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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of The Metropolitan Museum of Art:

In our opinion, the accompanying balance sheet and the related statements of activities and cash flows present fairly, in all material respects, the financial position of The Metropolitan Museum of Art ("the Museum") at June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Museum's 2010 financial statements; and in our report dated October 15, 2010, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note P to the consolidated financial statements, the Museum changed the manner in which it classifies accumulated total investment returns within net assets as a result of the adoption of ASC 958, Not-for-Profit Entities (formerly FASB Staff Position No. 117-1).

PricewaterhouseCoopers LLP

New York, New York
October 21, 2011

Balance Sheet — June 30, 2011, with comparative totals as of June 30, 2010 (in thousands)

	2011	2010
Assets:		
Cash (Notes A and N)	$ 2,032	$ 2,799
Investment trades receivable	2,515	628
Merchandise inventories, net (Note A)	14,476	12,422
Accounts receivable and other assets (Note B)	22,614	18,837
Contributions receivable (Notes C and N)	107,834	97,441
Funds held in trust by others (Notes H and N)	51,607	49,089
Investments (Notes A, G, H, K and N)	2,696,750	2,362,404
Fixed assets, net (Notes A, E and F)	427,039	429,114
TOTAL ASSETS	$3,324,867	$2,972,734
Liabilities:		
Investment trades payable	$ 51	$ 2,558
Accounts payable and accrued expenses (Note R)	31,381	26,131
Accrued salaries and benefits	19,091	16,360
Deferred income (Note A)	5,617	6,198
Notes payable (Note J)	45,330	46,600
Annuity and other split-interest obligations (Notes H and N)	16,233	13,328
Asset retirement obligations (Note O)	7,271	8,585
Pension and other accrued retirement obligations (Note I)	119,616	131,594
Loans payable and other long-term liabilities (Notes G, K and N)	173,486	181,272
TOTAL LIABILITIES	418,076	432,626
Net assets:		
Unrestricted (Notes A and P)	836,312	966,209
Temporarily restricted (Notes A and P)	1,249,611	767,268
Permanently restricted (Notes A and P)	820,868	806,631
TOTAL NET ASSETS	2,906,791	2,540,108
TOTAL LIABILITIES AND NET ASSETS	$3,324,867	$2,972,734

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

Statement of Activities

for the year ended June 30, 2011, with comparative totals for 2010 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Total 2010
OPERATING					
REVENUE AND SUPPORT:					
Admissions and membership (Note K)	$ 57,648	$	$	$ 57,648	$ 54,351
Gifts and grants	20,236	12,540		32,776	33,220
Operating appropriations from the City of New York (Note A)	26,087			26,087	24,855
Endowment support for current activities (Note G)	81,836	12,878		94,714	90,330
Merchandising and other auxiliary activities (Note Q)	95,095			95,095	85,519
Other income	4,340			4,340	5,834
Net assets released from donor restrictions to fund operating expenses	23,363	(23,363)			
TOTAL REVENUE AND SUPPORT	308,605	2,055		310,660	294,109
EXPENSES:					
Curatorial	76,382			76,382	68,165
Education and libraries	13,665			13,665	13,422
Development and membership	15,227			15,227	14,081
Operations	93,690			93,690	84,366
General administration	24,978			24,978	22,806
Merchandising and other auxiliary activities (Note Q)	89,136			89,136	85,016
Interest on debt	934			934	1,355
TOTAL EXPENSES	314,012			314,012	289,211
Transfers of designated non-operating funds	6,701			6,701	6,032
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	1,294	2,055		3,349	10,930
NON-OPERATING					
Museum-designated and donor-restricted gifts	13,613	63,860		77,473	50,221
Endowment gifts (includes quasi-endowment)	1,806	700	12,316	14,822	4,741
Endowment support for current activities (Note G)	6,031	15,522		21,553	25,184
Investment return in excess of current support (Note G)	135,440	185,713	33	321,186	150,731
Change in value of split-interest agreements	(48)	414	1,865	2,231	1,974
Depreciation and non-capitalized expenditures	(41,840)			(41,840)	(42,180)
Reclassifications and other	(3,235)	(1,695)	23	(4,907)	(8,045)
Net assets released from donor restrictions	37,763	(37,763)			
Change in net assets before collection items not capitalized and other adjustments	150,824	228,806	14,237	393,867	193,556
Purchases of art (Note D)	(36,560)			(36,560)	(32,139)
Proceeds from sales of art					146
Proceeds from insurance					3,880
Net assets released from donor restrictions to fund acquisitions of art	28,617	(28,617)			
Additional retirement contribution (ARC)	(4,541)			(4,541)	(4,698)
Pension-related changes other than NPPC	13,034			13,034	(34,271)
Change in fair value of interest rate exchange agreements and effect of interest rate swaps (Notes G and K)	883			883	(10,638)
CHANGE IN NET ASSETS BEFORE CHANGE IN ACCOUNTING PRINCIPLE	152,257	200,189	14,237	366,683	115,836
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (NOTE P)	(282,154)	282,154			
CHANGE IN NET ASSETS	(129,897)	482,343	14,237	366,683	115,836
NET ASSETS AT THE BEGINNING OF THE YEAR	966,209	767,268	806,631	2,540,108	2,424,272
NET ASSETS AT THE END OF THE YEAR	$836,312	$1,249,611	$ 820,868	$2,906,791	$ 2,540,108

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

Statement of Cash Flows for the year ended June 30, 2011, with comparative totals for 2010 (in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 366,683	$ 115,836
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	44,819	45,699
Receipt of contributed securities	(8,386)	(8,886)
Contributions for capital expenditures	(18,305)	(18,753)
Contributions for long-term investment	(16,088)	(11,860)
Net realized and unrealized gains	(409,615)	(247,269)
Acquisitions and sales of art, net	36,560	28,113
Changes in assets and liabilities:		
Investment trades receivable	(1,887)	1,604
Merchandise inventories, net	(2,054)	(256)
Accounts receivable and other assets	(3,838)	(2,889)
Contributions receivable	(10,393)	22,460
Funds held in trust by others	(2,518)	(2,406)
Investment trades payable	(2,507)	(24,122)
Accounts payable and accrued expenses	970	(16,238)
Accrued salaries and benefits	2,731	(7,384)
Deferred income	(581)	2,209
Annuity and other split-interest obligations	2,905	(343)
Asset retirement obligations	(1,314)	809
Pension and other accrued retirement obligations	(11,978)	41,262
Loans payable and other long-term liabilities	(5,216)	6,186
Net cash used by operating activities	(40,012)	(76,228)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed assets, net	(42,683)	(63,355)
Proceeds from the sale of contributed securities	9,874	6,364
Proceeds from sales of investments	921,927	1,055,665
Purchases of investments	(848,146)	(903,383)
Acquisitions of art	(32,280)	(32,187)
Proceeds from insurance and sales of art		4,026
Net cash provided by investing activities	8,692	67,130
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for capital expenditures	18,305	18,753
Contributions for long-term investment	16,088	11,860
Payment of notes payable, net	(1,270)	(18,450)
Proceeds from loans payable		265
Payment of loans payable	(2,570)	(2,450)
Net cash provided by financing activities	30,553	9,978
Net (decrease) increase in cash	(767)	880
Cash, beginning of the year	2,799	1,919
CASH, END OF THE YEAR	$ 2,032	$ 2,799
Supplemental Information:		
Cash paid in the year for interest	$ 5,602	$ 5,950

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

A. Summary of Significant Accounting Policies

Basis of Presentation - The Museum classifies all financial transactions into three net asset categories in accordance with applicable donor-imposed restrictions: permanently restricted, temporarily restricted, and unrestricted.

- Permanently restricted net assets have donor-imposed restrictions that stipulate that the corpus of the gifts be maintained in perpetuity but permit the Museum to expend net income and gains earned on contributed assets for either specified or unspecified purposes. (Also, see Note P.)
- Temporarily restricted net assets carry donor-imposed restrictions on the expenditure of the contributed assets. Temporary restrictions may expire with the passage of time, as a result of actions taken by the Museum that fulfill donors' restrictions, or as a result of expenditures incurred that could have been charged to temporarily restricted assets. When temporarily restricted net assets are released from restrictions, they are transferred to unrestricted net assets and shown as "Net assets released from donor restrictions" in the Statement of Activities. Transfers from temporarily restricted to unrestricted net assets occur even if the contributions are received and spent within the same year. (Also, see Note P.)
- Unrestricted net assets are not restricted by donors. A portion of the unrestricted net assets is designated by the Museum for specific purposes, including long-term investment, leasehold improvements, and various curatorial activities.

Measure of Operations - The Museum includes in its measure of operations all revenue and expenses that are integral to its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from Board-designated and other non-operating funds to support current operating activities. The measure of operations includes support for operating activities from restricted net assets and unrestricted net assets designated for long-term investment (the donor-restricted and quasi-endowment) according to the Museum's spending policy, which is detailed in Note G. The measure of operations excludes endowment support for non-operating and restricted operating activities; investment return in excess of amounts made available for current support; additions to restricted and designated net assets; pension-related changes other than net periodic pension cost ("NPPC"); changes in net assets of split-interest agreements, after providing for any operating revenue or support; changes in net assets pertaining to acquisition and deaccession of collection items, and related insurance settlements; fees received for art-lending activities; depreciation of capital expenditures, except for those related to auxiliary activities and acquired computer systems and equipment; gains/losses on disposal or sale of fixed assets; non-capitalized expenditures; liability recognition for legal obligations to perform asset retirement activity; the entire effect of interest rate swaps; interest income relating to the Debt Service Fund, which pertains to the Dormitory Authority loan agreements (see Note K); certain miscellaneous charges and revenue unrelated to operating activities.

Collections - The Museum's collections comprise nearly two million works of art from ancient, medieval, and modern times and from all areas of the world. They offer a survey of considerable breadth of art from the ancient civilizations of Asia, Africa, South America, the Pacific Islands, Egypt, the Near East, and Greece and Rome to the present time. The Museum's collections include European paintings, medieval art and architecture, arms and armor, prints, photographs, drawings, costumes, musical instruments, sculpture, textiles, and decorative arts from the Renaissance to the present time, as well as one of the foremost collections of American art in the world. The Museum also maintains some of the most comprehensive art and architecture libraries in the United States. The collections are maintained for public exhibition, education, and research in furtherance of public service, rather than for financial gain.

In conformity with accounting policies generally followed by art museums, the value of the Museum's collections has been excluded from the Balance Sheet, and gifts of art objects are excluded from revenue in the Statement of Activities. Purchases of art objects by the Museum are recorded as decreases in net assets in the Statement of Activities. Pursuant to state law and Museum policy, proceeds from the sale of art and related insurance settlements are recorded as temporarily restricted net assets for the acquisition of art.

Cash - This represents operating cash balances related to payroll, general operating (including overnight investments), petty cash and retail stores.

Cash Equivalents - The Museum considers all highly liquid investments with a maturity of three months or less from the time of purchase to be cash or cash equivalent. Cash equivalents are recorded at cost plus accrued interest which approximates fair value. Such amounts are included in the short-term investments category. Additional information on cash receipts and payments is presented on the Statement of Cash Flows.

Merchandise Inventories, net - Merchandise inventories are valued at the lower of cost or market value. Cost is determined using the average unit cost method of accounting.

Investments - Investments in short-term instruments, fixed income securities and equity securities are valued at the last sale price on the principal exchange, and in the absence thereof, such securities are valued at the closing bid quotation for long positions and at the closing ask quotation for short positions.

The fair value of investments in equity funds, fixed income funds, hedge funds, private equity and real assets are determined based on the values provided by the external investment managers of the underlying funds. Certain of these investments, particularly those investing in private equity and real estate, hold investments in non-marketable securities for which there are no readily obtainable market values. Values for these investments are provided by the investment manager and may be based on appraisals, obtainable prices for similar assets, or other estimates. The assumptions and methods used to arrive at these valuations are reviewed by the Museum's Investment Office. Due to the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

Purchase and sale of short-term instruments, fixed income and equity securities are reflected on a trade date basis. Gains and losses on the sale of securities are based on the difference between the sale price and average historical cost basis, where such basis represents the cost of securities purchased or the fair market value at the date of receipt for securities received by donation. Interest income is recorded on an accrual basis and dividend income is recorded on the ex-dividend date. Investments denominated in foreign currency are translated at the year-end spot rate.

Derivative Instruments -The Museum records derivative instruments (e.g., Futures and Foreign Currency Contracts) at fair value in accordance with Derivatives and Hedges Accounting and Fair Value Accounting guidances. The change in fair value during the reporting period is recognized in the investment return in excess of current support.

Fixed Assets - The building occupied by the Museum on Fifth Avenue is owned by the City of New York ("City") and is leased free of charge to the Museum pursuant to a capital lease. The value of the original building is not included on the Balance Sheet since it is fully depreciated. Certain building and gallery improvements are paid for by the City and are included in fixed assets. Contributions from the City for assets that are not fully depreciated are reflected in temporarily restricted net assets. The Museum has adopted a policy of implying a time restriction that expires over the useful life of long-lived assets acquired or constructed with contributions restricted for that purpose.

Building and leasehold improvements relating to auxiliary activities and certain equipment are capitalized and reported as fixed assets. The Cloisters in Fort Tryon Park and other buildings that are the property of the Museum are included as fixed assets and are stated at cost. Amortization of leasehold improvements of the Fifth Avenue building and depreciation of buildings, improvements and equipment are computed on a straight-line basis over the estimated useful lives of the assets. Amortization of leasehold improvements related to auxiliary activities is computed on a straight-line basis over the shorter of the remaining term of the lease or estimated useful lives of the assets.

Long-lived assets such as fixed assets are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. Estimated undiscounted future cash flows are used to determine if an asset is impaired, in which case the asset's carrying value would be reduced to fair value.

Deferred Income - Membership dues received from individuals and corporations pertaining to all membership categories are recognized as revenue upon receipt for the portion of the dues that are considered a contribution to the Museum, while the portion of the dues that relates to the service the Museum will provide the member is recognized as revenue ratably over the term of the membership period, up to 24 months. Amounts not yet earned by the end of the fiscal year are reported as deferred income.

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

Several utility costs of the Museum are paid for by the City. The value of such costs is reported as revenue and a corresponding amount is included as an expense in the Statement of Activities. The City also provides funds for guardianship and maintenance, including reimbursement for salaries, Social Security, and pension contributions.

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

Functional Allocation of Expenses - The costs of providing Museum programs and supporting services are shown in Note L. Programs include curatorial activities; conservation and exhibition; education; libraries; public services; and auxiliary activities. Curatorial costs include gallery maintenance and renovation, collections care and maintenance, scholarly research and publications, and special exhibitions. Supporting services include fundraising and management and general administrative costs. Fundraising costs include expenses associated with individual and corporate memberships, annual appeals, benefit events, capital campaign, and other fundraising efforts. Management and general administrative costs include expenses for executive management, financial administration, information systems, human resources, legal services, and investment management fees. Depreciation, interest, utilities, building maintenance, security, and other operating costs are allocated to the above program areas and supporting services. Such expenses are allocated based upon various methodologies including square footage and security guard posts.

Advertising - Advertising expenses pertaining to merchandising activities, mostly attributable to the production and distribution of catalogues, amounted to $5.5 million and $4.9 million in fiscal years 2011 and 2010, respectively. Other advertising expenses incurred primarily in support of special exhibitions, the permanent collection, and concerts and lectures totaled $3.2 million and $3.0 million in fiscal years 2011 and 2010, respectively. All advertising is expensed as incurred.

Interest Expense - Interest on borrowings applicable to major construction projects in progress is capitalized and depreciated. Total interest expense, including commitment fees, during fiscal years 2011 and 2010 was $5.6 million and $6.2 million, respectively, of which $4.3 million and $4.5 million, respectively, related to the amounts paid under the interest rate swap agreements. Interest not capitalized is charged to operating expenses or, if related to the swap agreements, to non-operating activities. The amount of interest capitalized during fiscal years 2011 and 2010 was $.3 million for both years.

Income Tax Status - The Museum is a nonprofit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Comparisons and Reclassifications - The Museum has included both current and prior year financial data in its financial statements. To facilitate the comparison on the Statement of Activities, the Museum has chosen to present the prior year information in summary form, without segregation of the data by net asset values. As a result, that particular historical information is not presented in compliance with generally accepted accounting principles. It should therefore be reviewed in conjunction with the more detailed information set forth in the audited financial statements for fiscal year 2010, the source from which the summary information was derived.

New Enacted Law - UPMIFA Enactment in New York - On September 17, 2010, New York State enacted the Uniform Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA governs management and spending of donor-restricted endowment funds and permanently restricted gifts. NYPMIFA allows organizations to appropriate funds for spending from underwater endowments provided it is deemed prudent under the organization's spending policies in the absence of specific donor directives.

New York's law also contains aspects which differ from the general law including specific written policy requirements and standards to ensure prudent spending, presumption of imprudence calculation and written notification for spending on underwater endowments to endowment donors. The Museum adopted this guidance during fiscal year 2011 and all required disclosures are included in Footnote P of the consolidated financial statements.

Subsequent Events - The Museum performed an evaluation of subsequent events through October 21, 2011, which is the date the consolidated financial statements were issued. The Museum has determined that all events or transactions, including open item estimates, required to be recognized in accordance with generally accepted accounting principles, are included in the consolidated financial statements.

B. Accounts Receivable and Other Assets

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

	June 30, 2011	*June 30, 2010*
Accounts receivable, net of allowance of $540 and $520 for FY11 and FY10 respectively	$ 13,797	$ 10,824
Dividends and interest receivable	1,408	2,311
Prepaid expenses and other	7,409	5,702
Total	$ 22,614	$ 18,837

C. Contributions Receivable

Unconditional promises to contribute to the Museum are recorded as contributions receivable at the present value of future cash flows, net of an allowance for uncollectibility. The present value discount rate used was 5.25% for each of fiscal years 2011 and 2010. Pledges are expected to be realized as follows (in thousands):

	June 30, 2011	*June 30, 2010*
Less than one year	$ 54,038	$ 59,773
Between one and five years	53,159	41,822
Over five years	13,900	4,250
Total	121,097	105,845
Less:		
Adjustments and allowance for uncollectibility	(2,531)	(2,313)
Discount for market value	(10,732)	(6,091)
Net	$ 107,834	$ 97,441

Please refer to Note N for details related to *Fair Value Measurement*.

D. Acquisitions of Art

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

	2011	*2010*
Gifts of cash and securities	$ 13,703	$ 12,889
Gains and income from long-term investment:		
For designated curatorial departments	9,939	4,816
Undesignated as to curatorial department	9,876	7,994
Proceeds from fine arts insurance and the sale of art	3,042	6,440
Total	$ 36,560	$ 32,139

E. Fixed Assets

Fixed assets consist of (in thousands):

	June 30, 2011	*June 30, 2010*	*Estimated Useful Lives in Years*
Land	$ 1,015	$ 1,015	N/A
Buildings and improvements	36,343	36,303	20-40
Leasehold improvements–auxiliary activities	27,026	26,645	4-40
Leasehold improvements–Fifth Avenue building	851,443	813,324	5-30
Machinery and equipment	74,528	70,385	3-20
Total	990,355	947,672	
Less accumulated depreciation and amortization	(563,316)	(518,558)	
Net	$ 427,039	$ 429,114	

The above amounts include construction in progress of $86.1 million and $65.8 million at June 30, 2011 and 2010, respectively. Depreciation and amortization expense was $44.8 million and $45.5 million for fiscal years 2011 and 2010, respectively. In fiscal year 2010, $2.6 million of fixed assets with associated accumulated depreciation of $2.4 million were written off. There were no assets written off in fiscal year 2011.

In fiscal years 2011 and 2010, interest expense of $0.3 million and interest income of $0.1 million, which related to the bond financing, were capitalized and included in fixed assets on the Balance Sheet.

Fixed assets and construction in progress include $86.9 million of property contributed and paid for by the City since 1990, of which $11.4 million and $13.2 million were received during the fiscal years ended June 30, 2011 and 2010, respectively.

F. Capital Expenditures

The principal capital projects during fiscal year 2011 were as follows (in thousands):

	Prior Years' Expenditures (3)	*2011 Expenditures*	*Total Expenditures*
American Wing renovation	$ 101,744	$ 9,594	$ 111,338
Galleries for the Art of the Arab Lands, Turkey, Iran, Central Asia and Later South Asia	26,340	8,401	34,741
Fire Detection Systems	7,893	4,379	12,272
Lehman Wing renovation	8,793	203	8,996
Cooling towers replacement and renovation	3,319	3,614	6,933
South Side Chilled Water Projects	0	6,524	6,524
Website Relaunch	1,165	2,437	3,602
Watson Book Conservation	596	1,357	1,953
Projects related to auxiliary activities (1)		222	
Other capital projects (1)		7,417	
Total (2)		44,148	
Less cost of capitalized projects		(42,683)	
Non-capitalized expenditures		$ 1,465	

(1) These projects are normally completed within one fiscal year. Accordingly, since prior year and current year projects are not comparable, no prior year or total expenditure is given.
(2) The Museum has outstanding purchase commitments of approximately $20.1 million related to construction projects at June 30, 2011.
(3) Prior year expenditures reflect reclassifications from other capital projects.

G. Investments

The total cost of the investment portfolio was $2,305 million and $2,202.7 million as of June 30, 2011 and 2010, respectively.

At June 30, 2011, the Museum had approximately $412.6 million in remaining capital commitments to private equity and real asset funds.

The Museum maintains a diversified portfolio of investments that is designed to provide a stream of earnings for current use. Investment objectives and policies are established by the Museum's Trustee Investment Committee and are undertaken in partnership with external investment managers.

Certain of the Museum's investment managers incorporate the use of financial instruments with off-balance sheet risk as part of their investment strategies primarily to hedge against equity, currency, or interest rate risk.

Market risk represents the potential loss in value of financial instruments caused by movements in market factors including, but not limited to, market liquidity, investor sentiment and foreign exchange rates. The Museum's investment portfolio consists of a number of relatively illiquid or thinly traded investments having a greater amount of both market and credit risk. These investments may trade in limited markets or have restrictions on resale or transfer and may not be able to be liquidated on demand if needed. Fair values assigned to these investments may differ significantly from the fair values that would have been used had a ready market for the investments existed and such differences could be material to the Museum's financial statements.

The Museum transacts in futures contracts and forward foreign currency contracts primarily for managing foreign exchange risk, and fluctuations in interest rates.

The following table summarizes the unrealized gains and losses reported on derivative financial instruments designated as a trading instrument for the year ended June 30, 2011 (in thousands):

	Gross Derivative Assets		*Gross Derivative Liabilities*	
Derivatives Designated as Trading Instruments	*Notional/Contractual Amount*	*Unrealized Gain/(Loss)*	*Notional/Contractual Amount*	*Unrealized Gain/(Loss)*
Interest Rate Exchange Agreements			$ (21,571)	$5,216

The following table summarizes the unrealized gains and losses reported on derivative financial instruments designated as a trading instrument for the year ended June 30, 2010 (in thousands):

Derivatives Designated as Trading Instruments	Gross Derivative Assets: Notional/Contractual Amount	Gross Derivative Assets: Unrealized Gain/(Loss)	Gross Derivative Liabilities: Notional/Contractual Amount	Gross Derivative Liabilities: Unrealized Gain/(Loss)
Futures Contracts	$ 27	$ 26	$ (92)	$ (151)
Foreign Currency Contracts	7,943	28	(7,943)	(212)
Interest Rate Exchange Agreements			(26,787)	(6,186)
Total Derivatives Designated as Trading Instruments on the Statement of Financial Position		$ 54		$(6.549)

Realized gain/loss and changes in unrealized appreciation/(depreciation) on futures and forward foreign currency contracts have been recognized in the Investment return in excess of current support on the Statement of Activities.

According to the Museum's spending policy, a portion of the total investment return on net assets designated for long-term investment is available to support current programs, while the remainder is reinvested. Distributions available for spending are limited to a range of 4.5% to 5.75% of a lagged average market value of endowment assets over a specified period set by the Board of Trustees. The spending rate was set at 5.75% for General Operating and 5.25% for all others in fiscal year 2011 and fiscal year 2010. The value used to calculate the spending rate for fiscal year 2011 was the average of the twenty quarters ended December 31, 2009.

Investment income is net of unrelated business income tax refunds of $2.9 million and $5.5 million for fiscal years 2011 and 2010, respectively.

The following schedule summarizes investment return by net asset classification (in thousands):

	2011 Unrestricted	2011 Temporarily Restricted	2011 Permanently Restricted	2011 Total	2010 Total
Investment income, net of certain management and custodian fees, taxes, and other expenses	$ 13,860	$ 13,958	$ 20	$ 27,838	$ 18,977
Net realized gains	72,591	107,391	13	179,995	49,316
Changes in unrealized appreciation	91,079	138,541		229,620	197,952
Total return on investments	177,530	259,890	33	437,453	266,245
Transfers	45,777	(45,777)			
Investment return allocated for current activities	(87,867)	(28,400)		(116,267)	(115,514)
Investment return in excess of current support	$135,440	$185,713	$ 33	$321,186	$ 150,731

Please refer to Note N for details related to *Fair Value Measurement*.

H. Life Income Funds and Other Trusts

Life income funds consist of charitable remainder trusts, gift annuities, pooled income funds, and other trust assets. These funds are held in trust for one or more beneficiaries, and generally pay lifetime income to those beneficiaries, after which the principal is made available to the Museum in accordance with donor intentions. The value of the charitable remainder trusts and other trust agreements, excluding new gifts and distributions, increased by $2.5 million and $2.4 million in fiscal years 2011 and 2010, respectively. Present value discount rates applied to these funds ranged from 2.8% to 5.25% in fiscal years 2011 and 2010.

Trust invested on behalf of others:

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

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

	June 30, 2011	June 30, 2010
Assets:		
Charitable remainder and other trust assets	$51,607	$49,089
Gift annuities, pooled income funds, and trust invested on behalf of others (included with investments in the Balance Sheet)	22,941	19,028
Total	$74,548	$68,117
Liabilities:		
Trust invested on behalf of others	$ 5,946	$ 4,391
Gift annuities and pooled income funds	10,287	8,937
Total	$16,233	$13,328

Please refer to Note N for details related to *Fair Value Measurement*.

I. Pension Plans and Postretirement Benefits and Payments

The following section briefly describes the Museum's various pension and postretirement plans, with supporting data in the schedules below.

Defined benefit pension plan for union staff - The Museum has a qualified defined benefit pension plan for all union employees covered by a collective bargaining agreement. Benefits under this plan are based on years of service and the employees' final four years of compensation. Employees contribute 3% of their base earnings to this plan, which amounted to $0.9 million and $0.8 million for fiscal years 2011 and 2010, respectively.

Supplemental defined benefit pension plans for certain non-union staff - The Museum has a supplemental qualified and a supplemental non-qualified defined benefit pension plan for certain non-union employees to provide future benefits at least equal to the benefits provided under a defined benefit pension plan that was terminated. The projected benefit obligation and accumulated benefit obligation of the supplemental non-qualified defined benefit plan, which is unfunded, were $1.4 million and $1.2 million, respectively, as of June 30, 2011, and $2.8 million and $2.6 million, respectively, as of June 30, 2010.

Defined contribution plan for non-union staff (Basic Plan) - The Museum has a mandatory defined contribution pension plan for all non-union employees other than temporary employees. Under this plan, participants are required to contribute 3% of their annual compensation as a condition of employment and the Museum contributes 8% of a participant's base pay during the year. The Museum also contributes 5.7% of base pay earnings that exceed the Social Security wage base during a calendar year. The cost of the defined contribution pension plan recognized in fiscal years 2011 and 2010 was $8.9 million and $8.6 million, respectively.

Defined contribution matching plan for non-union staff (Matching Plan) - The Museum has a voluntary defined contribution matching pension plan for all non-union employees other than temporary employees. Under the plan, non-union employees may voluntarily defer a portion of their annual compensation on a pre-tax basis. The Museum will match contributions in an amount not to exceed 3% of compensation for eligible employees. There is no minimum contribution under this plan.

Additional Retirement Contribution Plans (ARC) - The Museum has two plans that provide additional retirement contributions to certain non-union Museum employees. The initial payments under these plans commenced in December 2008. The Museum intends to fund the contributions annually, the amount of which is to be determined and approved by the Board annually. The cost of additional retirement contributions was $4.5 million and $4.7 million in fiscal years 2011 and 2010, respectively.

Defined contribution plan for union staff (Union Match Plan) - The Museum has a voluntary defined contribution plan for all union employees covered by a collective bargaining agreement. The Museum contributes up to 3% of the participant's salary based on a schedule. The cost of this plan in each of fiscal years 2011 and 2010 was $0.2 million.

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

- Non-union staff: Substantially all of the Museum's non-union employees become eligible for certain benefits (prescription drugs and health insurance subject to annual limits) when they reach age 55 and have 15 years of service to the Museum. The Museum made contributions to the non-union's postretirement medical care benefit plan of $1.2 million and $1.0 million in fiscal years 2011 and 2010, respectively.
- Union staff: The Museum's union employees are eligible to participate in a New York City–sponsored postretirement benefit plan pursuant to a collective bargaining agreement between the Museum and Local 1503 of District Council 37 (member of AFSCME and AFL-CIO). The benefits provided to these employees include medical and surgical coverage as well as certain supplemental benefits (dental, prescription drug, vision, and health insurance). The postretirement benefit obligation related to supplemental benefits is part of a multiemployer plan and, as such, the Museum is not required to record a liability for these benefits. The postretirement benefit obligation for medical and surgical coverage is not considered a part of a multiemployer plan and is, therefore, included as an obligation of the Museum. The Museum's union employees become eligible for postretirement benefits when they reach age 52 and have 10 years of service or age 62 with 5 years of service to the Museum. The Museum made contributions to the postretirement medical care benefit plan in fiscal years 2011 and 2010 of $1.4 million and $1.3 million, respectively.
- Pay for unused sick leave benefit: The Museum reimburses eligible employees for a portion of unused sick days if they meet certain age and service requirements at termination. The Museum made payments in fiscal years 2011 and 2010 of $0.1 million and $1.7 million, respectively.

Funding policy - The Museum's funding policy is to contribute annually an amount that meets or exceeds the minimum requirements of the Employee Retirement Income Security Act of 1974 (ERISA), using assumptions different from those used for financial reporting.

The tables below and on the following pages set forth the net liability recognized in the Balance Sheet, the change in plan assets, the funded status, weighted-average assumptions, and other data for the pension plans and postretirement benefit plans (in thousands):

	Pension Benefits		Postretirement Benefits	
	June 30, 2011	*June 30, 2010*	*June 30, 2011*	*June 30, 2010*
Change in benefit obligation:				
Benefit obligation at beginning of year	$127,904	$ 97,728	$ 75,162	$ 59,681
Service cost	4,311	3,081	3,512	2,600
Interest cost	6,937	6,573	3,943	3,890
Employee contributions	888	832		
Amendments				
Actuarial loss (gain)	1,197	27,247	(1,864)	12,964
Benefits paid	(4,061)	(3,666)	(2,771)	(4,067)
Medicare Part D subsidy			103	94
Settlements	(3,817)	(3,891)		
Benefit obligation at end of year	133,359	127,904	78,085	75,162
Change in plan assets:				
Fair value of plan assets at beginning of year	71,472	67,077		
Actual gain on plan assets	13,401	6,797		
Employer contributions	13,946	4,323	2,755	4,013
Employee contributions	888	832		
Benefits paid	(4,061)	(3,666)	(2,771)	(4,067)
Medicare Part D subsidy			16	54
Settlements	(3,817)	(3,891)		
Fair value of plan assets at end of year	91,829	71,472		
Funded status (liability)	$(41,530)	$(56,432)	$(78,085)	$(75,162)

The amounts recognized in the Balance Sheet as of June 30 are (in thousands):

	2011	*2010*	*2011*	*2010*
Actuarial losses	$(40,625)	$(52,003)	$(21,206)	$(24,076)
Prior service (costs) credits	(24)	(218)	8,658	10,180
Unrestricted net assets not yet recognized in net periodic benefit cost	(40,649)	(52,221)	(12,548)	(13,896)
Cumulative employer contributions (less than) net periodic benefit cost	(881)	(4,211)	(65,537)	(61,266)
Unfunded benefit obligations (liability)	$(41,530)	$(56,432)	$(78,085)	$(75,162)

The actuarial losses herein primarily represent the cumulative difference between the actuarial assumptions and actual return on plan assets, changes in discount rates and plan experience. Actuarial losses not yet recognized are included in unrestricted net assets and are amortized into net periodic benefit cost over an average period of 12 years.

The following table presents the amount of unrestricted net assets not yet recognized, which are expected to be amortized into net periodic benefit costs for the year ending June 30, 2012 (in thousands):

	Pension Benefits	*Postretirement Benefits*
Actuarial losses	$2,206	$ 939
Prior service costs (credits)	24	(1,521)
Total	$2,230	$ (582)

The following table sets forth the components of the net pension and postretirement benefits cost for the years ended June 30 (in thousands):

	Pension Benefits		*Postretirement Benefits*	
	2011	*2010*	*2011*	*2010*
Service cost	$ 4,311	$ 3,081	$ 3,512	$ 2,600
Interest cost	6,937	6,573	3,943	3,890
Expected return on plan assets	(5,180)	(4,859)		
Amortization of prior service cost	194	194	(1,521)	(1,522)
Amortization of accumulated loss	3,425	1,877	1,092	515
Settlement loss	929	1,154		
Net periodic benefit cost	$ 10,616	$ 8,020	$ 7,026	$ 5,483
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AS OF JUNE 30:				
Discount rate	5.57%	5.45%	5.52%	5.43%
Rate of compensation increase	3.94%	3.93%		
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET COST AS OF JUNE 30:				
Discount rate	5.45%	6.69%	5.43%	6.80%
Expected return on plan assets	7.36%	7.34%		
Rate of compensation increase	3.93%	3.91%		
ADDITIONAL INFORMATION (in thousands):				
Actual return on plan assets	$ 13,401	$ 6,796		
Accumulated benefit obligation for all defined benefit pension plans	$109,847	$105,775		

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

Number of pension plans with accumulated benefit obligations in excess of plan assets	3	3
Aggregate accumulated benefit obligation	$109,847	$105,775
Aggregate fair value of plan assets	$ 91,829	$ 71,472
Number of pension plans with projected benefit obligations in excess of plan assets	3	3
Aggregate projected benefit obligation	$133,360	$127,904
Aggregate fair value of plan assets	$ 91,829	$ 71,472

The following table presents changes recognized in unrestricted net assets (in thousands):

	Pension Benefits	*Postretirement Benefits*
Changes in plan assets and benefit obligations recognized in unrestricted net assets:		
New prior service cost		
New loss (gain) arising during the year	$ (7,023)	$ (1,777)
Amounts recognized as a component of net periodic benefit cost:		
Amortization or curtailment recognition of prior service (cost) credit	(194)	1,521
Amortization or settlement recognition of net loss	(4,354)	(1,092)
Total recognized in unrestricted net assets	(11,571)	(1,348)
Net periodic benefit cost	10,616	7,026
Total recognized in net periodic benefit cost and unrestricted net assets	$ (955)	$ 5,678

	2011		*2010*	
	Union	*Non-Union*	*Union*	*Non-Union*
ASSUMED MEDICAL COST TREND RATES AT JUNE 30:				
Health care cost trend rate assumed for next year	7.10%	7.10%	7.30%	7.30%
Rate that the cost trend gradually declines to	4.5%	4.5%	4.50%	4.50%
Year that the final trend rate is reached	2028	2028	2028	2028

	Percentage Point Increase	*Percentage Point (Decrease)*
The following data show the effect of a one percentage point health care cost trend rate increase (decrease) for fiscal year 2011 (in thousands):		
Effect on total of service and interest cost	$1,079	$ (862)
Effect on postretirement benefit obligation	9,204	(7,529)

Selection of Assumptions - The selection of the discount rate assumption reflects a bond matching analysis to a portfolio of high-quality corporate bonds. The methodology for selecting the discount rate is to match each plan's cash flow to that of a yield curve that provides the equivalent yields on zero-coupon corporate bonds for each maturity. The discount rate for each plan is the single rate that produces the same present value of cash flows. The expected return on the plans' assets has been developed in consultation with external advisers, taking into account such factors as long-term historical returns for equity and fixed income assets and long-term forecasts for inflation, and correlation of returns between asset classes.

Investment strategies - Assets of the Museum's defined benefit plans are invested in diversified portfolios that are designed to generate returns sufficient to meet obligations to beneficiaries at acceptable levels of risk. Investment objectives and policies are established by the Museum's Trustee Investment Committee and are undertaken in partnership with external investment managers. The target allocation of the defined benefit plan for union staff is 60% to equity securities and 40% to fixed income securities, and the target allocation of the defined benefit plan for non-union staff is 40% to equity securities and 60% to fixed income securities. As of June 30, 2011, the assets of the defined benefit plan for union staff were invested 58.2% and 41.8% in equity and fixed income securities, respectively, and the assets of the defined benefit plan for non-union staff were invested 40.1% and 59.9% in equity and fixed income securities, respectively. As of June 30, 2010, the assets of the defined benefit plan for union staff were invested 56.6% and 43.4% in equity and fixed income securities, respectively, and the assets of the defined benefit plan for non-union staff were invested 34.9% and 65.1% in equity and fixed income securities, respectively.

Medicare – In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") was signed into law. The Act introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to employers whose plans provide an actuarial equivalent prescription drug benefit. The Museum has applied for the federal subsidy under the non-union staff postretirement plan. The present value of federal subsidy payments reduced the accumulated postretirement benefit obligations at June 30, 2011 and June 30, 2010 by approximately $0.9 million and $1.5 million, respectively. The reduction in obligation attributable to the anticipated subsidy payments is being treated as a gain.

CASH FLOWS FOR THE FISCAL YEAR ENDING JUNE 30 (in thousands):	*Pension Benefits*	*Postretirement Benefits*	*Expected Net Postretirement Benefit Payments*	*Expected Medicare Subsidy*
Employer Contributions:				
2010 (actual).	$ 4,323	$ 4,012	$ N/A	$ N/A
2011 (actual)	13,946	2,755	N/A	N/A
2012 (expected)	6,458	3,381	N/A	N/A
PROJECTED BENEFIT PAYMENTS FOR THE FISCAL YEAR ENDING JUNE 30 (in thousands):				
2012	4,878	3,381	3,269	112
2013	5,136	3,587	3,465	122
2014	6,276	3,841	3,709	132
2015	5,887	4,174	4,028	146
2016	6,188	4,400	4,237	163
2017–2021	36,573	25,104	24,717	387

The fair value of the pension plan assets is disclosed in the table below based on fair market values and "levels" at June 30, 2011. The relevant levels are based on the methodology for determining fair market value: level 1: valuation based on active markets for identical assets; Level 2: valuation based on significant observable inputs; and Level 3: valuation based on unobservable inputs. The pension plan invests in funds to meet its investment objectives. The asset allocation is based on the underlying assets of the various funds. The leveling is based upon each fund as the unit of measure.

	Pension Plan Assets at Fair Value as of June 30, 2011 (in thousands)			
	Level 1 Quoted Prices	*Level 2 Significant Other Observable Inputs*	*Level 3 Significant Unobservable Inputs*	*Total*
Investments:				
Equities				
Mutual funds	$91,029			$91,029
Collective Trusts	800			800
Total	$91,829			$91,829

J. Notes Payable

At June 30, 2011 and 2010, the Museum had four credit facilities with two commercial banks. Under one facility, which is the largest credit facility, a $100 million revolving line of credit, the Museum had borrowed $45.3 million and $46.6 million as of June 30, 2011 and 2010, respectively. Any amount borrowed under the revolving line of credit is payable in full on or before September 30, 2011. As of August 8, 2011, the agreement maturity date was extended to September 30, 2014. The borrowing bears interest at variable rates, and accrued interest is paid at loan maturity. The total interest expense on bank borrowings amounted to $0.2 million and $0.3 million in fiscal years 2011 and 2010, respectively. As of June 30, 2011, the interest rate on the outstanding debt was .3%. Under the loan agreement, the Museum has covenanted to maintain a ratio of Available Assets to General Liabilities, as defined, of not less than 2:1. The Museum was in compliance with this requirement at June 30, 2011 and 2010.

In addition to the revolving line of credit, the Museum has three lines of credit totaling $150 million in fiscal years 2011 and 2010, under which no borrowings were outstanding at June 30, 2011 and 2010. Borrowings under the lines of credit are payable on demand and bear interest at variable rates that are paid monthly. The Museum had letters of credit aggregating $2.3 million at June 30, 2011 and 2010 respectively, under a sublimit for one of the lines of credit.

K. Loans Payable and Other Long-Term Liabilities

Series 1993 Bonds:

In 1993, the Museum entered into two loan agreements with the Dormitory Authority of the State of New York ("the Authority") to finance the construction and equipping of certain of the Museum's facilities and to defease existing indebtedness. Pursuant to these loan agreements, the Authority issued Series 1993 Revenue Bonds consisting of $41.7 million Series 1993A Variable Interest Rate Bonds ("Series 1993A Bonds"), due serially to July 1, 2015, and $22.1 million Series 1993B Variable Interest Rate Bonds ("Series 1993B Bonds"), due by July 1, 2020. The Series 1993B Bonds are secured by the Museum's annual membership dues. The loan agreements require the Museum to maintain investments in certain defined securities having a market value of at least 120% of the aggregate principal amount of the Museum's outstanding short-term debt as defined in the agreements. Additionally, the Museum must maintain a ratio of Available Assets to General Liabilities, as defined, of not less than 2:1. The Museum was in compliance with these covenants at June 30, 2011 and 2010.

While the revenue bonds are not direct indebtedness of the Museum, the loan agreements with the Authority obligate the Museum to make payments equal to the interest and mandatory redemption requirements of such bonds and are general obligations of the Museum. A liability equivalent to the principal amount of the Authority's outstanding revenue bonds, adjusted for fair value of future interest payments, is reflected in the Balance Sheet.

In 1993, the Museum entered into a 22-year interest rate exchange agreement with Morgan Stanley Capital Services, Inc. ("Morgan Stanley"), that effectively changes the Museum's interest rate exposure on the Series 1993A Bonds to a fixed rate. The notional amount of the swap was set at $41.7 million and amortizes according to a schedule that is similar to the mandatory redemption schedule of the Series 1993A Bonds. Under the terms of the interest rate exchange agreement, Morgan Stanley pays to the Museum a variable rate consistent with the rate on the Series 1993A Bonds, and the Museum pays to Morgan Stanley a fixed rate of 4.77% per annum.

At June 30, 2011 and 2010, $2.7 million and $2.6 million, respectively, of investments were in the custody of a trustee in connection with the Series 1993A and B Bonds as a reserve for the payment of debt service.

Series 2006 Bonds:

On December 1, 2006, the Museum entered into a $130 million loan agreement with the Trust for Cultural Resources ("the Trust"), a public benefit organization created by the State of New York. Pursuant to this loan agreement, the Trust issued bonds consisting of a $65 million series 2006 A-1 bond issue and a $65 million series 2006 A-2 bond issue (collectively, "the Series 2006A Bonds"). The proceeds have and will be used for the financing of a portion of the expansion, reconstruction, renovation, improvement, furnishing and equipping of facilities operated, or to be operated, by the Museum, portions of which have already been completed at the Museum's principal location. In addition, certain administrative, legal, accounting, financing and other expenses incidental to the issuance of the bonds and related purposes were financed by these bonds.

Pursuant to the loan agreement, the Museum is required to pay, when due, the principal and interest on the Series 2006A Bonds. While the bonds are not direct indebtedness of the Museum, the loan agreement and the obligation to make payments under the loan agreement are general obligations of the Museum. No security interest in any revenues or assets of the Museum has been granted by the Museum to the Trust or any other party in connection with the Series 2006A Bonds. The Series 2006A Bonds will mature on October 1, 2036. The variable rate demand bonds of $130 million are subject to a weekly interest rate reset. In the event the Museum receives notice of any optional tender on its variable rate demand bonds, or if the bonds become subject to mandatory tender, the purchase price will be paid from the remarketing of the bonds. In April 2009, the Museum entered into an additional one-year $150 million confirmed credit facility which was renewed through April 2015. The purpose of this credit facility is to provide liquidity in the event of a tender of the Museum's variable rate demand bonds which cannot be remarketed. This facility cannot be used for any purpose other than in connection with an exercise of the tender right by the bondholders. A commitment fee with rates ranging from .35% to .50% was associated with this credit facility. Fees of $0.6 million related to fiscal year 2011 were paid. To date there have been no drawdowns of this facility. If the remarketing proceeds are insufficient, the Museum will have a current obligation to purchase the bonds that were not remarketed successfully. The Museum may fund any such purchase, in any manner, including by drawing upon the $150 million credit facility which would be repayable by April 2015.

In June 2006, the Museum entered into a forward starting interest rate exchange agreement with Morgan Stanley, related to the Series 2006A Bonds. Under the terms of the swap agreement, the Museum pays interest at a rate of 3.826% calculated on a notional amount of $100 million in exchange for floating rate payments calculated on the same notional amount at 67% of one-month LIBOR until October 1, 2036, unless such agreement is terminated earlier in accordance with its terms.

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

	June 30, 2011	*June 30, 2010*
Series 1993A Bonds due serially to July 1, 2015	$ 14,870	$ 17,440
Series 1993B Bonds due by July 1, 2020	6,780	6,780
Series 2006A Bonds due by October 1, 2036	130,000	130,000
Total loans payable	151,650	154,220
Fair value of interest rate exchange agreement on Series 1993A Bonds	1,303	1,717
Fair value of forward starting interest rate exchange agreement on Series 2006A Bonds	20,268	25,070
Total interest rate exchange agreements	21,571	26,787
Total program related investment loan	265	265
Total liability	$173,486	$181,272

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

Interest rates on loans payable:		
Series 1993A & B Bonds	.06%	.14%
Series 2006A-1 & A-2 Bonds	.05%	.24%
	2011	*2010*
Interest expense on loans payable (in thousands):		
Series 1993A Bonds	$ 710	$ 835
Series 1993B Bonds	15	13
Series 2006A Bonds	3,932	3,936
Interest expense included above related to the swaps (in thousands):		
Series 1993A Bonds	$ 678	$ 801
Series 2006A Bonds	3,656	3,650

Debt service under the loan agreements, after giving effect to the interest rate swaps, representing payments of principal and interest, is payable as follows (in thousands):

Year Ending June 30	*Principal Amount*	*Interest Payments**	*Total Estimated Debt Services*
2012	$ 2,695	$ 5,902	$ 8,597
2013	2,830	5,768	8,598
2014	2,965	5,650	8,615
2015	3,115	5,479	8,594
2016	3,265	5,324	8,589
Thereafter	136,780	103,294	240,074
Total	$151,650	$131,417	$283,067

*On the Series 1993B Bonds, which are callable at par, there are no mandatory redemption requirements until 2018; an interest rate of 4% is assumed for all fiscal years. In addition, $30 million of the Series 2006A Bonds not covered by the interest rate exchange agreement are also assumed to bear interest at a rate of 4% per annum.

Please refer to Note N for details related to *Fair Value Measurement*.

L. Functional Classification of Expenses

Expenses by functional classification for fiscal years 2011 and 2010, which are described in Note A, are shown below (in thousands):

	2011	*2010*
Total operating expenses from the Statement of Activities	$ 314,012	$ 289,211
Depreciation of capital improvements and other non-capitalized expenditures from the non-operating section of the Statement of Activities	41,840	42,180
Management and custodian fees, taxes, and other expenses included in net investment income	10,889	10,241
Special events included in the revenue section of the Statement of Activities	660	907
Total	$ 367,401	$ 342,539
Program expenses:		
Curatorial activities, conservation, and exhibition	$ 182,765	$ 169,499
Education	14,261	14,240
Libraries	6,311	5,660
Public services and other	25,848	22,612
Cost of sales and expenses of auxiliary activities:		
Merchandising operations	64,153	61,438
Restaurant, parking garage, auditorium, and other	24,983	23,578
Total program expenses	318,321	297,027
Supporting services:		
Management and general	36,303	34,049
Fundraising	12,777	11,463
Total supporting services	49,080	45,512
Total	$ 367,401	$ 342,539

M. Lease Commitments

At June 30, 2011, the Museum is committed to minimum future rentals under noncancellable operating leases for the merchandising distribution center and retail sales shops, which expire at various dates through January 2017. Rent expense included in merchandising activities relating to these operating leases amounted to $4.4 million and $4.3 million in fiscal years 2011 and 2010, respectively, and includes contingent rent based on sales. The Museum has the right to extend the lease for the distribution center with a minimum of six months' prior notice to the lessor. The lease expires July 2014. In addition, there are operating leases for storage, office space, equipment, and other items, which expire at various dates through 2015. Rent expense relating to these operating leases amounted to $0.7 million and $0.6 million in fiscal years 2011 and 2010, respectively.

Minimum rental commitments consist of the following at June 30, 2011 (in thousands):

Year Ending June 30	*Total*
2012	$ 3,728
2013	3,742
2014	2,714
2015	2,380
2016	2,237
Thereafter	1,269
Total	$ 16,070

N. Fair Value of Financial Instruments

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

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

Level 1—Quoted market prices for identical instruments in active markets.

Level 2—Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, observable inputs other than quoted prices, inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3—Valuation models in which significant inputs are unobservable or where there is little, if any, market activity.

The following methods and techniques were used to assign affected financial instruments to the appropriate levels:

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgement by management. Management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to managment's perceived risk of that investment.

The Museum considers several factors in appropriately classifying the investment funds in the fair value hierarchy. An investment is generally classified as Level 2 if the Museum has the ability to withdraw its investment from the investment fund at NAV at the measurement date. An investment is generally classified as Level 3 if the Museum does not have the ability to withdraw its investment from the invesment fund at NAV, such as investments in closed-end funds, "side-pockets", or funds with suspended withdrawals imposed (i.e., "gates"). If the Museum cannot withdraw its investment from the investment fund at NAV because such investment is subject to "lock-up" (if the withdrawal period does not coincide with the Museum's measurement date) the Museum considers the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment should be classified as a Level 2 or Level 3.

Contributions Receivable are not carried at fair value on a recurring basis and are therefore excluded from the table below. Fair value, after allowances for uncollectible pledges, was determined by discounting the expected future cash flows by an estimated fair market value rate at the date of the initial pledge.

Investments

Investments consist of cash, cash equivalents, bonds, domestic equity, international equity (including emerging markets), long/short equity, Absolute Return, Private Equity, and Real Asset investments. In general, the Investments Office of the Museum relies on its external investment managers to provide valuations for the Museum's portfolio on a monthly basis, and in the case of private investments, on a quarterly basis. The Investments Office verifies these valuations in a number of ways, including but not limited to, assessing the valuation methodologies employed by each manager, reviewing the footnotes related to valuation in audited financial statements, and evaluating the performance of each investment relative to comparable benchmarks.

Level 1 assets include cash, cash equivalents, bonds, and instruments actively traded on recognized exchanges both domestic and foreign. These investments are freely tradable and are valued based on quoted prices from active markets.

Level 2 assets primarily consist of funds that invest in exchange traded equity, fixed income securities, and derivatives. The receipt of information regarding underlying holdings generally is less frequent than assets classified as Level 1. Valuations are based on quoted prices or other significant observable inputs. The Investments Office performs a number of procedures to support the reasonableness of the valuation of these investments.

Level 3 assets include equity funds and hedge funds where valuations are determined by quoted prices or other significant observable inputs and consider subscription and redemption activity, gates, side-pocket investments, and lock-up provisions. Also included in Level 3 assets are the Museum's interests in private equity and real asset funds. As quoted or other observable inputs typically are not available, market values are determined by the general partner based on appraisals, obtainable prices for similar assets, or other estimates. The Museum's Investments Office has a robust process in place to evaluate the reasonableness of the values reported.

Annuity and Split Interest Agreements

Charitable Gift Annuities

The Museum records its remainder interest in assets received as an unrestricted contribution. The contribution is measured at fair value and discounted for the estimated time period until the donor's death. The difference between the fair value of the assets and the revenue recognized (the remainder value) is recorded as a liability and represents the amount of the discount for future interest.

Pooled Income Funds

The Museum records its remainder interest in assets received as a temporarily restricted contribution. The contribution is measured at fair value and discounted for the estimated time period until the donor's death. The difference between the fair value of the assets and the revenue recognized (the remainder value) is recorded as a liability and represents the amount of the discount for future interest.

Fair Value Measurements

The following table presents the financial instruments as stated on the Balance Sheet, by caption and by level within the valuation hierarchy as of June 30, 2011 (in thousands):

	Assets and Liabilities at Fair Value as of June 30, 2011			
	Level 1 Quoted Prices	*Level 2 Significant Other Observable Inputs*	*Level 3 Significant Unobservable Inputs*	*2011 Total*
Funds Held in Trust by the Museum and Others			$ 51,607	$ 51,607
Investments:				
Equities	$ 316,577	$ 36,741	$ 4,938	$ 358,256
Fixed Income				
Government bonds	80,353			80,353
Corporate debt		47,273	1,432	48,705
Mortgage backed		4,884		4,884
Other		1,538	673	2,211
Subtotal	80,353	53,695	2,105	136,153
Short-term Investments	210,699			210,699
Fixed income funds	91,829	62,647		154,476
Equity funds	3,453	296,250	104,767	404,470
Hedge funds		57,417	482,862	540,279
Private equity			582,947	582,947
Real assets			309,470	309,470
Total Investments:	$ 702,911	$ 506,750	$ 1,487,089	$ 2,696,750
Assets	$ 702,911	$ 506,750	$ 1,538,696	$ 2,748,357
Liabilities:				
Annuity and Other Split Interest Obligations			$ 16,233	$ 16,233
Liabilities			$ 16,233	$ 16,233

The following table presents the financial instruments as stated on the Balance Sheet (certain amounts have been recategorized to conform to the June 30, 2011 presentation), by caption and by level within the valuation hierarchy as of June 30, 2010 (in thousands):

	Assets and Liabilities at Fair Value as of June 30, 2010			
	Level 1 Quoted Prices	*Level 2 Significant Other Observable Inputs*	*Level 3 Significant Unobservable Inputs*	*2010 Total*
Funds Held in Trust by the Museum and Others			$ 49,089	$ 49,089
Investments:				
Equities	$ 228,818	$ 8,774	$ 354	$ 237,946
Fixed Income				
Government bonds*	134,261		901	135,162
Corporate debt		102,853	2,559	105,412
Mortgage backed		2,697		2,697
Other		1,558	1,253	2,811
Subtotal	134,261	107,108	4,713	246,082
Short-term Investments	72,069			72,069
Fixed income funds	92,251	71,572		163,823
Equity funds	2,544	230,228	89,844	322,616
Hedge funds		86,288	463,362	549,650
Private equity			546,967	546,967
Real assets			223,251	223,251
Total Investments:	$ 529,943	$ 503,970	$ 1,328,491	$ 2,362,404
Assets	$ 529,943	$ 503,970	$ 1,377,580	$ 2,411,493
Liabilities:				
Annuity and Other Split Interest Obligations			$ 13,328	$ 13,328
Liabilities			$ 13,328	$ 13,328

During the year ended June 30, 2011 there were no significant transfers in/out of Level 1 and Level 2 of the fair value hierarchy for investments which were recorded at fair value.

* The government bonds balance includes Treasury notes with a fair value of approximately $.1 million, which are held as collateral with a counterparty for futures contracts.

The following table includes a rollforward of the amounts for the year ended June 30, 2011 for Investments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement:

	Level 3 Ending Balance June 30, 2010	*Realized and Unrealized Gains/(Losses)*	*Transfers In/(Out)*	*Purchases*	*Sales and Settlements*	*Level 3 Ending Balance June 30, 2011*	*Changes in Unrealized Gains/(Losses) Relating to Investments held as of June 30, 2011*
Investments:							
Equities	$ 354	$ 84	$2,740	$ 1,985	$ (225)	$ 4,938	$ 503
Government bonds	901	(1)			(900)		
Corporate debt	2,559	120	203	387	(1,837)	1,432	(437)
Other	1,253	13			(593)	673	23
Equity funds	89,844	26,057			(11,134)	104,767	23,604
Hedge funds	463,362	75,335		55,000	(110,835)	482,862	17,931
Private equity	546,967	107,289		88,770	(160,079)	582,947	23,939
Real assets	223,251	66,395		67,423	(47,599)	309,470	43,784
Total Investments	$1,328,491	$275,292	$2,943	$213,565	$(333,202)	$ 1,487,089	$109,347

The following table includes a rollforward of the amounts for the year ended June 30, 2010 (certain amounts have been recategorized to conform to the June 30, 2011 presentation) for Investments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement:

	Level 3 Ending Balance June 30, 2009	*Realized and Unrealized Gains/(Losses)*	*Transfers In/(Out)*	*Purchases*	*Sales and Settlements*	*Level 3 Ending Balance June 30, 2010*	*Changes in Unrealized Gains/(Losses) Relating to Investments held as of June 30, 2010*
Investments:							
Equities			$ 354			$ 354	$ 59
Government bonds				$ 901		901	1
Corporate debt			666	1,893		2,559	185
Other			1,253			1,253	210
Equity funds	$ 93,015	$ 16,829			$ (20,000)	89,844	10,687
Hedge funds	468,165	38,723	33,549	10,000	(87,075)	463,362	33,369
Private equity	449,191	93,436		83,566	(79,226)	546,967	56,977
Real assets	192,249	(13,526)		58,265	(13,737)	223,251	(16,405)
Total Investments	$1,202,620	$135,462	$ 35,822	$154,625	$(200,038)	$ 1,328,491	$ 85,083

All net realized and unrealized gains (losses) in the table above are reflected in the statement of activities. Net unrealized gains (losses) relate to those Investments held by the Museum at June 30, 2011 and June 30, 2010, respectively.

Funds Held in Trust by Others

Charitable Remainder Trusts

The Museum is not the Trustee for any of the agreements recorded as Charitable Remainder Trusts (CRT). Each individual trust is considered a unit of account that must be measured.

When the trust is established the Museum recognizes the contribution and the asset at the present value of estimated future benefits to be received when the trust assets are distributed. Remainder values are calculated and adjusted periodically.

A fair value adjustment of 3 basis points was applied to those CRTs for which the Museum does not receive an accounting of the underlying assets and has no ability to assign a level other than Level 3. The adjustments are recorded in Funds Held in Trust by Others and non operating expense.

Perpetual Trusts

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

Lead Trusts

The Museum records the expected payment stream over the term of the trust, and applies a discount rate that ranges from 3.9% to 5.1%.

The following table summarizes the changes in the fair value of the assets related to charitable remainder and other trusts for the year ended June 30, 2011 (in thousands):

	Ending Balance June 30, 2010	*Changes in Discounts and Allowances*	*Ending Balance June 30, 2011*
Charitable remainder and other trust assets	$ 49,089	$ 2,518	$ 51,607

The following table summarizes the changes in the fair value of the liabilities related to annuity and other split interest agreements and funds held on behalf of others for the year ended June 30, 2011 (in thousands):

Ending Balance June 30, 2010	*Changes in Remainder Value*	*Realized and Unrealized Gains/(Losses)*	*Ending Balance June 30, 2011*
$13,328	$ 7	$ 2,898	$16,233

The following table lists investments in investment companies (or similar entities) by major investment category for the year ended June 30, 2011 (in thousands):

Investment Strategy	*Adjusted Fair Value Determined Using NAV (in 000s)*	*Remaining Life*	*Unfunded Commitments (in 000s)*	*Redemption Terms*	*Redemption Restrictions and Terms in Place at Year End*
Fixed Income Funds	$ 154,476	N/A	N/A	Daily Monthly (10 days)	N/A
Equity Funds	404,470	N/A	N/A	Daily Monthly (5 - 30 days) Quarterly (30 days)	1 fund undergoing liquidation; 2 funds with lock-up restrictions.
Hedge Funds	540,279	N/A	N/A	Monthly (30 days) Quarterly (45 - 90 days) Annually (90 days)	5 funds undergoing liquidation; 3 funds with lock-up restrictions, including 1 fund with a side-pocket; 2 funds with side-pockets.
Private Equity	582,947	1 to 10 years	$ 211,763		
Real Assets	309,470	1 to 10 years	$ 200,811		

The following table lists investments in investment companies (or similar entities) by major investment category for the year ended June 30, 2010 (in thousands):

Investment Strategy	*Adjusted Fair Value Determined Using NAV (in 000s)*	*Remaining Life*	*Unfunded Commitments (in 000s)*	*Redemption Terms*	*Redemption Restrictions and Terms in Place at Year End*
Fixed Income Funds	$ 163,823	N/A	N/A	Daily Monthly (10 days)	N/A
Equity Funds	322,616	N/A	N/A	Daily Monthly from 5 days to 30 days	3 funds with lock-up restrictions, including 1 fund with a side-pocket.
Hedge Funds	549,650	N/A	N/A	Monthly (30 days) Quarterly (14 - 90 days) Annually (90 days)	5 funds undergoing liquidation; 2 funds with lock-up restrictions, including 1 fund with a side-pocket; 2 funds with side-pockets.
Private Equity	546,967	1 to 10 years	$ 214,717		
Real Assets	223,251	1 to 10 years	$ 237,990		

O. Asset Retirement Obligations

Accounting pronouncements related to *Accounting for Conditional Asset Retirement Obligations* requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, it requires the recognition of the cumulative accretion for the time period from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred, to the date of adoption of this interpretation. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted.

During fiscal years 2011 and 2010, the Museum made payments of $51 thousand and $56 thousand, respectively, for these obligations and reduced the liability accordingly. In addition, the Museum adjusted certain asset retirement data and provided for the years' reductions, charges and accretions. For fiscal year 2011 the non-cash charges were reduced by $1.3 million and for fiscal year 2010, the non-cash charges amounted to an increase of $.8 million and are included in the non-operating section of the Statement of Activities. As of June 30, 2011 and 2010, $7.3 million and $8.6 million, respectively, of conditional asset retirement obligations are included in the liability section of the Balance Sheet.

P. Enhanced Disclosure for Endowment Funds and Net Asset Classifications

The Museum's endowment consists of approximately 600 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. The Museum also has funds with board-imposed restrictions that are treated as endowments. As required by Generally Accepted Accounting Principles, endowment funds are classified based on the existence or absence of donor-imposed restrictions. Endowment funds and quasi-endowment funds are governed by the Endowment Spending Policy adopted by the Board of Trustees.

On September 17, 2010, New York State enacted the New York Prudent Management of Institutional Funds Act (NYPMIFA), which the Museum adopted during fiscal 2011. NYPMIFA governs the standards of management, investing and spending of donor-restricted endowment funds by requiring the prudent consideration of the following eight factors when appropriating spending from endowment funds: (i) the duration and preservation of the endowment fund; (ii) the purposes of the Museum 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 Museum; (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 Museum; and (viii) the investment policy of the Museum. NYPMIFA also eliminates the legal requirement to preserve the historic dollar value of donor-restricted endowment funds and makes it legally possible to spend from the endowment funds when they drop below the historic dollar value of the gift. The term historic dollar value is defined as the aggregate fair value in dollars of (i) an endowment fund at the time it became an endowment fund; (ii) each subsequent donation to the fund at the time it is made; and (iii) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. As a result of this interpretation, the Museum classifies as permanently restricted net assets (i) the original dollar value of endowment gifts not expendable under the specific terms of the applicable gift instrument; (ii) the original dollar value of subsequent endowment gifts; (iii) the net realizable value of future payments (i.e., outstanding endowment pledges net of applicable discount); and (iv) appreciation (depreciation), gains (losses) and income earned on the fund when the donor states that such increases or decreases are to be treated as changes in permanently restricted net assets less spending per the endowment spending policy. With respect to endowment funds governed by gift instruments executed before September 17, 2010, the legislation required the Museum to send a notice to all available donors asking them to elect whether (i) the Museum could spend as much of the gift as is prudent; or (ii) the Museum could not spend below historic dollar value. The legislation provides that if the donor did not respond within 90 days of receiving the notice, expenditures from the endowment fund will be governed by the prudence standard in the new legislation. The Museum has complied with this, and all other requirements of NYPMIFA and has determined that for administrative ease and to ensure prudence with respect to its endowment funds, it will continue to maintain historic dollar value spending restrictions in place for all funds.

In relation to NYPMIFA, Generally Accepted Accounting Principles require that for each donor-restricted endowment fund the Museum is to classify the portion of the fund that is not classified as Permanently Restricted Net Assets as Temporarily Restricted Net Assets until such funds have been appropriated. Upon appropriation by the board for expenditure and the expiration of any time restriction and/or the meeting of any purpose restriction a reclassification of that amount to Unrestricted Net Assets occurs. Upon implementation of NYPMIFA, the Museum was required to transfer $282,154 of Unrestricted Net Assets to Temporarily Restricted Net Assets and this adjustment is recorded as "Cumulative effect of change in accounting principle" in the table below to reflect the effect of the appropriation, time and/or purpose restrictions.

Prior to September 17, 2010, the State of New York's enacted version of the Uniform Management of Institutional Funds Act ("UMIFA") governed management of the Museum's endowment funds. The Board of Trustees of the Museum interpreted UMIFA as requiring the preservation of the historic dollar value of donor-restricted endowment funds ("endowment funds"), absent explicit donor stipulations to the contrary.

Endowment appropriations and distributions are based on pre-determined percentages (Spending Rates) of the market value of the endowment, using the average market value over the prior twenty-quarter period ending December 31st of the prior fiscal year. Spending Rates are limited to a range of 4.5% to 5.75% of such market value of the endowment. Specific rates are recommended periodically by the Finance Committee of the Board of Trustees, and final rates are approved each fiscal year by the Board of Trustees.

The primary objective of the Museum's investment strategy is to provide a stable stream of funds to support the operations of the Museum in perpetuity. The long-term management goal is to maintain the purchasing power of the portfolio so that support for the operating budget remains consistent in real (i.e., inflation-adjusted) terms over time. The portfolio is subject to various risks, including volatility of asset prices, liquidity risk, and the risk of failing to meet return thresholds.

In order to achieve the portfolio objectives without assuming undue risk, the portfolio is biased toward investments that are expected to produce equity-like returns, and is diversified both by asset class and within asset classes.

The portfolio is primarily invested by external investment managers. Investments are made through separate accounts or commingled vehicles, including funds, trusts, and limited partnerships.

Endowment Net Asset Composition by Type of Fund as of June 30, 2011 (in thousands)

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted funds	$	$ 681,672	$ 820,868	$ 1,502,540
Quasi-endowment funds	738,776	71,753		810,529
Total funds	$ 738,776	$ 753,425	$ 820,868	$2,313,069

Endowment Net Asset Composition by Type of Fund as of June 30, 2010 (in thousands)

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted funds	$ 282,154	$ 221,862	$ 806,631	$ 1,310,647
Quasi-endowment funds	619,442	64,167		683,609
Total funds	$ 901,596	$ 286,029	$ 806,631	$1,994,256

Endowment & Non-Endowment Net Assets
for the Fiscal Year Ended June 30, 2011 (in thousands):

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment and quasi-endowment net assets, beginning of year	$ 901,596	$ 286,029	$ 806,631	$1,994,256
Cumulative effect of change in accounting principle	(282,154)	282,154		
Investment return:				
Investment Income	13,776	13,892	20	27,688
Net appreciation/depreciation (realized)	72,514	107,309	13	179,836
Net appreciation/depreciation (unrealized)	91,079	138,541		229,620
Total investment return	177,369	259,742	33	437,144
Transfers	45,777	(45,777)		
Appropriation of endowment assets for expenditure (spending)	(87,867)	(28,400)		(116,267)
Contributions	1,806	700	12,316	14,822
Other changes and reclasses	(17,751)	(1,023)	1,888	(16,886)
Total endowment and quasi-endowment net assets at the end of year	738,776	753,425	820,868	2,313,069
Non-endowment net assets, end of the year				
Operating	11,663	53,119		64,782
Non-Operating	85,873	443,067		528,940
Total non-endowment net assets, end of the year	97,536	496,186		593,722
NET ASSETS AT THE END OF THE YEAR	$ 836,312	$1,249,611	$ 820,868	$2,906,791

Endowment & Non-Endowment Net Assets
for the Fiscal Year Ended June 30, 2010 (in thousands):

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment and quasi-endowment net assets, beginning of year	$ 826,620	$ 238,398	$ 799,285	$ 1,864,303
Investment return:				
Investment Income	13,938	4,855	45	18,838
Net appreciation/depreciation (realized)	36,714	12,512	15	49,241
Net appreciation/depreciation (unrealized)	127,598	70,354		197,952
Total investment return	178,250	87,721	60	266,031
Transfer of losses recovered on endowment funds	13,359	(13,359)		
Appropriation of endowment assets for expenditure (spending)	(87,369)	(28,145)		(115,514)
Contributions	712	127	3,902	4,741
Other changes and reclasses	(29,976)	1,287	3,384	(25,305)
Total endowment and quasi-endowment net assets at the end of year	901,596	286,029	806,631	1,994,256
Non-endowment net assets, end of the year				
Operating	12,423	50,198		62,621
Non-Operating	52,190	431,041		483,231
Total non-endowment net assets, end of the year	64,613	481,239		545,852
NET ASSETS AT THE END OF THE YEAR	$ 966,209	$ 767,268	$ 806,631	$ 2,540,108

Description of Amounts Classified as Permanently Restricted, Temporarily Restricted, and Unrestricted Net Assets (Endowment only) (in thousands):

	June 30, 2011	*June 30, 2010*
Art Acquisitions	$ 204,447	$ 203,746
Book Purchase	2,760	2,419
Capital Projects	4	4
Collections Conservation	1,792	1,792
Deaccession	1	1
Departmental Discretionary	5,627	5,615
Departmental Operating	14,848	12,633
Exhibitions	39,430	39,045
Fellowship/Travel Stipend	23,044	22,149
Gallery Maintenance	19,635	19,635
Interns	3,346	3,062
Operating	434,007	428,801
Public Programs	32,251	30,203
Publications	14,311	14,296
Reserve	4	4
To Be Designated	25,361	23,226
Total endowment and quasi-endowment funds classified as permanently restricted net assets	$ 820,868	$ 806,631
Temporarily Restricted Net Assets:		
Art Acquisitions	$ 220,391	$ 100,053
Book Purchase	2,396	1,592
Capital Projects	5,284	1,713
Collections Conservation	5,271	4,616
Deaccession	15,337	15,308
Departmental Discretionary	4,689	1,351
Departmental Operating	7,565	5,418
Exhibitions	24,120	18,180
Fellowship/Travel Stipend	34,050	28,769
Gallery Maintenance	37,197	31,853
Interns	1,586	1,151
Operating	338,766	36,169
Public Programs	18,947	14,428
Publications	13,107	10,528
Reserve	9,170	2,292
To Be Designated	15,549	12,608
Total endowment and quasi-endowment funds classified as temporarily restricted net assets	$ 753,425	$ 286,029
Unrestricted Net Assets:		
Art Acquisitions	$ 207,408	$ 175,083
Book Purchase	5,952	5,247
Capital Projects	37,261	35,364
Collections Conservation	535	274
Deaccession	753	512
Departmental Discretionary	19,078	19,244
Departmental Operating	652	358
Exhibitions	11,802	9,262
Fellowship/Travel Stipend	3,983	2,116
Gallery Maintenance	4,274	2,205
Interns	303	154
Operating	421,283	636,190
Public Programs	5,443	3,634
Publications	7,255	5,986
Reserve	8,215	3,546
To Be Designated	4,579	2,421
Total endowment and quasi-endowment funds classified as unrestricted net assets (June 30, 2011 is all quasi-endowments)	$ 738,776	$ 901,596
Total endowment and quasi-endowment funds	$2,313,069	$1,994,256

As a result of unfavorable market fluctuations and the continued prudent use of income generated by donor-restricted funds in support of mission-critical programs, the fair market value of assets associated with individual donor-restricted funds has fallen below historic dollar value. The aggregate amounts by which fair value was below historic value was $.05 million and $1.9 million as of June 30, 2011 and 2010 respectively.

Q. Merchandising and Other Auxiliary Activities

Auxiliary operating revenue and expense are summarized as follows (in thousands):

	2011	2010
Operating revenue:		
Merchandising operations	$68,160	$59,913
Restaurant	22,190	21,011
Other	4,745	4,595
Total revenue	95,095	85,519
Operating costs and expenses:		
Merchandising operations	64,153	61,438
Restaurant	20,919	19,505
Other	4,064	4,073
Total costs and expenses	89,136	85,016
Net income from auxiliary activities	$ 5,959	$ 503

R. Restructuring Charges

Restructuring expenses of $2.8 million in fiscal year 2010 were recorded in the non operating section of the Statement of Activities to reflect severance and related charges resulting from a reduction initiative. No restructuring charges were recorded in fiscal year 2011.

Employee-related liabilities were paid by the end of fiscal year 2011 as the obligations were satisfied as indicated in the schedule below (in thousands):

	Severance and Related Charges
Balance July 1, 2010	$ 833
Cash and other costs	(833)
Balance June 30, 2011	$