

The Metropolitan Museum of Art

FINANCIAL STATEMENTS

FOR THE YEARS ENDED June 30, 2023 and 2022



REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of The Metropolitan Museum of Art

Opinion

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, 2023 and 2022, and the related statements of activities and of expenses by functional and natural classification for the year ended June 30, 2023 and of cash flows for the years ended June 30, 2023 and 2022, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of June 30, 2023 and 2022, the changes in its net assets for the year ended June 30, 2023, and its cash flows for the years ended June 30, 2023 and 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Museum and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

We previously audited the statement of financial position as of June 30, 2022, and the related statements of activities, of expenses by functional and natural classification and of cash flows for the year then ended (the statements of activities and of expenses by functional and natural classification are not presented herein), and in our report dated November 10, 2022, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute



assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises The Metropolitan Museum of Art Annual Report For The Year 2022-2023, but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PriceWaterhouseCoopers LLP

New York, New York
November 9, 2023

The Metropolitan Museum of Art
Statements of Financial Position

as of June 30, 2023 and 2022 (in thousands)

	<u>2023</u>	<u>2022</u>
ASSETS:		
Cash and cash equivalents (Note A)	\$ 45,439	\$ 68,755
Receivable for investments sold	533	549
Retail inventories, net (Note A)	9,878	9,432
Accounts receivable and other assets (Note B)	17,216	11,335
Contributions receivable (Note C)	223,551	151,726
Split interest arrangements (Notes G and H)	35,992	38,706
Investments (Notes A and G)	4,868,519	4,707,755
Fixed assets, net (Notes A and E)	397,774	379,685
Right-of-use asset (Notes A and M)	15,972	5,958
Collections (Note A)	-	-
	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 5,614,874</u></u>	<u><u>\$ 5,373,901</u></u>
LIABILITIES:		
Payable for investments purchased	\$ 2,194	\$ 2,361
Accounts payable and accrued expenses	43,474	46,396
Accrued salaries and benefits	25,901	33,056
Deferred income (Note A)	8,385	6,889
Notes payable (Note J)	14,966	14,817
Lease liability (Notes A and M)	16,366	6,418
Annuity and other split interest obligations (Notes G and H)	14,036	14,484
Asset retirement obligations	7,995	8,957
Pension and other accrued retirement obligations (Note I)	91,563	123,482
Loans payable and other long-term liabilities (Notes G and K)	392,235	398,558
	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>617,115</u>	<u>655,418</u>
NET ASSETS:		
Without donor restrictions (Notes A and N)	1,388,627	1,328,484
With donor restrictions (Notes A, L, and N)	3,609,132	3,389,999
	<u> </u>	<u> </u>
TOTAL NET ASSETS	<u>4,997,759</u>	<u>4,718,483</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,614,874</u></u>	<u><u>\$ 5,373,901</u></u>

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

The Metropolitan Museum of Art
Statement of Activities

for the year ended June 30, 2023, with summarized financial
information for the year ended June 30, 2022 (in thousands)

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total 2023</i>	<i>Total 2022</i>
<u>OPERATING</u>				
REVENUE AND SUPPORT:				
Admissions	\$ 49,059	\$ -	\$ 49,059	\$ 31,952
Membership	23,574	-	23,574	26,170
Gifts and grants	37,268	47,483	84,751	102,920
Operating appropriations from the City of New York (Note A)	26,242	-	26,242	22,560
Endowment support for current activities (Note G)	71,814	38,607	110,421	100,115
Retail and other auxiliary activities	46,194	-	46,194	45,589
Other income	17,369	-	17,369	15,903
Net assets released from donor restrictions to fund operating expenses	63,767	(63,767)	-	-
TOTAL REVENUE AND SUPPORT	335,287	22,323	357,610	345,209
EXPENSES:				
Program services	230,434	-	230,434	213,456
Auxiliary activities	46,396	-	46,396	44,382
Supporting services	80,635	-	80,635	76,644
TOTAL EXPENSES	357,465	-	357,465	334,482
Transfer of non-operating funds	18,301	(19,952)	(1,651)	(4,698)
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(3,877)	2,371	(1,506)	6,029
<u>NON-OPERATING</u>				
Museum-designated and donor-restricted gifts	8,381	130,258	138,639	99,844
Endowment gifts (includes board-designated endowment)	7,348	69,762	77,110	34,312
Endowment support for current activities (Note G)	44,155	30,160	74,315	67,631
Investment return/(loss) in excess of current support (Note G)	28,248	28,901	57,149	(339,749)
Change in value of split interest agreements (Note H)	(83)	(3,118)	(3,201)	(2,615)
Depreciation and non-capitalized expenditures (Note E)	(47,007)	-	(47,007)	(45,664)
Other net periodic pension and postretirement benefit cost (Note I)	(2,882)	-	(2,882)	(1,425)
Interest expense on bonds and interest rate swaps (Notes A and K)	(12,881)	-	(12,881)	(12,430)
Realized and change in unrealized gains on 2015 bond proceeds	10,007	-	10,007	12,552
Transfer of designated non-operating funds to operating and other	(10,269)	12,940	2,671	4,548
Net assets released from donor restrictions	6,656	(6,656)	-	-
Change in net assets before collection items not capitalized and other adjustments	27,796	264,618	292,414	(176,967)
Purchases of art (Note D)	(52,401)	-	(52,401)	(74,432)
Proceeds from sales of art	-	51	51	44,018
Net assets released from donor restrictions to fund acquisitions of art	45,536	(45,536)	-	-
Pension-related changes other than NPPC (Note I)	32,782	-	32,782	67,852
Change in fair value of interest rate exchange agreements (Notes G and K)	6,430	-	6,430	18,012
CHANGE IN NET ASSETS	\$ 60,143	\$ 219,133	\$ 279,276	\$ (121,517)
NET ASSETS AT THE BEGINNING OF THE YEAR (Note A)	\$ 1,328,484	\$ 3,389,999	\$ 4,718,483	\$ 4,840,000
NET ASSETS AT THE END OF THE YEAR	\$ 1,388,627	\$ 3,609,132	\$ 4,997,759	\$ 4,718,483

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

The Metropolitan Museum of Art
Statements of Cash Flows

for the years ended June 30, 2023 and 2022 (in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 279,276	\$ (121,517)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	45,025	43,905
Loss on disposal of fixed assets	-	3,400
Receipt of contributed securities and other assets	(12,212)	(8,090)
Proceeds from the sale of contributed securities	9,587	1,393
Contributions for capital expenditures	(36,805)	(30,732)
Contributions for long-term investment	(62,012)	(28,336)
Allowance and discount on contributions receivable	15,841	(3,321)
Net realized and unrealized (gain)/loss	(203,335)	176,054
Acquisitions and sales of art, net	52,350	30,414
Interest rate exchange agreements	(6,430)	(18,011)
Asset retirement obligations	(962)	326
Pension and other accrued retirement obligations other than NPPC	(32,782)	(67,852)
Changes in assets and liabilities:		
Retail inventories, net	(446)	(4,379)
Accounts receivable and other assets	(5,947)	104
Contributions receivable	(87,666)	(2,601)
Split interest arrangements	2,714	4,716
Accounts payable and accrued expenses	(5,827)	3,957
Accrued salaries and benefits	(7,155)	1,814
Deferred income	1,496	(7,624)
Annuity and other split interest obligations	(448)	(2,336)
Pension and other accrued retirement obligations	863	(516)
Net cash used in operating activities	<u>(54,875)</u>	<u>(29,232)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed assets	(62,452)	(61,066)
Proceeds from sales of investments	1,099,860	1,113,560
Purchases of investments	(1,060,022)	(1,042,915)
Acquisitions of art	(50,050)	(73,628)
Proceeds from sales of art	51	44,018
Net cash used in investing activities	<u>(72,613)</u>	<u>(20,031)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the sale of contributed securities for capital expenditure and long-term investment	5,777	3,164
Contributions for capital expenditures	36,805	30,732
Contributions for long-term investment	62,012	28,336
Payment of notes payable	(4,265)	(635)
Proceeds from notes payable	4,414	6,035
Net cash provided by financing activities	<u>104,743</u>	<u>67,632</u>
Net (decrease)/increase in cash and cash equivalents, restricted cash	(22,745)	18,369
Beginning of the year	<u>74,607</u>	<u>56,238</u>
END OF THE YEAR	<u><u>\$ 51,862</u></u>	<u><u>\$ 74,607</u></u>
Supplemental information:		
Cash paid in the year for interest	13,535	12,550
Non-cash investing activity:		
Increase/(decrease) in fixed asset additions included in accounts payable and accrued expenses	554	(3,885)
Increase in acquisition of art included in accounts payable and accrued expenses	2,351	804
Receipt of contributed securities and other assets	(12,212)	(8,090)

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

The Metropolitan Museum of Art
Statement of Expenses by Functional and Natural Classification

for the year ended June 30, 2023, with summarized financial
information for the year ended June 30, 2022 (in thousands)

	<i>Program Services</i>	<i>Supporting Services</i>	<i>Auxiliary Activities</i>	<i>Total 2023</i>	<i>Total 2022</i>
Compensation	\$ 157,448	\$ 46,830	\$ 15,527	\$ 219,805	\$ 203,704
Professional fees	14,870	5,932	5,212	26,014	27,126
Materials, maintenance, and supplies	18,313	4,358	945	23,616	22,158
Printing and publications	2,693	81	1,941	4,715	3,935
Rent and utilities	13,451	5,118	943	19,512	18,363
General office costs	14,513	791	5,592	20,896	18,210
Promotional and special events	5,963	15,499	1,421	22,883	20,858
Insurance	2,843	74	157	3,074	2,457
Inventory	-	-	13,902	13,902	14,345
Restaurant expenses	-	-	-	-	3
Depreciation and loss on sale of assets	340	1,952	756	3,048	3,323
Operating expenses	230,434	80,635	46,396	357,465	334,482
Operating expenses netted within revenue	550	693	-	1,243	1,094
Total operating expenses	<u>230,984</u>	<u>81,328</u>	<u>46,396</u>	<u>358,708</u>	<u>335,576</u>
Depreciation and non-capitalized expenditures	42,796	2,852	1,359	47,007	45,664
Interest expense on bonds and interest rate swaps	10,763	1,202	916	12,881	12,430
Other net periodic pension and postretirement benefit costs	-	2,882	-	2,882	1,425
Total 2023	<u>\$ 284,543</u>	<u>\$ 88,264</u>	<u>\$ 48,671</u>	<u>\$ 421,478</u>	
Total 2022	<u>\$ 267,074</u>	<u>\$ 81,413</u>	<u>\$ 46,608</u>		<u>\$ 395,095</u>

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 locations. 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 restrictions 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 N. 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 Statements 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.

Cash and Cash Equivalents - 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. On the Statements of Cash Flows, the Museum is required to show restricted cash from investments as part of a reconciliation equating to total cash. The Museum elected to treat cash equivalents that are highly liquid short-term investments within its investment portfolio (Note G) as short-term investments and therefore is only including cash held in the portfolio in the Statements of Cash Flows and not short-term investments. Short-term investments are reported at fair value.

The following table provides a reconciliation of cash and cash equivalents reported within the Statements of Financial Position to the amount shown on the Statements of Cash Flows for the years ended June 30, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents on the Statements of Financial Position	\$ 45,439	\$ 68,755
Cash included in investments	<u>6,423</u>	<u>5,852</u>
Total cash and cash equivalents, restricted cash on Statements of Cash Flow	<u>\$ 51,862</u>	<u>\$ 74,607</u>

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 and foreign currency forward exchange contracts) 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 and foreign currency forward exchange contracts, 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 finance lease. The value of the original building is not included on the Statements 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.

Right-of-Use Asset and Lease Liability - The Museum recognized a right-of-use asset and a lease liability, initially measured at the present value of the lease payments for operating leases not classified as short-term leases. For operating leases, a single lease cost is calculated and allocated over the lease term on a straight-line basis. Since the Museum's lease agreements do not have readily determinable discount rates implicit in the leases, incremental borrowing rates between 3.3% and 4.1% as of June 30, 2023 and 3.3% as of June 30, 2022 were used to determine the present value of the lease payments. Should there be a modification, the rate may be updated with a more current incremental borrowing rate.

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.

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, totaling \$13.2 million and \$12.1 million in fiscal years 2023 and 2022, 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 included in loans payable and other long-term liabilities on the Statements 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 \$3.2 million and \$2.6 million in fiscal years 2023 and 2022, respectively. Other advertising expenses incurred primarily in support of special exhibitions, the permanent collection, and Museum membership totaled \$5.4 million and \$4.7 million in fiscal years 2023 and 2022, 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 not-for-profit 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 Statements of Activities and Expenses by Functional and Natural Classification 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's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Adopted Accounting Pronouncements - In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848), which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform due to the risk of cessation of the London Interbank Offered Rate ("LIBOR"). The amendments in this update are optional and apply to all entities that have derivative instruments that use an interest rate for margining, discounting or contract price alignment that is modified as a result of reference rate reform. The Museum adopted ASU 2021-01 in fiscal year 2023 during the renewal process for its credit facilities and by adhering to the International Swaps and Derivatives Association, Inc. ("ISDA") 2020 IBOR Fallbacks Protocol, see additional disclosures in Note K.

B. ACCOUNTS RECEIVABLE AND OTHER ASSETS

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

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Accounts receivable, net of allowance of \$222 and \$123 for FY23 and FY22, respectively	\$ 5,451	\$ 2,986
Prepaid expenses and other	7,357	5,784
Taxes receivable	1,516	1,523
Dividends and interest receivable	2,892	1,042
Total	<u>\$ 17,216</u>	<u>\$ 11,335</u>

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 uncollectability. The present value discount rate was 8.25% and 4.75 % for contributions receivable at June 30, 2023 and June 30, 2022, respectively. As of June 30, 2023 and 2022, approximately 39.2% and 34.0%, respectively, of gross contributions receivable is due from five and three donors, respectively. Contributions are expected to be realized as follows (in thousands):

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Less than one year	\$ 84,491	\$ 66,570
Between one and five years	146,474	60,652
Over five years	34,800	50,876
Total	265,765	178,098
Less:		
Adjustments and allowance for uncollectability	(6,132)	(4,218)
Discount for present value	(36,082)	(22,154)
Net	<u>\$ 223,551</u>	<u>\$ 151,726</u>

As of June 30, 2023, the Museum received conditional contributions of \$247.0 million, of which \$241.0 million is contingent upon the completion of specific milestones related to upcoming Museum capital projects and \$6.0 million is contingent upon the creation of specific programming. As of June 30, 2022, the Museum received conditional contributions of \$132.5 million, all of which was contingent upon the completion of specific milestones related to upcoming Museum capital projects. Due to these measurable performance-related barriers or other conditions which have not yet been met, these contributions have not been recognized in the above figures and accompanying financial statements.

D. ACQUISITIONS OF ART

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

	<u>2023</u>	<u>2022</u>
Gifts of cash and securities	\$ 23,024	\$ 46,206
Gains and income from long-term investment:		
For designated curatorial departments	21,933	18,738
Proceeds from fine arts insurance and the sale of art	7,444	9,488
Total	<u>\$ 52,401</u>	<u>\$ 74,432</u>

E. FIXED ASSETS

Fixed assets consist of (in thousands):

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<i>Estimated Useful Lives in Years</i>
Land	1,015	\$ 1,015	N/A
Buildings and improvements	43,137	41,918	20-40
Leasehold improvements, auxiliary activities	27,903	27,364	4-40
Leasehold improvements, Fifth Avenue building	1,211,595	1,158,835	5-30
Machinery and equipment	65,604	57,138	3-20
Total	1,349,254	1,286,270	
Less accumulated depreciation and amortization	(951,480)	(906,585)	
Net	<u>\$ 397,774</u>	<u>\$ 379,685</u>	

The above amounts include construction in progress of \$97.6 million and \$178.3 million at June 30, 2023 and 2022, respectively. Depreciation expense was \$44.9 million and \$43.9 million for fiscal years 2023 and 2022, respectively. Pursuant with the Museum's policy regarding its measure of operations, \$3.0 million and \$3.3 million of depreciation expense were charged to operating activities in fiscal years 2023 and 2022, respectively, while \$41.9 million and \$40.6 million were charged to non-operating activities in fiscal years 2023 and 2022, respectively. In fiscal year 2022, \$5.5 million of fixed assets with a net book value of \$3.4 million were written off.

Fixed assets and construction in progress include \$144.0 million of property contributed and paid for by the City since 1990, of which \$0.4 million was received during the fiscal years ended June 30, 2023 and 2022.

F. LIQUIDITY AND AVAILABLE RESOURCES

The Museum's financial assets available within one year for general expenditure are as follows (in thousands):

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
FINANCIAL ASSETS		
Cash on the Statements of Financial Position	\$ 45,439	\$ 68,755
Accounts receivable	5,451	2,986
Contribution receivable available for next fiscal year	97	847
<i>Board designations</i>		
Endowment payout without donor restrictions for the next fiscal year	117,351	110,681
Financial assets available within one year	<u>168,338</u>	<u>183,269</u>
LIQUIDITY RESOURCES		
Revolving line of credit	60,034	135,183
Lines of credit	71,368	10,261
Total liquidity resources	<u>131,402</u>	<u>145,444</u>
Total financial assets and liquidity resources	<u>\$ 299,740</u>	<u>\$ 328,713</u>

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.

Additionally, the Museum has board-designated, quasi-endowment funds of \$1,190.5 million and \$1,153.9 million as of June 30, 2023 and 2022, 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, in accordance with the Museum's spending policy.

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 Museum had approximately \$680.8 million and \$683.1 million in unfunded capital commitments primarily related to private equity and real asset funds as of June 30, 2023 and 2022, 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 US 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, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
	<u>Fair Value</u>	<u>Fair Value</u>
<i>Held within the long-term portfolio</i>		
Cash and short-term investments	\$ 336,717	\$ 360,026
Fixed income	145,707	148,244
Equities	663,243	771,883
Equity funds	884,748	598,566
Hedge funds	846,205	791,740
Private equity funds	1,266,516	1,239,396
Real asset funds	<u>502,125</u>	<u>575,053</u>
Subtotal	4,645,261	4,484,908
<i>Held for capital projects</i>		
Cash and short-term investments	86,514	63,206
Fund of hedge funds	<u>110,689</u>	<u>126,117</u>
Subtotal	197,203	189,323
<i>Other miscellaneous purposes</i>		
Subtotal	<u>26,055</u>	<u>33,524</u>
Total investments	<u>\$ 4,868,519</u>	<u>\$ 4,707,755</u>

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

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

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

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

Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, observable inputs other than quoted prices, inputs derived principally from or corroborated by observable market data by correlation or other means. Level 2 assets primarily consist of funds that invest in exchange-traded equity, fixed income securities, and derivatives. The receipt of information regarding underlying holdings generally is less frequent than assets classified as Level 1. Valuations are based on quoted prices or other significant observable inputs. The Investments Office performs a number of procedures to support the reasonableness of the valuation of these investments.

Level 3 - Valuation models in which significant inputs are unobservable or where there is little, if any, market activity. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Museum. The Museum considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, 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 the underlying investments that (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 Accounting Standard Codification (ASC) 820, 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 Statements of Financial Position, by caption and by level within the valuation hierarchy as of June 30, 2023 and 2022 (in thousands):

	<i>Assets and Liabilities at Fair Value as of June 30, 2023</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Investments Valued Using the Practical Expedient</i>	<i>Total</i>
Split interest arrangements	\$ 19,999	\$ 4,517	\$ 11,476	\$ -	\$ 35,992
INVESTMENTS					
Equities	641,713	21,530	-	-	663,243
Fixed income	-	-	-	-	-
Government bonds	-	2,624	-	-	2,624
Corporate debt	-	126,072	-	-	126,072
Mortgage-backed	-	11,477	-	-	11,477
Other	-	5,534	-	-	5,534
Cash and short-term investments	423,231	-	-	-	423,231
Equity funds	-	-	-	884,748	884,748
Hedge funds	-	-	-	846,205	846,205
Private equity funds	-	-	-	1,266,516	1,266,516
Real asset funds	-	-	-	502,125	502,125
Fund of hedge funds held for capital projects	-	-	-	110,689	110,689
Other investments	1,069	-	24,986	-	26,055
Total investments	1,066,013	167,237	24,986	3,610,283	4,868,519
TOTAL ASSETS	\$ 1,086,012	\$ 171,754	\$ 36,462	\$ 3,610,283	\$ 4,904,511
LIABILITIES:					
Annuity and other split interest obligations	\$ -	\$ -	\$ 14,036	\$ -	\$ 14,036
Interest rate exchange agreements	-	14,377	-	-	14,377
TOTAL LIABILITIES	\$ -	\$ 14,377	\$ 14,036	\$ -	\$ 28,413

	Assets and Liabilities at Fair Value as of June 30, 2022				
	Level 1	Level 2	Level 3	Investments Valued Using the Practical Expedient	Total
Split interest arrangements	\$ 6,908	\$ 16,888	\$ 14,910	\$ -	\$ 38,706
INVESTMENTS					
Equities	739,192	32,691	-	-	771,883
Fixed income					
Government bonds	-	2,946	-	-	2,946
Corporate debt	-	145,298	-	-	145,298
Mortgage-backed	-	-	-	-	-
Other	-	-	-	-	-
Cash and short-term investments	423,232	-	-	-	423,232
Equity funds	-	-	-	598,566	598,566
Hedge funds	-	-	-	791,740	791,740
Private equity funds	-	-	-	1,239,396	1,239,396
Real asset funds	-	-	-	575,053	575,053
Fund of hedge funds held for capital projects	-	-	-	126,117	126,117
Other investments	4,082	-	29,442	-	33,524
Total investments	1,166,506	180,935	29,442	3,330,872	4,707,755
TOTAL ASSETS	\$ 1,173,414	\$ 197,823	\$ 44,352	\$ 3,330,872	\$ 4,746,461
LIABILITIES:					
Annuity and other split interest obligations	\$ -	\$ -	\$ 14,484	\$ -	\$ 14,484
Interest rate exchange agreements	-	20,807	-	-	20,807
TOTAL LIABILITIES	\$ -	\$ 20,807	\$ 14,484	\$ -	\$ 35,291

For the years ended June 30, 2023 and 2022, the Museum had the following investments, which represented more than 5.0% of net assets:

	2023		2022	
	Fair Value (in thousands)	% of NAV	Fair Value (in thousands)	% of NAV
JPMorgan US Government Money Market	\$ 365,872	7.32 %	\$ 392,770	8.32 %

The following table lists investments carried at NAV by major investment category as of June 30, 2023 (in thousands):

INVESTMENT STRATEGY	<i>Amount to be redeemed in:</i>									
	<i>Fair Value Determined</i>					<i>Greater than 24 Months or Unable to Be Redeemed</i>		<i>In Side Pockets and/or Remaining Life</i>		<i>Unfunded Commitments</i>
	<i>Using NAV</i>	<i>3 Months</i>	<i>6 Months</i>	<i>12 Months</i>	<i>24 Months</i>	<i>Redeemed</i>	<i>Liquidation</i>	<i>Life</i>		
Equity funds	\$ 884,748	\$ 584,772	\$ 84,611	\$ 16,556	\$ 57,660	\$ 132,471	\$ 8,678	N/A	\$ 24,862	
Hedge funds	846,205	288,072	93,848	105,557	179,916	116,150	62,662	N/A	4,250	
Private equity	1,266,516	-	-	-	-	1,266,516	N/A	1 to 13 years	475,543	
Real Assets	502,125	-	-	-	-	502,125	N/A	1 to 10 years	176,195	
Fund of hedge funds for capital projects	110,689	110,689	-	-	-	-	N/A	N/A	N/A	

The following table lists investments carried at NAV by major investment category as of June 30, 2022 (in thousands):

INVESTMENT STRATEGY	<i>Amount to be redeemed in:</i>									
	<i>Fair Value Determined</i>					<i>Greater than 24 Months or Unable to Be Redeemed</i>		<i>In Side Pockets and/or Remaining Life</i>		<i>Unfunded Commitments</i>
	<i>Using NAV</i>	<i>3 Months</i>	<i>6 Months</i>	<i>12 Months</i>	<i>24 Months</i>	<i>Redeemed</i>	<i>Liquidation</i>	<i>Life</i>		
Equity funds	\$ 598,566	\$ 359,117	\$ 108,445	\$ 17,757	\$ 26,971	\$ 77,289	\$ 8,987	N/A	\$ 24,862	
Hedge funds	791,740	277,312	70,555	101,445	154,581	122,398	65,449	N/A	9,000	
Private equity	1,239,396	-	-	-	-	1,239,396	N/A	1 to 14 years	458,883	
Real assets	575,053	-	-	-	-	575,053	N/A	1 to 11 years	190,390	
Fund of hedge funds held for capital projects	126,117	126,117	-	-	-	-	N/A	N/A	N/A	

As of June 30, 2023, and June 30, 2022, no fund investments were subject to suspended withdrawals (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, 2023 and 2022 (in thousands):

	<u>2023</u>		<u>2022</u>	
	<i>Unrealized</i>		<i>Unrealized</i>	
	<i>Fair Value</i>	<i>Gain</i>	<i>Fair Value</i>	<i>Gain</i>
Interest rate exchange agreements	\$ (14,377)	\$ 6,430	\$ (20,807)	\$ 18,012

The following schedules summarize investment return by net asset classification for the years ended June 30, 2023 and 2022 (in thousands):

	<u>2023</u>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Investment income, net of certain management and custodian fees, taxes, and other expenses	\$ 19,147	\$ 36,127	\$ 55,274
Net realized gains	105,019	195,231	300,250
Changes in unrealized appreciation	<u>(36,305)</u>	<u>(70,083)</u>	<u>(106,388)</u>
Total return on investments	87,861	161,275	249,136
Transfers	63,607	(63,607)	-
Investment return allocated for current activities	<u>(123,220)</u>	<u>(68,767)</u>	<u>(191,987)</u>
Investment return in excess of current support	<u>\$ 28,248</u>	<u>\$ 28,901</u>	<u>\$ 57,149</u>

	<u>2022</u>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Investment income, net of certain management and custodian fees, taxes, and other expenses	\$ 6,137	\$ 16,474	\$ 22,611
Net realized gains	84,682	157,436	242,118
Changes in unrealized appreciation	<u>(151,988)</u>	<u>(278,902)</u>	<u>(430,890)</u>
Total return on investments	(61,169)	(104,992)	(166,161)
Transfers	61,483	(61,483)	-
Investment return allocated for current activities	<u>(116,795)</u>	<u>(56,793)</u>	<u>(173,588)</u>
Investment return in excess of current support	<u>\$ (116,481)</u>	<u>\$ (223,268)</u>	<u>\$ (339,749)</u>

Realized and unrealized gains on the \$250 million Series 2015 Bonds, which totaled \$10.0 million and \$12.6 million for the years ended June 30, 2023 and 2022, 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 to Note N 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 \$(2.8) million and \$0.7 million in the years ended June 30, 2023 and 2022, respectively. The discount rate applied to these funds was 4.2% to 0.6% 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):

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Assets		
Charitable remainder and other trust assets	\$ 18,034	\$ 21,105
Charitable gift annuities	9,595	9,264
Pooled income funds and trusts invested on behalf of others*	<u>8,363</u>	<u>8,337</u>
Total	<u>\$ 35,992</u>	<u>\$ 38,706</u>
Liabilities		
Charitable gift annuities	\$ 6,154	\$ 6,666
Pooled income funds and trusts invested on behalf of others*	<u>7,882</u>	<u>7,818</u>
Total	<u>\$ 14,036</u>	<u>\$ 14,484</u>

* The assets of the trust of \$7.5 million in both years as of June 30, 2023 and 2022, are included in investments on the Statements 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, 2023 and 2022, a fair value adjustment of 4.2% and 2.8%, 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 Metropolitan Museum of Art
Notes to Financial Statements

for the years ended June 30, 2023 and 2022

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, 2023 and 2022 (in thousands):

	<u>Beginning Balance</u> <u>as of June 30, 2022</u>	<u>Distributions</u>	<u>Valuation Adjustment</u> <u>and Changes in</u> <u>Discounts and</u> <u>Allowances</u>	<u>Ending Balance</u> <u>as of June 30, 2023*</u>
Charitable remainder and other trust assets	\$21,105	(\$228)	(\$2,843)	\$18,034

* Of this amount, \$5.9 million represents assets classified as Level 3 in the fair value hierarchy.

	<u>Beginning Balance</u> <u>as of June 30, 2021</u>	<u>Distributions</u>	<u>Valuation Adjustment</u> <u>and Changes in</u> <u>Discounts and</u> <u>Allowances</u>	<u>Ending Balance</u> <u>as of June 30, 2022*</u>
Charitable remainder and other trust assets	\$22,044	(\$224)	(\$714)	\$21,105

* Of this amount, \$9.4 million represents assets classified as Level 3 in the fair value hierarchy.

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, 2023 and 2022 (in thousands):

	<u>Beginning Balance</u> <u>as of June 30, 2022</u>	<u>Changes in</u> <u>Remainder</u> <u>Value</u>	<u>Realized and</u> <u>Unrealized</u> <u>(Losses)</u>	<u>Ending Balance</u> <u>as of June 30, 2023</u>
Annuity and other split interest obligations	\$14,484	\$849	(\$1,297)	\$14,036

	<u>Beginning Balance</u> <u>as of June 30, 2021</u>	<u>Changes in</u> <u>Remainder</u> <u>Value</u>	<u>Realized and</u> <u>Unrealized</u> <u>(Losses)</u>	<u>Ending Balance</u> <u>as of June 30, 2022</u>
Annuity and other split interest obligations	\$16,820	(\$1,359)	(\$977)	\$14,484

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 employees' years of service and final four years of compensation. Employees contribute 3% of their base earnings to this plan, which amounted to \$1.0 million and \$0.9 million fiscal years 2023 and 2022, respectively.

Defined contribution plan for nonunion staff (Basic Plan) – The Museum has a mandatory defined contribution pension plan for all nonunion 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 2023 and 2022 was \$9.2 million and \$8.1 million, respectively.

Defined contribution matching plan for nonunion staff (Matching Plan) – The Museum has a voluntary defined contribution matching pension plan for all nonunion employees other than temporary employees. Under this plan, nonunion employees may voluntarily defer a portion of their annual compensation on a pre-tax basis. The Museum matches 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 2023 and 2022 was \$3.1 million and \$2.8 million, respectively.

Defined contribution plan for union staff (Union Matching Plan) – The Museum has a voluntary defined contribution plan for all union employees covered by a collective bargaining agreement. The Museum contributes up to 3% of the participant's salary based on a schedule. The cost of this plan was \$0.4 million for both fiscal years 2023 and 2022.

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

- Nonunion staff: Substantially all of the Museum's nonunion 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 nonunion postretirement medical care benefit plan of \$1.1 million and \$2.7 million in fiscal years 2023 and 2022, respectively.
- Union staff: The Museum's Local 1503 retired union employees are eligible to receive postretirement health benefit coverage through the New York City Health Plan pursuant to a collective bargaining agreement between the Museum and Local 1503 of District Council 37 (member of American Federation of State, County and Municipal Employee (AFSCME) and American Federation of Labor and Congress of Industrial Organization [AFL-CIO]) that expired June 30, 2020 and will be extended through June 30, 2024 pursuant to a Memorandum of Agreement that was ratified by union membership on November 4, 2022. 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 \$4.3 million and \$4.5 million in fiscal years 2023 and 2022, 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 2023 and 2022 of \$0.1 million and \$0.4 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 Statements of Financial Position as of June 30, 2023 and 2022, including the change in the change in benefit obligation and the plan assets (in thousands):

	<i>Pension Benefits</i>		<i>Postretirement Benefits</i>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	\$ 224,389	\$ 289,020	\$ 120,514	\$ 146,593
Service cost	4,522	7,677	3,997	6,045
Interest cost	10,603	8,713	5,465	4,479
Employee contributions	984	904	-	-
Actuarial (gain)	(15,946)	(71,542)	(8,713)	(29,082)
Benefits paid	(10,486)	(9,761)	(5,509)	(7,521)
Settlements	-	(622)	-	-
Benefit obligation at end of year	<u>214,066</u>	<u>224,389</u>	<u>115,754</u>	<u>120,514</u>
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	221,421	243,763	-	-
Actual gain/(loss) on plan assets	21,310	(21,005)	-	-
Employer contributions	5,027	8,142	5,509	7,521
Employee contributions	985	904	-	-
Benefits paid	(10,486)	(9,761)	(5,509)	(7,521)
Settlements	-	(622)	-	-
Fair value of plan assets at end of year	<u>238,257</u>	<u>221,421</u>	<u>-</u>	<u>-</u>
UNFUNDED STATUS (LIABILITY)	<u>\$ 24,191</u>	<u>\$ (2,968)</u>	<u>\$ (115,754)</u>	<u>\$ (120,514)</u>

Actuarial gains on the Museum's pension plans were \$15.9 million and \$71.5 million for fiscal years 2023 and 2022, respectively. Significant reasons for these changes include the single equivalent discount rate used to measure benefit obligations increased compared to the prior year which improved the funded position. Actual return (loss) on plan assets were \$21.3 million and (\$21.0) million for fiscal years 2023 and 2022, respectively. The actual return on the fair value of plan assets since the prior measurement date was more than assumed, which caused the funded position to improve year over year.

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

	<i>Pension Benefits</i>		<i>Postretirement Benefits</i>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Actuarial gains/(losses)	\$ 20,915	\$ (3,339)	\$ 10,217	\$ 1,730
Prior service costs	-	-	147	208
Cumulative employer contributions (less than)				
net periodic benefit cost	<u>3,276</u>	<u>371</u>	<u>(126,118)</u>	<u>(122,452)</u>
UNFUNDED STATUS (LIABILITY)	<u>\$ 24,191</u>	<u>\$ (2,968)</u>	<u>\$ (115,754)</u>	<u>\$ (120,514)</u>

Recognized in operating activities and other amounts recognized in non-operating activities in net assets without donor restrictions are presented in the table below for the years ended June 30, 2023 and 2022 (in thousands):

	<i>Pension Benefits</i>		<i>Postretirement Benefits</i>	
	<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>
COMPONENTS OF NET PERIODIC BENEFIT COST:				
Service cost	\$ 4,522	\$ 7,677	\$ 3,997	\$ 6,045
Total net periodic benefit cost recognized in operating activities	4,522	7,677	3,997	6,045
Interest cost	10,603	8,713	5,465	4,479
Expected return on plan assets	(13,003)	(14,398)	-	-
Amortization of prior service cost	-	-	(60)	(60)
Amortization of accumulated loss	103	890	(226)	1,615
Settlement loss	-	186	-	-
Total net periodic benefit cost recognized in non-operating activities	(2,297)	(4,609)	5,179	6,034
Total net periodic benefit cost	2,225	3,068	9,176	12,079
OTHER AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITY				
IN NET ASSETS WITHOUT DONOR RESTRICTIONS:				
Net actuarial loss	(24,355)	(37,029)	(8,713)	(29,082)
Amortization of curtailment recognition of prior service cost	-	-	-	-
Amortization of settlement recognition of net loss	-	(186)	286	(1,555)
Total other amounts recognized non-operating activities	(24,355)	(37,215)	(8,427)	(30,637)
TOTAL RECOGNIZED IN THE STATEMENT OF ACTIVITIES				
IN NET ASSETS	\$ (22,130)	\$ (34,147)	\$ 749	\$ (18,558)

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

	<i>Pension Benefits</i>		<i>Postretirement Benefits</i>	
	<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AS OF JUNE 30:				
Discount rate	5.42 %	4.95 %	5.40%	4.93%
Rate of compensation increase	3.50 %	3.50 %		
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET COST AS OF JUNE 30:				
Discount rate	4.95 %	3.08 %	4.93%	3.00%
Expected return on plan assets	5.98 %	5.97 %		
Rate of compensation increase	3.50 %	3.50 %		
ADDITIONAL INFORMATION (in thousands):				
Actual return on plan assets	\$ 21,310	\$ (21,005)		
Accumulated benefit obligation for all defined benefit pension plans	\$ 195,931	\$ 203,138		

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.

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

	<u>2023</u>	<u>2022</u>
Number of pension plans with accumulated		
benefit obligations in excess of plan assets	2	2
Aggregate accumulated benefit obligation	\$ 195,931	\$ 203,138
Aggregate fair value of plan assets	\$ 238,257	\$ 221,421
Number of pension plans with projected		
benefit obligations in excess of plan assets	2	2
Aggregate projected benefit obligation	\$ 214,066	\$ 224,389
Aggregate fair value of plan assets	\$ 238,257	\$ 221,421

Additional information related to the postretirement benefit plans for the years ended June 30, 2023 and 2022:

	<u>2023</u>		<u>2022</u>	
	<u>Union</u>	<u>Nonunion</u>	<u>Union</u>	<u>Nonunion</u>

ASSUMED MEDICAL COST TREND RATES:

Health care cost trend rate assumed for next year	7.00 %	7.00 %	6.25 %	6.25 %
Rate that the cost trend gradually declines to	5.00 %	5.00 %	5.00 %	5.00 %
Year that the final trend rate is reached	2031	2031	2027	2027

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.

In response to the improvement of the funded status of the Museum’s defined benefit plan for union staff, the Museum took steps to de-risk the portfolio in fiscal year 2023. The target allocation was changed from 70% equity and 30% fixed income to 60% equity and 40% fixed income. As of June 30, 2023, the assets of the defined benefit plan for union staff were invested 59.9% in equity securities and 40.1% in fixed income securities. As of June 30, 2022, the assets of the defined benefit plan for union staff were invested 69.6% and 30.4% in equity and fixed income securities, respectively.

The target allocation of the defined benefit plan for nonunion staff is 40% equity and 60% fixed income. As of June 30, 2023, the assets of the defined benefit plan for nonunion staff were invested 54.1% in equity securities and 45.9% in fixed income securities. As of June 30, 2022, the assets of the defined benefit plan for nonunion staff were invested 46.4% and 53.6% in equity and fixed income securities, respectively.

	<u>Pension</u> <u>Benefits</u>	<u>Postretirement</u> <u>Benefits</u>
CASH FLOWS FOR THE FISCAL YEAR ENDING		
JUNE 30 (in thousands):		
Employer Contributions:		
2022 (actual)	\$ 9,227	\$ 7,669
2023 (actual)	5,028	5,509
2024 (expected)	5,042	6,420

**PROJECTED BENEFIT PAYMENTS FOR THE
FISCAL YEAR ENDING JUNE 30 (in thousands):**

2024	\$ 10,891	\$ 6,420
2025	11,315	6,725
2026	11,715	7,135
2027	12,138	7,490
2028	12,579	7,716
2029-2033	70,084	41,961

The fair value of the pension plan assets was \$238.3 million and \$221.4 million as of June 30, 2023 and 2022, respectively. The pension plan assets are primarily comprised of mutual funds and fall within Level 1 of the fair value hierarchy. As of June 30, 2023 and 2022, \$128.7 million and \$197.4 million, respectively, of plan assets were invested in cash and cash equivalents, fixed income securities, and mutual funds that fall within Level 1 of the fair value hierarchy. The remaining \$109.6 million and \$24.0 million, respectively, are invested in commingled funds reported at NAV by external fund managers.

J. NOTES PAYABLE

As of June 30, 2023, the Museum had credit facilities with JPM Chase and Bank of America, each with a \$75 million capacity. During fiscal year 2023, the Museum reduced its capacity with JPM Chase from \$150 million to \$75 million and increased its capacity with Bank of America from \$15 million to \$75 million. Interest on the lines of credit is paid in arrears and charged to operating expenses.

The Museum had outstanding borrowings with JPM Chase of \$15.0 million and \$14.8 million as of June 30, 2023, and 2022, respectively. Any amounts borrowed under the revolving line of credit is payable in full on or before the maturity date of January 30, 2024.

The Museum had no outstanding borrowings on the Bank of America line as of June 30, 2023, and 2022. Borrowings under this line bear interest at variable rates that reset monthly. Under a sublimit of the line, the Museum had an outstanding letter of credit totaling \$3.6 million and \$4.7 million as of June 30, 2023, and 2022, respectively.

Under the loan agreements, 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 compliant with this requirement as of June 30, 2023, and 2022.

Total interest expense on bank borrowings amounted to \$0.7 million and \$0.1 million for fiscal years 2023 and 2022, respectively. As of June 30, 2023, the interest rate on the Museum's outstanding debt was 5.90%.

K. LOANS PAYABLE AND OTHER LONG-TERM LIABILITIES

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 were 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 original 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. In advance of the June 30, 2023 USD LIBOR cessation date, during fiscal year 2023, the Museum adhered to the ISDA 2020 IBOR Fallbacks Protocol in order to transition future floating rate payments from being LIBOR-based to being Secured Overnight Financing Rate ("SOFR") based.

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, 2023 and 2022, 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):

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
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	(1,099)	(1,157)
Bond issuance cost, net of amortization	<u>(1,043)</u>	<u>(1,092)</u>
Total loans payable	<u>377,858</u>	<u>377,751</u>
Fair value of forward starting interest rate exchange agreement on Series 2006A Bonds	<u>14,377</u>	<u>20,807</u>
Total interest rate exchange agreements	<u>14,377</u>	<u>20,807</u>
Total	<u>\$ 392,235</u>	<u>\$ 398,558</u>

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

	<u>2023</u>	<u>2022</u>
Interest rates on loans payable:		
Series 2006A-1 and A-2 Bonds	3.75 %	0.84 %
Series 2015 Bonds	3.40 %	3.40 %
Interest expense on loans payable (in thousands):		
Series 2006A Bonds (Non-Capitalized)	\$3,137	\$277
Series 2006A Bonds (Swap)	1,196	3,605
Series 2015 Bonds	8,548	8,548

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

	<i>Total</i>		
	<i>Principal Amount</i>	<i>Interest Payments*</i>	<i>Estimated Debt Services</i>
<i>Year Ending June 30</i>			
2024	\$ -	\$ 13,526	\$ 13,526
2025	-	13,526	13,526
2026	-	13,526	13,526
2027	-	13,526	13,526
2028	-	13,526	13,526
Thereafter	<u>380,000</u>	<u>190,633</u>	<u>570,633</u>
Total	<u>\$ 380,000</u>	<u>\$ 258,263</u>	<u>\$ 638,263</u>

*An interest rate of 4.0% is assumed for all fiscal years including the \$30 million of the Series 2006.A Bonds that are not covered by the interest rate exchange agreement.

The Museum has a \$130 million confirmed credit facility through January 2024 to provide liquidity in the event of a tender of the Museum's variable rate demand bonds (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 0.30% and 0.20%, or \$0.4 million and \$0.3 million, was associated with this credit facility for the years ended June 30, 2023 and 2022, respectively. 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 expires in fiscal year 2024.

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, 2023 and 2022 were as follows (in thousands):

	<u>2023</u>	<u>2022</u>
<i>Endowment</i>		
Art acquisitions and book purchases	\$ 718,196	\$ 690,122
Education and public programs	203,847	184,795
Exhibitions and publications	218,714	215,199
Operating support and other purposes	1,892,379	1,823,770
<i>Other</i>		
Art acquisitions and book purchases	137,919	143,975
Capital projects and assets	242,562	116,733
Education and public programs	25,147	26,082
Exhibitions and publications	60,468	62,949
Operating support and other purposes	<u>109,900</u>	<u>126,374</u>
TOTAL NET ASSETS	<u>\$ 3,609,132</u>	<u>\$ 3,389,999</u>

M. LEASES AND OTHER COMMITMENTS

At June 30, 2023, the Museum is committed to minimum future rentals under operating leases for occupancy, storage, office space, equipment, and other items, which expire at various dates through 2034. Rent expense relating to these operating leases amounted to \$6.0 million and \$5.9 million in fiscal years 2023 and 2022, respectively.

In accordance with ASC 842 Leases, lease liabilities are initially and subsequently measured at the present value of the remaining lease payments. The right-of-use assets are initially recognized at the amount of the lease liabilities initially recognized less lease incentives received, plus initial direct costs and prepaid lease payments, if any. Should there be a modification, the rate may be updated with a more current incremental borrowing rate.

In accordance with ASC 842 the Museum does not apply recognition requirements to short-term leases, terms less than 12 months, and instead recognize lease expense for such leases on a straight-line basis over the lease term.

The right-of-use asset and lease liability at June 30, 2023 as presented in the Statements of Financial Position were \$16.0 million and \$16.4 million, respectively. The right-of-use asset and lease liability at June 30, 2022 as presented in the Statements of Financial Position were \$5.9 million and \$6.4 million, respectively. Lease payments totaling \$2.1 million are included in the operating section of the Statements of Cash Flows for both fiscal years ending June 30, 2023 and 2022. In the year ended June 30, 2023, a new ten-year lease was executed for art storage for use during the construction of the Tang Wing. Also, an existing art storage lease was renewed for a five-year term. Due to the lease modification, the incremental borrowing rate used in the calculation of the present value of lease payments increased to 4.13% in 2023 compared to 3.3% in 2022.

Non-lease commitments not part of the ASC guidance and therefore not included in the right-of-use asset or lease liability totaled \$3.0 million as of June 30, 2022. There were no such non-lease commitments excluded from the right-of-use asset and lease liability as of June 30, 2023.

The following table reconciles the undiscounted cash flows expected to be paid in each of the next five years and thereafter to the lease liability recorded on the Statement of Financial Position for operating leases existing as of June 30, 2023 (in thousands):

<i>Year Ending June 30</i>	<i>Total</i>
2024	\$ 1,814
2025	2,968
2026	2,652
2027	1,426
2028	1,469
Thereafter	<u>8,737</u>
Total	<u>19,066</u>
Less: Imputed Interest	<u>2,700</u>
Present Value of Lease Liability	<u>\$ 16,366</u>

N. DISCLOSURE FOR ENDOWMENT FUNDS

The Museum's endowment consists of approximately 800 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.

The Museum's Endowment Spending Policy, which was adopted by the Board during fiscal year 2012, incorporates a hybrid spending model that combines the predictable spending element of constant growth such that 80% of the spending is based on the prior fiscal year total spending, adjusted for inflation, with an asset preservation principle such that the remaining 20% is based on the market value of the endowment of the prior fiscal year end available at the time of Board approval. Target spending rates applied to the market value of the endowment are limited to a range of 4.5% to 5.75%, as set forth in the Endowment Spending Policy, in determining the Museum's annual appropriation amount. Target spending rates used in the Museum's spending policy are recommended periodically by the Finance Committee of the Board of Trustees in accordance with a formula as set forth in the Museum's Endowment Spending Policy, and final rates are approved each fiscal year by the Board of Trustees. The Museum applied a target spending rate of 5.25% in fiscal year 2023, and 5.5% in fiscal year 2022.

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, 2023 (in thousands):

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 3,033,136	\$ 3,033,136
Board-designated endowment funds	<u>1,190,461</u>	<u>-</u>	<u>1,190,461</u>
Total funds	<u>\$ 1,190,461</u>	<u>\$ 3,033,136</u>	<u>\$ 4,223,597</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2022 (in thousands):

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 2,913,886	\$ 2,913,886
Board-designated endowment funds	<u>1,153,931</u>	<u>-</u>	<u>1,153,931</u>
Total funds	<u>\$ 1,153,931</u>	<u>\$ 2,913,886</u>	<u>\$ 4,067,817</u>

Endowment Net Assets for the Fiscal Year Ended June 30, 2023 (in thousands):

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Endowment and board-designated endowment net assets, beginning of year	\$ 1,153,931	\$ 2,913,886	\$ 4,067,817
Investment return:			
Investment income, net of certain management and custodian fees, taxes, and other expenses	16,734	31,333	48,067
Net realized gains	105,019	195,271	300,290
Changes in unrealized appreciation	<u>(36,305)</u>	<u>(65,627)</u>	<u>(101,932)</u>
Total return on investments	85,448	160,977	246,425
Transfers	63,607	(63,607)	-
Investment return allocated for current activities	(123,220)	(68,767)	(191,987)
Contributions	7,348	69,762	77,110
Other changes and reclasses	<u>3,347</u>	<u>20,885</u>	<u>24,232</u>
Total endowment and Board-designated endowment net assets, end of year	<u>\$ 1,190,461</u>	<u>\$ 3,033,136</u>	<u>\$ 4,223,597</u>

Endowment Net Assets for the Fiscal Year Ended June 30, 2022 (in thousands):

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Endowment and board-designated endowment net assets, beginning of year	\$ 1,255,764	\$ 3,092,826	\$ 4,348,590
Investment return:			
Investment income, net of certain management and custodian fees, taxes, and other expenses	6,072	12,096	18,168
Net realized gains	84,682	157,526	242,208
Changes in unrealized appreciation	<u>(151,988)</u>	<u>(283,109)</u>	<u>(435,097)</u>
Total return on investments	(61,234)	(113,487)	(174,721)
Transfers	61,483	(61,483)	-
Investment return allocated for current activities	(116,795)	(56,793)	(173,588)
Contributions	3,207	31,105	34,312
Other changes and reclasses	<u>11,506</u>	<u>21,718</u>	<u>33,224</u>
Total endowment and Board-designated endowment net assets, end of year	<u>\$ 1,153,931</u>	<u>\$ 2,913,886</u>	<u>\$ 4,067,817</u>

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 historical value was \$0.2 million and \$0.1 million in years ending June 30, 2023 and 2022, respectively.

O. 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 as of the date of issuance of these financial statements.

Subsequent Events

The Museum performed an evaluation of subsequent events through November 9, 2023, which is the date the financial statements were issued.