PricewaterhouseCoopers

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of The Metropolitan Museum of Art:

In our opinion, the accompanying balance sheet and the related statements of activities and cash flows present fairly, in all material respects, the financial position of The Metropolitan Museum of Art ("the Museum") at June 30, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. 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 audit. The prior year summarized comparative information has been derived from the Museum's 2007 financial statements; and in our report dated October 4, 2007, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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 audit provides a reasonable basis for our opinion.

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

PricewaterhouseCoopers LLP

New York, New York
September 26, 2008

Balance Sheet June 30, 2008, with comparative totals as of June 30, 2007 (in thousands)

	2008	2007
Assets:		
Cash (Notes A and N)	$ 1,342	$ 3,569
Investment trades receivable	1,174	331
Merchandise inventories, net (Note A)	12,681	11,507
Accounts receivable and other assets (Note B)	18,006	19,506
Contributions receivable (Notes C and N)	152,963	139,162
Funds held in trust by others (Note H)	50,221	55,394
Investments (Notes A, G, H, K and N)	2,915,803	2,961,765
Fixed assets, net (Notes A and E)	394,529	360,945
TOTAL ASSETS	$3,546,719	$3,552,179
Liabilities:		
Investment trades payable	$ 2,567	$ 3,750
Accounts payable and accrued expenses	38,817	34,962
Accrued salaries and benefits	22,970	20,923
Deferred income (Note A)	3,965	4,221
Notes payable (Notes J and N)	38,192	37,536
Annuity and other split-interest obligations (Notes H and N)	12,655	9,610
Asset retirement obligations (Note O)	7,926	7,298
Pension and other accrued retirement obligations (Note I)	71,760	65,647
Loans payable and other long-term liabilities (Notes K and N)	169,496	162,830
TOTAL LIABILITIES	368,348	346,777
Net assets:		
Unrestricted (Note A)	1,520,862	1,598,666
Temporarily restricted (Notes A and P)	878,041	847,653
Permanently restricted (Notes A and P)	779,468	759,083
TOTAL NET ASSETS	3,178,371	3,205,402
TOTAL LIABILITIES AND NET ASSETS	$3,546,719	$3,552,179

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

Statement of Activities

for the year ended June 30, 2008, with comparative totals for 2007 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008	Total 2007
OPERATING					
REVENUE AND SUPPORT:					
Admissions and membership (Note K)	$ 52,999			$ 52,999	$ 50,101
Gifts and grants	21,379	$ 15,057		36,436	30,673
Operating appropriations from the City of New York	25,030			25,030	27,225
Endowment support for current activities (Note G)	63,008	11,268		74,276	69,099
Merchandising and other auxiliary activities (Note Q)	102,275			102,275	102,667
Other income	6,774			6,774	7,672
Net assets released from donor restrictions to fund operating expenses	30,083	(30,083)		—	—
TOTAL REVENUE AND SUPPORT	301,548	(3,758)		297,790	287,437
EXPENSES:					
Curatorial	74,338			74,338	67,246
Education and libraries	15,812			15,812	13,998
Development and membership	14,345			14,345	13,397
Operations	77,990			77,990	76,345
General administration	24,481			24,481	20,165
Merchandising and other auxiliary activities (Note Q)	102,007			102,007	100,901
Interest on debt	1,186			1,186	1,583
TOTAL EXPENSES	310,159			310,159	293,635
Transfers of designated non-operating funds	5,395			5,395	4,193
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**(3,216)**	(3,758)		(6,974)	(2,005)
NON-OPERATING					
Museum-designated and donor-restricted gifts	10,415	70,010		80,425	70,130
Endowment gifts	1,422	829	$ 18,994	21,245	35,361
Endowment support for current activities (Note G)	5,838	13,888		19,726	17,676
Investment return in excess of (less than) current support (Note G)	(57,071)	23,801	63	(33,207)	441,137
Change in value of split-interest agreements	(624)	(271)	(192)	(1,087)	5,722
Depreciation and non-capitalized expenditures	(37,974)			(37,974)	(32,637)
Reclassifications, fees, and other	(7,779)	279	1,520	(5,980)	788
Net assets released from donor restrictions	35,166	(35,166)		—	—
Change in net assets before collection items not capitalized and other adjustments	(53,823)	69,612	20,385	36,174	536,172
Purchases of art (Note D)	(48,925)			(48,925)	(27,492)
Proceeds from sales of art		3,463		3,463	828
Net assets released from donor restrictions to fund acquisitions of art	42,687	(42,687)		—	—
Minimum pension liability adjustment				—	5,958
Pension-related changes other than NPPC	(2,995)			(2,995)	—
Change in fair value of interest rate exchange agreements and effect of interest rate swaps (Note K)	(10,265)			(10,265)	(478)
Change in net assets before loss from discontinued operations	(73,321)	30,388	20,385	(22,548)	514,988
Loss from discontinued merchandising operations (Note Q)	(4,483)			(4,483)	(577)
Change in net assets before change in accounting principle	(77,804)	30,388	20,385	(27,031)	514,411
Cumulative effect of change in accounting principle: FAS 158 (Note I)				—	(12,018)
CHANGE IN NET ASSETS	(77,804)	30,388	20,385	(27,031)	502,393
NET ASSETS AT THE BEGINNING OF THE YEAR	1,598,666	847,653	759,083	3,205,402	2,703,009
NET ASSETS AT THE END OF THE YEAR	$1,520,862	$878,041	$779,468	$3,178,371	$3,205,402

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

Statement of Cash Flows for the year ended June 30, 2008, with comparative totals for 2007 (in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (27,031)	$ 502,393
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	39,964	34,004
Receipt of contributed securities	(12,598)	(18,058)
Contributions for capital expenditures	(20,249)	(14,303)
Contributions for long-term investment	(19,716)	(31,322)
Net realized and unrealized gains	(36,861)	(491,583)
Acquisitions and sales of art, net	45,462	26,664
Changes in assets and liabilities:		
Investment trades receivable	(843)	2,503
Merchandise inventories, net	(1,174)	(1,185)
Accounts receivable and other assets	874	(2,638)
Contributions receivable	(13,801)	(23,669)
Funds held in trust by others	5,173	2,030
Investment trades payable	(1,183)	2,169
Accounts payable and accrued expenses	3,855	9,325
Accrued salaries and benefits	2,047	965
Deferred income	(256)	550
Annuity and other split-interest obligations	3,045	(8,184)
Asset retirement obligations	628	1,248
Pension and other accrued retirement obligations	6,113	5,781
Loans payable and other long-term liabilities	8,895	56
Net cash used by operating activities	(17,656)	(3,254)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed assets, net	(73,459)	(77,652)
Proceeds from the sale of contributed securities	12,584	16,707
Proceeds from sales of investments	927,159	973,126
Purchases of investments	(844,321)	(1,053,391)
Acquisitions of art	(48,925)	(27,492)
Proceeds from sales of art	3,463	828
Net cash used by investing activities	(23,499)	(167,874)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for capital expenditures	20,249	14,303
Contributions for long-term investment	19,716	31,322
Proceeds from (payment of) notes payable	656	(9,824)
Proceeds from loans payable	130,000	130,000
Payment of loans payable	(132,230)	(2,125)
Deferred bond issuance costs	537	1,591
Net cash provided by financing activities	38,928	165,267
Net decrease in cash	(2,227)	(5,861)
Cash, beginning of the year	3,569	9,430
CASH, END OF THE YEAR	$ 1,342	$ 3,569

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

A. Summary of Significant Accounting Policies

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

- Permanently restricted net assets have donor-imposed restrictions that stipulate that the corpus of the gifts be maintained in perpetuity but permit the Museum to expend net income and gains earned on contributed assets for either specified or unspecified purposes. (Also, see Note P.)
- Temporarily restricted net assets carry donor-imposed restrictions on the expenditure of the contributed assets. Temporary restrictions may expire with the passage of time, as a result of actions taken by the Museum that fulfill donors' restrictions, or as a result of expenditures incurred that could have been charged to temporarily restricted assets. When temporarily restricted net assets are released from restrictions, they are transferred to unrestricted net assets and shown as "Net assets released from restrictions" in the Statement of Activities. Transfers from temporarily restricted to unrestricted net assets occur even if the contributions are received and spent within the same year. (Also, see Note P.)
- Unrestricted net assets are not restricted by donors. A portion of the unrestricted net assets is designated by the Museum for specific purposes, including long-term investment, leasehold improvements, and various curatorial activities.

Measure of Operations - The Museum includes in its measure of operations all revenue and expenses that are integral to its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from Board-designated and other non-operating funds to support current operating activities. The measure of operations includes support for operating activities from restricted net assets and unrestricted net assets designated for long-term investment (the endowment) according to the Museum's spending policy, which is detailed in Note G. The measure of operations excludes endowment support for non-operating and restricted operating activities; investment return in excess of/less than amounts made available for current support; additions to restricted and designated net assets; adjustments to the minimum pension liability; pension-related changes other than net periodic pension cost ("NPPC"); changes in net assets of split-interest agreements, after providing for any operating revenue or support; changes in net assets pertaining to acquisition and deaccession of collection items, and related insurance settlements; fees received for art-lending activities; depreciation of capital expenditures, except for those related to auxiliary activities and acquired computer systems and equipment; gains/losses on disposal or sale of fixed assets; non-capitalized expenditures; liability recognition for legal obligations to perform asset retirement activity; the entire effect of interest rate swaps; interest income relating to the Debt Service Fund, which pertains to the Dormitory Authority loan agreements (see Note K); certain miscellaneous charges and revenue unrelated to operating activities, and the cumulative effect of changes in accounting principles.

Collections - The Museum's collections comprise more than two million works of art from ancient, medieval, and modern times and from all areas of the world. They offer a survey of considerable breadth of art from the ancient civilizations of Asia, Africa, South America, the Pacific Islands, Egypt, the Near East, and Greece and Rome to the present time. The Museum's collections include European paintings, medieval art and architecture, arms and armor, prints, photographs, drawings, costumes, musical instruments, sculpture, textiles, and decorative arts from the Renaissance to the present time, as well as one of the foremost collections of American art in the world. The Museum also maintains some of the most comprehensive art and architecture libraries in the United States. The collections are maintained for public exhibition, education, and research in furtherance of public service, rather than for financial gain.

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

Cash - This represents operating cash balances related to payroll, general operating (including overnight investments), petty cash and retail stores. For short-term cash equivalents, see *Investments* below.

Merchandise Inventories - Merchandise inventories are valued at the lower of cost or market value. Cost is determined using the average unit cost method of accounting. This is a change from the retail inventory method effective April 2008 in conjunction with a systems conversion. This change did not result in a material impact on the financial statements.

Investments - Investments in short-term instruments, fixed income securities, and equity securities are carried at fair value based on quoted market prices and exchange rates, as applicable.

Investments in investment funds are carried at estimated fair value generally based on the net asset values and other information provided by the investment funds' managers or general partners. These funds include exchange traded securities and derivatives based on third-party quoted market prices and over-the-counter derivatives and private investments whose values are determined by the fund's investment manager and general partners based on the selection of valuation techniques and use of inputs and assumptions considered appropriate.

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

Cash equivalents are included in the short-term investments category. They are made up of highly liquid investments with original maturities of three months or less.

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

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

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

Long-lived assets such as fixed assets are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. Estimated undiscounted future cash flows are used to determine if an asset is impaired, in which case the asset's carrying value would be reduced to fair value.

Deferred Income - Membership dues received from individuals and corporations pertaining to all membership categories are recognized ratably as income over a membership period of up to 24 months. Amounts not yet earned by the end of the fiscal year are reported as deferred income.

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

The heat, light, and power costs of the Fifth Avenue building are paid for by the City of New York. The value of such costs is reported as income and a corresponding amount is included as an expense in the Statement of Activities. The City of New York also provides funds for guardianship and maintenance, including reimbursement for salaries, Social Security, and pension contributions.

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

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

Advertising - Advertising expenses pertaining to merchandising activities, mostly attributable to the production and distribution of catalogues, amounted to $6.2 million in fiscal years 2008 and 2007. Other advertising expenses incurred primarily in support of special exhibitions, the permanent collection, and concerts and lectures totaled $3.0 million and $2.8 million in fiscal years 2008 and 2007, respectively. All advertising is expensed as incurred.

Interest Expense - Interest on borrowings applicable to major construction projects in progress is capitalized and depreciated. Total interest paid during fiscal years 2008 and 2007 was $8.7 million and $6.4 million, respectively, of which $1.4 million and $0.4 million, respectively, related to the amounts paid under the interest rate swap agreements. Interest not capitalized is charged to operating expenses or, if related to the swap agreements, to non-operating activities.

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

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

Prior Year Comparisons and Reclassifications - The Museum has included both current and prior year financial data in its financial statements. To facilitate the comparison on the Statement of Activities, the Museum has chosen to present the prior year information in summary form, without segregation of the data by net asset values. As a result, that particular historical information is not presented in compliance with generally accepted accounting principles. It should therefore be reviewed in conjunction with the more detailed information set forth in the audited financial statements for fiscal year 2007, the source from which the summary information was derived.

Certain amounts in fiscal year 2007 have been reclassified to conform to the fiscal year 2008 statement presentation. The Museum adjusted the 2007 Statement of Cash Flows for classifications related to contributed securities activities. The adjustments are not deemed to be material.

B. Accounts Receivable and Other Assets

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

	June 30, 2008	*June 30, 2007*
Accounts receivable, net	$ 4,564	$ 3,942
Dividends and interest receivable	3,258	4,095
Prepaid expenses and other	10,184	11,469
Total	$18,006	$19,506

C. Contributions Receivable

Unconditional promises (pledges) to contribute to the Museum are recorded as contributions receivable at the present value of future cash flows, net of an allowance for uncollectibility. Present value discount rates used were 2.78% and 4.78% for fiscal years 2008 and 2007, respectively. Pledges are expected to be realized as follows (in thousands):

	June 30, 2008	*June 30, 2007*
Less than one year	$ 83,680	$ 73,507
Between one and five years	77,122	67,323
Over five years	5,450	13,942
Total	166,252	154,772
Less:		
Allowance for uncollectibility	(3,540)	(3,689)
Discount for present value	(9,749)	(11,921)
Net	$152,963	$139,162

D. Acquisitions of Art

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

	2008	2007
Gifts of cash and securities	$22,225	$13,509
Gains and income from long-term investment:		
For designated curatorial departments	7,559	2,274
Undesignated as to curatorial department	12,109	7,244
Proceeds from fine arts insurance and the sale of art	7,032	4,465
Total	$48,925	$27,492

E. Fixed Assets

Fixed assets consist of (in thousands):

	June 30, 2008	June 30, 2007	Estimated Useful Lives in Years
Land	$ 1,015	$ 1,015	N/A
Buildings	35,630	35,201	20-40
Leasehold improvements–auxiliary activities	32,510	38,030	4-40
Leasehold improvements–Fifth Avenue building	695,233	624,574	5-30
Machinery and equipment	65,170	61,344	3-20
Total	829,558	760,164	
Less accumulated depreciation and amortization	(435,029)	(399,219)	
Net	$394,529	$360,945	

The above amounts include construction in progress of $46.0 million and $65.0 million at June 30, 2008 and 2007, respectively. Depreciation and amortization expense was $39.9 million for fiscal year 2008 and $33.9 million for fiscal year 2007. In fiscal year 2008, $6.1 million of fixed assets were written off, of which $3.5 million were fully depreciated.

In fiscal year 2008, interest expense of $4.9 million and interest income of $4.5 million, which related to the new bond financing, were capitalized and included in fixed assets on the Balance Sheet.

Fixed assets and construction in progress include $49.4 million of property contributed and paid for by the City of New York since 1990, of which $7.5 million was received during the fiscal year ended June 30, 2008.

F. Capital Expenditures

The principal capital projects in progress during fiscal year 2008 were as follows (in thousands):

	Prior Years' Expenditures	2008 Expenditures	Total Expenditures
Greek and Roman, Wing K, and Uris Center for Education renovation	$238,755	$ 13,668	$ 252,423
American Wing renovation	16,783	28,371	45,154
19th-Century gallery expansion and Arts of Africa, Oceania, and the Americas renovation	21,856	6,325	28,181
Wrightsman Gallery refurbishment	4,231	3,583	7,814
Chiller plant relocation	5,708	1,567	7,275
Lehman skylight	—	3,901	3,901
Fairchild Paintings Conservation Center refurbishment	—	2,739	2,739
Fire detection system	187	2,470	2,657
The Cloisters (1)		474	
Projects related to auxiliary activities (1)		2,199	
Other capital projects (1)		17,160	
Total (2)		82,457	
Less cost of capitalized projects		(75,450)	
Non-capitalized expenditures and maintenance expense		$ 7,007	

(1) These projects are normally completed within one fiscal year. Accordingly, since prior year and current year projects are not comparable, no prior year or total expenditure is given.

(2) The Museum has outstanding purchase commitments of approximately $38.7 million related to construction projects at June 30, 2008.

G. Investments

The fair values of the Museum's investment portfolio categories were as follows (in thousands):

	June 30, 2008	*June 30, 2007*
Equities:		
Securities	$ 326,206	$ 401,350
Investment funds	744,651	738,683
Subtotal	1,070,857	1,140,033
Fixed income:		
Government bonds	102,872	100,061
Corporate debt	88,877	81,830
Mortgage backed	29,497	41,768
Investment funds	44,078	38,483
Other	48,504	46,185
Subtotal	313,828	308,327
Short-term investments	149,522	238,656
Limited partnerships and other:		
Absolute return	602,011	590,127
Private equity	550,145	512,648
Real assets	229,440	171,974
Subtotal	1,381,596	1,274,749
Total	$2,915,803	$2,961,765

The cost value of the total investment portfolio was $2,302.0 million and $2,159.2 million as of June 30, 2008 and 2007, respectively.

At June 30, 2008, the Museum had approximately $693.6 million in remaining capital commitments to investment funds and limited partnerships.

With respect to the Series 2006 Bonds described in Note K, as of June 30, 2008, $28.7 million of investments relate to bond proceeds held in the custody of a trustee and are not yet available to the Museum.

The Museum maintains a highly diversified portfolio of investments that is designed to preserve the inflation-adjusted purchasing power of invested funds while providing a stream of earnings for current use. Investment objectives and policies are established by the Museum's Trustee Investment Committee and are undertaken in partnership with external investment managers.

Certain of the Museum's investment managers incorporate the use of financial instruments with immaterial off-balance sheet risk in Museum accounts as part of their investment strategies, primarily to hedge against equity, currency, or interest rate risk. These include equity and fixed income futures and options, and foreign currency options and forward contracts. These instruments are either traded on organized exchanges or entered into with creditworthy financial institutions.

According to the Museum's spending policy, a portion of the total investment return on net assets designated for long-term investment is available to support current programs, while the remainder is reinvested. Distributions available for spending are limited to a range of 4.5% to 5.5% of a lagged average market value of endowment assets over a specified period set by the Board of Trustees. For fiscal years 2008 and 2007, the spending rate was set by the Board at 5.25%. The value used to calculate the spending rate for fiscal year 2008 was the average of the twenty quarters ended December 31, 2006.

Investment income is net of unrelated business income taxes of $1.9 million and $8.5 million for fiscal years 2008 and 2007, respectively.

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

	2008				
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*2007 Total*
Investment income, net of management and custodian fees, taxes, and other expenses	$ 17,567	$ 6,304	$63	$ 23,934	$ 36,329
Net realized gains	170,188	54,942		225,130	162,081
Changes in unrealized appreciation	(176,892)	(11,377)		(188,269)	329,502
Total return on investments	10,863	49,869	63	60,795	527,912
Transfer of losses recovered on endowment funds	912	(912)		—	—
Investment return allocated for current activities	(68,846)	(25,156)		(94,002)	(86,775)
Investment return (less than) in excess of current support	$ (57,071)	$ 23,801	$63	$ (33,207)	$441,137

H. Life Income Funds and Other Trusts

Life income funds consist of charitable remainder trusts, gift annuities, pooled income funds, and other trust assets. These funds are held in trust for one or more beneficiaries, and generally pay lifetime income to those beneficiaries, after which the principal is made available to the Museum in accordance with donor intentions. The value of these and other trust agreements, excluding new gifts and distributions, decreased by $0.3 million in fiscal year 2008, and increased by $6.0 million in fiscal year 2007, respectively. Present value discount rates applied to these funds ranged from 3.9% to 6.375% in fiscal years 2008 and 2007.

Trust invested on behalf of others:

- In 1997, a perpetual trust of $3.6 million was transferred to the Museum to manage in its pooled investments. The Museum receives annual endowment support from the trust and pays expenses on behalf of the trust.

The following displays the value of the assets and liabilities recognized on all these agreements (in thousands):

	June 30, 2008	*June 30, 2007*
Assets:		
Charitable remainder and other trust assets	$50,221	$55,394
Gift annuities, pooled income funds, and trust invested on behalf of others (included with investments in the Balance Sheet)	18,315	14,627
Total	$68,536	$70,021
Liabilities:		
Trust invested on behalf of others	$ 4,768	$ 4,534
Gift annuities and pooled income funds	7,887	5,076
Total	$12,655	$ 9,610

I. Pension Plans and Postretirement Benefits and Payments

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

Defined benefit pension plan for union staff - The Museum has a qualified defined benefit pension plan for all union employees covered by a collective bargaining agreement. Benefits under this plan are based on years of service and the employees' final four years of compensation. Employees contribute 3% of their base earnings to this plan, which amounted to $0.8 million for each of fiscal years 2008 and 2007.

Supplemental defined benefit pension plans for certain non-union staff - The Museum has a supplemental qualified and a supplemental non-qualified defined benefit pension plan for certain non-union employees to provide future benefits at least equal to the benefits provided under a defined benefit pension plan that was terminated. The projected benefit obligation and accumulated benefit obligation of the supplemental non-qualified defined benefit plan, which is unfunded, were $4.2 million and $3.8 million, respectively, as of June 30, 2008, and $4.4 million and $3.8 million, respectively, as of June 30, 2007.

Defined contribution plan for non-union staff (Basic Plan) - The Museum has a mandatory defined contribution pension plan for all non-union employees other than temporary employees. Under this plan, participants are required to contribute 3% of their annual compensation as a condition of employment. The Museum's contributions under this plan were based on 6% of a participant's base pay during the year until May 31, 2008. Effective June 1, 2008, the Museum increased its contributions under this plan to 8% of a participant's base pay during the year. The Museum also contributes 5.7% of base pay earnings that exceed the Social Security wage base during a calendar year. The cost of the defined contribution pension plan recognized in fiscal years 2008 and 2007 was $5.2 million and $4.0 million, respectively.

Defined contribution matching plan for non-union staff (Matching Plan) - Effective June 1, 2008, the Museum started a voluntary defined contribution matching pension plan for all non-union employees other than temporary employees. Under the plan, non-union employees may voluntarily defer a portion of their annual compensation on a pre-tax basis. The Museum will match contributions in an amount not to exceed 3% of compensation for eligible employees. There is no minimum contribution under this plan.

Proposed Additional Retirement Contribution Plans (ARC) - In May 2008, the Board of Trustees approved the creation of two new plans to provide additional retirement contributions to certain non-union Museum employees. These plans will be effective beginning in fiscal year 2009. The Museum intends to fund the contributions annually, the amount of which is to be determined and approved by the Board annually.

Defined contribution plan for union staff - The Museum has a voluntary defined contribution plan for all union employees covered by a collective bargaining agreement. The Museum contributes up to 3% of the participant's salary based on a schedule. The cost of this plan in fiscal years 2008 and 2007 was $0.2 million and $0.1 million, respectively.

Postretirement benefits - The Museum provides postretirement medical care benefit coverage to retired employees as outlined below.

- Non-union staff: Substantially all of the Museum's non-union employees become eligible for certain benefits (prescription drugs and health insurance subject to annual limits) when they reach age 55 and have 15 years of service to the Museum. The Museum made contributions to the non-union's postretirement medical care benefit plan of $0.7 million in each of fiscal years 2008 and 2007.
- Union staff: The Museum's union employees are eligible to participate in a New York City–sponsored postretirement benefit plan pursuant to a collective bargaining agreement between the Museum and Local 1503 of District Council 37 (member of AFSCME and AFL-CIO). The benefits provided to these employees include medical and surgical coverage as well as certain supplemental benefits (dental, prescription drug, vision, and health insurance). The postretirement benefit obligation related to supplemental benefits is part of a multiemployer plan and, as such, the Museum is not required to record a liability for these benefits. The postretirement benefit obligation for medical and surgical coverage is not considered a part of a multiemployer plan and is, therefore, included as an obligation of the Museum. The Museum's union employees become eligible for postretirement benefits when they reach age 52 and have 10 years of service or age 62 with 5 years of service to the Museum. The Museum made contributions to the postretirement medical care benefit plan in fiscal years 2008 and 2007 of $1.2 million and $1.1 million, respectively.

- Pay for unused sick leave benefit - The Museum reimburses eligible employees for a portion of unused sick days if they meet certain age and service requirements at termination. The Museum made payments in fiscal years 2008 and 2007 of $0.2 million and $0.3 million, respectively.

Funding policy - The Museum's funding policy is to contribute annually an amount that meets or exceeds the minimum requirements of the Employee Retirement Income Security Act of 1974 (ERISA), using assumptions different from those used for financial reporting.

Adoption of new accounting standard SFAS 158 - As of June 30, 2007, the Museum adopted the provisions of Statement of Financial Standard (FAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (which amended FAS Nos. 87, 88, 106, and 132R). FAS No. 158 requires recognition on the Balance Sheet of the difference between benefit obligations and any plan assets of the Museum's defined benefit and postretirement benefit plans. In addition, FAS No. 158 requires unrecognized amounts (e.g., net actuarial gains or losses and prior service costs or credits) to be recognized as changes to unrestricted net assets and these amounts to be adjusted as they are subsequently recognized as components of net periodic benefit cost based on the current requirements of FAS Nos. 87 and 106. Upon application, the incremental effect of applying FAS No. 158 was a reduction in unrestricted net assets of $12.0 million for the fiscal year ended June 30, 2007.

The tables below and on the following pages set forth the net liability recognized in the Balance Sheet, the change in plan assets, the funded status, weighted-average assumptions, and other data for the pension plans and postretirement benefit plans (in thousands):

	Pension Benefits		*Postretirement Benefits*	
	June 30, 2008	*June 30, 2007*	*June 30, 2008*	*June 30, 2007*
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	$ 90,647	$ 85,438	$ 48,531	$ 48,031
Service cost	3,357	2,923	2,395	1,968
Interest cost	5,881	5,272	3,156	2,870
Employee contributions	757	774	—	—
Amendments	—	—	—	(787)
Actuarial loss (gain)	(5,111)	229	3,268	(1,567)
Benefits paid	(3,194)	(2,815)	(2,146)	(2,058)
Medicare Part D subsidy	—	—	79	74
Settlements	(539)	(1,174)	—	—
Benefit obligation at end of year	91,798	90,647	55,283	48,531
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	73,531	61,564	—	—
Actual (loss) gain on plan assets	(652)	8,764	—	—
Employer contributions	5,418	6,418	2,078	2,004
Employee contributions	757	774	—	—
Benefits paid	(3,194)	(2,815)	(2,146)	(2,058)
Medicare Part D subsidy	—	—	68	54
Settlements	(539)	(1,174)	—	—
Fair value of plan assets at end of year	75,321	73,531	—	—
Funded status (liability)	$(16,477)	$(17,116)	$(55,283)	$(48,531)

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

	2008	*2007*	*2008*	*2007*
Actuarial losses	$(18,110)	$(18,667)	$ (8,907)	$ (6,174)
Prior service (costs) credits	(750)	(1,311)	10,742	12,122
Unrestricted net assets not yet recognized in net periodic benefit cost	(18,860)	(19,978)	1,835	5,948
Cumulative employer contributions in excess of (less than) net periodic benefit cost	2,383	2,862	(57,118)	(54,479)
Unfunded benefit obligations (liability)	$(16,477)	$(17,116)	$(55,283)	$(48,531)

The actuarial losses herein primarily represent the cumulative difference between the actuarial assumptions and actual return on plan assets, changes in discount rates and plan experience. Actuarial losses not yet recognized are included in unrestricted net assets and are amortized into net periodic benefit cost over an average period of 12.0 years.

The following table presents the amount of unrestricted net assets not yet recognized, which are expected to be amortized into net periodic benefit costs for the year ending June 30, 2009 (in thousands):

	Pension Benefits	*Postretirement Benefits*
Actuarial losses	$ 819	$ 560
Prior service costs (credits)	339	(1,381)
Total	$1,158	$ (821)

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

	Pension Benefits		*Postretirement Benefits*	
	2008	*2007*	*2008*	*2007*
Service cost	$ 3,357	$ 2,923	$ 2,394	$ 1,968
Interest cost	5,881	5,272	3,156	2,870
Expected return on plan assets	(5,356)	(4,890)	—	—
Amortization of prior service cost	561	634	(1,381)	(1,312)
Amortization of accumulated loss	1,338	1,689	547	518
Settlement loss	116	417	—	—
Net periodic benefit cost	$ 5,897	$ 6,045	$ 4,716	$ 4,044
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AS OF JUNE 30:				
Discount rate	7.02%	6.32%	7.03%	6.30%
Rate of compensation increase	3.90%	3.90%	—	—
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET COST AS OF JUNE 30:				
Discount rate	6.32%	6.35%	6.30%	6.35%
Expected return on plan assets	7.34%	8.00%	—	—
Rate of compensation increase	3.90%	3.89%	—	—
ADDITIONAL INFORMATION (in thousands):				
Actual return on plan assets	$ (651)	$ 8,764	—	—
Accumulated benefit obligation for all defined benefit pension plans	75,351	74,387	—	—

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

Number of pension plans with accumulated benefit obligations in excess of plan assets	2	2
Aggregate accumulated benefit obligation	$15,820	$ 15,816
Aggregate fair value of plan assets	$11,606	$ 11,503
Number of pension plans with projected benefit obligations in excess of plan assets	3	3
Aggregate projected benefit obligation	$91,798	$ 90,647
Aggregate fair value of plan assets	$75,321	$ 73,531

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

	Pension Benefits	*Postretirement Benefits*
Changes in plan assets and benefit obligations recognized in unrestricted net assets:		
New loss arising during the year	$ 897	$ 3,279
Amounts recognized as a component of net periodic benefit cost:		
Amortization or curtailment recognition of prior service credit (cost)	(561)	1,381
Amortization or settlement recognition of net loss	(1,454)	(547)
Total recognized in unrestricted net assets	(1,118)	4,113
Net periodic benefit cost	5,897	4,716
Total recognized in net periodic benefit cost and unrestricted net assets	$ 4,779	$ 8,829

	2008		*2007*	
	Union	*Non-Union*	*Union*	*Non-Union*
ASSUMED MEDICAL COST TREND RATES AT JUNE 30:				
Health care cost trend rate assumed for next year	8.00%	8.00%	6.75%	7.50%
Rate that the cost trend gradually declines to	5.00%	5.00%	5.00%	5.00%
Year that the final trend rate is reached	2015	2015	2012	2012

The following data show the effect of a one percentage point health care cost trend rate increase (decrease) for fiscal year 2008 (in thousands):	*Percentage Point Increase*	*Percentage Point (Decrease)*
Effect on total of service and interest cost	$ 542	$ (446)
Effect on postretirement benefit obligation	5,415	(4,462)

Selection of Assumptions - The selection of the discount rate assumption reflects a bond matching analysis to a portfolio of high-quality corporate bonds. The methodology for selecting the discount rate is to match each plan's cash flow to that of a yield curve that provides the equivalent yields on zero-coupon corporate bonds for each maturity. The discount rate for each plan is the single rate that produces the same present value of cash flows. The expected return on the plans' assets has been developed in consultation with external advisers, taking into account such factors as long-term historical returns for equity and fixed income assets and long-term forecasts for inflation, and correlation of returns between asset classes.

Investment strategies - Assets of the Museum's defined benefit plans are invested in diversified portfolios that are designed to generate returns sufficient to meet obligations to beneficiaries at acceptable levels of risk. Investment objectives and policies are established by the Museum's Trustee Investment Committee and are undertaken in partnership with external investment managers. The target allocation of the defined benefit plan for union staff is 60% to equity securities and 40% to fixed income securities, and the target allocation of the defined benefit plan for non-union staff is 40% to equity securities and 60% to fixed income securities. As of June 30, 2008, the assets of the defined benefit plan for union staff were invested 52.9% and 47.1% in equity and fixed income securities, respectively, and the assets of the defined benefit plan for non-union staff were invested 38.9% and 61.1% in equity and fixed income securities, respectively. As of June 30, 2007, the assets of the defined benefit plan for union staff were invested 55.7% and 44.3% in equity and fixed income securities, respectively, and the assets of the defined benefit plan for non-union staff were invested 41.9% and 58.1% in equity and fixed income securities, respectively.

Medicare – In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") was signed into law. The Act introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to employers whose plans provide an actuarial equivalent prescription drug benefit. The Museum has applied for the federal subsidy under the non-union staff postretirement plan. The present value of federal subsidy payments reduced the accumulated postretirement benefit obligations at June 30, 2008 and June 30, 2007 by approximately $1.1 million and $1.1 million, respectively. In accordance with FSP 106-2, the reduction in obligation attributable to the anticipated subsidy payments is being treated as a gain.

Cash flows for the fiscal year ending June 30 (in thousands):	*Pension Benefits*	*Postretirement Benefits*	*Expected Net Postretirement Benefit Payments*	*Expected Medicare Subsidy*
Employer Contributions:				
2007 (actual)	$ 6,418	$ 2,004	N/A	N/A
2008 (actual)	5,418	2,078	N/A	N/A
2009 (expected)	3,073	2,889	N/A	N/A
Projected benefit payments for the fiscal year ending june 30 (in thousands):				
2009	$ 5,242	$ 2,889	$ 2,804	$ 85
2010	5,311	3,155	3,059	96
2011	5,768	3,411	3,301	110
2012	4,705	3,689	3,565	124
2013	4,983	3,856	3,718	138
2014–2018	33,219	23,319	22,371	948

J. Notes Payable

At June 30, 2008 and 2007, the Museum had three credit facilities with two commercial banks. Under the largest credit facility, which is a $100 million revolving line of credit, the Museum had borrowed $38.2 million and $37.5 million as of June 30, 2008 and 2007, respectively. Any amount borrowed under the revolving line of credit is payable in full on or before September 30, 2011. The borrowing bears interest at variable rates, and accrued interest is paid at loan maturity. Total interest expense on bank borrowings amounted to $1.9 million and $2.3 million in fiscal years 2008 and 2007, respectively. As of June 30, 2008, the interest rate on the outstanding debt was 2.48%. Under the loan agreement, the Museum has covenanted to maintain a ratio of Available Assets to General Liabilities, as defined, of not less than 2:1. The Museum was in compliance with this requirement at June 30, 2008 and 2007.

In addition to the revolving line of credit, the Museum has two lines of credit totaling $50 million under which no borrowings were outstanding at June 30, 2008 and 2007. Borrowings under the lines of credit are payable on demand and bear interest at variable rates that are paid monthly. The Museum had letters of credit aggregating $2.5 million at June 30, 2008 and 2007, under a sublimit for one of the lines of credit.

K. Loans Payable and Other Long-Term Liabilities

Series 1993 Bonds:

In 1993, the Museum entered into two loan agreements with the Dormitory Authority of the State of New York ("the Authority") to finance the construction and equipping of certain of the Museum's facilities and to defease existing indebtedness. Pursuant to these loan agreements, the Authority issued Series 1993 Revenue Bonds consisting of $41.7 million Series 1993A Variable Interest Rate Bonds ("Series 1993A Bonds"), due serially to July 1, 2015, and $22.1 million Series 1993B Variable Interest Rate Bonds ("Series 1993B Bonds"), due by July 1, 2020. The Series 1993B Bonds are secured by the Museum's annual membership dues. The loan agreements require the Museum to maintain investments in certain defined securities having a market value of at least 120% of the aggregate principal amount of the Museum's outstanding short-term debt as defined in the agreements. Additionally, the Museum must maintain a ratio of Available Assets to General Liabilities, as defined, of not less than 2:1. The Museum was in compliance with these covenants at June 30, 2008 and 2007.

While the revenue bonds are not direct indebtedness of the Museum, the loan agreements with the Authority obligate the Museum to make payments equal to the interest and mandatory redemption requirements of such bonds and are general obligations of the Museum. A liability equivalent to the principal amount of the Authority's outstanding revenue bonds, adjusted for fair value of future interest payments, is reflected in the Balance Sheet.

In 1993, the Museum entered into a 22-year interest rate exchange agreement with Morgan Stanley Capital Services, Inc. ("Morgan Stanley"), that effectively changes the Museum's interest rate exposure on the Series 1993A Bonds to a fixed rate. The notional amount of the swap was initially set at $41.7 million and amortizes according to a schedule that is similar to the mandatory redemption schedule of the Series 1993A Bonds. Under the terms of the interest rate exchange agreement, Morgan Stanley pays to the Museum a variable rate consistent with the rate on the Series 1993A Bonds, and the Museum pays to Morgan Stanley a fixed rate of 4.77% per annum.

At June 30, 2008 and 2007, $2.4 million and $2.3 million, respectively, of investments were in the custody of a trustee in connection with the Series 1993A&B Bonds as a reserve for the payment of debt service.

Series 2006 Bonds:

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

Pursuant to the loan agreement, the Museum is required to pay when due, the principal and interest on the Series 2006A Bonds. While the bonds are not direct indebtedness of the Museum, the loan agreement and the obligation to make payments under the loan agreement are general obligations of the Museum. No security interest in any revenues or assets of the Museum has been granted by the Museum to the Trust or any other party in connection with the Series 2006A Bonds. The Series 2006A Bonds will mature on October 1, 2036. On April 29, 2008, and May 1, 2008, the Series 2006A-1 and A-2 Bonds, respectively, were converted from auction rate notes to variable rate demand bonds and currently bear interest at a weekly interest rate. Prior to the conversion, the bonds' interest rate was based on a weekly reset auction rate. As a result of the conversion of the bonds, approximately $1.5 million of deferred financing costs that were associated with the debt that was repaid were expensed and included in the non-operating section of the Statement of Activities. Furthermore, in April 2008, the Museum entered into an additional one-year $130 million confirmed credit facility. The purpose of this credit facility was to provide liquidity in the event of a put of the Museum's variable rate demand bonds, which are reset each week. This facility cannot be used for any purpose other than in connection with an exercise of the put right by the bondholders. To date there have been no drawdowns of this facility.

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

At June 30, 2008, $28.7 million of investments relate to bond proceeds held in the custody of a trustee and are not yet available to the Museum.

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

	June 30, 2008	*June 30, 2007*
Series 1993A Bonds due serially to July 1, 2015	$ 22,225	$ 24,455
Series 1993B Bonds due by July 1, 2020	6,780	6,780
Series 2006A Bonds due by October 1, 2036	130,000	130,000
Total loans payable	159,005	161,235
Fair value of interest rate exchange agreement on Series 1993A Bonds	1,538	1,155
Fair value of forward starting interest rate exchange agreement on Series 2006A Bonds	8,953	440
Total interest rate exchange agreements	10,491	1,595
Total liability	$169,496	$ 162,830

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

Interest rates on loans payable:		
Series 1993A&B Bonds	1.20%	3.72%
Series 2006A-1 Bonds	1.20%	3.60%
Series 2006A-2 Bonds	1.20%	3.70%
	2008	*2007*
Interest expense on loans payable (in thousands):		
Series 1993A Bonds	$1,094	$1,173
Series 1993B Bonds	198	243
Series 2006A Bonds	5,520	2,734
Interest expense included above related to the swaps (in thousands):		
Series 1993A Bonds	$438	$288
Series 2006A Bonds	931	134

Debt service under the loan agreements, after giving effect to the interest rate swaps, representing payments of principal and interest, is payable as follows (in thousands):

Year Ending June 30	*Principal Amount*	*Interest Payments**	*Total Estimated Debt Services*
2009	$ 2,335	$ 6,269	$ 8,604
2010	2,450	6,152	8,602
2011	2,570	6,030	8,600
2012	2,695	5,902	8,597
2013	2,830	5,768	8,598
Thereafter	146,125	119,747	265,872
Total	$159,005	$149,868	$308,873

*On the Series 1993B Bonds, which are callable at par, there are no mandatory redemption requirements until 2018; an interest rate of 4% is assumed for all fiscal years. In addition, $30 million of the Series 2006A Bonds not covered by the interest rate exchange agreement are also assumed to bear interest at a rate of 4% per annum.

L. Functional Classification of Expenses

Expenses by functional classification for fiscal years 2008 and 2007, which are described in Note A, are shown below (in thousands):

	2008	2007
Total operating expenses from the Statement of Activities	$310,159	$293,635
Depreciation of capital improvements and other non-capitalized expenditures from the non-operating section of the Statement of Activities	37,974	32,637
Management and custodian fees, taxes, and other expenses included in net investment income	21,019	23,974
Discontinued merchandising operations (Note Q)	4,441	3,788
Special events included in the revenue section of the Statement of Activities	691	723
Total	$374,284	$354,757
Program expenses:		
Curatorial activities, conservation, and exhibition	$170,695	$160,246
Education	13,408	11,015
Libraries	7,112	5,923
Public services and other	18,054	16,913
Cost of sales and expenses of auxiliary activities:		
Merchandising (includes discontinued operating costs and expenses)	81,431	81,107
Restaurant, parking garage, auditorium, and other	25,016	23,582
Total program expenses	315,716	298,786
Supporting services:		
Management and general	46,645	45,186
Fundraising	11,923	10,785
Total supporting services	58,568	55,971
Total	$374,284	$354,757

M. Lease Commitments

At June 30, 2008, the Museum is committed to minimum future rentals under noncancellable operating leases for the merchandising distribution center and retail sales shops, which expire at various dates through January 2017. The rental payments will be charged against future revenue from sales of books, reproductions of works of art, and similar reproductions sold through the Museum shops and mail-order system. Rent expense included in merchandising activities relating to these operating leases amounted to $7.2 million and $6.8 million in fiscal years 2008 and 2007, respectively, and includes contingent rent based on sales. The Museum has the right to extend the lease for the distribution center with a minimum of six months' prior notice to the lessor. In addition, there are operating leases for storage, office space, equipment, and other items, which expire at various dates through 2008 and later. Rent expense relating to these operating leases amounted to $0.4 million and $0.2 million in fiscal years 2008 and 2007, respectively.

Minimum rental commitments consist of the following at June 30, 2008 (in thousands):

Year Ending June 30	*Total*
2009	$ 5,331
2010	5,138
2011	4,904
2012	4,387
Thereafter	12,802
Total	$32,562

N. 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 Balance Sheet for which it was practicable to estimate that value (for all categories listed, carrying value approximates fair value):

Cash and Cash Equivalents - These assets consist mainly of cash in banks and investments in short-term, interest-bearing instruments that are carried at cost plus accrued interest.

Contributions Receivable - Fair value, after allowances for uncollectible pledges, was determined by discounting the expected future cash flows by a risk-free short-term borrowing rate.

Investments - The fair value of investments, which consist mainly of equity securities, debt securities, and investment funds, was based principally upon quoted market prices or, if such prices were unavailable, was determined by the investment managers or general partners.

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

Notes Payable and *Loans Payable and Other Long-Term Liabilities* - Fair value of these liabilities was based upon the discounting of future cash flows.

O. Asset Retirement Obligations

FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"), requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, FIN 47 requires the recognition of the cumulative accretion for the time period from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred, to the date of adoption of this interpretation. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted. Upon initial application of FIN 47, the Museum recorded a noncash transition charge of $6.05 million for the cumulative effect of a change in accounting principle in the Statement of Activities.

During fiscal year 2008, the Museum made payments of $0.2 million for these obligations and reduced the liability accordingly. In addition, the Museum adjusted certain asset retirement data and provided for the current year's accretion. These noncash charges amounted to $0.8 million and are included in the non-operating section of the Statement of Activities. As of June 30, 2008, $7.9 million of conditional asset retirement obligations are included in the liability section of the Balance Sheet.

P. Analysis of Restricted Net Assets

Temporarily restricted net assets, including accumulated investment income and gains of certain endowment funds, consist of the following (in thousands):

	June 30, 2008	*June 30, 2007*
Acquisitions of art	$ 215,078	$ 208,829
Capital projects	63,929	72,633
Invested in fixed assets being depreciated	272,184	244,431
To be designated	123,016	117,861
Fellowships	50,917	50,504
Gallery maintenance	56,382	57,086
Special exhibitions	35,195	36,208
Publications	22,523	22,219
Public programs	29,260	26,550
Other (including time restrictions)	9,557	11,332
Total	$ 878,041	$ 847,653

Permanently restricted net assets consist of the following (in thousands):

Endowment funds: income and gains restricted	$ 265,219	$ 244,147
Endowment funds: income and gains unrestricted	503,381	503,716
Interest in perpetual trusts	10,868	11,220
Total	$ 779,468	$ 759,083

Q. Merchandising and Other Auxiliary Activities

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

	2008	2007
Operating revenue:		
Merchandising operations	$ 75,554	$ 77,637
Restaurant	21,477	19,823
Other	5,244	5,207
Total revenue	102,275	102,667
Operating costs and expenses:		
Merchandising operations	76,990	77,319
Restaurant	20,024	18,667
Other	4,993	4,915
Total costs and expenses	102,007	100,901
Net income from auxiliary activities	$ 268	$ 1,766

Discontinued Merchandising Operations - The Merchandising division of the Museum received approval in February 2008 to discontinue operations in certain out-of-state satellite stores and selected shops located in the main building as part of an overall program of improving efficiency and profitability of the division. The combined operating deficit of these activities during fiscal years 2008 and 2007 was $0.9 million and $0.6 million, respectively. In addition, costs associated with the satellite store closings totaled $3.6 million, of which $2.1 million represented write-offs of undepreciated leasehold improvements and other assets. A summary of the results of the discontinued activities of these stores and shops and the related costs of discontinuance, which are included in the non-operating section of the Statement of Activities, is shown below (in thousands):

Operating revenue	$ 3,554	$ 3,211
Less operating costs and expenses	(4,441)	(3,788)
Operating loss from discontinued activities	(887)	(577)
Losses from disposals:		
Loss on write-off of undepreciated net assets	(2,118)	—
Other expenditures related to discontinued operations	(1,478)	—
Total loss from discontinued operations	$ (4,483)	$ (577)

R. New Accounting Pronouncements

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"), as required, on July 1, 2007. FIN 48 requires management to determine whether a tax position of the Museum is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes. Based on its analysis, management has determined that the adoption of FIN 48 did not have a material impact to the Museum's financial statements upon adoption.

In September 2006, Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"), was issued and is effective for fiscal years beginning after November 15, 2007. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Management is currently evaluating the impact, if any, the adoption of FAS 157 will have on its financial statements.

In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("FAS 159"). FAS 159 permits entities to choose to measure any financial instruments and certain other items at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007. Management is evaluating what items, if any, will be measured at fair value in accordance with FAS 159.

In August 2008, the FASB issued FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* ("UPMIFA"), *and Enhanced Disclosures for All Endowment Funds* ("FSP FAS 117-1"). 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.