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, 2019 and 2018, and the related statement of activities and of expenses by functional and natural classification for the year ended June 30, 2019, and of cash flows for the years ended June 30, 2019 and 2018.

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, 2019 and 2018, and the changes in its net assets for the year ended June 30, 2019, and its cash flows for the years ended June 30, 2019 and 2018, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note A to the financial statements, the Museum changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in fiscal year 2019. Our opinion is not modified with respect to this matter.

Other Matter
We previously audited the statement of financial position as of June 30, 2018, and the related statements of activities and of cash flows for the year then ended (the statement of activities is not presented herein), and in our report dated November 13, 2018, we expressed an unmodified opinion on those financial statements. As discussed in Note A to the accompanying financial statements, the Museum changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in fiscal year 2019. The accompanying statements of activities and of expenses by functional and natural classification reflect this change. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2018, and for the year then ended, before the change in the manner in which the Museum presents net assets and reports certain aspects of its financial statements as a not-for-profit entity, is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

New York, New York
November 12, 2019

Statements of Financial Position

for the years ended June 30, 2019 and 2018 (in thousands)

	2019	*2018*
ASSETS:		
Cash (Note A)	$ 46,477	$ 34,282
Receivable for investments sold	2,013	2,092
Retail inventories, net (Note A)	12,720	9,055
Accounts receivable and other assets (Note B)	17,610	16,685
Contributions receivable (Note C)	127,566	134,012
Split interest arrangements (Notes G and H)	50,499	69,117
Investments (Notes A and G)	3,851,266	3,728,843
Fixed assets, net (Notes A and E)	368,956	370,825
Collections (Note A)		
TOTAL ASSETS	$4,477,107	$4,364,911
LIABILITIES:		
Payable for investments purchased	$ 1,021	$ 2,552
Accounts payable and accrued expense	48,533	31,697
Accrued salaries and benefits	26,305	25,722
Deferred income (Note A)	5,581	6,152
Notes payable (Note J)	14,704	12,365
Annuity and other split interest obligations (Notes G and H)	15,076	14,803
Asset retirement obligations (Note N)	9,038	9,694
Pension and other accrued retirement obligations (Note I)	204,688	178,513
Loans payable and other long-term liabilities (Notes G and K)	417,038	411,407
TOTAL LIABILITIES	741,984	692,905
NET ASSETS:		
Without Donor Restrictions (Notes A and O)	1,061,996	1,127,923
With Donor Restrictions (Notes A and O)	2,673,127	2,544,083
TOTAL NET ASSETS	3,735,123	3,672,006
TOTAL LIABILITIES AND NET ASSETS	$4,477,107	$4,364,911

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

for the year ended June 30, 2019, with summarized financial information for the year ended June 30, 2018 (in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018
OPERATING				
REVENUE AND SUPPORT:				
Admissions	$ 55,059	$	$ 55,059	$ 48,148
Membership	29,091		29,091	28,650
Gifts and grants	29,482	30,057	59,539	67,348
Operating appropriations from the City of New York (Note A)	26,822		26,822	25,446
Endowment support for current activities (Note G)	80,826	25,027	105,853	103,185
Retail and other auxiliary activities	85,842		85,842	88,117
Other income	8,232		8,232	8,357
Net assets released from donor restrictions to fund operating expenses	58,730	(58,730)		
TOTAL REVENUE AND SUPPORT	374,084	(3,646)	370,438	369,251
EXPENSES:				
Program Services	222,898		222,898	226,872
Auxiliary Activities	84,826		84,826	86,720
Supporting Services	82,618		82,618	79,395
TOTAL EXPENSES	390,342		390,342	392,987
Transfer of non-operating funds	14,358	(6,362)	7,996	20,049
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(1,900)	(10,008)	(11,908)	(3,687)
NON-OPERATING				
Museum-designated and donor-restricted gifts	10,687	91,871	102,558	89,747
Endowment gifts (includes board-designated endowment)	10,652	77,066	87,718	39,033
Endowment support for current activities (Note G)	23,469	24,728	48,197	47,426
Investment return in excess of current support (Note G)	15,778	14,179	29,957	177,307
Change in value of split interest agreements (Note H)	(380)	(18,544)	(18,924)	2,032
Depreciation and non-capitalized expenditures (Notes E and F)	(47,932)		(47,932)	(48,348)
Interest expense on bonds and interest rate swaps (Notes A and K)	(12,748)		(12,748)	(12,793)
Realized and change in unrealized gains on 2015 bond proceeds	5,806		5,806	12,106
Transfer of designated non-operating funds to operating and other	(39,310)	32,115	(7,195)	(18,154)
Net assets released from donor restrictions	6,006	(6,006)		
Change in net assets before collection items not capitalized and other adjustments	(29,872)	205,401	175,529	284,669
Purchases of art (Note D)	(88,932)		(88,932)	(89,481)
Proceeds from sales of art		6,182	6,182	2,115
Net assets released from donor restrictions to fund acquisitions of art	82,539	(82,539)		
Pension-related changes other than NPPC (Note I)	(20,953)		(20,953)	33,122
Change in fair value of interest rate exchange agreements (Notes G and K)	(8,709)		(8,709)	7,284
CHANGE IN NET ASSETS	$ (65,927)	$ 129,044	$ 63,117	$ 237,709
NET ASSETS AT THE BEGINNING OF THE YEAR (Note A)	$ 1,127,923	$2,544,083	$ 3,672,006	$ 3,434,297
NET ASSETS AT THE END OF THE YEAR	$ 1,061,996	$2,673,127	$ 3,735,123	$ 3,672,006

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

Statements of Cash Flows

for the years ended June 30, 2019 and 2018 (in thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 63,117	$ 237,709
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	49,140	51,919
Loss on disposal of fixed assets	298	
Receipt of contributed securities and other assets	(90,837)	(21,599)
Proceeds from the sale of contributed securities	45,399	13,171
Contributions for capital expenditures	(5,011)	(10,765)
Contributions for long-term investment	(41,949)	(82,737)
Allowance and discount on contributions receivable	(1,811)	5,398
Net realized and unrealized (gains)/loss	(166,925)	(315,730)
Acquisitions and sales of art, net	82,750	87,366
Interest rate exchange agreements	8,709	(7,284)
Asset retirement obligations	(656)	(21)
Pension and other accrued retirement obligations	20,953	(33,122)
Changes in assets and liabilities:		
Retail inventories, net	(3,665)	(1,941)
Accounts receivable and other assets	(925)	(985)
Contributions receivable	8,257	63,193
Split interest arrangements	18,618	3,199
Accounts payable and accrued expenses	9,306	(6,184)
Accrued salaries and benefits	583	(2,164)
Deferred income	(571)	823
Annuity and other split interest obligations	273	(3,785)
Pension and other accrued retirement obligations	5,222	3,876
Net cash used in operating activities	275	(19,663)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed assets	(45,272)	(28,099)
Proceeds from sales of investments	702,821	763,601
Purchases of investments	(659,912)	(742,104)
Acquisitions of art	(83,582)	(87,893)
Proceeds from sales of art	6,182	2,115
Net cash (used in) provided by investing activities	(79,763)	(92,380)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the sale of contributed securities	45,579	8,356
Contributions for capital expenditures	5,011	10,765
Contributions for long-term investment	41,949	82,737
Payment of notes payable	(4,507)	(12,876)
Proceeds from notes payable	6,846	3,566
Payment of loans payable	(3,195)	
Net cash provided by financing activities	91,683	92,548
Net (decrease)/increase in cash	12,195	(19,495)
Cash, beginning of the year	34,282	53,777
CASH, END OF THE YEAR	$ 46,477	$ 34,282
Supplemental information:		
Cash paid in the year for interest	$ 13,204	$ 13,197
Non-cash investing activity:		
Increase/(decrease) in fixed asset additions included in accounts payable and accrued expenses	2,180	536
Increase/(decrease) in acquisition of art included in accounts payable and accrued expenses	5,350	1,588
Receipt of contributed securities and other assets	(90,837)	(21,599)

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

for the year ended June 30, 2019, with summarized financial information for the year ended June 30, 2018 (in thousands)

	Program Services	*Supporting Services*	*Auxiliary Activities*	*Total 2019*	*Total 2018*
Compensation	$150,925	$46,125	$30,140	$227,190	$227,500
Professional fees	7,121	6,187	3,548	16,856	19,630
Materials, maintenance, and supplies	19,431	3,898	3,970	27,299	27,230
Printing and publications	5,052	858	3,224	9,134	9,215
Rent and utilities	15,135	6,230	3,397	24,762	23,546
General office costs	18,280	4,125	12,969	35,374	32,861
Promotional and special events	5,099	11,796	2,010	18,905	18,105
Insurance	1,372	777	184	2,333	5,974
Inventory	48		18,395	18,443	17,569
Restaurant expenses	4		6,089	6,093	6,453
Depreciation	431	2,622	900	3,953	4,904
Operating expenses	222,898	82,618	84,826	390,342	392,987
Operating expenses netted within revenue	860	729		1,589	1,910
Total operating expenses	223,758	83,347	84,826	391,931	394,897
Depreciation and non-capitalized expenditures	44,407	2,252	1,273	47,932	48,348
Interest expense on bonds and interest rate swaps	10,651	1,189	908	12,748	12,793
TOTAL 2019	$278,816	$86,788	$87,007	$452,611	
TOTAL 2018	$283,904	$83,320	$88,814		$456,038

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 financial statements are prepared on the accrual basis of accounting and are in conformity with generally accepted accounting principles within the United States ("US GAAP").

The Museum classifies all financial transactions into two net asset categories in accordance with applicable donor-imposed restrictions: without donor restrictions and with donor restrictions (Note L).

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 net assets with donor restictions and net assets without donor restrictions designated for long-term investment (the donor-restricted and board-designated 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 expenses 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 net assets with donor restrictions 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.

Investments - Investments in short-term instruments, fixed income securities, and equity securities are valued at the last sale price on the principal exchange; 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 ("NAV") 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 yet placed into service are reflected in net assets with donor restrictions.

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. The Museum has reviewed membership revenue as part of the adoption of Topic 606 and has determined the Museum provides service to Members equally over the membership term and thus requires no change to the accounting of this revenue.

Admissions Income - Admissions revenue is associated with tickets sold for entry to the Museum. Admissions revenue ticket price is based upon established levels for individuals and groups. The Museum primarily recognizes revenue for admissions at point of sale.

Retail and Auxiliary Revenues - Auxiliary activities consist primarily of revenue from retail, restaurant operations, and the parking garage. Revenue related to retail and auxiliary activities is primarily recognized at point of sale as the service has been provided in full by the Museum.

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 $15.8 million and $14.6 million in fiscal years 2019 and 2018, 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 US GAAP 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.

Allocation of Expenses - The costs of providing Museum programs and supporting services are shown on the Statement of Expenses by Functional and Natural Classification. Program services include curatorial, conservation, exhibition, education, and library activities and public services. 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, and legal services. Auxiliary activities include retail, restaurant, and parking garage expenses.

Natural expenses attributable to numerous functional expense categories are allocated using reasonable cost allocation methodologies. Security costs are allocated by a square-footage and guard-post basis. Buildings management, facilities, depreciation, and interest are allocated on a square-footage basis. Information technology costs are allocated on a number of machines basis.

The Statement of Expenses by Functional and Natural Classification includes expenses that are netted within revenues on the Statement of Activities due to the nature of the operations of the Museum.

Advertising - Advertising expenses pertaining to retail activities, mostly attributable to the production and distribution of catalogues, amounted to $4.8 million and $4.7 million in fiscal years 2019 and 2018, respectively. Other advertising expenses incurred primarily in support of special exhibitions, the permanent collection, and live arts totaled $4.8 million and $4.1 million in fiscal years 2019 and 2018, 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 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 US GAAP. Accordingly, such information should be read in conjunction with the Museum financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Reclassifications - Certain amounts in the 2018 statements have been reclassified to conform to the current year presentation.

Adopted 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 has adopted the new standard on a full retrospective basis and has determined there to be immaterial impact to the Museum 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) is replaced with two classes of net assets - net assets without donor restrictions and 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.

This ASU also eliminates the overtime approach for the expiration of restrictions on capital gifts and requires the use of placed-in-service approach in the absence of explicit donor stipulations. This adjustment has been reflected in the Museum's net assets as of June 30, 2018 through the cumulative effect of accounting change.

New disclosures highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements (Note F). Entities are required to disclose (on the face of the statement or in notes) the extent to which the statement of financial position 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.

The Museum adopted ASU 2016-14 in fiscal year 2019 and applied the changes retrospectively. Additionally, the Museum changed the presentation of expenses in the Statement of Activities to reflect the functional categorization as presented on the Statement of Expenses by Functional and Natural Classification. There is no impact to net assets or total expenses from these changes.

As a result of the adoption of ASU 2016-14, net assets as of June 30, 2018 were reclassified as follows (in thousands):

	ASU 2016-14 Classifications		
	Without Donor Restrictions	*With Donor Restrictions*	*Total Net Assets*
As previously reported:			
Unrestricted	$ 964,278	$	$ 964,278
Temporarily restricted		1,617,830	1,617,830
Permanently restricted		1,089,898	1,089,898
June 30, 2018 end of year net assets as previously reported	964,278	2,707,728	3,672,006
Reclassifications to implement ASU 2016-14:			
Cumulative effect of accounting change	163,645	(163,645)	
June 30, 2018 end of year net assets as reclassified	$1,127,923	$ 2,544,083	$3,672,006

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). The Museum has adopted the new standard on a modified prospective basis and has determined there to be immaterial impact to the Museum 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. As permitted, the Museum has early adopted the removal and modification of disclosures and has delayed adoption of the additional disclosures until their effective date.

New Accounting Pronouncements - 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 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 adopting this standard in fiscal year 2020.

In March 2019, the FASB issued ASU 2019-03, Updating the Definition of Collections. The new ASU aligns the US GAAP definition of collections with the American Alliance of Museum's current policy regarding the management of collections. Under the amendments, the definition of collections will be expanded to allow the proceeds from sales of collection items to be used in the direct care of existing collection items. Entities can allow proceeds to be used for both direct care and acquisitions, or they can retain the narrower definition and continue to restrict the use of proceeds to the acquisition of new collection items consistent with the current US GAAP definition. The amendments in this update are effective for fiscal years beginning after December 15, 2019 (fiscal year 2021 for the Museum), with early adoption permitted. The Museum is evaluating the impact of this standard on the financial statements.

B. Accounts Receivable and Other Assets

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

	June 30, 2019	*June 30, 2018*
Accounts receivable, net of allowance of $1,096 and $963 for FY19 and FY18, respectively	$ 6,843	$ 5,069
Prepaid expenses and other	6,404	7,496
Taxes receivable	2,651	2,655
Dividends and interest receivable	1,712	1,465
Total	$ 17,610	$ 16,685

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 5.0% to 5.5% for new contributions receivable at June 30, 2019. As of June 30, 2019 and 2018, approximately 40.3% and 39.0%, respectively, of gross contributions receivable is due from three donors. Contributions are expected to be realized as follows (in thousands):

	June 30, 2019	*June 30, 2018*
Less than one year	$ 50,202	$ 58,345
Between one and five years	43,286	43,343
Over five years	64,743	64,800
Total	158,231	166,488
Less:		
Adjustments and allowance for uncollectibility	(3,822)	(4,074)
Discount for present value	(26,843)	(28,402)
Net	$ 127,566	$ 134,012

D. Acquisitions of Art

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

	2019	*2018*
Gifts of cash and securities	$ 56,237	$ 58,928
Gains and income from long-term investment:		
For designated curatorial departments	16,889	10,070
Undesignated as to curatorial department	11,234	11,606
Proceeds from fine arts insurance and the sale of art	4,572	8,877
Total	$ 88,932	$ 89,481

E. Fixed Assets

Fixed assets consist of (in thousands):

	June 30, 2019	*June 30, 2018*	*Estimated Useful Lives in Years*
Land	$ 1,015	$ 1,015	N/A
Buildings and improvements	39,524	38,718	20–40
Leasehold improvements, auxiliary activities	36,819	36,804	4–40
Leasehold improvements, Fifth Avenue building	1,032,946	990,099	5–30
Machinery and equipment	68,743	67,099	3–20
Total	1,179,047	1,133,735	
Less accumulated depreciation and amortization	(810,091)	(762,910)	
Net	$ 368,956	$ 370,825	

The above amounts include construction in progress of $85.0 million and $55.5 million at June 30, 2019 and 2018, respectively. Depreciation expense was $49.0 million and $51.3 million for fiscal years 2019 and 2018, respectively. Pursuant with the Museum's policy regarding its measure of operations, $3.9 million and $4.9 million of depreciation expense was charged to operating activities in fiscal years 2019 and 2018, respectively, while $45.1 million and $46.4 million was charged to non-operating activities in fiscal years 2019 and 2018, respectively. In fiscal year 2019, $2.1 million of fixed assets with a net book value of $0.3 million were written off. In fiscal year 2018, $10.2 million of fixed assets with a net book value of $0.0 million were written off.

Fixed assets and construction in progress include $143.0 million of property contributed and funded by the City since 1990, of which $0.5 million and $4.2 million were received during the fiscal years ended June 30, 2019 and 2018, respectively.

F. Liquidity and Available Resources

	2019	2018
FINANCIAL ASSETS		
Cash and cash equivalents	$ 46,477	$ 34,282
Accounts receivable	6,843	5,069
Contribution receivable available for the next fiscal year	1,080	1,500
Board designations		
Endowment payout without donor restrictions for the next fiscal year	99,705	94,057
Financial assets available within one year	154,105	134,908
LIQUIDITY RESOURCES		
Revolving line of credit	135,300	137,600
Lines of credit	65,000	65,000
Total liquidity resources	200,300	202,600
Total financial assets and liquidity resources	$ 354,405	$ 337,508

As part of the Museum's liquidity management strategy, the Museum structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Musuem has board-designated endowment funds of $935.0 million and $946.9 millon as of June 30, 2019 and 2018, respectively, that do not have donor restrictions. Although the Museum does not intend to spend from its board-designated endowment funds other than amounts appropriated for expenditure as part of its annual budget approval process, these funds could be made available if necessary. However, these endowment funds contain investments with lock-up provisions that reduce the total investments that could be made available (see Note G for disclosures regarding the investment portfolio).

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 $3,199 million and $3,140 million as of June 30, 2019 and 2018, respectively. The Museum had approximately $744.5 million and $671.7 million in unfunded capital commitments primarily related to private equity and real asset funds as of June 30, 2019 and 2018, 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, 2019 and 2018 (in thousands):

	2019 Fair Value	*2018 Fair Value*
Held within the long-term portfolio		
Short-term investments	$ 390,915	$ 433,185
Fixed income	99,873	97,319
Equities	584,835	531,738
Equity funds	777,479	682,786
Hedge funds	732,359	782,464
Private equity funds	556,675	474,253
Real asset funds	457,262	465,624
Subtotal	3,599,398	3,467,369
Held for capital projects		
Short-term investments	69,905	25,985
Fixed income	12,054	43,625
Fund of hedge funds	166,259	188,498
Subtotal	248,218	258,108
Other miscellaneous purposes		
Subtotal	3,650	3,366
TOTAL INVESTMENTS	$3,851,266	$3,728,843

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 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, and 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 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, 2019 and 2018 (in thousands):

	Assets and Liabilities at Fair Value as of June 30, 2019				
	Level 1	*Level 2*	*Level 3*	*Investments valued using the practical expedient*	*Total*
Split interest arrangements	$ 11,187	$ 25,346	$ 13,966	$	$ 50,499
INVESTMENTS:					
Equities	554,607	30,227	1		584,835
Fixed income					
Government bonds		32,124			32,124
Corporate debt		33,828	4		33,832
Mortgage-backed		30,760			30,760
Other		15,211			15,211
Short-term investments	464,224				464,224
Equity funds				777,479	777,479
Hedge funds				732,359	732,359
Private equity funds				556,675	556,675
Real asset funds				457,262	457,262
Fund of hedge funds held for capital projects				166,260	166,260
Other investments	245				245
Total investments	1,019,076	142,150	5	2,690,035	3,851,266
TOTAL ASSETS	$ 1,030,263	$ 167,496	$ 13,971	$ 2,690,035	$ 3,901,765
LIABILITIES:					
Annuity and other split interest obligations		$	$ 15,076		$ 15,076
Interest rate exchange agreements		36,067			36,067
TOTAL LIABILITIES		$ 36,067	$ 15,076		$ 51,143

	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

For the years ended June 30, 2019 and 2018 the Museum had the following investments which represented more than 5.0% of net assets:

	2019		*2018*	
	Fair Value (in thousands)	*% of NAV*	*Fair Value (in thousands)*	*% of NAV*
JPMorgan US Government Money Market Agency Share fund	$409,376	10.96%	$446,283	12.15%
Fund of hedge funds held for capital projects			$188,498	5.13%

The following table lists investments carried at NAV by major investment category for the year ended June 30, 2019 (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	$ 777,479	Daily to Biennially (1 to 180 days)	$ 161,048	$ 5,531	N/A	N/A
Hedge funds	732,359	Monthly to Annually (30 to 90 days)	143,598	41,534	N/A	N/A
Private equity	556,675	N/A	N/A	N/A	1 to 15 years	510,916
Real assets	457,262	N/A	N/A	N/A	1 to 15 years	233,548
Fund of hedge funds held for capital projects	166,259	Monthly (30 days)	N/A	N/A	N/A	N/A
Total	$ 2,690,034					

(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, 2019, current lock-ups expire between September 2019 and June 2021.
(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, 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.

As of June 30, 2019, and June 30, 2018, 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, 2019 and 2018 (in thousands):

	2019		*2018*	
	Fair Value	*Unrealized Gain/(Loss)*	*Fair Value*	*Unrealized Gain/(Loss)*
Interest rate exchange agreements	$ (36,067)	$ (8,709)	$ (27,358)	$ 7,284

The following schedules summarize investment return by net asset classification for the years ended June 30, 2019 and 2018 (in thousands):

	2019		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Investment income, net of certain management and custodian fees, taxes, and other expenses	$ 7,833	$ 14,638	$ 22,471
Net realized gains	36,722	66,193	102,915
Changes in unrealized appreciation	18,361	40,260	58,621
Total return on investments	62,916	121,091	184,007
Transfers	57,157	(57,157)	
Investment return allocated for current activities	(104,295)	(49,755)	(154,050)
Investment return in excess of current support	$ 15,778	$ 14,179	$ 29,957

	2018		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Investment income, net of certain management and custodian fees, taxes, and other expenses	$ 8,699	$ 16,451	$ 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	212,107	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	$ 109,103	$ 177,307

Realized and unrealized gains on the $250 million Series 2015 Bonds, which totaled $5.8 million and $12.1 million for the years ended June 30, 2019 and 2018, 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 ("CRTs"), 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 CRTs and other trust agreements, excluding new gifts and distributions, changed by $(13.6) million and $1.3 million in the years ended June 30, 2019 and 2018, respectively. The discount rate applied to these funds was 2.0% to 2.8% over the past five years.

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

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

	June 30, 2019	*June 30, 2018*
Assets:		
Charitable remainder and other trust assets	$32,397	$51,263
Charitable gift annuities	10,606	10,368
Pooled income funds and trusts invested on behalf of others*	7,496	7,486
Total	$50,499	$69,117
Liabilities:		
Charitable gift annuities	$ 8,140	$ 7,809
Pooled income funds and trusts invested on behalf of others*	6,936	6,994
Total	$15,076	$14,803

**The assets of the trust of $6.6 million as of June 30, 2019 and 2018, 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 contributions without donor restrictions and with donor restrictions 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 contribution with donor restrictions. 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 CRTs. 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, 2019 and 2018, a fair value adjustment of 1.92% and 2.33%, 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, 2019 and 2018 (in thousands):

	Beginning Balance as of June 30, 2018	*Distributions*	*Valuation Adjustment and Changes in Discounts and Allowances*	*Ending Balance as of June 30, 2019**
Charitable remainder and other trust assets	$51,263	$(5,300)	$(13,566)	$32,397

**Of this amount, $14.0 million represents assets classified as Level 3 in the fair value hierarchy. The Level 3 balance decreased by $30.7 million in 2019 due to changes in distributions, valuation adjustments, and a transfer to Level 2 due to a change in observable inputs.*

	Beginning Balance as of June 30, 2017	*Distributions*	*Valuation Adjustment and 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.*

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, 2019 and 2018 (in thousands):

	Beginning Balance as of June 30, 2018	*Changes in Remainder Value*	*Realized and Unrealized Gains/(Losses)*	*Ending Balance as of June 30, 2019*
Annuity and other split interest obligations	$14,803	$(25)	$298	$15,076

	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

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 2019 and 2018.

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. The Museum also contributes 5.7% of base pay earnings that exceed the Social Security wage base during a calendar year. The cost of the defined contribution plan recognized in fiscal years 2019 and 2018 was $8.6 million and $8.0 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 this plan, non-union employees may voluntarily defer a portion of their annual compensation on a pre-tax basis. 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 2019 and 2018 was $2.9 million and $2.4 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 fiscal years 2018 and 2019 was $0.4 million and $0.3 million, respectively.

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

- Non-union staff: Substantially all of the Museum's non-union employees become eligible for certain benefits (prescription drugs and health insurance subject to annual limits) when they reach age 55 and have 15 years of service to the Museum. The Museum made contributions to the non-union postretirement medical care benefit plan of $1.6 million and $0.8 million in fiscal years 2019 and 2018, 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) through June 30, 2020. 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 $2.6 million and $2.3 million in fiscal years 2019 and 2018, 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 2019 and 2018 of $0.5 million and $0.6 million, respectively.

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, 2019 and 2018, including the change in the benefit obligation and the change in plan assets (in thousands):

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	$ 221,387	$ 224,314	$ 128,584	$ 136,565
Service cost	6,351	7,050	5,610	6,067
Interest cost	9,205	8,674	5,032	4,917
Employee contributions	1,037	1,022		
Actuarial (gain)/loss	18,128	(11,940)	5,050	(15,265)
Benefits paid	(7,765)	(7,168)	(4,682)	(3,700)
Settlements		(565)		
Benefit obligation at end of year	248,343	221,387	139,594	128,584
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	171,458	153,120		
Actual gain on plan assets	12,303	12,130		
Employer contributions	6,217	12,919	4,682	3,700
Employee contributions	1,036	1,022		
Benefits paid	(7,765)	(7,168)	(4,682)	(3,700)
Settlements		(565)		
Fair value of plan assets at end of year	183,249	171,458		
UNFUNDED STATUS (LIABILITY)	$ (65,094)	$ (49,929)	$(139,594)	$(128,584)

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

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Actuarial losses	$ (61,550)	$ (44,896)	$ (34,273)	$ (30,077)
Prior service costs			501	605
Cumulative employer contributions (less than) net periodic benefit cost	(3,544)	(5,033)	(105,822)	(99,112)
UNFUNDED STATUS (LIABILITY)	$ (65,094)	$ (49,929)	$(139,594)	$(128,584)

Components of net periodic benefit cost/(income) ("NPPC") recognized in operating activities and other amounts recognized in non-operating activities in net assets without donor restrictions in the Statement of Activities are presented in the table below for the years ended June 30, 2019 and 2018 (in thousands):

	Pension Benefits		*Postretirement Benefits*	
COMPONENTS OF NET PERIODIC BENEFIT COST:	*2019*	*2018*	*2019*	*2018*
Service cost	$ 6,351	$ 7,050	$ 5,610	$ 6,067
Interest cost	9,205	8,674	5,032	4,917
Expected return on plan assets	(12,579)	(11,237)		
Amortization of prior service credit			(103)	(146)
Amortization of accumulated loss	1,751	2,996	854	1,986
Settlement loss		190		
Total net periodic benefit cost recognized in operating activities	4,728	7,673	11,393	12,824
OTHER AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITY IN NET ASSETS WITHOUT DONOR RESTRICTIONS:				
Net actuarial (gain)/loss	16,655	(16,017)	4,196	(17,251)
Amortization of curtailment recognition of prior service credit			102	146
Total other amounts recognized in non-operating activities	16,655	(16,017)	4,298	(17,105)
TOTAL RECOGNIZED IN THE STATEMENT OF ACTIVITIES IN NET ASSETS	$ 21,383	$ (8,344)	$ 15,691	$ (4,281)

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

	Pension Benefits		*Postretirement Benefits*	
	2019	*2018*	*2019*	*2018*
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AS OF JUNE 30:				
Discount rate	3.75%	4.24%	3.70%	4.21%
Rate of compensation increase	3.50%	3.50%		
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET COST AS OF JUNE 30:				
Discount rate	4.24%	3.92%	4.21%	3.85%
Expected return on plan assets	7.45%	7.44%		
Rate of compensation increase	3.50%	3.50%		
ADDITIONAL INFORMATION (in thousands):				
Actual return on plan assets	$ 12,303	$ 12,130		
Accumulated benefit obligation for all defined benefit pension plans	$ 215,728	$ 193,624		

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 net assets without donor restrictions and are amortized over the minimal acceptable time period under ASC 715.

The following table presents the amount of net assets without donor restrictions not yet recognized, which are expected to be amortized into net periodic benefit costs for the year ending June 30, 2020 (in thousands):

	Pension Benefits	*Postretirement Benefits*
Net actuarial losses	$2,897	$1,494
Prior service costs (credits)		(77)
Total	$2,897	$1,417

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

	2019	*2018*
Number of pension plans with accumulated benefit obligations in excess of plan assets	2	2
Aggregate accumulated benefit obligation	$ 215,728	$ 193,624
Aggregate fair value of plan assets	$ 183,249	$ 171,458
Number of pension plans with projected benefit obligations in excess of plan assets	2	2
Aggregate projected benefit obligation	$ 248,343	$ 221,387
Aggregate fair value of plan assets	$ 183,249	$ 171,458

Additional information related to the postretirement benefit plans for the years ended June 30, 2019 and 2018:

	2019		*2018*	
	Union	*Non-Union*	*Union*	*Non-Union*
ASSUMED MEDICAL COST TREND RATES:				
Health care cost trend rate assumed for next year	7.00%	7.00%	6.50%	6.50%
Rate that the cost trend gradually declines to	5.00%	5.00%	5.00%	5.00%
Year that the final trend rate is reached	2027	2027	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 2019 (in thousands):		
Effect on total of service and interest cost	$ 2,438	$ (1,853)
Effect on postretirement benefit obligation	$ 22,308	$(17,625)

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, 2019, the assets of the defined benefit plan for union staff were invested 76.2% and 23.8% in equity and fixed income securities, respectively. As of June 30, 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.

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, 2019, the assets of the defined benefit plan for non-union staff were invested 46.4% and 53.6% in equity and fixed income securities, respectively. 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.

cash flows for the fiscal year ending june 30 (in thousands):	*Pension Benefits*	*Postretirement Benefits*
Employer Contributions:		
2018 (actual)	$ 12,919	$ 3,700
2019 (actual)	6,217	4,682
2020 (expected)	6,189	4,907
projected benefit payments for the fiscal year ending june 30 (in thousands):		
2020	8,533	4,907
2021	8,582	5,325
2022	9,089	5,579
2023	9,607	6,048
2024	10,171	6,410
2025–2029	$ 59,735	$ 37,458

The fair value of the pension plan assets was $183,249 and $171,458 as of June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, $154.9 million and $140.3 million, respectively, of plan assets were invested in cash equivalents and mutual funds that fall within Level 1 of the fair value hierarchy. The remaining $28.4 million and $31.2 million, respectively, are invested in commingled funds and are reported at NAV by external fund managers.

J. Notes Payable

At June 30, 2019 and 2018, 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, 2019 and 2018. The Museum had borrowed $14.7 million and $12.4 million as of June 30, 2019 and 2018, on this line, respectively. Any amount borrowed under the revolving line of credit is payable in full on or before September 30, 2020. The borrowing bears interest at variable rates, and accrued interest is paid at loan maturity. The total interest expense on bank borrowings amounted to $0.4 million and $0.3 million for years ending June 30, 2019 and 2018, respectively. As of June 30, 2019, the interest rate on the outstanding debt was 2.84%. 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, 2019 and 2018.

In addition to the revolving line of credit, the Museum has two additional lines of credit totaling $65 million as of June 30, 2019 and 2018. No borrowings were outstanding at June 30, 2019 and 2018, 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, 2019 and 2018, 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, 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, 2019 and 2018.

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, 2019 and 2018, 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 general operating endowment support without donor restrictions. In addition, the Museum incurred $1.2 million of costs related to certain administrative, legal, accounting, financing, and other expenses incurred for purposes of this bond financing at the time of issuance.

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

	June 30, 2019	*June 30, 2018*
Series 1993B Bonds due by July 1, 2020	$ 3,585	$ 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	(1,236)	(1,284)
Bond issuance cost, net of amortization	(1,378)	(1,447)
Total loans payable	380,971	384,049
Fair value of forward starting interest rate exchange agreement on Series 2006A Bonds	36,067	27,358
Total interest rate exchange agreements	36,067	27,358
Total	$417,038	$411,407

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

	2019	*2018*
Interest rates on loans payable:		
Series 1993B Bonds	1.78%	1.40%
Series 2006A-1 and A-2 Bonds	1.78%	1.48%
Series 2015 Bonds	3.40%	3.40%
Interest expense on loans payable (in thousands):		
Series 1993B Bonds	$ 50	$ 76
Series 2006A Bonds (Non-Capitalized)	1,953	1,459
Series 2006A Bonds (Swap)	2,247	2,786
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*
2020	$ 3,375	$ 13,534	$ 16,909
2021	210	13,526	13,736
2022		13,526	13,526
2023		13,526	13,526
2024		13,526	13,526
Thereafter	380,000	244,737	624,737
Total	$383,585	$312,375	$695,960

**For the Series 1993B Bonds, which are callable at par, the required principal payment was made in July 2019. An interest rate of 4.0% is assumed for all fiscal years including the $30 million of the Series 2006A Bonds that are not covered by the interest rate exchange agreement.*

The Museum has a $130 million confirmed credit facility through September 2020 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, 2019 and 2018. To date there have been no drawdowns of this facility. The above table assumes that the Museum would obtain a new credit facility when the previous credit facility expired in fiscal year 2020.

L. Net Assets

The Museum classifies all financial transactions into two net asset categories: without donor restrictions and with donor restrictions. Net assets without donor restrictions include gifts that are not subject to donor-imposed restrictions. A portion of this net asset category is designated by the Museum for specific purposes, including long-term investment, leasehold improvements, and various curatorial activities. Net assets with donor restrictions carry donor-imposed restrictions on the expenditure of the contributed assets. Donor 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 are with donor restrictions. Net assets with donor restrictions also include 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.

The composition of net assets with donor restrictions by purpose at June 30, 2019 and 2018 were as follows:

	2019	*2018*
Endowment:		
Art aquisitions and book purchases	$ 551,833	$ 555,167
Capital projects and assets	498	92
Education and public programs	153,758	146,920
Exhibitions and publications	179,624	153,889
Operating support and other purposes	1,435,673	1,339,267
Other:		
Art acquisitions and book purchases	88,754	99,056
Capital projects and assets	99,053	74,982
Education and public programs	19,848	25,140
Exhibitions and publications	50,938	65,153
Operating support and other purposes	93,148	84,417
TOTAL NET ASSETS	$ 2,673,127	$ 2,544,083

M. Leases and Other Commitments

At June 30, 2019, 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 $2.3 million and $2.1 million in fiscal years 2019 and 2018, 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 $5.7 million and $5.6 million in 2019 and 2018, respectively.

Minimum rental commitments consist of the following at June 30, 2019 (in thousands):

Year Ending June 30	*Total*
2020	$ 7,046
2021	5,318
2022	5,160
2023	5,239
2024	1,819
Thereafter	2,317
Total	$ 26,899

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 year 2019 the Museum made payments to remediate the skylights in Wings A, B, and C at a cost of $1.2 million as compared to $0.04 million in fiscal year 2018. 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 $0.5 million in fiscal year 2019 and an increase of $0.01 million in fiscal year 2018, and are included in the non-operating section of the Statement of Activities. As of June 30, 2019 and 2018, $9.0 million and $9.7 million, respectively, of conditional asset retirement obligations are included in the liability section of the Statement of Financial Position.

O. Disclosure for Endowment Funds

The Museum's endowment consists of approximately 780 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 (board-designated endowments). While board-designated 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 board-designated 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 board-designated 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 net assets with donor restrictions (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 net assets with donor restrictions 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 without donor restrictions as 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 2019 and 2018. The hybrid spending policy used in fiscal year 2019 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. 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 2019.

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, 2019 (in thousands):

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Donor-restricted endowment funds	$	$ 2,321,386	$ 2,321,386
Board-designated endowment funds	935,005		935,005
Total funds	$ 935,005	$ 2,321,386	$ 3,256,391

Endowment Net Asset Composition by Type of Fund as of June 30, 2018 (in thousands):

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Donor-restricted endowment funds	$	$ 2,195,335	$ 2,195,335
Board-designated endowment funds	946,926		946,926
Total funds	$ 946,926	$ 2,195,335	$ 3,142,261

Endowment Net Assets for the Fiscal Year Ended June 30, 2019 (in thousands):

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Endowment and board-designated endowment net assets, beginning of year	$ 946,926	$ 2,195,335	$ 3,142,261
Investment return:			
Investment income, net of certain management and custodian fees, taxes, and other expenses	7,831	14,296	22,127
Net realized gains	36,720	66,228	102,948
Changes in unrealized appreciation	18,362	40,259	58,621
Total return on investments	62,913	120,783	183,696
Transfers	57,157	(57,157)	
Investment return allocated for current activities	(104,295)	(49,755)	(154,050)
Contributions	10,652	77,066	87,718
Other changes and reclasses	(38,348)	35,124	(3,234)
Total endowment and board-designated endowment net assets, end of year	$ 935,005	$ 2,321,386	$ 3,256,391

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

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Endowment and board-designated endowment net assets, beginning of year	$ 854,866	$ 2,038,530	$ 2,893,396
Investment return:			
Investment income, net of certain management and custodian fees, taxes, and other expenses	8,698	16,359	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	213,386	330,683
Transfers	53,457	(53,457)	
Investment return allocated for current activities	(101,064)	(49,547)	(150,611)
Contributions	8,748	30,285	39,033
Other changes and reclasses	13,622	16,138	29,760
Total endowment and board-designated endowment net assets, end of year	$ 946,926	$ 2,195,335	$ 3,142,261

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 in both years ending June 30, 2019 and 2018.

P. Contingencies and Subsequent Events

Contingencies

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

On 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 that 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. The District Court dismissed the suit on February 7, 2018. The Estate of Alice Leffmann appealed this decision to the United States Court of Appeals for the Second Circuit, which affirmed the District Court's dismissal of the suit on June 26, 2019. Plaintiff-Appellant filed a petition for rehearing and rehearing en banc, which was unanimously denied on August 29, 2019. The Estate of Alice Leffmann still may petition the United States Supreme Court for a writ of certiorari.

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 12, 2019, which is the date the financial statements were issued.