The Frick Collection

Financial Statements

June 30, 2011

O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

Board of Trustees
The Frick Collection

We have audited the accompanying statement of financial position of The Frick Collection (the "Collection") as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Collection's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Collection's financial statements for the year ended June 30, 2010 and, in our report dated December 2, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Collection's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Frick Collection as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
December 8, 2011

The Frick Collection

Statement of Financial Position

June 30, 2011
(with comparative amounts for 2010)

	2011	2010
ASSETS		
Cash and cash equivalents	$ 2,724,198	$ 2,459,184
Contributions receivable	5,720,583	3,738,486
Due from broker for securities sold	910,408	129,788
Inventory	629,262	641,027
Prepaid expenses, receivables and other assets	722,273	780,903
Prepaid pension benefits	825,328	-
Investments in securities	255,280,258	213,263,666
Investments in real estate, at cost	3,237,177	3,171,289
Property and equipment, net	19,126,344	17,786,432
Total Assets	$ 289,175,831	$ 241,970,775
LIABILITIES AND NET ASSETS		
Accounts payable, accrued expenses and deferred income	$ 3,506,604	$ 2,345,022
Accrued postretirement health and other benefits	6,526,045	5,982,189
Accrued pension benefits	-	888,315
Total Liabilities	10,032,649	9,215,526
NET ASSETS		
Unrestricted	$ 227,393,457	$ 189,196,411
Temporarily restricted	13,683,058	7,889,001
Permanently restricted	38,066,667	35,669,837
Total Net Assets	279,143,182	232,755,249
Total Liabilities and Net Assets	$ 289,175,831	$ 241,970,775

See notes to financial statements

The Frick Collection

Statement of Activities

Year Ended June 30, 2011
(with summarized totals for the year ended June 30, 2010)

	Unrestricted General	Unrestricted Board Designated	Unrestricted Total	Temporarily Restricted	Permanently Restricted	Total 2011	Total 2010
OPERATING SUPPORT AND REVENUES							
Spending from endowment	10,318,986	$ -	$ 10,318,986	$ -	$ -	$ 10,318,986	$ 10,814,138
Other capital gain (loss)	4,185	126	4,311	2,944	-	7,255	(3,911)
Contributions	3,068,182	-	3,068,182	5,120,976	-	8,189,158	5,438,525
Admission fees	3,182,746	-	3,182,746	-	-	3,182,746	3,054,683
Membership	1,275,993	-	1,275,993	-	-	1,275,993	1,244,599
Bookstore sales and miscellaneous	1,239,405	-	1,239,405	-	-	1,239,405	1,278,496
	19,089,497	126	19,089,623	5,123,920	-	24,213,543	21,826,530
Net assets released from restrictions	2,055,668	-	2,055,668	(2,055,668)	-	-	-
Total Operating Support and Revenues	21,145,165	126	21,145,291	3,068,252	-	24,213,543	21,826,530
OPERATING EXPENSES							
Museum programs							
Operations	5,422,825	-	5,422,825	-	-	5,422,825	5,451,155
Special exhibitions, concerts and lectures	885,247	-	885,247	-	-	885,247	857,062
Bookstore	1,117,667	-	1,117,667	-	-	1,117,667	1,181,467
Total Museum Programs	7,425,739	-	7,425,739	-	-	7,425,739	7,489,684
Library programs							
Operations	3,831,375	-	3,831,375	-	-	3,831,375	3,768,423
Special programs	609,947	-	609,947	-	-	609,947	567,136
Total Library Programs	4,441,322	-	4,441,322	-	-	4,441,322	4,335,559
Total Programs	11,867,061	-	11,867,061	-	-	11,867,061	11,825,243
Supporting services							
General and administrative	7,566,475	-	7,566,475	-	-	7,566,475	7,580,978
Fundraising	1,463,513	-	1,463,513	-	-	1,463,513	1,525,042
Total Supporting Services	9,029,988	-	9,029,988	-	-	9,029,988	9,106,020
Total Operating Expenses	20,897,049	-	20,897,049	-	-	20,897,049	20,931,263
Excess of Operating Support and Revenues Over Operating Expenses	248,116	126	248,242	3,068,252	-	3,316,494	895,267
NONOPERATING CHANGES TO NET ASSETS							
Contributions	-	1,993,275	1,993,275	-	2,396,830	4,390,105	193,151
Depreciation	-	(1,511,398)	(1,511,398)	-	-	(1,511,398)	(1,463,004)
Net investment return designated for long-term investment	-	33,063,403	33,063,403	4,828,682	-	37,892,085	18,155,508
Pension and postretirement benefit plan liability adjustments	2,300,647	-	2,300,647	-	-	2,300,647	(1,692,514)
Net assets released from restrictions	-	2,102,877	2,102,877	(2,102,877)	-	-	-
Total Nonoperating Changes	2,300,647	35,648,157	37,948,804	2,725,805	2,396,830	43,071,439	15,193,141
Change in Net Assets	2,548,763	35,648,283	38,197,046	5,794,057	2,396,830	46,387,933	16,088,408
NET ASSETS							
Beginning of year	3,598,844	185,597,567	189,196,411	7,889,001	35,669,837	232,755,249	216,666,841
End of year	$ 6,147,607	$ 221,245,850	$ 227,393,457	$ 13,683,058	$ 38,066,667	$ 279,143,182	$ 232,755,249

See notes to financial statements

The Frick Collection

Statement of Cash Flows

Year Ended June 30, 2011
(with comparative amounts for 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 46,387,933	$ 16,088,408
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	1,511,398	1,463,004
Realized gains on investments	(15,434,653)	(3,847,225)
Unrealized appreciation on investments	(29,412,365)	(23,462,385)
Contributions restricted for permanent endowment	(2,396,830)	(93,151)
Changes in operating assets and liabilities		
Contributions receivable	(1,982,097)	978,831
Prepaid expenses, receivables and other assets	58,630	155,279
Inventory	11,765	21,285
Prepaid pension cost	(1,713,643)	(1,402,542)
Accounts payable, accrued expenses and deferred income	1,161,582	808,890
Accrued postretirement health and other benefits	543,856	864,296
Net Cash from Operating Activities	(1,264,424)	(8,425,310)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment purchases	(2,851,310)	(1,245,111)
Real estate investment purchases	(65,888)	(69,717)
Purchases of securities	(89,686,075)	(99,337,635)
Proceeds from dispositions of securities	91,735,881	108,761,751
Net Cash from Investing Activities	(867,392)	8,109,288
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent endowment	2,396,830	93,151
Net Change in Cash and Cash Equivalents	265,014	(222,871)
CASH AND CASH EQUIVALENTS		
Beginning of year	2,459,184	2,682,055
End of year	$ 2,724,198	$ 2,459,184

See notes to financial statements

1. The Collection

The Frick Collection (the "Collection"), created in 1920 under the provisions of the will of Henry Clay Frick, operates an art museum (the "Museum") which is open to the public, and an art reference library (the "Library") which is available to fine arts scholars and students.

The Collection has been classified as a public charity as described in Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code and is exempt from federal income taxes. In addition, the State and City have classified the Collection as not-for-profit in character and, as such, it is exempt from State and City income taxes.

2. Summary of Significant Accounting Policies

Use of 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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Asset Classifications

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

- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Collection to use, or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

- Temporarily restricted net assets contain donor-imposed restrictions that permit the Collection to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by action of the Collection.

- Unrestricted net assets are not restricted by donors. The Collection's Board of Trustees has designated a portion of the unrestricted net assets for property and equipment acquisitions and long-term investment.

2. Summary of Significant Accounting Policies (*continued)*

Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Collection's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Measure of Operations

Operations include all revenues and expenses that are an integral part of its programs and supporting activities. The measure of operations includes investment income equal to a 4.5% spending rate and excludes investment return in excess of, or less than, the 4.5% spending rate. The measure of operations also excludes permanently restricted contributions, purchase and sale of museum and library collection items, unsolicited, individual unrestricted contributions of $50,000 or more, which contributions are board designated for long-term investment as funds functioning as endowment, depreciation of property and equipment and releases of net assets from restrictions related to non-operating items.

Contributions

Contributions include cash and promises to give from individuals, entities, foundations and government agencies. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded at fair value, net of estimated uncollectible amounts.

The Collection records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions (see Note 10).

The Collection has volunteers who provide administrative support to Museum and Library programs. 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.

2. Summary of Significant Accounting Policies (*continued)*

Functional Allocation of Expenses

Museum programs include costs of the exhibitions, curatorial activities, public education and concerts. Library programs include provision of library access and service, book conservation, the maintenance of the archives, and administration of Library programs. General and administrative services include executive and financial administration, and an allocable portion of building maintenance, and security.

Fundraising activities of the Collection include salaries and employee benefits of program staff who develop proposals for fundraising; solicit contributions for those needs and for endowment purposes from individuals, entities, government agencies and foundations; and conduct special fundraising events. Fundraising costs are expensed as incurred.

A majority of expenses can generally be directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses are allocated to the various programs and supporting services based on a square footage ratio.

Collections

The Museum and Library have extensive collections including: paintings, sculpture, furniture, other decorative arts, books, rare books, photographs, historical auction catalogues and other items. The collections are maintained under the care of the curatorial and Library staff and are held for research, education and public exhibition in furtherance of public service rather than for financial gain. As a matter of policy, proceeds from the sales of collections are used to acquire other items for collections. The Collection does not include either the cost or the value of its collections on the statement of financial position, nor does it recognize gifts of collection items as revenues in the statement of activities. Since items acquired for collection by purchase are not capitalized, the cost of those acquisitions are reported as decreases in net assets in the statement of activities.

Cash and Cash Equivalents

The Collection considers all highly liquid investments purchased with remaining maturity of three months or less at the date of purchase to be cash equivalents, with the exception of those money market funds, which are included in investments (see Note 4). The Collection maintains several cash balances in excess of the Federal Deposit Insurance Corporation's amounts in demand deposits, savings accounts, and money market accounts at various financial institutions.

2. Summary of Significant Accounting Policies (*continued)*

Fair Value Measurements

The Collection follows the Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments

The Collection's investments are diversified by asset class (e.g., equities and bonds) and within asset classes (e.g., within equities by investment style, economic sector, industry and size). The purpose of diversification is to provide reasonable assurance that no single security or sector will have a disproportionate impact on the total investments. The Collection's investments are pooled to facilitate their management. Investment income is allocated among the individual components of unrestricted and temporarily restricted net assets, based on donor restrictions or in the absence thereof, using the dollar value unit method.

The Collection manages its pooled investments on a total return basis. To preserve the investments' long-term purchasing power, the Collection makes available to be spent each year 4.5% of the investment portfolio's average market value for the twelve quarters ending the March prior to the beginning of the fiscal year (the "spending rate"). Although long term in nature, this policy may be modified over time to reflect economic, market and investment changes.

Investments are presented in the financial statements at fair value. The Collection also maintains investments in alternative assets. Alternative investments include investments in hedge funds, as well as interest in private equity and venture capital limited partnerships. Alternative asset interests are stated at fair value based upon valuation estimated by each of the funds' managers.

2. Summary of Significant Accounting Policies (*continued)*

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded when earned and dividends are recorded on the ex-dividend date. Realized gains and losses on the sale of investments are computed using the average-cost basis of securities sold. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Investments Risks and Uncertainties

Alternative Investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, venture capital funds, hedge funds, private equity funds and common trust funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

2. Summary of Significant Accounting Policies (*continued)*

Property and Equipment

Land, building, significant building improvement projects and equipment expenditures in excess of $2,000 are capitalized. Depreciation and amortization of buildings, building improvements and equipment is provided over the estimated useful lives on the straight-line basis, and is recognized as an operating expense. The estimated useful lives are as follows:

	Years
Building and building additions	28 to 50
Security systems	15
Furniture and equipment	5 to 10

Inventory

Inventory consisting of publications, prints and cards is valued at the lower of average cost or market.

Accounting for Uncertainty in Income Taxes

The Collection recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Collection has no uncertain tax positions that would require financial statement disclosure. The Collection is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2007.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is December 8, 2011.

3. Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2011	2010
Unconditional promises to give	$ 6,247,171	$ 4,438,927
Less discount to present value at 4.25% and 4.95%	526,588	700,441
	5,720,583	3,738,486
Less allowance for uncollectibles	-	-
Net contributions receivable	$ 5,720,583	$ 3,738,486
Amounts due in		
Less than two years	$ 4,172,050	$ 2,223,342
Two to fourteen years	1,548,533	1,515,144

Management of the Collection reviewed the collectable status of its contributions receivable and deemed an allowance to be unnecessary at June 30, 2011 and 2010.

4. Investments

The Collection's investments in securities consisted of the following at June 30:

	2011	
	Cost	Fair Value
Cash equivalents	$ 11,664,394	$ 11,664,394
Equity securities	32,148,032	41,947,028
Investment funds		
Registered fixed income fund	26,710,484	27,365,368
Equity (long only)	25,304,521	32,825,223
Equity long/short	68,820,750	79,112,397
Credit & distressed equity	9,324,436	12,608,816
Arbitrage	4,899,999	6,720,885
Multi-strategy	21,595,880	24,993,095
Private equity	18,017,040	18,043,052
Total	$ 218,485,536	$ 255,280,258

4. Investments (*continued)*

	2010	
	Cost	Fair Value
Cash equivalents	$ 16,278,996	$ 16,278,966
Equity securities	33,680,771	35,343,032
Investment funds		
Registered fixed income fund	26,864,921	28,156,365
Equity (long only)	33,460,324	37,040,219
Equity long/short	46,781,510	43,684,982
Credit & distressed equity	14,074,862	17,524,027
Arbitrage	4,899,999	5,383,349
Multi-strategy	16,950,547	18,259,310
Private equity	12,889,411	11,593,416
Total	$ 205,881,341	$ 213,263,666

Equity and fixed income investments consist of investments in publicly traded U.S. equities, mutual funds, government and corporate bonds and funds that invest in equity and fixed income based strategies. The fair values of publicly traded investments are based on quoted market prices. Investments that are listed on an exchange are valued, in general, at the last reported sale price (or, if there is no sales price, at the last reported bid price, or, in the absence of reported bid prices, at the mean between the last reported bid and asked prices thereof). Fund investments in equity and fixed income based strategies that are not exchange traded are valued based upon NAV provided by the investment managers of the underlying funds. Some of these funds may not have readily ascertainable market values and may be subject to withdrawal restrictions. The fair value of the funds represents the amount the Collection expects to receive at June 30, 2011 and 2010, if it had liquidated its investments in the funds on these dates.

Private equity fund holdings include investments in buyouts, distressed companies and venture capital. Hedge funds include credit, equity long/short, multi-strategy and other. Real Assets include fund holdings in real estate and natural resources such as oil and gas. The Collection values these investments based upon NAV provided by the investment managers of the underlying funds. As a general rule, investment managers of hedge funds, private equity and real asset funds value investments based upon the best information available for a given circumstance and may incorporate assumptions that are the investment manager's best estimates after consideration of a variety of internal and external factors. Hedge funds, private equity and real asset funds may make investments in securities that are publicly traded, which are generally valued based on observable market prices, unless a restriction exists. Investments for which observable market prices do not exist are reported at fair value as determined by the fund's investment manager.

4. Investments (*continued)*

The Collection's management may consider other factors in assessing the fair value of these investments. Some of these funds may not have readily ascertainable market values and may be subject to withdrawal restrictions. The fair value of the funds represents the amount the Collection expects to receive at June 30, 2011 and 2010, if it had liquidated its investments in the funds on these dates.

The Collection invests in investment funds that are not registered under the Investment Company Act of 1940, as amended, and invests in other financial instruments employing various investment strategies and techniques, including leverage that may involve significant market, credit, and operational risks. Such investments may allocate a high percentage of their assets in specific sectors of the market in order to achieve a potentially greater investment return. As a result, the investments may be susceptible to economic, political, and regulatory developments in a particular sector of the market, positive or negative, and may experience increased volatility in net asset values.

5. Fair Value Measurements

The following are major categories of investments measured at fair value at June 30:

	2011			
Description	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 11,664,394	$ -	$ 11,664,394
Equity securities				
Consumer	9,739,338	-	-	9,739,338
Health care	3,261,238	-	-	3,261,238
Industrial	3,944,360	-	-	3,944,360
Technology	6,303,063	-	-	6,303,063
Other	18,699,029	-	-	18,699,029
Investment funds				
Registered fixed income fund	27,365,368	-	-	27,365,368
Equity (long only)	-	32,825,223	-	32,825,223
Equity long/short	-	43,977,211	35,135,186	79,112,397
Credit & distressed equity	-	-	12,608,816	12,608,816
Arbitrage	-	-	6,720,885	6,720,885
Multi-strategy	-	-	24,993,095	24,993,095
Private equity	-	-	18,043,052	18,043,052
	$ 69,312,396	$ 88,466,828	$ 97,501,034	$ 255,280,258

5. Fair Value Measurements (*continued)*

Description	2010 Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 16,278,966	$ -	$ 16,278,966
Equity securities	35,343,032	-	-	35,343,032
Investment funds				
Registered fixed income fund	28,156,365	-	-	28,156,365
Equity (long only)	-	37,040,219	-	37,040,219
Equity long/short	-	20,373,288	23,311,694	43,684,982
Credit & distressed equity	-	-	17,524,027	17,524,027
Arbitrage	-	-	5,383,349	5,383,349
Multi-strategy	-	-	18,259,310	18,259,310
Private equity	-	-	11,593,416	11,593,416
	$ 63,499,397	$ 73,692,473	$ 76,071,796	$ 213,263,666

The following is a reconciliation of the beginning and ending balances for alternative investments during the year ended June 30, 2011:

Description	2011 Balance July 1, 2010	Transfers in/(out)	Purchases	Sales	Total realized and unrealized gain/(loss)	Balance June 30, 2011
Investment funds						
Equity long/short	$ 23,311,694	$ -	$ 9,000,000	$ (2,387,946)	$ 5,211,438	$ 35,135,186
Credit & distressed equity	17,524,027	(4,198,183)	-	(2,467,819)	1,750,791	12,608,816
Arbitrage	5,383,349	-	-	-	1,337,536	6,720,885
Multi-strategy	18,259,310	4,198,183	800,000	(873,971)	2,609,573	24,993,095
Private equity	11,593,416	-	5,686,308	(562,978)	1,326,306	18,043,052
Total	$ 76,071,796	$ -	$ 15,486,308	$ (6,292,714)	$ 12,235,644	$ 97,501,034

The amount of total gains for the year included in changes in net assets attributable to the change in unrealized gains relating to assets still held at June 30, 2011 were $7,688,524.

5. Fair Value Measurements (*continued)*

Information regarding the alternative investments at June 30, 2011 is as follows:

Investment strategy	Fair Value Determined Using NAV	Unfunded Commitments	Redemption Restrictions and Terms	Redemption Notice Period
Equity (long only) (see "a" below)	$ 32,825,223	$ -	Monthly	6 days
Equity long/short (see "b" below)	79,112,397	-	Monthly - Semi annual	10 - 90 days
Credit & distressed equity (see "c" below)	12,608,816	-	Quarterly - 2 years	60 - 90 days
Arbitrage (see "d" below)	6,720,885	-	Semi annual	45 days
Multi-strategy (see "e" below)	24,993,095	-	Quarterly - Annual	30 - 65 days
Private equity (see "f" below)	18,043,052	12,774,227	*	*
Total	$ 174,303,468	$ 12,774,227		

* Private equity assets are illiquid investments.

a. Long-only equity products invest in the equity securities of U.S. and non-U.S. companies. Strategies can range in their geography, value vs. growth bias, and market-cap. Some products are very specific (i.e. Asia ex Japan Small-Cap Companies) while others can have large mandate (i.e. Global large/mid cap companies).

b. The term long/short refers to the fact that the fund manager both purchases equity shares that he expects to appreciate in value (i.e., is long those shares), and sells short (bets against) equity shares that he believes will decline in value. For a long investment, the manager attempts to buy low and sell high. For a short investment, the manager attempts to sell high and then buy back low. A short sale is therefore profitable if the stock shorted declines in value.

c. Credit managers buy bonds or structured credit products (prepackaged baskets of bonds or credit related instruments) they expect to appreciate in value and bet against those they expect to decline in value, either by shorting them or by entering into credit default swap agreements. Credit default swaps are derivatives that pay holders in the event of a credit default and that tend to increase in value as the reference bond decreases in value. Distressed-debt managers focus on bonds and bank loans trading at a significant discount to par value as a result of the debtor company’s troubled financial condition. These managers may become actively involved in company reorganization and bankruptcy committees while providing interim debtor-in possession financing; they may also buy a bond with the expectation that it will be converted into Equity.

5. Fair Value Measurements (*continued)*

d. Arbitrage refers to any strategy that is designed to capture valuation spreads between two or more financial instruments. Merger arbitrage, sometimes referred to as risk arbitrage, is an attempt to capture equity price spreads in companies that are expected to be bought out by other companies in announced stock-for-stock, stock-for-cash, or stock-for-stock-and-cash deals.

e. Multi-strategy managers have broad mandates to allocate capital across multiple strategies at once. In addition to long/short equity, credit, distressed, and arbitrage strategies, they may also engage in other areas, such as private placements, insurance, real estate, and art. The term open mandate is sometimes used synonymously with multi-strategy, although multi-strategy funds tend to allocate capital more regularly across their core strategies, while open mandate funds tend to be more opportunistic in shifting the fund's capital from one strategy or asset class to another.

f. Depending on the manager's specific strategy, Private Equity managers acquire an existing company (buyout) or invest in a new company (venture capital). For Buyout managers, financing is primarily though debt, but the buyout fund provides a portion of equity. There are multiple strategies within buyouts including management buyouts, operational buyouts, financial buyouts, turnaround, and bankruptcy buyouts. Venture capitalists invest only equity and invest at one of three stages: seed-stage, early-stage, and expansion stage. To invest in both strategies, investors can expect to lock-up their capital for at least seven years.

6. Endowments Funds

Substantially, all investments are part of the Collection's restricted endowment or unrestricted board designated funds functioning as endowment, collectively called the "endowment". The Collection's endowment consists of various individual gifts established primarily to support the mission of the Collection. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowments

On September 17, 2010, New York State adopted its version of the Uniform Prudent Management of Institutional funds Act (UPMIFA) which provides rules covering restricted endowment funds. New York State's version of UPMIFA is known as NYPMIFA. NYPMIFA includes provisions that differ from previous law, including the elimination of the historic dollar value rule with respect to endowment restrictions on restricted endowment funds, and revision of the prudence standard for the management and investment of endowment funds.

6. Endowments Funds *(continued)*

Interpretation of Relevant Law

The Board of Trustees of the Collection has interpreted NYPMIFA as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, or in those cases where the law allows appropriation for spending of the original gift amounts. As a result of this interpretation, the Board classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Return Objective and Risk Parameters

The Collection's investment policy, as approved by the Board of Trustees, utilizes a total return investment approach. Endowment assets are invested in a number of different asset classes and investment strategies to diversify investments and provide a balance that will enhance the long-term total return of the overall investment portfolio while avoiding undue risk or concentration in any single assets class or investment. Target allocation percentages and operating ranges are established for various asset classes. Performance is measured against various composite benchmark indices reflecting target asset allocation.

Under the Collection's spending policy, up to 4.5% of the average market value for the twelve quarters ending the March prior the beginning of the fiscal year is available for appropriation. For June 30, 2011 this amount totaled $10,318,984.

6. Endowments Funds *(continued)*

Endowment changes for the year ended June 30, 2011 were as follows:

	Unrestricted General	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Balance at July 1, 2010	$ 1,450,646	$ 175,302,533	$ 2,006,066	$ 34,464,431	$ 213,223,676
Investment Income					
Dividends and interest	-	4,013,108	464,118	-	4,477,226
Realized gains/(losses), net	-	14,227,404	1,207,249	-	15,434,653
Unrealized appreciation	-	26,182,555	3,226,377	-	29,408,932
Total Investment Return	-	44,423,067	4,897,744	-	49,320,811
Appropriation for operations	-	(10,318,984)	-	-	(10,318,984)
Investment fees	-	(1,040,680)	(69,062)	-	(1,109,742)
Net investment return designated for long term investment	-	33,063,403	4,828,682	-	37,892,085
Other activity					
Deposit from Operating Funds	5,675,320	-	-	-	5,675,320
Capital expenditure appropriations	-	(3,309,811)	-	-	(3,309,811)
Inter-fund activities	397,980	269,463	(667,443)	-	-
Change in due from/to broker	-	(939,693)	-	-	(939,693)
Contributions	-	-	-	2,666,233	2,666,233
Other changes	-	29,023	1,464	-	30,487
Re-allocation of principal (*)	-	48,315	(48,315)	-	-
Balance at June 30, 2011	$ 7,523,946	$ 204,463,233	$ 6,120,454	$ 37,130,664	$ 255,238,297

(*) represent principal returned from temporarily restricted net assets to unrestricted net assets. Assets were transferred in prior years to cover accumulated realized and unrealized losses that had caused certain permanently restricted endowment fund to fall below their historic dollar value.

Certain of the Collection's donor restricted endowments have experienced losses due to market fluctuations and the continuing requirements of funded programs. Generally accepted accounting principles require that such losses be absorbed by the unrestricted net assets of the Collection and that future gains be allocated to unrestricted net assets until such losses have been restored. The aggregate, cumulative amount of such absorbed losses by the unrestricted net assets at June 30, 2011 was $36,455.

7. Property and Equipment

Property and equipment, net of accumulated depreciation and amortization, at June 30, consisted of the following:

	2011	2010
Land	$ 776,088	$ 776,088
Building	5,662,166	5,662,166
Building improvements	24,238,513	22,020,491
Equipment, furniture and fixtures	12,207,415	11,574,126
	42,884,182	40,032,871
Less accumulated depreciation and amortization	23,757,838	22,246,439
	$ 19,126,344	$ 17,786,432

Depreciation expense for the year ended June 30, 2011 and 2010 amounted to $1,511,398 and $1,463,004, respectively.

8. Pension and Other Post Retirement Benefits

The Collection sponsors a noncontributory defined benefit plan (the "Plan") which covers substantially all employees. The Plan provides benefits based on salary and years of service. The actuarial cost method used is the project unit credit.

Plan assets are invested principally in mutual funds and corporate common stocks. The administrative cost of the Plan are borne by the Collection and amounted to $348,375 for the year ended June 30, 2011. The Collection's Funding policy is to contribute annually the greater of $400,000 or the actuarial provided amount that meets the minimum requirements of the Employee Retirement Income Security Act of 1974, under different assumptions from those used for financial-reporting purposes.

In addition to providing pension benefits, the Collection provides postretirement health and supplemental life insurance benefits for retired employees. Substantially all of the Collection's employees may become eligible for those benefits if they reach normal retirement age while working for the Collection. The Collection funds its postretirement benefits costs on a pay-as-you-go basis and provides for the expense on the accrual basis.

8. Pension and Other Post Retirement Benefits *(continued)*

The funded status of the Collection's defined benefit pension and nonpension postretirement benefit plans is recognized in the statement of financial position. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at the statement of financial position date. Actuarial gains and losses arising during the year not yet recognized within net periodic benefit cost are included as other change in net assets and will be amortized as a component of net periodic benefit cost in the future.

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets for the year ended June 30, 2011 and a statement of the funded status at June 30, 2011:

	Pension Benefits	Other Postretirement Benefits
Benefit obligation	$ (22,402,176)	$ (6,526,045)
Fair value of plan assets	23,227,504	-
Funded Status - prepaid (liability)	$ 825,328	$ (6,526,045)

Measurement date	Pension Benefits June 30, 2011	Other Postretirement Benefits June 30, 2011
Accumulated benefit obligation	$ (20,489,018)	$ -
Prepaid (accrued) pension cost recognized in the statement of financial position	825,328	(6,526,045)
Employer contributions during the year	175,866	139,331
Benefits paid	795,052	139,331

8. Pension and Other Post Retirement Benefits (continued)

Net Periodic Benefit Cost

Net periodic benefit cost for the plans includes the following components:

	Pension Benefits	Other Postretirement Benefits
Net periodic benefit cost recognized in the statement of activities		
Service cost	$ 927,064	$ 382,595
Interest cost	1,182,714	338,000
Expected return on plan assets	(1,460,943)	-
Net amortization		
Amortization of net loss	156,303	-
Recognized prior service cost (credit)	59,638	(192,894)
Recognized actuarial loss	-	27,887
	$ 864,776	$ 555,588

The change in amounts not yet recognized in periodic benefit cost is as follows:

	Pension Benefits	Other Postretirement Benefits	Total
Prior service cost (credit)	$ 271,294	$ (1,066,080)	$ (794,786)
Net actuarial loss (gain)	1,559,764	955,925	2,515,689
Cumulative effect at June 30, 2011	1,831,058	(110,155)	1,720,903
Cumulative effect at June 30, 2010	4,233,611	(211,616)	4,021,995
Net Current Year Adjustment	$ 2,402,553	$ (101,461)	$ 2,301,092

8. Pension and Other Post Retirement Benefits *(continued)*

The table below reflects the amounts recognized as changes in unrestricted net assets arising from the Plan at June 30, 2011 that have not yet been recognized in net periodic pension cost and the portion of such amounts that are expected to be recognized in net periodic pension cost during the year ending June 30, 2012:

	Pension Benefits	Other Postretirement Benefits	Total
Unrecognized prior service cost	$ 59,638	$ (138,994)	$ (79,356)
Unrecognized actuarial loss	-	15,509	15,509
	$ 59,638	$ (123,485)	$ (63,847)

Expected Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in future fiscal years as follows:

	Pension Benefits	Other Postretirement Benefits
2012	$ 1,080,452	$ 229,211
2013	1,073,549	258,986
2014	1,201,384	271,956
2015	1,314,618	303,436
2016	1,406,341	343,982
Years 2017-2021	8,677,009	2,254,019

The Collection is not required to make a contribution to the pension plan in the year ending June 30, 2012.

8. Pension and Other Post Retirement Benefits *(continued)*

Actuarial Assumptions

Actuarial assumptions for the year ended June 30, 2011 are as follows:

Weighted-average assumptions as of June 30	Pension Benefits June 30, 2011	Other Postretirement Benefits June 30, 2011
Discount rate used to determine benefit obligations	5.75%	5.75%
Discount rate used to determine net periodic pension cost	5.75%	-
Expected long-term return on plan assets	7.50%	-
Rate of compensation increase	3.25%	-

For measurement purposes, current year health care trends rates ranging between 5.6% and 20% were assumed for 2011. The rates were assumed to decrease gradually to an ultimate annual increase rate of 4.75% for 2014 and remain at that level through 2020.

Effect of Change in Health Care Trend Rate

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% Point Increase	1% Point Decrease
Increase (decrease) in accumulated plan benefit obligation	$ 1,097,486	$ (876,670)
Increase (decrease) in sum of service and interest cost	146,809	(114,894)

8. Pension and Other Post Retirement Benefits *(continued)*

Fair Value Measurements

Within the fair value hierarchy, the pension plan's investments at fair value by level as of June 30 are as follows:

Description	2011 Level 1		2011 Level 2		2011 Level 3		2011 Total	
Money market funds	$	-	$	753,300	$	-	$	753,300
Corporate common stock								-
Consumer		1,177,472		-		-		1,177,472
Energy		3,374,160		-		-		3,374,160
Other		3,535,325		-		-		3,535,325
Mutual funds								
Intermediate term-bonds		7,752,359		-		-		7,752,359
Equity hedge funds		-		4,477,732		-		4,477,732
Marketable alternative asset funds (a)		-		-		2,157,158		2,157,158
	$	15,839,316	$	5,231,032	$	2,157,158	$	23,227,506

Description	2010 Level 1		2010 Level 2		2010 Level 3		2010 Total	
Money market funds	$	-	$	3,505,117	$	-	$	3,505,117
Corporate common stock		5,722,626		-		-		5,722,626
Mutual funds		6,140,264		-		-		6,140,264
Equity hedge funds		-		2,867,518		-		2,867,518
Marketable alternative asset funds (a)		-		-		1,708,738		1,708,738
	$	11,862,890	$	6,372,635	$	1,708,738	$	19,944,263

a. This category includes investments in hedge funds that invest both long and short equity securities, real assets, and a variety of absolute return strategies. These investments are considered marketable alternatives due to their non-traditional endowment investment composition, coupled with their less liquid nature.

8. Pension and Other Post Retirement Benefits *(continued)*

Fair Value Measurements (continued)

The following is a reconciliation of the beginning and ending balances for the Collection's Level 3 plan investments during the years ended June 30:

	2011					
	Balance July 1, 2010	Transfers in/(out)	Purchases	Sales	Total realized and unrealized gain/(loss)	Balance June 30, 2011
Marketable alternative asset funds	$ 1,708,738	$ -	$ 250,000	$ -	$ 198,420	$ 2,157,158
Total	$ 1,708,738	$ -	$ 250,000	$ -	$ 198,420	$ 2,157,158

	2010					
	Balance July 1, 2009	Transfers in/(out)	Purchases	Sales	Total realized and unrealized gain/(loss)	Balance June 30, 2010
Marketable alternative asset funds	$ 1,394,545	$ -	$ -	$ -	$ 314,193	$ 1,708,738
Total	$ 1,394,545	$ -	$ -	$ -	$ 314,193	$ 1,708,738

The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at June 30 were $198,420 and $314,193, respectively.

9. Net Assets

	2011	2010
Unrestricted net assets		
General	$ (9,487,480)	$ (8,162,385)
Designated for long-term investment	213,885,342	175,895,459
Designated for renewal and replacement reserves	840,887	732,841
Designated for Chief Curator expenses	143,292	124,880
Designated for the purchase of art	423,983	423,983
Invested in real estate	3,237,177	3,171,289
Invested in Property & Equipment	18,350,256	17,010,344
	227,393,457	189,196,411
Temporarily restricted net assets		
Exhibit and other public programs	2,057,818	1,486,700
Endow professional positions	1,727,123	-
Mellon Curatorial fellow	363,881	508,894
Book Funds	1,173,858	788,746
New York Art Reference Consortium	137,314	267,272
Center for the History of Collecting	884,962	683,146
Construction and renovation	1,689,268	773,321
Other Programs	5,685,289	3,465,692
Due to Unrestricted net assets	(36,455)	(84,770)
Total Temporarily Restricted Net Assets	13,683,058	7,889,001
Permanently restricted net assets		
Endowment funds, income unrestricted	15,000,000	15,000,000
Endowment funds, income restricted for support of the Library	10,802,207	10,764,307
Endowment funds, income restricted to chief curator expenses	3,884,538	3,559,538
Endowment receivables, income restricted to chief curator expenses	-	300,000
Endowment funds, income restricted to decorative arts curator	3,750,238	3,666,904
Endowment receivables, income restricted to decorative arts curator	-	79,403
Endowment receivables, income restricted to Mellon Funds	2,000,000	-
Endowment funds, income restricted to clock maintenance	500,000	500,000
Endowment funds, income restricted to acquisitions	383,130	383,130
Endowment funds, income restricted to gallery flowers	340,466	340,467
Endowment funds, income restricted to Lectures	250,000	250,000
Endowment funds, income restricted to Portico	220,000	-
Endowment receivables, Portico	110,000	-
Endowment receivables, book funds	25,000	25,000
Endowment funds, income restricted to conservation	25,000	25,000
Land	776,088	776,088
Total Permanently Restricted Net Assets	38,066,667	35,669,837
Total Net Assets	$ 279,143,182	$ 232,755,249

10. Net Assets released from Restrictions

Net assets were released from donor restrictions during the year ended June 30, 2011 and 2010 by the passage of time or by incurring expenses satisfying the restricted purposes specified by the donors as follows:

	2011	2010
Museum Program		
Exhibition specified	$ 862,517	$ 581,222
Mellon Curatorial fellow	145,012	93,896
Education program	117,599	22,153
Other museum projects	376,982	114,863
Purchase of property and equipment	1,435,435	42,008
Library Program		
Book Acquisitions	150,943	147,223
Center for the History of Collecting	313,562	275,018
New York Art Reference Consortium	164,957	226,871
Other library support	336,164	131,144
Digitzation of Archives	255,374	225,380
	$ 4,158,545	$ 1,859,778