

Museum of the City of New York

Independent Auditor's Report and Financial Statements

June 30, 2018 and 2017



Museum of the City of New York
June 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Museum of the City of New York
New York, New York

We have audited the accompanying financial statements of the Museum of the City of New York, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum of the City of New York as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2017 financial statements were audited by other auditors, and their report thereon, dated December 14, 2017, expressed an unmodified opinion.

BKD, LLP

New York, New York
February 21, 2019

Museum of the City of New York
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash	\$ 4,076,847	\$ 5,916,323
Investments	29,416,066	28,245,504
Contributions and grants receivable, net	1,280,122	2,114,426
Prepaid expenses and other assets	543,568	629,678
Inventory	214,307	166,784
Building and equipment, net	22,356,356	23,065,585
Total assets	\$ 57,887,266	\$ 60,138,300
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 953,101	\$ 903,509
Deferred revenue	243,525	185,944
Deferred rent	199,286	158,462
Total liabilities	1,395,912	1,247,915
 Net Assets		
Unrestricted		
Operating	3,857,982	3,698,842
Board-designated endowment	4,804,373	4,474,660
Plant	22,356,356	23,065,585
Total unrestricted	31,018,711	31,239,087
Temporarily restricted	4,660,751	7,282,269
Permanently restricted	20,811,892	20,369,029
Total net assets	56,491,354	58,890,385
Total liabilities and net assets	\$ 57,887,266	\$ 60,138,300

Museum of the City of New York
Statements of Activities
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support								
Membership	\$ 488,946	\$ -	\$ -	\$ 488,946	\$ 301,808	\$ -	\$ -	\$ 301,808
Rental fees	827,085	-	-	827,085	522,931	-	-	522,931
Licensing and other fees	352,844	-	-	352,844	275,442	-	-	275,442
Museum shop	\$ 650,540				\$ 526,687			
Cost of sales	(322,455)	-	-	328,085	(383,551)	-	-	143,136
Investment income (loss)	2,134,259				2,992,613			
Investment fees	(103,067)	525,290	153,724	1,352,178	2,031,192	(106,388)	1,103,514	274,641
Educational programs	475,338	-	-	475,338	517,189	-	-	1,508,070
Admissions	1,057,379	-	-	1,057,379	1,035,704	-	-	2,886,225
Contributions and grants								517,189
New York City – Department of Cultural Affairs	1,657,140	-	-	1,657,140	1,679,318	-	-	1,035,704
New York State – Council on the Arts	70,000	-	-	70,000	46,400	-	-	1,679,318
Other grants and contributions	2,750,400	1,581,021	-	4,331,421	2,075,104	2,438,805	10,000,000	46,400
Loss on bad debt		(395,000)	-	(395,000)				14,513,909
Special events	2,784,408				3,088,241			
Less direct expense of special events	(470,659)	-	-	2,313,749	(619,207)	-	-	2,469,034
Net revenue from special events	2,313,749	-	-	2,313,749	2,469,034	-	-	2,469,034
Net assets released from restrictions	4,870,578	(3,961,263)	(909,315)	-	11,921,527	(11,647,515)	(274,012)	-
Total revenues and other support	15,716,834	(2,621,518)	442,863	13,538,179	22,091,107	(8,934,069)	11,234,058	24,391,096
Expenses								
Program Services								
Museum shop	368,581	-	-	368,581	505,729	-	-	505,729
Collections care	2,919,642	-	-	2,919,642	2,935,803	-	-	2,935,803
Educational programs	1,649,917	-	-	1,649,917	1,677,028	-	-	1,677,028
Renovation and expansion	202,044	-	-	202,044	265,932	-	-	265,932
Exhibitions and publications	7,203,001	-	-	7,203,001	13,218,970	-	-	13,218,970
Total program services	12,343,185	-	-	12,343,185	18,603,462	-	-	18,603,462
Supporting Services								
Management and general	1,558,869	-	-	1,558,869	1,769,212	-	-	1,769,212
Fundraising								
Membership and development	2,090,574	-	-	2,090,574	1,993,569	-	-	1,993,569
Total supporting services	3,649,443	-	-	3,649,443	3,762,781	-	-	3,762,781
Total expenses	15,992,628	-	-	15,992,628	22,366,243	-	-	22,366,243
Change in net assets from operations	(275,794)	(2,621,518)	442,863	(2,454,449)	(275,136)	(8,934,069)	11,234,058	2,024,853
Sale of collection material	55,418	-	-	55,418	28,770	-	-	28,770
Change in Net Assets	(220,376)	(2,621,518)	442,863	(2,399,031)	(246,366)	(8,934,069)	11,234,058	2,053,623
Net Assets, Beginning of Year	31,239,087	7,282,269	20,369,029	58,890,385	31,485,453	16,216,338	9,134,971	56,836,762
Net Assets, End of Year	\$ 31,018,711	\$ 4,660,751	\$ 20,811,892	\$ 56,491,354	\$ 31,239,087	\$ 7,282,269	\$ 20,369,029	\$ 58,890,385

Museum of the City of New York
Statements of Functional Expenses
Years Ended June 30, 2018 and 2017

	2018									
	Program Services					Supporting Services				
	Museum Shop	Collections Care	Educational Programs	Renovation and Expansion	Exhibitions and Publications	Total	Management and General	Membership and Development	Special Events	Total
Salaries and related expenses	\$ 192,775	\$ 1,763,545	\$ 1,229,101	\$ 178,472	\$ 4,063,265	\$ 7,427,158	\$ 1,058,109	\$ 1,677,688	\$ -	\$ 10,162,955
Outside services	12,368	52,712	94,176	1,012	445,707	605,975	184,984	131,863	-	922,822
Legal and accounting	-	26,053	-	-	7,224	33,277	66,358	-	-	99,635
Depreciation and amortization	87,716	192,693	99,978	8,199	357,229	745,815	80,525	78,204	-	904,544
Public relations	16	447	4,044	2	231,767	236,276	5,566	3,393	-	245,235
Design, shipping and fabrication	18,035	10,483	10,564	4,373	1,074,204	1,117,659	7,487	40,576	-	1,165,722
Printing	6,256	75	13,475	2	135,256	155,064	2,391	46,688	-	204,143
Occupancy	12,142	558,897	43,957	4,047	304,386	923,429	38,448	42,495	-	1,004,372
Supplies and expenses	10,500	148,464	77,738	2,639	246,533	485,874	45,554	13,751	-	545,179
Investment fees	-	-	-	-	-	-	103,067	-	-	103,067
Catering and entertainment	-	-	-	-	-	-	-	-	470,659	470,659
Computing services	3,992	52,779	12,425	911	117,261	187,368	7,912	9,628	-	204,908
Cost of sales	322,455	-	-	-	-	322,455	-	-	-	322,455
Insurance	3,731	50,370	13,370	1,244	93,216	161,931	11,815	13,059	-	186,805
Miscellaneous	21,050	63,124	51,089	1,143	126,953	263,359	49,720	33,229	-	346,308
Total expenses	691,036	2,919,642	1,649,917	202,044	7,203,001	12,665,640	1,661,936	2,090,574	470,659	16,888,809
Less direct cost of special events deducted from revenue on the statement of activities	-	-	-	-	-	-	-	-	(470,659)	(470,659)
Less investment fees netted against investment income	-	-	-	-	-	-	(103,067)	-	-	(103,067)
Less cost of sales netted against museum shop income	(322,455)	-	-	-	-	(322,455)	-	-	-	(322,455)
Total expenses reported by function on the statement of activities	<u>\$ 368,581</u>	<u>\$ 2,919,642</u>	<u>\$ 1,649,917</u>	<u>\$ 202,044</u>	<u>\$ 7,203,001</u>	<u>\$ 12,343,185</u>	<u>\$ 1,558,869</u>	<u>\$ 2,090,574</u>	<u>\$ -</u>	<u>\$ 15,992,628</u>

Museum of the City of New York
Statements of Functional Expenses
Years Ended June 30, 2018 and 2017

	2017									
	Program Services					Supporting Services				
	Museum Shop	Collections Care	Educational Programs	Renovation and Expansion	Exhibitions and Publications	Total	Management and General	Membership and Development	Special Events	Total
Salaries and related expenses	\$ 322,004	\$ 1,804,964	\$ 1,235,373	\$ 222,173	\$ 3,975,008	\$ 7,559,522	\$ 1,261,221	\$ 1,420,984	\$ -	\$ 10,241,727
Outside services	22,299	68,678	134,150	4,429	3,442,725	3,672,281	71,913	185,655	-	3,929,849
Legal and accounting	-	-	-	-	-	-	51,362	-	-	51,362
Depreciation and amortization	87,936	193,174	100,229	8,220	358,121	747,680	80,731	78,400	-	906,811
Public relations	24	207	4,608	86	55,569	60,494	7,044	3,063	-	70,601
Design, shipping and fabrication	17,014	3,868	4,951	12,455	3,732,978	3,771,266	26,941	77,833	-	3,876,040
Printing	-	350	23,796	-	71,720	95,866	7,273	93,828	-	196,967
Occupancy	12,475	560,667	44,701	4,158	313,024	935,025	41,015	43,661	-	1,019,701
Supplies and expenses	17,328	152,191	53,433	10,123	818,172	1,051,247	39,135	17,906	59,903	1,168,191
Investment fees	-	-	-	-	-	-	106,388	-	-	106,388
Catering and entertainment	-	-	-	-	-	-	-	-	559,304	559,304
Computing services	7,373	53,808	16,023	3,155	170,562	250,921	13,168	14,433	-	278,522
Cost of sales	383,551	-	-	-	-	383,551	-	-	-	383,551
Insurance	3,399	45,886	12,180	1,133	107,624	170,222	10,763	11,896	-	192,881
Miscellaneous	15,877	52,010	47,584	-	173,467	288,938	158,646	45,910	-	493,494
Total expenses	889,280	2,935,803	1,677,028	265,932	13,218,970	18,987,013	1,875,600	1,993,569	619,207	23,475,389
Less direct cost of special events deducted from revenue on the statement of activities	-	-	-	-	-	-	-	-	(619,207)	(619,207)
Less investment fees netted against investment income	-	-	-	-	-	-	(106,388)	-	-	(106,388)
Less cost of sales netted against museum shop income	(383,551)	-	-	-	-	(383,551)	-	-	-	(383,551)
Total expenses reported by function on the statement of activities	\$ 505,729	\$ 2,935,803	\$ 1,677,028	\$ 265,932	\$ 13,218,970	\$ 18,603,462	\$ 1,769,212	\$ 1,993,569	\$ -	\$ 22,366,243

Museum of the City of New York
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ (2,399,031)	\$ 2,053,623
Items not requiring (providing) operating cash flows		
Depreciation and amortization	904,544	906,811
Investment gains	(1,768,901)	(2,710,485)
Loss on bad debt	395,000	-
Permanently restricted contributions	-	(10,000,000)
Interest and dividends restricted for long-term investment	(215,723)	(85,467)
Changes in		
Contributions and grants receivable	439,304	1,153,427
Prepaid expenses and other assets	86,110	195,534
Inventory	(47,523)	(17,345)
Accounts payable and accrued expenses	49,592	(195,410)
Deferred revenue	57,581	185,944
Deferred rent	40,824	50,119
Net cash used in operating activities	(2,458,223)	(8,463,249)
Investing Activities		
Purchase of fixed assets	(195,315)	(974,255)
Purchase of investments	(962,689)	(10,384,631)
Proceeds from sale of investments	1,561,028	8,414,430
Net cash provided by (used in) investing activities	403,024	(2,944,456)
Financing Activities		
Proceeds from permanently restricted contributions	-	10,250,000
Interest and dividends restricted for long-term investment	215,723	85,467
Net cash provided by financing activities	215,723	10,335,467
Net Change in Cash and Cash Equivalents	(1,839,476)	(1,072,238)
Cash, Beginning of Year	5,916,323	6,988,561
Cash, End of Year	\$ 4,076,847	\$ 5,916,323

Museum of the City of New York
Notes to Financial Statements
June 30, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Museum of the City of New York, Inc. (the Museum) celebrates and interprets New York City (the City), educating the public about its distinctive character, especially its heritage of diversity, opportunity, and perpetual transformation. Founded in 1923 as a private, non-profit corporation, the Museum connects the past, present, and future of the City. It serves the people of New York and visitors from around the world through exhibitions, school and public programs, publications, and collections.

The Museum is located at 1220 Fifth Avenue, New York, N.Y.

The Museum's primary sources of revenues are contributions and grants as well as net revenue from special events. The Museum also operates a gift shop that earns additional revenues.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

At June 30, 2018, the Museum's cash accounts exceeded federally insured limits by approximately \$3,300,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Museum of the City of New York

Notes to Financial Statements

June 30, 2018 and 2017

The Museum maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Accounts Receivable

Grants are recorded as receivables to the extent that expenses have been incurred for the purpose specified by the grantor. Interest is not charged on the outstanding receivables. The Museum provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventory

Inventory consists of finished goods held for sale in connection with the Museum's gift shop operation. Costs of goods sold are determined using the first-in, first-out (FIFO) method. FIFO inventories are stated at the lower of cost and net realizable value for 2018 and 2017.

Building and Equipment

The buildings occupied by the Museum are constructed on properties owned by the City of New York and the Museum. Title to the buildings are held by the City; however, under an agreement with the City, the Museum has exclusive rights to use the facility.

Building and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building improvements	50 years
Furniture and equipment	2-10 years
Computer equipment	3-5 years
Leasehold improvements	10 years

The City as owner of certain of the Museum's land and of all its buildings, also at times directly contracts for, manages, and pays the cost of certain capital projects. Those costs are not reflected in the financial statements.

Museum of the City of New York

Notes to Financial Statements

June 30, 2018 and 2017

Long-Lived Asset Impairment

The Museum evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2018 and 2017.

Collections

The Museum's collections, which were acquired through purchases and contributions since its inception, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. As a matter of policy, proceeds from deaccessions shall be used to fund the purchase of other images or objects or the direct care of collections and are reflected as increases in the appropriate net asset classes. Detailed inventory records, however, are maintained for collections. The value of the collection is not readily determinable and the Museum is not fully insured for the cost of its replacement. The Museum strives to preserve and maintain its collection.

Deferred Revenue

Revenue from rental fees for events occurring in future periods are deferred and recognized according to the rental agreement.

Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use by the Museum has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Museum in perpetuity.

Membership Fees and Admissions

Membership dues are recorded when earned based upon established rates. Fees received in connection with the tours of exhibitions organized by the Museum are recognized as revenues when the exhibition is shown.

Museum of the City of New York

Notes to Financial Statements

June 30, 2018 and 2017

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Government Grants

Support funded by grants is recognized as the Museum performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contribution revenue recognized from contributed services for museum docents and guides totaled \$31,989 and \$93,139 for the years ended June 30, 2018 and 2017, respectively. In addition, contribution revenue from donated legal services was \$26,053 and \$0 for the years ended June 30, 2018 and 2017, respectively. Contributed services have been included in other grants and contributions on the statements of activities.

In-Kind Contributions

In addition to receiving cash contributions, the Museum receives in-kind contributions of utilities from the New York City Department of Cultural Affairs (DCA). It is the policy of the Museum to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended June 30, 2018 and 2017, \$484,107 and \$455,168, respectively, was received in in-kind contributions.

Museum of the City of New York

Notes to Financial Statements

June 30, 2018 and 2017

Special Events

The Museum conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenues in the accompanying financial statements.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on ratio value and other methods.

Operating Leases

Operating leases are straight-lined over the term of the lease. Deferred rent is recorded where there are material differences between the fixed payment and rent expense.

Advertising

Advertising costs are expensed as incurred and included in public relations.

Measure of Operations

The Museum includes in its measure of operations all revenues and expenses that are an integral part of its program and supporting activities and excludes the sale of collection material.

Income Taxes

The Museum is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and is a publicly supported organization as described in Section 509(a), and a similar provision of state law. However, the Museum is subject to federal income tax on any unrelated business taxable income.

Subsequent Events

Subsequent events have been evaluated through February 21, 2019, which is the date the financial statements were available to be issued.

Note 2: Investments, Investment Return, and Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Museum of the City of New York

Notes to Financial Statements

June 30, 2018 and 2017

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

	Total	Fair Value Measurements Using		Investments Measured at NAV ^(A)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
June 30, 2018				
Assets				
Investments				
Equity Securities				
Domestic	\$ 9,653,182	\$ 9,653,182	\$ -	\$ -
Foreign	1,420,667	1,420,667	-	-
Fixed Income Securities				
U.S. government obligations	1,245,507	1,245,507	-	-
Corporate obligations	811,039	-	811,039	-
Foreign government obligations	157,819	-	157,819	-
Mutual Funds				
Money market	1,081,231	1,081,231	-	-
Fixed income	697,399	697,399	-	-
Equities	6,776,658	6,776,658	-	-
Alternative Investments				
Equity long/short hedge funds measured at net asset value	6,028,913	-	-	6,028,913
Multistrategy hedge funds measured at net asset value	1,472,773	-	-	1,472,773
Total investments reported on the fair value hierarchy	29,345,188	\$ 20,874,644	\$ 968,858	\$ 7,501,686
Cash and cash equivalents	70,878			
Total investments	\$ 29,416,066			

Museum of the City of New York
Notes to Financial Statements
June 30, 2018 and 2017

	<u>Fair Value Measurements Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Investments Measured at NAV^(A)</u>
June 30, 2017				
Assets				
Investments				
Equity Securities				
Domestic	\$ 14,220,152	\$ 14,220,152	\$ -	\$ -
Foreign	2,350,942	2,350,942	-	-
Fixed Income Securities				
U.S. government obligations	1,256,638	1,256,638	-	-
Corporate obligations	953,093	-	953,093	-
Foreign government obligations	39,900	-	39,900	-
Mutual Funds				
Money market	822,159	822,159	-	-
Fixed income	487,329	487,329	-	-
Equities	157,539	157,539	-	-
Alternative Investments				
Equity long/short hedge funds measured at net asset value	6,497,731	-	-	6,497,731
Multistrategy hedge funds measured at net asset value	1,381,766	-	-	1,381,766
	<u>28,167,249</u>	<u>\$ 19,294,759</u>	<u>\$ 992,993</u>	<u>\$ 7,879,497</u>
Total investments reported on the fair value hierarchy				
Cash and cash equivalents	<u>78,255</u>			
Total investments	<u>\$ 28,245,504</u>			

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Alternative Investments

Investments in certain entities measured at fair value using the net asset value per share as a practical expedient consist of the following:

	<u>Fair Value 2018</u>	<u>Fair Value 2017</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Equity Long/Short Hedge Funds				
King Street Capital, Ltd. (a)	\$ 1,252,259	\$ 2,109,221	Quarterly	65 days
Valinor Capital Partners Offshore, Ltd. (b)	1,953,717	1,825,531	Quarterly	60 days
Riva Ridge Overseas Fund (c)	1,434,210	1,331,430	Quarterly	90 days
Corre Partners Management, LLC (d)	1,388,727	1,231,549	Quarterly	90 days
Multistrategy Hedge Funds				
Taconic Opportunity Offshore Fund (e)	<u>1,472,773</u>	<u>1,381,766</u>	Quarterly	60 days
	<u>\$ 7,501,686</u>	<u>\$ 7,879,497</u>		

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There were no unfunded commitments at June 30, 2018 and 2017.

- (a) King Street Capital, Ltd.: Investments include public equity and fixed-income markets globally with a focus in distressed companies, equity, bonds, foreign exchange, warrants and options. As of June 30, 2018, the Museum committed to closing this holding.
- (b) Valinor Capital Partners Offshore, Ltd. (Valinor): Valinor's investment objective, is to generate long-term, superior, risk-adjusted returns by investing primarily in publicly traded equity securities. Valinor will seek to achieve the investment objective by employing a strict fundamentals-based investment strategy. Valinor will generally invest in companies that it believes are trading at a discount to their intrinsic value and will cause the fund to short companies that the fund believes are trading at a premium to the intrinsic values. Shares may be redeemed, in whole or in part, on the first quarter end occurring on or after the first anniversary of each investment and each one year anniversary thereafter.
- (c) Riva Ridge Overseas Fund: Small event-driven/distressed hedge fund with long/short positions. Short portfolio predominantly composed of larger single-name, high dollar priced, high yield bonds.
- (d) Corre Partners Management, LLC: Deep value, event driven funds that aim to achieve equity-like returns while taking less risk by investing across the capital structure. Investors may also be charged a redemption fee of 5% of the amount redeemed if the redemption is not made at least one year from the date of purchase.
- (e) Taconic Opportunity Offshore Fund: Multi-strategy fund with positions in arbitrage, credit, special situations and reorganizations. Additionally, portfolio hedging focuses on protecting the portfolio in a severe market dislocation.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2018.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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Total investment return is comprised of the following:

	2018	2017
Dividends and interest	\$ 365,358	\$ 282,128
Realized and unrealized gains	1,768,901	2,710,485
	2,134,259	2,992,613
Less: investment fees	(103,067)	(106,388)
	\$ 2,031,192	\$ 2,886,225

Note 3: Contributions Receivable

Contributions receivable consisted of the following:

June 30, 2018			
	Unrestricted	Temporarily Restricted	Total
Due within one year	\$ 134,038	\$ 1,067,444	\$ 1,201,482
Due in one to five years	-	81,000	81,000
	134,038	1,148,444	1,282,482
Less			
Unamortized discount	-	(2,360)	(2,360)
	\$ 134,038	\$ 1,146,084	\$ 1,280,122
June 30, 2017			
	Unrestricted	Temporarily Restricted	Total
Due within one year	\$ 80,000	\$ 1,387,580	\$ 1,467,580
Due in one to five years	50,000	666,206	716,206
	130,000	2,053,786	2,183,786
Less			
Allowance for uncollectible accounts	-	(48,500)	(48,500)
Unamortized discount	(1,456)	(19,404)	(20,860)
	\$ 128,544	\$ 1,985,882	\$ 2,114,426

The discount rate used was 3% for June 30, 2018 and 2017.

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Note 4: Building and Equipment

Building and equipment at June 30 consists of:

	<u>2018</u>	<u>2017</u>
Building improvements	\$ 28,427,688	\$ 28,199,869
Furniture and equipment	3,710,409	3,650,307
Computer equipment	714,780	708,010
Leasehold improvements	64,506	64,506
Construction in progress	<u>36,304</u>	<u>135,682</u>
	32,953,687	32,758,374
Accumulated depreciation	(10,538,635)	(9,640,543)
Accumulated amortization	<u>(58,696)</u>	<u>(52,246)</u>
Net	<u>\$ 22,356,356</u>	<u>\$ 23,065,585</u>

Note 5: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Capital improvements	\$ -	\$ 683,574
Exhibitions, collections and programs	<u>4,660,751</u>	<u>6,598,695</u>
	<u>\$ 4,660,751</u>	<u>\$ 7,282,269</u>

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Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	<u>2018</u>	<u>2017</u>
Louis Auchincloss Prize Endowment	612,467	616,126
Frederick AO Schwarz Family Endowment	1,674,255	1,645,127
Hearst Foundation - Education	265,119	264,508
Laura and Ray Johnson Fund	1,280,202	1,280,202
Mary Flagler Cary Endowment	100,000	100,000
Grace Mayer Conservation Fund	250,000	250,000
Charles E. Merrill - Education	50,000	50,000
Mary and Donald Oenslager Fund	200,000	200,000
Gallery Programming - Puffin Foundation	980,345	1,029,138
John and Barbara Robinson Fund - Education	1,207,314	1,131,400
Ronay Menschel Director/CEO of the Museum of the City of New York Endowment	2,926,943	2,864,615
Evelyn Spitalny - Music in Museum Concerts	29,750	27,619
Robert Jeffe - lecture series	270,873	261,750
Thompson Family Foundation Endowment - Education	10,964,624	10,648,544
	<u>\$ 20,811,892</u>	<u>\$ 20,369,029</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2018</u>	<u>2017</u>
Capital improvements	\$ 288,574	\$ 1,566,906
Exhibitions, collections and programs	3,672,689	10,080,609
Endowment	909,315	274,012
	<u>\$ 4,870,578</u>	<u>\$ 11,921,527</u>

Note 6: Endowment

The Museum's endowment consists of 15 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

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The Board of Trustees of the Museum adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the “historic dollar value” standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Museum is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years’ balance. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standards of prudence prescribed by NYPMIFA.

The composition of net assets by type of endowment fund was:

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 456,056	\$ 20,811,892	\$ 21,267,948
Board-designated endowment funds	4,804,373	-	-	4,804,373
Total endowment funds	<u>\$ 4,804,373</u>	<u>\$ 456,056</u>	<u>\$ 20,811,892</u>	<u>\$ 26,072,321</u>

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 456,056	\$ 20,369,029	\$ 20,825,085
Board-designated endowment funds	4,474,660	-	-	4,474,660
Total endowment funds	<u>\$ 4,474,660</u>	<u>\$ 456,056</u>	<u>\$ 20,369,029</u>	<u>\$ 25,299,745</u>

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Changes in endowment net assets for the years ended June 30, 2018 and 2017 were:

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,474,660	\$ 456,056	\$ 20,369,029	\$ 25,299,745
Investment return				
Investment income	20,539	13,748	215,723	250,010
Net appreciation	301,803	139,205	1,136,455	1,577,463
Total investment return	322,342	152,953	1,352,178	1,827,473
Transfers to board-designated fund	761,570	-	-	761,570
Appropriation of endowment assets for expenditures	(754,199)	(313,844)	-	(1,068,043)
Releases from restrictions	-	-	(909,315) *	(909,315)
Endowment net assets, end of year	<u>\$ 4,804,373</u>	<u>\$ 295,165</u>	<u>\$ 20,811,892</u>	<u>\$ 25,911,430</u>

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,346,219	\$ 325,135	\$ 9,134,971	\$ 13,806,325
Investment return				
Investment income	29,608	20,924	85,467	135,999
Net appreciation	556,405	251,997	1,422,603	2,231,005
Total investment return	586,013	272,921	1,508,070	2,367,004
Contributions	-	-	10,000,000	10,000,000
Transfers to board-designated fund	500,000	-	-	500,000
Appropriation of endowment assets for expenditures	(957,572)	(142,000)	-	(1,099,572)
Releases from restrictions	-	-	(274,012) *	(274,012)
Endowment net assets, end of year	<u>\$ 4,474,660</u>	<u>\$ 456,056</u>	<u>\$ 20,369,029</u>	<u>\$ 25,299,745</u>

* \$909,315 in 2018 and \$274,012 in 2017 were released based on spending rates and purposes instructed by the donors.

The objective of the Museum is to maintain the principal endowment funds at the original amount designated by the donor and to generate investment income for the specified purpose. The investments are summarized in Note 2. Income is distributed on a total return basis to either unrestricted or temporarily restricted funds as designated by the donor. Certain donors have specified that investment income and losses, net of investment fees, be added to the corpus of the endowment funds and have established criteria different from the Museum's spending rate formula of 5% of the prior 5-year average balance as measured on a quarterly basis.

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The Museum does not have any funds with deficiencies.

Note 7: Operating Leases

The Museum leases warehouse space to house part of its permanent collection under a 14-year lease which will expire September 30, 2028. Rental expense (including surcharges for utilities and maintenance) related to the warehouse lease was \$394,619 and \$392,260 in fiscal years 2018 and 2017, respectively.

Future minimum lease payments under operating leases are:

2019	\$	284,455
2020		294,411
2021		304,716
2022		315,381
2023		326,419
Later years		<u>1,909,422</u>
Total minimum lease payments	\$	<u>3,434,804</u>

Note 8: Pension and Other Postretirement Benefit Plans

Multiemployer Pension Plans

The Museum contributes to a multiemployer defined benefit pension plans under the terms of a collective-bargaining agreements that cover its employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

1. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Museum chooses to stop participating in some of its multiemployer plans, the Museum may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

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The Museum’s participation in these plans for the annual period ended June 30, 2018, is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2018 and 2017 is for the plan’s year end at June 30, 2018, and June 30, 2017, respectively. The zone status is based on information the Museum received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded and plans in the green zone are at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plans are subject. There have been no significant changes that affect the comparability of 2017 and 2018 contributions.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions of Organization			Surcharge Imposed	Expiration Date of Collective Bargaining
		2018	2017		2018	2017	2016		
The Cultural Institutions Pension Plan	11-2001170/001	Green as of June 30, 2018	Green as of June 30, 2017	N/A	\$663,608	\$674,882	\$690,148	No	6/30/2020

At the date the financial statements were issued, Forms 5500 were not available for the plan year ending in 2018.

Note 9: Expansion

The City of New York has advised the Museum that they have paid \$63,819 in 2018 and \$1,334,505 in 2017 to improve the facility.

Note 10: Sale of Collection Material

In 2018 and 2017, the Museum deaccessioned a collection of books and other items that were determined to be off-mission. The books and other items belonging to the Museum were auctioned in 2018 and 2017. The net proceeds were \$55,418 and \$28,770 in 2018 and 2017, respectively.

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

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Investments

The Museum invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.