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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, 2018 and 2017, and the related statements of activities for the year ended June 30, 2018 and of cash flows for the years ended June 30, 2018 and 2017.

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, 2018 and 2017 and the changes in its net assets for the year ended June 30, 2018 and its cash flows for the years ended June 30, 2018 and 2017 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, 2017, and the related statements of activities and of cash flows for the year then ended (not presented herein), and in our report dated November 14, 2017, 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, 2017 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 13, 2018

Statements of Financial Position

June 30, 2018 and 2017 (in thousands)

	2018	2017
ASSETS:		
Cash (Note A)	$ 34,282	$ 53,777
Receivable for investments sold	2,092	2,896
Retail inventories, net (Note A)	9,055	7,114
Accounts receivable and other assets (Note B)	16,127	15,700
Contributions receivable (Note C)	134,012	202,603
Split interest arrangements (Notes G and H)	69,117	72,316
Investments (Notes A and G)	3,728,843	3,433,485
Fixed assets, net (Notes A and E)	370,825	393,462
Collections (Note A)		
TOTAL ASSETS	$4,364,353	$4,181,353
LIABILITIES:		
Payable for investments purchased	$ 2,552	$ 2,303
Accounts payable and accrued expenses	31,697	35,757
Accrued salaries and benefits	25,722	27,886
Deferred income (Note A)	6,152	5,329
Notes payable (Note J)	12,365	21,675
Annuity and other split interest obligations (Notes G and H)	14,803	18,588
Asset retirement obligations (Note N)	9,694	9,715
Pension and other accrued retirement obligations (Note I)	178,513	207,759
Loans payable and other long-term liabilities (Notes G and K)	410,849	418,044
TOTAL LIABILITIES	692,347	747,056
NET ASSETS:		
Unrestricted (Notes A and O)	964,278	839,341
Temporarily restricted (Notes A and O)	1,617,830	1,535,971
Permanently restricted (Notes A and O)	1,089,898	1,058,985
TOTAL NET ASSETS	3,672,006	3,434,297
TOTAL LIABILITIES AND NET ASSETS	$4,364,353	$4,181,353

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

The Metropolitan Museum of Art

Statement of Activities *for the year ended June 30, 2018, with summarized financial information for the year ended June 30, 2017 (in thousands)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
OPERATING					
REVENUE AND SUPPORT:					
Admissions and membership	$ 76,798	$	$	$ 76,798	$ 70,218
Gifts and grants	31,700	35,648		67,348	84,634
Operating appropriations from the City of New York (Note A)	25,446			25,446	27,667
Endowment support for current activities (Note G)	78,759	24,426		103,185	113,374
Retail and other auxiliary activities (Note P)	88,117			88,117	87,547
Other income	8,357			8,357	6,470
Net assets released from donor restrictions to fund operating expenses	55,234	(55,234)			
TOTAL REVENUE AND SUPPORT	364,411	4,840		369,251	389,910
EXPENSES:					
Curatorial	129,406			129,406	124,077
Education and Libraries	15,422			15,422	14,778
Development and membership	22,980			22,980	21,713
Operations	103,815			103,815	98,070
General administration	33,089			33,089	46,403
Retail and other auxiliary activities (Note P)	88,275			88,275	90,379
TOTAL EXPENSES	392,987			392,987	395,420
Transfer of non-operating funds	20,326	(277)		20,049	18,113
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(8,250)	4,563		(3,687)	12,603
NON-OPERATING					
Museum-designated and donor-restricted gifts	5,943	83,804		89,747	39,172
Endowment gifts (includes quasi-endowment)	8,748	2,005	28,280	39,033	106,501
Endowment support for current activities (Note G)	22,305	25,121		47,426	33,580
Investment return in excess of current support (Note G)	68,204	108,867	236	177,307	241,691
Change in value of split interest agreements (Note H)	436	449	1,147	2,032	1,758
Depreciation and non-capitalized expenditures (Note E)	(48,348)			(48,348)	(50,700)
Interest expense on bonds and interest rate swaps (Notes A and K)	(12,793)			(12,793)	(12,155)
Realized and change in unrealized gains on 2015 bond proceeds	12,106			12,106	13,235
Transfer of designated non-operating funds to operating and other	5,584	(24,988)	1,250	(18,154)	(17,813)
Net assets released from donor restrictions	38,691	(38,691)			
Change in net assets before collection items not capitalized and other adjustments	92,626	161,130	30,913	284,669	367,872
Purchases of art (Note D)	(89,481)			(89,481)	(25,507)
Proceeds from sales of art		2,115		2,115	13,407
Net assets released from donor restrictions to fund acquisitions of art	81,386	(81,386)			
Pension-related changes other than NPPC (Note I)	33,122			33,122	28,626
Change in fair value of interest rate exchange agreements (Notes G and K)	7,284			7,284	14,076
CHANGE IN NET ASSETS	$ 124,937	$ 81,859	$ 30,913	$ 237,709	$ 398,474
NET ASSETS AT THE BEGINNING OF THE YEAR	$ 839,341	$ 1,535,971	$1,058,985	$ 3,434,297	$ 3,035,823
NET ASSETS AT THE END OF THE YEAR	$ 964,278	$ 1,617,830	$1,089,898	$ 3,672,006	$ 3,434,297

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

Statements of Cash Flows

for the years ended June 30, 2018 and 2017 (in thousands)

	2018	*2017*
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 237,709	$ 398,474
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	51,361	54,609
Loss on disposal of fixed assets		174
Receipt of contributed securities and other assets	(21,599)	(18,335)
Proceeds from the sale of contributed securities	13,171	12,108
Contributions for capital expenditures	(10,765)	(28,468)
Contributions for long-term investment	(82,737)	(34,587)
Allowance and discount on contributions receivable	5,398	15,402
Net realized and unrealized (gains)/loss	(315,730)	(380,861)
Acquisitions and sales of art, net	87,366	12,100
Interest rate exchange agreements	(7,284)	(14,076)
Asset retirement obligations	(21)	(506)
Pension and other accrued retirement obligations	(33,122)	(28,626)
Changes in assets and liabilities:		
Retail inventories, net	(1,941)	2,597
Accounts receivable and other assets	(427)	3,966
Contributions receivable	63,193	(73,486)
Split interest arrangements	3,199	(2,185)
Accounts payable and accrued expenses	(6,184)	(5,080)
Accrued salaries and benefits	(2,164)	1,771
Deferred income	823	(44)
Annuity and other split interest obligations	(3,785)	328
Pension and other accrued retirement obligations	3,876	6,825
Net cash used in operating activities	(19,663)	(77,900)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed assets	(28,099)	(36,941)
Proceeds from sales of investments	763,601	742,681
Purchases of investments	(742,104)	(635,529)
Acquisitions of art	(87,893)	(28,035)
Proceeds from sales of art	2,115	13,407
Net cash (used in) provided by investing activities	(92,380)	55,583
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the sale of contributed securities	8,356	6,648
Contributions for capital expenditures	10,765	28,468
Contributions for long-term investment	82,737	34,587
Payment of notes payable	(12,876)	(50,727)
Proceeds from notes payable	3,566	49,880
Net cash provided by financing activities	92,548	68,856
Net (decrease)/increase in cash	(19,495)	46,539
Cash, beginning of the year	53,777	7,238
CASH, END OF THE YEAR	$ 34,282	$ 53,777
Supplemental information:		
Cash paid in the year for interest	$ 13,197	$ 12,452
Non-cash investing activity:		
Increase/(decrease) in fixed asset additions included in accounts payable and accrued expenses	536	(2,892)
Increase/(decrease) in acquisition of art included in accounts payable and accrued expenses	1,588	(2,528)
Receipt of contributed securities and other assets	(21,599)	(18,335)

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," "Net assets released from donor restrictions to fund operating expenses," and "Net assets released from donor restictions to fund acquisitions of art" 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 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 2018 and 2017 the amount of inventory written down due to obsolescence was $0.5 million and $0.4 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, 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 as a practical expedient to determine the fair value. 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 $14.6 million and $13.5 million in fiscal years 2018 and 2017, 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 loans payable and other long-term liabilities 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 $4.7 million and $4.3 million in fiscal years 2018 and 2017, respectively. Other advertising expenses incurred primarily in support of special exhibitions, the permanent collection, and live arts totaled $4.1 million and $3.5 million in fiscal years 2018 and 2017, respectively. All advertising is expensed as incurred.

Interest Expense - Interest on tax-exempt debt, including commitment fees, is charged to operating expenses. Interest expense related to interest rate swap agreements and the Series 2015 Bonds 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, 2017, from which the summarized information was derived.

Reclassifications - Certain amounts in the 2017 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 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 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.

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this update provide a framework for evaluating whether grants should be accounted for as exchange transactions or as nonexchange transactions. This ASU is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019 for the Museum). This ASU should be applied on a modified prospective basis; however, retrospective application is permitted. The Museum is evaluating the impact of this standard on the financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU removed, modified, and added additional disclosure requirements on fair value measurements in Topic 820. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain amendments will be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments will be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. 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, 2018	*June 30, 2017*
Accounts receivable, net of allowance of $963 and $1,019 for FY18 and FY17, respectively	$ 5,069	$ 3,989
Prepaid expenses and other	6,938	7,867
Taxes receivable	2,655	2,733
Dividends and interest receivable	1,465	1,111
Total	$ 16,127	$ 15,700

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 4.25% to 5% for new contributions receivable at June 30, 2018. As of June 30, 2018, approximately 39% of gross contributions receivable is due from three donors. As of June 30, 2017, approximately 51% of gross contributions receivable was due from five donors. During fiscal year 2018, the Museum received a conditional promise to give of $1 million. As of June 30, 2018 those conditions have not been met and therefore the revenue is not reflected in the financial statements. Contributions are expected to be realized as follows (in thousands):

	June 30, 2018	*June 30, 2017*
Less than one year	$ 58,345	$ 120,789
Between one and five years	43,343	57,742
Over five years	64,800	51,150
Total	166,488	229,681
Less:		
Adjustments and allowance for uncollectibility	(4,074)	(4,289)
Discount for present value	(28,402)	(22,789)
Net	$ 134,012	$ 202,603

D. Acquisitions of Art

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

	2018	*2017*
Gifts of cash and securities	$ 58,928	$ 14,291
Gains and income from long-term investment:		
For designated curatorial departments	10,070	5,465
Undesignated as to curatorial department	11,606	4,207
Proceeds from fine arts insurance and the sale of art	8,877	1,544
Total	$ 89,481	$ 25,507

E. Fixed Assets

Fixed assets consist of (in thousands):

	June 30, 2018	*June 30, 2017*	*Estimated Useful Lives in Years*
Land	$ 1,015	$ 1,015	N/A
Buildings and improvements	38,718	41,644	20–40
Leasehold improvements, auxiliary activities	36,804	37,410	4–40
Leasehold improvements, Fifth Avenue building	990,099	969,204	5–30
Machinery and equipment	67,099	65,982	3–20
Total	1,133,735	1,115,255	
Less accumulated depreciation	(762,910)	(721,793)	
Net	$ 370,825	$ 393,462	

The above amounts include construction in progress of $55.5 million and $40.1 million at June 30, 2018 and 2017, respectively. Depreciation expense was $51.3 million and $54.5 million for fiscal years 2018 and 2017, respectively. Pursuant with the Museum's policy regarding its measure of operations, $4.9 million and $6.6 million were charged to operating activities in fiscal years 2018 and 2017, respectively, while $46.4 million and $47.9 million were charged to non-operating activities in fiscal years 2018 and 2017, respectively. In fiscal year 2018, $10.2 million of fixed assets with a net book value of $0.0 million were written off. In fiscal year 2017, $31.0 million of fixed assets with a net book value of $0.2 million were written off. Interest expense of $0.6 million was capitalized and included in fixed assets on the Statement of Financial Position in fiscal year 2017. There was no capitalized interest in fiscal year 2018.

Fixed assets and construction in progress include $143.0 million of property contributed and funded by the City since 1990, of which $4.2 million and $6.0 million were received during the fiscal years ended June 30, 2018 and 2017, 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. Involuntary personnel reductions were also completed in 2017. Expenses for severance and related charges of $0.08 million and $10.8 million associated with the voluntary and involuntary initiatives were recorded in the operating section of the Statement of Activities for the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018, an outstanding liability of $0.03 million for severance and related charges was included in accounts payable and accrued expenses on the Statement of Financial Position.

G. Investments

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 $3,140 million and $2,943 million as of June 30, 2018 and 2017, respectively. The Museum had approximately $671.7 million and $560.1 million in unfunded capital commitments primarily related to private equity and real asset funds as of June 30, 2018 and 2017, 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 their intended use for the years ended June 30 (in thousands):

	2018 Fair Value	*2017 Fair Value*
Held within the long-term portfolio		
Short-term investments	$433,185	$283,871
Fixed income	97,319	99,820
Equities	531,738	558,879
Equity funds	682,786	685,038
Hedge funds	782,464	693,135
Private equity funds	474,253	427,941
Real asset funds	465,624	401,085
Subtotal	3,467,369	3,149,769
Held for capital projects		
Short-term investments	25,985	20,793
Fixed income	43,625	61,067
Fund of hedge funds	188,498	180,154
Subtotal	258,108	262,014
Other miscellaneous purposes		
Subtotal	3,366	21,702
TOTAL INVESTMENTS	$3,728,843	$3,433,485

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 the Museum. The Museum 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 the Museum'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. The Museum reviews 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 market and investment-specific data.

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 that 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.

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, 2018 and 2017 (in thousands):

	Assets and Liabilities at Fair Value as of June 30, 2018				
	Level 1	*Level 2*	*Level 3*	*Investments valued using the practical expedient*	*Total*
Split interest arrangements	$ 13,915	$ 10,456	$ 44,746	$	$ 69,117
INVESTMENTS:					
Equities	481,174	50,563	1		531,738
Fixed income					
Government bonds		67,599			67,599
Corporate debt		23,565	4		23,569
Mortgage-backed		34,593			34,593
Other		15,183			15,183
Short-term investments	462,386				462,386
Equity funds				682,786	682,786
Hedge funds				782,464	782,464
Private equity funds				474,253	474,253
Real asset funds				465,624	465,624
Fund of hedge funds held for capital projects				188,498	188,498
Other investments	150				150
Total investments	943,710	191,503	5	2,593,625	3,728,843
TOTAL ASSETS	$ 957,625	$ 201,959	$ 44,751	$ 2,593,625	$ 3,797,960
LIABILITIES:					
Annuity and other split interest obligations			$ 14,803		$ 14,803
Interest rate exchange agreements		$ 27,358			27,358
TOTAL LIABILITIES		$ 27,358	$ 14,803		$ 42,161

	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 held for capital projects				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

Included in the June 30, 2017 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:

	2018		2017	
	Fair Value (in thousands)	*% of NAV*	*Fair Value (in thousands)*	*% of NAV*
JP Morgan US Government Money Market Agency Share fund	$446,283	12.15%	$291,070	8.47%
Fund of hedge funds held for capital projects	$188,498	5.13%	$180,154	5.24%

The following table includes a roll forward of investments classified within Level 3 of the fair value hierarchy for the year ended June 30, 2018 (in thousands). 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, 2017	*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, 2018*	*Changes in Unrealized Gains/(Losses) Relating to Investments Held as of June 30, 2018*
INVESTMENTS:								
Equities	$ 1						$ 1	
Fixed income								
Corporate debt	9	(3)				(2)	4	
Other investments	20,990	(2,820)				(18,170)		
TOTAL INVESTMENTS	$ 21,000	$ (2,823)	$	$	$	$(18,172)	$ 5	

The following table includes a roll forward of investments classified within Level 3 of the fair value hierarchy for the year ended June 30, 2017 (in thousands). 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*	*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 investments	20,990						20,990	
TOTAL INVESTMENTS	$ 21,000	$	$	$	$	$	$ 21,000	$

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, 2018 and 2017, 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, 2018 and June 30, 2017.

The following table lists investments carried at NAV by major investment category for the year ended June 30, 2018 (in thousands):

INVESTMENT STRATEGY	*Fair Value Determined Using NAV*	*Redemption Frequency/Notice Period (1)*	*Under Lock-Up (2)*	*In Side Pockets (3)*	*Remaining Life*	*Unfunded Commitments*
Equity funds	$ 682,786	Daily to Biennially (1 to 180 days)	$ 103,497	$ 6,857	N/A	N/A
Hedge funds	782,464	Monthly to Annually (30 to 90 days)	130,403	51,373	N/A	N/A
Private equity	474,253	N/A	N/A	N/A	1 to 18 years	443,646
Real assets	465,624	N/A	N/A	N/A	1 to 16 years	228,073
Fund of hedge funds held for capital projects	188,498	Monthly (30 days)	N/A	N/A	N/A	N/A
Total	$2,593,625					

(1) In accordance with the underlying agreements with the investment managers, in addition to the redemption terms described above, there are additional redemption restrictions whereby the Museum's investment is redeemable over an extended period of time.
(2) Under lock-up refers to the fact that certain of the Museum's investments either cannot currently be withdrawn or redemptions are currently subject to fees. As of June 30, 2018, current lock-ups expire between September 2018 and November 2020.
(3) Investments in side pockets are generally illiquid and not currently available for redemption.

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*	*Redemption Frequency/Notice Period (1)*	*Under Lock-Up (2)*	*In Side Pockets (3)*	*Remaining Life*	*Unfunded Commitments*
Equity funds	$ 685,038	Daily to Biennially (1 to 180 days)	$ 86,455	$ 4,078	N/A	N/A
Hedge funds	693,135	Monthly to Annually (30 to 90 days)	172,454	55,686	N/A	N/A
Private equity	427,941	N/A	N/A	N/A	1 to 12 years	335,382
Real assets	401,085	N/A	N/A	N/A	1 to 11 years	224,753
Fund of hedge funds held for capital projects	180,154	Monthly (30 days)	N/A	N/A	N/A	N/A
Total	$2,387,353					

(1) In accordance with the underlying agreements with the investment managers, in addition to the redemption terms described above, there are additional redemption restrictions whereby the Museum's investment is redeemable over an extended period of time.
(2) Under lock-up refers to the fact that certain of the Museum's investments either cannot currently be withdrawn or redemptions are currently subject to fees. As of June 30, 2018, current lock-ups expire between September 2018 and November 2020.
(3) Investments in side pockets are generally illiquid and not currently available for redemption.

As of June 30, 2018 and June 30, 2017, no fund investments were subject to suspended withdrawls (i.e. gates).

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):

	2018		*2017*	
	Fair Value	*Unrealized Gain/(Loss)*	*Fair Value*	*Unrealized Gain/(Loss)*
Interest rate exchange agreements	$ (27,358)	$ 7,284	$ (34,642)	$ 14,076

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

	2018			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Investment income, net of certain management and custodian fees, taxes, and other expenses	$ 8,699	$ 16,215	$ 236	$ 25,150
Net realized gains	76,845	139,297		216,142
Changes in unrealized appreciation	30,267	56,359		86,626
Total return on investments	115,811	211,871		327,918
Transfers	53,457	(53,457)		
Investment return allocated for current activities	(101,064)	(49,547)		(150,611)
Investment return in excess of current support	$ 68,204	$ 108,867	$ 236	$ 177,307

	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

Realized and unrealized gains on the $250 million Series 2015 Bonds, which totaled $12.1 million and $13.2 million for the years ended June 30, 2018 and 2017, respectively, are excluded from the above tables and shown as a separate line on the Statement of Activities. Please refer to Note K for details related to the Series 2015 Bonds proceeds and Note O for details related to Endowment Funds.

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 $1.3 million and $2.1 million in the years ended June 30, 2018 and 2017, respectively. The discount rate applied to these funds was 2.2% to 3.4% 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, 2018	*June 30, 2017*
Assets:		
Charitable remainder and other trust assets	$51,263	$49,983
Charitable gift annuities	10,368	15,159
Pooled income funds and trusts invested on behalf of others*	7,486	7,174
Total	$69,117	$72,316
Liabilities:		
Charitable gift annuities	$ 7,809	$11,984
Pooled income funds and trusts invested on behalf of others*	6,994	6,604
Total	$14,803	$18,588

**The assets of the trust of $6.6 million and $6.3 million as of June 30, 2018 and 2017, respectively, are included in investments on the Statement of Financial Position. This liability relates to a trust invested on behalf of others.*

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, 2018 and 2017, a fair value adjustment of 2.33% and 1.24%, respectively, 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.

The following tables summarize the changes in the fair value of the assets related to charitable remainder and other trusts for the years ended June 30, 2018 and 2017 (in thousands):

	Beginning Balance as of June 30, 2017	*Changes in Discounts and Allowances*	*Ending Balance as of June 30, 2018**
Charitable remainder and other trust assets	$49,983	$1,280	$51,263

**Of this amount, $44.7 million represents assets classified as Level 3 in the fair value hierarchy. This balance increased by approximately $0.9 million in 2018 due to changes in discounts and allowances.*

	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	$47,872	$2,111	$49,983

***Of this amount, $43.8 million represents assets classified as Level 3 in the fair value hierarchy. This balance increased by approximately $1.2 million in 2017 due to changes in discounts and allowances.*

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 years ended June 30, 2018 and 2017 (in thousands):

	Beginning Balance as of June 30, 2017	*Changes in Remainder Value*	*Realized and Unrealized Gains/(Losses)*	*Ending Balance as of June 30, 2018*
Annuity and other split interest obligations	$18,588	$(695)	$(3,090)	$14,803

	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

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 for both fiscal years 2018 and 2017.

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, 2018 and 2017.

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 reinstated the contribution for certain staff. The cost of the defined contribution plan recognized in fiscal years 2018 and 2017 was $8.0 million and $8.1 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 matched 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 began matching 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 2018 and 2017 was $2.4 million and $2.1 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 2018 and 2017 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 $0.8 million and $1.5 million in fiscal years 2018 and 2017, 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 postretirement benefit obligation for medical and surgical coverage is not considered a part of a multiemployer plan and is, therefore, included as an obligation of the Museum. 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 $2.3 million and $2.0 million in fiscal years 2018 and 2017, respectively, 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 2018 and 2017 of $0.6 million and $1.2 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*	
	2018	*2017*	*2018*	*2017*
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	$ 224,314	$ 241,010	$ 136,565	$ 122,011
Service cost	7,050	7,772	6,067	6,119
Interest cost	8,674	8,522	4,917	4,648
Plan amendments				(4,223)
Employee contributions	1,022	1,006		
Actuarial (gain)/loss	(11,940)	(23,783)	(15,265)	12,692
Benefits paid	(7,168)	(6,668)	(3,700)	(4,682)
Medicare Part D subsidy				
Settlements	(565)	(3,545)		
Benefit obligation at end of year	221,387	224,314	128,584	136,565
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	153,120	133,461		
Actual gain on plan assets	12,130	20,058		
Employer contributions	12,919	8,808	3,700	4,682
Employee contributions	1,022	1,006		
Benefits paid	(7,168)	(6,668)	(3,700)	(4,682)
Medicare Part D subsidy				
Settlements	(565)	(3,545)		
Fair value of plan assets at end of year	171,458	153,120		
UNFUNDED STATUS (LIABILITY)	$ (49,929)	$ (71,194)	$(128,584)	$(136,565)

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

	Pension Benefits		*Postretirement Benefits*	
	2018	*2017*	*2018*	*2017*
Actuarial losses	$(44,896)	$ (60,914)	$ (30,077)	$ (47,327)
Prior service costs			605	750
Cumulative employer contributions (less than) net periodic benefit cost	(5,033)	(10,280)	(99,112)	(89,988)
UNFUNDED STATUS (LIABILITY)	$(49,929)	$(71,194)	$(128,584)	$(136,565)

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:	*2018*	*2017*	*2018*	*2017*
Service cost	$ 7,050	$ 7,772	$ 6,067	$ 6,119
Interest cost	8,674	8,522	4,917	4,648
Expected return on plan assets	(11,237)	(9,720)		
Amortization of prior service credit			(146)	(587)
Amortization of accumulated loss	2,996	5,330	1,986	2,598
Settlement loss	190	623		
Curtailment credit				(4,987)
Total net periodic benefit cost recognized in operating activities	7,673	12,527	12,824	7,791
OTHER AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITY IN UNRESTRICTED NET ASSETS:				
Prior service cost or (credit) occurring during measuring period				
Current year actuarial (gain)/loss	(12,832)	(34,118)	(15,265)	12,692
Amortization of curtailment recognition of prior service credit			146	1,351
Amortization of settlement recognition of net loss	(3,185)	(5,953)	(1,986)	(2,598)
Total other amounts recognized in non-operating activities	(16,017)	(40,071)	(17,105)	11,445
TOTAL RECOGNIZED IN THE STATEMENT OF ACTIVITIES IN NET ASSETS	$ (8,344)	$ (27,544)	$ (4,281)	$ 19,236

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

	Pension Benefits		*Postretirement Benefits*	
	2018	*2017*	*2018*	*2017*
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AS OF JUNE 30:				
Discount rate	4.24%	3.92%	4.21%	3.85%
Rate of compensation increase	3.50%	3.50%		
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET COST AS OF JUNE 30:				
Discount rate	3.92%	3.73%	3.85%	3.63%
Expected return on plan assets	7.44%	7.45%		
Rate of compensation increase	3.50%	3.96%		
ADDITIONAL INFORMATION (in thousands):				
Actual return on plan assets	$ 12,130	$ 20,058		
Accumulated benefit obligation for all defined benefit pension plans	$ 193,624	$ 194,790		

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, 2019 (in thousands):

	Pension Benefits	*Postretirement Benefits*
Actuarial losses	$1,715	$1,245
Prior service costs (credits)		(103)
Total	$1,715	$1,142

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

	2018	*2017*
Number of pension plans with accumulated benefit obligations in excess of plan assets	2	2
Aggregate accumulated benefit obligation	$ 193,624	$ 194,790
Aggregate fair value of plan assets	$ 171,458	$ 153,120
Number of pension plans with projected benefit obligations in excess of plan assets	2	2
Aggregate projected benefit obligation	$ 221,387	$ 224,314
Aggregate fair value of plan assets	$ 171,458	$ 153,120

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

	2018		*2017*	
	Union	*Non-Union*	*Union*	*Non-Union*
ASSUMED MEDICAL COST TREND RATES:				
Health care cost trend rate assumed for next year	6.50%	6.50%	7.00%	7.00%
Rate that the cost trend gradually declines to	5.00%	5.00%	5.00%	5.00%
Year that the final trend rate is reached	2021	2021	2021	2021

	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 2018 (in thousands):		
Effect on total of service and interest cost	$ 2,112	$ (1,625)
Effect on postretirement benefit obligation	$ 19,501	$(15,547)

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. Assets are managed by external investment managers. The target allocation for the defined benefit plan for union staff is 75% equity securities and 25% fixed income securities. As of June 30, 2018, the assets of the defined benefit plan for union staff were invested 75.1% and 24.9% in equity and fixed income securities, respectively. 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.

The target allocation of the defined benefit plan for non-union staff is 40% equity securities and 60% fixed income securities. As of June 30, 2018, the assets of the defined benefit plan for non-union staff were invested 50.6% and 49.4% in equity and fixed income securities, respectively. 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.

CASH FLOWS FOR THE FISCAL YEAR ENDING JUNE 30 (in thousands):	*Pension Benefits*	*Postretirement Benefits*
Employer Contributions:		
2017 (actual)	$ 8,808	$ 4,682
2018 (actual)	12,919	3,700
2019 (expected)	6,240	5,026
PROJECTED BENEFIT PAYMENTS FOR THE FISCAL YEAR ENDING JUNE 30 (in thousands):		
2019	7,944	5,026
2020	7,969	5,197
2021	8,404	5,598
2022	8,917	5,869
2023	9,491	6,326
2024–2028	$56,290	$37,058

The fair value of the pension plan assets was $171,458 and $153,120 as of June 30, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017. The Museum had borrowed $12.4 million and $21.7 million as of June 30, 2018 and 2017, 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 for both fiscal years 2018 and 2017. As of June 30, 2018, the interest rate on the outstanding debt was 2.54%. 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, 2018 and 2017.

In addition to the revolving line of credit, the Museum has two additional lines of credit totaling $65 million as of June 30, 2018 and 2017. No borrowings were outstanding at June 30, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017.

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 1 and July 1 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. For both of the years ended June 30, 2018 and 2017, the Museum recognized $8.5 million of interest expense associated with this borrowing in non-operating activities. Starting in fiscal year 2018, the Museum began funding all interest expense through a designation of unrestricted general operating endowment support. 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, 2018	*June 30, 2017*
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	(1,284)	(1,333)
Bond issuance cost, net of amortization	(2,005)	(2,045)
Total loans payable	383,491	383,402
Fair value of forward starting interest rate exchange agreement on Series 2006A Bonds	27,358	34,642
Total interest rate exchange agreements	27,358	34,642
Total	$410,849	$418,044

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

	2018	*2017*
Interest rates on loans payable:		
Series 1993B Bonds	1.40%	1.82%
Series 2006A-1 and A-2 Bonds	1.48%	0.90%
Series 2015 Bonds	3.40%	3.40%
Interest expense on loans payable (in thousands):		
Series 1993B Bonds	$ 76	$ 45
Series 2006A Bonds (Capitalized)		609
Series 2006A Bonds (Non-Capitalized)	1,459	259
Series 2006A Bonds (Swap)	2,786	3,348
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*
2019	$ 3,195	$ 13,680	$ 16,875
2020	3,375	13,546	16,921
2021	210	13,527	13,737
2022		13,526	13,526
2023		13,526	13,526
Thereafter	380,000	258,263	638,263
Total	$386,780	$326,068	$712,848

**For the Series 1993B Bonds, which are callable at par, there are no mandatory redemption requirements until July 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 2019 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 0.35% or $0.5 million, was associated with this credit facility for the years ended June 30, 2018 and 2017. 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 2019. Should the Museum not successfully renew this credit facility in 2019, the $130 million and $6.8 million for the Series 2006 and Series 1993 Bonds principal amounts, respectively, would be reflected as payable in 2019 within the above debt service maturity schedule.

L. Functional Classification of Expenses

Expenses by functional classification for fiscal years 2018 and 2017, 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.

	2018	*2017*
Total operating expenses from the Statement of Activities	$ 392,987	$ 395,420
Depreciation of capital improvements and expensing of non-capitalized expenditures from the non-operating section of the Statement of Activities	48,348	50,700
Management and custodian fees, and other expenses included in net investment income	19,464	17,821
Interest on bonds and effect of interest rate swaps	12,793	12,155
Special events included in the revenue section of the Statement of Activities	973	1,004
Total	$ 474,565	$ 477,100
Program expenses:		
Curatorial activities, conservation, and exhibitions	$ 238,620	$ 222,797
Education	12,531	12,659
Libraries	8,052	7,530
Public services and other	52,010	58,120
Cost of sales and expenses of auxiliary activities:		
Retail operations	53,021	57,985
Restaurant, parking garage, auditorium, and other	35,770	32,394
Total program expenses	400,004	391,485
Supporting services:		
Management and general	56,334	68,423
Fundraising	18,227	17,192
Total supporting services	74,561	85,615
Total	$ 474,565	$ 477,100

M. Leases and Other Commitments

At June 30, 2018, the Museum is committed to minimum future rentals under noncancelable 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 $2.1 million and $3.6 million in fiscal years 2018 and 2017, 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 in both 2018 and 2017.

Minimum rental commitments consist of the following at June 30, 2018 (in thousands):

Year Ending June 30	*Total*
2019	$ 7,087
2020	6,828
2021	5,134
2022	4,976
2023	5,049
Thereafter	4,072
Total	$ 33,146

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 2018 and 2017, the Museum made payments of $0.04 million and $0.12 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. The non-cash charges amounted to an increase of $0.01 million and $0.38 million in fiscal years 2018 and 2017, respectively, and are included in the non-operating section of the Statement of Activities. As of June 30, 2018 and 2017, $9.7 million 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 750 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 US GAAP, 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, US GAAP 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 2018 and 2017.

The hybrid spending policy used in fiscal year 2018 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 a prior fiscal year end. In fiscal year 2017, the hybrid spending policy used the market value of the endowment at the prior calendar year end. Target spending rates applied to the market value of the endowment are limited to a range of 4.5% to 5.75%. Target spending rates are recommended periodically by the Finance Committee of the Board of Trustees, and final rates, which may not be less than 4.5% or greater than 6.0% of the market value of the endowment, are approved each fiscal year by the Board of Trustees. The Museum applied a target spending rate of 5.5% in fiscal year 2018.

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, 2018 (in thousands):

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted endowment funds		$1,105,437	$1,089,898	$2,195,335
Quasi-endowment funds	$ 946,600			946,600
Total funds	$ 946,600	$1,105,437	$1,089,898	$3,141,935

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 Assets for the Fiscal Year Ended June 30, 2018 (in thousands):

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment and quasi-endowment net assets, beginning of year	$ 854,866	$ 979,545	$ 1,058,985	$ 2,893,396
Investment return:				
Investment income, net of certain management and custodian fees, taxes, and other expenses	8,698	16,123	236	25,057
Net realized gains	78,335	140,668		219,003
Changes in unrealized appreciation	30,264	56,359		86,623
Total return on investments	117,297	213,150	236	330,683
Transfers	53,457	(53,457)		
Investment return allocated for current activities	(101,064)	(49,547)		(150,611)
Contributions	8,748	2,005	28,280	39,033
Other changes and reclasses	13,296	13,741	2,397	29,434
Total endowment and quasi-endowment net assets, end of year	$ 946,600	$ 1,105,437	$ 1,089,898	$ 3,141,935

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

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

	June 30, 2018	*June 30, 2017*
PERMANENTLY RESTRICTED NET ASSETS:		
Art acquisitions and book purchases	$ 225,370	$ 238,847
Education and public programs	68,353	68,048
Exhibitions and publications	100,041	90,399
Operating support and other purposes	696,134	661,691
Total	$1,089,898	$1,058,985
TEMPORARILY RESTRICTED NET ASSETS:		
Art acquisitions and book purchases	$ 428,853	$ 358,699
Capital projects and assets	75,074	62,150
Education and public programs	103,707	88,913
Exhibitions and publications	119,000	108,625
Operating support and other purposes	891,196	917,584
Total	$1,617,830	$1,535,971

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 $0.0 million and $0.04 million in years ending June 30, 2018 and 2017, respectively.

P. Retail and Other Auxiliary Activities

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

	2018	*2017*
Operating revenue:		
Retail operations	$ 51,539	$ 56,084
Restaurant	32,451	27,548
Other	4,127	3,915
Total revenue	88,117	87,547
Operating costs and expenses:		
Retail operations	52,505	57,985
Restaurant	31,989	27,883
Other	3,781	4,511
Total costs and expenses	88,275	90,379
Net loss from auxiliary activities	$ (158)	$ (2,832)

Fiscal year 2018 retail operating expense includes $1.1 million of charges related to the e-commerce system. Fiscal year 2017 retail operating expense includes $2 million of onetime charges pertaining to the voluntary retirement program, other severance costs and the 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.

In November 2012, two individuals filed a lawsuit (the "Individuals' Lawsuit") against the Museum and certain of its officers in New York State Supreme Court, New York County. The Individuals' Lawsuit alleged that the Museum's policy of asking visitors to pay a voluntary admissions charge violated provisions of state law and the Museum's lease with the City of New York, that the manner in which the Museum advised the public of its voluntary admissions charge was deceptive, and the Museum had breached an alleged obligation to maintain an entrance on the Central Park side of the Museum. The complaint sought equitable relief, but not money damages.

In March 2013, three other individuals filed a separate lawsuit on behalf of a broadly defined class of Museum visitors (the "Class Action") against the Museum in the same court. The Class Action asserted the same claims about the Museum's admissions policy and the disclosures of that policy that the Individuals' Lawsuit asserted. It sought money damages as well as equitable relief.

In October 2013, the trial court dismissed the claims in both Lawsuits that sought to compel the Museum to offer free admission, on the ground that that the plaintiffs lacked standing to sue on those claims. The Appellate Division, First Department, affirmed that decision in February 2015. The New York Court of Appeals denied leave to appeal the Appellate Division's decision.

The remaining claims in both Lawsuits are now fully resolved.

In the Individuals' Lawsuit, the trial court in November 2016 granted the Museum's motion to dismiss the remaining claims on the merits. Plaintiffs did not appeal, and their time to appeal has expired.

In the Class Action lawsuit, the parties agreed to a settlement. The trial court approved that settlement in June 2017. The settlement called for entry of a consent decree regulating the Museum's disclosure of its admissions policy, while leaving the Museum free to change its admissions policy without court approval. The Court has entered the consent decree, and it remains in effect until August 26, 2022; the Court retains jurisdiction over the Class Action Lawsuit for purposes of supervising compliance with the consent decree. The settlement does not address monetary damages and leaves class members free to file damage suits. No such suits have been filed to date. The settlement also required the Museum to pay $350,000 for plaintiffs' attorneys' fees and expenses after all appeals from the trial court's decision approving the settlement were exhausted. The plaintiffs in the Individuals' Lawsuit filed a notice of appeal from the decision approving the settlement of the Class Action Lawsuit, but they abandoned that appeal, and the Appellate Division will not decide it. The Museum accordingly paid the $350,000 as required by the settlement in July 2018.

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. The District Court dismissed the suit on February 7, 2018. The Estate of Alice Leffmann has appealed this decision to the United States Court of Appeals for the Second Circuit. The appeal was fully briefed by August 3, 2018.

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 13, 2018, which is the date the financial statements were issued.