REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of The Metropolitan Museum of Art:

We have audited the accompanying financial statements of The Metropolitan Museum of Art (the "Museum"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities for the year ended June 30, 2017 and of cash flows for the years ended June 30, 2017 and 2016.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility
Our responsibility is to express an opinion on the 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Museum'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 Museum'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 Museum of Art as of June 30, 2017 and 2016 and the changes in its net assets for the year ended June 30, 2017 and its cash flows for the years ended June 30, 2017 and 2016 in accordance with accounting principles generally accepted in the United States of America.

Other Matter
We previously audited the statement of financial position as of June 30, 2016, and the related statements of activities and of cash flows for the year then ended (not presented herein), and in our report dated November 10, 2016, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2016 and for the year then ended is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

New York, New York
November 14, 2017

Statements of Financial Position

June 30, 2017 and 2016 (in thousands)

	2017	2016
ASSETS:		
Cash (Note A)	$ 53,777	$ 7,238
Receivable for investments sold	2,896	1,735
Retail inventories, net (Note A)	7,114	9,711
Accounts receivable and other assets (Note B)	17,745	21,781
Contributions receivable (Note C)	202,603	144,519
Split interest arrangements (Notes G and H)	72,316	70,131
Investments (Notes A and G)	3,433,485	3,159,530
Fixed assets, net (Notes A and E)	393,462	414,077
TOTAL ASSETS	$4,183,398	$3,828,722
LIABILITIES:		
Payable for investments purchased	$ 2,303	$ 475
Accounts payable and accrued expenses	35,757	46,257
Accrued salaries and benefits	27,886	26,115
Deferred income (Note A)	5,329	5,373
Notes payable (Note J)	21,675	22,522
Annuity and other split interest obligations (Notes G and H)	18,588	18,260
Asset retirement obligations (Note N)	9,715	10,221
Pension and other accrued retirement obligations (Note I)	207,759	229,560
Loans payable and other long-term liabilities (Notes G and K)	420,089	434,116
TOTAL LIABILITIES	749,101	792,899
NET ASSETS:		
Unrestricted (Notes A and O)	839,341	687,449
Temporarily restricted (Notes A and O)	1,535,971	1,388,377
Permanently restricted (Notes A and O)	1,058,985	959,997
TOTAL NET ASSETS	3,434,297	3,035,823
TOTAL LIABILITIES AND NET ASSETS	$4,183,398	$3,828,722

The accompanying notes are an integral part of the financial statements.

Statement of Activities *for the year ended June 30, 2017, with summarized financial information for the year ended June 30, 2016 (in thousands)*

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total 2017*	*Total 2016*
OPERATING					
REVENUE AND SUPPORT:					
Admissions and Membership	$ 70,218	$	$	$ 70,218	$ 68,428
Gifts and grants	27,536	57,098		84,634	82,815
Operating appropriations from the City of New York (Note A)	27,667			27,667	27,469
Endowment support for current activities (Note G)	91,887	21,487		113,374	114,428
Retail and other auxiliary activities (Note P)	87,547			87,547	80,096
Other income	6,470			6,470	6,305
Net assets released from donor restrictions to fund operating expenses	54,482	(54,482)			
TOTAL REVENUE AND SUPPORT	365,807	24,103		389,910	379,541
EXPENSES:					
Curatorial	124,077			124,077	131,690
Education and Libraries	14,778			14,778	16,114
Development and Membership	21,713			21,713	20,930
Operations	98,070			98,070	103,584
General administration	46,403			46,403	42,918
Retail and other auxiliary activities (Note P)	90,379			90,379	82,802
TOTAL EXPENSES	395,420			395,420	398,038
Transfer of non-operating funds	19,515	(1,402)		18,113	34,008
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(10,098)	22,701		12,603	15,511
NON-OPERATING					
Museum-designated and donor-restricted gifts	7,535	31,637		39,172	79,378
Endowment gifts (includes quasi-endowment)	4,240	4,572	97,689	106,501	20,418
Endowment support for current activities (Note G)	9,828	23,752		33,580	31,260
Investment return in excess of current support (Note G)	89,478	152,567	(354)	241,691	(171,687)
Change in value of split interest agreements (Note H)	(209)	296	1,671	1,758	(164)
Depreciation and non-capitalized expenditures (Note E)	(50,700)			(50,700)	(54,623)
Interest expense on bonds and the effect of interest rate swaps (Notes A and K)	(12,155)			(12,155)	(12,154)
Realized and change in unrealized gains on 2015 bond proceeds	13,235			13,235	(4,085)
Transfer of designated non-operating funds to operating and other	10,468	(28,263)	(18)	(17,813)	(34,103)
Net assets released from donor restrictions	50,975	(50,975)			
Change in net assets before collection items not capitalized and other adjustments	112,597	156,287	98,988	367,872	(130,249)
Purchases of art (Note D)	(25,507)			(25,507)	(54,575)
Proceeds from sales of art		13,407		13,407	4,879
Net assets released from donor restrictions to fund acquisitions of art	22,100	(22,100)			
Pension-related changes other than NPPC (Note I)	28,626			28,626	(51,090)
Change in fair value of interest rate exchange agreements (Notes G and K)	14,076			14,076	(16,492)
CHANGE IN NET ASSETS	$ 151,892	$ 147,594	$ 98,988	$ 398,474	$ (247,527)
NET ASSETS AT THE BEGINNING OF THE YEAR	$ 687,449	$ 1,388,377	$ 959,997	$ 3,035,823	$ 3,283,350
NET ASSETS AT THE END OF THE YEAR	$ 839,341	$ 1,535,971	$1,058,985	$ 3,434,297	$ 3,035,823

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

for the years ended June 30, 2017 and 2016 (in thousands)

	2017	*2016*
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 398,474	$ (247,527)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	54,609	55,059
Loss on disposal of fixed assets	174	3,377
Receipt of contributed securities and other assets	(18,335)	(38,746)
Proceeds from the sale of contributed securities	12,108	33,387
Contributions for capital expenditures	(28,468)	(25,641)
Contributions for long-term investment	(34,587)	(23,798)
Allowance and discount on contributions receivable	15,402	(1,420)
Net realized and unrealized (gains)/loss	(380,861)	48,741
Acquisitions and sales of art, net	12,100	49,697
Interest rate exchange agreements	(14,076)	16,492
Asset retirement obligations	(506)	320
Pension and other accrued retirement obligations	(28,626)	51,090
Changes in assets and liabilities:		
Retail inventories, net	2,597	1,080
Accounts receivable and other assets	3,966	959
Contributions receivable	(73,486)	(12,733)
Split interest arrangements	(2,185)	5,476
Accounts payable and accrued expenses	(5,080)	3,075
Accrued salaries and benefits	1,771	1,200
Deferred income	(44)	(632)
Annuity and other split interest obligations	328	(1,097)
Pension and other accrued retirement obligations	6,825	9,313
Net cash used in operating activities	(77,900)	(72,328)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed assets	(36,941)	(40,998)
Proceeds from sales of investments	742,681	822,553
Purchases of investments	(635,529)	(691,707)
Acquisitions of art	(28,035)	(62,515)
Proceeds from sales of art	13,407	4,878
Net cash provided by investing activities	55,583	32,211
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the sale of contributed securities	6,648	434
Contributions for capital expenditures	28,468	25,641
Contributions for long-term investment	34,587	23,798
Payment of notes payable	(50,727)	(140,526)
Proceeds from notes payable	49,880	138,523
Payment of loans payable		(3,265)
Net cash provided by financing activities	68,856	44,605
Net increase in cash	46,539	4,488
Cash, beginning of the year	7,238	2,750
CASH, END OF THE YEAR	$ 53,777	$ 7,238
Supplemental information:		
Cash paid in the year for interest	$ 12,452	$ 12,086
Non-cash investing activity:		
(Decrease)/increase in fixed asset additions included in accounts payable and accrued expenses	(2,892)	1,685
Decrease in acquisition of art included in accounts payable and accrued expenses	(2,528)	(7,940)
Receipt of contributed real estate property		20,991

The accompanying notes are an integral part of the financial statements.

A. Summary of Significant Accounting Policies

Nature of Business - The Metropolitan Museum of Art (the "Museum") is a not-for-profit cultural institution founded in 1870 and is dedicated to the collection, preservation, study, and exhibition of art. The Museum serves a local and international audience from its New York City location. The Museum's collections comprise nearly two million works of art from ancient, medieval, and modern times, and from all areas of the world. They offer a survey of considerable breadth of art from the ancient civilizations of Asia, Africa, South America, the Pacific Islands, Egypt, the Near East, and Greece and Rome to the present time. The Museum's collections include European paintings, medieval art and architecture, arms and armor, prints, photographs, drawings, costumes, musical instruments, sculpture, textiles, and decorative arts from the Renaissance to the present time as well as one of the foremost collections of American art in the world. The Museum also maintains some of the most comprehensive art and architecture libraries in the United States. The collections are maintained for public exhibition, education, and research in furtherance of public service, rather than for financial gain.

Basis of Presentation - The Museum classifies all financial transactions into three net asset categories in accordance with applicable donor-imposed restrictions: permanently restricted, temporarily restricted, and unrestricted.

Permanently restricted net assets have donor-imposed restrictions that stipulate that the corpus of the gifts be maintained in perpetuity, but permit the Museum to expend net income and gains earned on contributed assets for either specified or unspecified purposes (Note O).

Temporarily restricted net assets carry donor-imposed restrictions on the expenditure of the contributed assets. Temporary restrictions may expire with the passage of time, as a result of actions taken by the Museum that fulfill donors' restrictions, or as a result of expenditures incurred that could have been charged to temporarily restricted assets. When temporarily restricted net assets are released from restrictions, they are transferred to unrestricted net assets and shown as "Net assets released from donor restrictions" and "Net assets released from donor restrictions to fund operating expenses" in the Statement of Activities. Transfers from temporarily restricted to unrestricted net assets occur even if the contributions are received and spent within the same year. In addition, earnings on certain donor-restricted endowment funds are classified as temporarily restricted, pursuant to the New York Prudent Management of Institutional Funds Act (NYPMIFA), until appropriated for expenditure by the Board of Trustees (Note O).

Unrestricted net assets are not restricted by donors. A portion of the unrestricted net assets is designated by the Museum for specific purposes, including long-term investment, leasehold improvements, and various curatorial activities.

Measure of Operations - The Museum includes in its measure of operations all revenue and expenses that are integral to its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from Board-designated and other non-operating funds to support current operating activities. The measure of operations includes support for operating activities from both restricted net assets and unrestricted net assets designated for long-term investment (the donor-restricted and quasi-endowment) according to the Museum's spending policy, which is detailed in Note O. The measure of operations excludes endowment support for non-operating and restricted operating activities; investment return in excess of (less than) amounts made available for current support; additions to restricted and designated net assets; pension-related changes other than net periodic pension cost ("NPPC"); changes in net assets of split interest agreements, after providing for any operating revenue or support; changes in net assets pertaining to acquisition and deaccession of collection items, and related insurance settlements; fees received for art-lending activities; depreciation of capital expenditures, except for those related to auxiliary activities and acquired computer systems and equipment; gains/losses on disposal or sale of fixed assets; non-capitalized expenditures; liability recognition for legal obligations to perform asset retirement activity; the entire effect of interest rate swaps; interest expense related to taxable borrowings and certain miscellaneous charges and revenue unrelated to operating activities.

Collections - In conformity with accounting policies generally followed by art museums, the value of the Museum's collections has been excluded from the Statement of Financial Position, and gifts of art objects are excluded from revenue in the Statement of Activities. Purchases of art objects by the Museum are recorded as decreases in net assets in the Statement of Activities. Pursuant to state law and Museum policy, proceeds from the sale of art and related insurance settlements are recorded as temporarily restricted net assets for the acquisition of art.

Cash and Cash Equivalents - This represents operating cash balances. The Museum considers all highly liquid investments with a maturity of three months or less from the time of purchase to be cash or cash equivalents. Cash equivalents included in the short-term investments category within investments (Note G) are recorded at cost plus accrued interest which approximates fair value. Additional information on cash receipts and payments is presented in the Statement of Cash Flows.

Retail Inventories, net - Retail inventories are valued at the lower of cost or market value. Cost is determined using the average unit cost method of accounting. The Museum annually reviews the value of the items in its inventory for obsolescence. In fiscal years 2017 and 2016 the amount of inventory written down due to obsolescence was $0.4 million and $0.02 million, respectively.

Investments - Investments in short-term instruments, fixed income securities, and equity securities are valued at the last sale price on the principal exchange, and in the absence thereof, such securities are valued at the closing bid quotation for long positions and at the closing ask quotation for short positions.

The fair value of investments in equity funds, fixed income funds, hedge funds, private equity, and real asset funds are determined based on the net asset values provided by the external investment managers of the underlying funds. Certain of these investments, particularly those investing in private equity and real assets, hold investments in non-marketable securities for which there are no readily obtainable values. Values for these investments are provided by the investment manager and may be based on appraisals, obtainable prices for similar assets, or other estimates. The assumptions and methods used to arrive at these valuations are reviewed by the Museum's Investments Office. Due to the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

Purchase and sale of short-term instruments, fixed income, and equity securities are reflected on a trade date basis. Gains and losses on the sale of securities are based on the difference between the sale price and average historical cost basis, where such basis represents the cost of securities purchased or the fair value at the date of receipt for securities received by donation. Interest income is recorded on an accrual basis and dividend income is recorded on the ex-dividend date. Investments denominated in foreign currency are translated at the year-end spot rate.

Derivative Instruments - The Museum records derivative instruments (e.g., interest rate swap agreements) at fair value in accordance with Derivatives and Hedges Accounting and Fair Value Accounting guidance. The change in fair value during the reporting period together with the net effect of the interest rate swap is recognized below the operating measure.

Fixed Assets - The building occupied by the Museum on Fifth Avenue is owned by the City of New York (the "City") and is leased free of charge to the Museum pursuant to a capital lease. The value of the original building is not included on the Statement of Financial Position since it is fully depreciated.

Certain building and gallery improvements are paid for by the City and are included in fixed assets. Contributions from the City for assets that are not fully depreciated are reflected in temporarily restricted net assets. The Museum has adopted a policy of implying a time restriction that expires over the useful life of long-lived assets acquired or constructed with contributions restricted for that purpose.

Building and leasehold improvements are capitalized and reported as fixed assets. The Met Cloisters in Fort Tryon Park and other buildings that are the property of the Museum are included as fixed assets and are stated at cost. Amortization of leasehold improvements of the Fifth Avenue building and depreciation of buildings, improvements, and equipment are computed on a straight-line basis over the estimated useful lives of the assets. Amortization of leasehold improvements related to auxiliary activities is computed on a straight-line basis over the shorter of the remaining term of the lease or estimated useful lives of the assets.

Long-lived assets such as fixed assets are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable.

Deferred Income - Membership dues received from individuals and corporations pertaining to all Membership categories are recognized as revenue upon receipt for the portion of the dues that are considered a contribution to the Museum, while the portion of the dues that relates to the service the Museum will provide the Member is recognized as revenue ratably over the term of the Membership period, up to 24 months. Amounts not yet earned by the end of the fiscal year are reported as deferred income.

Contributions, Contributed Utilities, and Support - Contributions, including cash, in-kind contributions, and unconditional promises to give (pledges), are recorded as revenue in the period in which they are received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded at fair value, and in the case of pledges, net of estimated uncollectible amounts, and discounted if due in over one year.

Several utility costs of the Museum are paid for by the City. The value of such costs is reported as revenue and a corresponding amount is included as an expense in the Statement of Activities, totaling $13.5 million and $16.7 million in fiscal years 2017 and 2016, respectively. The City also provides funds for guardianship and maintenance, including reimbursement for salaries, social security, and pension contributions.

The Museum has volunteers who provide assistance in various areas of the Museum. Such contributed services do not meet the criteria for recognition of contributed services contained in generally accepted accounting principles and, accordingly, are not reflected in the accompanying financial statements.

Bond Issuance Costs - Bond issuance costs, which represent costs to obtain financing for infrastructure projects for the Museum, are currently included in accounts receivable and other assets on the Statement of Financial Position; amortization of these costs extends over the life of the applicable loan.

Functional Allocation of Expenses - The costs of providing Museum programs and supporting services are shown in Note L. Programs include curatorial activities, conservation, exhibition, education, libraries, public services, and auxiliary activities. Curatorial costs include gallery maintenance and renovation, collections care and maintenance, scholarly research and publications, and special exhibitions. Supporting services include fundraising and management and general administrative costs. Fundraising costs include expenses associated with individual and corporate memberships, annual appeals, benefit events, the capital campaign, and other fundraising efforts. Management and general administrative costs include expenses for executive management, financial administration, information systems, human resources, legal services, and investment management fees. Depreciation, interest, utilities, building maintenance, security, and other operating costs are allocated to the above program areas and supporting services. Such expenses are allocated based upon various methodologies including square footage and security guard posts.

Advertising - Advertising expenses pertaining to retail activities, mostly attributable to the production and distribution of catalogues, amounted to $4.3 million and $3.0 million in fiscal years 2017 and 2016, respectively. Other advertising expenses incurred primarily in support of special exhibitions, the permanent collection, and live arts totaled $3.5 million and $3.7 million in fiscal years 2017 and 2016, respectively. All advertising is expensed as incurred.

Interest Expense - Interest on tax-exempt debt is capitalized and depreciated when related to in-progress construction projects and un-capitalized interest expense, including commitment fees, is charged to operating expenses. Interest expense related to interest rate swap agreements and the Series 2015 Bond interest is charged to non-operating activities, as the proceeds are used solely to fund infrastructure projects.

Income Tax Status - The Museum is a nonprofit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles accepted within the United States ("US GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Summarized Comparative Information - The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Reclassifications - Certain amounts in the 2016 statements have been reclassified to conform to the current year presentation.

New Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs - Contracts with Customers (Subtopic 340-40). This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For the Museum, this standard is effective for fiscal year 2019. The Museum is evaluating the impact of this standard on the financial statements.

In April 2015, the FASB issued ASU No. 2015-03 (Subtopic 835-30) Imputation of Interest - Simplifying the Presentation of Debt Issuance Costs. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The standard is effective for fiscal years beginning after December 15, 2015 (fiscal year 2017 for the Museum). The Museum believes the impact of this standard is not significant to the financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Per this guidance, entities that are not public business entities are not required to apply the fair value of financial instruments disclosure guidance in the General Subsection of Section 825-10-50. The Museum elected to early adopt this guidance in fiscal year 2016.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under this guidance, lessees will need to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The guidance requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expire before the earliest comparative period presented. A full retrospective transition approach is not permitted. This new standard is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020 for the Museum), with early application permitted. The Museum is evaluating the impact of this standard on the financial statements.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which makes targeted changes to the not-for-profit financial reporting model. Under the new ASU, the existing three-category classification of net assets (i.e. unrestricted, temporarily restricted, and permanently restricted) will be replaced with a model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." Differences in the nature of donor restrictions will be disclosed in the notes, with an emphasis on how and when the resources can be used. The guidance for classifying deficiencies in endowment funds ("underwater endowments") and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been clarified. New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Entities will be required to disclose (on the face of the statement or in notes) the extent to which the balance sheet comprises financial assets, the extent to which those assets can be converted to cash within one year, and any limitations that would preclude their current use. This ASU is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019 for the Museum), with early application permitted. This ASU should be applied on a retrospective basis in the year that the ASU is first applied. The Museum is evaluating the impact of this standard on the financial statements.

In January 2017, the FASB issued ASU 2017-02, Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity, to amend the consolidation guidance in Subtopic 958-810, Not-for-Profit Entities - Consolidation, to clarify when a not-for-profit entity that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity. The amendments in this update are effective for fiscal years beginning after December 15, 2016 (fiscal year 2018 for the Museum), with early adoption permitted. The Museum is evaluating the impact of this standard on the financial statements.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable. The amendments in this update are effective for fiscal years beginning after December 15, 2018 (fiscal year 2020 for the Museum), with early adoption permitted. The Museum is evaluating the impact of this standard on the financial statements.

B. Accounts Receivable and Other Assets

Accounts receivable and other assets consist of (in thousands):

	June 30, 2017	*June 30, 2016*
Accounts receivable, net of allowance of $1,019 and $1,057 for FY17 and FY16, respectively	$ 3,989	$ 3,785
Prepaid expenses and other	9,912	10,830
Taxes receivable	2,733	6,403
Dividends and interest receivable	1,111	763
Total	$ 17,745	$ 21,781

C. Contributions Receivable

Unconditional promises to contribute to the Museum are recorded as contributions receivable at the present value of future cash flows, net of an allowance for uncollectibility. The present value discount rate ranged from 1.85% to 5.25% for contributions receivable at June 30, 2017. As of June 30, 2017 and 2016, approximately 51% and 22%, respectively, of gross contributions receiveable is due from five donors and two donors, respectively. Contributions are expected to be realized as follows (in thousands):

	June 30, 2017	*June 30, 2016*
Less than one year	$ 120,789	$ 69,031
Between one and five years	57,742	81,714
Over five years	51,150	5,450
Total	229,681	156,195
Less:		
Adjustments and allowance for uncollectibility	(4,289)	(3,754)
Discount for present value	(22,789)	(7,922)
Net	$ 202,603	$ 144,519

D. Acquisitions of Art

Acquisitions of art were funded from the following sources (in thousands):

	2017	2016
Gifts of cash and securities	$ 14,291	$ 27,337
Gains and income from long-term investment:		
For designated curatorial departments	5,465	14,942
Undesignated as to curatorial department	4,207	8,273
Proceeds from fine arts insurance and the sale of art	1,544	4,023
Total	$ 25,507	$ 54,575

E. Fixed Assets

Fixed assets consist of (in thousands):

	June 30, 2017	June 30, 2016	Estimated Useful Lives in Years
Land	$ 1,015	$ 1,015	N/A
Buildings and improvements	41,644	36,559	20–40
Leasehold improvements, auxiliary activities	37,410	38,203	4–40
Leasehold improvements, Fifth Avenue building	969,204	960,063	5–30
Machinery and equipment	65,982	76,440	3–20
Total	1,115,255	1,112,280	
Less accumulated depreciation	(721,793)	(698,203)	
Net	$ 393,462	$ 414,077	

The above amounts include construction in progress of $40.1 million and $33.4 million at June 30, 2017 and 2016, respectively. Depreciation expense was $54.5 million and $55.0 million for fiscal years 2017 and 2016, respectively. Pursuant with the Museum's policy regarding its measure of operations, $6.6 million and $7.7 million were charged to operating activities in fiscal years 2017 and 2016, respectively, while $47.9 million and $47.3 million were charged to non-operating activities in fiscal years 2017 and 2016, respectively. In fiscal year 2017, $31.0 million of fixed assets with a net book value of $0.2 million were written off. In fiscal year 2016, $8.7 million of fixed assets with a net book value of $3.4 million were written off. Interest expense of $0.6 million and $0.1 million in fiscal years 2017 and 2016, respectively, was capitalized and included in fixed assets on the Statement of Financial Position. The Museum had outstanding purchase commitments of approximately $5.1 million related to construction projects at June 30, 2017.

Fixed assets and construction in progress include $138.8 million of property contributed and funded by the City since 1990, of which $6.0 million and $2.8 million were received during the fiscal years ended June 30, 2017 and 2016, respectively.

F. Restructuring Charges

During the year ended June 30, 2016, the Museum extended a Voluntary Retirement Program ("VRP") to Museum employees age 55 or older with at least 15 years of service. The applications for the VRP were accepted by the Museum and packages fully executed in fiscal year 2017. No liability was required as of June 30, 2016. Involuntary personnel reductions were also completed in 2017. Expenses for severance and related charges of $10.8 million associated with the voluntary and involuntary initiatives were recorded in the operating section of the Statement of Activites for the year ended June 30, 2017. As of June 30, 2017, an outstanding liability of $1.0 million for severance and related charges was included in accounts payable and accrued expenses on the Statement of Financial Position.

G. Fair Value Measurements

The Museum's investments include assets held as part of the Museum's long-term portfolio, assets to be used for capital projects, and assets held for other miscellaneous purposes.

The total cost of the investment portfolio was $2,943 million and $2,861 million as of June 30, 2017 and 2016, respectively. The Museum had approximately $560.1 million and $404.4 million in unfunded capital commitments primarily related to private equity and real asset funds as of June 30, 2017 and 2016, respectively.

For investments within the long-term portfolio, the Museum aims to maintain a diversified portfolio that is designed to provide a stream of earnings for current use, while maintaining the purchasing power of assets in perpetuity. Investment objectives and policies are established by the Museum's Trustee Investment Committee and are undertaken in partnership with external investment managers.

The investments held in the Museum's long-term portfolio consist of cash, cash equivalents, public equities, fixed income securities, hedge funds, private equity funds, and real asset funds.

The Museum also invests in short-term and fixed income investments to finance various capital projects. In February 2015, the Museum completed a bond issuance totaling $250 million ("Series 2015 Bonds") in order to finance various infrastructure projects over a ten-year period. Until they are used to fund these capital projects, the Museum has invested the proceeds from such bond issuance in U.S. Treasuries and a fund of hedge funds. Please refer to Note K for details related to the Series 2015 Bonds.

The following table presents the Museum's investments listed by its intended use for the years ended June 30 (in thousands):

	2017 Fair Value	*2016 Fair Value*
Held within the long-term portfolio		
Short-term investments	$283,871	$155,999
Fixed income	99,820	100,316
Equities	558,879	552,583
Equity funds	685,038	584,560
Hedge funds	693,135	709,471
Private equity funds	427,941	405,576
Real asset funds	401,085	354,919
Subtotal	3,149,769	2,863,424
Held for capital projects		
Short-term investments	20,793	36,629
Fixed income	61,067	68,090
Fund of hedge funds	180,154	169,824
Subtotal	262,014	274,543
Other miscellaneous purposes		
Subtotal	21,702	21,563
TOTAL INVESTMENTS	$3,433,485	$3,159,530

In general, the Investments Office of the Museum relies on its external investment managers to provide valuations for the Museum's portfolio on a monthly basis, and in the case of private investments, on a quarterly basis. The Investments Office verifies these valuations in a number of ways, including but not limited to, assessing the valuation methodologies employed by each manager, reviewing the footnotes related to valuation in audited financial statements, and evaluating the performance of each investment relative to comparable benchmarks.

Fair values assigned to these investments may differ significantly from the fair values that would have been used had a ready market for the investments existed, and such differences could be material to the Museum's financial statements.

In accordance with the authoritative guidance on fair value measurements and disclosures under US GAAP, the Museum discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to valuations based on unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to valuations based on unobservable inputs that are significant to the valuation (Level 3 measurements). The three levels of the fair value hierarchy under the guidance are as follows:

Level 1—Quoted market prices for identical instruments in active markets. Level 1 assets include cash, cash equivalents, bonds, and equity securities actively traded on recognized exchanges both domestic and foreign. These investments are freely tradable and are valued based on quoted prices from active markets.

Level 2—Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, observable inputs other than quoted prices, inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 2 assets primarily consist of funds that invest in exchange traded equity, fixed income securities, and derivatives. The receipt of information regarding underlying holdings generally is less frequent than assets classified as Level 1. Valuations are based on quoted prices or other significant observable inputs. The Investments Office performs a number of procedures to support the reasonableness of the valuation of these investments.

Level 3—Valuation models in which significant inputs are unobservable or where there is little, if any, market activity.

An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by Management. Management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to Management's perceived risk of that investment.

The Museum uses the Net Asset Value ("NAV"), provided by external investment managers, as a practical expedient to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company.

For such investments, the Museum applies the guidance outlined in *Disclosure for Investments in Certain Entities That Calculated Net Asset Value per share (or its equivalent)*, which does not require these investments to be categorized within the fair value hierarchy. For investments in funds which are not valued based on the practical expedient, the Museum considers several factors in appropriately classifying these investment funds in the fair value hierarchy. An investment is generally classified as Level 2 if the Museum has the ability to withdraw its investment from the investment fund at the measurement date. An investment is generally classified as Level 3 if the Museum does not have the ability to withdraw its investment from the investment fund, such as investments in private investment funds, "side-pockets," or funds with suspended withdrawals imposed (i.e., "gates").

Fair Value Measurements

The following tables present the financial instruments as stated on the Statement of Financial Position, by caption and by level within the valuation hierarchy as of June 30, 2017 and 2016, respectively (in thousands):

	Assets and Liabilities at Fair Value as of June 30, 2017				
	Level 1	*Level 2*	*Level 3*	*Investments valued using the practical expedient*	*Total*
Split interest arrangements	$ 14,738	$ 13,780	$ 43,798	$	$ 72,316
INVESTMENTS:					
Equities	502,441	56,437	1		558,879
Fixed income					
Government bonds		90,579			90,579
Corporate debt		21,660	9		21,669
Mortgage-backed		34,953			34,953
Other		13,686			13,686
Short-term investments	304,695				304,695
Equity funds				685,038	685,038
Hedge funds				693,135	693,135
Private equity funds				427,941	427,941
Real asset funds				401,085	401,085
Fund of hedge funds				180,154	180,154
Other investments	681		20,990		21,671
Total investments	807,817	217,315	21,000	2,387,353	3,433,485
TOTAL ASSETS	$ 822,555	$ 231,095	$ 64,798	$ 2,387,353	$ 3,505,801
LIABILITIES:					
Annuity and other split interest obligations			$ 18,588		$ 18,588
Interest rate exchange agreements		$ 34,642			34,642
TOTAL LIABILITIES		$ 34,642	$ 18,588		$ 53,230

	Assets and Liabilities at Fair Value as of June 30, 2016				
	Level 1	*Level 2*	*Level 3*	*Investments valued using the practical expedient*	*Total*
Split interest arrangements	$ 14,423	$ 13,117	$ 42,591	$	$ 70,131
INVESTMENTS:					
Equities	510,704	41,878	1		552,583
Fixed income					
Government bonds		97,657			97,657
Corporate debt		25,416	9		25,425
Mortgage-backed		35,823			35,823
Other		9,501			9,501
Short-term investments	192,681				192,681
Equity funds				584,560	584,560
Hedge funds				709,471	709,471
Private equity funds				405,576	405,576
Real asset funds				354,919	354,919
Fund of hedge funds				169,824	169,824
Other investments	520		20,990		21,510
Total investments	703,905	210,275	21,000	2,224,350	3,159,530
TOTAL ASSETS	$ 718,328	$ 223,392	$ 63,591	$ 2,224,350	$ 3,229,661
LIABILITIES:					
Annuity and other split interest obligations			$ 18,260		$ 18,260
Interest rate exchange agreements		$ 48,718			48,718
TOTAL LIABILITIES		$ 48,718	$ 18,260		$ 66,978

Included in the fair value are investment subscriptions paid in advance totaling $8 million for which the Museum has paid prior to June 30, 2016, and redemption proceeds of $37 million for which the Museum had yet to receive as of June 30, 2016. Included in Other investments is a gifted real estate property valued based on an independent appraisal using the income capitalization approach.

For the years ended June 30, the Museum had the following investments which represented more than 5% of net assets:

	2017		*2016*	
	Fair Value (in thousands)	*% of NAV*	*Fair Value (in thousands)*	*% of NAV*
JP Morgan US Government Money Market Agency Share fund	$291,070	8.47%	$173,853	5.73%
Fund of hedge funds held for capital projects	$180,154	5.24%	$169,824	5.59%

The following table includes a roll forward of the amounts for the year ended June 30, 2017, for investments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement:

	Beginning Balance as of June 30, 2016	*Net Realized and Unrealized Gains/(Losses)*	*Transfers Into Level 3*	*Transfers (Out) of Level 3*	*Purchases and Donated Property*	*Sales and Settlements*	*Ending Balance as of June 30, 2017*	*Changes in Unrealized Gains/(Losses) Relating to Investments Held as of June 30, 2017*
INVESTMENTS:								
Equities	$ 1						$ 1	
Fixed income								
Corporate debt	9						9	
Other								
Other investments	20,990						20,990	
TOTAL INVESTMENTS	$ 21,000	$	$	$	$	$	$ 21,000	$

The following table includes a roll forward of the amounts for the year ended June 30, 2016, for investments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement:

	Beginning Balance as of June 30, 2015	*Net Realized and Unrealized Gains/(Losses)*	*Transfers Into Level 3*	*Transfers (Out) of Level 3*	*Purchases*	*Sales and Settlements*	*Ending Balance as of June 30, 2016*	*Changes in Unrealized Gains/(Losses) Relating to Investments Held as of June 30, 2016*
INVESTMENTS:								
Equities	$ 1						$ 1	
Fixed income								
Corporate debt	9						9	
Other								
Other investments					20,990		20,990	
TOTAL INVESTMENTS	$ 10	$	$	$	$ 20,990	$	$ 21,000	$

Private equity funds and real asset funds, totaling $1.7 million and $106.8 million, respectively, classified as Level 3 as of June 30, 2016 were reclassified as investments valued using the practical expedient.

All net realized and unrealized gains (losses) in the tables above are reflected in the Statement of Activities. Net unrealized gains (losses) relate to those investments held by the Museum for the years ended June 30, 2017 and 2016, respectively.

The Museum's policy is to recognize transfers at the beginning of the year. There were no significant transfers during the years ended June 30, 2017 and June 30, 2016.

The following table lists investments carried at NAV by major investment category for the year ended June 30, 2017 (in thousands):

INVESTMENT STRATEGY	*Fair Value Determined Using NAV*	*Remaining Life*	*Unfunded Commitments*	*Redemption Terms*	*Redemption Restrictions and Terms in Place at Year End*
Equity funds	$ 685,038	N/A	N/A	Daily (1 day) Weekly (10 days) Monthly (10 days) Quarterly (30–180 days) Annually (45 days) Biennially (90 days)	2 funds with redemption subject to fees expiring within 2.75 years; 2 funds with lock-up restrictions expiring within 2.5 years; 2 funds with side pockets; 1 fund with liquidating side pocket
Hedge funds	693,135	N/A	N/A	Monthly (65–90 days) Quarterly (30–90 days) Semi-Annually (60 days) Annually (60–90 days)	1 fund with redemption subject to fee expiring in less than 1 year; 4 funds with lock-up restrictions expiring within 2.25 years; 2 funds with side pockets; 5 funds with liquidating side pockets; 1 liquidating fund
Private equity	427,941	1 to 12 years	335,382	N/A	N/A
Real assets	401,085	1 to 11 years	224,753	N/A	N/A
Fund of hedge funds	180,154	N/A	N/A	Monthly (30 days) subject to the terms of the underlying hedge funds	N/A

The following table lists investments carried at NAV by major investment category for the year ended June 30, 2016 (in thousands):

INVESTMENT STRATEGY	*Fair Value Determined Using NAV*	*Remaining Life*	*Unfunded Commitments*	*Redemption Terms*	*Redemption Restrictions and Terms in Place at Year End*
Equity funds	$ 584,560	N/A	N/A	Daily (1 day) Weekly (10 days) Monthly (10 days) Quarterly (30–90 days) Annually (45 days) Biennially (90 days)	2 funds with lock-up restrictions expiring within 3.5 years; 2 funds with side pockets; 1 fund with liquidating side pocket
Hedge funds	709,471	N/A	3,200	Monthly (30–90 days) Quarterly (30–90 days) Semi-Annually (60 days) Annually (60–90 days)	1 fund with redemption subject to fee expiring in less than 1 year; 6 funds with lock-up restrictions expiring within 3 years; 2 funds with side pockets; 4 funds with liquidating side pockets; 1 fund to be full redeemed by March 31, 2017 with side pocket
Private equity	405,576	1 to 11 years	225,905	N/A	N/A
Real assets	354,919	1 to 11 years	175,325	N/A	N/A
Fund of hedge funds	169,824	N/A	N/A	Monthly (30 days) subject to the terms of the underlying hedge funds	N/A

Certain of the Museum's investment managers incorporate the use of financial instruments with off-balance sheet risk as part of their investment strategies primarily to hedge against equity, currency, or interest rate risk. The Museum, at times, transacts in futures contracts and forward foreign currency contracts primarily for managing foreign exchange risk and fluctuations in interest rates.

Market risk represents the potential loss in value of financial instruments caused by movements in market factors including, but not limited to, market liquidity, investor sentiment, and foreign exchange rates. The Museum's investment portfolio consists of a number of relatively illiquid or thinly traded investments having a greater amount of market risk. These investments may trade in limited markets or have restrictions on resale or transfer and may not be able to be liquidated on demand if needed.

The following table summarizes the unrealized gains and losses reported on derivative financial instruments for the years ended June 30 (in thousands):

	2017		*2016*	
	Fair Value	*Unrealized Gain/(Loss)*	*Fair Value*	*Unrealized Gain/(Loss)*
Interest rate exchange agreements	$ (34,642)	$ 14,076	$ (48,718)	$ (16,492)

The following schedules summarize investment return by net asset classification (in thousands):

	2017			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Investment income, net of certain management and custodian fees, taxes, and other expenses	$ 7,467	$ 14,232	$ (354)	$ 21,345
Net realized gains	66,167	122,402		188,569
Changes in unrealized appreciation	62,572	116,159		178,731
Total return on investments	136,206	252,793	(354)	388,645
Transfers	54,987	(54,987)		
Investment return allocated for current activities	(101,715)	(45,239)		(146,954)
Investment return in excess of current support	$ 89,478	$ 152,567	$ (354)	$ 241,691

	2016			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Investment income, net of certain management and custodian fees, taxes, and other expenses	$ 7,360	$ 11,512	$ 154	$ 19,026
Net realized gains	33,762	65,745		99,507
Changes in unrealized appreciation	(50,189)	(94,343)		(144,532)
Total return on investments	(9,067)	(17,086)	154	(25,999)
Transfers	54,873	(54,873)		
Investment return allocated for current activities	(99,617)	(46,071)		(145,688)
Investment return in excess of current support	$ (53,811)	$(118,030)	$ 154	$(171,687)

Realized and unrealized gains on the $250 million Series 2015 Bond, which totaled $13.2 million for the year ended June 30, 2017, are excluded from the above table and shown as a separate line on the Statement of Activities. Please refer to Note K for details related to the Series 2015 Bond proceeds and Note O for details related to Endowment Funds.

Investment return is net of unrelated business income taxes of $1.3 million for both the years ended June 30, 2017 and 2016.

H. Split Interest Arrangements

Split interest arrangements consist of charitable remainder trusts, gift annuities, pooled income funds, and other trust assets. These funds are held in trust for one or more beneficiaries and generally pay lifetime income to those beneficiaries, after which the principal is made available to the Museum in accordance with donor intentions. The value of the charitable remainder trusts and other trust agreements, excluding new gifts and distributions, changed by $2.4 million and $(0.3) million in the years ended June 30, 2017 and 2016, respectively. The discount rate applied to these funds was 1.2% to 2.4% over the past five years.

In 1997, a perpetual trust of $3.6 million was transferred to the Museum to manage in its pooled investments. The Museum receives annual endowment support from the trust and pays expenses on behalf of the trust.

The following displays the value of the assets and liabilities recognized on all of these agreements (in thousands):

	June 30, 2017	*June 30, 2016*
Assets:		
Charitable remainder and other trust assets	$56,275	$53,894
Gift annuities, pooled income funds, and trust invested on behalf of others	16,041	16,237
Other		
Total	$72,316	$70,131
Liabilities:		
Trust invested on behalf of others*	$ 6,292	$ 6,017
Gift annuities and pooled income funds	12,296	12,243
Total	$18,588	$18,260

**This liability relates to a trust invested on behalf of others. The assets of the trust of $6.3 million and $6.0 million as of June 30, 2017 and 2016, respectively, are included in investments on the Statement of Financial Position.*

Charitable Gift Annuities

The Museum records its remainder interest in assets received as unrestricted and temporarily restricted contributions as per donor designations. The contribution is measured at fair value and discounted for the estimated time period until the donor's death. The difference between the fair value of the assets and the revenue recognized (the remainder value) is recorded as a liability and represents the present value of future amounts payable to beneficiaries.

Pooled Income Funds

The Museum records its remainder interest in assets received as a temporarily restricted contribution. The contribution is measured at fair value and discounted for the estimated time period until the donor's death. The difference between the fair value of the assets and the revenue recognized (the remainder value) is recorded as a liability and represents the present value of future amounts payable to beneficiaries.

Charitable Remainder Trusts

The Museum is not the trustee for any of the agreements recorded as Charitable Remainder Trusts ("CRT"). Each individual trust is considered a unit of account that must be measured. When the trust is established the Museum recognizes the contribution and the asset at the present value of estimated future benefits to be received when the trust assets are distributed. Remainder values are calculated and adjusted annually. As of June 30, 2017, a fair value adjustment of 1.24% was applied to those CRTs for which the Museum does not receive an accounting of the underlying assets and has no ability to assign a level other than Level 3. The adjustments are recorded in changes in value of split interest agreements.

Perpetual Trusts

The Museum recognizes the contribution and the asset at market value and records periodic adjustments as statements are received from the trustee.

Lead Trusts

The Museum records the expected payment stream over the term of the trust and applies a discount rate that ranges from 3.9% to 5.1%.

The following tables summarize the changes in the fair value of the assets related to charitable remainder and other trusts for the year ended June 30, 2017 and 2016, respectively (in thousands):

	Beginning Balance as of June 30, 2016	*Changes in Discounts and Allowances*	*Ending Balance as of June 30, 2017*
Charitable remainder and other trust assets	$53,894	$2,381	$56,275

	Beginning Balance as of June 30, 2015	*Changes in Discounts and Allowances*	*Ending Balance as of June 30, 2016*
Charitable remainder and other trust assets	$54,173	$(279)	$53,894

The following tables summarize the changes in the fair value of the liabilities related to annuity and other split interest agreements and funds held on behalf of others for the year ended June 30, 2017 and 2016, respectively (in thousands):

	Beginning Balance as of June 30, 2016	*Changes in Remainder Value*	*Realized and Unrealized Gains/(Losses)*	*Ending Balance as of June 30, 2017*
Annuity and other split interest obligations	$18,260	$53	$275	$18,588

	Beginning Balance as of June 30, 2015	*Changes in Remainder Value*	*Realized and Unrealized Gains/(Losses)*	*Ending Balance as of June 30, 2016*
Annuity and other split interest obligations	$19,357	$(530)	$(567)	$18,260

I. Pension Plans and Postretirement Benefits and Payments

The following section describes the Museum's various pension and postretirement plans, with supporting data in the schedules below.

Defined benefit pension plan for union staff - The Museum has a qualified defined benefit pension plan for all union employees covered by a collective bargaining agreement. Benefits under this plan are based on years of service and the employees' final four years of compensation. Employees contribute 3% of their base earnings to this plan, which amounted to $1.0 million and $0.9 million for fiscal years 2017 and 2016, respectively.

Supplemental defined benefit pension plans for certain non-union staff - The Museum has a supplemental qualified and a supplemental non-qualified defined benefit pension plan for certain non-union employees to provide future benefits at least equal to the benefits provided under a defined benefit pension plan that was terminated. During fiscal year 2017, the remaining liability on this plan was settled and as such, the projected benefit obligation and accumulated benefit obligation of the supplemental non-qualified defined benefit pension plan were both $0.0 million as of June 30, 2017. The projected benefit obligation and accumulated benefit obligation were both $0.7 million as of June 30, 2016.

Defined contribution plan for non-union staff (Basic Plan) - The Museum has a mandatory defined contribution pension plan for all non-union employees other than temporary employees. Under this plan, participants are required to contribute 3% of their annual compensation as a condition of employment and the Museum contributes 8% of a participant's base pay during the year. Until December 31, 2016, the Museum also contributed 5.7% of base pay earnings that exceed the Social Security wage base during a calendar year. Effective January 1, 2017, the Museum discontinued this additional contribution. Effective January 1, 2018, the Museum is reinstating the contribution for certain staff. The cost of the defined contribution plan recognized in fiscal years 2017 and 2016 was $8.1 million and $9.1 million, respectively.

Defined contribution matching plan for non-union staff (Matching Plan) - The Museum has a voluntary defined contribution matching pension plan for all non-union employees other than temporary employees. Under the plan, non-union employees may voluntarily defer a portion of their annual compensation on a pre-tax basis. Until December 31, 2016, the Museum matched contributions in an amount not to exceed 3% of compensation for eligible employees. Effective January 1, 2017 the plan was amended and the Museum is matching 50% of contributions up to 4% of employee salary for a maximum match of 2% in calendar year 2017. Effective January 1, 2018, the Museum will match contributions in an amount not to exceed 3% of compensation for eligible employees. There is no minimum contribution under this plan. The cost of the defined contribution matching plan recognized in fiscal years 2017 and 2016 was $2.1 million and $2.8 million, respectively.

Defined contribution plan for union staff (Union Matching Plan) - The Museum has a voluntary defined contribution plan for all union employees covered by a collective bargaining agreement. The Museum contributes up to 3% of the participant's salary based on a schedule. The cost of this plan in both fiscal years 2017 and 2016 was $0.3 million.

Postretirement benefits - The Museum provides postretirement medical care benefit coverage to retired employees as outlined below.

- Non-union staff: Substantially all of the Museum's non-union employees become eligible for certain benefits (prescription drugs and health insurance subject to annual limits) when they reach age 55 and have 15 years of service to the Museum. The Museum made contributions to the non-union postretirement medical care benefit plan of $1.5 million and $1.4 million in fiscal years 2017 and 2016, respectively.
- Union staff: The Museum's union employees are eligible to participate in a New York City–sponsored postretirement benefit plan (EIN 13-1624086) pursuant to a collective bargaining agreement between the Museum and Local 1503 of District Council 37 (member of AFSCME and AFL-CIO) that expired December 31, 2016, and has been extended through June 30, 2020 under a Memorandum of Agreement. The benefits provided to these employees include medical and surgical coverage as well as certain supplemental benefits (dental, prescription drug, vision, and health insurance). The postretirement benefit obligation related to supplemental benefits is part of a multiemployer plan and, as such, the Museum is not required to record a liability for these benefits. The Museum's union employees become eligible for postretirement benefits when they reach age 52 and have 10 years of service or age 62 with 5 years of service to the Museum. The Museum made contributions to the postretirement medical care benefit plan of $2.0 million in both fiscal years 2017 and 2016, which represent more than 5% of the plan expenses. The plan is not subject to a funding improvement plan.
- Pay for unused sick leave benefit: The Museum reimburses eligible employees for a portion of unused sick days if they meet certain age and service requirements at termination. The Museum made payments in fiscal years 2017 and 2016 of $1.2 million and $0.5 million, respectively. Effective January 1, 2017, the Museum eliminated coverage for non-union participants who are not age 55 with 15 years of service.

Funding policy - The Museum's funding policy is to contribute annually an amount that meets or exceeds the minimum requirements of the Employee Retirement Income Security Act of 1974 (ERISA), using assumptions different from those used for financial reporting.

The table below sets forth the net liability recognized in the Statement of Financial Position as of June 30, including the change in the benefit obligation and the change in plan assets (in thousands):

	Pension Benefits		*Postretirement Benefits*	
	2017	*2016*	*2017*	*2016*
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	$ 241,010	$196,556	$ 122,011	$ 104,406
Service cost	7,772	6,334	6,119	4,850
Interest cost	8,522	9,056	4,648	4,460
Plan amendments			(4,223)	
Employee contributions	1,006	957		(155)
Actuarial (gain)/loss	(23,783)	35,858	12,692	12,353
Benefits paid	(6,668)	(5,841)	(4,682)	(3,993)
Medicare Part D subsidy				90
Settlements	(3,545)	(1,910)		
Benefit obligation at end of year	224,314	241,010	136,565	122,011
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	133,461	131,805		
Actual gain on plan assets	20,058	2,450		
Employer contributions	8,808	6,000	4,682	3,903
Employee contributions	1,006	957		
Benefits paid	(6,668)	(5,841)	(4,682)	(3,993)
Medicare Part D subsidy				90
Settlements	(3,545)	(1,910)		
Fair value of plan assets at end of year	153,120	133,461		
UNFUNDED STATUS (LIABILITY)	$ (71,194)	$(107,549)	$(136,565)	$ (122,011)

The amounts recognized in the Statement of Financial Position as of June 30 are (in thousands):

	Pension Benefits		*Postretirement Benefits*	
	2017	*2016*	*2017*	*2016*
Actuarial losses	$(60,914)	$ (100,986)	$ (47,327)	$(37,233)
Prior service costs			750	2,102
Cumulative employer contributions (less than) net periodic benefit cost	(10,280)	(6,563)	(89,988)	(86,880)
UNFUNDED STATUS (LIABILITY)	$(71,194)	$ (107,549)	$(136,565)	$ (122,011)

Components of net periodic benefit cost/(income) ("NPPC") recognized in operating activities and other amounts recognized in non-operating activities in unrestricted net assets in the Statement of Activities are presented in the table below for the years ended June 30 (in thousands):

	Pension Benefits		*Postretirement Benefits*	
COMPONENTS OF NET PERIODIC BENEFIT COST:	*2017*	*2016*	*2017*	*2016*
Service cost	$ 7,772	$ 6,334	$ 6,119	$ 4,850
Interest cost	8,522	9,056	4,648	4,460
Expected return on plan assets	(9,720)	(9,654)		
Amortization of prior service credit			(587)	(1,148)
Amortization of accumulated loss	5,330	3,669	2,598	931
Settlement loss	623	718		
Curtailment credit			(4,987)	
Total net periodic benefit cost recognized in operating activities	12,527	10,123	7,791	9,093
OTHER AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITY IN UNRESTRICTED NET ASSETS:				
Prior service cost or (credit) occurring during measuring period				(155)
Current year actuarial (gain)/loss	(34,118)	43,063	12,692	12,353
Amortization of curtailment recognition of prior service credit			1,351	1,148
Amortization of settlement recognition of net loss	(5,953)	(4,388)	(2,598)	(931)
Total other amounts recognized in non-operating activities	(40,071)	38,675	11,445	12,415
TOTAL RECOGNIZED IN THE STATEMENT OF ACTIVITIES IN NET ASSETS	$ (27,544)	$ 48,798	$ 19,236	$ 21,508

The table below presents the weighted average assumptions and additional information related to the pension plans and postretirement plans.

	Pension Benefits		*Postretirement Benefits*	
	2017	*2016*	*2017*	*2016*
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AS OF JUNE 30:				
Discount rate	3.92%	3.74%	3.85%	3.62%
Rate of compensation increase	3.50%	3.98%		
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET COST AS OF JUNE 30:				
Discount rate	3.73%	4.60%	3.63%	4.50%
Expected return on plan assets	7.45%	7.44%		
Rate of compensation increase	3.96%	3.97%		
ADDITIONAL INFORMATION (in thousands):				
Actual return on plan assets	$ 20,058	$ 2,450		
Accumulated benefit obligation for all defined benefit pension plans	$ 194,790	$ 197,533		

The actuarial losses herein primarily represent the cumulative difference between the actuarial assumptions and actual return on plan assets, changes in discount rates, and plan experience. Actuarial losses not yet recognized are included in unrestricted net assets and are amortized over the minimal acceptable time period under ASC 715.

The following table presents the amount of unrestricted net assets not yet recognized, which are expected to be amortized into net periodic benefit costs for the year ending June 30, 2018 (in thousands):

	Pension Benefits	*Postretirement Benefits*
Actuarial losses	$2,868	$2,415
Prior service costs (credits)		(146)
Total	$2,868	$2,269

Additional information related to the defined benefit pension plans as of June 30 follows (in thousands):

	2017	2016
Number of pension plans with accumulated benefit obligations in excess of plan assets	2	3
Aggregate accumulated benefit obligation	$ 194,790	$ 197,533
Aggregate fair value of plan assets	$ 153,120	$ 133,461
Number of pension plans with projected benefit obligations in excess of plan assets	2	3
Aggregate projected benefit obligation	$ 224,314	$ 241,010
Aggregate fair value of plan assets	$ 153,120	$ 133,461

Additional information related to the postretirement benefit plans for the years ended June 30:

	2017		2016	
	Union	Non-Union	Union	Non-Union
ASSUMED MEDICAL COST TREND RATES:				
Health care cost trend rate assumed for next year	7.00%	7.00%	6.10%	6.10%
Rate that the cost trend gradually declines to	5.00%	5.00%	4.50%	4.50%
Year that the final trend rate is reached	2021	2021	2028	2028

	Percentage Point Increase	Percentage Point (Decrease)
The following data show the effect of a one percentage point health care cost trend rate increase (decrease) for fiscal year 2017 (in thousands):		
Effect on total of service and interest cost	$ 2,312	$ (1,746)
Effect on postretirement benefit obligation	$ 21,130	$(16,739)

Selection of Assumptions - The selection of the discount rate assumption reflects a bond matching analysis to a portfolio of high-quality corporate bonds. The methodology for selecting the discount rate is to match each plan's cash flow to that of a yield curve that provides the equivalent yields on zero-coupon corporate bonds for each maturity. The discount rate for each plan is the single rate that produces the same present value of cash flows. The expected return on the plans' assets has been developed in consultation with external advisers, taking into account such factors as long-term historical returns for equity and fixed income assets and long-term forecasts for inflation, and correlation of returns between asset classes.

Investment strategies - Assets of the Museum's defined benefit plans are invested in diversified portfolios that are designed to generate returns sufficient to meet obligations to beneficiaries at acceptable levels of risk. Investment objectives and policies are established by the Museum's Trustee Investment Committee and are undertaken in partnership with external investment managers. For fiscal year 2017, the target allocation for the defined benefit plan for union staff was 75% equity securities and 25% fixed income securities. For fiscal year 2016, the target allocation was 60% to equity securities and 40% to fixed income securities. As of June 30, 2017, the assets of the defined benefit plan for union staff were invested 76.2% and 23.8% in equity and fixed income securities, respectively. As of June 30, 2016, pro forma for investment activity at fiscal year-end, the assets were invested 72.2% and 27.8% in equity and fixed income securities, respectively.

The target allocation of the defined benefit plan for non-union staff is 40% to equity securities and 60% to fixed income securities. As of June 30, 2017, the assets of the defined benefit plan for non-union staff were invested 45.1% and 54.9% in equity and fixed income securities, respectively. As of June 30, 2016, the assets were invested 39.2% and 60.8% in equity and fixed income securities, respectively.

Medicare - Financial reporting as of June 30, 2016 reflects the effect of the Medicare subsidy that the Museum is receiving under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("MMA") for the non-union postretirement medical plan. The plan is no longer eligible for the subsidy as of June 30, 2016.

Cash flows for the fiscal year ending June 30 (in thousands):	*Pension Benefits*	*Postretirement Benefits*
Employer Contributions:		
2016 (actual)	$ 6,000	$ 3,904
2017 (actual)	8,808	4,682
2018 (expected)	6,680	6,370
Projected benefit payments for the fiscal year ending June 30 (in thousands):		
2018	7,701	6,370
2019	7,361	5,471
2020	7,794	5,566
2021	8,234	5,913
2022	8,777	6,192
2023–2027	$53,055	$36,591

The fair value of the pension plan assets was $153,120 and $133,461 as of June 30, 2017 and 2016, respectively. The pension plan assets are primarily comprised of mutual funds and fall within Level 1 of the fair value hierarchy.

J. Notes Payable

At June 30, 2017 and 2016, the Museum had three credit facilities outstanding with three commercial banks. Interest expense on these credit facilities is charged to operating expenses.

The largest credit facility is a revolving line of $150 million as of June 30, 2017 and 2016. The Museum had borrowed $21.7 million and $22.5 million as of June 30, 2017 and 2016, on this line, respectively. Any amount borrowed under the revolving line of credit is payable in full on or before September 30, 2019. The borrowing bears interest at variable rates, and accrued interest is paid at loan maturity. The total interest expense on bank borrowings amounted to $0.3 million and $0.2 million for fiscal years 2017 and 2016, respectively. As of June 30, 2017, the interest rate on the outstanding debt was 1.67%. Under the loan agreement, the Museum has covenanted to maintain a ratio of Available Assets to General Liabilities, as defined, of not less than 2:1. The Museum was in compliance with this requirement at June 30, 2017 and 2016.

In addition to the revolving line of credit, the Museum has two additional lines of credit totaling $65 million as of June 30, 2017 and 2016. No borrowings were outstanding at June 30, 2017 and 2016, under these facilities. Borrowings under the lines of credit are payable on demand and bear interest at variable rates that are paid monthly. The Museum had letters of credit aggregating $4.2 million as of both June 30, 2017 and 2016, under a sublimit for one of the lines of credit.

K. Loans Payable and Other Long-Term Liabilities

Series 1993 Bonds:

In 1993, the Museum entered into two loan agreements with the Dormitory Authority of the State of New York (the "Authority") to finance the construction and equipping of certain of the Museum's facilities and to defease existing indebtedness. Pursuant to these loan agreements, the Authority issued Series 1993 Revenue Bonds consisting of $41.7 million Series 1993A Variable Interest Rate Bonds ("Series 1993A Bonds"), which was fully paid on July 1, 2015, and $22.1 million Series 1993B Variable Interest Rate Bonds ("Series 1993B Bonds"), due by July 1, 2020. The Series 1993B Bonds are secured by the Museum's annual membership dues. The loan agreements require the Museum to maintain investments in certain defined securities having a market value of at least 120% of the aggregate principal amount of the Museum's outstanding short-term debt as defined in the agreements. Additionally, the Museum must maintain a ratio of Available Assets to General Liabilities, as defined, of not less than 2:1. The Museum was in compliance with these covenants at June 30, 2017 and 2016.

While the revenue bonds are not direct indebtedness of the Museum, the loan agreements with the Authority obligate the Museum to make payments equal to the interest and mandatory redemption requirements of such bonds and are general obligations of the Museum. A liability equivalent to the principal amount of the Authority's outstanding revenue bonds, adjusted for fair value of future interest payments, is reflected in the Statement of Financial Position.

Series 2006 Bonds:

On December 1, 2006, the Museum entered into a $130 million loan agreement with the Trust for Cultural Resources (the "Trust"), a public benefit organization created by the State of New York. Pursuant to this loan agreement, the Trust issued bonds consisting of a $65 million series 2006 A-1 bond issue and a $65 million series 2006 A-2 bond issue (collectively, the "Series 2006A Bonds"). The proceeds have and will be used for the financing of a portion of the expansion, reconstruction, renovation, improvement, furnishing, and equipping of facilities operated, or to be operated, by the Museum, portions of which have already been completed at the Museum's principal location. In addition, certain administrative, legal, accounting, financing, and other expenses incidental to the issuance of the bonds and related purposes were financed by these bonds.

Pursuant to the loan agreement, the Museum is required to pay, when due, the principal and interest on the Series 2006A Bonds. While the bonds are not direct indebtedness of the Museum, the loan agreement and the obligation to make payments under the loan agreement are general obligations of the Museum. No security interest in any revenues or assets of the Museum has been granted by the Museum to the Trust or any other party in connection with the Series 2006A Bonds. The Series 2006A Bonds will mature on October 1, 2036. The variable rate demand bonds of $130 million are subject to a weekly interest rate reset. In the event the Museum receives notice of any optional tender on its variable rate demand bonds, or if the bonds become subject to mandatory tender, the purchase price will be paid from the remarketing of the bonds.

In June 2006, the Museum entered into a forward-starting interest rate exchange agreement with Morgan Stanley, related to the Series 2006A Bonds. Under the terms of the swap agreement, the Museum pays interest at a rate of 3.826% calculated on a notional amount of $100 million in exchange for floating rate payments calculated on the same notional amount at 67% of one-month LIBOR until October 1, 2036, unless such agreement is terminated earlier in accordance with its terms.

Series 2015 Bonds:

On January 26, 2015, the Museum issued a $250 million taxable bond with a coupon payment of 3.40% and a 30-year bullet payment due on July 1, 2045. Interest is payable on January 1st and July 1st annually and the bond has an optional redemption prior to maturity. The face value of the bond was reduced by an original issue discount of $1.45 million, which will be accreted to interest expense over the 30-year bond life. The bond proceeds will be used to finance the Museum's infrastructure spending and will be invested in a portfolio that meets the Museum's spending requirements and timeline. The Museum elected to classify the interest expense on the Series 2015 Bonds as non-operating. This election is based on the Museum's intention to utilize the bond proceeds to finance capital activities and to fund the interest expense in fiscal years 2017 and 2016 using quasi-endowment funds. For both of the years ended June 30, 2017 and 2016, the Museum recognized $8.5 million of interest expense associated with this borrowing in non-operating activities. In addition, the Museum incurred $1.2 million of bond issuance costs related to certain administrative, legal, accounting, financing, and other expenses incurred for purposes of this bond financing.

In summary, the bonds underlying the Museum's indebtedness consisted of the following (in thousands):

	June 30, 2017	*June 30, 2016*
Series 1993B Bonds due by July 1, 2020	$ 6,780	$ 6,780
Series 2006A Bonds due by October 1, 2036	130,000	130,000
Series 2015 Bonds due by July 1, 2045	250,000	250,000
Discount on Series 2015 Bonds, net of amortization	(1,333)	(1,382)
Total loans payable	385,447	385,398
Fair value of forward starting interest rate exchange agreement on Series 2006A Bonds	34,642	48,718
Total interest rate exchange agreements	34,642	48,718
Total	$420,089	$434,116

Interest rates and interest expense related to the loans and swaps are as follows:

	2017	*2016*
Interest rates on loans payable:		
Series 1993B Bonds	1.82%	.41%
Series 2006A-1 and A-2 Bonds	0.90%	.44%
Series 2015 Bonds	3.40%	3.40%
Interest expense on loans payable (in thousands):		
Series 1993B Bonds	$ 45	$ 9
Series 2006A Bonds (Capitalized)	609	169
Series 2006A Bonds (Non-Capitalized)	259	
Series 2006A Bonds (Swap)	3,348	3,607
Series 2015 Bonds	8,548	8,548

Debt service under the loan agreements, including effect of interest rate swaps, is payable as follows (in thousands):

Year Ending June 30	*Principal Amount*	*Interest Payments**	*Total Estimated Debt Services*
2018	$	$ 13,811	$ 13,811
2019	3,195	13,747	16,942
2020	3,375	13,639	17,014
2021	210	13,544	13,754
2022		13,539	13,539
Thereafter	380,000	267,705	647,705
Total	$386,780	$335,985	$722,765

*For the Series 1993B Bonds, which are callable at par, there are no mandatory redemption requirements until 2018 and an interest rate of 4% is assumed for all fiscal years. In addition, an interest rate of 4% is also assumed for the $30 million of the Series 2006A Bonds that are not covered by the interest rate exchange agreement.

The Museum has a $136.8 million confirmed credit facility through April 2018 to provide liquidity in the event of a tender of the Museum's variable rate demand bonds (Series 1993B and 2006 Bonds). This facility cannot be used for any purpose other than in connection with an exercise of the tender right by the bondholder. A commitment fee, of .35% or $0.5 million, was associated with this credit facility for the years ended June 30, 2017 and 2016. To date there have been no drawdowns of this facility. The above table assumes that the Museum will be able to obtain a new credit facility when the existing credit facility expires in 2018. Should the Museum not successfully renew this credit facility in 2018, the $130 million and $6.8 million for the Series 2006 and Series 1993 Bonds principal amounts, respectively, would be reflected as payable in 2018 within the above debt service maturity schedule.

L. Functional Classification of Expenses

Expenses by functional classification for fiscal years 2017 and 2016, which are described in Note A, are shown below (in thousands). Operating expenses are allocated on a direct basis. Interest, depreciation, and maintenance expenses are allocated based on square footage.

	2017	*2016*
Total operating expenses from the Statements of Activities	$ 395,420	$ 398,038
Depreciation of capital improvements and expensing of non-capitalized expenditures from the non-operating section of the Statements of Activities	50,700	54,623
Management and custodian fees, taxes, and other expenses included in net investment income	17,821	19,148
Interest on bonds and effect of interest rate swaps	12,155	12,154
Special events included in the revenue section of the Statements of Activities	1,004	749
Total	$ 477,100	$ 484,712
Program expenses:		
Curatorial activities, conservation, and exhibition	$ 222,797	$ 261,326
Education	12,659	15,338
Libraries	7,530	8,344
Public services and other	58,120	39,090
Cost of sales and expenses of auxiliary activities:		
Retail operations	57,985	53,964
Restaurant, parking garage, auditorium, and other	32,394	28,838
Total program expenses	391,485	406,900
Supporting services:		
Management and general	68,423	60,476
Fundraising	17,192	17,336
Total supporting services	85,615	77,812
Total	$ 477,100	$ 484,712

M. Leases and Other Commitments

At June 30, 2017, the Museum is committed to minimum future rentals under noncancellable operating leases for the retail distribution center and retail sales shops, which expire at various dates through December 2020. The rental payments will be charged against future revenues from sales of books, reproductions of works of art, and similar goods sold through the Museum's shops and mail-order system. Rent expense included in retail activities relating to these operating leases amounted to $3.6 million and $4.7 million in fiscal years 2017 and 2016, respectively, and includes contingent rent based on sales. In addition, there are operating leases and agreements for occupancy, storage, office space, equipment, and other items, which expire at various dates through 2026. Rent expense relating to these operating leases amounted to $5.6 million and $3.2 million in 2017 and 2016, respectively.

Minimum rental commitments consist of the following at June 30, 2017 (in thousands):

Year Ending June 30	*Total*
2018	$ 6,818
2019	6,792
2020	6,652
2021	5,128
2022	4,976
Thereafter	9,121
Total	$ 39,487

N. Asset Retirement Obligations

The Museum recognizes a liability on the Statement of Financial Position for Asset Retirement Obligations pertaining to future remediation work necessary to restore certain properties. The liability equals the present value of the expected cost of remediation.

During fiscal years 2017 and 2016, the Museum made payments of $0.12 million and $0.18 million, respectively, for these obligations and reduced the liability accordingly. In addition, the Museum adjusted certain asset retirement data and provided for the years' reductions, charges, and accretion. For fiscal years 2017 and 2016, the non-cash charges amounted to an increase of $0.38 million and $0.50 million, respectively, and are included in the non-operating section of the Statements of Activities. As of June 30, 2017 and 2016, $9.7 million and $10.2 million, respectively, of conditional asset retirement obligations are included in the liability section of the Statement of Financial Position.

O. Disclosure for Endowment Funds and Net Asset Classifications

The Museum's endowment consists of approximately 700 individual funds established for a variety of purposes. Its endowment includes funds with donor-imposed spending restrictions (donor-restricted endowment funds) and funds with Board-imposed spending restrictions that are treated as endowments (quasi-endowments). While quasi-endowments are treated as endowments in terms of earning investment returns and spending policy, their principal does not need to be held in perpetuity. Additionally, some quasi-endowments also have donor-imposed purpose restrictions. As required by Generally Accepted Accounting Principles, endowment funds are classified based on the existence or absence of donor-imposed restrictions. Donor-restricted endowment funds and quasi-endowment funds are also governed by the Endowment Spending Policy adopted by the Board of Trustees (which is discussed in more detail below).

The New York Prudent Management of Institutional Funds Act (NYPMIFA) governs the standards of management, investing, and spending of donor-restricted endowment funds by requiring the prudent consideration of the following eight factors when appropriating spending from endowment funds: (a) the duration and preservation of the endowment fund; (b) the purposes of the Museum and the endowment fund; (c) general economic conditions; (d) the possible effect of inflation or deflation; (e) the expected total return from income and the appreciation of investments; (f) other resources of the Museum; (g) where appropriate and circumstances would otherwise warrant, alternatives to the expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Museum; and (h) the investment policy of the Museum. Unless otherwise restricted by the applicable gift instrument, NYPMIFA eliminates the legal requirement to preserve the historic dollar value of donor-restricted endowment funds and makes it legally possible to spend from the endowment funds when they drop below the historic dollar value of the gift. The term historic dollar value is defined as the aggregate fair value in dollars of (a) an endowment fund at the time it became an endowment fund; (b) each subsequent donation to the fund at the time it is made; and (c) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original dollar value of endowment gifts not expendable under the specific terms of the applicable gift instrument; (b) the original dollar value of subsequent endowment gifts; (c) the net realizable value of future payments (i.e., outstanding endowment pledges net of applicable discount); and (d) appreciation (depreciation), gains (losses), and income earned on the fund when the donor states that such increases or decreases are to be treated as changes in permanently restricted net assets less spending per the Endowment Spending Policy. With respect to endowment funds governed by gift instruments executed before September 17, 2010, the legislation required the Museum to send a notice to all available donors asking them to elect whether (a) the Museum could spend as much of the gift as is prudent; or (b) the Museum could not spend below historic dollar value. The legislation provides that if the donor did not respond within 90 days of receiving the notice, expenditures from the endowment fund will be governed by the prudence standard in the legislation. The Museum has complied with this, and all other requirements of NYPMIFA, and has determined that for administrative ease and to ensure prudence with respect to its endowment funds, it will continue to maintain historic dollar value spending restrictions in place for all funds.

In relation to NYPMIFA, Generally Accepted Accounting Principles require that for each donor-restricted endowment fund, the Museum is to classify the portion of the fund that is not classified as Permanently Restricted Net Assets as Temporarily Restricted Net Assets until such funds have been appropriated. Therefore, upon the expiration of any time restriction and/or the meeting of any purpose restriction and appropriation by the Board for expenditure, a reclassification of that amount to Unrestricted Net Assets occurs.

During fiscal year 2012, the Board adopted a new Endowment Spending Policy which was effective for fiscal years 2017 and 2016.

The hybrid spending policy used in fiscal years 2017 and 2016 combines the predictable spending element of constant growth whereby 80% of the spending is based on the prior fiscal year total spending, adjusted for inflation with an asset preservation principle whereby the remaining 20% is based on the market value of the endowment at the prior calendar year end. The spending also has a defined range in absolute dollars of 90% to 110% of the prior fiscal year's spending. Spending Rates applied to the market value of the endowment are limited to a range of 4.5% to 5.75%. Specific rates are recommended periodically by the Finance Committee of the Board of Trustees, and final rates are approved each fiscal year by the Board of Trustees. The Museum applied a stated spending rate of 5.75% in fiscal year 2017.

The primary objective of the Museum's investment strategy is to provide a stable stream of funds to support the operations of the Museum in perpetuity. The long-term management goal is to maintain the purchasing power of the portfolio so that support for the operating budget remains consistent in real (i.e., inflation-adjusted) terms over time. The portfolio is subject to various risks, including volatility of asset prices, liquidity risk, and the risk of failing to meet return thresholds.

In order to achieve the portfolio objectives without assuming undue risk, the portfolio is biased toward investments that are expected to produce equity-like returns and is diversified both by asset class and within asset classes.

The portfolio is primarily invested by external investment managers. Investments are made through separate accounts or commingled vehicles, including funds, trusts, and limited partnerships.

Endowment Net Asset Composition by Type of Fund as of June 30, 2017 (in thousands):

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted endowment funds		$979,545	$1,058,985	$2,038,530
Quasi-endowment funds	$ 854,866			854,866
Total funds	$ 854,866	$979,545	$1,058,985	$2,893,396

Endowment Net Asset Composition by Type of Fund as of June 30, 2016 (in thousands):

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted endowment funds		$ 808,561	$ 959,997	$ 1,768,558
Quasi-endowment funds	$ 755,132			755,132
Total funds	$ 755,132	$ 808,561	$ 959,997	$ 2,523,690

Endowment Net Assets for the Fiscal Year Ended June 30, 2017 (in thousands):

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment and quasi-endowment net assets, beginning of year	$ 755,132	$ 808,561	$ 959,997	$ 2,523,690
Investment return:				
Investment income, net of certain management and custodian fees, taxes, and other expenses	7,467	14,169	(354)	21,282
Net realized gains	66,167	122,402		188,569
Changes in unrealized appreciation	62,572	116,157		178,729
Total return on investments	136,206	252,728	(354)	388,580
Transfers	54,987	(54,987)		
Investment return allocated for current activities	(101,715)	(45,239)		(146,954)
Contributions	4,240	4,572	97,689	106,501
Other changes and reclasses	6,016	13,910	1,653	21,579
Total endowment and quasi-endowment net assets, end of year	$ 854,866	$ 979,545	$ 1,058,985	$ 2,893,396

Endowment Net Assets for the Fiscal Year Ended June 30, 2016 (in thousands):

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment and quasi-endowment net assets, beginning of year	$ 832,737	$ 924,753	$ 942,976	$ 2,700,466
Investment return:				
Investment income, net of certain management and custodian fees, taxes, and other expenses	7,360	11,479	154	18,993
Net realized gains	33,762	65,711		99,473
Changes in unrealized appreciation	(50,189)	(94,343)		(144,532)
Total return on investments	(9,067)	(17,153)	154	(26,066)
Transfers	54,873	(54,873)		
Investment return allocated for current activities	(99,617)	(46,071)		(145,688)
Contributions	1,585	2,213	16,620	20,418
Other changes and reclasses	(25,379)	(308)	247	(25,440)
Total endowment and quasi-endowment net assets, end of year	$ 755,132	$ 808,561	$ 959,997	$ 2,523,690

Description of Amounts Classified as Permanently Restricted and Temporarily Restricted Net Assets (in thousands):

	June 30, 2017	*June 30, 2016*
PERMANENTLY RESTRICTED NET ASSETS:		
Art acquisitions and book purchases	$ 238,847	$ 196,705
Education and public programs	68,048	65,848
Exhibitions and publications	90,399	62,119
Operating support and other purposes	661,691	635,325
Total	$1,058,985	$ 959,997
TEMPORARILY RESTRICTED NET ASSETS:		
Art acquisitions and book purchases	$ 358,699	$ 280,261
Capital projects and assets	62,150	77,706
Education and public programs	88,913	76,140
Exhibitions and publications	108,625	67,658
Operating support and other purposes	917,584	886,612
Total	$1,535,971	$1,388,377

As a result of market fluctuations and the continued prudent use of income generated by donor-restricted endowment funds in support of mission-critical programs, the fair market value of assets associated with individual donor-restricted endowment funds may fall below historic dollar value. The aggregate amounts by which fair value was below historic value was $0.04 million and $1.1 million in years ending June 30, 2017 and 2016, respectively.

P. Retail and Other Auxiliary Activities

Auxiliary operating revenue and expense are summarized as follows (in thousands):

	2017	*2016*
Operating revenue:		
Retail operations	$ 56,084	$ 51,866
Restaurant	27,548	23,931
Other	3,915	4,299
Total revenue	87,547	80,096
Operating costs and expenses:		
Retail operations	57,985	53,964
Restaurant	27,883	23,378
Other	4,511	5,460
Total costs and expenses	90,379	82,802
Net loss from auxiliary activities	$ (2,832)	$ (2,706)

The above figures exclude $0.5 million and $0.6 million of net assets released from restriction to fund retail operations and the Breuer restaurant, respectively, in fiscal year 2017. There was no such funding in fiscal year 2016. In addition, retail operating expense includes $2 million of onetime charges pertaining to the voluntary retirement program, other severance costs and a new e-commerce system.

Q. Contingencies and Subsequent Events

Contingencies

In the normal course of business, the Museum enters into undertakings containing a variety of warranties and indemnifications that may expose the Museum to some risk of loss. The amount of future loss, if any, arising from such undertakings, while not quantifiable, is not expected to be significant. The Museum expects the risk of loss to be remote. The Museum's involvement with fund investments may also expose the Museum to legal matters which result in contingencies. The Museum is not aware however, of any material contingencies at this time.

On November 8, 2012, two individuals filed a lawsuit in New York State Supreme Court, New York County, against the Museum and certain of its officers (the "Individuals' Lawsuit"). The Museum was served with this lawsuit on February 8, 2013. It alleges that the Museum's policy of asking visitors to pay a voluntary admissions charge is in violation of state law and of the Museum's lease with the City of New York, and that the manner in which the Museum advises the public of this policy is deceptive. The complaint also alleged that the Museum has an obligation to maintain an entrance on the Central Park side of the Museum. The complaint seeks various forms of equitable relief and also attorney's fees and costs, but it does not otherwise seek monetary damages.

On March 5, 2013, a lawsuit was filed by three individuals in New York State Supreme Court, New York County, against the Museum. This lawsuit is very similar to the litigation described above, except that it is framed as a class action suit, and it does not include any claims about a Central Park entrance (the "Class Action Lawsuit," together with the Individuals' Lawsuit, the "Lawsuits"). The complaint in the Class Action Lawsuit seeks various forms of equitable relief and also a judgment "awarding Plaintiffs and other members of the Class actual damages in an amount to be determined at trial" plus attorney's fees and costs. Plaintiffs have not subsequently presented a quantified demand for damages.

On October 30, 2013, the New York State Supreme Court dismissed the claims in each Lawsuit which alleged that the Museum's admissions policy constituted a breach of its lease with the City and was a violation of an 1893 appropriations act. The Court held that the plaintiffs lack standing to sue. This decision was unanimously affirmed by the Appellate Division, First Judicial Department, on February 5, 2015. On March 18, 2016, the plaintiffs in the Individuals' Lawsuit filed a motion for leave to appeal to the Court of Appeals from the First Department decision. On June 7, 2016, the Court of Appeals denied that motion for leave to appeal.

On February 26, 2016, the Museum executed an agreement to settle the equitable claims in the Class Action Lawsuit, subject to court approval. The settlement does not address monetary damages. On February 29, 2016, the plaintiffs filed a motion for the Court's preliminary approval of the settlement. On May 25, 2016, the Court requested that the parties modify certain nonfinancial terms of the Settlement Agreement. The parties executed an amended Settlement Agreement addressing the issues raised by the Court, and filed a motion for preliminary approval of that amended Settlement Agreement. Plaintiffs in the Individuals' Lawsuit, who are members of the settlement class in the Class Action Lawsuit, filed papers opposing preliminary approval of the amended Settlement Agreement, arguing that its terms are inadequate. The motion for preliminary approval of the amended Settlement Agreement was granted on November 10, 2016.

Plaintiffs in the Individuals' Lawsuit filed a First Amended Complaint on January 19, 2016. The First Amended Complaint seeks substantially the same relief as the original complaint. On February 16, 2016, the Museum responded to the First Amended Complaint with a motion to dismiss the Fifth, Sixth, and Seventh Causes of Action. The remaining causes of action either already were dismissed in 2013 as discussed above or would be barred by a decision approving the Settlement Agreement in the Class Action Lawsuit. The Museum's motion to dismiss was submitted for decision on July 11, 2016 and granted on November 10, 2016.

The court issued a decision and order granting final approval of the settlement on June 15, 2017, and issued an order so holding on June 29, 2017. With this decision, the equitable claims in both Lawsuits were resolved, the damages claims in the Class Action Lawsuit were dismissed without prejudice, and the remaining claims in the Individuals' Lawsuit have now been dismissed. The court's decision also approved an award of $350,000 in attorneys' fees and expenses to counsel for the plaintiffs. That award is payable by the Museum, but payment is not required until all appeals from the court's decision have been exhausted.

On August 15, 2017, plaintiffs in the Individuals' Lawsuit filed an appeal seeking to overturn the final settlement approval. No final judgment of dismissal of the Individuals' Lawsuit has yet been filed.

The Museum intends to vigorously defend both the appeal in the Class Action Lawsuit and any further action taken in the Individuals' Lawsuit and believes it has substantial defenses.

On September 30, 2016, a purported representative of the Estate of Alice Leffmann sued the Museum in the United States District Court for the Southern District of New York (Case No. 16-7665), seeking the return of Pablo Picasso's *The Actor* or damages in an amount to be determined at trial, but estimated to be in excess of $100 million. The suit alleges that Alice and Paul Leffmann are deceased German Jews who sold the painting under duress from the rise of persecution of Jews in Fascist Italy, to which the Leffmanns had fled from Germany. The Museum disputes this was a sale under duress as the painting was sold for a fair price on the open market in Paris. In November 2016, the Museum moved the court to dismiss the suit on five independent grounds and in September 2017, argued its motion.

Due to the inherent difficulty of predicting the outcome of litigation, the Museum cannot predict what the eventual outcome or timing of these matters may be. An adverse outcome in any of these matters could be material to the Museum.

Subsequent Events

The Museum performed an evaluation of subsequent events through November 14, 2017, which is the date the financial statements were issued.