unrealized losses on investments	(443,972)	(33,199)	(477,171)
Investment fees	<u>(60,833)</u>	<u>(4,549)</u>	<u>(65,382)</u>
Net investment gains	624,096	46,669	670,765
Less: investment returns based on spending rate	<u>(770,000)</u>	<u> </u>	<u>(770,000)</u>
(Losses) gains in excess of authorized spending rate	<u>\$ (145,904)</u>	<u>\$ 46,669</u>	<u>\$ (99,235)</u>
	Year Ended June 30, 2017		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 279,801	\$ 15,176	\$ 294,977
Net realized gains on investments	389,783	21,140	410,923
Net unrealized gains on investments	618,476	33,544	652,020
Investment fees	<u>(46,205)</u>	<u>(2,506)</u>	<u>(48,711)</u>
Net investment gains	1,241,855	67,354	1,309,209
Less: investment returns based on spending rate	<u>(830,000)</u>	<u> </u>	<u>(830,000)</u>
Gains in excess of authorized spending rate	<u>\$ 411,855</u>	<u>\$ 67,354</u>	<u>\$ 479,209</u>

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE C - INVESTMENTS (CONTINUED)

Management has determined that, during fiscal-years 2018 and 2017, 5.00% of the average fair value of investments, based on a 20-quarter rolling average, is a reasonable amount of investment income to be used to fund current operations. The Guild utilized investment income for current operations of approximately \$770,000 and \$830,000 in fiscal-years 2018 and 2017, respectively. During both fiscal-years 2018 and 2017, the Board approved additional spending of \$115,000, respectively, to meet interim requirements.

FASB's ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value designations. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for identical assets or liabilities at the reporting date.
- Level 2: Valuations are based on (i) quoted prices for similar assets or liabilities in active markets, or (ii) quoted prices for those assets or liabilities, or similar assets or liabilities, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.
- Level 3: Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the assets or liabilities, or (ii) the assets or liabilities cannot be independently valued.

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. For fiscal-years 2018 and 2017, there were no transfers among the fair-value-hierarchy levels of the Guild's investments.

	Assets or Liabilities Within the Fair-Value Hierarchy					
	June 30, 2018			June 30, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ 158,869		\$ 158,869	\$ 294,320		\$ 294,320
Mutual funds	9,855,927		9,855,927	9,945,022		9,945,022
Interest-rate swap		\$ 73,090	73,090		\$ (15,842)	(15,842)
	<u>\$ 10,014,796</u>	<u>\$ 73,090</u>	<u>\$ 10,087,886</u>	<u>\$ 10,239,342</u>	<u>\$ (15,842)</u>	<u>\$ 10,223,500</u>

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE D - PROPERTY AND EQUIPMENT

At each fiscal year-end, property and equipment consisted of the following:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Computer equipment	\$ 972,581	\$ 949,678
Leasehold improvements	285,283	278,280
Furniture, fixtures, and operating equipment	<u>169,504</u>	<u>104,505</u>
	1,427,368	1,332,463
Less: accumulated depreciation and amortization	<u>(1,290,476)</u>	<u>(1,221,074)</u>
	<u>\$ 136,892</u>	<u>\$ 111,389</u>

NOTE E - SAMUEL B. AND DAVID ROSE BUILDING

In May 1987, the Guild entered into an agreement with certain organizations that now occupy the Samuel B. and David Rose Building (the "Rose Building"), which is owned by Lincoln Center (see Note M). Under the terms of the agreement, the Guild pays a portion of the building's maintenance costs. Capitalized lease costs and leasehold improvements and furniture and fixtures of \$2,266,725 and \$2,371,236 at June 30, 2018 and 2017, respectively, included on a net basis in the accompanying balance sheets, were depreciated or amortized using the straight-line method over the estimated useful lives of the underlying assets. During fiscal-years 2018 and 2017, depreciation and amortization expense associated with the building was \$139,672 and \$138,798, respectively.

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2018 and 2017, temporarily restricted net assets (including allocation of investment gains and losses) consisted of \$463,800 and \$843,087, respectively, to be used for education purposes.

Temporarily restricted net assets include accumulated endowment earnings of \$110,680 and \$105,658 for fiscal-years 2018 and 2017, respectively. In addition, temporarily restricted net assets include appropriated, but unspent, investment earnings of \$200,620 and \$171,746 for fiscal-years 2018 and 2017, respectively. These amounts remain temporarily restricted until the Guild incurs actual expenditures related to particular temporary restriction on the funds.

Net assets released from restrictions were \$578,456 and \$49,706 for fiscal-years 2018 and 2017, respectively.

During 2017, the Guild applied for, and received, court-ordered relief relating to maintaining a donor's permanent restriction, the income of which was to purchase opera memorabilia, known as the Bispham Fund (the "Fund"). The court order dictated that the Guild donate half of the principal and accumulated earnings to the Met. Accordingly, the Guild remitted \$50,721 to the Met during fiscal-year 2017. The remaining portion of the permanently restricted Fund of \$13,159 and accumulated earnings of \$37,562 were recategorized for education purposes (see Note H).

NOTE G - PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2018 and 2017, net assets of \$448,159 were permanently restricted to support education.

THE METROPOLITAN OPERA GUILD, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENT

[1] The endowment:

The Guild's endowment consists of three donor-restricted funds established for a variety of purposes.

[2] Interpretation of relevant law:

NYPMIFA is applicable to all of the Guild's institutional funds, including its donor-restricted endowment funds. The Board of Directors will continue to adhere to NYPMIFA's requirements.

[3] Endowment net-asset composition by type of fund, at each fiscal year-end:

	June 30, 2018		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ 110,680</u>	<u>\$ 448,159</u>	<u>\$ 558,839</u>
	June 30, 2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ 105,658</u>	<u>\$ 448,159</u>	<u>\$ 553,817</u>

Temporarily restricted endowment represents that portion of allocated investment income, derived from permanently restricted endowment assets, that has not been appropriated by the Board of Directors for expenditure.

[4] Changes in endowment net assets, during each fiscal year:

	June 30, 2018		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 105,658	\$ 448,159	\$ 553,817
Investment gains, net	46,669		46,669
Appropriation of endowment earnings for expenditure	<u>(41,647)</u>		<u>(41,647)</u>
Endowment net assets, end of the year	<u>\$ 110,680</u>	<u>\$ 448,159</u>	<u>\$ 558,839</u>

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENT (CONTINUED)

[4] Changes in endowment net assets, during each fiscal year: (continued)

	June 30, 2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 99,608	\$ 461,318	\$ 560,926
Investment gains, net	67,354		67,354
Other release (see Note F)	(37,562)	(13,159)	(50,721)
Appropriation of endowment earnings for expenditure	<u>(23,742)</u>	<u> </u>	<u>(23,742)</u>
Endowment net assets, end of the year	<u>\$ 105,658</u>	<u>\$ 448,159</u>	<u>\$ 553,817</u>

[5] Funds with deficiencies:

Due to unfavorable market fluctuations, from time to time, the fair value of assets associated with individual donor-restricted endowment funds may decline below the historical dollar value of the donor's original, permanently restricted contribution. Under the terms of NYPMIFA, the Guild would have no responsibility to restore any such decreases in value. There were no such deficiencies in fiscal-years 2018 or 2017.

[6] Return objectives and risk parameters:

The overall financial objective of the endowment assets is to provide the operations of the Guild with a relatively stable stream of spendable revenue.

[7] Strategies employed for achieving objectives:

To satisfy its long-term, rate-of-return objectives, the Guild relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Guild targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

[8] Spending policy and relationships with investment objectives:

At its discretion, during each fiscal years the Board of Directors may appropriate for expenditure a percentage of endowment earnings. For both fiscal-years 2018 and 2017, the Board appropriated an amount based on 5% of the average market value of the endowment assets, as calculated on a 20-quarter rolling average of asset value.

NOTE I - RETIREMENT PLANS

[1] Defined-benefit retirement plan:

The Guild has a defined-benefit retirement plan, covering substantially all of its full-time employees, based on years of services and his or her compensation during the last five years of employment. However, effective June 30, 2012, participation and benefit accruals were frozen in compliance with a resolution of the Board of Directors.

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE I - RETIREMENT PLANS (CONTINUED)

[1] Defined-benefit retirement plan: (continued)

For continuing eligible plan participants, the Guild's funding policy is to contribute annually in amounts not less than the minimum statutory funding requirements. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. The Guild contributed \$366,700 and \$322,000 to the plan during fiscal-years 2018 and 2017, respectively. The most recent measurement date used to determine pension benefits was June 30, 2018. The estimated amount of the Guild's contributions for fiscal-year 2019 is \$320,000.

The plan assets are managed in a global tactical allocation strategy which may invest in mutual funds, index funds (ETFs), long and short positions in foreign and domestic financial futures, options, and foreign-currency forward contracts. The investment objective is to exceed the returns on a static mix of 40% Russell 3000 Index, 15% MSCI Europe, Australia and Far East (EAFE), 5% MSCI Emerging Markets Free (EMF), and 40% Barclays Capital Aggregate Bond Index.

At each fiscal year-end, plan assets were invested as follows:

	June 30,					
	2018			2017		
	Fair Value	Cost	% Total	Fair Value	Cost	% Total
Cash and cash equivalents	\$ 58,681	\$ 58,681	\$ 1%	\$ 54,845	\$ 54,845	1%
Mutual funds	8,491,465	6,804,369	90%	9,062,915	7,997,712	99%
Exchange traded index fund	843,354	841,724	9%			
	<u>\$ 9,393,500</u>	<u>\$ 7,704,774</u>	<u>\$ 100%</u>	<u>\$ 9,117,760</u>	<u>\$ 8,052,557</u>	<u>100%</u>

The following table sets forth the plan's unfunded status at each fiscal-year end:

	June 30,	
	2018	2017
Accumulated benefit obligation	<u>\$ 14,112,841</u>	<u>\$ 15,072,812</u>
Projected benefit obligation at end of year	<u>\$ (14,112,841)</u>	<u>\$ (15,072,812)</u>
Fair value of plan assets at end of year	<u>9,393,500</u>	<u>9,117,760</u>
Deficit of plan assets	<u>\$ (4,719,341)</u>	<u>\$ (5,955,052)</u>
Accrued benefit obligation on the balance sheet	<u>\$ (4,719,341)</u>	<u>\$ (5,955,052)</u>

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE I - RETIREMENT PLANS (CONTINUED)

[1] Defined-benefit retirement plan: (continued)

Amounts recognized in changes in unrestricted net assets at each fiscal year-end were as follows:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Net gains	<u>\$ 916,425</u>	<u>\$ 1,319,957</u>
Benefits cost	<u>\$ 47,413</u>	<u>\$ 115,313</u>
Benefits paid	<u>\$ 649,330</u>	<u>\$ 590,329</u>
Components of net periodic benefit cost:		
Interest cost	<u>\$ 535,870</u>	<u>\$ 521,068</u>
Expected return on plan assets	<u>(678,479)</u>	<u>(632,645)</u>
Amortization of unrecognized actuarial loss	<u>190,022</u>	<u>226,890</u>
Net periodic benefit cost	<u>\$ 47,413</u>	<u>\$ 115,313</u>

Assumptions used to measure benefit obligations at each fiscal year-end:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Weighted-average assumptions:		
Discounted rate	4.00%	3.63%
Expected rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

As of June 30, 2018, the expected benefits to be made under the plan for retirees, former members entitled to deferred benefits, and currently active employees are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2019	\$ 707,817
2020	747,046
2021	760,600
2022	765,928
2023	771,942
2024 - 2028	4,342,817

[2] Defined-contribution retirement plan:

The Guild also maintains a defined-contribution retirement plan established under Section 403(b) of the Code for the benefit of eligible employees to which it may also contribute: all employees are eligible to participate upon employment with the Guild. Plan expense for fiscal-years 2018 and 2017 was \$80,043 and \$69,263, respectively.

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE J - RELATED-PARTY TRANSACTIONS

As described in Note A[1], the Met is an independent not-for-profit membership organization that maintains the Guild's membership records and provides membership development at no charge to the Guild. Both organization's governing boards share certain directors in common. Although the Guild and the Met have some common interests, they are separate corporate entities, are engaged in different activities, and do not meet the criteria for the consolidation of their financial statements under U.S. GAAP.

In fiscal-years 2018 and 2017, the Guild made unrestricted contributions to the Met of \$6,131,983 and \$6,276,268, respectively. In fiscal-years 2018 and 2017, the Met contributed services for membership development to the Guild, which are recognized in the accompanying statements of activities at a value of approximately \$1,844,142 and \$1,991,856, respectively. (See also Note F).

NOTE K - BORROWINGS UNDER BANK LINE-OF-CREDIT

In 2012, the Guild refinanced an existing bank line-of-credit and established a new bank line-of-credit that provides the Guild with borrowing power for an amount up to \$10,000,000. The line may be used for operations, bears interest (at the one-month LIBOR plus 1.25%), and will expire on March 31, 2019. The line is secured by an amount equivalent to outstanding borrowings from the Guild's investment portfolio. At June 30, 2018 and 2017, the Guild had outstanding borrowings of \$2,865,000 and \$4,365,000, respectively.

In connection with the line, the Guild has an interest-rate-swap agreement with a separate financial institution, for the notional amount of \$2,000,000. The swap agreement requires the Guild to pay a fixed rate of 3.176%, with a transaction termination date of June 2023. As of June 30, 2018 and 2017, the fair value of the swap were \$73,090 and \$(15,842), respectively.

NOTE L - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Guild to concentrations of credit risk consist principally of cash and cash-equivalent accounts deposited in high-credit-quality financial institutions, the balances of which, from time to time, may exceed federal insurance limits. However, management believes that the Guild does not face a significant risk of loss on these accounts due to the failure of these institutions.

NOTE M - COMMITMENTS AND CONTINGENCIES

[1] Leases:

The Guild entered into an agreement with Lincoln Center to lease space in the Rose Building for a period of 99 years (ending December 31, 2085), and the lease agreement can be renewed for any number of terms of 99 years. The Guild paid maintenance of approximately \$289,000 and \$283,000 in fiscal-years 2018 and 2017, respectively, based on its proportionate share of the costs of operating and maintaining the building.

In addition, the Guild has an agreement with an unrelated not-for-profit organization to lease office space in Boston through fiscal-year 2018, which is renewable on a month-to-month basis. The lease agreement is cancelable at any time by either party. Rental and maintenance expense relating to this agreement was approximately \$9,500 and \$9,300 in fiscal-years 2018 and 2017, respectively.

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE M - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[2] Government-funded activities:

Government-funded activities are subject to audit by the applicable granting agencies. At June 30, 2018, there were no material obligations outstanding as a result of such audits, and management believes that unaudited projects would not result in any material obligation.

[3] Other contracts:

In the normal course of business, the Guild enters into various contracts for professional and other services, which are typically renewable on a year-to-year basis.

[4] Litigation:

The Guild may be subject to litigation in the routine course of conducting business. In management's opinion, however, there is no current litigation, the outcome of which would have a material adverse impact on the Guild's financial position or operations.

NOTE N - DONATIONS AND EXPENSES

The Guild's donations and expenses, as summarized in the accompanying statements of activities, were as follows:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Donations:		
Donation to the Metropolitan Opera Association, Inc.	\$ 6,131,983	\$ 6,276,268
Expenses:		
Compensation and benefits	2,938,301	2,940,726
Printing and paper	206,547	253,097
Promotion and advertising	119,670	137,493
Mailing, postage, and shipping	272,692	303,890
Occupancy costs	299,792	294,566
Art and editorial	533,556	510,222
Supplies, equipment, and equipment maintenance	158,077	153,968
Student performances and lectures	167,645	165,481
Travel	90,128	62,689
Professional fees	103,079	142,278
Data processing	42,578	41,046
Dues and subscriptions	14,835	12,790
Insurance	34,642	38,502
Telephone	37,397	37,359
Bank service charges	39,276	36,506
Interest	117,947	125,739
Depreciation and amortization	209,074	194,862
Special events	296,899	309,007
Other	66,141	68,913
Value of contributed services and goods	<u>1,964,700</u>	<u>2,029,024</u>
	<u>\$ 13,844,959</u>	<u>\$ 14,134,426</u>

THE METROPOLITAN OPERA GUILD, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE N - DONATIONS AND EXPENSES (CONTINUED)

For fiscal-years 2018 and 2017, the Guild recognized approximately \$369,000 and \$336,000, respectively, of costs of direct benefit to donors for special events. These costs are included in fund-raising and membership development expense in the accompanying statements of activities.

NOTE O - RENTAL INCOME

The Guild leases approximately 234 square feet of its office space to an unrelated not-for-profit organization for a two-year term. The lease term is cancelable by either party. Rent paid to the Guild during fiscal-years 2018 and 2017 was \$15,000 in each year, respectively.

NOTE P - PROGRAM AND SUPPORTING EXPENSES

U.S. GAAP require the Guild's expenses to be reported on a functional basis. Accordingly, during each fiscal year, total expenses were allocated among program and supporting services as follows:

	Year Ended June 30,	
	2018	2017
Program	\$ 9,788,287	\$ 10,009,935
Management and general	1,503,116	1,473,475
Fund-raising	<u>2,553,556</u>	<u>2,651,016</u>
	<u>\$ 13,844,959</u>	<u>\$ 14,134,426</u>

The above expenses are inclusive of expenses that have been reported net of revenue in the accompanying statements of activities. The direct benefits to donors of \$368,852 and \$335,930, respectively, are reported as fund-raising expenses in this table.