

The Solomon R. Guggenheim Foundation

**Financial Statements
December 31, 2017 and 2016**

The Solomon R. Guggenheim Foundation

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December 31, 2017 and 2016

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Report of Independent Auditors

To the Board of Trustees of
The Solomon R. Guggenheim Foundation

We have audited the accompanying financial statements of The Solomon R. Guggenheim Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Foundation'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 Foundation'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 Solomon R. Guggenheim Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in dark ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

June 27, 2018

The Solomon R. Guggenheim Foundation
Statements of Financial Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 12,046,844	\$ 26,072,227
Contributions and grants receivable, net	8,191,252	13,320,938
Accounts receivable	739,910	1,630,240
Other receivables	793,059	639,233
Inventories	1,348,084	1,426,169
Prepaid expenses	1,209,105	878,789
Deferred costs	163,659	163,659
Investments	84,849,130	68,564,568
Property, equipment and leasehold improvements, net	62,055,174	59,882,018
Art collection	1	1
Total assets	<u>\$ 171,396,218</u>	<u>\$ 172,577,842</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 15,298,201	\$ 17,907,973
Deferred income and other liabilities	38,453,705	36,127,214
Demand and other loans payable	3,000,000	-
Bonds payable, net of premium and cost	19,518,577	19,477,197
Total liabilities	<u>76,270,483</u>	<u>73,512,384</u>
Net assets (deficit)		
Unrestricted	(559,240)	6,025,350
Temporarily restricted	25,558,751	30,599,874
Permanently restricted	70,126,224	62,440,234
Total net assets	<u>95,125,735</u>	<u>99,065,458</u>
Total liabilities and net assets	<u>\$ 171,396,218</u>	<u>\$ 172,577,842</u>

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

The Solomon R. Guggenheim Foundation
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating support and revenue				
Contributions, grants and bequests	\$ 8,928,568	\$ 2,015,358	\$ -	\$ 10,943,926
Membership income	4,245,249	-	-	4,245,249
In-kind contributions	518,650	-	-	518,650
Benefit and special event income, net of direct expenses of \$2,228,667	1,366,790	-	-	1,366,790
Admissions	19,709,721	-	-	19,709,721
Traveling exhibition, royalties and other	12,137,635	-	-	12,137,635
Investment income from spending rate	754,364	1,572,574	-	2,326,938
Auxiliary revenues	9,259,263	-	-	9,259,263
Net assets released from restrictions	8,210,427	(8,210,427)	-	-
Total operating support and revenue	65,130,667	(4,622,495)	-	60,508,172
Operating expenses				
Museum programs				
Exhibitions and projects	13,710,681	-	-	13,710,681
Traveling exhibitions and other	2,978,974	-	-	2,978,974
Curatorial and collection maintenance	12,950,663	-	-	12,950,663
Visitor services	5,876,479	-	-	5,876,479
Education	4,482,579	-	-	4,482,579
Auxiliary expenses, including cost of sales	8,437,708	-	-	8,437,708
Total program expenses	48,437,084	-	-	48,437,084
Supporting services				
Management and general	16,056,570	-	-	16,056,570
Fundraising	4,580,540	-	-	4,580,540
Total supporting services	20,637,110	-	-	20,637,110
Total operating expenses	69,074,194	-	-	69,074,194
Operating support and revenue greater / (less) than operating expenses	(3,943,527)	(4,622,495)	-	(8,566,022)
Nonoperating activity				
Contributions	-	-	4,523,200	4,523,200
Investment return greater (less) than spending amount	1,732,245	3,611,615	1,619,349	6,963,209
Depreciation and amortization	(5,138,933)	-	-	(5,138,933)
Interest and fees relating to debt	(909,627)	-	-	(909,627)
Net change in postretirement benefit obligation	(120,731)	-	-	(120,731)
Foreign currency translation	642,102	2,212	-	644,314
Bad debt expense	(381,692)	-	-	(381,692)
Additional funds with deficiencies and other transfers	1,535,573	(3,079,014)	1,543,441	-
Change in net assets before changes related to collection items purchased and sold	(6,584,590)	(4,087,682)	7,685,990	(2,986,282)
Change in net assets related to collection items purchased and sold				
Contributions	-	1,727,618	-	1,727,618
Gain from the sale of art	-	35,200	-	35,200
Net assets released from restrictions for collection items purchased	2,716,259	(2,716,259)	-	-
Collection items purchased	(2,716,259)	-	-	(2,716,259)
Change in net assets	(6,584,590)	(5,041,123)	7,685,990	(3,939,723)
Net assets (deficit)				
Beginning of year	6,025,350	30,599,874	62,440,234	99,065,458
End of year	<u>\$ (559,240)</u>	<u>\$ 25,558,751</u>	<u>\$ 70,126,224</u>	<u>\$ 95,125,735</u>

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

The Solomon R. Guggenheim Foundation
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating support and revenue				
Contributions, grants and bequests	\$ 9,707,726	\$ 8,250,763	\$ -	\$ 17,958,489
Membership income	4,416,358	-	-	4,416,358
In-kind contributions	440,780	-	-	440,780
Benefit and special event income, net of direct expenses of \$2,180,152	792,686	-	-	792,686
Admissions	18,246,883	-	-	18,246,883
Traveling exhibition, royalties and other	22,375,916	-	-	22,375,916
Investment income from spending rate	20,921	1,359,077	-	1,379,998
Auxiliary revenues	8,522,788	-	-	8,522,788
Net assets released from restrictions	8,540,745	(8,540,745)	-	-
Total operating support and revenue	73,064,803	1,069,095	-	74,133,898
Operating expenses				
Museum programs				
Exhibitions and projects	15,422,911	-	-	15,422,911
Traveling exhibitions and other	7,345,855	-	-	7,345,855
Curatorial and collection maintenance	12,522,101	-	-	12,522,101
Visitor services	5,641,283	-	-	5,641,283
Education	4,264,758	-	-	4,264,758
Auxiliary expenses, including cost of sales	8,259,052	-	-	8,259,052
Total program expenses	53,455,960	-	-	53,455,960
Supporting services				
Management and general	17,310,180	-	-	17,310,180
Fundraising	4,383,433	-	-	4,383,433
Total supporting services	21,693,613	-	-	21,693,613
Total operating expenses	75,149,573	-	-	75,149,573
Operating support and revenue greater / (less) than operating expenses	(2,084,770)	1,069,095	-	(1,015,675)
Nonoperating activity				
Contributions	340,197	-	1,001,842	1,342,039
Investment return greater (less) than spending amount	(194,165)	(2,579,236)	(411,543)	(3,184,944)
Depreciation and amortization	(4,992,610)	-	-	(4,992,610)
Interest and fees relating to debt	(368,222)	-	-	(368,222)
Net change in postretirement benefit obligation	(124,425)	-	-	(124,425)
Foreign currency translation	(166,233)	(7,613)	-	(173,846)
Loss on disposal of fixed asset	(68,400)	-	-	(68,400)
Additional funds with deficiencies and other transfers	(1,695,137)	(759,200)	2,454,337	-
Change in net assets before changes related to collection items purchased and sold	(9,353,765)	(2,276,954)	3,044,636	(8,586,083)
Change in net assets related to collection items purchased and sold				
Contributions	-	1,957,662	-	1,957,662
Net assets released from restrictions for collection items purchased	4,150,805	(4,150,805)	-	-
Collection items purchased	(4,217,805)	-	-	(4,217,805)
Change in net assets	(9,420,765)	(4,470,097)	3,044,636	(10,846,226)
Net assets				
Beginning of year	15,446,115	35,069,971	59,395,598	109,911,684
End of year	<u>\$ 6,025,350</u>	<u>\$ 30,599,874</u>	<u>\$ 62,440,234</u>	<u>\$ 99,065,458</u>

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

The Solomon R. Guggenheim Foundation
Statements of Cash Flow
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ (3,939,723)	\$ (10,846,226)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	5,138,933	4,992,610
Amortization of deferred financing costs and bond discount	41,380	10,346
Allowance for doubtful contributions receivable	381,692	-
Loss on disposals of property, equipment and leasehold improvements	-	68,400
Investment in acquisitions of art	2,716,259	4,217,805
Proceeds from sale of art	(35,200)	-
Permanently restricted, term endowment, and long-term construction contributions	(4,549,873)	(437,389)
Net realized and unrealized losses (gains) on investments	(9,351,983)	1,783,682
Net change in postretirement benefit obligation	120,731	124,425
Changes in operating assets and liabilities		
Contributions receivable	4,747,994	(776,997)
Accounts receivable and other receivables	736,504	(921,881)
Inventories	78,085	(40,798)
Prepaid expenses and deferred costs	(330,316)	150,666
Accounts payable and accrued expenses	(588,637)	2,395,005
Deferred income and other liabilities	2,326,491	(4,264,005)
Net cash used in operating activities	<u>(2,507,663)</u>	<u>(3,544,357)</u>
Cash flows from investing activities		
Investments in property, equipment and leasehold improvements	(9,453,955)	(5,829,767)
Acquisitions of art	(2,716,259)	(4,217,805)
Proceeds from sale of art	35,200	-
Purchases of investments	(64,801,667)	(43,857,541)
Proceeds from dispositions of investments	57,869,088	32,657,919
Net cash used in investing activities	<u>(19,067,593)</u>	<u>(21,247,194)</u>
Cash flows from financing activities		
Proceeds from bond issuance	-	20,000,000
Costs related to bond issuance	-	(533,149)
Payments on line of credit	(5,000,000)	(8,290,871)
Proceeds from line of credit	8,000,000	1,200,000
Permanently restricted, term endowment, and long-term construction contributions	4,549,873	437,389
Net cash provided by financing activities	<u>7,549,873</u>	<u>12,813,369</u>
Net decrease in cash and cash equivalents	<u>(14,025,383)</u>	<u>(11,978,182)</u>
Cash and cash equivalents		
Beginning of year	26,072,227	38,050,409
End of year	<u><u>\$ 12,046,844</u></u>	<u><u>\$ 26,072,227</u></u>
Supplemental information		
Interest paid	\$ 666,499	\$ 160,143
Income taxes paid	251,971	279,605
Non cash transactions		
Accounts payable for property, plant and equipment	\$ 5,969	\$ 2,147,835

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

The Solomon R. Guggenheim Foundation

Notes to Financial Statements

December 31, 2017 and 2016

1. The Foundation

The Solomon R. Guggenheim Foundation (the “Foundation”) was established in 1937. Committed to innovation, the Foundation collects, preserves, and interprets modern and contemporary art, and explores ideas across cultures through dynamic curatorial and educational initiatives and collaborations. With its constellation of architecturally and culturally distinct museums, exhibitions, publications, and digital platforms, the Foundation engages both local and global audiences.

Over the course of more than eight decades, the Foundation has developed one of the world’s most important collections of art from the 20th and 21st centuries. The Foundation has implemented a strategic plan which identifies the institution’s priorities and direction and includes building the Foundation’s global role and identity, ensuring the proper stewardship and growth of the Museum’s collection, developing and presenting outstanding art and education programming and experiences for expanding global audiences, and developing an institutional communication strategy positioning and promoting the Foundation’s global perspective and programs. The centerpiece of the Foundation is the Solomon R. Guggenheim Museum on Fifth Avenue in New York. Designed by Frank Lloyd Wright, the iconic museum building is among the world’s most recognized architectural monuments. The Foundation directly owns and operates the Solomon R. Guggenheim Museum.

In Venice, Italy, the Peggy Guggenheim Collection primarily displays European and American art of the 20th century in the former home of Peggy Guggenheim, the 18th century Palazzo Venier dei Leoni on the Grand Canal. Peggy Guggenheim’s collection is comprised of masterworks of Cubism, Futurism, Surrealism, European abstraction, and American Abstract Expressionism. The Peggy Guggenheim Collection also organizes temporary exhibitions of modern and contemporary art. The Foundation directly owns and operates the Peggy Guggenheim Collection.

The Guggenheim Museum Bilbao, located in Bilbao, Spain, was founded in cooperation with the Basque government. This museum is located along the Nervion River in a building designed by Frank Gehry that has received international acclaim for its architecture. It exhibits modern and contemporary art, and is building a collection through acquisitions and commissions. The Guggenheim Museum Bilbao is owned and funded by the Fundacion del Museo Guggenheim Bilbao.

Plans are underway to open a new Guggenheim Museum in the Cultural District of Saadiyat Island in Abu Dhabi, also designed by Frank Gehry. The museum’s collection will encompass art in all mediums produced around the world from the 1960s to the present day, and will be a catalyst for scholarship in a variety of fields, chief among them the history of art in the Middle East in the 20th and 21st centuries. The Foundation will not own or fund the Guggenheim Abu Dhabi or its collection, but provides guidance with respect to the development of the permanent collection, the formation and operation of the museum, and art and exhibition programming.

Through the Guggenheim UBS MAP Global Art Initiative, the Foundation creates curatorial residencies and international touring exhibitions, audience-driven educational programming and acquisitions for the Foundation’s permanent collection. The project, with its far-reaching, international scope and significant contributions to the Foundation’s collections and programming, is one of the most significant in the Foundation’s history.

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The Foundation and the Robert H.N. Ho Family Foundation have formed a collaboration conceived to advance the achievements of contemporary Chinese artists and expand the discourse of contemporary Chinese art. The initiative will support and build upon the Guggenheim's existing Asian Art Program. Over the course of the program, the Guggenheim will commission at least three major works or groups of works from artists who were born in mainland China, Taiwan, Hong Kong or Macao. Central to this initiative is the creation of a curatorial position at the Foundation for a Ho Family Foundation Curator of Chinese Art.

The Guggenheim Museum Bilbao and Guggenheim Abu Dhabi Museum are not owned by the Foundation. Accordingly, their assets, liabilities and activities are not consolidated into these financial statements.

New Accounting Pronouncements

In May 2014 the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs, Contracts with Customers (Subtopic 340-40). This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating the transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. The standard is effective for fiscal years beginning after December 15, 2017. The Foundation will adopt ASU No. 2014-09 in fiscal year 2018 and is evaluating the impact this will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which makes targeted changes to the not-for-profit financial reporting model. Under the new guidance, the existing three-category classification of net assets (i.e. unrestricted, temporarily restricted, and permanently restricted) will be replaced with a model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." Differences in the nature of donor restrictions will be disclosed in the notes, with an emphasis on how and when the resources can be used. The guidance for classifying deficiencies in endowment funds ("underwater endowments") and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been clarified. Entities will be required to disclose (on the face of the statement or in notes) the extent to which the statement of financial position comprises financial assets, the extent to which those assets can be converted to cash within one year, and any limitations that would preclude their current use. This ASU should be applied on a retrospective basis in the year that the ASU is first applied and is effective for fiscal years beginning after December 15, 2017, with early application permitted. The Foundation will adopt ASU 2016-14 in fiscal year 2018 and is evaluating the impact of this standard on its financial statements.

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In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This guidance requires lessees to recognize (for leases longer than twelve months) at the lease commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents a lessee's right to use, or control the use of, a specified asset for the lease term. The guidance requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. This new standard is effective for fiscal years beginning after December 15, 2018, with early application permitted. The Foundation will adopt ASU 2016-02 in fiscal year 2019 and is evaluating the impact of this standard on its financial statements.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments in this update are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation will adopt ASU 2017-07 in 2019 and is evaluating the impact of this standard on the financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis and include the Foundation's accounts in New York related to the Solomon R. Guggenheim Museum in New York City and the accounts maintained in Venice for the Peggy Guggenheim Collection. All significant intra-company transactions have been eliminated.

Net Assets

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

- Unrestricted net assets are assets that are either not restricted by donors, or assets in which the donor-imposed restrictions have been satisfied.
- Temporarily restricted net assets represent those resources with donor-imposed restrictions that require the Foundation to use or expend the related assets as specified or are subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). The Foundation records contributions as temporarily restricted if they are received with donor stipulations that limit their use through either purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends, a purpose restriction is fulfilled, or the board acts to appropriate funds, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions. It is the Foundation's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset category.
- Permanently restricted net assets contain donor-imposed and other restrictions associated with the endowment or art endowment which stipulate that the resources must be maintained

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permanently, but generally permit the Foundation to use all or part of the income earned on these assets for either specified or unspecified purposes. Those earnings will be initially classified as temporarily restricted in the accompanying financial statements, pending a decision by the Board of Trustees that it would be prudent for the Foundation to appropriate such funds applying the standards of NYPMIFA.

Measure of Operations

The Foundation includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities. The measure of operations excludes permanently restricted contributions, capital contributions, changes in net assets related to collection items purchased and sold, bad debt expense, investment return greater or less than the spending amount for operations, depreciation and amortization of fixed assets, interest and fees relating to debt, net change in postretirement benefit obligation, foreign currency translation adjustments, and any nonrecurring items.

Cash and Cash Equivalents

Except for cash and cash equivalents held for reinvestment, which are included within investments, cash and cash equivalents include cash on hand, demand deposits and short term investments which are highly liquid in nature and have original maturities at the time of purchase of three months or less. At December 31, 2017 and 2016, the Foundation's cash and cash equivalents were maintained at financial institutions in excess of federally insured amounts.

Foreign Currency

Assets and liabilities of the accounts maintained in Venice, Italy, for the Peggy Guggenheim Collection, where the Euro is the functional currency, have been translated at year end exchange rates and profit and loss accounts have been translated using average yearly exchange rates. The average exchange rate to purchase one Euro expressed in U.S. dollars was \$1.1297 and \$1.1069 for the years ended December 31, 2017 and 2016, respectively. The exchange rate to purchase one Euro expressed in U.S. dollars at December 31, 2017 and 2016 was \$1.1993 and \$1.0541, respectively. Adjustments resulting from translation have been recorded as a change in net assets in the statement of activities. A foreign currency translation gain of \$644,317 was recorded for the year ended December 31, 2017 and a foreign currency translation loss of \$173,846 was recorded for the year ended December 31, 2016.

Investments

All debt and equity securities are recorded at fair value determined on the basis of quoted market values. Realized gains and losses arising from the sale or other disposition of investments are determined on an historical cost basis.

Alternative investments include investments in fixed income funds, private equity and hedge funds. The Foundation values these investments in accordance with valuations provided by the investment managers of the underlying funds. As a general rule, investment managers of funds value investments based upon the best information available for a given circumstance and may incorporate assumptions that are the investment manager's best estimates after consideration of a variety of internal and external factors. Investments for which observable market prices do not exist are reported at fair value as determined by the fund's investment manager. The Foundation's management may consider other factors in assessing the fair value of these investments. Some of these funds may not have readily ascertainable market values and may be subject to withdrawal

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restrictions. Management performs due diligence reviews of all balances received from the investment manager.

The fair value of the funds represents the amount the Foundation would have expected to receive at December 31, 2017 and 2016, had it liquidated its investments in the funds on these dates.

Because alternative investments may not be readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. Such differences could be material.

Purchases and sales of securities are reflected on a trade-date basis. Realized gains and losses on sales of securities are determined on an historical cost basis. Dividend income is recorded on the ex-dividend date and interest income is recorded as earned on an accrual basis.

Unrealized gains and losses are determined by comparison of specific costs of acquisition to market values at the last day of the fiscal year.

Property, Equipment and Leasehold Improvements

Land, building, building improvements and renovations, leasehold improvements, construction in progress and equipment purchases by the Foundation are recorded at cost. Normal repairs and maintenance are expensed as incurred. A portion of the land for the museum in New York and the land and building related to the Palazzo Venier dei Leoni were donated to the Foundation, and are recorded at estimated fair value as of the dates of donation. Depreciation and amortization of assets under capital leases is calculated using the straight line method over the estimated useful lives. The estimated useful lives for buildings and improvements are 10-40 years and 3-10 years for furniture, fixtures and equipment. When property or equipment is sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and the gain or loss realized on disposition is reflected in the statement of activities. Leasehold improvements are amortized over the shorter of the term of the lease or the estimated life of the improvement. Occasionally there are major capital projects that cross financial statement years, and, when this occurs, costs that have been incurred to date are reflected in construction in progress. Once the project is complete and the asset is put into service, the costs are reclassified to the respective depreciable asset class.

Art Collection

In accordance with industry practice, art objects purchased, donated and bequeathed are included in permanently restricted net assets at a value of \$1. Contributions for the purchase of collection items, net assets released from restrictions to purchase collection items, the cost of all collection items purchased, the proceeds from deaccessioned art, and the proceeds from the sale of art that was not part of the collection but will be used for the purchase of collection items, are reported as changes in net assets related to collection items purchased and sold in the statement of activities.

The Foundation's policy is to maintain and continue to acquire significant works of 20th and 21st century art in all mediums. From time to time, the Foundation may decide to deaccession objects in accordance with the law, the Foundation's Collection Management Policy. Deaccession proceeds are used for art acquisitions in furtherance of the Foundation's mission and are reported as temporarily or permanently restricted net assets in the statement of activities.

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Deferred Income and Other

Deferred income includes amounts received for projects which will be recognized as revenue in traveling exhibitions, royalties and other when the associated costs are incurred. Deferred income also includes income from a licensing agreement, which is being recognized over 30 years; a global sponsor fee which is being recognized over 58 months; an in-kind contribution of property and equipment which is being recognized over 10 years; a program fee received which may be refundable if certain conditions are not met; and two build out allowances which are being recognized over the life of their associated leases.

Contributions, Grants and Bequests

Contributions, grants and bequests including unconditional promises to give (pledges) and corporate sponsorships are recognized as revenues in the period received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. An allowance is established when the collection of a pledge is determined to be doubtful. In addition, pledges deemed uncollectible are written off in the year such determination is made.

Membership Income and Admissions

Corporate and individual membership fees related to single year agreements are reflected in operating support and revenue when received. Memberships that are allocated to multiple years are deferred over the contract period. Revenue related to admissions is primarily recognized at point of sale.

In-Kind Contributions

In-kind contributions are recorded in the statement of activities as operating support and revenue as well as, in either the related operating expense category, or as property, equipment and leasehold improvements, net, when applicable. In-kind contributions are comprised of building improvements, furniture, fixtures, equipment, and legal and marketing services. Consulting media and subscription services, and other services are also included at their fair value when the services would have been purchased if they had not been received as contributions or require specialized skills which are provided by individuals possessing such specialized skills.

Volunteers

A number of unpaid volunteers have made significant contributions of their time in the furtherance of the Foundation's programs covering a number of the Foundation's activities. Volunteers provide administrative assistance in various areas of the museum and support the visitor information desk. These contributions do not meet the criteria for recognition of contributed services in accordance with accounting principles generally accepted in the United States of America and therefore their value is not reflected in these financial statements.

Auxiliary Activities and Inventories

Auxiliary activities consist primarily of the publication and sale of exhibition catalogues and other related merchandise operations. Revenue related to auxiliary activities is primarily recognized at point of sale. Inventory at average cost consisted of \$1,047,018 and \$1,081,718 of finished goods and \$301,066 and \$344,451 of work in process at December 31, 2017 and 2016, respectively.

Functional Classification of Expenses

The costs of providing museum programs and supporting services have been summarized in Note 14. Museum program expenses include costs of exhibitions and projects, traveling exhibitions,

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curatorial and collections maintenance, visitor services, education and auxiliary activities. Management and general expenses include costs associated with the following departments: executive, finance, information technology, legal, external affairs and human resources. Rent, building maintenance and office services are allocated among the functional expense categories based on space usage.

Postretirement Health Benefits

The Foundation provides postretirement life and health insurance for certain retirees and recognizes the estimated cost of such benefits over their expected lifetime.

Advertising

The Foundation expenses advertising costs as incurred. The Foundation also has received donated advertising, which amounted to \$111,400 and \$125,000 for 2017 and 2016, respectively.

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, as well as the reported amounts of revenues and expenses during the reporting period. The most significant estimates include the valuation assumptions associated with investments without readily determinable public markets, net realizable value of contributions receivable, and post-retirement benefit liabilities. Actual results could differ from those estimates.

Income Tax Status

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. Contributions to the Foundation are tax deductible to contributors, to the extent provided by law. The Foundation is subject to unrelated business income tax on sales of certain merchandise and activities. The Foundation's Italian operations are also subject to Italian tax.

The Foundation is subject to the provisions of the Financial Accounting Standards Codification ("ASC") Topic 740-10-05, relating to accounting and reporting for uncertainty in income taxes. Because of the Foundation's general tax-exempt status, ASC Topic 740-10-05 has not had, and is not expected to have, a material impact on the Foundation's financial statements.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

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3. Contributions and Grants Receivable

Contributions and grants receivable at December 31, 2017 and 2016 are expected to be collected as follows:

	<u>2017</u>	<u>2016</u>
Within 1 year	\$ 4,875,584	\$ 6,733,676
1 to 5 years	2,682,943	4,632,074
Thereafter	<u>1,000,000</u>	<u>2,500,000</u>
Gross contributions and grants receivable	8,558,527	13,865,750
Less: Discount to Present Value	<u>(367,275)</u>	<u>(544,812)</u>
Contributions and grants at present value	<u>\$ 8,191,252</u>	<u>\$ 13,320,938</u>

At December 31, 2017 and 2016, \$6,538,000 and \$8,637,000 of the gross contributions and grants receivable, respectively, were due from five individuals, corporations, foundations or government entities. The interest rates used to discount contributions receivable to present value ranged from 3.88% to 4.49%.

In 2009, the Foundation received a \$1,960,000, two-phase capital grant from New York City's Department of Cultural Affairs for visitor services restoration. The City of New York spent \$340,197 and \$51,675 for capital appropriations related to this project for 2017 and 2016, respectively. The City's investment of capital funding obligated the Foundation to operate the facility and maintain equipment for the respective bonding term as a non-profit entity, open to and used and maintained for the benefit of the people of the City of New York for cultural, educational and artistic uses, or related purposes approved by the City.

4. Investments

Investments consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>		<u>2016</u>	
	<u>Fair Value</u>	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Cost Basis</u>
Cash and cash equivalents for reinvestment	\$ 12,296,329	\$ 12,296,783	\$ 13,686,060	\$ 13,820,531
Equities	<u>7,751,628</u>	<u>6,023,110</u>	<u>4,243,221</u>	<u>3,892,277</u>
Alternative investments				
Fixed income funds	6,123,890	6,478,541	13,275,171	14,010,000
Equity funds	42,873,382	36,148,409	23,189,738	22,149,722
Fund of hedge funds	2,295,407	1,829,551	3,853,168	3,268,870
Event/credit arbitrage funds	7,271,849	5,465,119	8,569,684	6,637,495
International funds	<u>6,236,645</u>	<u>5,967,039</u>	<u>1,747,526</u>	<u>1,967,039</u>
Total alternative investments	64,801,173	55,888,659	50,635,287	48,033,126
Total	<u>\$ 84,849,130</u>	<u>\$ 74,208,552</u>	<u>\$ 68,564,568</u>	<u>\$ 65,745,934</u>

Included in cash and cash equivalents is an investment receivable of \$775,864 and \$1,970,823 as of December 31, 2017 and 2016, respectively.

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The following summarizes the Foundation's investment return for the year ended December 31, 2017, and its classification in the statement of activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	\$ 264,045	\$ 669,526	\$ 108,050	\$ 1,041,621
Investment fees	(417,665)	(591,016)	(94,776)	(1,103,457)
Net realized gains (losses)	313,257	1,019,823	297,112	1,630,192
Net unrealized gains (losses)	<u>2,326,972</u>	<u>4,085,856</u>	<u>1,308,963</u>	<u>7,721,791</u>
Net investment return	2,486,609	5,184,189	1,619,349	9,290,147
Less: Investment income and spending rate included in operating activity	<u>(754,364)</u>	<u>(1,572,574)</u>		<u>(2,326,938)</u>
Total investment losses included in non-operating activity	<u>\$ 1,732,245</u>	<u>\$ 3,611,615</u>	<u>\$ 1,619,349</u>	<u>\$ 6,963,209</u>

The following summarizes the Foundation's investment return for the year ended December 31, 2016, and its classification in the statement of activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	\$ 52,695	\$ 591,462	\$ 94,072	\$ 738,229
Investment fees	(262,617)	(426,080)	(70,815)	(759,513)
Net realized gains (losses)	(182,672)	(464,539)	(45,754)	(692,965)
Net unrealized gains (losses)	<u>219,351</u>	<u>(921,002)</u>	<u>(389,046)</u>	<u>(1,090,697)</u>
Net investment return	(173,244)	(1,220,159)	(411,543)	(1,804,946)
Less: Investment income and spending rate included in operating activity	<u>(20,921)</u>	<u>(1,359,077)</u>	-	<u>(1,379,998)</u>
Total investment losses included in non-operating activity	<u>\$ (194,165)</u>	<u>\$ (2,579,236)</u>	<u>\$ (411,543)</u>	<u>\$ (3,184,944)</u>

5. Fair Value Measurements

The Foundation's investments are recorded in the financial statements at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Investments for which fair value is measured using net asset values ("NAV") as a practical expedient are excluded from the hierarchy and have been reported separately within the table below. Fair value accounting standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 Observable inputs such as quoted prices in active markets;
- Level 2 Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

Cost approach – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

Income approach – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques).

The following table summarizes the valuation of the Foundation's financial instruments measured on a recurring basis by the above input levels using a market approached valuation method as of December 31, 2017:

Investments as of December 31, 2017	Quoted Market Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash and cash equivalents for reinvestment	\$ 12,296,329	\$ -	\$ -	\$ 12,296,329
Equities	7,751,628	-	-	7,751,628
Investments at fair value	20,047,957	-	-	20,047,957
Investments measured at net asset value				64,801,173
Total investments	\$ 20,047,957	\$ -	\$ -	\$ 84,849,130
Cash and cash equivalents	\$ 6,744,653	\$ 5,302,191	\$ -	\$ 12,046,844

The following table summarizes the valuation of the Foundation's financial instruments measured on a recurring basis by the above input levels using a market approached valuation method as of December 31, 2016:

Investments as of December 31, 2016	Quoted Market Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash and cash equivalents for reinvestment	\$ 13,686,060	\$ -	\$ -	\$ 13,686,060
Equities	4,243,221	-	-	4,243,221
Investments at fair value	17,929,281	-	-	17,929,281
Investments measured at net asset value				50,635,287
Total investments	\$ 17,929,281	\$ -	\$ -	\$ 68,564,568
Cash and cash equivalents	\$ 13,911,548	\$ 12,160,679	\$ -	\$ 26,072,227

The following is a description of the Foundation's valuation methodologies for assets and liabilities measured at fair value as of December 31, 2017 and 2016:

Fair value for Level 1 is based upon quoted prices in active markets that the Foundation has the ability to access for identical assets or liabilities. Market price data is generally obtained from exchange or dealer markets. The Foundation does not adjust the quoted price for such assets and liabilities.

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Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The net asset value of each alternative investment fund generally represents the ownership interest in the respective funds. The fair values of the investments held by the funds that do not have readily determinable fair values are determined by the investment managers and are based on estimates that require varying degrees of judgment. The Foundation has performed due diligence on these investments to ensure the NAV is an appropriate measure of fair value as of December 31, 2017 and 2016. Because of the inherent uncertainty of valuing these investments and certain underlying investments, the Foundation's estimate of fair value may differ significantly from the values that would have been used had a ready market for the investments existed. These investments may be illiquid and thus there can be no assurance that the Foundation will be able to realize the value of such investments in a timely manner.

The methods described in this footnote may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table summarizes the Foundation's investments that are measured at NAV by category as of December 31, 2017:

Class	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
Fixed income funds (a)	\$ 6,123,890	In Liquidation (2 funds)- 29% Monthly (1 fund)- 27% Daily (2 funds)- 44%	In Liquidation (2 funds)- 29% 30 days (2 funds)- 44% 10 days (1 fund)- 27%
Equity funds (b)	42,873,382	Annual (3 funds)- 17% Quarterly (3 funds)- 22% Monthly (3 funds)- 17% Daily (4 funds)- 44%	180 days (2 funds)- 11 % 90 days (1 fund)- 7% 60 days (2 funds)- 15% 45 days (1 fund)- 6% 30 days (3 funds)- 17% 1 day (4 funds)- 44%
Fund of hedge funds (c)	2,295,407	In Liquidation (2 funds)- 7% Quarterly (1 fund)- 93%	In Liquidation (2 funds)- 7% 95 days (1 fund)- 93%
Event/credit arbitrage funds (d)	7,271,849	Quarterly (2 funds)- 68% Monthly (2 funds)- 32%	90 days (2 funds)- 32% 60 days (2 funds)- 68%
International funds (e)	6,236,645	Monthly (2 funds)- 31% Daily (2 funds)- 69%	90 days (1 fund)- 6% 5 days (1 fund)- 25% 1 day (2 funds)- 69%
Total alternative investments	\$ 64,801,173		

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The following table summarizes the Foundation's investments which are measured at NAV by category as of December 31, 2016:

Class	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
Fixed income funds (a)	\$ 13,275,171	In Liquidation (1 funds)- 17% Monthly (1 fund)- 30% Daily (2 funds)- 53%	In Liquidation (1 funds)- 17% 30 days (2 funds)- 53% 10 days (1 fund)- 30%
Equity funds (b)	23,189,738	Annual (3 funds)- 24% Quarterly (2 funds)- 21% Monthly (4 funds)- 27% Daily (2 funds)- 28%	180 days (2 funds)- 13% 90 days (2 funds)- 20% 60 days (1 fund)- 9% 45 days (1 fund)- 11% 30 days (3 funds)- 19% 1 day (2 funds)- 28%
Fund of hedge funds (c)	3,853,168	In Liquidation (1 funds)- 6% Quarterly (1 fund)- 94%	In Liquidation (1 funds)- 6% 95 days (1 fund)- 94%
Event/credit arbitrage funds (d)	8,569,684	Quarterly (3 funds)- 74% Monthly (2 funds)- 26%	180 days (1 fund)- 7% 90 days (2 funds)- 26% 60 days (2 funds)- 67%
International funds (e)	1,747,526	Monthly (2 funds)- 100%	90 days (1 fund)- 20% 5 days (1 fund)- 80%
Total alternative investments	\$ 50,635,287		

The following is a brief description of the Foundation's categories for investments measured at NAV:

- (a) Includes long and short positions in a broad variety of highly liquid investments that are anticipated to have primarily a fixed income focus, including investments in financial instruments of companies undergoing periods of distress and turnaround. Two of the funds, valued at \$1,748,226 as of December 31, 2017 and one fund valued at \$91,982 as of December 31, 2016, are currently in liquidation.
- (b) Principally long, concentrated portfolios invested in highly liquid equity securities and large-cap investments.
- (c) Highly diversified portfolios of multiple managers. These funds invest across most liquid asset classes and offer low correlations to markets and low volatility. Two of the funds, with a combined value of \$163,882 as of December 31, 2017 and one fund valued \$231,738 as of December 31, 2016, are currently in liquidation.
- (d) These funds participate across the capital structure of companies, identifying specific catalysts that will result in valuations which increase over time. Generally, they have low net exposure to the markets.
- (e) These funds generally own equities of companies listed outside of the United States of America, including developed and developing countries. These funds have higher beta as a result of their higher net exposure to markets.

There were no unfunded commitments as of December 31, 2017 and 2016.

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Assets and liabilities measured at fair value are based on the market approach valuation technique, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Contributions Receivable

The fair value of pledges receivable was determined using a risk adjusted discount rate.

6. Endowment Funds

The Foundation's endowment consists of 32 individual funds established for a variety of purposes. As required by Generally Accepted Accounting Principles ("GAAP"), net assets associated with donor-restricted endowment funds, and funds designated by the Board of Trustees to function as endowment funds ("Board Designated"), are classified and reported based on the existence or absence of donor-imposed restrictions.

On September 17, 2010, New York State enacted NYPMIFA. Under NYPMIFA, a detailed prudence standard governs appropriation from endowment funds and there is no longer a requirement to maintain historic dollar value as was the case under the Uniform Management of Institutional Funds Act ("UMIFA").

Under UMIFA, the Foundation could appropriate for expenditure so much of the net appreciation of an endowment fund as the Foundation's board determined was prudent, but, in the event an endowment fund was below its historic dollar value, appropriation was not permitted other than the appropriation of income. The term "historic dollar value" was defined as the aggregate fair value in dollars of (i) an endowment fund at the time it became an endowment fund, (ii) each subsequent donation to the fund at the time it was made, and (iii) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation was added to the fund.

Under NYPMIFA, prudent appropriation of income or appreciation from a fund where the value is less than its historic dollar value is permitted. In particular, NYPMIFA provides that unless a donor expresses a contrary intention in a gift instrument, a charitable institution may appropriate as much of an endowment fund as it "determines is prudent for the uses, benefits, purposes and duration for which the fund is established," without regard for historic dollar value. Consistent with prior law, NYPMIFA retains the requirement that in making any decision to appropriate "the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances." It further provides a requirement that the institution "shall consider, if relevant" the following eight factors in deciding whether or not to appropriate from a fund: (i) the duration and preservation of the endowment fund; (ii) the purposes of the Foundation and the endowment fund; (iii) general economic conditions; (iv) the possible effect of inflation or deflation; (v) the expected total return from income and the appreciation of investments; (vi) other resources of the Foundation; (vii) 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 Foundation; and (viii) the investment policy of the Foundation.

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The provisions of NYPMIFA allowing prudent appropriation without regard to historic dollar value apply to funds created after the law's effective date of September 17, 2010. Donors of funds created before that date were given the option to require institutions to continue to observe the historic dollar value restrictions contained in prior law. Some of the Foundation's endowment fund donors elected this option. Moreover, as under prior law, a donor may incorporate in a gift instrument specific restrictions on appropriation that are different from either NYPMIFA or prior law. Certain of the Foundation's funds are governed by such instruments. Thus, the Foundation has funds that fall into three categories with respect to appropriation: those from which it may prudently appropriate without regard to historic dollar value; those from which it may prudently appropriate current income and appreciation only above historic dollar value; and those where appropriation is governed by specific instructions in the constitutive gift instrument.

The Foundation's Board of Trustees, after careful consideration of each of the NYPMIFA factors, determined that it would be prudent to appropriate funds from the Foundation's endowment in 2017 and 2016.

The Foundation's spending policies are consistent with the Foundation's objectives to use income to support mission-critical programs while preserving capital and promoting future endowment growth.

Consistent with endowment accounting for not-for-profit organizations for funds subject to an enacted version of UPMIFA, the Foundation 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, (c) the net realizable value of future payments to permanently restricted net assets in accordance with the donor's gift instrument (outstanding endowment pledges net of applicable discount), and (d) accumulations, including appreciation, gains and income, 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.

For financial reporting purposes, donor-restricted endowment fund appreciation, gains and income exceeding donor restrictions are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by law. Upon appropriation, appreciation and earnings are reclassified as unrestricted net assets.

For each donor-restricted endowment fund, the Foundation classifies the portion of the fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure by the Foundation.

The Foundation's endowments consisted of the following at December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (8,748,301)	\$ 5,575,673	\$ 59,267,885	\$ 56,095,257
Art fund endowment	-	1,607,642	10,105,000	11,712,642
Board-designated endowment funds	23,901,599	300,000	-	24,201,599
Total funds	\$ 15,153,298	\$ 7,483,315	\$ 69,372,885	\$ 92,009,498

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The Foundation's endowments consisted of the following at December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (10,533,196)	\$ 4,968,948	\$ 51,581,890	\$ 46,017,642
Art fund endowment	-	562,852	10,105,000	10,667,852
Board-designated endowment funds	27,627,195	-	-	27,627,195
Total funds	\$ 17,093,999	\$ 5,531,800	\$ 61,686,890	\$ 84,312,689

As a result of unfavorable market fluctuations, the fair value of assets associated with certain donor-restricted endowment funds has fallen below historic dollar value. The aggregate amounts by which fair values were below historic values were approximately \$8,748,301 and \$10,533,198 as of December 31, 2017 and 2016, respectively.

The Foundation's endowments had the following changes for the years ended December 31, 2017 and 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, December 31, 2016	\$ 17,093,999	\$ 5,531,800	\$ 61,686,890	\$ 84,312,689
Investment return				
Investment income	92,016	55,696	13,275	160,987
Net appreciation / (depreciation) realized and unrealized	2,640,219	4,819,378	1,606,075	9,065,672
Total investment return / (loss)	2,732,235	4,875,074	1,619,350	9,226,659
Contributions	2,554,279	300,000	4,523,204	7,377,483
Appropriation of endowment assets for expenditure	(8,762,783)	(1,572,549)	-	(10,335,332)
Additional funds with deficiencies, other transfers and redesignations	1,535,568	(1,651,010)	1,543,441	1,427,999
Endowment funds, December 31, 2017	\$ 15,153,298	\$ 7,483,315	\$ 69,372,885	\$ 92,009,498

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, December 31, 2015	\$ 10,384,145	\$ 8,836,415	\$ 58,642,254	\$ 77,862,814
Investment return				
Investment income	(7,969)	110,261	23,258	125,550
Net appreciation / (depreciation) realized and unrealized	(186,604)	(1,197,012)	(434,801)	(1,818,417)
Total investment return / (loss)	(194,573)	(1,086,751)	(411,543)	(1,692,867)
Contributions and transfers	14,881,312	-	1,001,842	15,883,154
Appropriation of endowment assets for expenditure	(6,281,748)	(1,458,664)	-	(7,740,412)
Additional funds with deficiencies and other transfers	(1,695,137)	(759,200)	2,454,337	-
Endowment funds, December 31, 2016	\$ 17,093,999	\$ 5,531,800	\$ 61,686,890	\$ 84,312,689

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The endowment funds classified as permanently restricted, temporarily restricted and unrestricted net assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Permanently restricted net assets		
Educational programs	\$ 10,671,228	\$ 9,848,901
Curatorial programs	1,537,048	1,537,048
Publications	1,200,000	1,200,000
General operating support	39,022,783	34,695,941
Conservation	2,536,826	-
Exhibition programs	4,300,000	4,300,000
Art fund endowment	<u>10,105,000</u>	<u>10,105,000</u>
Total endowment funds classified as permanently restricted net assets	<u>69,372,885</u>	<u>61,686,890</u>
Temporarily restricted net assets		
General operating	5,875,673	4,968,947
Art fund endowment	<u>1,607,642</u>	<u>562,853</u>
Total endowment funds classified as temporarily restricted net assets	7,483,315	5,531,800
Total endowment funds classified as unrestricted net assets - general operating support	<u>15,153,298</u>	<u>17,093,999</u>
Total endowment funds	<u>\$ 92,009,498</u>	<u>\$ 84,312,689</u>

7. Property, Equipment and Leasehold Improvements, net

Property, equipment and leasehold improvements, net consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 3,130,643	\$ 3,130,643
Buildings and building improvements	111,242,566	109,873,030
Furniture, fixtures and equipment	4,552,071	4,398,338
Leasehold improvements	14,875,096	3,626,945
Construction in progress	<u>1,336,620</u>	<u>6,203,704</u>
	135,136,996	127,232,660
Less: Accumulated depreciation and amortization	<u>(73,081,822)</u>	<u>(67,350,642)</u>
Total property, equipment and leasehold improvements, net	<u>\$ 62,055,174</u>	<u>\$ 59,882,018</u>

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8. Bonds Payable, Net of Premium and Cost

Bonds payable at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Series 2016A Bonds	\$ 20,000,000	\$ 20,000,000
Bond discount and issuance costs, net of amortization	<u>(481,423)</u>	<u>(522,803)</u>
Bonds Payable	<u><u>\$ 19,518,577</u></u>	<u><u>\$ 19,477,197</u></u>

In September 2016, the Foundation issued taxable bonds in an aggregate principal amount of \$20,000,000 (the “Bonds”). The bond proceeds were used to (i) repay an outstanding balance of approximately \$8.2 million under the Foundation’s Credit Agreement dated as of July 31, 2015, as amended, (ii) fund certain leasehold tenant improvements, (iii) fund working capital, and (iv) pay costs of issuance. For the year ended December 31, 2017, interest expense on the Bonds totaled \$771,225.

The 2016A Bonds consisted of the following amounts and maturities at December 31, 2017:

Bonds, Series 2016A	<u>Principal</u>	<u>Rate</u>	<u>Maturity</u>
Term bonds	\$ 4,555,000	3.47%	January 1, 2026
Term bonds	<u>15,445,000</u>	3.97%	January 1, 2031
	<u><u>\$ 20,000,000</u></u>		

The Bonds are subject to optional redemption by the Foundation, in whole or in part at any time. Certain of the bonds are also subject to mandatory sinking fund redemption from sinking fund installments.

9. Demand and Other Loans Payable

During February 2017, the Foundation entered into a one year agreement with a commercial bank for a \$5,000,000 revolving line of credit. This agreement was renewed in October 2017 for an additional one year period terminating November 30, 2018. Amounts borrowed under this credit facility bear interest based on the LIBOR rate plus 1.25%. As of December 31, 2017 the Foundation had an outstanding balance of \$3,000,000.

	<u>2017</u>	<u>2016</u>
Revolving credit facility	<u>\$ 3,000,000</u>	<u>\$ -</u>

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10. Net Assets

Net assets consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Temporarily restricted net assets		
Restricted by time	\$ 11,163,888	\$ 14,784,416
Restricted by purpose		
Exhibitions, projects and other	7,982,109	9,482,234
Purchase of works of art	<u>6,412,754</u>	<u>6,333,224</u>
Total temporarily restricted net assets	<u>\$ 25,558,751</u>	<u>\$ 30,599,874</u>

	<u>2017</u>	<u>2016</u>
Permanently restricted net assets		
Art collection	\$ 1	\$ 1
Land	753,338	753,338
Endowment, income restricted for reinvestment and educational programs	10,671,228	9,848,901
Endowment, income restricted for curatorial chair	1,537,048	1,537,048
Endowment, art fund, income restricted for art purchases	10,105,000	10,105,000
Endowment, conservation	2,536,826	-
Endowment, income restricted for publications	1,200,000	1,200,000
Endowment, income restricted exhibitions	4,300,000	4,300,000
Endowment, income for general operating support	<u>39,022,783</u>	<u>34,695,946</u>
Total permanently restricted net assets	<u>\$ 70,126,224</u>	<u>\$ 62,440,234</u>

11. Defined Contribution Retirement Plan

The Foundation has a defined contribution retirement plan to cover all eligible employees, established under Section 403(b) of the Internal Revenue Code. The Foundation makes a contribution equal to 3% of an eligible participant's annual base pay. Eligible employees may elect to contribute to the plan and the Foundation will then match 50% of the first 5% of base pay contributed. During 2017 and 2016, the Foundation recorded an expense of \$900,885 and \$846,349, respectively related to these plans.

12. Postretirement Health Plan

The Foundation has a plan that provides lifetime medical insurance benefits to certain retirees.

Accounting Standards require the Foundation to report the funded status of each pension and other postretirement benefit plan as an asset (for over-funded plans) or as a liability (for under-funded plans), replacing the accrued benefit obligation currently recorded. The funded status reported on the balance sheet is equal to the benefit obligation. Accounting Standards also require that unamortized actuarial gains and losses and prior service costs or credits are recognized as an

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increase or decrease to net assets. Accounting Standards require employers to measure benefit plan assets and liabilities and determine the discount rate for subsequent year expense recognition as of the balance sheet date for financial reporting purposes. The Foundation expects to contribute \$155,206 to its pension plan in 2018.

Information with respect to this plan as of and for the years ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 1,236,533	\$ 1,149,209
Interest cost	38,019	35,584
Actuarial loss / (gain)	183,212	167,867
Benefits paid	<u>(126,510)</u>	<u>(116,127)</u>
Benefit obligation at end of year	<u>\$ 1,331,254</u>	<u>\$ 1,236,533</u>
	<u>2017</u>	<u>2016</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Company contribution	126,510	116,127
Benefits paid	<u>(126,510)</u>	<u>(116,127)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status at year end included in accounts payable and accrued expenses	<u>\$ (1,331,254)</u>	<u>\$ (1,236,533)</u>
Components of net periodic benefit cost		
Interest cost	\$ 38,019	\$ 35,584
Recognized actuarial loss / (gain)	<u>62,481</u>	<u>43,442</u>
Net periodic benefit cost	<u>\$ 100,500</u>	<u>\$ 79,026</u>
Changes in net unrestricted assets		
Net loss / (gain)	\$ 183,212	\$ 167,867
Amortization of loss / (gain)	<u>(62,481)</u>	<u>(43,442)</u>
Total	<u>\$ 120,731</u>	<u>\$ 124,425</u>

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	<u>2017</u>	<u>2016</u>
Weighted-Average Assumptions as of December 31 used for obligations		
Discount rate	3.00%	3.25%
Weighted-Average Assumptions as of December 31 used for net periodic benefit cost		
Discount rate	3.25%	3.25%
Assumed health care cost trend rates at December 31		
Health care cost trend rate assumed for next year	7.50%	8.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2024	2024
Amounts recognized in net unrestricted assets consist of		
Net loss / (gain)	\$ 727,557	\$ 606,826
	<u>2017</u>	<u>2016</u>
Amounts in net unrestricted assets expected to be recognized in net periodic benefit cost in the coming fiscal year		
Amortization of unrecognized net loss / (gain)	\$ 83,061	\$ 62,481
Total	<u>\$ 83,061</u>	<u>\$ 62,481</u>
Effect of a 1% Change in the Assumed Health Care Cost Trend Rates	<u>1% Increase</u>	<u>1% Increase</u>
Effect on Total of Service and Interest Cost Components	\$ 2,248	\$ 2,436
Effect on Postretirement Benefit Obligation	70,249	69,172
Future expected cash flows		
2018	\$ 155,206	
2019	149,950	
2020	143,459	
2021	135,888	
2022	127,383	
2023-2026	492,338	

13. Related Party Transactions

Two managing partners of an investment firm who are on the Foundation's Board of Trustees served on the Investment Committee until May 20, 2014. After review and in accordance with the Foundation's conflict of interest policy including recusal of interested parties from voting, the disinterested Trustees who served on this Committee approved investments managed by this firm with a fair value of \$1,705,707 and cost of \$2,411,240 at December 31, 2017 and investments with

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a fair value of \$2,247,005 and cost of \$3,465,370 at December 31, 2016. In 2017 and 2016, the Foundation paid the investment firm fees of \$59,437 and \$67,689, respectively.

Two principal owners of the firm that currently provides investment advice to the Foundation are also directors, shareholders and investment advisors of a multi-strategy fund of hedge funds in which the Foundation has an approved investment. At December 31, 2017 and 2016, the Foundation's investment, at cost, in the fund of funds was \$2,132,000 and \$3,126,000, respectively. The Foundation does not pay the advisory firm, the principal owners of the firm or the fund of funds a fee with respect to the Foundation's investment in that fund of funds. In 2017 and 2016, the Foundation paid investment advisory firm fees for its other advisory services of \$245,636 and \$173,971, respectively.

14. Functional Classification of Expenses

Expenses by functional classification for the years ended December 31, 2017 and 2016 are shown below. Depreciation, interest expense, and fees relating to debt service, which are not allocated functionally on the statement of activities, are allocated functionally below:

	<u>2017</u>	<u>2016</u>
Program expenses		
Exhibition and projects	\$ 17,472,090	\$ 18,776,325
Traveling exhibitions	2,978,974	7,345,855
Curatorial and collection maintenance	13,445,878	12,956,356
Visitor services	6,107,711	5,843,109
Education	4,968,537	4,692,769
Auxiliary activities	8,939,822	8,618,993
Total program expenses	<u>53,913,012</u>	<u>58,233,407</u>
Supporting services		
Management and general	16,598,096	17,864,141
Fundraising	4,611,646	4,412,857
Total supporting services	<u>21,209,742</u>	<u>22,276,998</u>
Total expenses	<u>\$ 75,122,754</u>	<u>\$ 80,510,405</u>
Expenses per the financial statements		
Total operating expenses	\$ 69,074,194	\$ 75,149,573
Depreciation and amortization	5,138,933	4,992,610
Interest and fees relating to debt	909,627	368,222
Total expenses	<u>\$ 75,122,754</u>	<u>\$ 80,510,405</u>

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15. Net Assets Released from Restrictions

Net assets released during the years ended December 31, 2017 and 2016 are as follows:

	2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Operating	\$ 8,210,427	\$ (8,210,427)	\$ -
Collection items purchased	2,716,259	(2,716,259)	-
Total net assets released from restrictions	\$ 10,926,686	\$ (10,926,686)	\$ -
General support	\$ 4,058,399	\$ (4,058,399)	\$ -
Exhibitions and projects	4,152,028	(4,152,028)	-
Collection items purchased	2,716,259	(2,716,259)	-
Total net assets released from restrictions	\$ 10,926,686	\$ (10,926,686)	\$ -

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Operating	\$ 8,540,745	\$ (8,540,745)	\$ -
Collection items purchased	4,150,805	(4,150,805)	-
Total net assets released from restrictions	\$ 12,691,550	\$ (12,691,550)	\$ -
General support	\$ 4,387,885	\$ (4,387,885)	\$ -
Exhibitions and projects	4,152,860	(4,152,860)	-
Collection items purchased	4,150,805	(4,150,805)	-
Total net assets released from restrictions	\$ 12,691,550	\$ (12,691,550)	\$ -

16. Commitments and Contingencies

The Foundation has noncancelable operating leases for offices, art storage, and equipment. Future minimum annual lease payments under these lease agreements were as follows at December 31, 2017:

Year Ending December 31,	Operating Leases
2018	\$ 2,866,752
2019	2,811,799
2020	2,840,132
2021	2,916,062
2022	3,067,922
Thereafter	24,497,607
	\$ 39,000,274

Certain of these leases require payments under escalation clauses for taxes and operating expenses. Rent expense is recognized on a straight-line basis over the term of the leases. The excess of rent expenses accrued on a straight-line basis over rental payments is included in deferred income and other liabilities on the statement of financial position. Rent expense, including taxes and operating expenses, for 2017 and 2016 amounted to \$3,147,904 and \$4,332,824, respectively.

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The Foundation entered into an operating lease for new administrative office space effective August 22, 2016. This new space replaced the Foundation's previous administrative office space and includes space associated with the Guggenheim Abu Dhabi Museum project. The Foundation received a rent abatement in the amount of \$2,937,045 and an alterations allowance in the amount of \$4,757,371, which will be recognized over the life of the lease.

Under Italian law, deferred compensation accrues in favor of employees which they (or in the event of their death, their heirs) are entitled to collect upon termination of employment. The amount payable related to each year's service is calculated on the basis of the remuneration of each year and will be subject to annual revaluation based on increases in the Italian cost of living index (ISTAT). Accrued severance payable in association with the Peggy Guggenheim Collection as of December 31, 2017 and 2016 is \$1,469,890 and \$1,496,542, respectively.

The Foundation is a party to a lawsuit in Rio de Janeiro dating back to 2002. In November 2014, the court decided against the Foundation, and the Foundation filed its appeal on November 28, 2014. On November 4, 2015, the Foundation's appeal was denied. A further appeal filed by the Foundation was denied on September 29, 2016. On October 21, 2016, the Foundation filed interlocutory appeals, and these appeals will be forwarded to the Superior Court of Justice and the Federal Supreme Court for decision. The Superior Court may render its first decision within six to eighteen months. The amount of potential loss is dependent on a variety of factors including the existence of joint and several liability, interest and currency fluctuation, but is estimated to range from \$0 to \$5.1 million.

17. Subsequent Events

The Solomon R. Guggenheim Foundation evaluated its December 31, 2017 financial statements for subsequent events through June 27, 2018, the date the financial statements were issued. The Foundation is not aware of any material subsequent events which would require recognition or disclosure in the financial statements.