

**The Municipal Art Society of New York**

Consolidated Financial Statements

March 31, 2007

(With comparative information for 2006)



O'Connor Davies Munns & Dobbins, llp  
ACCOUNTANTS AND CONSULTANTS

## Independent Auditors' Report

### **The Board of Directors The Municipal Art Society of New York**

We have audited the accompanying consolidated statement of financial position of The Municipal Art Society of New York as of March 31, 2007, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Society's March 31, 2006 consolidated financial statements and, in our report dated June 9, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Municipal Art Society of New York at March 31, 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.

*O'Connor Davies Munns & Dobbins, LLP*

New York, New York  
July 17, 2007

**The Municipal Art Society of New York**  
Consolidated Statement of Financial Position  
March 31, 2007  
(With comparative amounts at March 31, 2006)

	2007	2006
<b>ASSETS</b>		
Cash and money market funds	\$ 1,033,748	\$ 117,073
Investments	9,635,532	8,652,881
Accounts and contributions receivable, net	745,299	643,785
Prepaid expenses	69,594	115,880
Inventory	248,415	226,372
Leasehold improvements, equipment and furniture, net	291,320	312,246
Assets held for Tribute in Light Project	909,600	909,600
Custodial fund investments	749,539	724,032
Cash held for tenants' security deposits	146,367	183,000
Deposits and other assets	121,067	123,467
	\$ 13,950,481	\$ 12,008,336
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 490,609	\$ 433,729
Funds held as custodian for others	749,539	724,032
Asset due to Tribute in Light Project	909,600	909,600
Deferred revenue	64,324	75,754
Tenants' security deposits	146,367	183,000
Total Liabilities	2,360,439	2,326,115
 Net assets		
Unrestricted	2,401,693	2,651,410
Temporarily restricted	3,533,058	2,375,520
Permanently restricted	5,655,291	4,655,291
Total Net Assets	11,590,042	9,682,221
	\$ 13,950,481	\$ 12,008,336

See notes to consolidated financial statements

**The Municipal Art Society of New York**  
Consolidated Statement of Activities  
Year Ended March 31, 2007  
(With summarized comparative totals for 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
<b>OPERATING SUPPORT AND REVENUE</b>					
Grants and gifts	\$ 1,515,369	\$ 1,729,125	\$ 1,000,000	\$ 4,244,494	\$ 4,803,675
Memberships	117,611	-	-	117,611	124,802
Tours, courses, and special events (net of special event expenses)	559,112	-	-	559,112	394,035
Gross profit on book sales	249,744	-	-	249,744	168,109
Investment income	280,295	-	-	280,295	275,735
Interest on short term deposits and other income	5,935	-	-	5,935	16,519
Rental income (net of related expenses)	136,809	-	-	136,809	55,715
Miscellaneous income	13,702	-	-	13,702	-
Net assets released from restrictions	943,965	(943,965)	-	-	-
Total Operating Support and Revenue	<u>3,822,542</u>	<u>785,160</u>	<u>1,000,000</u>	<u>5,607,702</u>	<u>5,838,590</u>
<b>OPERATING EXPENSES</b>					
Program	2,860,150	-	-	2,860,150	2,959,894
Administrative	689,799	-	-	689,799	715,115
Fundraising	503,277	-	-	503,277	430,229
Membership	114,368	-	-	114,368	159,262
Total Operating Expenses	<u>4,167,594</u>	<u>-</u>	<u>-</u>	<u>4,167,594</u>	<u>4,264,500</u>
Change in net assets from operations	(345,052)	785,160	1,000,000	1,440,108	1,574,090
Other changes in net assets					
Non-operating investment income	<u>95,335</u>	<u>372,378</u>	<u>-</u>	<u>467,713</u>	<u>133,746</u>
Change in net assets	(249,717)	1,157,538	1,000,000	1,907,821	1,707,836
<b>NET ASSETS</b>					
Beginning of year	<u>2,651,410</u>	<u>2,375,520</u>	<u>4,655,291</u>	<u>9,682,221</u>	<u>7,974,385</u>
End of year	<u>\$ 2,401,693</u>	<u>\$ 3,533,058</u>	<u>\$ 5,655,291</u>	<u>\$ 11,590,042</u>	<u>\$ 9,682,221</u>

See notes to consolidated financial statements

**The Municipal Art Society of New York**  
Consolidated Statement of Functional Expenses  
Year Ended March 31, 2007  
(With comparative amounts for 2006)

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Membership</u>	<u>2007 Total</u>	<u>2006 Total</u>
<b>PERSONNEL</b>						
Salaries	\$ 1,242,795	\$ 293,392	\$ 291,651	\$ 56,331	\$ 1,884,169	\$ 2,042,464
Fringe benefits and payroll taxes	223,420	27,158	52,187	11,715	314,480	317,865
Total Personnel Costs	<u>1,466,215</u>	<u>320,550</u>	<u>343,838</u>	<u>68,046</u>	<u>2,198,649</u>	<u>2,360,329</u>
<b>OTHER THAN PERSONNEL COSTS</b>						
Occupancy	242,854	128,458	17,771	21,511	410,594	322,665
Insurance	16,413	9,600	1,939	979	28,931	27,286
Outside professional services	473,051	32,467	62,598	277	568,393	683,922
Printing/typesetting/graphic design	68,410	2,555	15,376	-	86,341	89,455
Exhibits	55,066	2,401	5,321	2,195	64,983	76,649
Restoration	31,850	-	-	-	31,850	8,050
Public relations	60,303	1,031	3,037	1,025	65,396	7,535
Tour and course expenses	139,601	11,717	21,318	2,686	175,322	160,756
Accounting and legal	-	51,125	-	-	51,125	52,152
Travel	8,313	3,591	396	313	12,613	14,368
Postage	69,511	3,588	7,622	4,900	85,621	88,635
Supplies	17,679	25,586	1,575	245	45,085	53,104
Meetings and conferences	33,780	4,940	4,509	1,377	44,606	54,098
Copying	23,063	6,401	1,953	1,221	32,638	30,363
Telephone	14,743	8,104	1,759	1,174	25,780	31,266
Dues and subscriptions	13,458	4,332	1,952	588	20,330	19,970
Office expenses and miscellaneous	88,505	40,302	8,195	5,086	142,088	141,217
Bad debt expense	2,034	21,520	-	-	23,554	4,454
Depreciation and amortization	35,301	11,531	4,118	2,745	53,695	38,226
Total Expenses	<u>\$ 2,860,150</u>	<u>\$ 689,799</u>	<u>\$ 503,277</u>	<u>\$ 114,368</u>	<u>\$ 4,167,594</u>	<u>\$ 4,264,500</u>

See notes to consolidated financial statements

**The Municipal Art Society of New York**

Consolidated Statement of Cash Flows

Year Ended March 31, 2007

(With comparative amounts for 2006)

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,907,821	\$ 1,707,836
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	75,661	66,002
Amortization of capitalized brokerage fees	2,400	4,679
Realized gains on sales of investments	(142,565)	(35,671)
Unrealized depreciation of investments	34,357	118,958
Net change in operating assets and liabilities	<u>(31,822)</u>	<u>(154,668)</u>
Net Cash Provided by Operating Activities	<u>1,845,852</u>	<u>1,707,136</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net sales (purchases) of short-term investments	693,907	(53,323)
Proceeds from sales of investments	5,128,925	1,704,405
Purchases of investments	(6,697,275)	(3,401,024)
Purchases of leasehold improvements and equipment	<u>(54,734)</u>	<u>(114,169)</u>
Net Cash (Used) by Investing Activities	<u>(929,177)</u>	<u>(1,864,111)</u>
Net Change in Cash and Money Market Funds	916,675	(156,975)
<b>CASH AND MONEY MARKET FUNDS</b>		
Beginning of year	<u>117,073</u>	<u>274,048</u>
End of year	<u>\$ 1,033,748</u>	<u>\$ 117,073</u>

See notes to consolidated financial statements

# **The Municipal Art Society of New York**

## Notes to Consolidated Financial Statements

### **1. Organization and Taxation**

The Municipal Art Society of New York ("Society") was founded in 1893 to work towards the creation of a livable city to enhance the lives of all New Yorkers through using architecture, landscape architecture, planning, preservation and public art to improve and protect the physical environment of New York. The Society is a charitable organization and is exempt from Federal income taxes under Sections 501(c)(3) and 509(a)(2) of the Internal Revenue Code.

The Society is the sole member in 457 Madison Avenue Corporation ("457 Madison"), a not-for-profit membership corporation that has been included in the accompanying financial statements. 457 Madison is exempt from Federal income taxes under Section 501(c)(2) of the Internal Revenue Code. 457 Madison was organized for the purpose of holding title to the leasehold in the north wing of 457 Madison Avenue.

### **2. Summary of Significant Accounting Policies**

#### ***Basis of Consolidation***

The consolidated financial statements of the Society include the assets, liabilities and results of operations of the Society and its wholly owned affiliated corporation, 457 Madison. All material intercompany balances and transactions have been eliminated in consolidation.

#### ***Basis of Presentation***

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### ***Use of Estimates***

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

## **The Municipal Art Society of New York**

### Notes to Consolidated Financial Statements

#### **2. Summary of Significant Accounting Policies (*Continued*)**

##### ***Statement of Cash Flows***

For cash flows purposes, cash and money market funds not included as part of pooled assets include amounts held in bank accounts and highly liquid investments with maturities of three months or less.

##### ***Investments***

Investments are carried at fair value determined by reference to quoted market prices on the last day of the year.

The Society pools certain unrestricted, temporarily restricted, and permanently restricted investments. Investment income and appreciation are allocated quarterly based on the percentage of each fund's net asset balance to the total, adjusted for additions and withdrawals from the investment pool. The Society has adopted a policy of transferring each year amounts from the MAS endowment fund and the board-designated endowment fund to support current operations, based on four percent of the average fair value of investments held for the prior twelve quarters.

##### ***Accounts and Contributions Receivable***

Contributions and unconditional promises to give are recognized as revenue when an unconditional promise to give is made and the gift is subject to reasonable valuation. Amounts reflected in the financial statements are net of an allowance for uncollectible gifts, and accordingly, include adjustments, based upon estimates of collectivity. Promises to give due in excess of one year are recognized net of a discount to present value. Such discount is amortized into contribution income over the discount period.

##### ***Inventory***

The Society has on hand various items, such as posters and literature, available for resale or for membership premiums. With the exception of books held for resale in its bookstore, Urban Center Books, the Society charges the cost of all such items against current operations in the year acquired. Inventories in its bookstore are carried at the lower of cost or market on the first-in, first-out method.

## The Municipal Art Society of New York

### Notes to Consolidated Financial Statements

#### 2. Summary of Significant Accounting Policies (*Continued*)

##### *Leasehold improvements, Equipment and Furniture*

Leasehold improvements, equipment and furniture are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The costs of leasehold improvements are amortized over the life of the lease or the useful lives of the assets, whichever is less.

##### *Tours, Courses and Special Events*

Revenue received from tours, courses, and special events has been combined for financial statement reporting purposes. Revenue received from special events is reported net of expenses. Expenses for special events totaled \$232,798 and \$264,199 for the years ended March 31, 2007 and 2006, respectively.

##### *Presentation of Prior Year Information*

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended March 31, 2006, from which the summarized information was derived.

#### 3. Concentration of Credit Risk

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash, temporary cash investments, accounts and contributions receivable and investment securities. At times, cash balances held at financial institutions were in excess of federally insured limits. The Society places its temporary cash investments with high credit quality financial institutions. The Society believes that no significant concentration of credit risk exists with respect to accounts and contributions receivable. Concentration of credit risk with respect to investments is reduced by diversification, professional management, and limited exposure to any single investment.

## The Municipal Art Society of New York

### Notes to Consolidated Financial Statements

#### 4. Investments and Investment Return

Investments at March 31, 2007 and 2006 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Short-term investments	\$ 35,586	\$ 755,230
U.S. Treasury bond mutual funds	28,134	26,511
Bond mutual funds	2,338,135	1,853,434
Stock mutual funds	3,679,691	3,792,216
Equities	<u>3,553,986</u>	<u>2,225,490</u>
	<u>\$9,635,532</u>	<u>\$8,652,881</u>

Investments included as pooled assets totaled \$6,049,623 and \$5,337,488 at March 31, 2007 and 2006, respectively.

Investment return for the years ended March 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Dividends and interest on securities	\$ 201,287	\$ 158,867
Net realized gain on sale of investments	142,565	35,671
Capital gain distributions	488,951	333,901
Unrealized depreciation on investments	(34,357)	(118,958)
Advisory fees	<u>(50,438)</u>	<u>-</u>
	<u>\$ 748,008</u>	<u>\$ 409,481</u>

Investment return is reported in the Consolidated Statement of Activities as follows:

	<u>2007</u>	<u>2006</u>
Operating investment income	\$ 280,295	\$ 275,735
Non-operating investment income	<u>467,713</u>	<u>133,746</u>
	<u>\$ 748,008</u>	<u>\$ 409,481</u>

Operating investment income includes investment income transferred from the Municipal Art Society Endowment Fund and board-designated net assets to operating net assets.

## The Municipal Art Society of New York

### Notes to Consolidated Financial Statements

#### 5. Accounts and Contributions Receivable

Accounts and contributions receivable, which include grants, contributions and other receivables at March 31, 2007 and 2006, discounted to fair value using a discount rate of 4.9% are summarized as follows:

	<u>2007</u>	<u>2006</u>
Receivables due within one year	\$ 744,968	\$ 679,239
Receivables due within two to five years	35,000	-
Allowance for uncollectible receivables	(33,034)	(35,454)
Discount to present value	<u>(1,635)</u>	<u>-</u>
	<u>\$ 745,299</u>	<u>\$ 643,785</u>

Management has provided an allowance for past due rental penalty and interest charges in the amount of \$31,000 for the years ended March 31, 2007 and 2006.

#### 6. Leasehold Improvements, Equipment and Furniture

Leasehold improvements, equipment and furniture at March 31, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Leasehold improvements		
Design costs	\$ 116,053	\$ 116,053
Contract costs	807,607	807,607
Other construction costs	418,268	418,268
Equipment and furniture	<u>858,865</u>	<u>804,132</u>
	2,200,793	2,146,060
Less accumulated depreciation and amortization	<u>(1,909,473)</u>	<u>(1,833,814)</u>
	<u>\$ 291,320</u>	<u>\$ 312,246</u>

Depreciation and amortization expense amounted to \$75,661 and \$66,002 for the years ended March 31, 2007 and 2006, respectively.

## The Municipal Art Society of New York

### Notes to Consolidated Financial Statements

#### 7. Custodial Funds

The Society maintains funds as custodian for others over which the Society has no authority to disburse funds without the authorization of the organization whose funds are held. As custodian, the Society received and disbursed funds as follows:

	<u>2007</u>	<u>2006</u>
Funds held as custodian, beginning of year	\$ 724,032	\$ 675,716
Funds received	1,800	35,000
Interest income earned	33,732	20,788
Funds disbursed	<u>(10,025)</u>	<u>(7,472)</u>
Funds held as custodian, end of year	<u>\$ 749,539</u>	<u>\$ 724,032</u>

Custodial funds are held in short-term money fund investments. As of March 31, 2006 and 2005, the Society held funds as custodian as follows:

	<u>2007</u>	<u>2006</u>
Vietnam Veterans Memorial Fund	\$ 473,569	\$ 449,486
East River Pavilion Fund	194,985	186,348
Korean Veterans Memorial Fund	61,082	59,470
East River Apprentice Shop	14,903	23,728
Vanderbilt Mausoleum	<u>5,000</u>	<u>5,000</u>
	<u>\$ 749,539</u>	<u>\$ 724,032</u>

#### 8. Assets Held for Tribute in Light Project

In 2004, MAS contracted with the Lower Manhattan Development Corporation (“LMDC”) to administer the annual Tribute in Light Commemoration program to honor those lost in attacks on the World Trade Center. Under the agreement, MAS incurs expenses for which it is reimbursed. In addition, at the commencement of the agreement, MAS purchased lighting equipment in the amount of \$909,600 which it holds on behalf of the LMDC. The agreement runs through September 2008.

## The Municipal Art Society of New York

### Notes to Consolidated Financial Statements

#### 9. Restrictions and Limitations on Net Assets

##### *Temporarily Restricted Net Assets*

Temporarily restricted net assets contain donor-imposed restrictions that expire upon the passage of time or once specific actions are undertaken by the Society. These net assets are then released and reclassified to unrestricted support when they are expended. Temporarily restricted net assets as of March 31, 2007 are as follows:

Time restrictions:

Operations/cash reserve	\$ 383,044
-------------------------	------------

Purpose restrictions:

Issues and advocacy projects	1,577,342
Public art restoration and maintenance	1,061,048
Moving	500,000
Capital improvements	<u>11,624</u>

\$ 3,533,058

##### *Net Assets Released from Restrictions*

Net assets released from restrictions during the year ended March 31, 2007 were:

Issues and advocacy projects	\$ 775,901
Public art restoration and maintenance	127,314
Planning center	5,750
Time	<u>35,000</u>

Total Net Assets Released From Restrictions \$ 943,965

## The Municipal Art Society of New York

### Notes to Consolidated Financial Statements

#### 9. Restrictions and Limitations on Net Assets *(continued)*

##### *Permanently Restricted Net Assets*

Permanently restricted net assets as of March 31, 2007 represent gifts that have been restricted by the donor in perpetuity. In certain instances, the donor has temporarily restricted the income earned on permanently restricted gifts. The principal portion of permanently restricted net assets and the purpose for which income is restricted at March 31, 2007 is as follows:

Operations	\$4,904,358
Programs	715,933
Public art restoration and maintenance	<u>35,000</u>
	<u>\$5,655,291</u>

Permanently restricted net assets consist of the following:

##### *Doris C. Freedman Endowment Fund*

The investment income and capital appreciation from this fund are temporarily restricted for the support and maintenance of the Doris C. Freedman Gallery. Amounts received in excess of support and maintenance are available for unrestricted purposes. Net assets were \$285,868 at March 31, 2007.

##### *Municipal Art Society Endowment Fund*

The investment income and capital appreciation earned from this fund may be used by the Society for its unrestricted purposes. The accumulated investment income and capital appreciation net of transfers to current operations are reported as unrestricted board-designated endowment net assets. Net assets were \$1,768,490 at March 31, 2007.

##### *Gill Prize Fund*

This fund was established to generate investment income and capital appreciation that are temporarily restricted to provide an annual gift in recognition of an individual's artistic accomplishment in New York City that reflects creative work and the spirit of the City. Net assets were \$182,829 at March 31, 2007.

##### *Ralph C. Menapace Fellowship*

The investment income and capital appreciation from this fund are temporarily restricted to pay the cost of a fellow to perform various legal services for the Society. Net assets were \$497,398 at March 31, 2007.

## The Municipal Art Society of New York

### Notes to Consolidated Financial Statements

#### 9. Restrictions and Limitations on Net Assets (*Continued*)

##### *Permanently Restricted Net Assets (Continued)*

###### *Tucker Ashworth Fellowship*

Investment income and capital appreciation from this fund are temporarily restricted for a fellowship to a college student or recent graduate to assist in a project using the Society's resources. Net assets were \$35,706 at March 31, 2007.

###### *Woodruff/Worth Monument Fund*

The investment income and capital appreciation generated by this fund are temporarily restricted to provide maintenance for the General Worth monument located in Manhattan. Net assets were \$35,000 at March 31, 2007.

###### *Janet Ross Fund*

During 2007, the Society received a contribution in the amount of \$1,000,000 all of which is permanently restricted. Investment income and capital appreciation earned from this fund may be used by the Society for unrestricted purposes. Permanently restricted net assets were \$2,850,000 at March 31, 2007.

#### 10. Cash Reserve Grant

For the period beginning April 1, 1998, the Society received a three-year, \$75,000 cash reserve challenge grant from the National Endowment for the Arts (NEA). Under the provisions of the grant agreement, the NEA matched one dollar to every three dollars of qualified gifts received by the Society. The Society received unrestricted gifts totaling \$225,000 that satisfied the criteria for the NEA match. Both matching gifts and the NEA grant must be held as a cash reserve term endowment from which the Society may borrow, however all borrowing must be returned to the cash reserve. Income generated by the term endowment is not restricted under the terms of the grant agreement. The conditions on the term endowment end ten years after the end of the three-year matching period.

## The Municipal Art Society of New York

### Notes to Consolidated Financial Statements

#### 11. Book Sales

The financial statements include the income and expenses of Urban Center Books, a program of the Society. Gross profit on book sales for the years ended March 31, consisted of the following:

	<u>2007</u>	<u>2006</u>
Sales, net of sales discounts	\$605,971	\$494,086
Cost of goods sold	<u>356,227</u>	<u>325,977</u>
Gross profit on book sales	<u>\$249,744</u>	<u>\$168,109</u>

#### 12. 457 Madison Avenue Corporation

457 Madison is required by charter to distribute any excess of income over expenses to the Society. For the years ended March 31, 2007 and 2006 there was no income in excess of expenses.

The Society provides 457 Madison with management and administrative services. As compensation for these services, 457 Madison pays the Society a management fee that for the years ended March 31, 2007 and 2006 amounted to \$62,742 and \$70,818, respectively. Intercompany transactions have been eliminated in consolidation.

#### 13. Net Change in Operating Assets and Liabilities

The net change in operating assets and liabilities for cash flows purposes consisted of the following for the years ended March 31, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Accounts and contributions receivable	\$(101,514)	\$(239,784)
Prepaid expenses	46,285	1,601
Inventory	(22,043)	(1,515)
Deposits and other assets	-	(4,350)
Accounts payable and accrued expenses	56,880	86,350
Deferred revenue	<u>(11,430)</u>	<u>3,030</u>
	<u>\$ (31,822)</u>	<u>\$(154,668)</u>

## The Municipal Art Society of New York

### Notes to Consolidated Financial Statements

#### 14. Retirement Plan

The Society has a defined contribution (money purchase) retirement plan covering all of its employees who have completed two years of service. Employees of 457 Madison are covered by a separate retirement plan. The Society's contributions under its plan are based on 5 percent of regular salary (10 percent on salary above the social security earnings base). Retirement plan expense for the years ended March 31, 2007 and 2006 amounted to \$53,757 and \$58,432, respectively.

457 Madison has a defined contribution retirement plan covering all of its employees who have completed one year of service and who have a gross salary of at least \$5,000. 457 Madison matches contributions of its employees dollar for dollar up to a maximum of 3 percent of gross salary. Retirement plan expenses for the years ended March 31, 2007 and 2006 amounted to \$8,153 and \$5,561, respectively.

#### 15. Operating Leases

##### *Lease Commitments*

457 Madison occupies premises at 457 Madison Avenue under a lease with the Palace Hotel. Rent expense for the years ended March 31, 2007 and 2006 amounted to \$180,850 and \$150,300, respectively. The lease, which expires in 2027, provides for monthly rental payments. After July 31, 2005, the monthly rental payments are subject to negotiation. The lease calls for the new rental payments to be the greater of \$180,850 per year or the fair market value. The Society is in negotiations with the Palace Hotel regarding rental payments, the outcome of which could possibly result in a lease buyout, or in a continuation of the lease with an expected material increase in rent per the lease terms. The potential increase in rent, if the lease is continued, would be retroactive to August 1, 2005, with credit given for minimum rent paid to date. However as the arbitration process called for under the lease has not been completed, an estimate of the increase cannot be determined at this time.

457 Madison is also a landlord under a number of leases with other subtenants covering the entire premises described in its lease with the Palace Hotel. All but one of these leases expired July 31, 2005. These subtenants continue to make monthly payments of rent as well as escalation charges. Rental income is reported net of rental expenses. Gross rental income amounted to \$1,007,188 and \$1,051,586 for the years ended March 31, 2007 and 2006, respectively.

## The Municipal Art Society of New York

### Notes to Consolidated Financial Statements

#### 15. Operating Leases (*Continued*)

##### *Lease Commitments (Continued)*

At March 31, 2007, future non-cancelable minimum rental payments and sublease rentals receivable are as follows:

<u>Year ending March 31,</u>	<u>Rental Payments</u>	<u>Sublease Rentals</u>
2008	\$ 180,850	\$ 81,000
2009	180,850	
2010	180,850	
2011	180,850	
2012	180,850	
Thereafter	<u>2,772,283</u>	<u>          </u>
	<u>\$3,676,533</u>	<u>\$ 81,000</u>

##### *Litigation*

457 Madison has filed a suit against a subtenant for past due fixed rent and increases in real estate tax and operating expense escalations. On September 18, 2006 The Supreme Court of The State of New York granted 457 Madison \$173,023 plus late charges and recovery of attorney's fees for the past due rent and additional rent charges. The subtenant has appealed the decision and, accordingly the amount of damages plus late charges has not been reflected in the accompanying financial statements.

#### 16. Contingent Liability

The Society maintains an irrevocable letter of credit of \$110,000 to provide the required security deposit with its landlord for the 457 Madison Avenue facility. The Society maintains a certificate of deposit of \$110,000 with the bank as collateral for the letter of credit. The cost associated with this instrument was \$2,062 and \$2,139 for the years ended March 31, 2007 and 2006, respectively.