The Metropolitan Museum of Art

FINANCIAL STATEMENTS

FOR THE YEARS ENDED June 30, 2022 and 2021

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, 2022 and 2021, and the related statements of activities and of expenses by functional and natural classification for the year ended June 30, 2022 and of cash flows for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, the changes in its net assets for the year ended June 30, 2022, and its cash flows for the years ended June 30, 2022 and 2021 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, 2021, 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 9, 2021, 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, 2021 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 2021-2022, 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 10, 2022

Statements of Financial Position

as of June 30, 2022 and 2021 (in thousands)

	2022	2021
ASSETS:		
Cash and cash equivalents (Note A)	$ 68,755	$ 41,261
Receivable for investments sold	549	6,103
Retail inventories, net (Note A)	9,432	5,053
Accounts receivable and other assets (Note B)	11,335	11,464
Contributions receivable (Note C)	151,726	145,804
Split interest arrangements (Notes G and H)	38,706	43,422
Investments (Notes A and G)	4,707,755	4,957,598
Fixed assets, net (Notes A and E)	379,685	369,704
Right-of-use asset (Notes A and M)	5,958	8,145
Collections (Note A)	-	-
TOTAL ASSETS	$ 5,373,901	$ 5,588,554
LIABILITIES		
Payable for investments purchased	$ 2,361	$ 5,467
Accounts payable and accrued expenses	46,396	45,520
Accrued salaries and benefits	33,056	31,242
Deferred income (Note A)	6,889	14,513
Notes payable (Note J)	14,817	9,417
Lease liability (Notes A and M)	6,418	8,630
Annuity and other split interest obligations (Notes G and H)	14,484	16,820
Asset retirement obligations (Note N)	8,957	8,631
Pension and other accrued retirement obligations (Note I)	123,482	191,850
Loans payable and other long-term liabilities (Notes G and K)	398,558	416,464
TOTAL LIABILITIES	655,418	748,554
NET ASSETS:		
Without donor restrictions (Notes A and O)	1,328,484	1,354,620
With donor restrictions (Notes A, L, and O)	3,389,999	3,485,380
TOTAL NET ASSETS	4,718,483	4,840,000
TOTAL LIABILITIES AND NET ASSETS	$ 5,373,901	$ 5,588,554

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

for the year ended June 30, 2022, with summarized financial information for the year ended June 30, 2021 (in thousands)

	Without Donor Restrictions	*With Donor Restrictions*	*Total 2022*	*Total 2021*
OPERATING				
REVENUE AND SUPPORT				
Admissions	$ 31,952	$ -	$ 31,952	$ 10,144
Membership	26,170	-	26,170	18,990
Gifts and grants	42,861	60,059	102,920	49,078
Operating appropriations from the City of New York (Note A)	22,560	-	22,560	18,936
Endowment support for current activities (Note G)	65,350	34,765	100,115	119,084
Retail and other auxiliary activities	45,589	-	45,589	24,639
Other income	15,903	-	15,903	4,487
Net assets released from donor restrictions to fund operating expenses	67,219	(67,219)	-	-
TOTAL REVENUE AND SUPPORT	317,604	27,605	345,209	245,358
EXPENSES:				
Program services	213,456	-	213,456	187,740
Auxiliary activities	44,382	-	44,382	33,852
Supporting services	76,644	-	76,644	62,783
TOTAL EXPENSES	334,482	-	334,482	284,375
Transfer of non-operating funds	11,299	(15,997)	(4,698)	52,542
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(5,579)	11,608	6,029	13,525
NON-OPERATING				
Museum-designated and donor-restricted gifts	12,363	87,481	99,844	71,941
Endowment gifts (includes board-designated endowment)	3,207	31,105	34,312	37,842
Endowment support for current activities (Note G)	45,603	22,028	67,631	49,146
Investment (loss)/return in excess of current support (Note G)	(116,481)	(223,268)	(339,749)	1,043,233
Change in value of split interest agreements (Note H)	(338)	(2,277)	(2,615)	5,086
Depreciation and non-capitalized expenditures (Note E)	(45,664)	-	(45,664)	(44,760)
Other net periodic pension and postretirement benefit cost (Note I)	(1,425)	-	(1,425)	(8,308)
Interest expense on bonds and interest rate swaps (Notes A and K)	(12,430)	-	(12,430)	(12,396)
Realized and change in unrealized gains on 2015 bond proceeds	12,552	-	12,552	16,823
Transfer of designated non-operating funds to operating and other	(6,843)	11,391	4,548	(51,933)
Net assets released from donor restrictions	5,014	(5,014)	-	-
Change in net assets before collection items not capitalized and other adjustments	(110,021)	(66,946)	(176,967)	1,120,199
Purchases of art (Note D)	(74,432)	-	(74,432)	(36,402)
Proceeds from sales of art	-	44,018	44,018	1,233
Net assets released from donor restrictions to fund acquisitions of art	72,453	(72,453)	-	-
Pension-related changes other than NPPC (Note I)	67,852	-	67,852	65,620
Change in fair value of interest rate exchange agreements (Notes G and K)	18,012	-	18,012	11,344
CHANGE IN NET ASSETS	(26,136)	(95,381)	(121,517)	1,161,994
NET ASSETS AT THE BEGINNING OF THE YEAR (Note A)	1,354,620	3,485,380	4,840,000	3,678,006
NET ASSETS AT THE END OF THE YEAR	$ 1,328,484	$ 3,389,999	$ 4,718,483	$ 4,840,000

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

Statements of Cash Flows

for the years ended June 30, 2022 and 2021 (in thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (121,517)	$ 1,161,994
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	43,905	47,446
Loss on disposal of fixed assets	3,400	433
Receipt of contributed securities and other assets	(8,090)	(15,104)
Proceeds from the sale of contributed securities	1,393	10,857
Contributions for capital expenditures	(30,732)	(13,468)
Contributions for long-term investment	(28,336)	(31,362)
Allowance and discount on contributions receivable	(3,321)	1,759
Net realized and unrealized loss/(gain)	176,054	(1,215,005)
Acquisitions and sales of art, net	30,414	35,169
Interest rate exchange agreements	(18,011)	(11,344)
Asset retirement obligations	326	(294)
Pension and other accrued retirement obligations	(67,852)	(65,620)
Changes in assets and liabilities:		
Retail inventories, net	(4,379)	3,663
Accounts receivable and other assets	104	6,413
Contributions receivable	(2,601)	(15,414)
Split interest arrangements	4,716	(6,070)
Accounts payable and accrued expenses	3,957	8,858
Accrued salaries and benefits	1,814	(3,874)
Deferred income	(7,624)	3,506
Annuity and other split interest obligations	(2,336)	1,137
Pension and other accrued retirement obligations	(516)	6,782
Net cash used in operating activities	(29,232)	(89,538)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed assets	(61,066)	(39,621)
Proceeds from sales of investments	1,113,560	1,254,105
Purchases of investments	(1,042,915)	(1,134,261)
Acquisitions of art	(73,628)	(33,129)
Proceeds from sales of art	44,018	1,233
Net cash (used in)/provided by investing activities	(20,031)	48,327
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the sale of contributed securities	3,164	4,933
Contributions for capital expenditures	30,732	13,468
Contributions for long-term investment	28,336	31,362
Payment of notes payable	(635)	(65,561)
Proceeds from notes payable	6,035	1,452
Payment of loans payable	-	(210)
Net cash provided by/(used in) financing activities	67,632	(14,556)
Net increase/(decrease) in cash and cash equivalents, restricted cash	18,369	(55,767)
Beginning of the year	56,238	112,005
END OF THE YEAR	$ 74,607	$ 56,238
Supplemental information:		
Cash paid in the year for interest	12,550	13,353
Non-cash investing activity:		
(Decrease)/increase in fixed asset additions included in accounts payable and accrued expenses	(3,885)	7,650
Increase in acquisition of art included in accounts payable and accrued expenses	804	3,273
Receipt of contributed securities and other assets	(8,090)	(15,104)

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

for the year ended June 30, 2022, with summarized financial information for the year ended June 30, 2021 (in thousands)

	Program Services	*Supporting Services*	*Auxiliary Activities*	*Total 2022*	*Total 2021*
Compensation	$ 149,027	$ 40,820	$ 13,857	$ 203,704	$ 197,134
Professional fees	15,504	6,453	5,169	27,126	15,109
Materials, maintenance, and supplies	16,589	4,453	1,116	22,158	18,889
Printing and publications	2,196	294	1,445	3,935	2,763
Rent and utilities	12,599	4,911	853	18,363	18,458
General office costs	11,444	1,560	5,206	18,210	12,169
Promotional and special events	4,283	15,156	1,419	20,858	5,201
Insurance	1,460	843	154	2,457	2,649
Inventory	20	-	14,325	14,345	8,233
Restaurant expenses	-	3	-	3	7
Depreciation and loss on sale of assets	334	2,151	838	3,323	3,763
Operating expenses	213,456	76,644	44,382	334,482	284,375
Operating expenses netted within revenue	587	507	-	1,094	(50)
Total operating expenses	214,043	77,151	44,382	335,576	284,325
Depreciation and non-capitalized expenditures	42,645	1,677	1,342	45,664	44,760
Interest expense on bonds and interest rate swaps	10,386	1,160	884	12,430	12,396
Other net periodic pension and postretirement benefit costs	-	1,425	-	1,425	8,308
Total 2022	$ 267,074	$ 81,413	$ 46,608	$ 395,095	
Total 2021	$ 240,284	$ 73,437	$ 36,068		$ 349,789

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 O. The measure of operations excludes endowment support for non-operating and restricted operating activities; investment return in excess of/(less than) amounts made available for current support; additions to restricted and designated net assets; pension-related changes other than net periodic pension cost ("NPPC"); changes in net assets of split interest agreements, after providing for any operating revenue or support; changes in net assets pertaining to acquisition and deaccession of collection items, and related insurance settlements; fees received for art-lending activities; depreciation of capital expenditures except for those related to auxiliary activities and acquired computer systems and equipment; gains/(losses) on disposal or sale of fixed assets; non-capitalized expenditures; liability recognition for legal obligations to perform asset retirement activity; the entire effect of interest rate swaps; interest expenses related to taxable borrowings and certain miscellaneous charges and revenue unrelated to operating activities.

Collections - In conformity with accounting policies generally followed by art museums, the value of the Museum's collections has been excluded from the Statements of Financial Position, and gifts of art objects are excluded from revenue in the Statements of Activities. Purchases of art objects by the Museum are recorded as decreases in net assets in the Statements 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, 2022 and 2021 (in thousands):

	2022	*2021*
Cash and cash equivalents on the Statements of Financial Position	$ 68,755	$ 41,261
Cash included in investments	5,852	14,977
Total cash and cash equivalents, restricted cash on Statements of Cash Flow	$ 74,607	$ 56,238

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, the incremental borrowing rate of 3.3% as of June 30, 2022 and 1.4% as of June 30, 2021 was 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. The Museum has reviewed membership revenue as part of the adoption of Topic 606 and has determined the Museum provides service to Members equally over the membership term and thus requires no change to the accounting of this revenue.

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

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

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

Several utility costs of the Museum are paid for by the City. The value of such costs is reported as revenue and a corresponding amount is included as an expense in the Statements of Activities, totaling $12.1 million and $12.6 million in fiscal years 2022 and 2021, respectively. The City also provides funds for guardianship and maintenance, including reimbursement for salaries, Social Security, and pension contributions.

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

Bond Issuance Costs - Bond issuance costs, which represent costs to obtain financing for infrastructure projects for the Museum, are currently included in loans payable and other long-term liabilities on the 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 Statements 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 Statements of Expenses by Functional and Natural Classification includes expenses that are netted within revenues on the Statements 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 $2.6 million and $2.8 million in fiscal years 2022 and 2021, respectively. Other advertising expenses incurred primarily in support of special exhibitions, the permanent collection, and Museum membership totaled $4.7 million and $3.1 million in fiscal years 2022 and 2021, 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 financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Reclassifications - Certain amounts in the 2021 statements have been reclassified to conform to the current year presentation.

Adopted Accounting Pronouncements - In September 2020, the FASB issued Accounting Standards Update, ("ASU"), 2020-07, Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The new guidance increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. Nonfinancial assets include land, buildings, and equipment as well as the use of land, buildings, equipment, utilities, materials, supplies, intangible assets, and services. The guidance requires that contributed nonfinancial assets be reported in the statement of activities apart from contributions of cash and other financial assets. Disclosures are required for the disaggregation of the amount of contributed nonfinancial assets recognized in the statement of activities by category and type, qualitative information about whether the contributed nonfinancial assets were monetized or utilized, a description of the program(s) if utilized, polices surrounding monetization and utilization, donor imposed restrictions, valuation techniques and inputs to arrive at fair value, and information about the principal market used to determine fair value. This guidance, which must be applied retrospectively, is effective for the Museum in fiscal year 2022, with early application permitted. The Museum has evaluated this pronouncement and determined that there is no impact on the financial statements.

On July 1, 2020 the Museum adopted ASU 2016-2, Leases. Lessees are required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the Statements of Financial Position for operating leases. Leases are classified as either operating or financing which in turn determines expense recognition. For operating leases, a single lease cost is calculated and allocated over the lease term on a straight-line basis. In July 2018, the FASB provided entities relief from the transition requirements in ASU 2016-02 by allowing them to elect not to recast prior comparative periods. A full retrospective transition approach is not permitted. The Museum used a modified retrospective approach to adopt the guidance and as such there was no restatement of prior financial statements. As permitted under the transition guidance, the Museum elected a package of practical expedients which, among other provisions, allowed the Museum to carry forward historical lease classifications. Short term leases, 12 months or less, are exempt under the guidance and are not capitalized on the Statement of Financial Position. As a result of adoption, the Museum recognized a right of use asset of $10.0 million and an operating lease liability $10.5 million on July 1, 2020. There was no impact upon the opening net assets as of July 1, 2020. The adoption of ASU 2016-02 did not have a material impact on the Statements of Activities or cash flows for the Museum.

In March 2019, the FASB issued ASU 2019-03, Updating the Definition of Collections. The new ASU aligns the US GAAP definition of collections with the American Alliance of Museum's, ("AAM"), current policy regarding the management of collections. Under the amendments, the definition of collections is expanded to allow the proceeds from sales of collection items to be used in the direct care of existing collection items. Entities can allow proceeds to be used for both direct care and acquisitions, or they can retain the narrower definition and continue to restrict the use of proceeds to the acquisition of new collection items consistent with the current US GAAP definition. The amendments in this update are effective for fiscal years beginning after December 15, 2019 (fiscal year 2021 for the Museum), with early adoption permitted. The Museum adopted this standard in 2021 and as a result, used deaccession proceeds to cover $7.2 million of collection care management expenses. Deaccession proceeds were not used to cover collection care management expenses in fiscal year 2022. The Museum's policy for using deaccession proceeds aligns with the AAM's guidance and used proceeds to fund expenses that enhance the collection's life, usefulness, or quality.

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20) Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this ASU modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in this ASU have been adopted for the year ending June 30, 2022, see additional disclosures in Note I.

Accounting Pronouncements Not Yet Adopted - 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 pronouncement is effective immediately and can be applied through December 31, 2022. The Museum is currently assessing the implications of the potential adoption of this accounting standard but does not expect the adoption to have a material effect on the Museum's financial statements.

B. ACCOUNTS RECEIVABLE AND OTHER ASSETS

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

	June 30, 2022	*June 30, 2021*
Accounts receivable, net of allowance of $123 and $338 for FY22 and FY21, respectively	$ 2,986	$ 4,718
Prepaid expenses and other	5,784	4,735
Taxes receivable	1,523	1,394
Dividends and interest receivable	1,042	617
Total	$ 11,335	$ 11,464

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 4.75% and 3.25% for contributions receivable at June 30, 2022 and June 30, 2021, respectively. As of June 30, 2022 and 2021, approximately 34.0% and 34.9%, respectively, of gross contributions receivable is due from three donors. Contributions are expected to be realized as follows (in thousands):

	June 30, 2022	*June 30, 2021*
Less than one year	$ 66,570	$ 49,909
Between one and five years	60,652	52,679
Over five years	50,876	72,909
Total	178,098	175,497
Less:		
Adjustments and allowance for uncollectibility	(4,218)	(4,264)
Discount for present value	(22,154)	(25,429)
Net	$ 151,726	$ 145,804

As of June 30, 2022 and 2021, the Museum has received conditional contributions of $132.5 million and $0.0 million, respectively, subject to measurable performance-related barriers or other conditions that have not been recognized as revenue in the above figures and the accompanying financial statements as the barriers have not yet been met.

D. ACQUISITIONS OF ART

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

	2022	*2021*
Gifts of cash and securities	$ 46,206	$ 19,294
Gains and income from long-term investment:		
For designated curatorial departments	18,738	13,101
Proceeds from fine arts insurance and the sale of art	9,488	4,007
Total	$ 74,432	$ 36,402

E. FIXED ASSETS

Fixed assets consist of (in thousands):

	June 30, 2022	June 30, 2021	Estimated Useful Lives in Years
Land	$ 1,015	$ 1,015	N/A
Buildings and improvements	41,918	41,482	20-40
Leasehold improvements, auxiliary activities	27,364	26,713	4-40
Leasehold improvements, Fifth Avenue building	1,158,835	1,110,182	5-30
Machinery and equipment	57,138	55,153	3-20
Total	1,286,270	1,234,545	
Less accumulated depreciation and amortization	(906,585)	(864,841)	
Net	$ 379,685	$ 369,704	

The above amounts include construction in progress of $178.3 million and $142.0 million at June 30, 2022 and 2021, respectively. Depreciation expense was $43.9 million for fiscal years 2022 and $47.3 million for 2021, respectively. Pursuant with the Museum's policy regarding its measure of operations, $3.3 million and $3.7 million of depreciation expense were charged to operating activities in fiscal years 2022 and 2021, respectively, while $40.6 million and $43.6 million were charged to non-operating activities in fiscal years 2022 and 2021, respectively. In fiscal year 2022, $5.5 million of fixed assets with a net book value of $3.4 million were written off. In fiscal year 2021, $35.7 million of fixed assets with a net book value of $0.4 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 $0.43 million and $0.0 million were received during the fiscal years ended June 30, 2022 and 2021, respectively.

F. LIQUIDITY AND AVAILABLE RESOURCES

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

	June 30, 2022	June 30, 2021
FINANCIAL ASSETS		
Cash	$ 68,755	$ 41,261
Cash equivalents	-	-
Cash and cash equivalents on the Statements of Financial Position	68,755	41,261
Accounts receivable	2,986	4,718
Contribution receivable available for the next fiscal year	847	-
Board designations		
Endowment payout without donor restrictions for the next fiscal year	110,681	106,839
Financial assets available within one year	183,269	152,818
LIQUIDITY RESOURCES		
Revolving line of credit	135,183	140,583
Lines of credit	10,261	35,261
Total liquidity resources	145,444	175,844
Total financial assets and liquidity resources	$ 328,713	$ 328,662

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 $1,153.9 million and $1,255.8 million as of June 30, 2022 and 2021, 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 total cost of the investment portfolio was $3,562.2 million and $3,397.4 million as of June 30, 2022 and 2021, respectively. The Museum had approximately $683.1 million and $734.3 million in unfunded capital commitments primarily related to private equity and real asset funds as of June 30, 2022 and 2021, 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, 2022 and 2021 (in thousands):

	2022 Fair Value	*2021 Fair Value*
Held within the long-term portfolio		
Cash and short-term investments	$ 360,026	$ 392,928
Fixed income	148,244	150,487
Equities	771,883	796,083
Equity funds	598,566	943,575
Hedge funds	791,740	858,905
Private equity funds	1,239,396	1,121,462
Real asset funds	575,053	472,189
Subtotal	4,484,908	4,735,629
Held for capital projects		
Cash and short-term investments	63,206	70,748
Fixed income	-	1,000
Fund of hedge funds	126,117	124,399
Subtotal	189,323	196,147
Other miscellaneous purposes		
Subtotal	33,524	25,822
Total investments	$ 4,707,755	$ 4,957,598

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

Fair Value Measurements

The following tables present the financial instruments as stated on the Statements of Financial Position, by caption and by level within the valuation hierarchy as of June 30, 2022 and 2021 (in thousands):

	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

Assets and Liabilities at Fair Value as of June 30, 2021

	Level 1	Level 2	Level 3	Investments Valued Using the Practical Expedient	Total
Split interest arrangements	$ 7,621	$ 21,163	$ 14,638	$ -	$ 43,422
INVESTMENTS					
Equities	768,664	27,419	-	-	796,083
Fixed income					
Government bonds	-	2,709	-	-	2,709
Corporate debt	-	148,778	-	-	148,778
Mortgage-backed	-	-	-	-	-
Other	-	-	-	-	-
Cash and short-term investments	463,676	-	-	-	463,676
Equity funds	-	-	-	943,575	943,575
Hedge funds	-	-	-	858,905	858,905
Private equity funds	-	-	-	1,121,462	1,121,462
Real asset funds	-	-	-	472,189	472,189
Fund of hedge funds held for capital projects	-	-	-	124,399	124,399
Other investments	588	-	25,234	-	25,822
Total investments	1,232,928	178,906	25,234	3,520,530	4,957,598
TOTAL ASSETS	$ 1,240,549	$ 200,069	$ 39,872	$ 3,520,530	$ 5,001,020
LIABILITIES:					
Annuity and other split interest obligations	$ -	$ -	$ 16,820	$ -	$ 16,820
Interest rate exchange agreements		38,818		-	38,818
TOTAL LIABILITIES	$ -	$ 38,818	$ 16,820	$ -	$ 55,638

For the years ended June 30, 2022 and 2021, the Museum had the following investments, which represented more than 5.0% of net assets:

	2022		2021	
	Fair Value (in thousands)	% of NAV	Fair Value (in thousands)	% of NAV
JPMorgan US Government Money Market Agency Share fund	$ 392,770	8.32 %	$ 402,854	8.32 %

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

		Amount to be redeemed in:							
INVESTMENT STRATEGY	*Fair Value Determined Using NAV*	*3 Months*	*6 Months*	*12 Months*	*24 Months*	*Greater than 24 Months or Unable to Be Redeemed*	*In Side Pockets and/or Liquidation*	*Remaining Life*	*Unfunded Commitments*
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

The following table lists investments carried at NAV by major investment category as of June 30, 2021 (in thousands):

		Amount to be redeemed in:							
INVESTMENT STRATEGY	*Fair Value Determined Using NAV*	*3 Months*	*6 Months*	*12 Months*	*24 Months*	*Greater than 24 Months or Unable to Be Redeemed*	*In Side Pockets and/or Liquidation*	*Remaining Life*	*Unfunded Commitments*
Equity funds	$ 943,575	$ 650,586	$ 130,109	$	$ 60,372	$ 96,234	$ 6,274	N/A	$ 34,212
Hedge funds	858,905	358,415	73,856	83,388	140,107	152,610	50,529	N/A	34,900
Private equity	1,121,462	-	-	-	-	1,121,462	N/A	1 to 14 years	465,700
Real Assets	472,189	-	-	-	-	472,189	N/A	1 to 11 years	199,498
Fund of hedge funds for capital projects	124,399	124,399	-	-	-	-	N/A	N/A	N/A

As of June 30, 2022, and June 30, 2021, 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, 2022 and 2021 (in thousands):

	2022		*2021*	
	Fair Value	*Unrealized Gain*	*Fair Value*	*Unrealized Gain*
Interest rate exchange agreements	$ (20,807)	$ 18,012	$ (38,818)	$ 11,344

The following schedules summarize investment return by net asset classification for the years ended June 30, 2022 and 2021 (in thousands):

	2022		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
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	(151,988)	(278,902)	(430,890)
Total return on investments	(61,169)	(104,992)	(166,161)
Transfers	61,483	(61,483)	-
Investment return allocated for current activities	(116,795)	(56,793)	(173,588)
Investment return in excess of current support	$ (116,481)	$ (223,268)	$ (339,749)

	2021		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Investment income, net of certain management and custodian fees, taxes, and other expenses	$ 4,359	$ 9,127	$ 13,486
Net realized gains	105,331	202,757	308,088
Changes in unrealized appreciation	297,188	592,701	889,889
Total return on investments	406,878	804,585	1,211,463
Transfers	60,215	(60,215)	-
Investment return allocated for current activities	(113,040)	(55,190)	(168,230)
Investment return in excess of current support	$ 354,053	$ 689,180	$ 1,043,233

Realized and unrealized gains on the $250 million Series 2015 Bonds, which totaled $12.6 million and $16.8 million for the years ended June 30, 2022 and 2021, respectively, are excluded from the above tables and shown as a separate line on the Statements of Activities. Please refer to Note K for details related to the Series 2015 Bonds proceeds and to Note O for details related to Endowment Funds.

H. SPLIT INTEREST ARRANGEMENTS

Split interest arrangements consist of Charitable Remainder Trusts ("CRTs"), gift annuities, pooled income funds, and other trust assets. These funds are held in trust for one or more beneficiaries and generally pay lifetime income to those beneficiaries, after which the principal is made available to the Museum in accordance with donor intentions. The value of the CRTs and other trust agreements, excluding new gifts and distributions, changed by $0.7 million and $2.3 million in the years ended June 30, 2022 and 2021, respectively. The discount rate applied to these funds was 0.6% to 3.6% 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):

	June 30, 2022	*June 30, 2021*
Assets		
Charitable remainder and other trust assets	$ 21,105	$ 22,044
Charitable gift annuities	9,264	12,178
Pooled income funds and trusts invested on behalf of others*	8,337	9,200
Total	$ 38,706	$ 43,422
Liabilities		
Charitable gift annuities	$ 6,666	$ 8,427
Pooled income funds and trusts invested on behalf of others*	7,818	8,393
Total	$ 14,484	$ 16,820

* *The assets of the trust of $7.5 million and $8.2 million as of June 30, 2022 and 2021, respectively, 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, 2022 and 2021, a fair value adjustment of 2.8% and 0.09%, respectively, was applied to those CRTs for which the Museum does not receive an accounting of the underlying assets and has no ability to assign a level other than Level 3. The adjustments are recorded in changes in value of split interest agreements.

Perpetual Trusts

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

The following tables summarize the changes in the fair value of the assets related to charitable remainder and other trusts for the years ended June 30, 2022 and 2021 (in thousands):

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

** Of this amount, $14.9 million represents assets classified as Level 3 in the fair value hierarchy. The Level 3 balance had immaterial changes from the prior year.*

	Beginning Balance as of June 30, 2020	*Distributions*	*Valuation Adjustment and Changes in Discounts and Allowances*	*Ending Balance as of June 30, 2021**
Charitable remainder and other trust assets	$19,940	($216)	$2,320	$22,044

** Of this amount, $14.6 million represents assets classified as Level 3 in the fair value hierarchy. The Level 3 balance had immaterial changes from the prior year.*

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, 2022 and 2021 (in thousands):

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

	Beginning Balance as of June 30, 2020	*Changes in Remainder Value*	*Realized and Unrealized (Losses)*	*Ending Balance as of June 30, 2021*
Annuity and other split interest obligations	$15,683	$2,126	($989)	$16,820

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 $0.9 million and $1.0 million fiscal years 2022 and 2021, 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 2022 and 2021 was $8.1 million and $8.0 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 2022 and 2021 was $2.8 million and $2.7 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 2022 and 2021.

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 $2.7 million and $2.6 million in fiscal years 2022 and 2021, 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 is pending ratification by union membership. 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 $4.5 million and $3.8 million in fiscal years 2022 and 2021, 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 2022 and 2021 of $0.4 million and $1.3 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.

For the year ended, June 30, 2021, there were a series of staff actions including a voluntary retirement program and involuntary reductions in force. Due to these staff actions, a remeasurement and a curtailment occurred for the Union Pension Plan and for the Union Postretirement Medical Plan, the Non-Union Postretirement Medical Plan, and the Pay in Lieu of Sick Leave Plan for the year ended June 30, 2021. In addition, for the year ended June 30, 2021, a remeasurement and a settlement occurred for the Pay in Lieu of Sick Leave Plan, since lump sum payments for the plan exceeded the sum of Service cost and Interest cost for the fiscal year. Similarly, for the year ended June 30, 2022, a remeasurement and a settlement occurred for the 401 Wholeness Pension Plan, since lump sum payments for the plan exceed the sum of Service cost and Interest cost for the fiscal year. There were no such staff actions taken in fiscal year 2022.

The table below sets forth the net liability recognized in the Statements of Financial Position as of June 30, 2022 and 2021, including the change in the change in benefit obligation and the plan assets (in thousands):

	Pension Benefits		*Postretirement Benefits*	
	2022	*2021*	*2022*	*2021*
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 289,020	$ 283,699	$ 146,593	$ 150,502
Service cost	7,677	8,846	6,045	6,524
Interest cost	8,713	8,141	4,479	4,152
Employee contributions	904	996	-	-
Actuarial (gain)	(71,542)	(3,613)	(29,082)	(5,573)
Benefits paid	(9,761)	(9,651)	(7,521)	(6,649)
Curtailment	-	602	-	(1,344)
Settlements	(622)	-	-	(1,019)
Benefit obligation at end of year	224,389	289,020	120,514	146,593
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	243,763	183,513	-	-
Actual (loss)/gain on plan assets	(21,005)	59,677	-	-
Employer contributions	8,142	9,226	7,521	7,668
Employee contributions	904	998	-	-
Benefits paid	(9,761)	(9,651)	(7,521)	(6,649)
Settlements	(622)	-	-	(1,019)
Fair value of plan assets at end of year	221,421	243,763	-	-
UNFUNDED STATUS (LIABILITY)	$ (2,968)	$ (45,257)	$ (120,514)	$ (146,593)

Actuarial gains on the Museum's pension plans were $71,542 and $3,613 for fiscal years 2022 and 2021, 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 on plan assets were ($21,005) and $59,677 for fiscal years 2022 and 2021, respectively. The actual return on the fair value of plan assets since the prior measurement date was less than assumed, which caused the funded position to deteriorate.

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

	Pension Benefits		*Postretirement Benefits*	
	2022	*2021*	*2022*	*2021*
Actuarial (losses)/gains	$ (3,339)	$ (39,477)	$ 1,730	$ (28,967)
Prior service costs	-	-	208	268
Cumulative employer contributions (less than) net periodic benefit cost	371	(5,780)	(122,452)	(117,894)
UNFUNDED STATUS (LIABILITY)	$ (2,968)	$ (45,257)	$ (120,514)	$ (146,593)

Recognized in operating activities and other amounts recognized in non-operating activities in net assets without donor restrictions in the Statements of Activities are presented in the table below for the years ended June 30, 2022 and 2021 (in thousands):

	Pension Benefits		*Postretirement Benefits*	
	2022	*2021*	*2022*	*2021*
COMPONENTS OF NET PERIODIC BENEFIT COST:				
Service cost	$ 7,677	$ 8,846	$ 6,045	$ 6,524
Total net periodic benefit cost recognized in operating activities	7,677	8,846	6,045	6,524
Interest cost	8,713	8,141	4,479	4,152
Expected return on plan assets	(14,398)	(12,662)	-	-
Amortization of prior service cost	-	-	(60)	(63)
Amortization of accumulated loss	890	7,082	1,615	1,481
Curtailment	-	602	-	(238)
Settlement loss	186	-	-	(187)
Total net periodic benefit cost recognized in non-operating activities	(4,609)	3,163	6,034	5,145
Total net periodic benefit cost	3,068	12,009	12,079	11,669
OTHER AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITY IN NET ASSETS WITHOUT DONOR RESTRICTIONS:				
Net actuarial loss	(37,029)	(50,628)	(29,082)	(5,573)
Amortization of curtailment recognition of prior service cost	-		-	155
Amortization of settlement recognition of net loss	(186)	(7,082)	(1,555)	(2,492)
Total other amounts recognized non-operating activities	(37,215)	(57,710)	(30,637)	(7,910)
TOTAL RECOGNIZED IN NON-OPERATING ACTIVITY IN NET ASSETS	$ (34,147)	$ (45,701)	$ (18,558)	$ 3,759

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

	Pension Benefits		*Postretirement Benefits*	
	2022	*2021*	*2022*	*2021*
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AS OF JUNE 30:				
Discount rate	4.95 %	3.08 %	4.93%	3.00%
Rate of compensation increase	3.50 %	3.50 %		
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET COST AS OF JUNE 30:				
Discount rate	3.08 %	N/A*	3.00%	N/A*
Expected return on plan assets	5.97 %	6.93 %		
Rate of compensation increase	3.50 %	3.50 %		
ADDITIONAL INFORMATION (in thousands):				
Actual return on plan assets	$ (21,005)	$ 59,677		
Accumulated benefit obligation for all defined benefit pension plans	$ 203,138	$ 254,989		

** Note the weighted average discount rates to determine net cost for 2021 pension and postretirement benefits were different before and after curtailment. The rates for pension benefits and postretirement benefits were 3.09% and 2.99% before curtailment and 2.74% and 2.89% after curtailment.*

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 Accounting Standards Codification (ASC) 715.

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

	2022	*2021*
Number of pension plans with accumulated		
benefit obligations in excess of plan assets	2	2
Aggregate accumulated benefit obligation	$ 203,138	$ 254,989
Aggregate fair value of plan assets	$ 221,421	$ 243,763
Number of pension plans with projected		
benefit obligations in excess of plan assets	2	2
Aggregate projected benefit obligation	$ 224,389	$ 289,020
Aggregate fair value of plan assets	$ 221,421	$ 243,763

Additional information related to the postretirement benefit plans for the years ended June 30, 2022 and 2021:

	2022		*2021*	
	Union	*Nonunion*	*Union*	*Nonunion*
ASSUMED MEDICAL COST TREND RATES:				
Health care cost trend rate assumed for next year	6.25 %	6.25 %	6.50 %	6.50 %
Rate that the cost trend gradually declines to	5.00 %	5.00 %	5.00 %	5.00 %
Year that the final trend rate is reached	2027	2027	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. The target allocation of the defined benefit plan for union staff was 75% to equity securities and 25% to fixed income securities as of June 30, 2022. Effective July 1, 2022, the target allocation was changed to 70% equity securities and 30% 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. As of June 30, 2021, the assets of the defined benefit plan for union staff were invested 76.8% and 23.2% in equity and fixed income securities, respectively.

The target allocation of the defined benefit plan for nonunion staff is 40% equity securities and 60% 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. As of June 30, 2021, the assets of the defined benefit plan for nonunion staff were invested 53.6% and 46.4% in equity and fixed income securities, respectively.

	Pension Benefits	*Postretirement Benefits*
CASH FLOWS FOR THE FISCAL YEAR ENDING JUNE 30 (in thousands):		
Employer Contributions:		
2021 (actual)	$ 9,227	$ 7,669
2022 (actual)	8,143	7,521
2023 (expected)	5,028	6,099
PROJECTED BENEFIT PAYMENTS FOR THE FISCAL YEAR ENDING JUNE 30 (in thousands):		
2023	$ 10,244	$ 6,099
2024	10,697	6,406
2025	11,155	6,697
2026	11,612	7,035
2027	12,096	7,367
2028-2032	68,031	40,307

The fair value of the pension plan assets was $221,421 and $243,760 as of June 30, 2022 and 2021, 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, 2022 and 2021, $197.4 million and $206.9 million, respectively, of plan assets were invested in cash equivalents and mutual funds that fall within Level 1 of the fair value hierarchy. The remaining $24.0 million and $36.8 million, respectively, are invested in commingled funds reported at NAV by external fund managers.

J. NOTES PAYABLE

The Museum has credit facilities with two commercial banks with a combined capacity of $165 million. Interest paid and accrued on these lines of credit are charged to operating expenses. During fiscal year 2022, the Museum did not renew its $25 million facility with Wells Fargo upon expiration in December 2021.

The largest credit facility is a $150 million revolving line with JP Morgan Chase. The Museum had outstanding borrowings of $14.8 million and $9.4 million as of June 30, 2022, and 2021, on this line, respectively. Any amount borrowed under the revolving line of credit is payable in full on or before November 28, 2022. The loan bears interest at variable rates that is paid monthly. Under the loan agreement, the Museum has covenanted to maintain a ratio of Available Assets to General Liabilities, as defined, of not less than 2:1. The Museum was compliant with this requirement as of June 30, 2022, and 2021.

In addition to the revolving line of credit at JP Morgan Chase, the Museum has a $15 million credit facility with Bank of America. The Museum had no outstanding borrowings on this line of credit as of June 30, 2022, and 2021. Borrowings under this line are payable on demand and bear interest at variable rates that is paid monthly. Under a sublimit of the line, the Museum had an outstanding letter of credit totaling $4.7 million as of June 30, 2022, and 2021.

Total interest expense on bank borrowings amounted to $0.1 million and $0.8 million for fiscal years 2022 and 2021, respectively. The decrease in interest expense was attributable to a $60 million borrowing taken at the onset of COVID-19 in 2020 and held as a cash reserve during much of 2021. This loan was paid in full prior to June 30, 2021. As of June 30, 2022, the interest rate on the Museum's outstanding debt was 2.27%.

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 have and will be used for the financing of a portion of the expansion, reconstruction, renovation, improvement, furnishing, and equipping of facilities operated, or to be operated, by the Museum, portions of which have already been completed at the Museum's principal location. In addition, certain administrative, legal, accounting, financing, and other expenses incidental to the issuance of the bonds and related purposes were financed by these bonds.

Pursuant to the loan agreement, the Museum is required to pay, when due, the principal and interest on the Series 2006A Bonds. While the bonds are not direct indebtedness of the Museum, the loan agreement and the obligation to make payments under the loan agreement are general obligations of the Museum. No security interest in any revenues or assets of the Museum has been granted by the Museum to the Trust or any other party in connection with the Series 2006A Bonds. The Series 2006A Bonds will mature on October 1, 2036. The variable rate demand bonds of $130 million are subject to a weekly interest rate reset. In the event the Museum receives notice of any optional tender on its variable rate demand bonds, or if the bonds become subject to mandatory tender, the purchase price will be paid from the remarketing of the bonds. In June 2006, the Museum entered into a forward-starting interest rate exchange agreement with Morgan Stanley related to the Series 2006A Bonds. Under the terms of the swap agreement, the Museum pays interest at a rate of 3.826% calculated on a notional amount of $100 million in exchange for floating rate payments calculated on the same notional amount at 67% of one-month LIBOR until October 1, 2036, unless such agreement is terminated earlier in accordance with its terms.

Series 2015 Bonds:

On January 26, 2015, the Museum issued a $250 million taxable bond with a coupon payment of 3.40% and a 30-year bullet payment due on July 1, 2045. Interest is payable on January 1 and July 1 annually and the bond has an optional redemption prior to maturity. The face value of the bond was reduced by an original issue discount of $1.45 million, which will be accreted to interest expense over the 30-year bond life. The bond proceeds will be used to finance the Museum's infrastructure spending and will be invested in a portfolio that meets the Museum's spending requirements and timeline. The Museum elected to classify the interest expense on the Series 2015 Bonds as non-operating. This election is based on the Museum's intention to utilize the bond proceeds to finance capital activities. For both of the years ended June 30, 2022 and 2021, the Museum recognized $8.5 million of interest expense associated with this borrowing in non-operating activities. Starting in fiscal year 2018, the Museum began funding all interest expense through a designation of general operating endowment support without donor restrictions. In addition, the Museum incurred $1.2 million of costs related to certain administrative, legal, accounting, financing, and other expenses incurred for purposes of this bond financing at the time of issuance.

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

	June 30, 2022	*June 30, 2021*
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	(1,157)	(1,215)
Bond issuance cost, net of amortization	(1,092)	(1,139)
Total loans payable	377,751	377,646
Fair value of forward starting interest rate exchange agreement on Series 2006A Bonds	20,807	38,818
Total interest rate exchange agreements	20,807	38,818
Total	$ 398,558	$ 416,464

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

	2022	*2021*
Interest rates on loans payable:		
Series 2006A-1 and A-2 Bonds	0.84 %	0.03 %
Series 2015 Bonds	3.40 %	3.40 %
Interest expense on loans payable (in thousands):		
Series 2006A Bonds (Non-Capitalized)	$277	$110
Series 2006A Bonds (Swap)	3,605	3,738
Series 2015 Bonds	8,548	8,548

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

	Principal Amount	Interest Payments*	Total Estimated Debt Services
Year Ending June 30			
2023	$ -	$ 13,526	$ 13,526
2024	-	13,526	13,526
2025	-	13,526	13,526
2026	-	13,526	13,526
2027	-	13,526	13,526
Thereafter	380,000	204,159	584,159
Total	$ 380,000	$ 271,789	$ 651,789

**An interest rate of 4.0% is assumed for all fiscal years including the $30 million of the Series2006A Bonds that are not covered by the interest rate exchange agreement.*

The Museum has a $130 million confirmed credit facility through November 2022 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 0.20% and 0.30%, or $0.3 million and $0.4 million, was associated with this credit facility for the years ended June 30, 2022 and 2021, 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 2023.

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, 2022 and 2021 were as follows (in thousands):

	2022	2021
Endowment		
Art acquisitions and book purchases	$ 690,122	$ 703,098
Education and public programs	184,795	197,733
Exhibitions and publications	215,199	230,543
Operating support and other purposes	1,823,770	1,961,452
Other		
Art acquisitions and book purchases	143,975	107,614
Capital projects and assets	116,733	87,985
Education and public programs	26,082	26,035
Exhibitions and publications	62,949	65,719
Operating support and other purposes	126,374	105,201
TOTAL NET ASSETS	$ 3,389,999	$ 3,485,380

M. LEASES AND OTHER COMMITMENTS

At June 30, 2022, 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 2026. Rent expense relating to these operating leases amounted to $5.9 million and $5.6 million in fiscal years 2022 and 2021, 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 will 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.

There are leases that will be expiring in less than a year that either do not have a renewal option or if there is a renewal option, the Museum is reasonably certain it will not be exercised.

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. The right-of-use asset and lease liability at June 30, 2021 as presented in the Statements of Financial Position were $8.1 million and $8.6 million, respectively. Lease payments totaling $2.0 million are included in the operating section of the Statements of Cash Flows for both fiscal years 2022 and 2021.

Non-lease commitments not part of the ASC guidance and therefore not included in the right-of-use asset or lease liability total $3.3 million and $6.5 million as of June 30, 2021 and June 30, 2020, respectively.

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 Statements of Financial Position for operating leases existing as of June 30, 2022 (in thousands):

Year Ending June 30	*Total*
2023	$ 2,209
2024	1,674
2025	1,624
2026	1,267
2027	-
Thereafter	-
Total	6,774
Less: Imputed Interest	356
Present Value of Lease Liability	$ 6,418

N. ASSET RETIREMENT OBLIGATIONS

The Museum recognizes a liability on the Statements of Financial Position for asset retirement obligations pertaining to future remediation work necessary to restore certain properties. The liability equals the present value of the expected cost of remediation.

During both fiscal years 2022 and 2021, the Museum made zero payments to remediate. The non-cash charges amounted to an increase of $0.33 million in fiscal year 2022, and non-cash charges amounted to a decrease of $0.29 million in fiscal year 2021, and are included in the non-operating section of the Statements of Activities. As of June 30, 2022 and 2021, $9.0 million and $8.6 million respectively, of conditional asset retirement obligations are included in the liability section of the Statements of Financial Position.

O. 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.

During fiscal year 2012, the Board adopted a new Endowment Spending Policy, which 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 5.5% in fiscal years 2022 and 2021.

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, 2022 (in thousands):

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Donor-restricted endowment funds	$ -	$ 2,913,886	$ 2,913,886
Board-designated endowment funds	1,153,931	-	1,153,931
Total funds	$ 1,153,931	$ 2,913,886	$ 4,067,817

Endowment Net Asset Composition by Type of Fund as of June 30, 2021(in thousands):

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Donor-restricted endowment funds	$ -	$ 3,092,826	$ 3,092,826
Board-designated endowment funds	1,255,764	-	1,255,764
Total funds	$ 1,255,764	$ 3,092,826	$ 4,348,590

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

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
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	(151,988)	(283,109)	(435,097)
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	11,506	21,718	33,224
Total endowment and Board-designated endowment net assets, end of year	$ 1,153,931	$ 2,913,886	$ 4,067,817

Endowment Net Assets for the Fiscal Year Ended June 30, 2021 (in thousands):

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Endowment and board-designated endowment net assets, beginning of year	$ 933,045	$ 2,328,915	$ 3,261,960
Investment return:			
Investment income, net of certain management and custodian fees, taxes, and other expenses	4,325	6,543	10,868
Net realized gains	105,331	202,835	308,166
Changes in unrealized appreciation	297,188	585,159	882,347
Total return on investments	406,844	794,537	1,201,381
Transfers	60,215	(60,215)	-
Investment return allocated for current activities	(113,040)	(55,190)	(168,230)
Contributions	414	37,428	37,842
Other changes and reclasses	(31,714)	47,351	15,637
Total endowment and Board-designated endowment net assets, end of year	$ 1,255,764	$ 3,092,826	$ 4,348,590

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.

P. RESTRUCTURING CHARGES

As a result of the negative impact due to COVID-19, the Museum completed personnel reductions in fiscal year 2021. The Museum extended a Voluntary Retirement Program (VRP) to union staff who are represented by Local 1503, District Council 37, and who, as of December 30, are eligible to retire with a fully vested, unreduced pension. Additionally, the Museum completed involuntary personnel reductions of both union and nonunion staff previously furloughed. Expenses for severance and related charges of $2.65 million were recorded in the Statement of Activities for the year ended June 30, 2021. There were no such charges in fiscal year 2022.

Q. CONTINGENCIES AND SUBSEQUENT EVENTS

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

Subsequent Events
The Museum performed an evaluation of subsequent events through November 10, 2022, which is the date the financial statements were issued.