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, 2007, 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 2006 financial statements; and in our report dated September 18, 2006, 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.

New York, New York
October 4, 2007

PricewaterhouseCoopers LLP

Balance Sheet

June 30, 2007, with comparative totals as of June 30, 2006 (in thousands)

	2007	2006
Assets:		
Cash (Notes A and N)	$ 3,569	$ 9,430
Investment trades receivable	331	2,834
Merchandise inventories, net (Note A)	11,507	10,322
Accounts receivable and other assets (Note B)	19,506	18,533
Contributions receivable (Notes C and N)	139,162	115,493
Funds held in trust by others (Note H)	55,394	57,424
Investments (Notes A, G, H, K and N)	2,961,765	2,388,566
Fixed assets, net (Notes A and E)	360,945	317,223
TOTAL ASSETS	$3,552,179	$2,919,825
Liabilities:		
Investment trades payable	$ 3,750	$ 1,581
Accounts payable and accrued expenses	34,962	25,637
Accrued salaries and benefits	20,923	19,958
Deferred income (Note A)	4,221	3,671
Notes payable (Notes J and N)	37,536	47,360
Annuity and other split-interest obligations (Notes H and N)	9,610	17,794
Asset retirement obligations (Note O)	7,298	6,050
Pension and other accrued retirement obligations (Note I)	65,647	59,866
Loans payable and other long-term liabilities (Notes K and N)	162,830	34,899
TOTAL LIABILITIES	346,777	216,816
Net assets:		
Unrestricted (Note A)	1,598,666	1,156,177
Temporarily restricted (Notes A and P)	847,653	815,474
Permanently restricted (Notes A and P)	759,083	731,358
TOTAL NET ASSETS	3,205,402	2,703,009
TOTAL LIABILITIES AND NET ASSETS	$3,552,179	$2,919,825

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

Statement of Activities

for the year ended June 30, 2007, with comparative totals for 2006 (in thousands)

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total 2007*	*Total 2006*
OPERATING					
REVENUE AND SUPPORT:					
Admissions and membership (Note K)	$ 50,101			$ 50,101	$ 44,673
Gifts and grants	19,153	$ 11,520		30,673	29,286
Operating appropriations from the City of New York	27,225			27,225	24,663
Endowment support for current activities (Note G)	58,351	10,748		69,099	63,423
Auxiliary activities	105,878			105,878	103,975
Other income	7,672			7,672	6,852
Net assets released from donor restrictions to fund operating expenses	26,899	(26,899)		—	—
TOTAL REVENUE AND SUPPORT	295,279	(4,631)		290,648	272,872
EXPENSES:					
Curatorial	67,246			67,246	64,661
Education and libraries	13,998			13,998	12,659
Development and membership	13,397			13,397	12,925
Operations	76,345			76,345	70,764
General administration	20,165			20,165	21,087
Auxiliary activities	104,689			104,689	101,771
Interest on debt	1,583			1,583	1,187
TOTAL EXPENSES	297,423			297,423	285,054
Transfers of designated non-operating funds	4,193			4,193	4,049
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**2,049**	(4,631)		(2,582)	(8,133)
NON-OPERATING					
Museum-designated and donor-restricted gifts	8,109	62,021		70,130	57,909
Endowment gifts	9,179	4,046	$ 22,136	35,361	28,402
Endowment support for current activities (Note G)	5,025	12,651		17,676	16,785
Investment return in excess of current support (Note G)	402,771	38,244	122	441,137	221,211
Change in value of split-interest agreements	50	936	4,736	5,722	(1,395)
Depreciation and non-capitalized expenditures	(32,637)			(32,637)	(27,651)
Reclassifications, fees, and other	4,228	(4,171)	731	788	(1,513)
Net assets released from donor restrictions	50,253	(50,253)		—	—
Change in net assets before collection items not capitalized and other adjustments	449,027	58,843	27,725	535,595	285,615
Purchases of art (Note D)	(27,492)			(27,492)	(34,830)
Proceeds from sales of art		828		828	26,854
Net assets released from donor restrictions to fund acquisitions of art	27,492	(27,492)		—	—
Minimum pension liability adjustment	5,958			5,958	6,732
Change in fair value of interest rate exchange agreements and effect of interest rate swaps (Note K)	(478)			(478)	429
Change in net assets before changes in accounting principle	454,507	32,179	27,725	514,411	284,800
Cumulative effect of changes in accounting principle:					
FAS 158 (Note K)	(12,018)			(12,018)	—
FIN 47 (Note O)				—	(6,050)
CHANGE IN NET ASSETS	442,489	32,179	27,725	502,393	278,750
NET ASSETS AT THE BEGINNING OF THE YEAR	1,156,177	815,474	731,358	2,703,009	2,424,259
NET ASSETS AT THE END OF THE YEAR	$1,598,666	$847,653	$759,083	$3,205,402	$2,703,009

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

Statement of Cash Flows

for the year ended June 30, 2007, with comparative totals for 2006 (in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 502,393	$ 278,750
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	34,004	30,845
Contributions for capital expenditures	(23,400)	(10,818)
Contributions for long-term investment	(37,696)	(24,213)
Net realized and unrealized gains	(491,583)	(260,777)
Acquisitions and sales of art, net	26,664	7,976
Changes in assets and liabilities:		
Investment trades receivable	2,503	24,913
Merchandise inventories, net	(1,185)	42
Accounts receivable and other assets	(2,638)	(1,395)
Contributions receivable	(23,669)	(10,538)
Funds held in trust by others	2,030	(4,564)
Investment trades payable	2,169	(34,626)
Accounts payable and accrued expenses	9,325	3,351
Accrued salaries and benefits	965	1,344
Deferred income	550	(134)
Annuity and other split-interest obligations	(8,184)	1,359
Asset retirement obligations	1,248	6,050
Pension and other accrued retirement obligations	5,781	(5,104)
Loans payable and other long-term liabilities	56	(929)
Net cash provided (used) by operating activities	(667)	1,532
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed assets, net	(77,652)	(65,180)
Proceeds from sales of investments	973,126	1,925,704
Purchases of investments	(1,054,742)	(1,894,168)
Acquisitions of art	(27,492)	(34,830)
Proceeds from sales of art	828	26,854
Net cash used by investing activities	(185,932)	(41,620)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for capital expenditures	23,400	10,818
Contributions for long-term investment	37,696	24,213
Proceeds from (payment of) notes payable	(9,824)	9,566
Proceeds from loans payable	130,000	—
Payment of loans payable	(2,125)	(2,025)
Deferred bond issuance costs	1,591	—
Net cash provided by financing activities	180,738	42,572
Net increase (decrease) in cash	(5,861)	2,484
Cash, beginning of the year	9,430	6,946
CASH, END OF THE YEAR	$ 3,569	$ 9,430

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 has been 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; 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; 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 carried at the lower of average cost or market value using the retail inventory method of accounting.

Investments - Investments in short-term instruments, fixed income securities, and equity securities are carried at quoted market prices and exchange rates, if applicable. Investments in investment funds and limited partnerships are carried at fair value. Publicly traded securities held in these commingled investment vehicles are based on third-party quoted market prices. Certain of these investment vehicles, particularly limited partnerships 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 partner and may be based on historical cost, 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.

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 currency 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 the 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 were 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 and $5.9 million in fiscal years 2007 and 2006, respectively. Other advertising expenses incurred primarily in support of special exhibitions, the permanent collection, and concerts and lectures totaled $2.8 million and $2.9 million in fiscal years 2007 and 2006, 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 2007 and 2006 was $6.4 million and $3.1 million, respectively, of which $0.4 million and $0.5 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 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 2006, the source from which the summary information was derived.

Certain amounts in fiscal year 2006 have been reclassified to conform to the fiscal year 2007 statement presentation.

B. Accounts Receivable and Other Assets

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

	June 30, 2007	*June 30, 2006*
Accounts receivable, net	$ 3,942	$ 4,954
Dividends and interest receivable	4,095	3,100
Prepaid expenses and other	11,469	8,534
Intangible pension asset	—	1,945
Total	$19,506	$18,533

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 4.78% and 5.1% for fiscal years 2007 and 2006, respectively. Pledges are expected to be realized as follows (in thousands):

	June 30, 2007	*June 30, 2006*
Less than one year	$ 73,507	$ 51,969
Between one and five years	67,323	71,347
Over five years	13,942	7,750
Total	154,772	131,066
Less:		
Allowance for uncollectibility	(3,689)	(3,457)
Discount for present value	(11,921)	(12,116)
Net	$139,162	$115,493

D. Acquisitions of Art

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

	2007	2006
Gifts of cash and securities	$13,509	$11,881
Gains and income from long-term investment:		
For designated curatorial departments	2,274	9,313
Undesignated as to curatorial department	7,244	5,160
Proceeds from fine arts insurance and the sale of art	4,465	8,476
Total	$27,492	$34,830

E. Fixed Assets

Fixed assets consist of (in thousands):

	June 30, 2007	June 30, 2006	Estimated Useful Lives in Years
Land	$ 1,015	$ 1,015	N/A
Buildings	35,201	33,387	20-40
Leasehold improvements–auxiliary activities	38,030	36,404	4-40
Leasehold improvements–Fifth Avenue building	624,574	556,054	5-30
Machinery and equipment	61,344	56,942	3-20
Total	760,164	683,802	
Less accumulated depreciation and amortization	(399,219)	(366,579)	
Net	$360,945	$317,223	

The above amounts include construction in progress of $65.0 million and $87.0 million at June 30, 2007 and 2006, respectively. Depreciation and amortization expense was $33.9 million for fiscal year 2007 and $30.8 million for fiscal year 2006. In fiscal year 2007, $2.1 million of fixed assets were written off, of which $1.2 million were fully depreciated.

In fiscal year 2007, interest expense and interest income related to the new bond financing of $2.6 million and $3.3 million, respectively, have been capitalized and included in fixed assets on the Balance Sheet.

Fixed assets and construction in progress includes $41.9 million of property contributed and paid for by the City of New York since 1990, of which $1.8 million was received during the fiscal year ended June 30, 2007.

F. Capital Expenditures

The principal capital projects in progress during fiscal year 2007 were as follows (in thousands):

	Prior Years' Expenditures	2007 Expenditures	Total Expenditures
Greek and Roman, Wing K, and Uris Center for Education renovation	$206,135	$ 32,620	$ 238,755
19th-Century gallery expansion and Arts of Africa, Oceania, and the Americas renovation	6,304	15,552	21,856
American Wing renovation	10,034	6,749	16,783
Chiller plant relocation	251	5,457	5,708
Wrightsman Gallery refurbishment	392	3,839	4,231
The Cloisters (1)		1,817	
Projects related to auxiliary activities (1)		4,808	
Other capital projects (1)		14,775	
Total (2)		85,617	
Less cost of capitalized projects		(78,593)	
Non-capitalized expenditures and maintenance expense		$ 7,024	

(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 $61.3 million related to construction projects at June 30, 2007.

G. Investments

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

	June 30, 2007	*June 30, 2006*
Equities:		
Securities	$ 401,350	$ 298,921
Investment funds	738,683	672,290
Subtotal	1,140,033	971,211
Fixed income:		
Government bonds	100,061	31,240
Corporate debt	81,830	98,208
Mortgage backed	41,768	43,285
Investment funds	38,483	38,633
Other	46,185	56,276
Subtotal	308,327	267,642
Short-term investments	238,656	163,805
Limited partnerships and other:		
Absolute return	590,127	483,156
Private equity	512,648	404,778
Real assets	171,974	97,974
Subtotal	1,274,749	985,908
Total	$2,961,765	$2,388,566

The cost value of the total investment portfolio was $2,159.2 million and $1,915.4 million as of June 30, 2007 and 2006, respectively.

At June 30, 2007, the Museum had approximately $554.5 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, 2007, $29.3 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 2007 and 2006, the spending rate was set by the Board at 5.25%. The value used to calculate the spending rate for fiscal year 2007 was the average of the twenty quarters ended December 31, 2005.

Investment income is net of unrelated business income taxes of $8.7 million and $2.0 million for fiscal years 2007 and 2006, respectively.

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

	2007				
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*2006 Total*
Investment income, net of management fees and taxes	$ 26,835	$ 9,434	$ 60	$ 36,329	$ 40,642
Net realized gains	122,406	39,613	62	162,081	168,527
Changes in unrealized appreciation	299,169	30,333		329,502	92,250
Total return on investments	448,410	79,380	122	527,912	301,419
Transfer of losses recovered on endowment funds	17,737	(17,737)		—	—
Investment return allocated for current activities	(63,376)	(23,399)		(86,775)	(80,208)
Investment return in excess of current support	$402,771	$ 38,244	$122	$441,137	$221,211

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, increased by $6.0 million in fiscal year 2007, compared to a decrease of $0.6 million in fiscal year 2006. Present value discount rates applied to these funds ranged from 3.9% to 6.75% in fiscal years 2007 and 2006. In 2007, the Museum received the proceeds of a $10.6 million remainder trust, the present value of which had been included in the asset section below.

Trusts invested on behalf of others:

- In 1993, a $9.0 million charitable lead trust was established, and the funds were invested in the Museum's pooled investments. The Museum received a stipulated annual amount from the trust and in March 2007 paid $9.0 million pursuant to a note payable to the trustee.
- 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, 2007	*June 30, 2006*
Assets:		
Charitable remainder and other trust assets	$55,394	$57,424
Gift annuities, pooled income funds, and trusts invested on behalf of others (included with investments in the Balance Sheet)	14,627	36,773
Total	$70,021	$94,197
Liabilities:		
Trusts invested on behalf of others	$ 4,534	$13,069
Gift annuities and pooled income funds	5,076	4,725
Total	$ 9,610	$17,794

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 and $0.7 million for fiscal years 2007 and 2006, respectively.

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 $4.4 million and $3.8 million, respectively, as of June 30, 2007, and $5.0 million and $4.5 million, respectively, as of June 30, 2006.

Defined contribution plan for non-union staff - The Museum has a mandatory defined contribution pension plan for all non-union employees. The Museum's contributions under this plan are based on 6% 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 2007 and 2006 was $4.0 million and $3.8 million, respectively.

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 2% of the participant's salary based on a schedule. The cost of this plan in fiscal years 2007 and 2006 was $0.1 million and $0.2 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 the fiscal years 2007 and 2006.
- 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 2007 and 2006 of $1.1 million and $1.0 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 of $0.3 million in each of the fiscal years 2007 and 2006.

Funding policy - The Museum's funding policy is to contribute annually an amount that meets the minimum requirements of the Employee Retirement Income Security Act of 1974 (ERISA), using different assumptions 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 (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (which amended SFAS Nos. 87, 88, 106, and 132R). SFAS 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, SFAS 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 that these amounts be adjusted as they are subsequently recognized as components of net periodic benefit cost based on the current requirements of SFAS Nos. 87 and 106. Upon application, the incremental effect of applying SFAS No. 158 was a reduction in unrestricted net assets of $12.0 million.

The following table illustrates the incremental effects of applying SFAS No. 158 (in thousands):

	Before Adoption of Statement No. 158	*Adjustments*	*After Adoption of Statement No. 158*
Pension and other accrued retirement obligations	$54,137	$ 11,510	$ 65,647
Intangible asset	508	(508)	—
Reduction in unrestricted net assets as a result of defined benefit obligations, before adoption of SFAS No. 158	(2,012)	—	(2,012)
Reduction in unrestricted net assets as a result of defined benefit obligations, after adoption of SFAS No. 158	—	(12,018)	(12,018)

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, 2007	*June 30, 2006*	*June 30, 2007*	*June 30, 2006*
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 85,438	$ 84,392	$ 48,031	$ 59,533
Service cost	2,923	3,149	1,968	2,257
Interest cost	5,272	4,573	2,870	2,949
Employee contributions	774	716	—	—
Amendments	—	—	(787)	—
Actuarial loss (gain)	229	(3,740)	(1,567)	(14,593)
Benefits paid	(2,815)	(3,028)	(2,058)	(2,115)
Medicare Part D subsidy	—	—	74	—
Settlements	(1,174)	(624)	—	—
Benefit obligation at end of year	90,647	85,438	48,531	48,031
Change in plan assets:				
Fair value of plan assets at beginning of year	61,564	52,838	—	—
Actual gain on plan assets	8,764	4,543	—	—
Employer contributions	6,418	7,119	2,004	2,115
Employee contributions	774	716	—	—
Benefits paid	(2,815)	(3,028)	(2,058)	(2,115)
Medicare Part D subsidy	—	—	54	—
Settlements	(1,174)	(624)	—	—
Fair value of plan assets at end of year	73,531	61,564	—	—
Funded status	$(17,116)	(23,874)	$(48,531)	(48,031)
Unrecognized:				
Prior service costs (credits)		1,945		(12,648)
Actuarial losses		24,418		8,239
Net amount recognized		$ 2,489		$(52,440)

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

	2007	*2006*	*2007*	*2006*
Additional minimum liability	—	$ (9,915)	—	—
Intangible asset	—	1,945	—	—
Unrestricted net assets not yet recognized in net periodic benefit cost	—	$ (7,970)	—	—
Actuarial (losses) gains	$(18,667)		$ (6,174)	
Prior service (costs) credits	(1,311)		12,122	
Unrestricted net assets not yet recognized in net periodic benefit cost	(19,978)		5,948	
Cumulative employer contributions in excess of net periodic cost	2,862		(54,479)	
Unfunded benefit obligations (liability)	$(17,116)		$(48,531)	

The actuarial losses 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 9.3 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, 2008 (in thousands):

	Pension Benefits	*Postretirement Benefits*
Actuarial losses (gains)	$1,031	$ 596
Prior service costs (credits)	561	(1,381)
Total	$1,592	$ (785)

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*	
	2007	*2006*	*2007*	*2006*
Service cost	$ 2,923	$ 3,149	$1,968	$ 2,257
Interest cost	5,272	4,573	2,870	2,949
Expected return on plan assets	(4,890)	(4,357)	—	—
Amortization of prior service cost	634	634	(1,312)	(1,312)
Amortization of accumulated loss	1,689	2,381	518	903
Settlement loss	417	319	—	—
Net periodic benefit cost	$ 6,045	$ 6,699	$4,044	$ 4,797
Weighted-average assumptions used to determine benefit obligations as of June 30:				
Discount rate	6.32%	6.35%	6.30%	6.35%
Rate of compensation increase	3.90%	3.89%	—	—
Weighted-average assumptions used to determine net cost as of June 30:				
Discount rate	6.35%	5.33%	6.35%	5.33%
Expected return on plan assets	8.00%	8.00%	—	—
Rate of compensation increase	3.89%	3.95%	—	—
Additional information (in thousands):				
Actual return on plan assets	$ 8,764	$ 4,543	—	—
Accumulated benefit obligation for all defined benefit pension plans	74,387	68,990	—	—

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	3
Aggregate accumulated benefit obligation	$15,816	$ 68,990
Aggregate fair value of plan assets	$11,503	$ 61,564
Number of pension plans with projected benefit obligations in excess of plan assets	3	3
Aggregate projected benefit obligation	$90,647	$ 85,438
Aggregate fair value of plan assets	$73,531	$ 61,564

	2007		*2006*	
	Union	*Non-Union*	*Union*	*Non-Union*
Assumed medical cost trend rates at June 30:				
Health care cost trend rate assumed for next year	6.75%	7.50%	7.00%	8.00%
Rate that the cost trend gradually declines to	5.00%	5.00%	5.00%	5.00%
Year that the final trend rate is reached	2012	2012	2012	2012

The following data show the effect of a one percentage point health care cost trend rate increase (decrease) for fiscal year 2007 (in thousands):	*Percentage Point Increase*	*Percentage Point (Decrease)*
Effect on total of service and interest cost	$ 439	$ (359)
Effect on postretirement benefit obligation	4,579	(3,739)

Selection of Assumptions - The selection of the discount rate assumption reflects the rate at which the pension and postretirement plan obligations could be effectively settled at June 30, 2007. 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 advisors, 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, 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. As of June 30, 2006, the assets of both plans were invested 53.5% and 46.5%, respectively, in equity and fixed income securities.

Medicare – In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") was signed into law. The Act introduces a prescription drug benefit under Medicare Part D as well as a federal subsidy to employers whose plans provide an actuarial equivalent prescription drug benefit. The Museum 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, 2007 and June 30, 2006 by approximately $1.1 million and $1.0 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*
Employer Contributions:		
2006 (actual)	$ 7,119	$ 2,115
2007 (actual)	6,418	2,058
2008 (expected)	3,296	2,573
Projected benefit payments for the fiscal year ending June 30 (in thousands):		
2008	$ 4,010	$ 2,573
2009	5,067	2,697
2010	5,151	2,886
2011	5,600	3,058
2012	4,550	3,251
2013–2017	29,673	18,517

J. Notes Payable

At June 30, 2007 and 2006, 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 $37.5 million and $47.4 million as of June 30, 2007 and 2006, 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 $2.3 million and $1.6 million in fiscal years 2007 and 2006, respectively. As of June 30, 2007, the interest rate on the outstanding debt was 5.5%. 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, 2007 and 2006.

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, 2007 and 2006. 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 $3.1 million at June 30, 2007 and 2006, 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, 2007 and 2006.

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, 2007 and 2006, $2.3 million 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, a portion of the 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, and currently bear interest at a weekly reset auction rate. The interest rates for the bonds are established by an auction agent. The bonds may be converted to other interest rate modes and interest rate periods, including shorter or longer auctions upon proper written notice pursuant to the bond documents.

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, 2007, $29.3 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, 2007	*June 30, 2006*
Series 1993A Bonds due serially to July 1, 2015	$ 24,455	$26,580
Series 1993B Bonds due by July 1, 2020	6,780	6,780
Series 2006A Bonds due by October 1, 2036	130,000	—
Total loans payable	161,235	33,360
Fair value of interest rate exchange agreement on Series 1993A Bonds	1,155	1,180
Fair value of forward starting interest rate exchange agreement on Series 2006A Bonds	440	359
Total interest rate exchange agreements	1,595	1,539
Total	$162,830	$34,899

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

Interest rates on loans payable:		
Series 1993A&B Bonds	3.72%	3.90%
Series 2006A-1 Bonds	3.60%	—
Series 2006A-2 Bonds	3.70%	—
	2007	*2006*
Interest expense on loans payable (in thousands):		
Series 1993A Bonds	$1,173	$1,259
Series 1993B Bonds	243	193
Series 2006A Bonds	2,734	—
Interest expense included above related to the swaps (in thousands):		
Series 1993A Bonds	$288	$500
Series 2006A Bonds	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*
2008	$ 2,230	$ 6,403	$ 8,633
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
Thereafter	148,955	125,515	274,470
Total	$161,235	$156,271	$317,506

*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 2007 and 2006, which are described in Note A, are shown below (in thousands):

	2007	*2006*
Total operating expenses from the Statement of Activities	$297,423	$285,054
Depreciation of capital improvements and other non-capitalized expenditures from the non-operating section of the Statement of Activities	32,637	27,651
Management and custodian fees, taxes, and other expenses included in net investment income	23,974	14,935
Special events included in the revenue section of the Statement of Activities	723	713
Total	$354,757	$328,353
Program expenses:		
Curatorial activities, conservation, and exhibition	$160,246	$147,015
Education	11,015	9,924
Libraries	5,923	5,502
Public services and other	16,913	15,965
Cost of sales and expenses of auxiliary activities:		
Merchandising	81,107	80,072
Restaurant, parking garage, auditorium, and other	23,582	21,699
Total program expenses	298,786	280,177
Supporting services:		
Management and general	45,186	37,250
Fundraising	10,785	10,926
Total supporting services	55,971	48,176
Total	$354,757	$328,353

M. Lease Commitments

At June 30, 2007, 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 $6.8 million and $6.9 million in fiscal years 2007 and 2006, 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 $0.2 million and $0.4 million in fiscal years 2007 and 2006, respectively.

Minimum rental commitments consist of the following at June 30, 2007 (in thousands):

Year Ending June 30	*Total*
2008	$ 5,724
2009	5,689
2010	5,431
2011	5,190
Thereafter	18,472
Total	$40,506

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, investment funds, and limited partnerships, was based principally upon quoted market prices or, if unavailable, was determined by general partners of limited partnerships.

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

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

O. Asset Retirement Obligations

In 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), which was effective for the Museum as of and for the year ended June 30, 2006. FIN 47 was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in SFAS No. 143, "Accounting for Asset Retirement Obligations." FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement is conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and, accordingly, a liability should be recognized.

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 non-cash transition charge of $6.05 million for the cumulative effect of a change in accounting principle in the Statement of Activities.

During fiscal year 2007, the Museum made payments of $0.2 million for these obligations and reduced the liability accordingly. In addition, the Museum experienced a one-time increase in unit costs related to asset retirements and provided for the current year's accretion. These non-cash charges amounted to $1.4 million and are included in the non-operating section of the Statement of Activities. As of June 30, 2007, $7.3 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, 2007 Total	*June 30, 2006 Total*
Acquisitions of art	$ 208,829	$ 197,807
Capital projects	72,633	91,856
Invested in fixed assets being depreciated	244,431	210,577
To be designated	117,861	95,273
Fellowships	50,504	50,964
Gallery maintenance	57,086	46,187
Special exhibitions	36,208	32,246
Publications	22,219	19,561
Public programs	26,550	19,863
Other (including time restrictions)	11,332	51,140
Total	$ 847,653	$ 815,474

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

	June 30, 2007	*June 30, 2006*
Endowment funds: income and gains restricted	$ 244,147	$ 231,988
Endowment funds: income and gains unrestricted	503,716	491,940
Interest in perpetual trusts	11,220	7,430
Total	$ 759,083	$ 731,358