

REPORT OF INDEPENDENT AUDITORS

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

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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, 2010, 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 2009 financial statements; and in our report dated November 3, 2009, 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.

New York, New York October 15, 2010

	2010	2009
Assets:		
Cash (Notes A and N) Investment trades receivable Merchandise inventories, net (Note A) Accounts receivable and other assets (Note B) Contributions receivable (Notes C and N) Funds held in trust by others (Note H) Investments (Notes A, G, H, K and N) Fixed assets, net (Notes A and E)	\$ 2,799 628 12,422 18,837 97,441 49,089 2,362,404 429,114	\$ 1,919 2,232 12,166 16,008 119,901 46,683 2,264,895 411,398
TOTAL ASSETS	\$2,972,734	\$2,875,202
Liabilities:		
Investment trades payable. Accounts payable and accrued expenses (Note R). Accrued salaries and benefits Deferred income (Note A). Notes payable (Note J). Annuity and other split-interest obligations (Notes H and N). Asset retirement obligations (Note O). Pension and other accrued retirement obligations (Note I). Loans payable and other long-term liabilities (Notes K and N).	\$ 2,558 26,131 16,360 6,198 46,600 13,328 8,585 131,594 181,272	\$ 26,680 42,417 23,744 3,989 65,050 13,671 7,776 90,332 177,271
TOTAL LIABILITIES	432,626	450,930
NET ASSETS: Unrestricted (Notes A and P) Temporarily restricted (Notes A and P) Permanently restricted (Notes A and P)	966,209 767,268 806,631	902,615 722,372 799,285
TOTAL NET ASSETS	2,540,108	2,424,272
TOTAL LIABILITIES AND NET ASSETS	\$2,972,734	\$2,875,202

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010	Total 2009
<u>OPERATING</u>					
REVENUE AND SUPPORT:					
Admissions and membership (Note K)	\$ 54,351			\$ 54,351	\$ 51,659
Gifts and grants	19,022	\$ 14,198		33,220	32,592
Operating appropriations from the City of New York	24,855	12.002		24,855	27,705
Endowment support for current activities (Note G)	77,528	12,802		90,330	89,601
Merchandising and other auxiliary activities (Note Q) Other income	85,519 5,834			85,519 5,834	83,420 5,871
Net assets released from donor restrictions to fund),034),034),6/1
operating expenses	19,756	(19,756)			
TOTAL REVENUE AND SUPPORT	286,865	7,244		294,109	290,848
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EXPENSES:	(0.1/5			(0.1/5	70.070
Curatorial Education and libraries	68,165 13,422			68,165 13,422	79,978 15,697
Development and membership	14,081			14,081	14,787
Operations	84,366			84,366	85,897
General administration.	22,806			22,806	24,464
Merchandising and other auxiliary activities (Note Q)	85,016			85,016	88,030
Interest on debt	1,355			1,355	659
TOTAL EXPENSES	289,211			289,211	309,512
Transfers of designated non-operating funds	6,032			6,032	5,325
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	3,686	7,244		10,930	(13,339)
NON-OPERATING					
Museum-designated and donor-restricted gifts	12,858	37,363		50,221	43,112
Endowment gifts	712	127	\$ 3,902	4,741	18,572
Endowment support for current activities (Note G) Investment return in excess of (less than) current	9,841	15,343	Ψ 3,702	25,184	21,097
support (Note G)	104,356	46,315	60	150,731	(670,904)
Change in value of split-interest agreements	289	419	1,266	1,974	(3,017)
Depreciation and non-capitalized expenditures	(42,180)			(42,180)	(41,421)
Reclassifications, fees, and other	(10,124)	(39)	2,118	(8,045)	(8,123)
Net assets released from donor restrictions	39,865	(39,865)		-	
Change in net assets before collection items not capitalized	110 202	((,007	7.246	102.556	((5 (022)
and other adjustments	119,303	66,907	7,346	193,556	(654,023)
Purchases of art (Note D)	(32,139)			(32,139)	(38,924)
Proceeds from sales of art		146		146	600
Proceeds from insurance Net assets released from donor restrictions to fund		3,880		3,880	
acquisitions of art	26,037	(26,037)			
Additional retirement contribution (ARC)	(4,698)			(4,698)	(6,532)
Pension-related changes other than NPPC	(34,271)			(34,271)	(13,065)
Change in fair value of interest rate exchange agreements	(10 (20)			(10 (20)	(12.022)
and effect of interest rate swaps (Note K)	(10,638)			(10,638)	(13,922)
Change in net assets before loss from discontinued operations and restructuring costs	63,594	44,896	7,346	115,836	(725,866)
Loss from discontinued merchandising					(0,000)
operations (Note Q)					(8,009)
Restructuring costs (Note R)	63,594	44,896	7,346	115,836	(20,224) (754,099)
CHANGE IN NET ASSETS	902,615	722,372	7,346	2,424,272	3,178,371
NET ASSETS AT THE BEGINNING OF THE YEAR					
NET ASSETS AT THE END OF THE YEAR	\$966,209	\$767,268	\$806,631	\$2,540,108	\$2,424,272

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 115,836	\$(754,099)
Depreciation and amortization	45,699	43,342
Receipt of contributed securities	(8,886)	(4,704)
Contributions for capital expenditures	(18,753)	(30,129)
Contributions for long-term investment	(11,860)	(18,104)
Net realized and unrealized (gains)/losses.	(247,269)	569,434
Acquisitions and sales of art, net	28,113	38,171
Changes in assets and liabilities:	20,113	30,1/1
Investment trades receivable	1 604	(1.050)
	1,604	(1,058)
Merchandise inventories, net	(256)	515
Accounts receivable and other assets	(2,889)	1,937
Contributions receivable	22,460	33,062
Funds held in trust by others	(2,406)	3,538
Investment trades payable	(24,122)	24,113
Accounts payable and accrued expenses	(16,238)	3,600
Accrued salaries and benefits	(7,384)	774
Deferred income	2,209	23
Annuity and other split-interest obligations	(343)	1,016
Asset retirement obligations	809	(150)
Pension and other accrued retirement obligations	41,262	18,572
Loans payable and other long-term liabilities	6,186	10,110
Net cash used by operating activities	(76,228)	(60,037)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed assets, net	(63,355)	(60,595)
Proceeds from the sale of contributed securities.	6,364	4,704
Proceeds from sales of investments	1,055,665	693,505
Purchases of investments	(903,383)	(616,723)
Acquisitions of art	(32,187)	(33,633)
Proceeds from insurance and sales of art	4,026	600
Trocecus from histianice and saids of art		
Net cash provided by (used by) investing activities	67,130	(12,142)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for capital expenditures	18,753	30,129
Contributions for long-term investment	11,860	18,104
(Payment of) proceeds from notes payable	(18,450)	26,858
Proceeds from loans payable	265	,-,-
Payment of loans payable	(2,450)	(2,335)
Net cash provided by financing activities.	9,978	72,756
Net increase in cash.	880	577
Cash, beginning of the year	1,919	1,342
CASH, END OF THE YEAR	\$ 2,799	\$ 1,919
Supplemental Information:	¢ 5050	¢ (501
Cash paid in the year for interest	\$ 5,950	\$ 6,581

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 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; 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 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.

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.

The fair value of investments in equity funds, fixed income funds, hedge funds, private equity and real assets are determined based on the estimates 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 secutities 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. 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.

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 (less than) current support.

Cash Equivalents - 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.

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 \$4.9 million and \$6.0 million in fiscal years 2010 and 2009, respectively. Other advertising expenses incurred primarily in support of special exhibitions, the permanent collection, and concerts and lectures totaled \$3.0 million and \$3.2 million in fiscal years 2010 and 2009, 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 2010 and 2009 was \$6.2 million and \$6.6 million, respectively, of which \$4.5 million and \$3.8 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 2009, the source from which the summary information was derived.

New Accounting Pronouncements - As of July 1, 2008 the Museum adopted Fair Value Accounting 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, 2010. The Museum also adopted the pronouncement related to 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.

In June 2009, the Financial Accounting Standards Board ("FASB") established the FASB Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with generally accepted accounting principles. All guidance included in such Codification will be considered authoritative at that time, even guidance that comes from what is currently deemed to be a non-authoritative section of a standard. Recognition of the Codification in financial statements is applicable for interim and annual periods ending after September 15, 2009. The Museum adopted this guidance during 2010, and the adoption did not have a material impact on the Museum's consolidated financial statements.

New subsequent event guidance required the Museum to evaluate subsequent events to determine whether they provide additional evidence about conditions that existed of the date of the consolidated balance sheet, and to determine if those events require recognition or disclosure on the consolidated financial statements. The Museum has performed an evaluation of subsequent events through October 15, 2010, which is the date the consolidated financial statements were issued.

Effective for fiscal year ending June 30, 2010 the Museum adopted additional disclosures related to Fair Value Measurements and Disclosures, Investment in Certain Entities That Calculate Net Asset Value per Share. The guidance permits investors to use Net Asset Value (NAV) as a practical expedient for fair value where the investment companies follow the American Institute of Certified Public Accountants (AICPA) Guide in arriving at their reported NAV. The required disclosures are included in Note G of the consolidated financial statements.

The Museum also adopted *Disclosures about Derivative Instruments and Hedging Activities*. Under generally accepted accounting principles, the Museum provides additional disclosures about how and why derivatives are used and also tabular disclosures about balance sheet items, income statement items and cash flow items. The required disclosures are included in Note G and Note K of the consolidated financial statements.

Finally, the Museum adopted *Employers' Disclosures about Postretirement Benefit Plan Assets*. In accordance with this guidance, the Museum provides more detail about the fair value of each major category of pension plan assets as well as reflecting level 1, level 2 or level 3 categories. The required disclosures are included in Note I to the consolidated financial statements.

B. Accounts Receivable and Other Assets

Accounts receivable	e and other assets consist of (in thousands):			
		June 30, 2010	June 30, 2009	
	Accounts receivable, net of allowance of \$520 and \$335			
	for FY10 and FY09 respectively	\$10,824	\$ 4,637	
	Dividends and interest receivable	2,311	2,691	
	Prepaid expenses and other	5,702	8,680	
	Total	\$18,837	\$16,008	
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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 2010 and 2009. Pledges are expected to be realized as follows (in thousands):

	June 30, 2010	June 30, 2009
Less than one year	\$ 59,773	\$ 63,483
Between one and five years	41,822	60,894
Over five years	4,250	8,150
Total	105,845	132,527
Less:		
Adjustments and allowance for uncollectibility	(2,313)	(2,899)
Discount for market value	(6,091)	(9,727)
Net	\$ 97,441	\$119,901

Please refer to Footnote N for details related to Fair Value Measurement.

D. Acquisitions of Art

Acquisitions of art were funded from the following sources (in thousands):			
-	2010	2009	
Gifts of cash and securities	\$12,889	\$16,681	
For designated curatorial departments	4,816	3,128	
Undesignated as to curatorial department	7,994	11,091	
Proceeds from fine arts insurance and the sale of art	6,440	8,024	
Total	\$32,139	\$38,924	

E. FIXED ASSETS

Fixed assets consist of (in thousands):			Estimated Useful
	June 30, 2010	June 30, 2009	Lives in Years
Land	\$ 1,015	\$ 1,015	N/A
Buildings	36,303	35,991	20-40
Leasehold improvements-auxiliary activities	26,645	27,040	4-40
Leasehold improvements–Fifth Avenue building	813,324	753,413	5-30
Machinery and equipment	70,385	69,451	3-20
Total	947,672	886,910	
Less accumulated depreciation and amortization	(518,558)	_(475,512)	
Net.	\$429,114	\$411,398	

The above amounts include construction in progress of \$63.3 million and \$17.9 million at June 30, 2010 and 2009, respectively. Depreciation and amortization expense was \$45.5 million and \$43.3 million for fiscal years 2010 and 2009, respectively. In fiscal year 2010, \$2.6 million of fixed assets with associated accumulated depreciation of \$2.4 million were written off.

In fiscal year 2010, interest expense of \$0.3 million and interest income of \$0.1 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 \$ 75.5 million of property contributed and paid for by the City of New York since 1990, of which \$13.2 million and \$12.9 million was received during the fiscal years ended June 30, 2010 and 2009, respectively.

F. Capital Expenditures

The principal capital projects in progress during fiscal year 2010 were as follows (in thousands):

	Prior Years' Expenditures	2010 Expenditures	Total Expenditures
Greek and Roman, Wing K, and Uris Center for Education renovation	\$254,802	\$ 183	\$254,985
American Wing renovation	73,180	27,108	100,288
19th-Century gallery expansion and Arts of Africa, Oceania,			
and the Americas renovation	28,429	8	28,437
Fairchild Paintings Conservation Center refurbishment	7,479	86	7,565
Fire detection system	6,433	3,373	9,806
Galleries for the Arts of the Arab Lands, Turkey, Iran, Central Asia			
and Later South Asia	4,217	18,106	22,323
Front steps, doors and kiosks	3,887	936	4,823
Medieval galleries	2,814	202	3,016
Lehman wing renovation	1,412	2,454	3,866
Cooling tower replacemenent and renovation		2,727	2,727
The Cloisters (1)		312	
Projects related to auxiliary activities (1)		1,651	
Other capital projects (1)		9,151	
Total (2)		66,297	
Less cost of capitalized projects.		(63,355)	
Non-capitalized expenditures and maintenance expense		\$ 2,942	

⁽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.

G. Investments

The total cost of the investment portfolio was \$2,202.7 million and \$2,303.1 million as of June 30, 2010 and 2009, respectively. At June 30, 2010, the Museum had approximately \$452.7 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, 2010 (in thousands):

	Gross Derivative Assets		Gross Derivative Lie	abilities
Derivatives Designated as Trading Instruments	Notional/Contractual Amount	Unrealized Gain/Loss	Notional/Contractual Amount	Unrealized Gain/Loss
Futures Contracts	27	\$26	(92)	\$(151)
Foreign Currency Contracts	7,943	28	(7,943)	(212)
Total Derivatives Designated as Trading Instruments				47. 7.3
on the Statement of Financial Position		<u>\$54</u>		\$(363)

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 (less than) current support on the Statement of Activities. The level of activity at June 30, 2010 is representative of the Museum's use of futures and forward foreign currency contracts throughout the year.

⁽²⁾ The Museum has outstanding purchase commitments of approximately \$26 million related to construction projects at June 30, 2010.

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 2010 and fiscal year 2009. The value used to calculate the spending rate for fiscal year 2010 was the average of the twenty quarters ended December 31, 2008.

Investment income is net of unrelated business income tax refunds of \$5.5 million for fiscal year 2010 and unrelated business income taxes of \$3.0 million for fiscal year 2009.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2009 Total
Investment income, net of certain management and					
custodian fees, taxes, and other expenses	\$ 14,028	\$ 4,904	\$45	\$ 18,977	\$ 9,228
Net realized gains	36,740	12,561	15	49,316	83,058
Changes in unrealized appreciation	127,598	70,354		197,952	(652,492)
Total return on investments	178,366	87,819	60	266,245	(560,206)
Transfer of losses recovered on endowment funds	13,359	(13,359)			
Investment return allocated for current activities	(87,369)	(28,145)		(115,514)	(110,698)
Investment return (less than) in excess of current					
support	\$104,356	\$46,315	\$60	\$150,731	\$(670,904)

Please refer to Footnote 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 \$2.4 million in fiscal year 2010, and decreased by \$3.5 million in fiscal year 2009. Present value discount rates applied to these funds ranged from 2.8% to 6.38% in fiscal years 2010 and 2009.

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, 2010	June 30, 2009
Assets:		
Charitable remainder and other trust assets	\$49,089	\$46,683
(included with investments in the Balance Sheet)	19,028	18,686
Total	\$68,117	<u>\$65,369</u>
Liabilities:		
Trust invested on behalf of others	\$ 4,391	\$ 4,631
Gift annuities and pooled income funds	8,937	9,040
Total	\$13,328	\$13,671

Please refer to Footnote 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 \$0.8 million and \$0.9 million for fiscal years 2010 and 2009, 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 \$2.8 million and \$2.6 million, respectively, as of June 30, 2010, and \$3.3 million and \$3.1 million, respectively, as of June 30, 2009.

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 2010 and 2009 was \$8.6 million and \$10.4 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 \$4.7 million and \$6.5 million in fiscal years 2010 and 2009, respectively.

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 each of fiscal years 2010 and 2009 was \$0.2 million.

Postretirement benefits - 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 \$1.0 million and \$0.7 million in fiscal years 2010 and 2009, 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 2010 and 2009 of \$1.3 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 2010 and 2009 of \$1.7 million and \$0.9 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		Postretirem	ent Benefits
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Change in Benefit obligation:				
Benefit obligation at beginning of year	\$97,728	\$91,798	\$59,681	\$55,283
Service cost	3,081	2,840	2,600	2,582
Interest cost	6,573	6,115	3,890	3,772
Employee contributions	832	870		
Amendments				(2,341)
Actuarial loss	27,247	878	12,964	3,169
Benefits paid	(3,666)	(3,423)	(4,067)	(2,863)
Medicare Part D subsidy			94	79
Settlements	(3,891)	(1,350)		
Benefit obligation at end of year	127,904	97,728	75,162	_59,681
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	67,077	75,321		
Actual gain (loss) on plan assets	6,797	(6,346)		
Employer contributions	4,323	2,005	4,013	2,812
Employee contributions	832	870		
Benefits paid	(3,666)	(3,423)	(4,067)	(2,863)
Medicare Part D subsidy			54	51
Settlements	(3,891)	(1,350)		
Fair value of plan assets at end of year	71,472	67,077		
Funded status (liability)	\$(56,432)	<u>\$(30,651)</u>	<u>\$(75,162)</u>	<u>\$(59,681)</u>
The amounts recognized in the Balance Sheet as of Ju	ne 30 are (in thou	ısands):		
	2010	2009	2010	2009
Actuarial losses	\$(52,003)	\$(29,725)	\$(24,076)	\$(11,587)
Prior service (costs) credits	(218)	(411)	10,180	11,701
Unrestricted net assets not yet recognized in net				
periodic benefit cost	(52,221)	(30,136)	(13,896)	114
Cumulative employer contributions (less than)	(=)	(= - / /	(//	
net periodic benefit cost	(4,211)	(515)	(61,266)	(59,795)
Unfunded benefit obligations (liability)	\$(56,432)	<u>\$(30,651)</u>	<u>\$(75,162)</u>	\$(59,681)

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, 2011 (in thousands):

	Pension Benefits	Postretirement Benefits
Actuarial losses	\$3,173 	\$1,116 (1,522)
Total	<u>\$3,367</u>	\$ (406)

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

The following table sets forth the components of the ne	Pension and p			•	nent Benefits
	2010	2009		2010	2009
Service cost	\$ 3,081	\$ 2,840	-	\$2,600	\$2,582
Interest cost	6,573	6,115		3,890	3,771
Expected return on plan assets	(4,859)	(5,384)			
Amortization of prior service cost	194	339		(1,522)	(1,381)
Amortization of accumulated loss	1,877	775		515	517
Settlement loss	1,154	218	-		
Net periodic benefit cost	\$ 8,020	\$ 4,903	=	\$5,483	<u>\$5,489</u>
WEIGHTED-AVERAGE ASSUMPTIONS USED TO					
DETERMINE BENEFIT OBLIGATIONS AS OF JUNE 30:	- (·		- (
Discount rate	5.45%	6.76%		5.43%	6.80%
Rate of compensation increase	3.93%	3.91%			
WEIGHTED-AVERAGE ASSUMPTIONS USED TO					
DETERMINE NET COST AS OF JUNE 30:	((00/	7.020/		(000/	7.020/
Discount rate	6.69% 7.34%	7.02%		6.80%	7.03%
Expected return on plan assets	7.54% 3.91%	7.35% 3.90%			
Nate of compensation increase	3.71 /0	3.7070			
Additional information (in thousands):	¢ (70(¢(C24C)			
Actual return on plan assets	\$ 6,796	\$ (6,346)			
benefit pension plans	\$105,775	\$82,168			
Additional information related to the defined benefit pe	ension plans as o	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	\$105,775	\$82,168			
Aggregate fair value of plan assets	\$ 71,472	\$67,077			
Number of pension plans with projected	3	2			
benefit obligations in excess of plan assets Aggregate projected benefit obligation	\$127,904	3 \$97,728			
Aggregate fair value of plan assets	\$ 71,472	\$67,077			
TI - 6-11		(: ₊			
The following table presents changes recognized in unre			•	D	, D. C.
	Pension	Benefits		Postretiren	nent Benefits
Changes in plan assets and benefit obligations					
recognized in unrestricted net assets:					
New prior service cost	¢25	210		¢ 1	2.00/
New loss arising during the year	\$25	,310		\$1	3,004
benefit cost:					
Amortization or curtailment recognition of					
prior service credit (cost)	(194)			1,522
Amortization or settlement recognition of					
net loss		032)			(516)
Total recognized in unrestricted net assets		,084			4,010
Net periodic benefit cost	8	,020			5,483
Total recognized in net periodic benefit cost and unrestricted net assets	\$30	10/		¢ 1	0 403
unrestricted net assets	φ30	,104		<u>\$ 1</u>	9,493
	20	010		2(009
	Union	Non-Union		Union	Non-Union
Assumed medical cost trend rates at June 30:					
Health care cost trend rate assumed for next year	7.30%	7.30%		7.50%	7.50%
Rate that the cost trend gradually declines to	4.50%	4.50%		4.50%	4.50%
Year that the final trend rate is reached	2028	2028		2028	2028
771 CH + 1 1 2 7 C			D	70	
The following data show the effect of a one percentage			Percentage	Percent	0
rate increase (decrease) for fiscal year 2010 (in thous			Point Increase	Point (De	
Effect on total of service and interest cost			\$ 814	\$ (66	*
			8,999	(7,33	

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, 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, and the assets of the defined benefit plan for non-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.

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, 2010 and June 30, 2009 by approximately \$1.5 million and \$1.3 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			Expected Net	
JUNE 30 (in thousands): Employer Contributions:	Pension Benefits	Postretirement Benefits	Postretirement Benefit Payments	Expected Medicare Subsidy
2009 (actual)	\$ 2,005	\$ 2,812	N/A	N/A
2010 (actual)	4,323	4,012	N/A	N/A
2011 (expected)	4,762	3,370	N/A	N/A
PROJECTED BENEFIT PAYMENTS FOR THE FISCAL YEAR ENDING JUNE 30 (in thousands):				
2011	7,221	3,370	3,263	107
2012	4,846	3,491	3,372	119
2013	5,135	3,722	3,593	129
2014	6,304	3,929	3,788	141
2015	6,028	4,261	4,105	156
2016–2020	37,776	24,852	23,769	1,083

The fair value of the pension plan assets is disclosed in the table below based on fair market values and "levels" at June 30, 2010. 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, 2010				
	Level 1 Quoted Prices	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total	
Investments:					
Equities					
Mutual funds	\$70,027			\$70,027	
Collective Trusts	1,445			1,445	
Total	\$71,472			\$71,472	

J. Notes Payable

At June 30, 2010 and 2009, the Museum had four credit facilities with two commercial banks and five credit facilities with three commercial banks, respectively. Under one facility, which is the largest credit facility, a \$100 million revolving line of credit, the Museum had borrowed \$46.6 million and \$65.1 million as of June 30, 2010 and 2009, 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. The total interest expense on bank borrowings amounted to \$0.3 million and \$1.1 million in fiscal years 2010 and 2009, respectively. As of June 30, 2010, the interest rate on the outstanding debt was .48%. 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, 2010 and 2009.

In addition to the revolving line of credit, the Museum has three lines of credit totaling \$150 million in 2010 and four lines of credit totaling \$160 million in 2009 under which no borrowings were outstanding at June 30, 2010 and 2009. 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 and \$2.5 million at June 30, 2010 and 2009 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, 2010 and 2009.

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, 2010 and 2009, \$2.6 million and \$2.5 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.

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. 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 which was renewed for two years in April 2010. 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. A commitment fee with rates ranging from .50% to .60% was associated with this credit facility. Fees of \$0.9 million and \$0.2 million related to FY10 and FY09 were incurred. 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, 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, 2010	June 30, 2009
Series 1993A Bonds due serially to July 1, 2015		\$ 19,890
Series 1993B Bonds due by July 1, 2020		6,780 130,000
Total loans payable		156,670
Fair value of interest rate exchange agreement on Series 1993A Bonds Fair value of forward starting interest rate exchange agreement on	1,717	1,792
Series 2006A Bonds	25,070_	18,809
Total interest rate exchange agreements	26,787_	20,601
Total program related investment loan	265_	
Total liability	\$181,272	\$177,271
Interest rates and interest expense related to the loans and swaps are as follows:		
Interest rates on loans payable:		
Series 1993A&B Bonds		.17%
Series 2006A-1&A-2 Bonds	.24%	.17%
	2010	2009
Interest expense on loans payable (in thousands):		
Series 1993A Bonds	,	\$ 993
Series 1993B Bonds		75
Series 2006A Bonds	3,936	4,436
Interest expense included above related to the swaps (in thousands):		
Series 1993A Bonds	\$ 801	\$ 772
Series 2006A Bonds	3,650	3,040

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*	Iotal Estimated Debt Services
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
2015	3,115	5,479	8,594
Thereafter	140,045	108,618	248,663
Total	\$154,220	\$137,447	\$291,667

^{*}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 Fair Value Measurement.

L. Functional Classification of Expenses

Expenses by functional classification for fiscal years 2010 and 2009, which are described in Note A, are shown below (in thousands):

	2010	2009
Total operating expenses from the Statement of Activities	\$289,211	\$309,512
from the non-operating section of the Statement of Activities	42,180	41,421
Management and custodian fees, taxes, and other expenses included in net investment income	10,241	20,228
Discontinued merchandising operations (Note Q)	007	7,375
Special events included in the revenue section of the Statement of Activities	907	520
Total	\$342,539	\$379,056
Program expenses:		
Curatorial activities, conservation, and exhibition	\$169,499	\$180,782
Education	14,240	15,870
Libraries	5,660	6,390
Public services and other	22,612	22,499
Merchandising operations	61,438	63,882
Discontinued merchandising operations		7,375
Restaurant, parking garage, auditorium, and other	23,578	24,148
Total program expenses	297,027	320,946
Supporting services:		
Management and general	34,049	45,962
Fundraising	11,463	12,148
Total supporting services	45,512	58,110
Total	\$342,539	\$379,056

M. Lease Commitments

At June 30, 2010, 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 \$4.3 million and \$6.1 million in fiscal years 2010 and 2009, 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 2011 and later. Rent expense relating to these operating leases amounted to \$0.6 million and \$0.7 million in fiscal years 2010 and 2009, respectively.

Minimum rental commitments consist of the following at June 30, 2010 (in thousands):

Year Ending June 30	Total
2011	\$ 3,511
2012	3,284
2013	3,291
2014	2,314
2015	2,153
Thereafter	3,409
Total	\$17,962

N. Fair Value of Financial Instruments

Fair Value Accounting establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair Value is defined 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.

Fair Value Accounting 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 assumptions of the Museum's investment managers, which are reviewed by the Museum. 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. 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 management'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 investment 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 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.

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 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 as of June 30, 2010 in thousands of dollars.

	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	\$238,189			\$ 238,189		
Fixed Income						
Government bonds*	206,982			206,982		
Corporate debt	127,307		\$ 657	127,964		
Mortgage backed	3,090			3,090		
Other	1,853		994	2,847		
Subtotal	339,232		1,651	340,883		
Short-term Investments	69,661			69,661		
Fixed income funds		\$ 71,572		71,572		
Equity funds		232,386	89,844	322,230		
Hedge funds		86,289	463,362	549,651		
Private equity			546,967	546,967		
Real assets		_	223,251	223,251		
Total Investments:	\$647,082	\$390,247	\$1,325,075	\$ 2,362,404		
Assets	\$647,082	\$390,247	\$1,374,164	\$ 2,411,493		
Liabilities:						
Annuity and Other Split Interest						
Obligations			\$ 13,328	\$ 13,328		
Liabilities			\$ 13,328	\$ 13,328		

^{*} The government bonds balance includes Treasury notes with a fair value of approximately \$0.1 million, which are held as collateral with a counter party for futures contracts.

The following table presents the financial instruments as stated on the Balance Sheet as of June 30, 2009 in thousands of dollars. Certain investment categories in the 2009 fair value table below have been moved to reflect the categories presented in the 2010 fair value table.

	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	2009 Total		
Funds Held in Trust by the						
Museum and Others			\$ 46,683	\$ 46,683		
Investments:						
Equities	\$238,872			\$ 238,872		
Fixed Income						
Government bonds	192,988			192,988		
Corporate debt	94,580			94,580		
Mortgage backed	4,794			4,794		
Other	5,798			5,798		
Subtotal	298,160			298,160		
Short-term Investments	130,971			130,971		
Fixed income funds		\$ 47,928		47,928		
Equity funds	1,418	237,617	\$ 93,015	332,050		
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 Investment assets at Level 3 for the year ended June 30, 2010 in thousands of dollars:

	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:						
Corporate debt			\$ 517	\$ 140	\$ 657	\$ (21)
Other			994		994	1,019
Equity funds	\$ 93,015	\$ 16,829		(20,000)	89,844	10,687
Hedge funds	468,165	38,723	33,549	(77,075)	463,362	33,369
Private equity	449,191	93,436		4,340	546,967	56,976
Real assets	192,249	(13,521)		44,523	223,251	(16,405)
Total Investments	\$1,202,620	\$135,467	\$35,060	\$(48,072)	\$1,325,075	\$85,625

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 financial instruments held by the Museum at June 30, 2010.

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 18 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 Funds Held in Trust by the Museum and Others for the year ended June 30, 2010 in thousands of dollars:

	Changes in			
	Ending Balance	Discounts and	Ending Balance	
	June 30, 2009	Allowances	June 30, 2010	
Funds Held in Trust by the Museum and Others	\$46,683	\$2,406	\$49,089	

The following table summarizes the changes in the fair value of Annuity and Other Split Interest Agreements for the year ended June 30, 2010 in thousands of dollars:

	Changes in	Realized and	
Ending Balance	Remainder	Unrealized	Ending Balance
June 30, 2009	Value	Gains/(Losses)	June 30, 2010
\$13,671	\$(415)	\$72	\$13,328

The following table lists investments in investment companies (or similar entities) by major investment category:

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
Investments: Equities	\$ 238,189			Daily	
Fixed Income Government bonds Corporate debt Mortgage backed Other	206,982 127,964 3,090 2,847 340,883			Daily Daily Daily Daily	
Short-term investments	69,661			Daily	
Fixed Income Funds	71,572			Monthly (10 days)	
Equity Funds	322,230			Monthly from 5 days to 30 days	3 lock-ups, including 1 with a side-pocket
Hedge Funds	549,651			Monthly (30 days); Quarterly (14-90 days); Annually (90 days)	5 funds undergoing liquidation; 2 with lock-ups, including 1 with a side-pocket; 2 with side-pockets
Private Equity	546,967 223,251	1 to 10 years 1 to 10 years	\$214,717 \$237,990		
Total Investments:	\$2,362,404				

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 2010 and 2009, the Museum made payments of \$56 thousand and \$0.1 million, respectively, 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. For fiscal years 2010 and 2009, these noncash charges amounted to \$0.8 million and \$0.1 million respectively and are included in the non-operating section of the Statement of Activities. As of June 30, 2010 and 2009, \$8.6 million and \$7.8 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, 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 adopted 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. On September 17, 2010, the State of New York enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which eliminates the preservation of historic dollar value of donor-restricted endowment funds and allows the Museum to spend from the endowment funds when they drop below the original dollar value of the gift. The Museum is currently evaluating the impact, if any, the legislation will have on its Financial Statements.

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, 2010 (in thousands)

Endowment Net Asset Composition by Type of Fund as of June 30, 2010	(III tilousalius)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds and quasi-endowment funds with				
donor-designated use	\$370,178	\$256,029	\$806,631	\$1,432,838
Quasi-endowment funds	531,418			531,418
Quasi-endowment funds with restrictions		30,000		30,000
Total funds	\$901,596	\$286,029	\$806,631	\$1,994,256
Endowment Net Asset Composition by Type of Fund as of June 30, 2009	(in thousands)	T	D /	
	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
for the Fiscal Year Ended June 30, 2010 (in thousands):	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$826,620	\$238,398	\$799,285	\$1,864,303
Investment return:	¢020,020	¢230,370	4777,207	ψ1,001,000
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			3,902	(115,514) 4,741
Contributions Other changes and reclasses	(87,369)	(28,145)	3,902 3,384	
	(87,369) 712	(28,145) 127		4,741
Other changes and reclasses Total endowment and quasi-endowment net assets at the end of year	(87,369) 712 (29,976)	(28,145) 127 1,287	3,384	4,741 (25,305)
Other changes and reclasses Total endowment and quasi-endowment net assets at the end of year Non-endowment net assets, end of the year	(87,369) 712 (29,976)	(28,145) 127 1,287	3,384	4,741 (25,305)
Other changes and reclasses Total endowment and quasi-endowment net assets at the end of year	(87,369) 712 (29,976) 901,596	(28,145) 127 1,287 286,029	3,384	4,741 (25,305) 1,994,256
Other changes and reclasses Total endowment and quasi-endowment net assets at the end of year Non-endowment net assets, end of the year Operating	(87,369) 712 (29,976) 901,596	(28,145) 127 1,287 286,029 50,198	3,384	4,741 (25,305) 1,994,256

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)
Total endowment and quasi-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

	June 30, 2010	June 30, 2009
Permanently Restricted Net Assets:		
Art Acquisitions.	\$ 203,746	\$ 201,889
Book Purchase	2,419	2,298
Capital Projects	4	5
Collections Conservation	1,792	1,792
Deaccession	1	1
Departmental Discretionary	5,615	5,560
Departmental Operating	12,633	12,312
Exhibitions	39,045	43,455
Fellowship/Travel Stipend	22,149	21,032
Gallery Maintenance	19,635	17,027
Interns	3,062	3,042
Operating	428,801	423,961
Public Programs	30,203	29,955
Publications	14,296	14,274
Reserve	22 226	22 (79
To Be Designated	23,226	22,678
Total endowment funds classified as permanently restricted net assets	\$ 806,631	\$ 799,285
Temporarily Restricted Net Assets:		
Art Acquisitions	\$ 100,053	\$ 102,962
Book Purchase	1,592	1,332
Capital Projects	1,713	(283)
Collections Conservation	4,616	4,575
Deaccession	15,308	15,230
Departmental Discretionary	1,351	593
Departmental Operating	5,418	5,564
Exhibitions	18,180	15,318
Fellowship/Travel Stipend	28,769	28,011
Gallery Maintenance	31,853	31,413
Interns	1,151	1,006
Operating	36,169	(2,883)
Public Programs	14,428	13,861
Publications	10,528	10,104
Reserve	2,292	(235)
To Be Designated	12,608	11,830
Total endowment funds classified as temporarily restricted net assets	\$ 286,029	\$ 238,398
Unrestricted Net Assets:		
Art Acquisitions	\$ 175,083	\$ 130,126
Book Purchase	5,247	4,854
Capital Projects	35,364	31,619
Collections Conservation	274	(77)
Deaccession	512	(144)
Departmental Discretionary	19,244	18,531
Departmental Operating	358	(833)
Exhibitions	9,262	6,361
Fellowship/Travel Stipend	2,116	(508)
Gallery Maintenance	2,205	(583)
Interns.	154	(40)
Operating	636,190	631,092
Public Programs.	3,634 5,086	1,433
Publications.	5,986 3.546	4,716
Reserve	3,546 2,421	(596) 669
Total endowment funds classified as unrestricted net assets	\$ 901,596	\$ 826,620
Total endowment and quasi-endowment funds	\$1,994,256	\$1,864,303
Total endowment and quasi-endowment funds	Ψ1,774,470	φ1,004,003

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 \$1.9 million and 7.3 million as of June 30, 2010 and 2009 respectively.

Q. Merchandising and Other Auxiliary Activities

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

	2010	2009
Operating revenue:		
Merchandising operations	\$59,913	\$57,789
Restaurant	21,011	20,770
Other	4,595	4,861
Total revenue	85,519	83,420
Operating costs and expenses:		
Merchandising operations	61,438	63,882
Restaurant	19,505	19,481
Other	4,073	4,667
Total costs and expenses	85,016	88,030
Net income (loss) from auxiliary activities	\$ 503	\$ (4,610)

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 year 2009 was \$1.8 million. 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 7,375
Loss from discontinued activities	(1,790)
Losses from disposals: Loss on write-off of undepreciated net assets	 (2,105) (4,114)
Total loss from discontinued operations	\$ \$(8,009)_

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 \$2.8 million and \$20.2 million in fiscal years 2010 and 2009, respectively, are recorded in the non operating section of the Statement of Activities to reflect severance and related charges resulting from the reduction initiatives. In 2009 Merchandise operations accounted for \$3.6 million of the expense, while the remaining \$19.4 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. In 2010 the additional \$2.8 million was mostly attributable to union and non-union staff throughout the Museum and included 7 additional people.

Employee-related liabilities are expected to be utilized by the end of Fiscal Year 2011 as obligations are satisfied.

Balances outstanding at June 30, 2010 (in thousands) and included in accrued expense were:

	Severance and Related Charges
Balance July 1, 2009	
Cash and other costs.	(18,837)
Balance June 30, 2010	\$ 833