The Museum of Modern Art
Consolidated Financial Statements
June 30, 2008 and 2007

The Museum of Modern Art
Index
June 30, 2008 and 2007

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Center
300 Madison Avenue
New York NY 10017
Telephone (646) 471 3000
Facsimile (813) 286 6000

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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended are 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 12 to the financial statements, in fiscal year 2007, the Museum changed its method of accounting for defined benefit pension and other postretirement plans.

PricewaterhouseCoopers

September 30, 2008

The Museum of Modern Art
Consolidated Statements of Financial Position
June 30, 2008 and 2007

(in thousands)	**2008**	**2007**
Assets		
Cash and cash equivalents	$ 73,843	$ 146,749
Receivables		
Accounts receivable	944	1,211
Contributions receivable, net	186,982	204,428
Accrued investment income and other receivables	1,123	1,278
The Trust for Cultural Resources	36,345	37,345
Inventories	9,878	10,117
Prepaid expenses and other assets	20,113	31,169
Investments, at fair value	714,435	648,807
Investments held on behalf of others	3,844	3,953
Property, plant and equipment, net	580,945	602,232
Museum collections	-	-
Total assets	$ 1,628,452	$ 1,687,289
Liabilities and net assets		
Accounts payable, accrued expenses and other liabilities	$ 40,468	$ 32,394
Deferred revenue	3,555	3,612
Loans payable	331,875	335,875
Funds held on behalf of others	3,844	3,953
Postretirement benefit obligation	16,137	14,414
Total liabilities	395,879	390,248
Net assets		
Unrestricted		
Museum operations		
Museum funded property, plant and equipment	16,286	13,995
All other (including advances to The Trust for Cultural Resources of $36,345 in 2008 and $37,345 in 2007)	491,657	542,548
	507,943	556,543
Plant and equipment funded by designated gifts	369,283	393,787
	877,226	950,330
Temporarily restricted	150,501	157,596
Permanently restricted	204,846	189,115
Total net assets	1,232,573	1,297,041
Total liabilities and net assets	$ 1,628,452	$ 1,687,289

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, 2008 and 2007

	2008 Unrestricted Net Assets			2007 Unrestricted Net Assets		
(in thousands)	**Museum Operations**	**Plant & Equipment Funded by Designated Gifts**	**Total Unrestricted Net Assets**	**Museum Operations**	**Plant & Equipment Funded by Designated Gifts**	**Total Unrestricted Net Assets**
Operating revenues and other support						
Admissions	$ 21,380		$ 21,380	$ 18,280		$ 18,280
Membership	13,732		13,732	13,931		13,931
Investment income - spending policy	27,739		27,739	19,725		19,725
Board-designated increase in spending policy	-		-	3,800		3,800
Annual fund contributions	8,542		8,542	8,518		8,518
Other grants and contributions	13,135		13,135	16,270		16,270
Government support	281		281	253		253
Circulating exhibition fees	611		611	743		743
Other	6,742		6,742	6,798		6,798
Revenue of auxiliary activities	56,915		56,915	48,814		48,814
Total operating revenues and other support	149,077		149,077	137,132		137,132
Net assets released from restrictions to fund operations	11,920		11,920	10,519		10,519
Total operating revenues and other support and reclassifications	160,997		160,997	147,651		147,651
Operating expenses						
Curatorial and related support services	26,553		26,553	22,373		22,373
Exhibitions	13,962		13,962	11,809		11,809
Other Museum programs	3,534		3,534	4,334		4,334
Cost of sales/auxiliary activities	50,607		50,607	44,804		44,804
Depreciation (non-auxiliary)	1,390	$ 26,709	28,099	1,401	$ 26,052	27,453
Public services	4,549		4,549	3,979		3,979
Membership and development	11,241		11,241	10,017		10,017
Facilities, security and other	27,088		27,088	28,315		28,315
Public information	3,571		3,571	3,828		3,828
Administration and other	17,947		17,947	16,717	555	17,272
Total operating expenses	160,442	26,709	187,151	147,577	26,607	174,184
Excess (deficit) of operating revenues and support over operating expenses	555	(26,709)	(26,154)	74	(26,607)	(26,533)
Non-operating revenues, expenses and other support						
Acquisition of works of arts	(18,416)		(18,416)	(9,788)		(9,788)
Net assets released from restrictions for art acquisitions	18,416		18,416	9,724		9,724
Net assets released from restrictions for capital acquisition and financing	11,444	2,205	13,649	15,903	5,993	21,896
Investment return, (less than) in excess of spending policy amount	(36,338)		(36,338)	63,858		63,858
Board-designated contributions	11,733		11,733	15		15
Gain on sale of development rights	-		-	98,176		98,176
Defined benefit plan changes other than net periodic benefit cost	(12,197)		(12,197)	-		-
Minimum pension liability	-		-	(466)		(466)
Interest expense, change in fair value of interest rate swap agreements and other financing costs	(23,797)		(23,797)	(19,098)		(19,098)
Total non-operating revenues, expenses and other support	(49,155)	2,205	(46,950)	158,324	5,993	164,317
Change in unrestricted net assets before change in accounting principle	(48,600)	(24,504)	(73,104)	158,398	(20,614)	137,784
Cumulative effect of change in accounting principle	-		-	3,023		3,023
Change in unrestricted net assets	(48,600)	(24,504)	(73,104)	161,421	(20,614)	140,807
Unrestricted net assets						
Beginning of year	556,543	393,787	950,330	395,122	414,401	809,523
End of year	$ 507,943	$ 369,283	$ 877,226	$ 556,543	$ 393,787	$ 950,330

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, 2008 and 2007

(in thousands)	2008	2007
Unrestricted net assets		
Change in unrestricted net assets	$ (73,104)	$ 140,807
Temporarily restricted net assets		
Capital gifts and other contributions	39,695	39,512
Investment return	(7,805)	20,902
Net assets released from restriction	(43,985)	(42,139)
Sales of works of art	5,000	4,126
Change in temporarily restricted net assets	(7,095)	22,401
Permanently restricted net assets		
Capital gifts and other contributions	15,425	13,122
Investment return	306	453
Change in permanently restricted net assets	15,731	13,575
Total change in net assets	(64,468)	176,783
Net assets		
Beginning of year	1,297,041	1,120,258
End of year	$ 1,232,573	$ 1,297,041

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, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	$ (64,468)	$ 176,783
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	28,582	27,868
Writeoff of fixed assets related to new building project	-	555
Gain on sale of development rights	-	(98,176)
Net realized losses (gains) and unrealized depreciation (appreciation) on investments	21,428	(103,590)
Receipt of contributed securities	(7,252)	(4,430)
Contributions and net investment income restricted for endowment	(14,820)	(13,575)
Change in fair value of interest rate swap agreement	7,376	3,195
Sales of works of art	(5,000)	(4,126)
Acquisition of works of art	18,416	9,788
Contributions and net investment income restricted for capital acquisition and construction	(4,866)	(4,667)
Changes in assets and liabilities		
Decrease in accounts receivable	267	388
Decrease in contributions receivable	17,446	4,585
Decrease in accrued investment income and other receivables	155	63
Decrease in inventories	239	903
Decrease (increase) in prepaid expenses and other assets	11,056	(5,780)
Increase in accounts payable, accrued expenses and other liabilities	2,312	4,740
Decrease in deferred revenue	(57)	(439)
Net cash provided by (used by) operating activities	10,814	(5,915)
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,295)	(17,404)
Proceeds from disposition of investments	46,317	72,929
Purchase of investments	(133,264)	(66,934)
Proceeds from sales of contributed securities	7,252	7,734
Net proceeds from sale of development rights	-	123,798
Sales of works of art	5,000	4,126
Acquisition of works of art	(18,416)	(9,788)
Net cash (used by) provided by investing activities	(100,406)	114,461
Cash flows from financing activities		
Contributions and net investment income restricted for		
Capital acquisition and construction	4,866	4,667
Investment in endowment	14,820	13,575
Distributions from Trust for Cultural Resources	1,000	1,084
Repayments on loans payable	(4,000)	(15,000)
Net cash provided by financing activities	16,686	4,326
Net (decrease) increase in cash and cash equivalents	(72,906)	112,872
Cash and cash equivalents		
Beginning of year	146,749	33,877
End of year	$ 73,843	$ 146,749
Cash paid in the year for interest	$ 15,940	$ 15,949

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

(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.”)
- P.S. 1 Contemporary Art Center (P.S. 1)
- AFE, LLC

The Museum is the sole member of the Support Corp, P.S. 1 and AFE, LLC.

The Museum, the Support Corp. and P.S. 1 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:

Collections

The Museum is chartered as an educational institution whose collection of modern and contemporary art is made available to its members and the public to encourage an ever-deeper understanding and enjoyment of such art by the diverse local, national, and international audiences that it serves. Through the leadership of its Trustees and staff, the Museum strives to establish, preserve, and document a permanent collection of the highest order that reflects the vitality, complexity and unfolding patterns of modern and contemporary art; present exhibitions and educational programs of unparalleled significance; sustain a library, archives, and conservation laboratory that are recognized as international centers of research; and support scholarship and publications of preeminent intellectual merit.

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 net assets. 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.

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.

(dollars in thousands)

- 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.

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 years ended June 30, 2008 and 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	5 to 50 years
Leasehold improvements	lesser of useful life or lease term
Equipment, software and other	3 to 20 years

(dollars in thousands)

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.

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. Museum operations does not include interest expense and other financing costs, amortization of bond issuance costs, board-designated contributions, gain on sale of development rights, defined benefit plan changes other than net periodic benefit cost, cumulative effect of a change in accounting principle and the write off of plant and equipment in connection with the new building project. 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 or less than that amount. In 2008, as a result of positive financial results including several unrestricted bequests, the board designated contributions totaling $11,700 as non-operating revenues which will serve to increase board-designated reserves.

Membership and Development
Membership and development expenses were $11,241 and $10,017, respectively, for the years ended June 30, 2008 and 2007. These amounts include costs attendant for all fundraising activities including Museum operations, endowment, and art acquisitions. These costs include current and future donor cultivation, retention of membership, membership fulfillment costs, fundraising events for the benefit of the Museum and contribution processing and acknowledgement.

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.

(dollars in thousands)

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 16.

Advertising Expense
Advertising is recorded as expense in the period incurred. Advertising expense for the years ended June 30, 2008 and 2007 was $2,784 and $2,490, respectively.

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, were 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, 2008.

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.

Reclassifications
Certain amounts from prior year financial statements have been reclassified to conform to the current year presentation.

(dollars in thousands)

2. Contributions Receivable

Contributions receivable at June 30, 2008 and 2007 are as follows:

	2008	2007
Museum operations and programs	$ 133,109	$ 137,792
Future periods - split interest agreements	2,102	7,015
Capital construction and acquisition	73,495	89,479
	208,706	234,286
Less: Discount for present value	(18,561)	(26,358)
Allowance for doubtful accounts	(3,163)	(3,500)
	$ 186,982	$ 204,428
Amounts due in		
Less than one year	$ 25,617	$ 25,097
One to five years	55,635	52,554
More than five years	127,454	156,635
	$ 208,706	$ 234,286

Discount rates for contributions receivable amounts range from 3.3% to 7%.

3. Investments

Investments at June 30, 2008 and 2007 are as follows:

	June 30,			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Liquid reserves	$ 17,040	$ 27,532	$ 6,248	$ 6,248
Fixed income funds	100,297	100,261	82,281	79,440
Equity investment funds	262,359	273,017	231,879	298,704
Alternate Investments				
Absolute return	118,357	206,896	91,513	189,216
Private equity	81,663	93,612	51,508	62,965
Real assets	11,850	16,961	8,902	16,187
Total investments	$ 591,566	$ 718,279	$ 472,331	$ 652,760

Absolute return hedge funds, private equity and real estate assets consist of the Museum's ownership interest in externally managed funds, which are invested in less liquid investments. For all these investments 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 fixed income securities and equity securities are based on quoted market prices and published unit values. At June 30, 2008, Liquid reserves includes a $20,000 redemption from another investment category with a cost basis of $9,508.

(dollars in thousands)

Investments in certain limited partnerships and investment funds totaling $114,477 and $86,786 at June 30, 2008 and 2007, 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 their fair value as of June 30, 2008 and 2007. 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 2008 and 2007 for operating the Museum.

In 2007, in order to enhance programmatic activities, the Board authorized an increase in the spending allowance of $3,800, which decreased 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 schedules summarize the investment return and its classification in the statement of unrestricted revenues, expenses and other changes in unrestricted net assets for 2008 and 2007:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008
Dividends and interest, net of investment management and related fees of $5,384 in 2008 and $5,318 in 2007	$ 2,932	$ 2,968	$ 306	$ 6,206
Net realized (losses) and changes in unrealized (depreciation)	(10,655)	(10,773)	-	(21,428)
Total return on long-term investments	(7,723)	(7,805)	306	(15,222)
Museum operations (spending policy)	(27,739)			(27,739)
Excess of spending policy amount over investment return	(35,462)	(7,805)	306	(42,961)
Auxiliary activities	(876)			(876)
Excess of amounts designated for operations and specific purposes over investment return	$ (36,338)	$ (7,805)	$ 306	$ (43,837)

(dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2007
Dividends and interest, net of investment management and related fees of $5,285 in 2008 and $5,318 in 2007	$ 4,340	$ 1,030	$ 404	$ 5,774
Net realized gains and changes in unrealized appreciation	83,669	19,872	49	103,590
Total return on long-term investments	88,009	20,902	453	109,364
Museum operations (spending policy)	(19,725)			(19,725)
Decrease to spending per Board authorization	(3,800)			(3,800)
Excess of investment return over over spending policy amount	64,484	20,902	453	85,839
Auxiliary activities	(626)			(626)
Excess of investment returnc over over amounts designated for operations and specific purposes	$ 63,858	$ 20,902	$ 453	$ 85,213

4. Inventories

At June 30, 2008 and 2007, inventories consist of:

	2008	2007
Publishing and retail		
Available for sales	$ 9,505	$ 9,006
Work in process	145	748
	9,650	9,754
All other	228	363
	$ 9,878	$ 10,117

(dollars in thousands)

5. Property, Plant and Equipment

At June 30, 2008 and 2007, property, plant and equipment consists of:

	2008	2007
Buildings, at cost, including building and garden improvements	$ 541,236	$ 535,106
Leasehold improvements, at cost	4,219	4,234
Machinery, equipment, software and furniture and fixtures, at cost	68,222	66,687
	613,677	606,027
Less: Accumulated depreciation	132,351	102,777
	481,326	503,250
Land, at cost	91,352	91,352
Construction in progress	8,267	7,630
	$ 580,945	$ 602,232

During construction, capitalized interest primarily related to the bond financing was included in fixed assets for the years ended June 30, 2008 and 2007 and totaled $25,371 and $27,172, 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 were no payments received in 2008 and $1,200 received in 2007.

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 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.

(dollars in thousands)

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, 2008 and 2007 were 3.8% and 5.6%, respectively.

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

	2008	2007
Charitable remainder unitrusts	$ 1,739	$ 1,739
Charitable remainder annuity trusts	363	5,276
Charitable gift annuities	2,502	2,500
	4,604	9,515
Less: Discount for present value	(2,936)	(2,788)
	$ 1,668	$ 6,727

7. Deferred Revenue

At June 30, 2008 and 2007, deferred revenue consists of:

	2008	2007
Deferred membership revenues	$ 1,294	$ 1,304
Deferred exhibition fees	596	790
Other	1,665	1,518
	$ 3,555	$ 3,612

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 rate for Series 2001 One D is payable at a fixed rate of 5.125%; the interest rates for the other Series 2001 A/B/C issues were payable at variable rates set in the auction-rate securities market. The Series 2001 One bonds are subject to scheduled redemption from 2024 through 2031, however, the bonds may be redeemed prior to maturity under certain circumstances (see Note 9).

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 agreed to convert the variable interest rate payable on certain debt to intermediate-term fixed interest rates. In accordance with the terms of

(dollars in thousands)

the interest rate swaps and related agreements, the Museum was 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 $1,795 and $911 for the years ended June 30, 2008 and 2007, respectively. The interest rate swap agreements were originally set to expire July 1, 2010 and 2007, respectively (see Note 9). 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, 2008 and 2007, the total fair value of the swap agreements approximates a liability of $8,189 and $813, respectively, which has been recognized in the accompanying financial statements. The interest rate swaps were 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.

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 (see Note 9). Interest rates for these bonds were payable at various rates set in the auction rate securities market.

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, 2008, the Museum has available a $35,000 line of credit with a commercial bank. The line of credit expires in October 2008. The Museum intends to maintain line of credit arrangements. Borrowings under the line of credit as of June 30, 2008 totaled $13,000 at interest rates ranging from 2.78% to 3.36%.

Loans payable at June 30, 2008 and 2007 consist of:

	2008	2007
Series 2001 One bonds	$ 235,000	$ 235,000
Series 2000 One bonds	63,875	63,875
Term loans	20,000	20,000
Line of credit	13,000	17,000
	$ 331,875	$ 335,875

(dollars in thousands)

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

2009	$ 33,000
2010	-
2011	-
2012	-
2013	-
Thereafter	298,875
	$ 331,875

The Museum's debt agreements contain covenants requiring among other restrictions, the maintenance of certain levels of cash and investments. The requirements were met as of June 30, 2008.

9. Subsequent Event

During 2008, the Museum reevaluated its debt portfolio based on conditions in the auction-rate securities market and the Museum's long term debt strategy and simultaneously received a ratings upgrade (to Aa2 / stable and AA- positive from Moody's and S&P, respectively). Based on this review, in July 2008, the Museum used fixed rate bonds of varying maturities to refinance its outstanding auction rate securities totaling $198,875, including the Series 2000-One A and One B issues totaling $63,875 and Series 2001-One A, B and C issues totaling $135,000. As part of the transaction, the Museum terminated the remaining swap that was entered into as part of the December 2001 bond transaction (notional amount of $85,000) and reversed the swap entered into in August 2005 (notional amount $50,000) with an offsetting swap matched to the same maturities.

Fixed rate bonds of varying terms totaling $195,035 were issued in July 2008 and the variable rate bonds noted above were subsequently redeemed. Proceeds from the bond issue totaled $202,520. Interest on these 2008-One-A bonds will be paid semiannually and the bonds consist of the following amounts and maturities:

Refunding Bonds, Series 2008-One-A	**Principal**	**Rate**	**Maturity**
Mandatory Tender Bonds	$ 25,000	4.0%	August 1, 2010
Serial bonds	39,210	5.0%	October 1, 2010
Serial bonds (callable in 2018)	67,570	5.0%	April 1, 2025-2028
Term Bonds (callable in 2018)	63,255	5.0%	April 1, 2031
	$ 195,035		

(dollars in thousands)

10. Temporarily Restricted Net Assets

At June 30, 2008 and 2007, temporarily restricted net assets are available for the following purposes:

	2008	2007
Museum programs	$ 59,516	$ 62,577
Acquisition of works of art	45,351	39,260
Maintaining art collections	14,460	16,278
Support of exhibitions	15,192	22,020
Operating support and other purposes	15,982	17,461
	$ 150,501	$ 157,596

During fiscal 2008 and 2007, 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:

	2008	2007
Museum programs and other	$ 3,058	$ 3,701
Exhibitions	4,012	1,818
Operating support	4,850	5,000
Capital acquisitions, financing and other purposes	13,649	21,896
Acquisitions of works of art	18,416	9,724
	$ 43,985	$ 42,139

11. Permanently Restricted Net Assets

Permanently restricted net assets are to be invested in perpetuity. At June 30, 2008 and 2007, the income is expendable to support:

	2008	2007
Museum programs	$ 42,428	$ 37,141
Acquisition of works of art	24,042	19,542
Museum operations and other activities	138,376	132,432
	$ 204,846	$ 189,115

12. Pension Plans and Other Postretirement Benefits

The Museum has a trusteed 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

(dollars in thousands)

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, pension 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 assets of $3,023.

(dollars in thousands)

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 June 30, 2008	Pension Benefits June 30, 2007	Postretirement Benefits June 30, 2008	Postretirement Benefits June 30, 2007
Change in benefit obligation				
Benefit obligation at beginning of year	$ 48,393	$ 42,773	$ 14,414	$ 13,695
Service cost	2,003	1,834	563	533
Interest cost	3,004	2,760	920	831
Amendments	(256)	-	-	-
Actuarial (gain)/loss	2,301	2,938	1,001	55
Benefits paid	(2,104)	(1,912)	(761)	(700)
Benefit obligation at end of year	$ 53,341	$ 48,393	$ 16,137	$ 14,414
Change in plan assets				
Fair value of plan assets at beginning of year	$ 61,368	$ 53,716	$ -	$ -
Actual return on plan assets	(4,643)	9,283	-	-
Employer contributions	432	281	760	692
Benefits paid	(2,105)	(1,912)	(760)	(692)
Fair value of plan assets at end of year	$ 55,052	$ 61,368	$ -	$ -
Funded status at end of year	$ 1,711	$ 12,975	$ (16,137)	$ (14,414)
Amounts recognized in the statements of financial position consist of				
Accounts payable and other liabilities	$ (2,570)	$ (1,922)	$ -	$ -
Postretirement benefit obligation			(16,137)	(14,414)
Other assets	4,281	14,897		
	$ 1,711	$ 12,975	$ (16,137)	$ (14,414)
Amounts recognized in unrestricted net assets consist of				
Net (loss) gain	$ (8,294)	$ 3,227	$ (2,668)	$ (1,786)
Prior service (cost) credit	(128)	(435)	641	742
	$ (8,422)	$ 2,792	$ (2,027)	$ (1,044)
Pension related changes and other				
Net gain (loss)	$ (11,770)	$ 2,122	$ (1,000)	$ (55)
Prior service credit (cost)	256	-	-	-
Amortization of net gain	247	158	119	41
Amortization of prior service credit (cost)	52	103	(101)	(101)
	$ (11,215)	$ 2,383	$ (982)	$ (115)
Amounts in unrestricted net assets expected to be recognized in net periodic benefit cost in 2009				
Net loss	$ 274	$ 152	$ 118	$ 105
Prior service cost (credit)	13	80	(101)	(101)
	$ 287	$ 232	$ 17	$ 4
Weighted-average assumptions as of June 30	**2008**	**2007**	**2008**	**2007**
Discount rate	6.10%	6.20%	6.10%	6.20%
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

(dollars in thousands)

The accumulated benefit obligation at June 30, 2008 was $44,977 for the pension plan and $2,188 for the Supplemental Executive Retirement Pension Plan.

In selecting the expected long-term rate of return on assets, the Museum considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of the plan. This included considering the trust's asset allocation and the expected returns likely to be earned over the life of the plan.

The following table sets forth the components of the net pension and postretirement benefits cost the years ended June 30, 2008 and 2007:

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Service cost	$ 2,003	$ 1,834	$ 563	$ 533
Interest cost	3,004	2,760	920	831
Expected return on plan assets	(4,825)	(4,222)	-	-
Amortization of prior service cost	51	103	(101)	(101)
Amortization of accumulated (gain)/loss	247	158	120	41
Net periodic benefit cost	$ 480	$ 633	$ 1,502	$ 1,304

The health care cost trend rate assumption used in determining the projected benefit obligation was 8.5% in 2008 and 2007. 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 2008:

	Percentage Point Increase	Percentage Point (Decrease)
Effect on total of service and interest cost	$ 220	$ (177)
Effect on postretirement benefit obligation	1,916	(1,589)

Weighted average asset allocations at June 30, 2008, by asset category are as follows:

	Pension Benefits June 30,		Postretirement Benefits June 30,	
	2008	2007	2008	2007
Asset Category				
Equity Securities	20%	23%	N/A	N/A
Mutual funds	49%	53%	N/A	N/A
Investment funds	28%	20%	N/A	N/A
Other	3%	4%	N/A	N/A
Total	100%	100%	N/A	N/A

(dollars in thousands)

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 $1,138 and $1,059 to the Plan for the years ended June 30, 2008 and 2007, respectively.

Cash flows for the fiscal year ending June 30:

	Pension Benefits	Postretirement Benefits
Expected Employer contributions		
2009	$ 280	$ 793
Projected benefit payments for the fiscal year ending June 30		
2009	2,372	793
2010	2,466	863
2011	2,623	905
2012	3,030	949
2013	3,077	980
2014-2018	18,612	5,421

The Medicare Prescription Drug 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. 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 2008. The benefit of the subsidy will be factored into fiscal year 2009 expenses.

13. 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.

(dollars in thousands)

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 $22,490 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 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 Bondsand to complete the 1980 expansion project. Such advances totaled $36,345 at June 30, 2008 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 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 2008 and 2007, TEPs available in accordance with the Arts and Cultural Affairs Law described above to reimburse the Museum for its advances were $1,000 and $1,084, respectively. These amounts were paid to the Museum, decreasing the receivable from the Trust.

(dollars in thousands)

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 $126,232 at June 30, 2008 and 2007.

14. 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 $299 and $443 for the years ended June 30, 2008 and 2007, 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 $84 and $72 at June 30, 2008 and 2007, 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 $3,844 and $3,953 are included in Investments held on behalf of others in the statements of financial position for the years ended June 30, 2008 and 2007, 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 review and management believes that they approximate fair value.

15. 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 $1,830 and $1,816 in 2008 and 2007, respectively.

Minimum lease payments under noncancelable operating leases as of June 30, 2008 are as follows:

2009	$ 1,604
2010	1,604
2011	1,676
2012	1,037
2013	973
Thereafter	9,674
	$ 16,568

At June 30, 2008, the Museum has commitments to make additional investments in venture capital partnerships aggregating approximately $69,723.

At June 30, 2008, the Museum has commitments of $2,490 for art acquisitions.

(dollars in thousands)

Rental Income
The Museum leases office space to various tenants in an office tower adjacent to the Museum and a facility in Queens. Rental income under these leases amounted to $2,745 and $2,239 for the years ended June 30, 2008 and 2007, respectively.

Minimum guaranteed rents under these leases as of June 30, 2008 are as follows:

2009	$ 3,068
2010	3,167
2011	3,311
2012	2,793
2013	1,829
Thereafter	2,835
	$ 17,003

16. Expenses by Functional Classification

Expenses by functional classification for fiscal year 2008 and 2007 are shown below:

	2008	2007
Museum operating expenses excluding depreciation	$ 159,052	$ 146,731
Depreciation	28,099	27,453
Interest and other expenses	16,421	15,903
	$ 203,572	$ 190,087
Museum program expenses		
Curatorial and related program expenses	$ 66,646	$ 62,734
Exhibitions	35,085	33,112
Other museum programs	3,534	4,334
Public services	4,549	3,757
Cost of sales and expenses of auxiliary activities	50,633	44,804
	160,447	148,741
Supporting services		
Management and general	31,421	30,917
Fundraising	11,704	10,429
	43,125	41,346
	$ 203,572	$ 190,087

Cost of sales/auxiliary activities included $483 of depreciation expense relating solely to such activities.

(dollars in thousands)

17. New Accounting Pronouncements

In fiscal year 2008 the Museum adopted Financial Accounting Standards Board FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes— an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of the tax position taken or expected to be taken in a tax return and provides guidance related to classification and disclosure matters. FIN 48 is effective for the Company beginning on January 1, 2007. The impact of adoption was not material.

In addition, in September 2006, the Financial Accounting Standards Board issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities and expands disclosure with respect to fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact, if any, on the financial statements of the adoption of SFAS 157.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities"* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities using different measurement techniques. SFAS 159 requires additional disclosures related to the fair value measurements included in the entity's financial statements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Museum is currently assessing the impact of adopting SFAS No. 159 but does not presently expect that it will have a material effect on the combined balance sheet or statement of activities.

In August 2008, the FASB issued FASB Staff Position FAS 117-1 "Endowments of Not-for-Profit Organizations Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for All Endowment Funds" ("FSP FAS 117-I"). This FSP provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. This FSP requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The provisions of this FSP shall be effective for fiscal years ending after December 15, 2008.