



**THE ASIA SOCIETY**

Financial Statements and Schedule

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
345 Park Avenue  
New York, NY 10154

## **Independent Auditors' Report**

The Board of Trustees  
The Asia Society:

We have audited the accompanying balance sheets of The Asia Society (the Society) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 misstatements. 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 Society'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 audits provide 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 Asia Society as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the Society deconsolidated certain affiliated entities effective July 1, 2007.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**KPMG LLP**

December 22, 2009

# THE ASIA SOCIETY

## Balance Sheets

June 30, 2009 and 2008

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 8,098,728	8,819,014
Contributions and grants receivable (note 2)	14,131,696	11,388,634
Prepaid expenses and other assets (note 5)	1,038,238	1,062,856
Investments (note 3)	52,857,825	78,998,552
Land, building, and equipment (notes 4 and 5)	30,558,547	32,359,419
Collection	—	—
Total assets	<u>\$ 106,685,034</u>	<u>132,628,475</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable, accrued expenses, and other liabilities (note 9)	\$ 2,731,165	2,727,993
Interest rate swap liability (note 5)	1,104,101	132,479
Loan payable (note 5)	20,835,000	21,465,000
Total liabilities	<u>24,670,266</u>	<u>24,325,472</u>
Commitments and contingencies (note 8)		
Net assets (deficit):		
Unrestricted:		
Available for operations	(2,636,539)	(2,683,415)
Designated for investment (note 10)	(14,130,185)	4,361,308
Invested in and designated for fixed assets	9,235,879	11,387,363
Total unrestricted	<u>(7,530,845)</u>	<u>13,065,256</u>
Temporarily restricted (notes 6 and 10)	38,444,487	44,237,921
Permanently restricted (notes 6 and 10)	51,101,126	50,999,826
Total net assets	<u>82,014,768</u>	<u>108,303,003</u>
Total liabilities and net assets	<u>\$ 106,685,034</u>	<u>132,628,475</u>

See accompanying notes to financial statements.

**THE ASIA SOCIETY**  
Statement of Activities  
Year ended June 30, 2009

	<b>Available for operations</b>	<b>Designated for investment</b>	<b>Invested in and designated for fixed assets</b>	<b>Unrestricted total</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Revenue, gains (losses), and other support:							
Contributions and grants	\$ 10,118,486	—	—	10,118,486	11,169,526	101,300	21,389,312
Membership	1,837,099	—	—	1,837,099	—	—	1,837,099
Special events, net of direct donor benefits of \$741,061	1,504,195	—	—	1,504,195	—	—	1,504,195
Program service fees	1,914,949	—	—	1,914,949	—	—	1,914,949
Investment return, net (note 3)	3,185,521	(18,491,493)	—	(15,305,972)	(7,304,598)	—	(22,610,570)
Miscellaneous	520,131	—	—	520,131	—	—	520,131
	<u>19,080,381</u>	<u>(18,491,493)</u>	<u>—</u>	<u>588,888</u>	<u>3,864,928</u>	<u>101,300</u>	<u>4,555,116</u>
Net assets released from restrictions	8,761,004	—	897,358	9,658,362	(9,658,362)	—	—
Total revenue, gains (losses), and other support	<u>27,841,385</u>	<u>(18,491,493)</u>	<u>897,358</u>	<u>10,247,250</u>	<u>(5,793,434)</u>	<u>101,300</u>	<u>4,555,116</u>
Expenses:							
Program services:							
Cultural programs	5,155,689	—	735,336	5,891,025	—	—	5,891,025
Policy and business	4,578,512	—	309,506	4,888,018	—	—	4,888,018
Education	4,377,632	—	108,015	4,485,647	—	—	4,485,647
Communications	777,813	—	39,467	817,280	—	—	817,280
U.S. regional centers	1,272,282	—	4,452	1,276,734	—	—	1,276,734
Asian activities	3,333,054	—	—	3,333,054	—	—	3,333,054
Auxiliary services	1,798,467	—	375,977	2,174,444	—	—	2,174,444
Total program services	<u>21,293,449</u>	<u>—</u>	<u>1,572,753</u>	<u>22,866,202</u>	<u>—</u>	<u>—</u>	<u>22,866,202</u>
Supporting services:							
Management and general	3,262,850	—	283,095	3,545,945	—	—	3,545,945
Marketing	832,806	—	70,922	903,728	—	—	903,728
Fund-raising	2,399,469	—	156,385	2,555,854	—	—	2,555,854
Total supporting services	<u>6,495,125</u>	<u>—</u>	<u>510,402</u>	<u>7,005,527</u>	<u>—</u>	<u>—</u>	<u>7,005,527</u>
Total expenses	<u>27,788,574</u>	<u>—</u>	<u>2,083,155</u>	<u>29,871,729</u>	<u>—</u>	<u>—</u>	<u>29,871,729</u>
Increase (decrease) in net assets before other changes	52,811	(18,491,493)	(1,185,797)	(19,624,479)	(5,793,434)	101,300	(25,316,613)
Other changes:							
Transfer for acquisition of fixed assets	(5,935)	—	5,935	—	—	—	—
Change in fair value of interest rate swap (note 5)	—	—	(971,622)	(971,622)	—	—	(971,622)
Increase (decrease) in net assets	46,876	(18,491,493)	(2,151,484)	(20,596,101)	(5,793,434)	101,300	(26,288,235)
Net (deficit) assets at beginning of year	(2,683,415)	4,361,308	11,387,363	13,065,256	44,237,921	50,999,826	108,303,003
Net (deficit) assets at end of year	<u>\$ (2,636,539)</u>	<u>(14,130,185)</u>	<u>9,235,879</u>	<u>(7,530,845)</u>	<u>38,444,487</u>	<u>51,101,126</u>	<u>82,014,768</u>

See accompanying notes to financial statements.

**THE ASIA SOCIETY**  
Statement of Activities  
Year ended June 30, 2008

	<b>Available for operations</b>	<b>Designated for investment</b>	<b>Invested in and designated for fixed assets</b>	<b>Unrestricted total</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Revenue, gains (losses), and other support:							
Contributions and grants	\$ 9,512,238	—	—	9,512,238	12,861,004	5,349,627	27,722,869
Membership	2,162,982	—	—	2,162,982	—	—	2,162,982
Special events, net of direct donor benefits of \$910,114	2,534,702	—	—	2,534,702	—	—	2,534,702
Program service fees	2,202,514	—	—	2,202,514	—	—	2,202,514
Investment return, net (note 3)	3,068,554	(7,813,545)	—	(4,744,991)	(2,331,117)	—	(7,076,108)
Miscellaneous	732,916	—	—	732,916	—	—	732,916
	<u>20,213,906</u>	<u>(7,813,545)</u>	<u>—</u>	<u>12,400,361</u>	<u>10,529,887</u>	<u>5,349,627</u>	<u>28,279,875</u>
Net assets released from restrictions	6,579,763	—	660,640	7,240,403	(7,240,403)	—	—
Total revenue, gains (losses), and other support	<u>26,793,669</u>	<u>(7,813,545)</u>	<u>660,640</u>	<u>19,640,764</u>	<u>3,289,484</u>	<u>5,349,627</u>	<u>28,279,875</u>
Expenses:							
Program services:							
Cultural programs	6,108,767	—	708,846	6,817,613	—	—	6,817,613
Policy and business	5,656,678	—	298,356	5,955,034	—	—	5,955,034
Education	4,232,392	—	104,124	4,336,516	—	—	4,336,516
Communications	496,250	—	38,045	534,295	—	—	534,295
U.S. regional centers	1,318,301	—	4,452	1,322,753	—	—	1,322,753
Asian activities	108,262	—	—	108,262	—	—	108,262
Auxiliary services	1,994,830	—	362,433	2,357,263	—	—	2,357,263
Total program services	<u>19,915,480</u>	<u>—</u>	<u>1,516,256</u>	<u>21,431,736</u>	<u>—</u>	<u>—</u>	<u>21,431,736</u>
Supporting services:							
Management and general	3,340,741	—	272,919	3,613,660	—	—	3,613,660
Marketing	1,076,069	—	68,378	1,144,447	—	—	1,144,447
Fund-raising	2,426,984	—	150,772	2,577,756	—	—	2,577,756
Total supporting services	<u>6,843,794</u>	<u>—</u>	<u>492,069</u>	<u>7,335,863</u>	<u>—</u>	<u>—</u>	<u>7,335,863</u>
Total expenses	<u>26,759,274</u>	<u>—</u>	<u>2,008,325</u>	<u>28,767,599</u>	<u>—</u>	<u>—</u>	<u>28,767,599</u>
Increase (decrease) in net assets before other changes and affiliate deconsolidation	34,395	(7,813,545)	(1,347,685)	(9,126,835)	3,289,484	5,349,627	(487,724)
Other changes:							
Transfer for acquisition of fixed assets	(291,851)	—	291,851	—	—	—	—
Change in fair value of interest rate swap (note 5)	—	—	(132,479)	(132,479)	—	—	(132,479)
(Decrease) increase in net assets before affiliate deconsolidation	(257,456)	(7,813,545)	(1,188,313)	(9,259,314)	3,289,484	5,349,627	(620,203)
Affiliate deconsolidation (note 1)	(4,861,360)	(405,797)	(2,845,403)	(8,112,560)	(46,360,775)	—	(54,473,335)
(Decrease) increase in net assets	(5,118,816)	(8,219,342)	(4,033,716)	(17,371,874)	(43,071,291)	5,349,627	(55,093,538)
Net assets at beginning of year	2,435,401	12,580,650	15,421,079	30,437,130	87,309,212	45,650,199	163,396,541
Net (deficit) assets at end of year	<u>\$ (2,683,415)</u>	<u>4,361,308</u>	<u>11,387,363</u>	<u>13,065,256</u>	<u>44,237,921</u>	<u>50,999,826</u>	<u>108,303,003</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Decrease in net assets	\$ (26,288,235)	(55,093,538)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized loss on investments	23,242,336	7,873,874
Change in fair value of interest rate swap	971,622	132,479
Depreciation and amortization	2,083,155	2,008,325
Affiliate deconsolidation	—	54,473,335
Permanently restricted contributions and contributions restricted for capital projects	(101,300)	(5,434,000)
Increase in contributions and grants receivable, net of amounts classified as financing	(3,223,062)	(1,416,115)
Decrease in prepaid expenses and other assets	10,626	104,294
Increase in accounts payable and accrued expenses	3,172	749,739
Net cash (used in) provided by operating activities	(3,301,686)	3,398,393
Cash flows from investing activities:		
Proceeds from sales of investments	14,843,130	18,043,922
Investment purchases	(11,944,739)	(25,298,965)
Capital expenditures	(268,291)	(344,991)
Net cash provided by (used in) investing activities	2,630,100	(7,600,034)
Cash flows from financing activities:		
Operations:		
Loan principal payments	(630,000)	(600,000)
Transfer to Asia Society – Texas	—	(199,902)
Permanently restricted contributions and contributions restricted for capital projects	101,300	5,434,000
Decrease in contributions and grants receivable related to permanently restricted contributions and contributions restricted for capital projects	480,000	885,141
Cash (used in) provided by financing activities – operations	(48,700)	5,519,239
Deconsolidation of affiliate cash	—	(20,405,930)
Net cash used in financing activities	(48,700)	(14,886,691)
Net decrease in cash and cash equivalents	(720,286)	(19,088,332)
Cash and cash equivalents at beginning of year	8,819,014	27,907,346
Cash and cash equivalents at end of year	\$ 8,098,728	8,819,014
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 741,433	659,179

See accompanying notes to financial statements.

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### Financial Statements and Schedule

June 30, 2009 and 2008

#### (1) Organization and Summary of Significant Accounting Policies

##### *Organization*

The Asia Society (the Society) is a New York not-for-profit company chartered by State Education Department of New York. It was founded in 1956 by John D. Rockefeller III. The Society is an international, nonprofit, nonpartisan organization dedicated to strengthening relationships and deepening understanding among the peoples of Asia and the United States. The Society presents a wide range of public programs, including major art exhibitions, performances, lectures, international conferences, and kindergarten through grade 12 educational initiatives about Asia and international education. Headquartered in New York City, the organization has centers in Los Angeles, San Francisco, and Washington, D.C. and a representative in Shanghai.

Additionally, the Society has affiliate offices in Hong Kong, Houston, Manila, Melbourne, Mumbai, and Seoul. Each affiliate operates in concert with the Society based on a Global Operating Agreement and pays an annual participation fee to the Society in consideration of being part of the Society organization and the global services provided by the Society. In addition, the Society has entered into an agreement with each affiliate under which the Society has granted a royalty-free license to use the Society's trademark and related marks and trade names.

Effective July 1, 2007, the Society is no longer required to consolidate certain affiliated entities into its financial statements, due to amendments that were made to the charters of the affiliated entities. Additionally, the Society pledged the transfer of the Asia Society's Texas branch (AS-T), a part of the New York entity, to the Asia Society-Texas: Asia House (AST:AH) on June 30, 2007. The pledge was fulfilled on July 1, 2007 by the transfer of the AS-T assets to AST:AH. The new entity was renamed the Asia Society Texas Center. As a result of these actions, beginning July 1, 2007, the financial statements of the Society will only include the financial statements of The Asia Society, the New York entity, as described above.

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As discussed above, the Society deconsolidated certain affiliated entities effective July 1, 2007. The Society recognized a loss on deconsolidation of \$54,473,335 in the accompanying statement of activities for the year ended June 30, 2008, which comprised the following:

	<b>2008</b>
<b>Assets:</b>	
Cash	\$ 20,405,930
Contributions and grants receivable	19,948,879
Prepaid expenses and other assets	436,478
Investments	3,532,960
Land, building, and equipment	12,244,580
Total assets	56,568,827
<b>Liabilities:</b>	
Accounts payable and accrued expenses	1,095,492
Loans payable	1,000,000
Total liabilities	2,095,492
Net assets	\$ 54,473,335

No further loss on deconsolidation was recognized in the year ended June 30, 2009.

***Summary of Significant Accounting Policies***

***(a) Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis.

***(b) Basis of Presentation***

The Society's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified and reported as follows:

**Unrestricted net assets – available for operations** – Net assets that are not subject to donor-imposed stipulations and are available for the organization's ongoing operations

**Unrestricted net assets – designated for investment** – Net assets that are not subject to donor-imposed stipulations but have been designated by the board for investment

**Unrestricted net assets – invested in and designated for fixed assets** – Unrestricted net assets that are invested in or designated for the organization's long-lived assets

**Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that will be met by either actions of the Society and/or the passage of time



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**Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed), except for those restrictions met in the same year as received, which are reported as revenues of the unrestricted net asset class, are reported as net assets released from restrictions. Contributions of cash or other assets that must be used to acquire long-lived assets are recorded as temporarily restricted net assets until the assets are placed in service.

**(c) Contributions**

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Contributions to be received after one year are discounted at an adjusted risk-free rate. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions.

**(d) Revenue Recognition**

Conditional promises are recorded as revenue once the conditions are substantially met. Contributions, grants, and bequests are recognized as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. When restrictions are met in the same period as the contribution is received, the Society records the contribution and the expense as unrestricted. Contributions of assets other than cash are recorded at their estimated fair value. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

During 2009, the Society received goods and services valued at \$195,653 for use at auctions held by the Society. These items included goods, sporting and entertainment tickets and vacation packages. The auctions of these items yielded revenue of \$140,430, which is included in special events revenue in the statement of activities.

**(e) Collection Items**

The Mr. and Mrs. John D. Rockefeller 3rd Collection of Asian Art (the Rockefeller Collection) is noted for both its large number of masterpiece-quality objects and the scholarly import awarded to these pieces. The Rockefeller Collection is pan-Asian and includes approximately 300 objects, ranging in date from the second millennium B.C.E. to the 18th century, from such diverse nations as India, Pakistan, Bangladesh, Nepal, Myanmar, Thailand, Cambodia, Vietnam, Indonesia, China, Korea, and Japan. It includes a large number of bronze sculptures and ceramics, as well as paintings,

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wooden sculptures, and other decorative arts. Most of the Rockefeller Collection was donated to the Society in 1979. Additions since that time consist principally of donations from the estate of Mrs. Blanchette Rockefeller.

In addition to frequent displays in the exhibition galleries at the Society, selected works from the Rockefeller Collection are also shown as part of special exhibitions either at the Society or in museums throughout the world. When not on display at the Society or on loan to museums for temporary exhibitions, the objects are maintained in climate-controlled storage. The Society maintains policies and procedures addressing the Rockefeller Collection's upkeep as well as other aspects of its management, including accession/deaccession policies. The Society has adopted the policy of not capitalizing its collection. During 2009, art was acquired with donor-restricted funds at a cost of \$57,016. This expenditure was included as an operating expense. No art was acquired in 2008.

**(f) *Cash Equivalents***

Cash equivalents represent debt instruments with original maturities of three months or less, except for those short-term investments managed by the Society's investment managers as part of their long-term investment strategies.

**(g) *Depreciation***

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Building is depreciated over a 40-year estimated useful life. Building improvements and other equipment are depreciated over a 10-year estimated useful life and computer equipment is depreciated over a 3-year estimated useful life.

**(h) *Accounting Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; the valuation of investments, inventory, fixed assets and contributions receivable; and reserves for other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

**(i) *Tax Status***

The Society is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income activities. In addition, the Society is tax exempt from state and local income tax for related activities, property taxes and sales tax. During the years ended June 30, 2009 and 2008, the Society was not subject to unrelated business income taxes. The Society believes that it will continue to be exempt from taxes and has taken no significant uncertain tax positions.

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In June 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. FIN 48 also requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. On December 30, 2008, the FASB issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which defers the effective date of FIN 48 for most nonpublic entities to annual financial statements for fiscal years beginning after December 15, 2008. The adoption of FIN 48 is not expected to have a significant impact on the Society's financial statements.

(j) **Investments**

Investments are stated at fair value based upon quoted market prices except for the fair values of alternative investments, primarily hedge and absolute return funds, which are based on net asset values provided by the fund managers based upon the underlying net assets of the funds. These values are reviewed and evaluated by management.

Effective July 1, 2008, the Society adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under SFAS No. 157 are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Society has the ability to access at the measurement date
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active
- Level 3 Inputs that are unobservable

In conjunction with the adoption of SFAS No. 157, the Society elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Fair Value Measurement and Disclosures – Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, with respect to investments within its scope (principally hedge funds and private equity – collectively alternative investments). This guidance amends SFAS No. 157 and allows for the estimation of the fair value of investments in investment companies for which the investments does not have a readily determinable fair value using net asset value per share or its equivalent. In addition, classification of these investments within the fair value hierarchy is based on the Society's ability to redeem its interest rather than on valuation inputs.

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**(k) Reclassifications**

Certain reclassifications have been made to the 2008 financials statements to conform to the 2009 presentation.

**(2) Contributions and Grants Receivable**

Unconditional promises to give are reported in the financial statements as contributions and grants receivable and as revenue of the appropriate net asset class. These receivables are recorded net of a discount to reflect the present value of future cash flows and are expected to be collected as follows at June 30, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Amounts expected to be collected in:		
Less than one year	\$ 6,216,282	6,666,348
One to five years	8,059,414	4,406,886
Thereafter	450,000	920,000
Total	14,725,696	11,993,234
Less:		
Allowance for doubtful accounts	(150,000)	(150,000)
Less discount to present value (at discount rates ranging from 0.56% to 5.12%)	(444,000)	(454,600)
	\$ 14,131,696	11,388,634

**(3) Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based upon values provided by the Society's external investment managers or upon quoted market values.

The Society holds investments in alternative investments, consisting primarily of hedge and absolute return funds, which invest in long and short publicly traded equities, debt and credit related instruments, private equity situations, and real estate, for which no ready market exists. The Society's investments in alternative investments are recorded at fair values provided by the fund managers and general partners. The values assigned to the holdings do not necessarily represent amounts that might ultimately be realized upon the sale or other disposition since such amounts depend on future circumstances and cannot reasonably be determined until the actual liquidation occurs. The Society reviews the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

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Investments, at fair value, consist of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 2,259,958	511,609
Domestic equity securities	10,488,144	31,927,436
International equity securities	542,169	2,442,264
Mutual funds:		
Equities	14,965,219	16,232,918
Fixed income	8,468,492	6,589,045
Alternative investments		
Hedge funds	3,923,765	8,338,241
Absolute return funds	9,738,392	10,146,943
Equity trust	2,471,686	2,810,096
Total	<u>\$ 52,857,825</u>	<u>78,998,552</u>

The Society invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

The following represents the Society's investments categorized by the fair value hierarchy under SFAS No. 157 as of June 30, 2009:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 2,259,958	2,259,958	—	—
Domestic equity securities	10,488,144	10,488,144	—	—
International equity securities	542,169	542,169	—	—
Equity mutual funds	14,965,219	14,965,219	—	—
Bond mutual funds	8,468,492	8,468,492	—	—
Alternative investments	16,133,843	—	4,116,453	12,017,390
Total	<u>\$ 52,857,825</u>	<u>36,723,982</u>	<u>4,116,453</u>	<u>12,017,390</u>

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The following table presents the Society's activity for the period July 1, 2008 to June 30, 2009 for the investments classified as Level 3 within the fair value hierarchy. Level 3 investments declined by \$2,123,367.

	<b>Level 3 assets</b>
Fair value as of June 30, 2008	\$ 16,615,927
Reclassifications	(2,475,200)
Net depreciation in fair value of investments	(2,123,337)
Fair value as of June 30, 2009	\$ 12,017,390

As of June 30, 2009, the Society had alternative investments with a fair value of \$16,133,843, of that value, \$15,042,430 can be redeemed in fiscal year 2010. The remainder represents private placement investments, which will be accessible to the Society as the investments are liquidated by the fund manager. The limitations and restrictions on the Society's ability to redeem or sell these investments vary by investment and ranges from required notice periods (generally 30 to 90 days after initial lock-up periods) to specified terms at inception. Based on the terms and conditions in effect at June 30, 2009, the Society's alternative investments can be redeemed or sold as follows:

Monthly redemption within 30 days notice	\$ 2,471,686
Monthly redemption within 90 days notice	5,561,224
Quarterly redemption within 45 days notice	1,644,767
Semi-annual redemption within 90 days notice	1,746,830
Annual redemption within 45 days notice	3,617,923
Redemption in 1 – 5 years	1,091,413
	\$ 16,133,843

Investment return represents income earned on cash and cash equivalents and investment as follows:

	<b>2009</b>	<b>2008</b>
Interest and dividends	\$ 1,013,209	1,408,095
Net realized losses	(12,108,082)	1,642,857
Net unrealized losses	(11,134,254)	(9,516,731)
Total net losses	(23,242,336)	(7,873,874)
Net investment losses	(22,229,127)	(6,465,779)
Less investment advisory fees	(381,443)	(610,329)
Investment return, net	\$ (22,610,570)	(7,076,108)

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The Society's investments are managed to achieve the maximum long-term return; therefore, no distinction is made among dividend, interest income, realized gains and losses, and unrealized gains and losses.

**(4) Land, Building, and Equipment**

At June 30, 2009 and 2008, the cost and accumulated depreciation of land, building, and equipment were as follows:

	<b>2009</b>	<b>2008</b>
Land	\$ 2,032,010	2,032,010
Building and building improvements	38,334,974	38,334,974
Equipment and furniture	10,866,664	10,598,373
	51,233,648	50,965,357
Less accumulated depreciation	20,675,101	18,605,938
	\$ 30,558,547	32,359,419

**(5) Loan Payable**

On March 1, 2000, the Society entered into a loan agreement with the Trust for Cultural Resources of the City of New York (the Trust), primarily to provide long-term financing of the cost of renovating and refurbishing the Society's headquarters building at 725 Park Avenue.

In connection with the loan agreement, on April 14, 2000, the Trust issued \$25,000,000 of Revenue Bonds, Series 2000 (the Bonds), due 2030, loaning the proceeds of the issuance to the Society. While the Bonds are not the debt of the Society, the loan agreement obligates the Society to make payments equal to the debt service (principal and interest) of the Bonds.

The principal of the loan is payable annually beginning April 1, 2002 in increasing amounts through April 1, 2030. The loan can be prepaid, without penalty, at any time. Minimum principal payments are as follows:

	<b>Amount</b>
Year ending June 30:	
2010	\$ 650,000
2011	680,000
2012	705,000
2013	735,000
2014	760,000
2015 and thereafter	17,305,000
	\$ 20,835,000

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The issuance costs associated with the Bonds are being amortized over the term of the Bonds. The unamortized balance of \$291,006 and \$304,998 at June 30, 2009 and 2008, respectively, is included in prepaid expenses and other assets.

The Bonds bear interest at a weekly rate, not to exceed 12% per annum. Interest is payable monthly. For the years ended June 30, 2009 and 2008, the interest rate varied from 0.15% to 6.50% and 1.10% to 3.90%, respectively, and at June 30, 2009 and 2008 was 0.24% and 1.25%, respectively. Interest expense for the years ended June 30, 2009 and 2008 was \$289,994 and \$609,314, respectively.

The Society's payment obligation under the loan agreement is secured by a Letter of Credit and Reimbursement Agreement (the L/C Agreement) between the Society and a financial institution. The scheduled termination date of the L/C Agreement is April 13, 2011, which may be extended indefinitely for periods of one year.

In accordance with the L/C Agreement, the Society is required to meet certain reporting, insurance, and financial covenants. Management believes that the Society is in compliance with all covenants.

In April 2008, the Society entered into an interest rate swap with an initial notional amount of \$21,465,000. The swap is intended to convert the variable interest rate on the Bonds to a fixed rate of 3.10%. Because the swap is based on a LIBOR rate while the interest rate on the bonds is determined by a weekly auction, the actual effective interest rate may vary from the swap rate of 3.10%. The notional amount declines to 60% of the outstanding Bond principal after five years, to 40% after 10 years and expires in March 2023. As of June 30, 2009 and 2008, the total fair value of the swap agreement is a liability of \$1,104,101 and \$132,479, respectively, which has been included in accounts payable, accrued expenses, and other liabilities in the accompanying balance sheets. Net swap interest expense for the years ended June 30, 2009 and 2008 was \$451,439 and \$49,865, respectively.

The interest rate swap agreement requires that collateral be posted if the Society's liability in the swap exceeds a threshold of \$1,700,000. During 2009, the Society was required to post a total of \$653,993 of collateral, all of which had been returned to the Society by June 30, 2009.



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**(6) Temporarily Restricted and Permanently Restricted Net Assets**

Temporarily restricted net assets at June 30, 2009 and 2008 were available for the following purposes or periods:

	<u>2009</u>	<u>2008</u>
Education	\$ 11,285,790	6,450,005
Building renovations	7,003,084	7,821,850
Cultural programs (a)	5,021,176	5,121,847
Policy and business	12,064,046	19,180,415
New media	178,769	508,400
Art acquisitions	825,715	766,024
U.S. centers	125,749	255,584
Future periods	1,940,158	4,133,796
	<u>\$ 38,444,487</u>	<u>44,237,921</u>

- (a) Includes a term endowment of \$550,000 to be invested through 2010, the income from which is available for gallery programs. At the end of the term, the principal may be used for this or any other purpose to be determined by the Society.

The investment income earned on the balances of permanently restricted net assets is restricted to the following uses at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Permanent collection	\$ 7,100,000	7,100,000
Cultural programs	16,311,007	16,211,007
Policy and business	19,708,870	19,707,670
Education	1,642,000	1,642,000
Art acquisitions	650,000	650,000
Country funds (b)	2,011,667	2,011,667
Internship funds	2,480,000	2,480,000
Unrestricted	1,197,582	1,197,482
	<u>\$ 51,101,126</u>	<u>50,999,826</u>

- (b) Comprised of four separate funds to support programming of any discipline of the Society related to four Asian countries.

**(7) Pension Plan**

The Society has a defined contribution retirement plan covering substantially all employees. The plan is fully funded by the purchase of annuity contracts. Pension expense for the years ended June 30, 2009 and 2008 was approximately \$703,000 and \$786,000, respectively.

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**(8) Operating Leases**

The Society rents office space to house programming and Center employees outside of New York. Additionally, it leases copiers for its New York office. The total lease expense associated with these commitments was \$242,716 and \$209,352 in fiscal years 2009 and 2008, respectively. Future minimum lease payments under noncancelable operating leases with remaining lease terms in excess of one year are as follows:

	<u>Amount</u>
Year ending June 30:	
2010	\$ 272,257
2011	246,865
2012	183,254
2013	124,266
2014	105,048
2015 and thereafter	<u>234,478</u>
	<u>\$ 1,166,168</u>

**(9) Related Party Transactions**

The affiliated offices, described in note 1, pay the Society an annual participation fee in accordance with a Global Operating Agreement. The Society has recognized participation fee revenue of \$55,561 and \$73,104 for the years ended June 30, 2009 and 2008, respectively, which is included in miscellaneous revenue in the accompanying statements of activities. In addition, the Society shares certain fees with and makes grants to the affiliated offices. At June 30, 2009 and 2008, the Society owed the affiliated offices \$382,951 and \$251,536, respectively, which is included in accounts payable, accrued expenses, and other liabilities in the accompanying balance sheets.

**(10) Endowment Funds**

Effective June 1, 2008, the Society adopted the provision of FASB Staff Position (FSP) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*. While New York State has not enacted a version of UPMIFA and the Society is not subject to UPMIFA but rather to the Uniform Management of Institutional Funds Act (UMIFA), the FSP requires enhanced disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The Society's endowment consists of approximately 40 individual donor-restricted funds, five term endowments and the building fund, which is temporarily restricted as to purpose, to support its operating and capital needs. Net assets associated with the endowment funds, including the term endowments and the building fund, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Society has interpreted UMIFA as requiring the preservation in perpetuity of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently

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restricted net assets the original value of gifts donated to the permanent endowment, as well as the original value of subsequent gifts to the permanent endowment. Income earned on these assets is appropriated for expenditure in accordance with donor-imposed purpose restrictions, if any, on the use of such earned income.

The investment objective of the Society’s investment portfolio is to provide that future growth of the portfolio is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the endowment fund with prudent level of risk. The assets are managed on a total return basis. The Investment Committee of the Board of Trustees has adopted long-term asset allocation policy mid-range targets for equities, fixed income, and alternative investments (which consist of hedge, equity, and absolute return funds).

To provide a predictable flow of funds to support operations, the Society’s Board of Trustees has authorized a general policy permitting the use of income from endowment investments to be used for operations at a rate (spending rate) of up to 5.4% and 5.5% of the preceding 36-month average fair value of the portfolio for fiscal years 2009 and 2008, respectively. In fiscal years 2009 and 2008, the following amount and rates were allocated in accordance with this policy:

	<b>2009</b>	<b>2008</b>
Investment income allocated to:		
Unrestricted net assets for operations	\$ 3,159,007	2,909,100
Temporarily restricted net assets	59,691	43,260
	<b>\$ 3,218,698</b>	<b>2,952,360</b>
Representing a spending rate of	5.4%	5.5%

Furthermore, the policy of the Society is that the appropriated spending should not exceed 6.0% or be less than 4.5% of the 12-month average value through the fiscal year preceding the fiscal year in which the distribution is planned.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UMIFA requires to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets totaled \$12,623,842 as of June 30, 2009. These deficiencies result from unfavorable market fluctuations subsequent to the investment of permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the donor-restricted endowment fund to the required level will be classified as an increase in unrestricted net assets. On \$8,449,954 of these deficiencies, donors have given explicit consent for the Society to authorize endowment spending per the parameters outlined above, even if the value of the endowment they contributed falls below the original value of their gift.

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Endowment net assets, exclusive of pledge receivables of \$1,285,628, consist of the following as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (10,758,627)	—	49,815,498	39,056,871
Long-term temporarily restricted funds	(150,210)	880,800	—	730,590
Term endowment funds	(1,158,694)	4,550,000	—	3,391,306
Building fund	(2,002,963)	6,983,085	—	4,980,122
Total endowment net assets	<u>\$ (14,070,494)</u>	<u>12,413,885</u>	<u>49,815,498</u>	<u>48,158,889</u>

Endowment net assets, exclusive of pledge receivables of \$1,985,628, consist of the following as of June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 3,823,527	3,246,966	49,234,198	56,304,691
Long-term temporarily restricted funds	15,203	680,800	—	696,003
Term endowment funds	186,516	4,550,000	—	4,736,516
Building fund	336,061	7,801,850	—	8,137,911
Total endowment net assets	<u>\$ 4,361,307</u>	<u>16,279,616</u>	<u>49,234,198</u>	<u>69,875,121</u>

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Changes in endowment net assets for the year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2008	\$ 4,361,307	16,279,616	49,234,198	69,875,121
Investment return:				
Interest and dividend income	826,060	—	—	826,060
Net depreciation in fair value	(16,198,094)	(2,856,962)	—	(19,055,056)
Management fees	(290,765)	—	—	(290,765)
Total investment return, net	(15,662,799)	(2,856,962)	—	(18,519,761)
Contributions cash basis	—	207,500	581,300	788,800
Appropriation of endowment assets for expenditure	(2,769,002)	(390,004)	—	(3,159,006)
Net asset release of building funds	—	(826,265)	—	(826,265)
Endowment net assets, June 30, 2009	\$ <u>(14,070,494)</u>	<u>12,413,885</u>	<u>49,815,498</u>	<u>48,158,889</u>

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Changes in endowment net assets for the year ended June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2007	\$ 12,174,851	19,022,648	43,057,571	74,255,070
Investment return:				
Interest and dividend income	802,640	130,550	—	933,190
Net depreciation in fair value	(5,673,788)	(2,183,176)	—	(7,856,964)
Management fees	(290,036)	(240,673)	—	(530,709)
Total investment return, net	(5,161,184)	(2,293,299)	—	(7,454,483)
Contributions cash basis	—	457,767	6,176,627	6,634,394
Appropriation of endowment assets for expenditure	(2,652,360)	(300,000)	—	(2,952,360)
Net asset release of building funds	—	(607,500)	—	(607,500)
Endowment net assets, June 30, 2008	<u>\$ 4,361,307</u>	<u>16,279,616</u>	<u>49,234,198</u>	<u>69,875,121</u>

**(11) Subsequent Events**

Effective June 30, 2009, the Society adopted FASB Statement No. 165, *Subsequent Events* (Statement 165). Statement 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The Society evaluated events subsequent to June 30, 2009 and through December 22, 2009, the date on which the financial statements were approved for issuance. The adoption of Statement 165 had no impact on the Society's financial statements.

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Schedule of Functional Expenses  
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	Cultural programs	Policy and business	Education	Communications	U.S. regional centers	Asian activities	Auxiliary services	Total program services	Management and general	Marketing	Fund-raising	Total supporting services	2009 total expenses	2008 total expenses
Unrestricted operating expenses:														
Salaries and wages	\$ 1,813,515	1,886,012	1,223,396	453,699	758,101	23,293	658,855	6,816,871	1,944,613	478,769	1,430,115	3,853,497	10,670,368	10,337,860
Benefits and payroll taxes	429,371	494,035	325,110	121,979	153,764	11,488	163,108	1,698,855	317,450	118,065	369,104	804,619	2,503,474	2,612,664
Total staff costs	2,242,886	2,380,047	1,548,506	575,678	911,865	34,781	821,963	8,515,726	2,262,063	596,834	1,799,219	4,658,116	13,173,842	12,950,524
Professional fees	715,439	324,911	1,214,064	72,926	91,498	131,374	25,757	2,575,969	184,173	32,205	56,620	272,998	2,848,967	2,921,226
Supplies and materials	386,791	286,745	195,882	3,493	62,414	—	47,673	982,998	48,925	43,652	129,143	221,720	1,204,718	1,502,376
Travel	193,400	983,364	551,927	2,944	32,088	20,527	12,640	1,796,890	36,519	10,763	33,469	80,751	1,877,641	3,184,073
Communications	337,765	69,752	43,872	69,988	24,654	2,490	5,529	554,050	68,375	13,386	76,204	157,965	712,015	862,842
Occupancy	337,760	166,336	64,216	13,037	106,864	—	124,741	812,954	115,757	30,453	65,711	211,921	1,024,875	902,962
Equipment rental and maintenance	94,187	59,074	19,405	20,096	12,421	—	55,630	260,813	185,544	10,893	57,763	254,200	515,013	563,146
Store inventory	—	—	—	—	—	—	497,696	497,696	—	—	—	—	497,696	648,887
Grants paid	—	33,000	630,024	—	—	3,142,000	—	3,805,024	—	—	—	—	3,805,024	673,159
Financing costs	346,140	145,692	50,845	18,578	—	—	—	738,236	132,980	33,245	73,335	239,560	977,796	863,663
Other	501,321	129,591	58,891	1,073	30,478	1,882	29,857	753,093	228,514	61,375	108,005	397,894	1,150,987	1,686,416
Total unrestricted operating expenses	5,155,689	4,578,512	4,377,632	777,813	1,272,282	3,333,054	1,798,467	21,293,449	3,262,850	832,806	2,399,469	6,495,125	27,788,574	26,759,274
Unrestricted fixed-asset expenses:														
Depreciation and amortization	735,336	309,506	108,015	39,467	4,452	—	375,977	1,572,753	283,095	70,922	156,385	510,402	2,083,155	2,008,325
Total expenses	\$ 5,891,025	4,888,018	4,485,647	817,280	1,276,734	3,333,054	2,174,444	22,866,202	3,545,945	903,728	2,555,854	7,005,527	29,871,729	28,767,599

See accompanying independent auditors' report.