PricewaterhouseCoopers

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, 2009, 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 2008 financial statements; and in our report dated September 26, 2008, 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 further discussed in Note N to the financial statements, in fiscal year 2009 the Museum adopted Financial Accounting Standards Board Statement No. 157 ("FAS 157"), *Fair Value Measurements*.

PricewaterhouseCoopers LLP

New York, New York
November 3, 2009

June 30, 2009, with comparative totals as of June 30, 2008 (in thousands)

	2009	2008
Assets:		
Cash (Notes A and N)	$ 1,919	$ 1,342
Investment trades receivable	2,232	1,174
Merchandise inventories, net (Note A)	12,166	12,681
Accounts receivable and other assets (Note B)	16,008	18,006
Contributions receivable (Notes C and N)	119,901	152,963
Funds held in trust by others (Note H)	46,683	50,221
Investments (Notes A, G, H, K and N)	2,264,895	2,915,803
Fixed assets, net (Notes A and E)	411,398	394,529
total assets	$2,875,202	$3,546,719
Liabilities:		
Investment trades payable	$ 26,680	$ 2,567
Accounts payable and accrued expenses (Note R)	42,417	38,817
Accrued salaries and benefits	23,744	22,970
Deferred income (Note A)	3,989	3,965
Notes payable (Notes J and N)	65,050	38,192
Annuity and other split-interest obligations (Notes H and N)	13,671	12,655
Asset retirement obligations (Note O)	7,776	7,926
Pension and other accrued retirement obligations (Note I)	90,332	71,760
Loans payable and other long-term liabilities (Notes K and N)	177,271	169,496
total liabilities	450,930	368,348
Net assets:		
Unrestricted (Note A)	902,615	1,520,862
Temporarily restricted (Notes A and P)	722,372	878,041
Permanently restricted (Notes A and P)	799,285	779,468
total net assets	2,424,272	3,178,371
total liabilities and net assets	$2,875,202	$3,546,719

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

Statement of Activities

for the year ended June 30, 2009, with comparative totals for 2008 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009	Total 2008*
OPERATING					
REVENUE AND SUPPORT:					
Admissions and membership (Note K)	$ 51,659			$ 51,659	$ 52,999
Gifts and grants	18,524	$ 14,068		32,592	36,436
Operating appropriations from the City of New York	27,705			27,705	25,030
Endowment support for current activities (Note G)	77,365	12,236		89,601	74,276
Merchandising and other auxiliary activities (Note Q)	83,420			83,420	95,630
Other income	5,871			5,871	6,774
Net assets released from donor restrictions to fund operating expenses	31,205	(31,205)		—	
TOTAL REVENUE AND SUPPORT	295,749	(4,901)		290,848	291,145
EXPENSES:					
Curatorial	79,978			79,978	74,338
Education and libraries	15,697			15,697	15,812
Development and membership	14,787			14,787	14,345
Operations	85,897			85,897	77,990
General administration	24,464			24,464	24,481
Merchandising and other auxiliary activities (Note Q)	88,030			88,030	94,017
Interest on debt	659			659	1,186
TOTAL EXPENSES	309,512			309,512	302,169
Transfers of designated non-operating funds	5,325			5,325	5,395
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**(8,438)**	**(4,901)**		**(13,339)**	(5,629)
NON-OPERATING					
Museum-designated and donor-restricted gifts	10,629	32,483		43,112	80,425
Endowment gifts	756	1,815	$ 16,001	18,572	21,245
Endowment support for current activities (Note G)	5,820	15,277		21,097	19,726
Investment return in excess of (less than) current support (Note G)	(535,400)	(135,592)	88	(670,904)	(33,207)
Change in value of split-interest agreements	(1,096)	(2)	(1,919)	(3,017)	(1,087)
Depreciation and non-capitalized expenditures	(41,421)			(41,421)	(37,974)
Reclassifications, fees, and other	(18,308)	4,538	5,647	(8,123)	(5,980)
Net assets released from donor restrictions	38,403	(38,403)			
Change in net assets before collection items not capitalized and other adjustments	(549,055)	(124,785)	19,817	(654,023)	37,519
Purchases of art (Note D)	(38,924)			(38,924)	(48,925)
Proceeds from sales of art		600		600	3,463
Net assets released from donor restrictions to fund acquisitions of art	31,484	(31,484)			
Additional retirement contribution (ARC)	(6,532)			(6,532)	
Pension-related changes other than NPPC	(13,065)			(13,065)	(2,995)
Change in fair value of interest rate exchange agreements and effect of interest rate swaps (Note K)	(13,922)			(13,922)	(10,265)
Change in net assets before loss from discontinued operations and restructuring costs	(590,014)	(155,669)	19,817	(725,866)	(21,203)
Loss from discontinued merchandising operations (Note Q)	(8,009)			(8,009)	(5,828)
Restructuring costs (Note R)	(20,224)			(20,224)	
CHANGE IN NET ASSETS	(618,247)	(155,669)	19,817	(754,099)	(27,031)
NET ASSETS AT THE BEGINNING OF THE YEAR	1,520,862	878,041	779,468	3,178,371	3,205,402
NET ASSETS AT THE END OF THE YEAR	**$ 902,615**	**$722,372**	**$799,285**	**$2,424,272**	$3,178,371

* Fiscal year 2008 has been reclassified to conform with current year presentation.

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

Statement of Cash Flows for the year ended June 30, 2009, with comparative totals for 2008 (in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$(754,099)	$ (27,031)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	43,342	39,964
Receipt of contributed securities	(4,704)	(12,598)
Contributions for capital expenditures	(30,129)	(20,249)
Contributions for long-term investment	(18,104)	(19,716)
Net realized and unrealized (gains)/losses	569,434	(36,861)
Acquisitions and sales of art, net	38,171	45,462
Changes in assets and liabilities:		
Investment trades receivable	(1,058)	(843)
Merchandise inventories, net	515	(1,174)
Accounts receivable and other assets	1,937	874
Contributions receivable	33,062	(13,801)
Funds held in trust by others	3,538	5,173
Investment trades payable	24,113	(1,183)
Accounts payable and accrued expenses	3,600	3,855
Accrued salaries and benefits	774	2,047
Deferred income	23	(256)
Annuity and other split-interest obligations	1,016	3,045
Asset retirement obligations	(150)	628
Pension and other accrued retirement obligations	18,572	6,113
Loans payable and other long-term liabilities	10,110	8,895
Net cash used by operating activities	(60,037)	(17,656)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed assets, net	(60,595)	(73,459)
Proceeds from the sale of contributed securities	4,704	12,584
Proceeds from sales of investments	693,505	927,159
Purchases of investments	(616,723)	(844,321)
Acquisitions of art	(33,633)	(48,925)
Proceeds from sales of art	600	3,463
Net cash used by investing activities	(12,142)	(23,499)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for capital expenditures	30,129	20,249
Contributions for long-term investment	18,104	19,716
Proceeds from (payment of) notes payable	26,858	656
Proceeds from loans payable		130,000
Payment of loans payable	(2,335)	(132,230)
Deferred bond issuance costs		537
Net cash provided by financing activities	72,756	38,928
Net increase (decrease) in cash	577	(2,227)
Cash, beginning of the year	1,342	3,569
CASH, END OF THE YEAR	$ 1,919	$ 1,342

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 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 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/less than amounts made available for current support; additions to restricted and designated net assets; adjustments to the minimum pension liability; 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, and the cumulative effect of changes in accounting principles.

Collections - The Museum's collections comprise more than 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. For short-term cash equivalents, see *Investments* below.

Merchandise Inventories - Merchandise inventories are valued at the lower of cost or market value. Cost is determined using the average unit cost method of accounting. This is a change from the retail inventory method effective April 2008 in conjunction with a systems conversion. This change did not result in a material impact on the financial statements.

Investments - Investments in short-term instruments, fixed income securities, and equity securities are carried at fair value based on quoted market prices and exchange rates, as applicable.

Investments in investment funds are carried at estimated fair value generally based on the net asset values and other information provided by the investment funds' managers or general partners. These funds include exchange traded securities and derivatives based on third-party quoted market prices and over-the-counter derivatives and private investments whose values are determined by the fund's investment manager and general partners based on the selection of valuation techniques and use of inputs and assumptions considered appropriate.

Certain of these investment funds, particularly those investing in private equity and real estate, include investments in non-marketable securities for which there are no readily obtainable market values. Values for these investments are provided by the general partners of the investment funds 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. Because of 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.

Cash equivalents are included in the short-term investments category. They are made up of highly liquid investments with original maturities of three months or less.

Purchase and sale of short-term instruments, fixed income securities, 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 the 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. Investment income and gains are recorded on the accrual basis. Investments denominated in foreign currencies are translated using the fiscal year-end spot rate.

Fixed Assets - The building occupied by the Museum on Fifth Avenue is owned by the City of New York 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 of New York 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 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 ratably as income over a membership period of 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.

The heat, light, and power costs of the Fifth Avenue building are paid for by the City of New York. The value of such costs is reported as income and a corresponding amount is included as an expense in the Statement of Activities. The City of New York 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 $6.0 and $6.2 million in fiscal years 2009 and 2008, 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 2009 and 2008, respectively. All advertising is expensed as incurred.

Interest Expense - Interest on borrowings and related swap agreements applicable to major construction projects in progress is capitalized and depreciated. Total interest paid during fiscal years 2009 and 2008 was $6.6 million and $8.7 million, respectively, of which $3.8 million and $1.4 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.

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 2008, the source from which the summary information was derived. Certain amounts in fiscal year 2008 have been reclassified to conform to the fiscal year 2009 statement presentation.

New Accounting Pronouncements - The Museum adopted *FAS 157, Fair Value Measurement* which defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure requirements related to fair value measurements. Footnote N provides the details on the assets and liabilities subject to fair value measurement at June 30, 2009. The Museum also adopted *FAS117-1, Endowments of Not-for-Profit Organizations* which provides guidance on the net asset classification of donor restricted endowment funds, and enhanced disclosures about endowment funds.

B. Accounts Receivable and Other Assets

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

	June 30, 2009	*June 30, 2008*
Accounts receivable, net	$ 4,637	$ 4,564
Dividends and interest receivable	2,691	3,258
Prepaid expenses and other	8,680	10,184
Total	$16,008	$18,006

C. Contributions Receivable

Unconditional promises (pledges) to contribute to the Museum are recorded as contributions receivable at the present value of future cash flows, net of an allowance for uncollectibility. Present value discount rates used were 5.25% and 2.78% for fiscal years 2009 and 2008, respectively. Pledges are expected to be realized as follows (in thousands):

	June 30, 2009	*June 30, 2008*
Less than one year	$ 63,483	$ 83,680
Between one and five years	60,894	77,122
Over five years	8,150	5,450
Total	132,527	166,252
Less:		
Adjustments and allowance for uncollectibility	(2,899)	(3,540)
Discount for market value	(9,727)	(9,749)
Net	$119,901	$152,963

Please refer to Footnote N for details related to *FAS 157, Fair Value Measurement*.

D. Acquisitions of Art

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

	2009	2008
Gifts of cash and securities	$16,681	$22,225
Gains and income from long-term investment:		
For designated curatorial departments	3,128	7,559
Undesignated as to curatorial department	11,091	12,109
Proceeds from fine arts insurance and the sale of art	8,024	7,032
Total	$38,924	$48,925

E. Fixed Assets

Fixed assets consist of (in thousands):

	June 30, 2009	June 30, 2008	Estimated Useful Lives in Years
Land	$ 1,015	$ 1,015	N/A
Buildings	35,991	35,630	20-40
Leasehold improvements–auxiliary activities	27,040	32,510	4-40
Leasehold improvements–Fifth Avenue building	753,413	695,233	5-30
Machinery and equipment	69,451	65,170	3-20
Total	886,910	829,558	
Less accumulated depreciation and amortization	(475,512)	(435,029)	
Net	$411,398	$394,529	

The above amounts include construction in progress of $17.9 million and $46.0 million at June 30, 2009 and 2008, respectively. Depreciation and amortization expense was $43.3 million for fiscal year 2009 and $39.9 million for fiscal year 2008. In fiscal year 2009, $5.7 million of fixed assets with associated accumulated depreciation of $3.2 million were written off.

In fiscal year 2009, interest expense of $2.2 million and interest income of $0.8 million, which related to the new bond financing, were capitalized and included in fixed assets on the Balance Sheet.

Fixed assets and construction in progress include $62.3 million of property contributed and paid for by the City of New York since 1990, of which $12.9 million was received during the fiscal year ended June 30, 2009.

F. Capital Expenditures

The principal capital projects in progress during fiscal year 2009 were as follows (in thousands):

	Prior Years' Expenditures	2009 Expenditures	Total Expenditures
Greek and Roman, Wing K, and Uris Center for Education renovation	$252,423	$ 2,379	$ 254,802
American Wing renovation	45,154	28,026	73,180
19th-Century gallery expansion and Arts of Africa, Oceania, and the Americas renovation	28,181	248	28,429
Fairchild Paintings Conservation Center refurbishment	2,739	4,740	7,479
Chiller plant relocation	7,275	17	7,292
Fire detection system	2,657	3,776	6,433
Islamic galleries		4,217	4,217
Lehman skylight	3,901	283	4,184
Front steps, doors and kiosks		3,887	3,887
Medieval galleries		2,814	2,814
Lehman wing renovation		1,412	1,412
The Cloisters (1)		363	
Projects related to auxiliary activities (1)		1,291	
Other capital projects (1)		16,733	
Total (2)		70,186	
Less cost of capitalized projects		(63,050)	
Non-capitalized expenditures and maintenance expense		$ 7,136	

(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 $57 million related to construction projects at June 30, 2009.

G. Investments

The fair values of the Museum's investment portfolio categories were as follows (in thousands):

	June 30, 2009	June 30, 2008*
Equities:		
Securities	$ 238,872	$ 326,206
Investment funds	332,050	161,813
Subtotal	570,922	488,019
Fixed income:		
Government bonds	192,988	102,872
Corporate debt	94,580	88,877
Mortgage backed	4,794	29,497
Investment funds	47,928	44,078
Other	5,798	48,504
Subtotal	346,088	313,828
Short-term investments	130,971	149,522
Limited partnerships and other:		
Hedge funds	575,474	1,184,849
Private equity	449,191	550,145
Real assets	192,249	229,440
Subtotal	1,216,914	1,964,434
Total	$2,264,895	$2,915,803

The cost value of the total investment portfolio was $2,303.1 million and $2,302.0 million as of June 30, 2009 and 2008, respectively.

At June 30, 2009, the Museum had approximately $555.8 million in remaining capital commitments to investment funds and limited partnerships.

The Museum maintains a highly diversified portfolio of investments that seeks to preserve the inflation-adjusted purchasing power of invested funds while providing 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 as part of their investment strategies, primarily to hedge against equity, currency, or interest rate risk. These include equity and fixed income futures and options, and foreign currency options and forward contracts. These instruments are either traded on organized exchanges or entered into with creditworthy financial institutions. Fair values estimates assigned to these investments may differ significantly from results and such differences could be material to the Museum's financial statements.

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 Other in fiscal year 2009. For fiscal year 2008 the spending rate was set at 5.25% for General Operating and All Other. The value used to calculate the spending rate for fiscal year 2009 was the average of the twenty quarters ended December 31, 2007.

Investment income is net of unrelated business income taxes of $3.0 million and $1.9 million for fiscal years 2009 and 2008, respectively.

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

	2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2008 Total
Investment income, net of management and custodian fees, taxes, and other expenses	$ 5,911	$ 3,254	$63	$ 9,228	$ 23,934
Net realized gains	55,233	27,800	25	83,058	225,130
Changes in unrealized appreciation	(484,694)	(167,798)		(652,492)	(188,269)
Total return on investments	(423,550)	(136,744)	88	(560,206)	60,795
Transfer of losses recovered on endowment funds	(28,665)	28,665			
Investment return allocated for current activities	(83,185)	(27,513)		(110,698)	(94,002)
Investment return (less than) in excess of current support	$(535,400)	$(135,592)	$88	$(670,904)	$ (33,207)

Please refer to Footnote N for details related to *FAS 157, Fair Value Measurement*.

*Fiscal year 2008 has been reclassifed to conform with current year presentation.

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 these and other trust agreements, excluding new gifts and distributions, decreased by $3.5 million, and $0.3 million in fiscal years 2009 and 2008, respectively. Present value discount rates applied to these funds ranged from 2.80% to 6.38% in fiscal years 2009 and 2008.

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, 2009	*June 30, 2008*
Assets:		
Charitable remainder and other trust assets	$46,683	$50,221
Gift annuities, pooled income funds, and trust invested on behalf of others (included with investments in the Balance Sheet)	18,686	18,315
Total	$65,369	$68,536
Liabilities:		
Trust invested on behalf of others	$ 4,631	$ 4,768
Gift annuities and pooled income funds	9,040	7,887
Total	$13,671	$12,655

Please refer to Footnote N for details related to *FAS 157, 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 and $0.8 million for fiscal years 2009 and 2008, 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 $3.3 million and $3.1 million, respectively, as of June 30, 2009, and $4.2 million and $3.8 million, respectively, as of June 30, 2008.

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. The Museum's contributions under this plan were based on 6% of a participant's base pay during the year until May 31, 2008. Effective June 1, 2008, the Museum increased its contributions under this plan to 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 2009 and 2008 was $10.4 million and $5.2 million, respectively.

Defined contribution matching plan for non-union staff (Matching Plan) - Effective June 1, 2008, the Museum started 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) - In May 2008, the Board of Trustees approved the creation of two new plans to provide additional retirement contributions to certain non-union Museum employees. These plans were effective January 1, 2008; the initial payments 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 $6.5 million in fiscal year 2009.

Defined contribution plan for union staff - 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 fiscal years 2009 and 2008 was $0.2 million and $0.2 million, respectively.

*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 $0.7 million in each of fiscal years 2009 and 2008.
- 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 2009 and 2008 of $1.2 million and $1.2 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 2009 and 2008 of $0.9 million and $0.2 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, 2009	*June 30, 2008*	*June 30, 2009*	*June 30, 2008*
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 91,798	$ 90,647	$ 55,283	$ 48,531
Service cost	2,840	3,357	2,582	2,395
Interest cost	6,115	5,881	3,772	3,156
Employee contributions	870	757		
Amendments			(2,341)	
Actuarial loss (gain)	878	(5,111)	3,169	3,268
Benefits paid	(3,423)	(3,194)	(2,863)	(2,146)
Medicare Part D subsidy			79	79
Settlements	(1,350)	(539)		
Benefit obligation at end of year	97,728	91,798	59,681	55,283
Change in plan assets:				
Fair value of plan assets at beginning of year	75,321	73,531		
Actual (loss) gain on plan assets	(6,346)	(652)		
Employer contributions	2,005	5,418	2,812	2,078
Employee contributions	870	757		
Benefits paid	(3,423)	(3,194)	(2,863)	(2,146)
Medicare Part D subsidy			51	68
Settlements	(1,350)	(539)		
Fair value of plan assets at end of year	67,077	75,321		
Funded status (liability)	$(30,651)	$(16,477)	$(59,681)	$(55,283)

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

	2009	*2008*	*2009*	*2008*
Actuarial losses	$(29,725)	$(18,110)	$(11,587)	$ (8,907)
Prior service (costs) credits	(411)	(750)	11,701	10,742
Unrestricted net assets not yet recognized in net periodic benefit cost	(30,136)	(18,860)	114	1,835
Cumulative employer contributions in excess of (less than) net periodic benefit cost	(515)	2,383	(59,795)	(57,118)
Unfunded benefit obligations (liability)	$(30,651)	$(16,477)	$(59,681)	$(55,283)

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, 2010 (in thousands):

	Pension Benefits	*Postretirement Benefits*
Actuarial losses	$1,657	$ 558
Prior service costs (credits)	194	(1,522)
Total	$1,851	$ (964)

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*	
	2009	*2008*	*2009*	*2008*
Service cost	$ 2,840	$ 3,357	$ 2,582	$ 2,394
Interest cost	6,115	5,881	3,771	3,156
Expected return on plan assets	(5,384)	(5,356)		
Amortization of prior service cost	339	561	(1,381)	(1,381)
Amortization of accumulated loss	775	1,338	517	547
Settlement loss	218	116		
Net periodic benefit cost	$ 4,903	$ 5,897	$ 5,489	$ 4,716
Weighted-average assumptions used to determine benefit obligations as of June 30:				
Discount rate	7.02%	7.02%	7.03%	7.03%
Rate of compensation increase	3.90%	3.90%		
Weighted-average assumptions used to determine net cost as of June 30:				
Discount rate	7.02%	6.32%	7.03%	6.30%
Expected return on plan assets	7.35%	7.34%		
Rate of compensation increase	3.90%	3.90%		
Additional information (in thousands):				
Actual return on plan assets	$(6,346)	$ (651)		
Accumulated benefit obligation for all defined benefit pension plans	$82,168	$75,351		

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

	2009	2008
Number of pension plans with accumulated benefit obligations in excess of plan assets	3	2
Aggregate accumulated benefit obligation	$82,168	$ 15,820
Aggregate fair value of plan assets	$67,077	$ 11,606
Number of pension plans with projected benefit obligations in excess of plan assets	3	3
Aggregate projected benefit obligation	$97,728	$ 91,798
Aggregate fair value of plan assets	$67,077	$ 75,321

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		$(2,341)
New loss arising during the year	$12,608	3,197
Amounts recognized as a component of net periodic benefit cost:		
Amortization or curtailment recognition of prior service credit (cost)	(339)	1,381
Amortization or settlement recognition of net loss	(993)	(517)
Total recognized in unrestricted net assets	11,276	1,720
Net periodic benefit cost	4,903	5,489
Total recognized in net periodic benefit cost and unrestricted net assets	$16,179	$ 7,209

	2009		*2008*	
	Union	*Non-Union*	*Union*	*Non-Union*
Assumed medical cost trend rates at June 30:				
Health care cost trend rate assumed for next year	7.50%	7.50%	8.00%	8.00%
Rate that the cost trend gradually declines to	4.50%	4.50%	5.00%	5.00%
Year that the final trend rate is reached	2028	2028	2015	2015

The following data show the effect of a one percentage point health care cost trend rate increase (decrease) for fiscal year 2009 (in thousands):	*Percentage Point Increase*	*Percentage Point (Decrease)*
Effect on total of service and interest cost	$ 622	$ (514)
Effect on postretirement benefit obligation	6,131	(5,072)

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, 2009, the assets of the defined benefit plan for union staff were invested 60.7% and 39.3% in equity and fixed income securities, respectively, and the assets of the defined benefit plan for non-union staff were invested 42.8% and 57.2% in equity and fixed income securities, respectively. As of June 30, 2008, the assets of the defined benefit plan for union staff were invested 52.9% and 47.1% in equity and fixed income securities, respectively, and the assets of the defined benefit plan for non-union staff were invested 38.9% and 61.1% 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, 2009 and June 30, 2008 by approximately $1.3 million and $1.1 million, respectively. In accordance with FSP 106-2, 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:				
2008 (actual)	$ 5,418	$ 2,078	N/A	N/A
2009 (actual)	2,005	2,812	N/A	N/A
2010 (expected)	3,877	4,785	N/A	N/A
Projected benefit payments for the fiscal year ending june 30 (in thousands):				
2010	$ 7,081	$ 4,785	$ 4,682	$ 103
2011	6,027	3,476	3,361	115
2012	4,616	3,672	3,543	129
2013	4,890	3,830	3,688	142
2014	6,019	4,054	3,900	154
2015–2019	33,697	23,868	22,811	1,057

J. Notes Payable

At June 30, 2009 and 2008, the Museum had five credit facilities with three commercial banks. Under the largest credit facility, which is a $100 million revolving line of credit, the Museum had borrowed $65.1 million and $38.2 million as of June 30, 2009 and 2008, respectively. Any amount borrowed under the revolving line of credit is payable in full on or before September 30, 2011. The borrowing bears interest at variable rates, and accrued interest is paid at loan maturity. Total interest expense on bank borrowings amounted to $1.1 million and $1.9 million in fiscal years 2009 and 2008, respectively. As of June 30, 2009, the interest rate on the outstanding debt was .43%. 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, 2009 and 2008.

In addition to the revolving line of credit, the Museum has four lines of credit totaling $160 million in 2009 and two lines of credit totaling $50 million in 2008 under which no borrowings were outstanding at June 30, 2009 and 2008. 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 $2.5 million at June 30, 2009 and 2008, 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, 2009 and 2008.

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 initially 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, 2009 and 2008, $2.5 million and $2.4 million, respectively, of investments were in the custody of a trustee in connection with the Series 1993A&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. On April 29, 2008, and May 1, 2008, the Series 2006A-1 and A-2 Bonds, respectively, were converted from auction rate notes to variable rate demand bonds and currently bear interest at a weekly interest rate. Prior to the conversion, the bonds' interest rate was based on a weekly reset auction rate. As a result of the conversion of the bonds, approximately $1.5 million of deferred financing costs that were associated with the debt that was repaid were expensed and included in the non-operating section of the Statement of Activities. 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. If the remarketing proceeds are insufficient, the Museum will have a current obligation to purchase the bonds that were not remarketed successfully. In April 2009, the Museum entered into an additional one-year $150 million confirmed credit facility. The purpose of this credit facility was 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. To date there have been no drawdowns of this facility.

In June 2006, the Museum entered into a forward starting interest rate exchange agreement with Morgan Stanley Capital Services, Inc., 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, 2009	*June 30, 2008*
Series 1993A Bonds due serially to July 1, 2015	$ 19,890	$ 22,225
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	156,670	159,005
Fair value of interest rate exchange agreement on Series 1993A Bonds	1,792	1,538
Fair value of forward starting interest rate exchange agreement on Series 2006A Bonds	18,809	8,953
Total interest rate exchange agreements	20,601	10,491
Total liability	$177,271	$169,496

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

Interest rates on loans payable:		
Series 1993A&B Bonds	.17%	1.20%
Series 2006A-1&A-2 Bonds	.17%	1.20%
	2009	*2008*
Interest expense on loans payable (in thousands):		
Series 1993A Bonds	$ 993	$1,094
Series 1993B Bonds	75	198
Series 2006A Bonds	4,436	5,520
Interest expense included above related to the swaps (in thousands):		
Series 1993A Bonds	$ 772	$438
Series 2006A Bonds	3,040	931

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*
2010	$ 2,450	$ 6,152	$ 8,602
2011	2,570	6,030	8,600
2012	2,695	5,902	8,597
2013	2,830	5,768	8,598
2014	2,965	5,650	8,615
Thereafter	143,160	114,097	257,257
Total	$156,670	$143,599	$300,269

*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 Footnote N for details related to *FAS 157, Fair Value Measurement*.

L. Functional Classification of Expenses

Expenses by functional classification for fiscal years 2009 and 2008, which are described in Note A, are shown below (in thousands):

	2009	*2008**
Total operating expenses from the Statement of Activities	$309,512	$302,169
Depreciation of capital improvements and other non-capitalized expenditures from the non-operating section of the Statement of Activities	41,421	37,974
Management and custodian fees, taxes, and other expenses included in net investment income	20,228	21,018
Discontinued merchandising operations (Note Q)	7,375	12,432
Special events included in the revenue section of the Statement of Activities	520	691
Total	$379,056	$374,284
Program expenses:		
Curatorial activities, conservation, and exhibition	$180,782	$170,695
Education	15,870	13,408
Libraries	6,390	7,112
Public services and other	22,499	18,053
Cost of sales and expenses of auxiliary activities:		
Merchandising operations	63,882	69,000
Discontinued merchandising operations	7,375	12,432
Restaurant, parking garage, auditorium, and other	24,148	25,016
Total program expenses	320,946	315,716
Supporting services:		
Management and general	45,962	46,645
Fundraising	12,148	11,923
Total supporting services	58,110	58,568
Total	$379,056	$374,284

M. Lease Commitments

At June 30, 2009, 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. The rental payments will be charged against future revenue from sales of books, reproductions of works of art, and similar reproductions sold through the Museum shops and mail-order system. Rent expense included in merchandising activities relating to these operating leases amounted to $6.1 million and $7.2 million in fiscal years 2009 and 2008, 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. In addition, there are operating leases for storage, office space, equipment, and other items, which expire at various dates through 2010 and later. Rent expense relating to these operating leases amounted to $0.7 million and $0.4 million in fiscal years 2009 and 2008, respectively.

Minimum rental commitments consist of the following at June 30, 2009 (in thousands):

Year Ending June 30	*Total*
2010	$ 3,625
2011	3,511
2012	3,284
2013	3,291
Thereafter	7,875
Total	$21,586

N. Fair Value of Financial Instruments

Effective July 1, 2008, the Museum adopted *FAS 157, Fair Value Measurement*. FAS 157 defines fair value as the price an asset would bring or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value.

FAS 157 specifies a hierarchy based upon whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Museum's market assumptions. The Museum is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The components of each level are:

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.

*Fiscal year 2008 has been reclassified to conform with current year presentation.

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

Contributions Receivable are a non recurring financial statement measure 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.

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 19 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. No change was required for perpetual trusts in FY 2009.

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 6.375%.

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 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 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 limited partnerships holding private, non-marketable investments. 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 as of June 30, 2009 in thousands of dollars.

	Assets and Liabilities at Fair Value as of June 30, 2009			
	Level 1 Quoted Prices	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
Funds Held in Trust by Others			$ 46,683	$ 46,683
Investments:				
Equities				
Securities	$ 238,872			$ 238,872
Investment funds	1,418	237,617	93,015	332,050
Fixed Income				
Government bonds	192,988			192,988
Corporate debt	94,580			94,580
Mortgage backed	4,794			4,794
Investment funds		47,928		47,928
Other	5,798			5,798
Short-term investments	130,971			130,971
Limited partnerships and other:				
Hedge funds		107,309	468,165	575,474
Private Equity			449,191	449,191
Real Assets			192,249	192,249
Total Investments:	$ 669,421	392,854	1,202,620	$2,264,895
Assets	$ 669,421	392,854	1,249,303	$2,311,578
Liabilities:				
Annuity and Other Split Interest Obligations	$		13,671	$ 13,671
Liabilities	$		13,671	$ 13,671

The following table summarizes the changes in the fair value of Charitable Remainder Trust assets at Level 3 for the year ended June 30, 2009 in thousands of dollars:

	Ending Balance June 30, 2008	Changes in Discounts and Allowances	Ending Balance June 30, 2009
Charitable Remainder Trusts	$50,221	(3,538)	$46,683

The following table summarizes the changes in the fair value of Investment assets at Level 3 for the year ended June 30, 2009 in thousands of dollars:

	Level 3 Ending Balance June 30, 2008	Realized and Unrealized Gains/(Losses)	Purchases, Sales and Settlements	Level 3 Ending Balance June 30, 2009
Investments				
Equities	$			$
Securities				
Investment funds	112,438	(29,423)	10,000	93,015
Limited partnerships and other:				
Hedge funds	702,580	(110,310)	(124,105)	468,165
Private Equity	550,145	(152,492)	51,538	449,191
Real Assets	229,440	(76,740)	39,549	192,249
Total Investments	$ 1,594,603	(368,965)	(23,018)	$1,202,620

The following table summarizes the changes in the fair value of Annuity and Other Split Interest Agreements for the year ended June 30, 2009 in thousands of dollars:

Ending Balance June 30, 2008	Changes in Remainder Value	Realized and Unrealized Gains/(Losses)	Ending Balance June 30, 2009
$ 12,655	1,119	(103)	$ 13,671

O. Asset Retirement Obligations

FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"), requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, FIN 47 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. Upon initial application of FIN 47, the Museum recorded a noncash transition charge of $6.05 million for the cumulative effect of a change in accounting principle in the Statement of Activities.

During fiscal year 2009, the Museum made payments of $.1 million for these obligations and reduced the liability accordingly. In addition, the Museum adjusted certain asset retirement data and provided for the current year's accretion. These noncash charges amounted to $.1 million and are included in the non-operating section of the Statement of Activities. As of June 30, 2009, $7.8 million 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, as well as funds treated as if they were endowments ("quasi-endowment" funds). As required by Generally Accepted Accounting Principles ("GAAP"), these funds are classified and reported based on the existence or absence of donor-imposed restrictions. All endowment funds are governed by the Endowment Spending Policy adoped by the Board of Trustees. Non endowment assets invested outside of the Museum's long term investment pool support certain capital and bond financing activities, and may also support specific exhibitions and publications among other operating activities.

The Board of Trustees of the Museum has interpreted the State of New York's enacted version of the Uniform Management of Institutional Funds Act ("UMIFA") as requiring the preservation of the historic dollar value of donor-restricted endowment funds ("endowment funds"), absent explicit donor stipulations to the contrary.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 (a) the original value of gifts not wholly expendable on a current basis under the specific terms of the applicable gift instrument (b) the original value of subsequent gifts (c) the net realizable value of future payments (i.e., outstanding endowment pledges net of applicable discount) and (d) appreciation (depreciation), gains (losses) and income earned on the fund when the donor states that such increases or decreases are to be treated as changes in permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets or unrestricted net assets.

The Board of Trustees further understands that expenditures from a donor-restricted endowment fund are limited to the uses and purposes for which the fund is established and the use of net appreciation, realized gains (with respect to all assets), and unrealized gains (with respect only to readily marketable assets) is limited to the extent that the fair value of a donor-restricted endowment fund exceeds the historic dollar value of the fund (unless the applicable gift instrument indicates otherwise), to the extent that such expenditure is prudent, considering the long- and short-term needs of the Museum in carrying out its purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

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 the 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, 2009 (in thousands)

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted funds and quasi-endowment funds with donor-designated use	$ 251,400	$ 207,258	$ 799,285	$1,257,943
Quasi-endowment funds	575,220			575,220
Quasi-endowment funds with restrictions		31,140		31,140
Total funds	$ 826,620	$ 238,398	$ 799,285	$1,864,303

Endowment Net Asset Composition by Type of Fund as of June 30, 2008 (in thousands)

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted funds and quasi-endowment funds with donor-designated use	$ 761,539	$ 349,414	$ 779,468	$1,890,421
Quasi-endowment funds	595,621			595,621
Quasi-endowment funds with restrictions	13,554	9,923		23,477
Total funds	$1,370,714	$ 359,337	$ 779,468	$2,509,519

Changes in Endowment & Non-Endowment Net Assets
for the Fiscal Year Ended June 30, 2009 (in thousands):

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment net assets, beginning of year	$ 1,370,714	$ 359,337	$ 779,468	$2,509,519
Investment return:				
Investment Income	30,812	3,139	63	34,014
Net appreciation/depreciation (realized)	51,765	27,618	25	79,408
Net appreciation/depreciation (unrealized)	(484,696)	(167,799)		(652,495)
Total investment return	(402,119)	(137,042)	88	(539,073)
Transfer of losses recovered on endowment funds	(28,665)	28,665		
Appropriation of endowment assets for expenditure (spending)	(83,185)	(27,513)		(110,698)
Contributions	756	1,815	16,001	18,572
Other changes and reclasses	(30,881)	13,136	3,728	(14,017)
Changes in Endowment net assets at the end of year	**826,620**	**238,398**	**799,285**	**1,864,303**
Non-endowment net assets, end of the year				
Operating	9,600	41,985		51,585
Non-Operating	66,395	441,989		508,384
Total non-endowment net assets, end of the year	**75,995**	**483,974**		**559,969**
NET ASSETS AT THE END OF THE YEAR	**$ 902,615**	**$ 722,372**	**$ 799,285**	**$2,424,272**

Changes in Endowment & Non-Endowment Net Assets
for the Fiscal Year Ended June 30, 2008 (in thousands):

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment net assets, beginning of year	$ 1,456,984	$ 334,927	$ 759,083	$2,550,994
Investment return:				
Investment Income	15,414	5,628	63	21,105
Net appreciation/depreciation (realized)	151,668	53,933		205,601
Net appreciation/depreciation (unrealized)	(176,998)	(11,377)		(188,375)
Total investment return	(9,916)	48,184	63	38,331
Transfer of losses recovered on endowment funds	912	(912)		
Appropriation of endowment assets for expenditure (spending)	(68,846)	(25,156)		(94,002)
Contributions	1,422	829	18,994	21,245
Other changes and reclasses	(9,842)	1,465	1,328	(7,049)
Changes in Endowment net assets at the end of year	**1,370,714**	**359,337**	**779,468**	**2,509,519**
Non-endowment net assets, end of the year				
Operating	15,115	45,512		60,627
Non-Operating	135,033	473,192		608,225
Total non-endowment net assets, end of the year	**150,148**	**518,704**		**668,852**
NET ASSETS AT THE END OF THE YEAR	**$1,520,862**	**$ 878,041**	**$ 779,468**	**$3,178,371**

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

	June 30, 2009	*June 30, 2008*
Permanently Restricted Net Assets:		
Art Acquisitions	$ 201,889	$ 188,983
Book Purchase	2,298	2,889
Capital Projects	5	4
Collections Conservation	1,792	5,042
Deaccession	1	1
Departmental Discretionary	5,560	7,087
Departmental Operating	12,312	12,041
Exhibitions	43,455	41,747
Fellowship/Travel Stipend	21,032	16,528
Gallery Maintenance	17,027	17,027
Interns	3,042	2,432
Operating	423,961	422,172
Public Programs	29,955	26,827
Publications	14,274	14,129
Reserve	4	
To Be Designated	22,678	22,559
Total endowment funds classified as permanently restricted net assets	**$ 799,285**	**$ 779,468**
Temporarily Restricted Net Assets:		
Art Acquisitions	$ 102,962	$ 110,446
Book Purchase	1,332	1,961
Capital Projects	(283)	4,135
Collections Conservation	4,575	5,291
Deaccession	15,230	16,252
Departmental Discretionary	593	2,324
Departmental Operating	5,564	6,919
Exhibitions	15,318	19,421
Fellowship/Travel Stipend	28,011	31,403
Gallery Maintenance	31,413	35,547
Interns	1,006	1,262
Operating	(2,883)	80,834
Public Programs	13,861	17,023
Publications	10,104	12,105
Reserve	(235)	
To Be Designated	11,830	14,414
Total endowment funds classified as temporarily restricted net assets	**$ 238,398**	**$ 359,337**
Unrestricted Net Assets:		
Art Acquisitions	$ 130,126	$ 130,705
Book Purchase	4,854	6,676
Capital Projects	31,619	42,313
Collections Conservation	(77)	1,769
Deaccession	(144)	2,396
Departmental Discretionary	18,531	23,485
Departmental Operating	(833)	2,982
Exhibitions	6,361	17,155
Fellowship/Travel Stipend	(508)	8,324
Gallery Maintenance	(583)	9,687
Interns	(40)	618
Operating	631,092	1,076,159
Public Programs	1,433	9,716
Publications	4,716	9,927
Reserve	(596)	21,637
To Be Designated	669	7,165
Total endowment funds classified as unrestricted net assets	**$ 826,620**	**$ 1,370,714**
Total endowment funds	**$1,864,303**	**$ 2,509,519**

As a result of unfavorable market fluctuations and the continued prudent use of income generated by donor-directed funds in support of mission-critical programs, the fair market value of assets associated with individual donor-directed funds has fallen below historic dollar value. The aggregate amounts by which fair value was below historic value was $7.3 million and $.1 million as of June 30, 2009 and 2008 respectively.

Q. Merchandising and Other Auxiliary Activities

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

	2009	*2008**
Operating revenue:		
Merchandising operations	$ 57,789	$ 68,909
Restaurant	20,770	21,477
Other	4,861	5,244
Total revenue	83,420	95,630
Operating costs and expenses:		
Merchandising operations	63,882	69,000
Restaurant	19,481	20,024
Other	4,667	4,993
Total costs and expenses	88,030	94,017
Net income (loss) from auxiliary activities	$ (4,610)	$ 1,613

Discontinued Merchandising Operations - The Merchandising division of the Museum received approval to discontinue operations in certain out-of-state satellite stores and selected shops located in the main building as part of an overall program of improving efficiency and profitability of the division. The resulting deficit of these activities during fiscal years 2009 and 2008 was $1.8 million and $2.2 million, respectively. A summary of the results of the discontinued activities of these stores and shops and the related costs of write-offs and discontinuance, which are included in the non-operating section of the Statement of Activities, is shown below (in thousands):

Revenue	$ 5,585	$ 10,200
Less operating costs and expenses	7,375	12,432
Loss from discontinued activities	(1,790)	(2,232)
Losses from disposals:		
Loss on write-off of undepreciated net assets	(2,105)	(2,118)
Other expenditures related to discontinued operations	(4,114)	(1,478)
Total loss from discontinued operations	$ (8,009)	$ (5,828)

R. Restructuring Charges

The Museum undertook a series of staff reduction initiatives in response to the unprecedented economic challenges it faced in 2009. The goal of these necessary, though difficult, actions was to position the Museum to align operating expenses with the significant decrease in income from the operating endowment. Reductions were achieved through a combination of voluntary retirements, involuntary personnel reductions, attrition, a hiring freeze, and the expiration of staff contracts. Voluntary retirement incentive packages were offered to Museum employees age 55 or older with at least 15 years of service.

Restructuring expenses of $20.2 million are recorded in the non operating section of the Statement of Activities to reflect severance and related charges resulting from the reduction initiatives. Merchandise operations accounted for $3.2 million of the expense, while the remaining $17.0 million of expense is attributed to union and non union staff throughout the Museum. Voluntary retirement packages were accepted by 96 employees, including 9 in Merchandise. There were 128 positions eliminated through involuntary reductions, including 67 in Merchandise.

Employee-related liabilities are expected to be utilized by the end of Fiscal Year 2010 as obligations are satisfied.

Balances outstanding at June 30, 2009 (in $ thousands) and included in accrued expense were:

	Severance and Related Charges
Balance July 1, 2008	$ 0
Charges	20,224
Cash and other costs	(3,341)
Balance June 30, 2009	$ 16,883

*Fiscal year 2008 has been reclassified to conform with current year presentation.

S. New Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (SFAS No. 65), which provides guidance on management's assessment of subsequent events and incorporates this guidance into accounting literature. The implementation of this standard did not have a material impact on our financial position and activities. The Museum has evaluated subsequent events through November 3, 2009, the date that our financial position and activities was available to be issued.