

Report from the Chief Financial Officer

The Met made significant progress with its multiyear financial transformation plan in fiscal year 2019, with revenue, support, and transfers (excluding auxiliary activities) totaling \$302.6 million based on 2.0% growth. Operating expenses held flat compared to fiscal year 2018, and the operating deficit was substantially reduced from the prior year, to \$1.9 million. The Museum's net assets increased by \$63.1 million this past year, with total net assets of \$3.7 billion at June 30, 2019. This growth is primarily attributable to strong endowment returns and gifts, coupled with tight fiscal discipline around spending for operations.

The strong financial results in fiscal year 2019 were achieved through a continued focus on revenue growth and sharp discipline in managing operating expense levels. The institution's financial transformation plan will continue in fiscal year 2020 toward a balanced budget and strengthening long-term financial sustainability. A wide range of revenue enhancement initiatives, including unrestricted fundraising and cost reduction efforts, remains at the core of the Museum's plan, which is guided by the principles of balance and sustainability.

Operating Results

The Met ended fiscal year 2019 with a \$1.9 million deficit, compared to an \$8.3 million deficit in the prior year. Total unrestricted revenue, support, and transfers (excluding auxiliary activities)

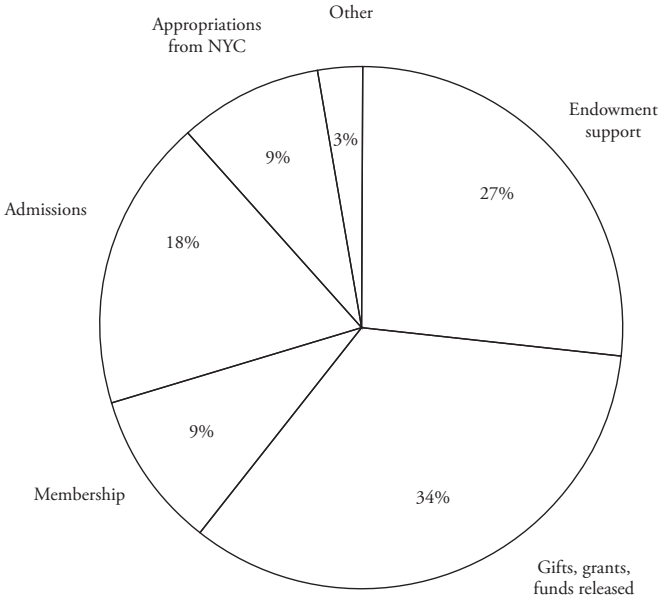
increased 2.0%, rising to \$302.6 million, while operating expenses (excluding auxiliary activities) remained level at \$305.5 million. Growth in admissions revenue following the change in the admissions policy in March 2018, tight fiscal management of operating expenses, and favorable trends in the Museum's actuarial pension and post-retirement expenses were the primary drivers of this year's deficit improvement.

Revenue and Support

Admissions, membership, auxiliary net income, and other income totaled \$122.9 million this year, reflecting a \$4.6 million or 3.9% increase over the prior year. The largest driver of this improvement was admissions revenue, which increased by \$6.9 million or 14.4% in fiscal year 2019, due primarily to the admissions policy change and a strong exhibition schedule.

Contributions and grants used to fund Museum operations, including net assets released or transferred from restrictions, as well as support from the City of New York, totaled \$129.4 million, reflecting a \$3.3 million or 2.5% decrease over the prior year. This decrease is attributed to a reduction in net assets released from restriction and transfer of non-operating funds as well as a reduction in unrestricted gifts and grants. City support for operations partly offset these reductions given an increase in the valuation of in-kind utilities.

2019 Operating Revenue, Support, and Transfers
(Excluding Auxiliary Activities)
\$302.6 Million



Support from the Museum's unrestricted endowment for operations increased by \$2.1 million, or 2.6%, since the prior year, with growth mainly attributed to recent strong investment returns and the impact of new gifts. The endowment distribution increased by 2.3% to \$154.1 million. The Museum's spending rate (i.e., the dollars appropriated annually as a percentage of the endowment's prior year-end market value) was 4.9% in fiscal year 2019, compared to 5.2% in the prior year.

Operating Expenses

Unrestricted operating expenses (excluding auxiliary activities) were relatively flat compared to the prior year, totaling \$305.5 million in fiscal year 2019. The Museum absorbed a 3% merit program for non-union staff this year, which was offset by other operating budget savings, including a reduction in actuarial pension and post-retirement expenses resulting from higher interest rates. The Museum's interest expense on its bond and interest rate swaps is reported as a non-operating charge and totaled \$12.7 million in fiscal year 2019, down from \$12.8 million in the prior year. Interest expense is funded through a designation of the Museum's unrestricted general operating endowment support, which is reflected in the Non-Operating section of the Statement of Activities, on page 45.

Fundraising

Fiscal year 2019 marked another record fundraising year for the Museum. The Trustees, executive leadership, curators, and Development and Membership staff together secured approximately \$251.3 million in philanthropic gifts, Membership dues, and government support. This figure reflects new support and also includes outright, pledged, planned, and estate gifts.

Capital Expenditures

Capital construction and infrastructure-related expenditures amounted to almost \$45.3 million in fiscal year 2019, reflecting investment in a wide range of projects. The Museum continued work on its multiyear plan to upgrade and replace vital infrastructure, including the skylights in the galleries for European paintings from 1250 to 1800, which received an allocation from the City of New York of nearly \$7.8 million. In addition to continued infrastructure investment, the Museum completed its renovation of the André Mertens Galleries for Musical Instruments and made significant progress in the renovation of the galleries for British sculpture and decorative arts.

Statement of Financial Position

The Museum's net assets grew by \$63.1 million in fiscal year 2019 to reach \$3.7 billion as of June 30, 2019. Investment returns of 5.5% drove a substantial part of this improvement, coupled with \$77.1 million in endowment gifts. The Museum's pension, post-retirement, and swap liabilities also increased in the past fiscal year by \$26.2 million, or 14.7%, due to a decrease in year-end discount rates. The Museum's long-term investment portfolio remained the most significant component of total assets as of June 30, 2019, representing \$3.9 billion of the \$4.5 billion in total assets.

Looking Forward

Since facing a significant deficit challenge in fiscal year 2016, the Museum has successfully increased revenues and unrestricted fundraising support and reduced operating costs in order to substantially improve its long-term financial sustainability. In its next phase of work, The Met will continue to build on the financial and operational improvements made in the past few years to maintain its commitment to the institution's principles of balance and sustainability.

Statement of Operations (unaudited)

for the year ending June 30, 2019, with comparative totals for 2018 (in thousands)

	<u>2019</u>	<u>2018</u>
REVENUE, SUPPORT, AND TRANSFERS:		
Admissions	\$ 55,059	\$ 48,148
Membership	29,091	28,650
Gifts and grants	29,482	31,700
Operating appropriations from the City of New York (Note A)	26,822	25,446
Endowment support for current activities (Note G)	80,826	78,759
Retail and other auxiliary activities (Note P)	85,842	88,117
Other income	8,232	8,357
Release from restriction and transfers	73,088	75,560
Total revenue, support, and transfers	<u>388,442</u>	<u>384,737</u>
EXPENSES:		
Program services	222,898	226,872
Auxiliary activities	84,826	86,720
Supporting services	82,618	79,395
Total expenses	<u>390,342</u>	<u>392,987</u>
Change in net assets from operating activities	<u>\$ (1,900)</u>	<u>\$ (8,250)</u>

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