

The Museum of Modern Art
Consolidated Financial Statements
June 30, 2007 and 2006

The Museum of Modern Art
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June 30, 2007 and 2006

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Report of Independent Auditors

To the Board of Trustees of
The Museum of Modern Art

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of unrestricted revenues, expenses and changes in unrestricted net assets, changes in net assets and cash flows present fairly, in all material respects, the consolidated financial position of The Museum of Modern Art at June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Museum's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As further discussed in Note 11 to the financial statements, in fiscal year 2007, the Museum changed its method of accounting for defined benefit pension and other postretirement plans.

PricewaterhouseCoopers LLP

October 15, 2007

The Museum of Modern Art
Consolidated Statements of Financial Position
June 30, 2007 and 2006

<i>(in thousands)</i>	2007	2006
Assets		
Cash and cash equivalents	\$ 146,749	\$ 33,877
Receivables		
Accounts receivable, net of allowance of \$225 in 2007 and \$201 in 2006	1,211	1,599
Contributions receivable, net	204,428	209,013
Accrued investment income and other receivables	1,278	1,341
The Trust for Cultural Resources	37,345	38,429
Inventories	10,117	11,020
Prepaid expenses and other assets	31,169	29,586
Investments, at fair value	648,807	555,067
Investments held on behalf of others	3,953	3,402
Property, plant and equipment, net	602,232	637,978
Museum collections	-	-
Total assets	<u>\$ 1,687,289</u>	<u>\$ 1,521,312</u>
Liabilities and net assets		
Accounts payable, accrued expenses and other liabilities	\$ 32,394	\$ 29,962
Deferred revenue	3,612	4,051
Loans payable	335,875	350,875
Funds held on behalf of others	3,953	3,402
Postretirement benefit obligation	14,414	12,764
Total liabilities	<u>390,248</u>	<u>401,054</u>
Net assets		
Unrestricted		
Museum operations		
Museum funded property, plant and equipment	13,995	14,182
All other (including advances to The Trust for Cultural Resources of \$37,345 in 2007 and \$38,429 in 2006)	542,548	380,940
	<u>556,543</u>	<u>395,122</u>
Plant and equipment funded by designated gifts	393,787	414,401
	<u>950,330</u>	<u>809,523</u>
Temporarily restricted	157,596	135,195
Permanently restricted	189,115	175,540
Total net assets	<u>1,297,041</u>	<u>1,120,258</u>
Total liabilities and net assets	<u>\$ 1,687,289</u>	<u>\$ 1,521,312</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Museum of Modern Art
Consolidated Statements of Unrestricted Revenues,
Expenses and Changes in Unrestricted Net Assets
Years Ended June 30, 2007 and 2006

	2007			2006		
	Unrestricted Net Assets			Unrestricted Net Assets		
	Museum Operations	Plant & Equipment Funded by Designated Gifts	Total Unrestricted Net Assets	Museum Operations	Plant & Equipment Funded by Designated Gifts	Total Unrestricted Net Assets
<i>(in thousands)</i>						
Operating revenues and other support						
Admissions	\$ 18,280		\$ 18,280	\$ 20,594		\$ 20,594
Membership	13,931		13,931	13,746		13,746
Investment income - spending policy	19,725		19,725	17,456		17,456
Board-designated increase in spending policy	3,800		3,800	1,546		1,546
Annual fund contributions	8,518		8,518	7,097		7,097
Other grants and contributions	16,270		16,270	17,798		17,798
Government support	253		253	241		241
Circulating exhibition fees	743		743	1,602		1,602
Other	6,798		6,798	5,755		5,755
Revenue of auxiliary activities	48,814		48,814	47,175		47,175
Total operating revenues and other support	137,132		137,132	133,010		133,010
Net assets released from restrictions to fund operations	10,519		10,519	11,471		11,471
Total operating revenues and other support and reclassifications	147,651		147,651	144,481		144,481
Operating expenses						
Curatorial and related support services	22,373		22,373	21,251		21,251
Exhibitions	11,809		11,809	11,769		11,769
Other Museum programs	4,334		4,334	5,782		5,782
Cost of sales/auxiliary activities	44,804		44,804	43,988		43,988
Depreciation (non-auxiliary)	1,401	\$ 26,052	27,453	2,335	\$ 24,478	26,813
Public services	3,757		3,757	3,725		3,725
Membership and development	10,017		10,017	9,595		9,595
Facilities, security and other	28,315		28,315	26,456		26,456
Public information	4,050		4,050	3,685		3,685
Administration and other	16,717	555	17,272	15,763		15,763
Total operating expenses	147,577	26,607	174,184	144,349	24,478	168,827
Excess (deficit) of operating revenues and support over operating expenses	74	(26,607)	(26,533)	132	(24,478)	(24,346)
Non-operating revenues, expenses and other support						
Acquisition of works of arts	(9,788)		(9,788)	(50,635)		(50,635)
Net assets released from restrictions for art acquisitions	9,724		9,724	50,250		50,250
Net assets released from restrictions for capital acquisition, financing and other purposes	15,903	5,993	21,896	16,999	29,642	46,641
Investment return, in excess of spending policy amount	63,858		63,858	34,791		34,791
Gain on sale of development rights	98,176		98,176	-		-
Minimum pension liability	(466)		(466)	527		527
Other and contributions and (expenses)	15		15	(164)		(164)
Interest expense, change in fair value of interest rate swap agreements and other financing costs	(19,098)		(19,098)	(7,418)		(7,418)
Total non-operating revenues, expenses and other support	158,324	5,993	164,317	44,350	29,642	73,992
Change in unrestricted net assets before change in accounting principle	158,398	(20,614)	137,784	44,482	5,164	49,646
Cumulative effect of change in accounting principle	3,023		3,023	-		-
Change in unrestricted net assets	161,421	(20,614)	140,807	44,482	5,164	49,646
Unrestricted net assets						
Beginning of year	395,122	414,401	809,523	350,640	409,237	759,877
End of year	\$ 556,543	\$ 393,787	\$ 950,330	\$ 395,122	\$ 414,401	\$ 809,523

The accompanying notes are an integral part of these consolidated financial statements.

The Museum of Modern Art
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2007 and 2006

<i>(in thousands)</i>	2007	2006
Unrestricted net assets		
Change in unrestricted net assets	\$ 140,807	\$ 49,646
Temporarily restricted net assets		
Capital gifts and other contributions	39,512	88,717
Investment return	20,902	14,173
Net assets released from restriction	(42,139)	(108,362)
Sales of works of art	4,126	17,527
Change in temporarily restricted net assets	22,401	12,055
Permanently restricted net assets		
Capital gifts and other contributions	13,122	9,348
Investment return	453	113
Change in permanently restricted net assets	13,575	9,461
Total change in net assets	176,783	71,162
Net assets		
Beginning of year	1,120,258	1,049,096
End of year	\$ 1,297,041	\$ 1,120,258

The accompanying notes are an integral part of these consolidated financial statements.

The Museum of Modern Art
Consolidated Statements of Cash Flows
Years Ended June 30, 2007 and 2006

<i>(in thousands)</i>	2007	2006
Cash flows from operating activities		
Change in net assets		
Adjustments to reconcile change in net assets to net cash used by operating activities	\$ 176,783	\$ 71,162
Depreciation and amortization	27,868	27,221
Writeoff of fixed assets related to new building project	555	-
Gain on sale of development rights	(98,176)	-
Net realized gains and unrealized appreciation on investments	(103,590)	(58,964)
Contributions and net investment income restricted for endowment	(13,575)	(9,461)
Change in fair value of interest rate swap agreement	3,195	(8,135)
Sales of works of art	(4,126)	(17,527)
Acquisition of works of art	9,788	50,635
Contributions and net investment income restricted for capital acquisition and construction	(6,919)	(39,616)
Changes in assets and liabilities		
Decrease in accounts receivable	388	1,253
Decrease in contributions receivable	4,585	7,891
Decrease in accrued investment income and other receivables	63	213
Decrease (increase) in inventories	903	(979)
Increase in prepaid expenses and other assets	(5,780)	(1,301)
Decrease (increase) in accounts payable, accrued expenses and other liabilities	4,740	(7,389)
(Decrease) increase in deferred revenue	(439)	207
Net cash (used by) provided by operating activities	<u>(3,737)</u>	<u>15,210</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(17,404)	(25,302)
Proceeds from disposition of investments	157,947	180,505
Purchase of investments	(148,648)	(182,760)
Net proceeds from sale of development rights	123,798	-
Sales of works of art	4,126	17,527
Acquisition of works of art	(9,788)	(50,635)
Net cash provided by (used by) investing activities	<u>110,031</u>	<u>(60,665)</u>
Cash flows from financing activities		
Contributions and net investment income restricted for capital acquisition and construction	6,919	39,616
Investment in endowment	13,575	9,461
Distributions from Trust for Cultural Resources	1,084	2,024
Borrowings under loans payable	-	8,000
Repayments on loans payable	(15,000)	(6,100)
Net cash provided by financing activities	<u>6,578</u>	<u>53,001</u>
Net increase in cash and cash equivalents	112,872	7,546
Cash and cash equivalents		
Beginning of year	33,877	26,331
End of year	<u>\$ 146,749</u>	<u>\$ 33,877</u>
Cash paid in the year for interest	<u>\$ 15,949</u>	<u>\$ 15,550</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Museum of Modern Art

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(dollars in thousands)

1. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis of accounting and reflect the consolidation of the following entities in accordance with Statement of Position 94-3, "Reporting of Related Entities by Not-for-Profit Organizations:"

- The Museum of Modern Art (the "Museum")
- Modern and Contemporary Art Support Corp. (the "Support Corp.")
- AFE, LLC

The Museum is the sole member of the Support Corp and AFE, LLC.

The Museum and the Support Corp. are not-for-profit organizations exempt from tax under Section 501 (c) (3) of the Internal Revenue Code; AFE, LLC is a limited liability corporation.

The Museum's significant accounting policies are described below:

Net Assets

The Museum reports information regarding its financial position and changes in activities in one of three classes of net assets: permanently restricted, temporarily restricted, and unrestricted.

- Permanently restricted net assets contain donor-imposed restrictions stipulating that the resources be maintained permanently but permit the Museum to use or expend part or all of the investment return from the donated assets for specified or unspecified purposes.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Museum to use up or expend the donated assets as specified. The restriction is satisfied either by the passage of time or by actions of the Museum.
- Unrestricted net assets are neither permanently restricted nor temporarily restricted by donor-imposed restrictions. As reflected in the accompanying statements of financial position, the Museum has designated unrestricted net assets into the following two categories:
 - Museum operations comprise net assets that are an integral part of the Museum's programs and supporting activities, including fixed assets purchased from general operating support funds, and net assets designated for long-term investments which include realized capital gains and unrealized appreciation on permanently restricted net assets which have no donor-imposed restrictions on either income or capital appreciation.
 - Plant and equipment funded by designated gifts represents fixed assets constructed or acquired with donor specified contributions.

Contributions

Contributions, including promises to give, are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of unrestricted revenues, expenses and changes in net assets as net assets released from restrictions. It is the Museum's policy to record temporarily restricted contributions and investment returns thereon that are received and expended in the same accounting period in the unrestricted net asset category.

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Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(dollars in thousands)

It is the Museum's policy to recognize contributions restricted by a donor for the acquisition or construction of long-lived assets as temporarily restricted support and to reclassify such support to unrestricted net assets as net assets released from restriction when the asset has been acquired or placed in service.

Nonmonetary contributions are recorded at estimated fair value at date of receipt. The Museum received certain goods and services that meet criteria under generally accepted accounting principles for recognition as contributions. There were no material nonmonetary contributions for the year ended June 30, 2007.

A substantial number of volunteers have contributed significant amounts of time to the Museum; however, no amounts have been reflected in the accompanying financial statements for such contributed services as these services do not meet the criteria for recognition as contributions under generally accepted accounting principles.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, if purchased, or, if donated, at a fair value at date of gift. Depreciation is computed principally by the straight-line basis over the estimated useful lives as follows:

Buildings and building components	10 to 50 years
Leasehold improvements	lesser of useful life or lease term
Equipment, software and other	3 to 10 years

Investments

Investments are carried at market or fair value. Income from pooled investments and realized gains and losses and unrealized appreciation and depreciation on security transactions are allocated among individual restricted and unrestricted funds on the basis of the respective percentage share in the fund balance which exists at the beginning of each month in which income and realized gains or losses and unrealized appreciation and depreciation are earned.

Purchases and sales of short-term investments, fixed-income and equity securities are reflected on a trade-date basis. Investment income is recorded on an accrual basis. Investments denominated in foreign currency are translated at the year-end spot rate.

Inventories

The Museum values its inventories, consisting primarily of publishing and retailing merchandise, at the lower of weighted average cost or market.

Collections

The Museum is chartered as an educational institution whose pre-eminent collection of contemporary and modern art is made available to its members and the public to encourage and expand the study and appreciation of modern art through a program of public exhibitions, education and research.

The Museum's collections, acquired through purchase and contributions, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded in the year in which the items were acquired as decreases in unrestricted or temporarily restricted net

The Museum of Modern Art

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(dollars in thousands)

assets depending on whether the assets used to purchase the items were restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions, which are reflected as increases in temporarily restricted net assets, are used exclusively to acquire other items for the collection.

Cash and Cash Equivalents

The Museum considers all highly liquid investments with maturities of three months or less when purchased, other than those held in the investment portfolio, to be cash equivalents.

Museum Operations

The Museum includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities except for interest expense and other financing costs, amortization of bond issuance costs, board-designated contributions, gain on sale of development rights, expense associated with minimum pension liability, cumulative effect of a change in accounting principle and the write off of plant and equipment in connection with the new building project. Additionally, pursuant to donor stipulations, the Museum may release certain temporarily restricted contributions from the capital campaign to cover operating expenses related to temporary offsite occupancy costs, fundraising, marketing and government relations expenses, and operating support for the duration of the new building project which is now completed. The measure of operations also includes 5% of investment income pursuant to the spending policy (see Note 3), but excludes investment return in excess of that amount.

Derivative Instruments

The Museum records derivative instruments (e.g. interest rate swap agreements) at fair value in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Hedging Activities*. The change in fair value during the reporting period together with the net effect of the interest rate swap is recognized below the operating measure in the statements of unrestricted revenues, expenses and changes in unrestricted net assets.

Bond Issuance Costs

Bond issuance costs, included in prepaid expenses and other assets, represent costs to obtain financing for various projects of the Museum. Amortization of these costs extends over the term of the applicable loans.

Functional Allocation of Expenses

The cost of providing program and supporting services has been summarized in footnote 17.

Advertising Expense

Advertising is recorded as expense in the period incurred. Advertising expense for the years ended June 30, 2007 and 2006 was \$2,490 and \$2,442, respectively.

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

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Notes to Consolidated Financial Statements
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(dollars in thousands)

2. Contributions Receivable

Contributions receivable at June 30, 2007 and 2006 are as follows:

	2007	2006
Museum operations and programs	\$ 137,792	\$ 141,272
Future periods - split interest agreements (Note 6)	7,015	7,015
Capital construction and acquisition	89,479	94,086
	<u>234,286</u>	<u>242,373</u>
Less: Discount for present value	(26,358)	(29,860)
Allowance for doubtful accounts	(3,500)	(3,500)
	<u>\$ 204,428</u>	<u>\$ 209,013</u>
Amounts due in		
Less than one year	\$ 25,097	\$ 32,332
One to five years	52,554	47,875
More than five years	156,635	162,166
	<u>\$ 234,286</u>	<u>\$ 242,373</u>

Discount rates for contributions receivable amounts range from 3.7% to 7%.

3. Investments

Investments at June 30, 2007 and 2006 are as follows:

	June 30,			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 35,814	\$ 35,814	\$ 17,465	\$ 17,465
Mutual funds - bonds	64,316	62,144	61,478	59,286
Equity instruments	115,693	155,181	123,127	154,448
Total directly owned	<u>215,823</u>	<u>253,139</u>	<u>202,070</u>	<u>231,199</u>
Investment funds	189,219	313,650	172,397	260,690
Limited partnerships and venture capital	67,289	85,971	52,603	66,580
Total investments	<u>\$ 472,331</u>	<u>\$ 652,760</u>	<u>\$ 427,070</u>	<u>\$ 558,469</u>

Investment funds consist of the Museum's ownership interest in externally managed investment funds, which invest in market-traded fixed-income, equity securities and other securities. Limited partnerships and venture capital investments consist of the Museum's ownership interest in externally managed funds, which invest in less liquid securities. For all investment funds, partnerships and venture capital, fair value represents the Museum's original investment plus the Museum's allocated share of income, realized gains and losses and unrealized appreciation and depreciation, net of fees and distributions. Market value of mutual funds and equity securities is based on quoted market prices and published unit values.

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Investments in certain limited partnerships and investment funds totaling \$86,786 and \$70,600 at June 30, 2007 and 2006, respectively, have been valued by the general partners of the limited partnerships. A portion of the limited partnership investments are invested in non-marketable securities for which there are no readily obtainable market values. Values for these investments, which are generally subject to certain withdrawal restrictions, are provided by the general partner, and may be based on historical cost, appraisals, obtainable prices for similar assets, or other estimates. The Museum believes that the stated value of its alternative investments was a reasonable estimate of its fair value as of June 30, 2007 and 2006. Because of the inherent uncertainty of valuation for the Museum's investments in investment funds and partnerships and for certain of the underlying investments held by the investment funds and partnerships, values for those investments may differ significantly from values that would have been used had a ready market for the investments existed.

Investment Income

Pursuant to the spending policy adopted by the Board of Trustees, an amount equal to 5% of the adjusted average market value at the end of the three preceding years of certain restricted and unrestricted funds (the income of which is unrestricted) was made available in fiscal 2007 and 2006 for operating the Museum. Additionally, in 2007 and 2006, in order to enhance programmatic activities, the Board authorized an increase in the spending allowance of \$3,800 and \$1,546, respectively, which decreased board-designated reserves. In the three years prior to 2006, due in part to positive financial results during the new building project, the Board authorized a cumulative reduction in the spending allowance of \$12,960, which served to increase board-designated reserves. It is the Museum's policy to record the spending allowance in the unrestricted net asset category if it has been received and expended in the same accounting period. The following schedule summarizes the investment return and its classification in the statement of unrestricted revenues, expenses and other changes in unrestricted net assets for fiscal 2007 and 2006:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2007	Total 2006
Dividends and interest, net of investment management and related fees of \$5,318 in 2007 and \$4,205 in 2006	\$ 4,339	\$ 1,030	\$ 404	\$ 5,773	\$ 9,453
Net realized gains and changes in unrealized appreciation	83,670	19,872	49	103,591	58,964
Total return on long-term investments	88,009	20,902	453	109,364	68,417
Museum operations (spending policy) (Increase) decrease to spending per Board authorization	(19,725)			(19,725)	(17,456)
	(3,800)			(3,800)	(1,546)
Excess of investment return over spending policy amount	64,484	20,902	453	85,839	49,415
Auxiliary activities	(626)			(626)	(338)
Excess of investment return over amounts designated for operations and specific purposes	\$ 63,858	\$ 20,902	\$ 453	\$ 85,213	\$ 49,077

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(dollars in thousands)

4. Inventories

At June 30, 2007 and 2006, inventories consist of:

	2007	2006
Publishing and retail		
Available for sales	\$ 9,006	\$ 10,178
Work in process	<u>748</u>	<u>419</u>
	9,754	10,597
All other	<u>363</u>	<u>423</u>
	<u>\$ 10,117</u>	<u>\$ 11,020</u>

5. Property, Plant and Equipment

At June 30, 2007 and 2006, property, plant and equipment consists of:

	2007	2006
Buildings, at cost, including building and garden improvements	\$ 535,106	\$ 492,422
Leasehold improvements, at cost	4,234	4,147
Machinery and equipment, and furniture and fixtures, at cost	<u>66,687</u>	<u>62,524</u>
	606,027	559,093
Less: Accumulated depreciation	<u>102,777</u>	<u>75,276</u>
	503,250	483,817
Land, at cost	91,352	91,352
Construction in progress	<u>7,630</u>	<u>62,809</u>
	<u>\$ 602,232</u>	<u>\$ 637,978</u>

During construction, capitalized interest primarily related to the bond financing was included in fixed assets for the years ended June 30, 2007 and 2006 and totaled \$27,172 and \$28,440, respectively.

In 2004, the Museum completed the main phase of the new building project, which encompassed the renovation, construction and reconfiguration of Museum facilities including significant expansion of galleries and other public spaces. The education wing of the facility, the final phase of the project, was completed in November 2006.

In accordance with the construction and reimbursement agreements for the new building project, The City of New York has cumulatively advanced \$64,700 under the \$65,000 agreement through June 30, 2007. There was \$1,200 received in 2007 and no payments received in 2006.

In May 2007, the Museum sold approximately 162,000 square feet of development rights over undeveloped property owned in Manhattan. A gain of \$98,176 was generated from the sale of

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these rights. The Museum retains ownership of the underlying land as well as approximately 48,000 square feet of development rights.

6. Split-Interest Agreements

The Museum is the beneficiary or agent for a third party beneficiary of a number of split-interest agreements with donors. The contributed assets are held in trust by a third party ("trustee") and are included in contributions receivable and prepaid expenses and other assets in the statements of financial position. In accordance with the agreements, the trustee distributes to the donor or donor's designee income generated from those assets until such time as stated in the agreement (usually upon the death of the donor or donor's designee). The Museum will be able to utilize that portion of the gift in which it has an interest upon the death of the respective beneficiary and the trustee and will distribute to any third party beneficiaries their respective remainder interests.

At the time of the gift and adjusted annually, the Museum records contribution income and contribution receivable net of the amounts payable to annuitants and third-party beneficiaries. The initial gift and annual adjustment is calculated based on estimated mortality rates and other assumptions. The discount rates used in the calculation at June 30, 2007 and 2006 were 5.6% and 6%, respectively.

At June 30, split-interest agreements consist of the following:

	2007	2006
Charitable remainder unitrusts	\$ 1,739	\$ 1,739
Charitable remainder annuity trusts	5,276	5,276
Charitable gift annuities	<u>2,500</u>	<u>2,494</u>
	9,515	9,509
Less: Discount for present value	<u>(2,788)</u>	<u>(4,845)</u>
	<u>\$ 6,727</u>	<u>\$ 4,664</u>

7. Deferred Revenue

At June 30, 2007 and 2006, deferred revenue consists of:

	2007	2006
Deferred membership revenues	\$ 1,304	\$ 1,427
Deferred exhibition fees	790	1,071
Other	<u>1,518</u>	<u>1,553</u>
	<u>\$ 3,612</u>	<u>\$ 4,051</u>

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(dollars in thousands)

8. Loans Payable

In December 2001, the Museum received bond proceeds of \$235,000 issued by the Trust for Cultural Resources (the Trust), a public benefit organization created by the State of New York. The bonds consisted of a \$50,000 Series 2001 One A bond issue, \$50,000 Series 2001 One B bond issue, \$35,000 Series 2001 One C bond issue and \$100,000 Series 2001 One D bond issue (collectively, the Series 2001 One Bonds). The proceeds have been used for the funding of the acquisition and construction of the new building project in Manhattan. The interest rates for Series 2001 One A/B/C bonds are established by an auction agent. The bonds currently bear interest for seven day and 28 day auction periods that may convert to a daily, 28 day, 35 day, three or six month auction upon 10 days written notice. The auction interest rate in effect at June 30, 2007 and the average auction interest rate for the year ended June 30, 2007 were as follows:

	Interest Rate at June 30, 2007	Average Interest Rate
Series 2001 One A	3.40%	3.30%
Series 2001 One B	3.55%	3.40%
Series 2001 One C	3.60%	3.39%

The interest rate for Series 2001 One D is payable at a fixed rate of 5.125%. The Series 2001 One bonds are subject to scheduled redemption from 2024 through 2031.

In December 2001, the Museum entered into two interest rate swap agreements effective December 13, 2001 and July 1, 2003, respectively, with an initial notional amount of \$100,000 and \$35,000, respectively, pursuant to which the Museum has agreed to convert the variable interest rate payable on certain debt to intermediate-term fixed interest rates. In accordance with the terms of the interest rate swaps and related agreements, the Museum is obligated to pay interest rates of 4.27% and 4.59%, respectively, and receives interest established by an auction agent. Net receipts or payments under the agreement are recognized as an adjustment to interest expense. Interest expense on the swaps totaled \$911 and \$1,804 for the years ended June 30, 2007 and 2006, respectively. The interest rate swap agreements expire July 1, 2010 and 2007, respectively. At June 30, 2007 and 2006, the total fair value of the swap agreements approximates a liability of \$1,277 and \$1,383, respectively, which has been recognized in the accompanying financial statements.

In August 2005, the Museum entered into an interest rate swap agreement extending the existing swap agreements through July 1, 2031 at a rate of 4.27%, matched to the maturity of the 2001 One A/B/C bonds. At June 30, 2007 and 2006, the total fair value of the swap agreement approximates an asset of \$463 and \$3,765, respectively, which has been recognized in the accompanying financial statements.

The interest rate swaps are intended to reduce the risk to the Museum of rising interest rates and create cash flow certainty. The interest rate swap agreements were executed with a high credit-quality institution and the Museum believes the risk of nonperformance by the counterparty is not significant.

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In March 2000, the Museum received the proceeds of a \$75,750 bond issued by the Trust comprised of a \$40,000 Series 2000 One A bond issue and a \$35,750 Series One B issue (collectively, the Series 2000 One Bonds). Proceeds were predominately used for the funding of the acquisition, construction, equipment and renovation of an art storage and study facility in Long Island City, Queens as well as planning costs for the new building project in Manhattan. The proceeds were also used to repay approximately \$34,800 of interim financing in connection with the refunding of all of the outstanding Series 1996-One bonds.

Interest on the Series 2000 One bonds is payable weekly. The interest rate is established by an auction agent. The bonds currently bear interest for seven day auction periods that may convert to a daily, 28 day, 35 day, three or six month auction upon 10 days written notice. The average auction interest rate for the year ended June 30, 2007 was 3.31% and the auction interest rate in effect at June 30, 2007 was 3.40%. The bonds are subject to scheduled redemptions from 2008 through 2030.

Reflecting favorable market conditions, the Museum converted a floating rate line of credit of \$20,000 into a term loan facility with a commercial bank in December 2005. This facility matures in December 2008. The interest rate of 5.47% is fixed for the term of the loan.

At June 30, 2007, the Museum has available \$40,000 in lines of credit with two commercial banks. The lines of credit expire on varying dates through December 2007. The Museum intends to maintain line of credit arrangements. Borrowings under the lines of credit as of June 30, 2007 totaled \$17,000 at interest rates ranging from 5.58% to 5.64%.

In September 2003, the Museum established a line of credit totaling \$9,000 with a trustee of the Museum. All these advances have been repaid at June 30, 2007.

Loans payable at June 30, 2007 and 2006 consist of:

	2007	2006
Series 2001 One bonds	\$ 235,000	\$ 235,000
Series 2000 One bonds	63,875	63,875
Term loans	20,000	20,000
Lines of credit	17,000	32,000
	<u>\$ 335,875</u>	<u>\$ 350,875</u>

Annual principal payments due during the next five fiscal years and in total thereafter under the aforementioned borrowings are approximately as follows:

2008	\$ 17,000
2009	20,000
2010	-
2011	-
2012	-
Thereafter	298,875
	<u>\$ 335,875</u>

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The Museum's debt agreements contain certain covenants requiring among other restrictions, the maintenance of certain financial ratios and maintenance of certain levels of cash and investments. The requirements were met as of June 30, 2007.

9. Temporarily Restricted Net Assets

At June 30, 2007 and 2006, temporarily restricted net assets are available for the following purposes:

	2007	2006
Museum programs	\$ 62,577	\$ 49,385
Acquisition of works of art	39,260	32,175
Maintaining art collections	16,278	14,445
Support of exhibitions	22,020	17,436
Other including operating support, capital expansion and other purposes	<u>17,461</u>	<u>21,754</u>
	<u>\$ 157,596</u>	<u>\$ 135,195</u>

During fiscal 2007 and 2006, net assets were released from donor restrictions as a result of either satisfying the restricted purpose, or by the occurrence of other events specified by donors, as follows:

	2007	2006
Museum programs and other	\$ 3,701	\$ 5,748
Exhibitions	1,818	906
Operating support	5,000	4,817
Capital acquisitions, financing and other purposes	21,896	46,641
Acquisitions of works of art	<u>9,724</u>	<u>50,250</u>
	<u>\$ 42,139</u>	<u>\$ 108,362</u>

10. Permanently Restricted Net Assets

Permanently restricted net assets are to be invested in perpetuity. At June 30, 2007 and 2006, the income is expendable to support:

	2007	2006
Museum programs	\$ 37,141	\$ 27,444
Acquisition of works of art	19,542	16,955
Museum operations and other activities	<u>132,432</u>	<u>131,141</u>
	<u>\$ 189,115</u>	<u>\$ 175,540</u>

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11. Pension Plans and Other Postretirement Benefits

The Museum has a trustee pension plan covering substantially all of its nonunion employees and those employees belonging to a union where provided for under union contract. The benefits are based, among other factors, on years of service, age, and average monthly compensation during the final years of service. The Museum's funding policy is to contribute annually amounts to meet ERISA's minimum requirements. In addition, the Museum has a Supplemental Executive Retirement Pension Plan for certain senior staff. The Museum also provides certain postretirement health and supplemental life insurance benefits for substantially all of its retired nonunion employees and those employees belonging to a union, which do not have a postretirement benefit plan. Employees hired before February 2003 are eligible for these benefits. Current benefits, which may change at the Museum's discretion, are based, among other factors, on years of service and age. The Museum funds its postretirement benefit costs on a pay-as-you-go basis.

As of June 30, 2007 and for the year then ended, the Museum adopted the provisions of Statement of Financial Accounting Standard No. 158, *Accounting for Defined Benefit Pension and Other Postretirement Plans* ("FAS 158"). This standard amends FAS Nos. 87, 88, 106 and 132R. FAS 158 requires recognition on the statement for financial position of the difference between benefit obligations and any plan assets of the Museum's defined benefit and postretirement benefit plans. FAS 158 requires unrecognized amounts such as net actuarial gains or losses and prior service costs or credits to be recognized as changes in unrestricted net assets. These amounts must be adjusted as they are subsequently recognized as components of net periodic benefit costs based on current requirements of FAS Nos. 87 and 106. Upon application, the incremental effect of adopting FAS 158 was an increase in unrestricted net assets of \$3,023.

	Prior to FAS158 Adoption	Adjustments	Subsequent to FAS158 Adoption
Net prepaid pension costs	\$ 10,183	\$ 2,792	\$ 12,975
Other accrued retirement obligations	\$ (13,370)	\$ (1,044)	\$ (14,414)
Reduction in unrestricted net assets as a result of defined benefit obligations, prior to adoption of FAS 158	\$ 1,275	-	\$ 1,275
(Benefit) in unrestricted net assets as a result of defined benefit obligations, after adoption of FAS 158	-	\$ (3,023)	\$ (3,023)

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The following tables set forth the amounts recognized in the statement of financial position, the change in plan assets, the funded status, and weighted-average assumptions for the pension plans and postretirement benefit plan:

	Pension Benefits		Postretirement Benefits	
	June 30,		June 30,	
	2007	2006	2007	2006
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 42,773	\$ 49,646	\$ 13,695	\$ 15,072
Service cost	1,834	2,044	533	713
Interest cost	2,760	2,448	831	748
Amendments	-	394	-	-
Actuarial (gain)/loss	2,938	(9,301)	55	(2,256)
Benefits paid	(1,912)	(2,458)	(700)	(582)
Benefit obligation at end of year	\$ 48,393	\$ 42,773	\$ 14,414	\$ 13,695
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 53,716	\$ 55,123	\$ -	\$ -
Actual return on plan assets	9,283	99	-	-
Employer contributions	281	952	692	582
Benefits paid	(1,912)	(2,458)	(692)	(582)
Fair value of plan assets at end of year	\$ 61,368	\$ 53,716	\$ -	\$ -
Funded status at end of year	\$ 12,975	\$ 10,943	\$ (14,414)	\$ (13,695)
Unrecognized prior service cost		538		(844)
Minimum pension liability		(808)	-	-
Unrecognized net actuarial loss/(gain)		(947)		1,775
	\$ 12,975	\$ 9,726	\$ (14,414)	\$ (12,764)
Amounts recognized in the statements of financial position consist of				
Accounts payable and other liabilities	\$ (1,922)	(1,179)		
Postretirement benefit obligation			(14,414)	(12,764)
Other assets	14,897	\$ 10,905		
	\$ 12,975	\$ 9,726	\$ (14,414)	\$ (12,764)
Amounts recognized in unrestricted net assets consist of				
Net gain (loss)	\$ 3,227		\$ (1,786)	
Prior service (cost) credit	(435)		742	
	\$ 2,792		\$ (1,044)	
Amounts in unrestricted net assets expected to be recognized in net periodic benefit cost in 2008				
Net loss	\$ 152		\$ 105	
Prior service cost (credit)	80		(101)	
	\$ 232		\$ 4	
Weighted-average assumptions as of June 30	2007	2006	2007	2006
Discount rate	6.20%	6.25%	6.20%	6.25%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	3.50%	3.50%	N/A	N/A

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The following table sets forth the components of the net pension and postretirement benefits cost the years ended June 30, 2007 and 2006:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Service cost	\$ 1,834	\$ 2,044	\$ 533	\$ 713
Interest cost	2,760	2,448	831	748
Expected return on plan assets	(4,222)	(4,318)	-	-
Amortization of prior service cost	103	85	(101)	(101)
Amortization of accumulated (gain)/loss	158	196	41	308
Net periodic benefit (income)/cost	<u>\$ 633</u>	<u>\$ 455</u>	<u>\$ 1,304</u>	<u>\$ 1,668</u>

The health care cost trend rate assumption used in determining the projected benefit obligation was 8.5% in 2007 and 2006. The rates used gradually decrease to 5.0% in fiscal year 2012 and thereafter.

The following data shows the effect of a one percentage point health care cost trend rate increase (decrease) for 2007:

	Percentage Point Increase	Percentage Point (Decrease)
Effect on total of service and interest cost	\$ 198	\$ (160)
Effect on postretirement benefit obligation	1,670	(1,387)

The Museum maintains a 403(b) retirement savings plan for all non-union employees and employees in several unions under collective bargaining agreements. Employees may contribute up to Internal Revenue code limits. The Museum matches up to 4% of compensation dependent on an employee's compensation, contribution and length of service. In addition, the Museum provides a non-discretionary contribution for employees under certain base compensation levels dependent on length of service. The Museum contributed \$1,059 and \$940 to the Plan for the years ended June 30, 2007 and 2006, respectively.

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Cash flows for the fiscal year ending June 30:

	Pension Benefits	Postretirement Benefits
Expected Employer contributions		
2008	\$ 306	\$ 748
Projected benefit payments for the fiscal year ending June 30:		
2008	2,292	748
2009	2,298	764
2010	2,421	827
2011	2,749	863
2012	2,859	901
2013-2017	16,626	4,976

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") was signed into law. The Act introduces a prescription drug benefit under Medicare Part D as well as a Federal subsidy to employers whose plans provide an "actuarial equivalent" prescription drug benefit. The Museum's post retirement prescription drug benefit is expected to qualify for this subsidy and consequently the Museum will treat the effects of the Act as an actuarial gain.

While the Museum has applied for a subsidy under the Act, it has determined that the effects of the Act will not be significant. Accordingly, there would have been minimal impact on the net periodic postretirement benefit cost for fiscal year 2007. The benefit of the subsidy will be factored into fiscal year 2008 expenses.

12. Advances to The Trust for Cultural Resources (the "Trust")

The Museum, together with the Trust and a private developer, completed construction of a combined-use building in 1980, providing renovated and expanded facilities for the Museum and a condominium project using development rights from the Museum's real estate ("Museum Tower").

In connection with the 1980 expansion, real property used for part of the expansion was transferred to the Trust, and a portion of the new construction was leased back to the Museum under a renewable 99-year net lease for a payment of one dollar annually. The lease also provides for the Museum's right to purchase the leased premises for one dollar under certain circumstances. Because of this arrangement, as further described below, related expenditures and the associated debt for the 1980 expansion and renovation of the Museum are not reflected in these financial statements.

Over the years, the Trust has issued serial bonds to the public for the purpose of refinancing earlier bond issues in 1980, 1984, 1991 and 1993. Most recently, the Trust issued \$28,530 of serial bonds in 1996 with a final maturity in January 2021 and \$23,090 in serial bonds in 2001 with a final maturity of April 2023 (collectively, the "Serial Bonds").

In accordance with the New York State legislation pertaining to the Trust, the Museum Tower is exempt from real property taxation, but the Trust collects the equivalent of real property taxes from

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the owners of individual condominium units in Museum Tower. These tax-equivalency payments ("TEPs") are based on the real property tax assessment of the Museum Tower.

In connection with the 1980 expansion, the Museum agreed to advance funds to the Trust to the extent that TEPs and the proceeds of the Serial Bonds are not sufficient to pay debt service due from time to time from the Trust to the holders of the Serial Bonds and to complete the 1980 expansion project. Such advances totaled \$34,920 and \$2,425, respectively, at June 30, 2007 and bore interest at a rate of 9% annually through June 30, 2004.

Pursuant to an agreement in January 2006 between the Museum and the Trust, the interest rate on the outstanding advances from the Museum was converted to a market-based floating rate. The Museum also agreed that no additional interest would accrue on the advances for a five-year period beginning July 1, 2004 through June 30, 2009. Commencing on July 1, 2009 and thereafter the unpaid balance of any outstanding advances will accrue interest at a floating rate equal to the 3-year Treasury bill rate in effect on July 1 of that year. This agreement provided for the issuance of new instruments to the Museum to evidence the obligations of the Trust, which required the authorization of the Comptroller of the State of New York and of the Comptroller of the City of New York. These authorizations were obtained in August 2006, and the new instruments evidencing the Trust's obligations have now been issued.

Pursuant to the New York Arts and Cultural Affairs Law, the Trust uses TEPs to pay administrative expenses, the portion of the TEPs due to The City of New York, and debt service on the Serial Bonds. Any TEPs that remain after such payments have been made are applied to repayment to the Museum of the advances to the Trust described above and interest earned thereon.

In the event that the Museum is required to make further advances to cover debt service on the Serial Bonds described above, the Trust has agreed to issue to the Museum instruments for the amount of each such advance, which will be subject to the same terms and conditions as the instruments currently outstanding with respect to the previous advances from the Museum.

Statutory law limits the Museum's right to collect unpaid interest and principal with respect to any advance not paid within 57 years from the date of the original advance. Accordingly, to the extent that any advance and all accrued interest are not repaid in full within 57 years, the obligation of the Trust to the Museum will be extinguished and the Museum will thereafter have no right to collect from the Trust with respect to such obligations. The earliest expiration date for any advance will occur in 2039.

During fiscal 2007 and 2006, TEPs available in accordance with the Arts and Cultural Affairs Law described above to reimburse the Museum for its advances were \$1,084 and \$2,024, respectively. This amount was paid to the Museum in October 2006, thereby decreasing the receivable from the Trust.

As described above, interest on the aggregate advances from the Museum is presently not accruing and will not accrue until after June 30, 2009. Cumulative interest totaled \$125,232 at June 30, 2007 and 2006.

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13. Related-Party Transactions

The International Council of the Museum of Modern Art (the "Council") has provided exhibition and programming support to the Museum. The purpose of the Council is to develop international understanding in the field of art, especially the contemporary arts, through a program of exhibitions, national and international conferences, lectures and publications, and otherwise. Included in other grants and contributions in the statements of unrestricted revenues, expenses and changes in unrestricted net assets are contributions of \$443 and \$1,189 for the years ended June 30, 2007 and 2006, respectively, from the Council in support of the Museum. The Council also reimburses the Museum for costs incurred in connection with the administration, preparation and presentation of the activities of the Council. Included in accrued investment income and other receivables are \$72 and \$69 at June 30, 2007 and 2006, respectively, as amounts due from the Council.

In accordance with an investment agreement between the Museum and the Council, the Museum manages investments of the Council. The investment and earnings of \$3,953 and \$3,402 are included in Investments held on behalf of others in the statements of financial position for the years ended June 30, 2007 and 2006, respectively.

From time to time, the Museum enters into transactions with individuals or entities that have a relationship to a member of the Board of Trustees of the Museum. These transactions have been subject to Board approval which management believes approximates fair value.

14. Commitments

The Museum is obligated under lease agreements, which generally require the payment of base rents plus escalations. Rent expense under these leases amounted to \$1,816 and \$3,302 in 2007 and 2006, respectively.

Minimum lease payments under noncancelable operating leases as of June 30, 2007 are as follows:

2008	\$ 1,454
2009	1,460
2010	1,460
2011	1,532
2012	885
Thereafter	<u>10,040</u>
	<u>\$ 16,831</u>

At June 30, 2007, the Museum has commitments to make additional investments in venture capital partnerships aggregating approximately \$65,342.

At June 30, 2007, the Museum has commitments of \$372 for art acquisition.

Rental Income

The Museum leases office space to various tenants in an office tower adjacent to the Museum. Rental income under these leases amounted to \$1,976 and \$1,938 for the year ended June 30, 2007 and 2006, respectively.

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Minimum guaranteed rents under these leases as of June 30, 2007 are as follows:

2008	\$ 2,284
2009	2,329
2010	2,382
2011	2,247
2012	1,706
Thereafter	<u>4,414</u>
	<u>\$ 15,362</u>

15. P.S.1 Contemporary Art Center

In 2000, The Museum and P.S.1 Contemporary Art Center, Inc. ("P.S.1") entered into an affiliation to promote the study, knowledge, enjoyment and appreciation of modern and contemporary art through a collaborative program of exhibitions, research, special projects, and other educational and curatorial activities (the "Affiliation"). As a result of the Affiliation, P.S.1 retained its separate corporate status. It became a support corporation of the Museum with the Museum as its sole corporate member.

Commencing in January 2007, the Museum has the right to appoint all members of the P.S. 1 Board of Directors. The bylaws, revised in 2007, provide for 20 Directors, divided into 4 classes of 4 year each. As of June 30, 2007, the Museum has appointed fourteen Directors, whose class terms are staggered by different expiration dates.

The Affiliation also requires that P.S.1's Board of Directors continue to have full authority and responsibility for P.S.1's operations, direction and control of its employees and its budget, fund-raising, finances and indebtedness. In 2007, P.S.1 and the Museum entered into a Management Assistance and Services Agreement whereby the Museum agrees to manage and administer P.S.1's affairs and operations in certain areas including accounting and payroll, fundraising and development, coordination of P.S.1's information technology, insurance and legal affairs.

As of June 30, 2007, P.S.1 has not been consolidated with the Museum on the basis of materiality. Operating support provided to P.S.1 by the Museum totaled approximately \$468 for the years ended June 30, 2007 and 2006. Other contributions provided to P.S.1 by the Museum totaled \$119 and \$346 for the years ended June 30, 2007 and 2006, respectively.

A summary of PS1 financial position and operations for 2007 and 2006 is as follows:

	2007	2006
Unrestricted revenue	\$ 5,329	\$ 4,532
Change in unrestricted net assets	\$ 42	\$ 9
Total assets	\$ 3,139	\$ 3,898
Net assets	\$ 2,892	\$ 3,268

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16. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments appearing on the statements of financial position, for which it is practical to estimate that value.

Cash and Cash Equivalents – The carrying amounts in the statements of financial position approximate fair value.

Investments – The fair values of investments are based on quoted market prices and published unit values or, if unavailable, was determined by the general partners of limited partnerships and reviewed by Museum management for reasonableness. The carrying amounts in the statements of financial position approximate fair value.

Split Interest Agreements – Fair value of the related liabilities was determined by the difference between the gift and the actuarial computation of remainder value.

Loans Payable – The carrying value of the loans approximates market as the interest rate is variable or the loans bear interest at market rates.

Interest Rate Swap Agreements – The fair value has been calculated based on the difference between market interest rates at the dates of the agreement and rates at June 30, 2007.

17. Expenses by Functional Classification

Expenses by functional classification for fiscal year 2007 and 2006 are shown below:

	2007	2006
Museum operating expenses excluding depreciation	\$ 146,731	\$ 142,014
Depreciation	27,453	26,813
Interest and other expenses	15,903	15,737
Total	<u>\$ 190,087</u>	<u>\$ 184,564</u>
Museum program expenses		
Curatorial and related program expenses	\$ 62,734	\$ 59,254
Exhibitions	33,112	27,214
Other museum programs	4,334	5,782
Public services	3,757	3,725
Cost of sales and expenses of auxiliary activities	44,804	43,988
	<u>148,741</u>	<u>139,963</u>
Supporting services		
Management and general	30,917	34,590
Fundraising	10,429	10,011
	<u>41,346</u>	<u>44,601</u>
Total	<u>\$ 190,087</u>	<u>\$ 184,564</u>

Cost of sales/auxiliary activities included \$415 of depreciation expense relating solely to such activities.