



INDEPENDENT AUDITOR'S REPORT

To Board of Trustees of The Metropolitan Museum of Art:

We have audited the accompanying financial statements of The Metropolitan Museum of Art ("the Museum"), which comprise the balance sheet as of June 30, 2013 and 2012 and the related statements of activities and changes in net assets for the year ended June 30, 2013 and the related statements of cash flows for the years then ended June 30, 2013 and 2012.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Metropolitan Museum of Art at June 30, 2013 and 2012, and the changes in its net assets for the year ended June 30, 2013 and its cash flows for the years ended June 30, 2013 and 2012 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited The Metropolitan Museum of Art's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 6, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

New York, New York
November 7, 2013

Balance Sheets

June 30, 2013, with comparative totals as of June 30, 2012 (in thousands)

	<u>2013</u>	<u>2012</u>
ASSETS:		
Cash (Note A)	\$ 1,994	\$ 2,307
Investment trades receivable	12,755	2,574
Merchandise inventories, net (Note A)	14,761	14,889
Accounts receivable and other assets (Note B)	22,220	22,174
Contributions receivable (Notes C and N)	110,922	93,674
Split interest arrangements (Notes H and N)	71,757	65,618
Investments (Notes A, G, H, K and N)	2,790,534	2,578,907
Fixed assets, net (Notes A, E and F)	<u>446,951</u>	<u>422,647</u>
TOTAL ASSETS	<u><u>\$3,471,894</u></u>	<u><u>\$3,202,790</u></u>
LIABILITIES:		
Investment trades payable	\$ 7,120	\$ 883
Accounts payable and accrued expenses	49,213	31,488
Accrued salaries and benefits	24,050	21,657
Deferred income (Note A)	5,820	7,558
Notes payable (Note J)	40,030	35,886
Annuity and other split-interest obligations (Notes H and N)	20,478	20,849
Asset retirement obligations (Note O)	8,667	7,587
Pension and other accrued retirement obligations (Note I)	138,757	169,767
Loans payable and other long-term liabilities (Notes G, K and N)	<u>174,311</u>	<u>194,081</u>
TOTAL LIABILITIES	<u>468,446</u>	<u>489,756</u>
NET ASSETS:		
Unrestricted (Notes A and P)	823,134	699,986
Temporarily restricted (Notes A and P)	1,324,438	1,181,482
Permanently restricted (Notes A and P)	<u>855,876</u>	<u>831,566</u>
TOTAL NET ASSETS	<u>3,003,448</u>	<u>2,713,034</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$3,471,894</u></u>	<u><u>\$3,202,790</u></u>

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

Statements of Activities

for the year ended June 30, 2013, with summarized financial information for the year ended 2012 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Total 2012
OPERATING					
REVENUE AND SUPPORT:					
Admissions and membership (Note K)	\$ 67,650	\$	\$	\$ 67,650	\$ 64,805
Gifts and grants	20,278	17,261		37,539	29,454
Operating appropriations from the City of New York (Note A)	24,436			24,436	24,961
Endowment support for current activities (Note G)	82,366	14,970		97,336	92,047
Merchandising and other auxiliary activities (Note Q)	94,767			94,767	98,139
Other income	5,123			5,123	4,758
Net assets released from donor restrictions to fund operating expenses	31,817	(31,817)			
TOTAL REVENUE AND SUPPORT	326,437	414		326,851	314,164
EXPENSES:					
Curatorial	90,189			90,189	86,975
Education and libraries	13,099			13,099	13,417
Development and membership	19,291			19,291	17,110
Operations	97,800			97,800	91,530
General administration	31,447			31,447	28,986
Merchandising and other auxiliary activities (Note Q)	91,259			91,259	93,065
Interest on debt	782			782	813
TOTAL EXPENSES	343,867			343,867	331,896
Transfers of designated non-operating funds	13,024			13,024	14,695
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(4,406)	414		(3,992)	(3,037)
NON-OPERATING					
Museum-designated and donor-restricted gifts	23,462	146,061		169,523	67,007
Endowment gifts (includes quasi-endowment)	3,463	438	24,132	28,033	24,913
Endowment support for current activities (Note G)	7,636	17,120		24,756	28,775
Investment return in excess of (less than) current support (Note G)	91,126	88,514	32	179,672	(123,081)
Change in value of split-interest agreements	(330)	975	1,400	2,045	(7,460)
Depreciation and non-capitalized expenditures	(46,892)			(46,892)	(47,107)
Reclassifications and other	(15,055)	4,491	(1,254)	(11,818)	(15,902)
Net assets released from donor restrictions	37,832	(37,832)			
Change in net assets before collection items not capitalized and other adjustments	96,836	220,181	24,310	341,327	(75,892)
Purchases of art (Note D)	(103,197)			(103,197)	(38,854)
Proceeds from sales of art		5,420		5,420	378
Net assets released from donor restrictions to fund acquisitions of art	82,645	(82,645)			
Additional retirement contribution (ARC)	(3,927)			(3,927)	(4,273)
Pension-related changes other than NPPC	37,957			37,957	(47,588)
Change in fair value of interest rate exchange agreements and effect of interest rate swaps (Notes G, K, and N)	12,834			12,834	(27,528)
CHANGE IN NET ASSETS	123,148	142,956	24,310	290,414	(193,757)
NET ASSETS AT THE BEGINNING OF THE YEAR	699,986	1,181,482	831,566	2,713,034	2,906,791
NET ASSETS AT THE END OF THE YEAR	\$ 823,134	\$ 1,324,438	\$ 855,876	\$ 3,003,448	\$ 2,713,034

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

Statements of Cash Flows

for the year ended June 30, 2013, with comparative totals for 2012 (in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 290,414	\$ (193,757)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	47,181	46,881
Loss on disposal of fixed assets	1,057	811
Receipt of contributed securities and other assets	(36,747)	(5,371)
Contributions for capital expenditures	(51,094)	(10,371)
Contributions for long-term investment	(25,395)	(28,866)
Net realized and unrealized (gains) losses	(268,582)	19,450
Acquisitions and sales of art, net	97,777	38,476
Changes in assets and liabilities:		
Investment trades receivable		(59)
Merchandise inventories, net	128	(413)
Accounts receivable and other assets	(107)	380
Contributions receivable	(17,248)	14,160
Split interest arrangements	(6,138)	3,200
Investment trades payable		832
Accounts payable and accrued expenses	2,082	(947)
Accrued salaries and benefits	2,393	2,566
Deferred income	(1,739)	1,941
Annuity and other split-interest obligations	(371)	4,615
Asset retirement obligations	1,080	316
Pension and other accrued retirement obligations	(31,011)	50,151
Loans payable and other long-term liabilities	(16,940)	23,290
Net cash used by operating activities	(13,260)	(32,715)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed assets	(68,823)	(41,830)
Proceeds from the sale of contributed securities	36,929	5,367
Proceeds from sales of investments	810,125	676,007
Purchases of investments	(757,295)	(594,821)
Acquisitions of art	(91,212)	(39,209)
Proceeds from sales of art	5,420	378
Net cash (used by) provided by investing activities	(64,856)	5,892
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for capital expenditures	51,094	10,371
Contributions for long-term investment	25,395	28,866
Proceeds (payment) of notes payable, net	4,144	(9,444)
Payment of loans payable	(2,830)	(2,695)
Net cash provided by financing activities	77,803	27,098
Net (decrease) increase in cash	(313)	275
Cash, beginning of the year	2,307	2,032
CASH, END OF THE YEAR	\$ 1,994	\$ 2,307
Supplemental Information:		
Cash paid in the year for interest	\$ 5,228	\$ 5,422
Non-cash investing activity:		
Fixed asset additions included in accounts payable and accrued expenses	\$ 3,659	\$ 1,409
Acquisition of art included in accounts payable and accrued expenses	\$ 11,985	\$ (355)

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- Permanently restricted net assets have donor-imposed restrictions that stipulate that the corpus of the gifts be maintained in perpetuity but permit the Museum to expend net income and gains earned on contributed assets for either specified or unspecified purposes (also, see Note P).
- Temporarily restricted net assets carry donor-imposed restrictions on the expenditure of the contributed assets. Temporary restrictions may expire with the passage of time, as a result of actions taken by the Museum that fulfill donors' restrictions, or as a result of expenditures incurred that could have been charged to temporarily restricted assets. When temporarily restricted net assets are released from restrictions, they are transferred to unrestricted net assets and shown as "Net assets released from donor restrictions" in the Statement of Activities. Transfers from temporarily restricted to unrestricted net assets occur even if the contributions are received and spent within the same year. In addition, earnings on certain donor-restricted endowment funds are classified as temporarily restricted, pursuant to the New York Prudent Management of Institutional Funds Act (NYPMIFA) until appropriated for expenditure by the Board of Trustees (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 both restricted net assets and unrestricted net assets designated for long-term investment (the donor-restricted and quasi-endowment) according to the Museum's spending policy, which is detailed in Note G. The measure of operations excludes endowment support for non-operating and restricted operating activities; investment return in excess of (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 nearly two million works of art from ancient, medieval, and modern times, and from all areas of the world. They offer a survey of considerable breadth of art from the ancient civilizations of Asia, Africa, South America, the Pacific Islands, Egypt, the Near East, and Greece and Rome to the present time. The Museum's collections include European paintings, medieval art and architecture, arms and armor, prints, photographs, drawings, costumes, musical instruments, sculpture, textiles, and decorative arts from the Renaissance to the present time, as well as one of the foremost collections of American art in the world. The Museum also maintains some of the most comprehensive art and architecture libraries in the United States. The collections are maintained for public exhibition, education, and research in furtherance of public service, rather than for financial gain.

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

Cash - This represents operating cash balances.

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

Merchandise Inventories, net - Merchandise inventories are valued at the lower of cost or market value. Cost is determined using the average unit cost method of accounting. The Museum annually reviews the value of the items in its inventory for obsolescence. In fiscal year 2013 the amount of inventory written down due to obsolescence was \$.07 million.

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

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

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

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

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

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

Long-lived assets such as fixed assets are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable.

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

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

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

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

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

Advertising - Advertising expenses pertaining to merchandising activities, mostly attributable to the production and distribution of catalogues, amounted to \$6.1 million and \$6 million in fiscal years 2013 and 2012, respectively. Other advertising expenses incurred primarily in support of special exhibitions, the permanent collection, and concerts and lectures totaled \$3.4 million and \$4 million in fiscal years 2013 and 2012, 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 2013 and 2012 was \$5.2 million and \$5.3 million, respectively, of which \$4.1 million and \$4.2 million, respectively, related to the amounts paid under the interest rate swap agreements. Interest not capitalized is charged to operating expenses or, if related to the swap agreements, to non-operating activities. The amount of interest capitalized during fiscal years 2013 and 2012 was \$.2 million for both years.

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

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

Prior Year Comparisons and Reclassifications - The Museum has included both current and prior year financial data in its financial statements. To facilitate the comparison on the Statement of Activities, the Museum has chosen to present the prior year information in summary form, without segregation of the data by net asset values. As a result, that particular historical information is not presented in compliance with generally accepted accounting principles. It should therefore be reviewed in conjunction with the more detailed information set forth in the audited financial statements for fiscal year 2012, the source from which the summary information was derived. Certain fiscal year 2012 items have been reclassified to conform to fiscal year 2013 presentation.

Subsequent Events - The Museum performed an evaluation of subsequent events through November 7, 2013, which is the date the financial statements were issued. The Museum has determined that all events or transactions, including open item estimates, required to be recognized in accordance with generally accepted accounting principles, are included in the financial statements.

B. ACCOUNTS RECEIVABLE AND OTHER ASSETS

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Accounts receivable, net of allowance of \$426 and \$487 for FY13 and FY12, respectively	\$ 13,152	\$ 13,115
Dividends and interest receivable	995	888
Prepaid expenses and other	8,073	8,171
Total	<u>\$ 22,220</u>	<u>\$ 22,174</u>

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 rates used were 3.25% and 4.25% for fiscal years 2013 and 2012, respectively. Pledges are expected to be realized as follows (in thousands):

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Less than one year	\$ 51,765	\$ 44,365
Between one and five years	63,707	50,938
Over five years	7,100	9,350
Total	122,572	104,653
Less:		
Adjustments and allowance for uncollectibility	(2,645)	(2,321)
Discount for market value	(9,005)	(8,658)
Net	<u>\$ 110,922</u>	<u>\$ 93,674</u>

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

D. ACQUISITIONS OF ART

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

	<u>2013</u>	<u>2012</u>
Gifts of cash and securities	\$ 62,844	\$ 15,875
Gains and income from long-term investment:		
For designated curatorial departments	12,471	8,290
Undesignated as to curatorial department	14,930	11,922
Proceeds from fine arts insurance and the sale of art	12,952	2,767
Total	<u>\$ 103,197</u>	<u>\$ 38,854</u>

E. FIXED ASSETS

Fixed assets consist of (in thousands):

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<i>Estimated Useful Lives in Years</i>
Land	\$ 1,015	\$ 1,015	N/A
Buildings and improvements	36,223	36,455	20-40
Leasehold improvements—auxiliary activities	27,157	26,487	4-40
Leasehold improvements—Fifth Avenue building	868,017	846,575	5-30
Machinery and equipment	62,929	60,983	3-20
Total	995,341	971,515	
Less accumulated depreciation and amortization	(548,390)	(548,868)	
Net	<u>\$ 446,951</u>	<u>\$ 422,647</u>	

The above amounts include construction in progress of \$78.9 million and \$86.1 million at June 30, 2013 and 2012, respectively. Depreciation and amortization expense was \$47.1 million and \$46.8 million for fiscal years 2013 and 2012, respectively. In fiscal year 2013 and 2012, \$48.7 million and \$62.1 million, respectively, of fixed assets with associated accumulated depreciation of \$47.6 million and \$61.3 million, respectively, were written off, primarily representing fully depreciated assets no longer in service.

In fiscal years 2013 and 2012, interest expense of \$0.2 million for both years, which related to the bond financing, were capitalized and included in fixed assets on the Balance Sheet.

Fixed assets and construction in progress include \$113.5 million of property contributed and funded by the City since 1990, of which \$7.9 million and \$18.8 million were received during the fiscal years ended June 30, 2013 and 2012, respectively.

F. CAPITAL EXPENDITURES

The principal capital projects during fiscal year 2013 were as follows (in thousands):

	<i>Prior Years' Expenditures</i>	<i>2013 Expenditures</i>	<i>Total Expenditures</i>
David H. Koch Plaza	\$ 3,150	\$ 15,289	\$ 18,440
Wing E&H Infrastructure Upgrade & Astor Skylight Replacement	1,854	15,426	17,280
South Side Chilled Water	17,836	13,925	31,761
Costume Institute Gallery Renovation	6,200	12,541	18,740
European Paintings Gallery Renovation	616	3,227	3,842
Other capital projects		15,769	
Total *		76,177	
Less cost of capitalized projects		(72,482)	
Non-capitalized expenditures		\$ 3,695	

* The Museum has outstanding purchase commitments of approximately \$59 million related to construction projects at June 30, 2013.

G. INVESTMENTS

The total cost of the investment portfolio was \$2,448 million and \$2,317 million as of June 30, 2013 and 2012, respectively.

At June 30, 2013, the Museum had approximately \$325.9 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, 2013 (in thousands):

Derivatives Designated as Trading Instruments	<i>Derivative Liabilities</i>	
	<i>Notional/Contractual Amount</i>	<i>Unrealized Gain/(Loss)</i>
Interest Rate Exchange Agreements	\$ (27,921)	\$ 16,940

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, 2012 (in thousands):

Derivatives Designated as Trading Instruments	Derivative Liabilities	
	Notional/Contractual Amount	Unrealized Gain/(Loss)
Interest Rate Exchange Agreements	\$ (44,861)	\$(23,290)

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.

Investment return is net of unrelated business income taxes of \$0.1 million and \$0.12 million for fiscal years 2013 and 2012, respectively.

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

	2013				2012 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Investment income, net of certain management and custodian fees, taxes, and other expenses	\$ 13,640	\$ 19,512	\$ 31	\$ 33,183	\$ 17,191
Net realized gains	77,626	110,340	1	187,967	109,326
Changes in unrealized appreciation/(depreciation)	42,796	37,818		80,614	(128,776)
Total gain (loss) return on investments	134,062	167,670	32	301,764	(2,259)
Transfers	47,066	(47,066)			
Investment return allocated for current activities	(90,002)	(32,090)		(122,092)	(120,822)
Investment return in excess of (less than) current support	\$ 91,126	\$ 88,514	\$ 32	\$ 179,672	\$(123,081)

Please refer to Note N for details related to *Fair Value Measurement* and Note P for details related to Endowment Funds.

H. SPLIT INTEREST ARRANGEMENTS

Split interest arrangements 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 \$3.3 million and decreased by \$4.6 million in fiscal years 2013 and 2012, respectively. The discount rate applied to these funds was 1.2% to 3.2% over the past five years.

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, 2013	June 30, 2012
Assets:		
Charitable remainder and other trust assets	\$ 50,320	\$ 46,988
Gift annuities, pooled income funds, and trust invested on behalf of others	17,756	18,630
Other	3,681	
Total	\$ 71,757	\$ 65,618
Liabilities:		
Trust invested on behalf of others*	\$ 6,219	\$ 5,805
Gift annuities and pooled income funds	14,259	15,044
Total	\$ 20,478	\$ 20,849

*This liability relates to a trust invested on behalf of others. The assets of the trust of \$6.2 and \$5.8 million as of June 30, 2013 and 2012, respectively are included in investments on the Balance Sheet.

I. PENSION PLANS AND POSTRETIREMENT BENEFITS AND PAYMENTS

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

Defined benefit pension plan for union staff - The Museum has a qualified defined benefit pension plan for all union employees covered by a collective bargaining agreement. Benefits under this plan are based on years of service and the employees' final four years of compensation. Employees contribute 3% of their base earnings to this plan, which amounted to \$0.9 million and \$1.0 million for fiscal years 2013 and 2012, 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 \$0.8 million and \$0.7 million, respectively, as of June 30, 2013, and \$1.7 million and \$1.5 million, respectively, as of June 30, 2012.

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 2013 and 2012 was \$9.8 million and \$9.4 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 \$3.9 million and \$4.3 million in fiscal years 2013 and 2012, respectively.

Defined contribution plan for union staff (Union Match Plan) - The Museum has a voluntary defined contribution plan for all union employees covered by a collective bargaining agreement. The Museum contributes up to 3% of the participant's salary based on a schedule. The cost of this plan in fiscal years 2013 and 2012 was \$0.3 million and \$0.2 million, respectively.

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 \$1.2 million in both fiscal years 2013 and 2012.
- **Union staff:** The Museum's union employees are eligible to participate in a New York City-sponsored postretirement benefit plan (EIN 13-1624086) pursuant to a collective bargaining agreement between the Museum and Local 1503 of District Council 37 (member of AFSCME and AFL-CIO) which expires June 30, 2014. 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 2013 and 2012 of \$1.7 million and \$1.6 million, respectively, which represent more than 5% of the plan expenses. The plan is not subject to a funding improvement plan.
- **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 2013 and 2012 of \$0.3 million and \$0.4 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):

	<i>Pension Benefits</i>		<i>Postretirement Benefits</i>	
	<i>June 30, 2013</i>	<i>June 30, 2012</i>	<i>June 30, 2013</i>	<i>June 30, 2012</i>
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	\$170,414	\$133,359	\$ 95,637	\$ 78,085
Service cost	5,963	3,910	4,363	3,406
Interest cost	7,021	7,059	3,617	3,971
Employee contributions	894	964		
Actuarial (gain) loss	(17,153)	30,436	(13,302)	13,457
Benefits paid	(4,429)	(5,240)	(3,265)	(3,400)
Medicare Part D subsidy			103	118
Settlements		(74)		
Benefit obligation at end of year	<u>162,710</u>	<u>170,414</u>	<u>87,153</u>	<u>95,637</u>
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	96,284	91,830		
Actual gain on plan assets	10,882	2,075		
Employer contributions	7,476	6,729	3,162	3,286
Employee contributions	894	964		
Benefits paid	(4,429)	(5,240)	(3,265)	(3,400)
Medicare Part D subsidy			103	114
Settlements		(74)		
Fair value of plan assets at end of year	<u>111,107</u>	<u>96,284</u>		
Funded status (liability)	<u>\$ (51,603)</u>	<u>\$ (74,130)</u>	<u>\$ (87,153)</u>	<u>\$ (95,637)</u>

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

	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Actuarial losses	<u>\$(48,304)</u>	<u>\$(73,776)</u>	<u>\$(19,255)</u>	<u>\$(33,944)</u>
Prior service (costs) credits			<u>5,639</u>	<u>7,136</u>
Unrestricted net assets not yet recognized in net periodic benefit cost	<u>(48,304)</u>	<u>(73,776)</u>	<u>(13,616)</u>	<u>(26,808)</u>
Cumulative employer contributions (less than) net periodic benefit cost	<u>(3,299)</u>	<u>(354)</u>	<u>(73,537)</u>	<u>(68,829)</u>
Unfunded benefit obligations (liability)	<u><u>\$(51,603)</u></u>	<u><u>\$(74,130)</u></u>	<u><u>\$(87,153)</u></u>	<u><u>\$(95,637)</u></u>

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, 2014 (in thousands):

	<i>Pension Benefits</i>	<i>Postretirement Benefits</i>
Actuarial losses	<u>\$2,491</u>	<u>\$ 744</u>
Prior service costs (credits)		<u>(1,276)</u>
Total	<u><u>\$2,491</u></u>	<u><u>\$ (532)</u></u>

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

	<i>Pension Benefits</i>		<i>Postretirement Benefits</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Service cost	\$ 5,963	\$ 3,910	\$ 4,363	\$ 3,406
Interest cost	7,021	7,059	3,617	3,971
Expected return on plan assets	(7,189)	(6,800)		
Amortization of prior service cost		24	(1,497)	(1,521)
Amortization of accumulated loss	4,625	1,985	1,387	722
Settlement loss		24		
Net periodic benefit cost	<u>\$ 10,420</u>	<u>\$ 6,202</u>	<u>\$ 7,870</u>	<u>\$ 6,578</u>

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AS OF JUNE 30:

Discount rate	4.88%	4.11%	4.78%	4.02%
Rate of compensation increase	3.95%	3.95%		

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET COST AS OF JUNE 30:

Discount rate	4.13%	5.57%	4.02%	5.52%
Expected return on plan assets	7.39%	7.39%		
Rate of compensation increase	3.95%	3.94%		

ADDITIONAL INFORMATION (in thousands):

Actual return on plan assets	\$ 10,882	\$ 2,075		
Accumulated benefit obligation for all defined benefit pension plans	\$138,661	\$142,185		

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

Number of pension plans with accumulated benefit obligations in excess of plan assets	3	3		
Aggregate accumulated benefit obligation	\$138,661	\$142,185		
Aggregate fair value of plan assets	\$111,107	\$ 96,284		
Number of pension plans with projected benefit obligations in excess of plan assets	3	3		
Aggregate projected benefit obligation	\$162,710	\$170,414		
Aggregate fair value of plan assets	\$111,107	\$ 96,284		

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

	<i>Pension Benefits</i>		<i>Postretirement Benefits</i>	
Changes in plan assets and benefit obligations recognized in unrestricted net assets:				
Prior year accumulated loss (gain)	\$ 73,776		\$ 26,808	
New (gain) loss arising during the year	(20,846)		(13,302)	
Amounts recognized as a component of net periodic benefit cost:				
Amortization or curtailment recognition of prior service credit			1,497	
Amortization or settlement recognition of net loss	(4,625)		(1,387)	
Total recognized in unrestricted net assets	<u>48,305</u>		<u>13,616</u>	
Net periodic benefit cost	<u>10,420</u>		<u>7,870</u>	
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$58,725</u>		<u>\$21,486</u>	

	<i>2013</i>		<i>2012</i>	
	<i>Union</i>	<i>Non-Union</i>	<i>Union</i>	<i>Non-Union</i>
ASSUMED MEDICAL COST TREND RATES AT JUNE 30:				
Health care cost trend rate assumed for next year	6.7%	6.7%	6.9%	6.9%
Rate that the cost trend gradually declines to ...	4.5%	4.5%	4.5%	4.5%
Year that the final trend rate is reached	2028	2028	2028	2028

	<i>Percentage Point Increase</i>	<i>Percentage Point (Decrease)</i>
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The following data show the effect of a one percentage point health care cost trend rate increase (decrease) for fiscal year 2013 (in thousands):

Effect on total of service and interest cost	\$ 1,282	\$ (1,006)
Effect on postretirement benefit obligation	\$10,209	\$ (8,324)

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, 2013, the assets of the defined benefit plan for union staff were invested 61.4% and 38.6% in equity and fixed income securities, respectively, and the assets of the defined benefit plan for non-union staff were invested 43.5% and 56.5% in equity and fixed income securities, respectively. As of June 30, 2012 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 40.7% and 59.3% 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, 2013 and June 30, 2012 by approximately \$0.6 million and \$0.9 million, respectively. The reduction in obligation attributable to the anticipated subsidy payments is being treated as a gain.

CASH FLOWS FOR THE FISCAL YEAR ENDING
JUNE 30 (in thousands):

	<i>Pension Benefits</i>	<i>Postretirement Benefits</i>	<i>Expected Net Postretirement Benefit Payments</i>	<i>Expected Medicare Subsidy</i>
Employer Contributions:				
2012 (actual)	\$ 6,730	\$ 3,286	N/A	N/A
2013 (actual)	7,476	3,162	N/A	N/A
2014 (expected)	13,619	3,803	N/A	N/A

PROJECTED BENEFIT PAYMENTS FOR THE FISCAL
YEAR ENDING JUNE 30 (in thousands):

	<i>Pension Benefits</i>	<i>Postretirement Benefits</i>	<i>Expected Net Postretirement Benefit Payments</i>	<i>Expected Medicare Subsidy</i>
2014	5,706	3,803	\$ 3,700	\$ 103
2015	6,223	3,816	3,702	114
2016	6,626	4,080	3,955	125
2017	7,971	4,347	4,212	135
2018	7,481	4,489	4,339	150
2019 - 2023	44,190	25,950	25,950	

The fair value of the pension plan assets is disclosed in the tables below based on fair market values and "levels" at June 30, 2013 and 2012. 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. Mutual funds consists of various Vanguard and GMO investments.

Pension Plan Assets at Fair Value as of June 30, 2013 (in thousands)

	<i>Level 1 Quoted Prices</i>	<i>Level 2 Significant Other Observable Inputs</i>	<i>Level 3 Significant Unobservable Inputs</i>	<i>Total</i>
Investments:				
Equities				
Mutual funds	\$109,895			\$109,895
Collective Trusts	1,212			1,212
Total	\$111,107			\$111,107

Pension Plan Assets at Fair Value as of June 30, 2012(in thousands)

	<i>Level 1 Quoted Prices</i>	<i>Level 2 Significant Other Observable Inputs</i>	<i>Level 3 Significant Unobservable Inputs</i>	<i>Total</i>
Investments:				
Equities				
Mutual funds	\$95,542			\$95,542
Collective Trusts	742			742
Total	\$96,284			\$96,284

J. NOTES PAYABLE

At June 30, 2013 and 2012, the Museum had four credit facilities with two commercial banks. Under one facility, which is the largest credit facility, a \$100 million revolving line of credit, the Museum had borrowed \$40 million and \$35.9 million as of June 30, 2013 and 2012, respectively. Any amount borrowed under the revolving line of credit is payable in full on or before September 30, 2014. The borrowing bears interest at variable rates, and accrued interest is paid at loan maturity. The total interest expense on bank borrowings amounted to \$0.3 million and \$0.2 million in each of fiscal years 2013 and 2012, respectively. As of June 30, 2013, the interest rate on the outstanding debt was .63%. 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, 2013 and 2012.

In addition to the revolving line of credit, the Museum has three lines of credit totaling \$150 million in each of fiscal years 2013 and 2012, under which no borrowings were outstanding at June 30, 2013 and 2012. 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 \$4.2 million as of both June 30, 2013 and 2012, 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, 2013 and 2012.

While the revenue bonds are not direct indebtedness of the Museum, the loan agreements with the Authority obligate the Museum to make payments equal to the interest and mandatory redemption requirements of such bonds and are general obligations of the Museum. A liability equivalent to the principal amount of the Authority's outstanding revenue bonds, adjusted for fair value of future interest payments, is reflected in the Balance Sheet. In 1993, the Museum entered into a 22-year interest rate exchange agreement with Morgan Stanley Capital Services, Inc. ("Morgan Stanley"), that effectively changes the Museum's interest rate exposure on the Series 1993A Bonds to a fixed rate. The notional amount of the swap was set at \$41.7 million and amortizes according to a schedule that is similar to the mandatory redemption schedule of the Series 1993A Bonds. Under the terms of the interest rate exchange agreement, Morgan Stanley pays to the Museum a variable rate consistent with the rate on the Series 1993A Bonds, and the Museum pays to Morgan Stanley a fixed rate of 4.77% per annum.

At June 30, 2013 and 2012, \$2.9 million of investments were in the custody of a trustee in connection with the Series 1993A and B Bonds as a reserve for the payment of debt service each year.

Series 2006 Bonds:

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

Pursuant to the loan agreement, the Museum is required to pay, when due, the principal and interest on the Series 2006A Bonds. While the bonds are not direct indebtedness of the Museum, the loan agreement and the obligation to make payments under the loan agreement are general obligations of the Museum. No security interest in any revenues or assets of the Museum has been granted by the Museum to the Trust or any other party in connection with the Series 2006A Bonds. The Series 2006A Bonds will mature on October 1, 2036. The variable rate demand bonds of \$130 million are subject to a weekly interest rate reset. In the event the Museum receives notice of any optional tender on its variable rate demand bonds, or if the bonds become subject to mandatory tender, the purchase price will be paid from the remarketing of the bonds. The Museum has an additional \$150 million confirmed credit facility through April 2015. The purpose of this credit facility is to provide liquidity in the event of a tender of the Museum's variable rate demand bonds which cannot be remarketed. This facility cannot be used for any purpose other than in connection with an exercise of the tender right by the bondholders. A commitment fee with a rate of .35% was associated with this credit facility. Fees of \$.5 million related to both fiscal years 2013 and 2012, were paid. To date there have been no drawdowns of this facility. If the remarketing proceeds are insufficient, the Museum will have a current obligation to purchase the bonds that were not remarketed successfully. The Museum may fund any such purchase, in any manner, including by drawing upon the \$150 million credit facility which would be repayable by April 2015.

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

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

	<i>June 30, 2013</i>	<i>June 30, 2012</i>
Series 1993A Bonds due serially to July 1, 2015	\$ 9,345	\$ 12,175
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	<u>146,125</u>	<u>148,955</u>
Fair value of interest rate exchange agreement on Series 1993A Bonds	477	909
Fair value of forward starting interest rate exchange agreement on Series 2006A Bonds	27,444	43,952
Total interest rate exchange agreements	<u>27,921</u>	<u>44,861</u>
Total program related investment loan	<u>265</u>	<u>265</u>
Total liability	<u><u>\$174,311</u></u>	<u><u>\$194,081</u></u>

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

Interest rates on loans payable:		
Series 1993A & B Bonds07%	0.20%
Series 2006A-1 & A-2 Bonds07%	0.18%
	<u>2013</u>	<u>2012</u>
Interest expense on loans payable (in thousands):		
Series 1993A Bonds	\$ 447	\$ 580
Series 1993B Bonds	10	9
Series 2006A Bonds	3,854	3,839
Interest expense included above related to the swaps (in thousands):		
Series 1993A Bonds	\$ 433	\$ 564
Series 2006A Bonds	3,674	3,674

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):

<i>Year Ending June 30</i>	<i>Principal Amount</i>	<i>Interest Payments*</i>	<i>Total Estimated Debt Services</i>
2014	\$ 2,965	\$ 5,650	\$ 8,615
2015	3,115	5,479	8,594
2016	3,265	5,324	8,589
2017		5,310	5,310
Thereafter	136,780	97,985	234,765
Total	<u><u>\$146,125</u></u>	<u><u>\$119,748</u></u>	<u><u>\$265,873</u></u>

*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.

The table assumes that the Museum will be able to obtain a new credit facility when the existing credit facility expires in 2015.

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

L. FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses by functional classification for fiscal years 2013 and 2012, which are described in Note A, are shown below (in thousands):

	<u>2013</u>	<u>2012</u>
Total operating expenses from the Statement of Activities	\$ 343,867	\$ 331,896
Depreciation of capital improvements and expensing of non-capitalized expenditures from the non-operating section of the Statement of Activities . .	45,836	46,594
Management and custodian fees, taxes, and other expenses included in net investment income	13,940	12,358
Special events included in the revenue section of the Statement of Activities	553	770
Total	<u>\$ 404,196</u>	<u>\$ 391,618</u>
Program expenses:		
Curatorial activities, conservation, and exhibition	\$ 199,539	\$ 195,805
Education	14,531	14,998
Libraries	5,113	5,185
Public services and other	29,392	28,450
Cost of sales and expenses of auxiliary activities:		
Merchandising operations	66,362	68,652
Restaurant, parking garage, auditorium, and other	24,897	24,413
Total program expenses	<u>339,834</u>	<u>337,503</u>
Supporting services:		
Management and general	48,636	40,162
Fundraising	15,726	13,953
Total supporting services	<u>64,362</u>	<u>54,115</u>
Total	<u>\$ 404,196</u>	<u>\$ 391,618</u>

M. LEASE COMMITMENTS

At June 30, 2013, 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 revenues from sales of books, reproductions of works of art, and similar reproductions sold through the Museum's shops and mail-order system. Rent expense included in merchandising activities relating to these operating leases amounted to \$4.4 million in both fiscal years 2013 and 2012, and includes contingent rent based on sales. In addition, there are operating leases for storage, office space, equipment, and other items, which expire at various dates through 2015. Rent expense relating to these operating leases amounted to \$0.9 million in both fiscal years 2013 and 2012.

Minimum rental commitments consist of the following at June 30, 2013 (in thousands):

<i>Year Ending June 30</i>	<i>Total</i>
2014	2,714
2015	2,380
2016	2,237
2017	1,256
Total	<u>\$ 8,587</u>

N. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment 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 Net Asset Value ("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 not carried at fair value on a recurring basis and are therefore excluded from the table below. Fair value, after allowances for uncollectible pledges, was determined by discounting the expected future cash flows by an estimated fair market value rate at the date of the initial pledge.

Investments

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

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

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

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

Fair Value Measurements

The following table presents the financial instruments as stated on the Balance Sheet, by caption and by level within the valuation hierarchy as of June 30, 2013 (in thousands):

<i>Assets and Liabilities at Fair Value as of June 30, 2013</i>				
	<i>Level 1 Quoted Prices</i>	<i>Level 2 Significant Other Observable Inputs</i>	<i>Level 3 Significant Unobservable Inputs</i>	<i>2013 Total</i>
Split Interest Arrangements	\$ 17,635	\$ 9,816	\$ 44,306	\$ 71,757
Investments:				
Equities	\$ 447,734	\$ 33,640	\$ 65	\$ 481,439
Fixed Income				
Government bonds	18,477			18,477
Corporate debt		39,829	32	39,861
Mortgage backed		46,511		46,511
Other		3,927	291	4,218
Subtotal	18,477	90,267	323	109,067
Short-term Investments	262,255			262,255
Fixed income funds		41,525		41,525
Equity funds		303,969	140,127	444,096
Hedge funds			571,429	571,429
Private equity			517,202	517,202
Real assets			363,521	363,521
Total Investments:	\$ 728,466	\$ 469,401	\$ 1,592,667	\$ 2,790,534
Assets	\$ 746,101	\$ 479,217	\$ 1,636,973	\$ 2,862,291
Liabilities:				
Annuity and Other Split Interest Obligations			\$ 20,478	\$ 20,478
Bonds and Interest Rate Exchange Agreements		174,046		174,046
Liabilities		\$ 174,046	\$ 20,478	\$ 194,524

Included in the Level 3 hedge funds fair value are investment receivables totalling \$25.2 million for which the Museum has received notification of distribution but was not collected as of June 30, 2013. Also included are investment contributions paid in advance totaling \$10 million for which the Museum has paid prior to June 30, 2013.

The following table presents the financial instruments as stated on the Balance Sheet, by caption and by level within the valuation hierarchy as of June 30, 2012 (in thousands):

<i>Assets and Liabilities at Fair Value as of June 30, 2012</i>				
	<i>Level 1 Quoted Prices</i>	<i>Level 2 Significant Other Observable Inputs</i>	<i>Level 3 Significant Unobservable Inputs</i>	<i>2012 Total</i>
Split Interest Arrangements	\$ 17,305	\$ 10,497	\$ 37,816	\$ 65,618
Investments:				
Equities	\$ 391,230	\$ 13,236	\$ 65	\$ 404,531
Fixed Income				
Government bonds	91,584			91,584
Corporate debt		17,217	530	17,747
Mortgage backed		1,281		1,281
Other		531	478	1,009
Subtotal	91,584	19,029	1,008	111,621
Short-term Investments	121,959			121,959
Fixed income funds	83,771	41,121		124,892
Equity funds	259	248,229	118,431	366,919
Hedge funds		55,154	498,174	553,328
Private equity			554,960	554,960
Real assets			340,697	340,697
Total Investments:	\$ 688,803	\$ 376,769	\$ 1,513,335	\$ 2,578,907
Assets	\$ 706,108	\$ 387,266	\$ 1,551,151	\$ 2,644,525
Liabilities:				
Annuity and Other Split Interest Obligations			\$ 20,849	\$ 20,849
Bonds and Interest Rate Exchange Agreements		193,816		193,816
Liabilities		\$ 193,816	\$ 20,849	\$ 214,665

During the years ended June 30, 2013 and June 30, 2012 there were no significant transfers in/out of Level 1 and Level 2 of the fair value hierarchy for investments which were recorded at fair value. Based on the information made available to the Museum, there are no concentrations in any

underlying individual security or issuer in amounts greater than 5% of the Museum's net assets except for possible concentrations in U.S. Treasury securities for both fiscal years 2013 and 2012.

The following table includes a rollforward of the amounts for the year ended June 30, 2013 for Investments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement:

	<i>Level 3 Ending Balance June 30, 2012</i>	<i>Realized and Unrealized Gains/ (Losses)</i>	<i>Transfers In</i>	<i>Transfers (Out)</i>	<i>Purchases</i>	<i>Sales and Settlements</i>	<i>Level 3 Ending Balance June 30, 2013</i>	<i>Changes in Unrealized Gains/(Losses) Relating to Investments held as of June 30, 2013</i>
Investments:								
Equities	\$ 65	\$	\$	\$	\$	\$	\$ 65	\$
Corporate debt	530	262			26	(786)	32	
Other	478	1			407	(595)	291	
Equity funds	118,431	27,164			9,286	(14,754)	140,127	19,361
Hedge funds	498,174	37,033			125,000	(88,778)	571,429	21,337
Private equity	554,960	50,617			51,822	(140,197)	517,202	(17,915)
Real assets	340,697	19,885			51,937	(48,998)	363,521	1,989
Total Investments ..	<u>\$ 1,513,335</u>	<u>\$ 134,962</u>	<u>\$</u>	<u>\$</u>	<u>\$ 238,478</u>	<u>\$(294,108)</u>	<u>\$1,592,667</u>	<u>\$ 24,772</u>

The following table includes a rollforward of the amounts for the year ended June 30, 2012 for Investments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement:

	<i>Level 3 Ending Balance June 30, 2011</i>	<i>Realized and Unrealized Gains/ (Losses)</i>	<i>Transfers In</i>	<i>Transfers (Out)</i>	<i>Purchases</i>	<i>Sales and Settlements</i>	<i>Level 3 Ending Balance June 30, 2012</i>	<i>Changes in Unrealized Gains/(Losses) Relating to Investments held as of June 30, 2012</i>
Investments:								
Equities	\$ 4,938	\$ (2,119)	\$	\$ (679)	\$	\$ (2,075)	\$ 65	\$
Corporate debt	1,432	(612)		(211)	266	(345)	530	9
Other	673	(102)		(93)			478	(8)
Equity funds	104,767	3,664			10,000		118,431	3,664
Hedge funds	482,862	(24,050)			120,000	(80,638)	498,174	(49,270)
Private equity	582,947	26,273			55,298	(109,558)	554,960	(30,089)
Real assets	309,470	(2,488)			70,049	(36,334)	340,697	(13,734)
Total Investments ..	<u>\$ 1,487,089</u>	<u>\$ 566</u>	<u>\$</u>	<u>\$ (983)</u>	<u>\$ 255,613</u>	<u>\$(228,950)</u>	<u>\$1,513,335</u>	<u>\$(89,428)</u>

All net realized and unrealized gains (losses) in the table above are reflected in the statement of activities. Net unrealized gains (losses) relate to those Investments held by the Museum at June 30, 2013 and June 30, 2012, respectively.

Split Interest Arrangements

Charitable Gift Annuities

The Museum records its remainder interest in assets received as unrestricted and temporarily restricted contributions as per donor designations. 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.

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 annually.

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 Charitable Remainder and Other Trust Assets and non-operating expense.

Perpetual Trusts

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

Lead Trusts

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

The following table summarizes the changes in the fair value of the assets related to charitable remainder and other trusts for the year ended June 30, 2013 (in thousands):

	<i>Ending Balance June 30, 2012</i>	<i>Changes in Discounts and Allowances</i>	<i>Ending Balance June 30, 2013</i>
Charitable remainder and other trust assets	\$46,988	\$ 3,332	\$50,320

The following table summarizes the changes in the fair value of the liabilities related to annuity and other split interest agreements and funds held on behalf of others for the year ended June 30, 2013 (in thousands):

	<i>Ending Balance June 30, 2012</i>	<i>Changes in Remainder Value</i>	<i>Realized and Unrealized Gains/(Losses)</i>	<i>Ending Balance June 30, 2013</i>
Annuity and other split interest obligations	\$20,849	\$ 152	\$ (523)	\$20,478

The Museum uses the NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company.

The following table lists investments carried at NAV by major investment category for the year ended June 30, 2013:

Investment Strategy	<i>Fair Value Determined Using NAV (in 000s)</i>	<i>Remaining Life</i>	<i>Unfunded Commitments (in 000s)</i>	<i>Redemption Terms</i>	<i>Redemption Restrictions and Terms in Place at Year End</i>
Fixed Income Funds	\$ 41,525	N/A	N/A	Monthly (10 days)	N/A
Equity Funds	444,096	N/A	N/A	Daily Monthly (5-30 days) Quarterly (30-90 days)	1 fund undergoing liquidation with a side-pocket; 1 fund with lock-up restriction.
Hedge Funds	571,429	N/A	N/A	Monthly (65-90 days) Quarterly (30-90 days) Annually (60-90 days)	6 funds undergoing liquidation, including 4 funds with side-pockets; 7 funds with lock-up restrictions, including 1 fund with a side-pocket; 1 fund with a side-pocket.
Private Equity	517,202	1 to 10 years	\$162,515	N/A	N/A
Real Assets	\$ 363,521	1 to 12 years	\$163,366	N/A	N/A

The following table lists investments carried at NAV by major investment category for the year ended June 30, 2012:

Investment Strategy	<i>Fair Value Determined Using NAV (in 000s)</i>	<i>Remaining Life</i>	<i>Unfunded Commitments (in 000s)</i>	<i>Redemption Terms</i>	<i>Redemption Restrictions and Terms in Place at Year End</i>
Fixed Income Funds	\$ 124,892	N/A	N/A	Daily Monthly (10 days)	N/A
Equity Funds	366,919	N/A	N/A	Daily Monthly (5-30 days) Quarterly (30-90 days)	1 fund undergoing liquidation with a side-pocket; 2 funds with lock-up restrictions.
Hedge Funds	553,328	N/A	N/A	Monthly (30 days) Quarterly (30-90 days) Annually (60-90 days)	5 funds undergoing liquidation with side-pockets; 6 funds with lock-up restrictions, including 1 fund with a side- pocket; 1 fund with a side-pocket.
Private Equity	554,960	1 to 10 years	\$ 192,441	N/A	N/A
Real Assets	\$ 340,697	1 to 10 years	\$ 171,104	N/A	N/A

O. ASSET RETIREMENT OBLIGATIONS

The Museum recognizes a liability on the Balance Sheet for Asset Retirement Obligations pertaining to future remediation work necessary to restore certain properties. The liability equals the present value of the expected cost of remediation.

During fiscal years 2013 and 2012, the Museum made payments of \$319 thousand and \$807 thousand, respectively, for these obligations and reduced the liability accordingly. In addition, the Museum adjusted certain asset retirement data and provided for the years' reductions, charges and accretion. For fiscal years 2013 and 2012, the non-cash charges amounted to an increase of \$1.4 million and \$1.1 million respectively, and are included in the non-operating section of the Statement of Activities. As of June 30, 2013 and 2012, \$8.7 million and \$7.6 million, respectively, of conditional asset retirement obligations are included in the liability section of the Balance Sheet.

P. DISCLOSURE FOR ENDOWMENT FUNDS AND NET ASSET CLASSIFICATIONS

The Museum's endowment consists of over 650 individual funds established for a variety of purposes. Its endowment includes funds with donor-imposed spending restrictions (donor-restricted endowment funds) and funds with board-imposed spending restrictions that are treated as endowments (quasi-endowments). While quasi-endowments are treated as endowments in terms of earning investment returns and spending policy, their principal does not need to be held in perpetuity. Additionally, some quasi-endowments also have donor-imposed purpose restrictions. As required by Generally Accepted Accounting Principles, endowment funds are classified based on the existence or absence of donor-imposed restrictions. Donor-restricted endowment funds and quasi-endowment funds are also governed by the Endowment Spending Policy adopted by the Board of Trustees (which is discussed in more detail below).

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

In relation to NYPMIFA, Generally Accepted Accounting Principles require that for each donor-restricted endowment fund, the Museum is to classify the portion of the fund that is not classified as Permanently Restricted Net Assets as Temporarily Restricted Net Assets until such funds have been appropriated. Therefore, upon the expiration of any time restriction and/or the meeting of any purpose restriction and appropriation by the Board for expenditure, a reclassification of that amount to Unrestricted Net Assets occurs.

During fiscal year 2012, the Board adopted a new Endowment Spending Policy which became effective for fiscal year 2013. The new hybrid spending policy used in fiscal year 2013 combines the predictable spending element of constant growth whereby 80% of the spending is based on the prior fiscal year total spending, adjusted for inflation with an asset preservation principle whereby the remaining 20% is based on the market value of the endowment at the prior calendar year end. The spending also has a defined range in absolute dollars of 90% to 110% of the prior fiscal year's spending. Spending Rates applied to the market value of the endowment are limited to a range of 4.5% to 5.75%. 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. In fiscal 2012 and earlier, endowment appropriations and distributions were based on pre-determined Spending Rates applied to the market value of the endowment, using the average market value over the prior twenty-quarter period ending December 31 of the prior fiscal year.

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, 2013 (in thousands):

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$	\$ 701,316	\$ 855,876	\$ 1,557,192
Quasi-endowment funds	735,462	78,837		814,299
Total funds	\$ 735,462	\$ 780,153	\$ 855,876	\$ 2,371,491

Endowment Net Asset Composition by Type of Fund as of June 30, 2012 (in thousands):

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$	\$ 617,097	\$ 831,566	\$ 1,448,663
Quasi-endowment funds	660,302	72,826		733,128
Total funds	\$ 660,302	\$ 689,923	\$ 831,566	\$ 2,181,791

Endowment & Non-Endowment Net Assets for the Fiscal Year Ended June 30, 2013 (in thousands):

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment and quasi-endowment net assets, beginning of year	\$ 660,302	\$ 689,923	\$ 831,566	\$ 2,181,791
Investment return:				
Investment Income	13,640	19,494	31	33,165
Net appreciation/depreciation (realized)	77,626	110,251	1	187,878
Net appreciation/depreciation (unrealized)	42,796	37,672		80,468
Total investment gain (loss) return	134,062	167,417	32	301,511
Transfers	47,066	(47,066)		
Appropriation of endowment assets for expenditure (spending)	(90,002)	(32,090)		(122,092)
Contributions	3,463	438	24,132	28,033
Other changes and reclasses	(19,429)	1,531	146	(17,752)
Total endowment and quasi-endowment net assets at the end of year	735,462	780,153	855,876	2,371,491
Non-endowment net assets, end of the year				
Operating	11,488	55,245		66,733
Non-Operating	76,184	489,040		565,224
Total non-endowment net assets, end of the year	87,672	544,285		631,957
NET ASSETS AT THE END OF THE YEAR	\$ 823,134	\$ 1,324,438	\$ 855,876	\$ 3,003,448

Endowment & Non-Endowment Net Assets
for the Fiscal Year Ended June 30, 2012 (in thousands):

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment and quasi-endowment net assets, beginning of year	\$ 738,776	\$ 753,425	\$ 820,868	\$ 2,313,069
Investment return:				
Investment Income	6,953	10,225	1	17,179
Net appreciation/depreciation (realized)	44,309	64,939	8	109,256
Net appreciation/depreciation (unrealized)	(64,229)	(64,547)		(128,776)
Total investment (loss) return	(12,967)	10,617	9	(2,341)
Transfers	46,781	(46,781)		
Appropriation of endowment assets for expenditure (spending)	(88,650)	(32,172)		(120,822)
Contributions	8,550	2,215	14,148	24,913
Other changes and reclasses	(32,188)	2,619	(3,459)	(33,028)
Total endowment and quasi-endowment net assets at the end of year . . .	660,302	689,923	831,566	2,181,791
Non-endowment net assets, end of the year				
Operating	10,062	50,782		60,844
Non-Operating	29,622	440,777		470,399
Total non-endowment net assets, end of the year	39,684	491,559		531,243
NET ASSETS AT THE END OF THE YEAR	<u>\$ 699,986</u>	<u>\$ 1,181,482</u>	<u>\$ 831,566</u>	<u>\$ 2,713,034</u>

Description of Amounts Classified as Permanently Restricted and Temporarily Restricted Net Assets (Endowment and Quasi-endowment only) (in thousands):

	<i>June 30, 2013</i>	<i>June 30, 2012</i>
Permanently Restricted Net Assets:		
Art Acquisitions	\$ 214,654	\$ 209,899
Operating	482,994	472,416
Other (including Exhibitions and Public Programming)	158,228	149,251
Total endowment funds classified as permanently restricted net assets	<u>\$ 855,876</u>	<u>\$ 831,566</u>
Temporarily Restricted Net Assets:		
Art Acquisitions	\$ 185,894	\$ 163,323
Operating	456,610	410,918
Other (including Exhibitions and Public Programming)	137,649	115,682
Total endowment and quasi-endowment funds classified as temporarily restricted net assets	<u>\$ 780,153</u>	<u>\$ 689,923</u>

As a result of market fluctuations and the continued prudent use of income generated by donor-restricted endowment funds in support of mission-critical programs, the fair market value of assets associated with individual donor-restricted endowment funds has fallen below historic dollar value. The aggregate amounts by which fair value was below historic value was \$.01 million and \$.02 million as of June 30, 2013 and 2012, respectively.

Q. MERCHANDISING AND OTHER AUXILIARY ACTIVITIES

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

	<u>2013</u>	<u>2012</u>
Operating revenue:		
Merchandising operations	\$69,337	\$72,095
Restaurant	21,347	21,403
Other	4,083	4,641
Total revenue	<u>94,767</u>	<u>98,139</u>
Operating costs and expenses:		
Merchandising operations	66,362	68,652
Restaurant	20,438	20,080
Other	4,459	4,333
Total costs and expenses	<u>91,259</u>	<u>93,065</u>
Net income from auxiliary activities	<u>\$ 3,508</u>	<u>\$ 5,074</u>

R. COMMITMENTS AND CONTINGENCIES

Commitments

On August 10, 2012, the Museum entered into an operating agreement with the Whitney Museum of American Art (the “Whitney”), pursuant to which the Museum will use and occupy portions of the Whitney’s building located at 945 Madison Avenue, New York, New York (the “Building”) for a term of 8 years with an option at the Museum’s discretion to extend the term for an additional 5.5 years. The Whitney will continue to occupy portions of the Building and both parties will work together to develop joint programming initiatives for the Building as well as other locations.

Contingencies

On November 8, 2012, two individuals filed a lawsuit in New York State Supreme Court, New York County, against the Museum and certain of its officers. The Museum was served with this lawsuit on February 8, 2013. It alleges that the Museum’s policy of asking visitors to pay a voluntary admissions charge is in violation of state law and of the Museum’s lease with the City of New York, and that the manner in which the Museum advises the public of this policy is deceptive. The complaint also alleged that the Museum has an obligation to maintain an entrance on the Central Park side of the Museum. The complaint seeks various forms of equitable relief and also attorney’s fees and costs, but it does not otherwise seek monetary damages.

On March 5, 2013, a lawsuit was filed by three individuals in New York State Supreme Court, New York County, against the Museum and certain of its officers. This lawsuit is very similar to the litigation described above, except that it is framed as a class action suit, and it does not include any claims about a Central Park entrance. The complaint in this litigation seeks various forms of equitable relief and also a judgment “awarding Plaintiffs and other members of the Class actual damages in an amount to be determined at trial” plus attorney’s fees and costs. Plaintiffs have not subsequently presented a quantified demand for damages.

On October 30, 2013, the New York State Supreme Court dismissed the claims in each lawsuit which alleged that the Museum’s admissions policy constituted a breach of its lease with the City and was a violation of an 1893 appropriations act.

The Museum intends to vigorously defend the remaining claims in both litigations and believes it has substantial defenses. However, due to the inherent difficulty of predicting the outcome of litigation, the Museum cannot predict what the eventual outcome or timing of these matters may be. An adverse outcome in one or both of these matters could be material to the Museum.