Report of the Chief Financial Officer

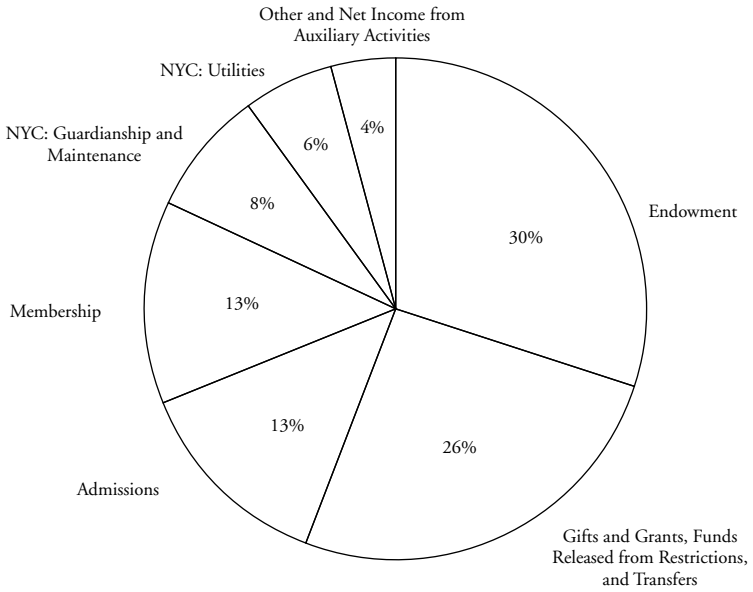
The Metropolitan Museum of Art had a remarkable year, highlighted by the opening of the New Greek and Roman Galleries in the spring, an operating surplus of $2.0 million, a substantial growth in net assets, record-breaking fundraising in several areas, and an impressive exhibition schedule. The Metropolitan continued to invest in its "21st-Century Met" capital program, and to that end, in December 2006 the Museum issued $130 million in tax-exempt bonds, which received the highest credit rating from both Moody's and Standard and Poor's agencies. In the institution's continued effort to maintain financial equilibrium and improve efficiencies, the Museum tracked and addressed risks and opportunities in both operating revenues and expenses throughout the year, increased the recommended admission fee for adults and seniors, and increased membership dues. The position of Chief Treasury Officer was also created to handle the growing complexity of the Museum's cash management functions. As part of the Metropolitan's commitment to maintaining a robust system of internal controls, its internal audit team undertook an enterprise-wide risk assessment that has heightened awareness of business and operational risks at every level in the institution.

The Museum's total assets reached a record $3.6 billion at the end of fiscal year 2007. This is approximately $632 million or 22 percent higher than the previous year and is driven by growth in the investment portfolio, which generated a 23.9 percent return. Also contributing to this growth, The Fund for the Met campaign experienced unprecedented increases in capital and endowment gifts during the year. The sections that follow provide a more detailed overview of the Museum's financial results for fiscal year 2007.

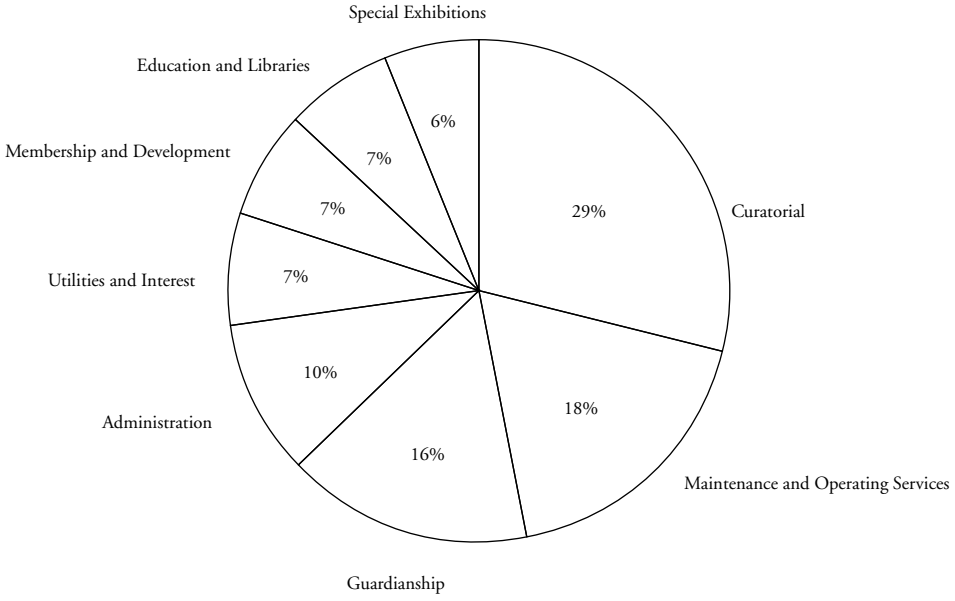
Operating Results

The Museum ended the year with an operating surplus of $2.0 million, largely due to several factors that are not likely to recur, including lower pension expenses resulting from changes in interest rates and gains on invested pension assets. Revenue, support, and transfers totaled $299.5 million for fiscal year 2007, or an increase of 6.2 percent, while expenses totaled $297.4 million, or a 4.3 percent growth over the previous year. The overall increase in revenues is based primarily on higher admissions, membership, gifts and grants, appropriations from the City of New York, endowment support, and revenue from attendance-driven sources such as restaurant and garage operations. Although the Museum's overall attendance at the main building and The Cloisters increased slightly from 4.5 million visitors in fiscal year 2006 to 4.6 million in the current year, overall admissions revenue grew by 18 percent because of an increase in the recommended fee from $15 to $20 in August 2006 and a senior recommended fee increase from $10 to $15 in February 2007. In addition, the average per capita for the main building grew by 17 percent. Fueled by the strong exhibition schedule, particularly the opening of the New Greek and Roman Galleries in the spring, and strong marketing initiatives, membership revenues reached $24.3 million in fiscal year 2007, or a 7 percent increase. The number of members stood at 134,291 at June 30, 2007, an 8 percent increase over last year. Even with membership rate increases, which were effective July 1, 2006, a record number of members contributed to the annual appeal campaign, above and beyond their annual membership fee. The President's Circle membership category, created last year, nearly doubled in the current year. In addition, sales through

2007 Sources of Operating Revenue, Support, and Transfers
$194.8 Million



2007 Operating Expenses
(Excluding Auxiliary Activities)
$192.7 Million



all other channels, including stores, mail order, Membership desks, and the website, experienced significant growth, with website sales leading in percentage growth.

Fiscal year 2007 was a record-breaking fundraising year for the Museum in several areas, including annual programs, benefits, and The Fund for the Met. Annual giving programs were up overall, with the Chairman's Council and departmental Friends Groups attracting new members. The Apollo Circle and Met Family Circle experienced record years. Income from gala benefits also increased this year, with the Costume Institute Benefit and the Real Estate Council Benefit surpassing the Museum's goals and reaching their highest levels ever. Exhibition fundraising had an exceptional year, securing support for 91 percent of the costs of the year's exhibitions. Significant support from foundations complemented numerous repeat corporate sponsors for these results. The Fund for the Met had an extraordinary year in fiscal year 2007. The campaign raised over $100 million in new gifts and pledges, with capital and endowment gifts experiencing the largest increases.

The Museum's Trustees, along with our Development and Government Affairs offices, coordinate all government funding efforts. The Metropolitan is grateful to the City of New York for its continued support of the Museum's operating and capital programs. The City's appropriation for guardianship, maintenance, and utilities totaled $27.2 million in fiscal year 2007, representing a 10.4 percent increase. Included in the guardianship appropriation was a one-time allocation for security enhancements. In addition, the City appropriated $13.5 million for the Metropolitan's capital infrastructure projects. At the state level, the Museum received a $5 million capital grant from the Empire State Development Corporation for the renovation of the Ruth and Harold D. Uris Center for Education.

Endowment support for current activities, which is based on the Museum's spending policy of 5.25 percent of the average market value of the endowment over a twenty-quarter period, increased by 8 percent compared to the previous year. This increase was mainly related to the strong market returns during the relevant periods included in the spending calculation.

Attendance-driven revenues, including income from the restaurants and parking garage, experienced a surge as a result of increased attendance during the holiday season and in the spring when the New Greek and Roman Galleries opened. The retail stores in the main building did not experience a similar growth and Merchandising ended the year with a small operating deficit. The Museum is undertaking a review of its retail strategy and will be implementing changes over the next year in an effort to maximize operating profits.

Expenses grew by 4.3 percent during the fiscal year, a result of higher salary costs stemming from a new union contract between the City and DC 37 and the hiring of additional staff for the opening of the New Greek and Roman Galleries. The institution also experienced a rise in insurance costs related to certain exhibitions, higher building maintenance expenditures, increased consulting and training costs, and additional costs related to a few large publications. These increases were partly offset by a decline in legal fees and advertising expenses. Interest on debt service experienced a growth of 33 percent due to higher interest rates on the DASNY bonds, and higher borrowing costs related to bridge financing of certain capital projects funded by government grants.

Capital Spending

The Museum's fundraising efforts and the generosity of our donors made it possible for the Museum to continue its extensive "21st-Century Met" interior construction plan. Capital expenditures in fiscal 2007 amounted to $85.6 million, of which $32.6 million was spent on the final phase of the New Greek and Roman Galleries and Wing K, and renovation of the Uris Center, which is scheduled to open in October 2007. In addition, the Museum completed the first phase of its American Wing renovation and started the second phase. Significant progress was made in the refurbishment of

The Wrightsman Galleries, which are slated to reopen in the fall. Work also continued on the renovation and expansion of the New Galleries for 19th- and Early-20th-Century European Paintings and Sculpture, including the Henry J. Heinz II Galleries, and the New Galleries for Oceanic Art, scheduled to open in the fall. With the $13.5 million capital allocation from the City of New York, mentioned above, the Museum started the first phase of the plan to upgrade its infrastructure.

The Museum invested $4.8 million in capital costs for its retail operations, including $2.1 million for the implementation of new merchandising, inventory control, warehousing, and point-of-sale systems. The other $2.7 million related to several new store openings, including one at John F. Kennedy Airport, and in Scottsdale, Arizona, and San Francisco. In addition, the Museum created a store in the New Greek and Roman Galleries and started the construction of a new store in the Uris Center, scheduled to open in the fall. The Museum continued to invest in information systems and spent $1.9 million in various hardware and software projects, including server and PC replacements and the next phase of the Met Images project.

Balance Sheet

The Museum saw its net assets increase by 18.6 percent during this fiscal year, largely due to strong investment returns and the continued generosity of its donors. Total assets at year's end were $3.6 billion and total liabilities were $346.8 million. Total assets grew by 21.7 percent, or $632.4 million, of which $573.2 million related to investments. Investment growth was very strong, with a 23.9 percent return on investments. Other asset increases relate to the major construction projects and growing contributions receivable.

Liabilities increased by 60 percent, mainly as a result of the new tax-exempt bonds issued during the year, increased pension and other related retirement obligations, and higher accounts payable and accrued expenses. These increases were partially offset by declines in annuity and other split-interest obligations, and notes payable. In December 2006, the Museum issued $130 million of tax-exempt bonds under a loan agreement with the Trust for Cultural Resources. The proceeds have been and will be used for the financing of a portion of the expansion, reconstruction, and renovation projects in the main building. Pension and other accrued interest obligations had a net increase of $5.8 million, resulting from the impact of adopting a new accounting pronouncement, Statement of Financial Accounting Standard No. 158, which requires certain future benefits, previously shown in a footnote, to be recognized in the current year. The implementation of this standard resulted in a $12 million increase in liabilities, partially mitigated by increased pension assets from investment results and additional employer contributions made during the year. Annuity and split-interest obligations declined by $8.2 million from year to year because of the termination of a large trust agreement during the year. Notes payable also experienced a decrease as a result of more active cash management by our new Chief Treasury Officer. Accounts payable and accrued expenses grew as a result of increases in construction-related accruals and timing of payments.

Internal Controls

The internal control environment of nonprofits continue to receive attention from standard-setting bodies such as the American Institute of Certified Public Accountants (AICPA), legislators, and government agencies that provide funding. During the last year, the AICPA issued Statement of Auditing Standard No. 112, *"Communicating Internal Control Related Matters Identified in an Audit*," better known simply as "SAS 112." This new standard for nonprofits changes the definitions of control deficiencies and aligns them more closely to those definitions used by for-profit, publicly held entities. The Museum held a forum to discuss the implications of the new standard with other nonprofits in the city. Also in response to SAS 112, the Metropolitan enhanced its procedures around the financial statement close process, which resulted in no significant deficiencies found during the year-end audit. During 2007, the Museum also engaged in an enterprise-wide risk assessment with its internal auditors, and as a direct result, managers are now more aware of potential business and operational risks. In addition, the City of New York recently instituted a new process for allocating support to its cultural organizations, which links the final 10 percent of the funding to a performance review system called "CultureStat." The Museum is working closely with City representatives to ascertain that various evaluation criteria—including fiduciary responsibility, Board governance and management, administrative oversight, public service commitment, and timely and complete reporting to the City's Department of Cultural Affairs—are met. Overall, the Museum has taken a strong, proactive stance in this area and will continue to devote time, resources, and effort to maintaining a solid internal control environment.

On a sad note, the Museum lost its beloved friend and colleague Steven G. Berstler, who was Chief Investment Officer and Treasurer at the time of his death, last April. Steve was a brilliant, kind man and a true leader. With his team, he more than doubled the size of the Museum's endowment during his tenure. Steve's honest, thought-provoking financial insights will always be remembered.

These are exciting times for the Metropolitan, as it continues to invest in its physical structure and carry out initiatives to enhance revenue growth and achieve greater levels of operational and financial efficiencies. With the Museum's increasing financial strength and the commitment of its staff, volunteers, and Trustees, the institution is equipped to remain at the forefront of its field and continue to fulfill its mission to serve the public as one of the leading art and educational institutions in the world.

Statement of Operations

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

	2007	*2006*
REVENUE, SUPPORT, AND TRANSFERS		
Admissions	$ 25,753	$ 21,874
Memberships	24,348	22,799
Gifts and grants, net assets released from restrictions, and transfers	50,245	47,758
Appropriations from the City of New York:		
Funds for guardianship and maintenance	14,689	12,777
Value of utilities provided	12,536	11,886
Endowment support	58,351	53,982
Revenue of auxiliary activities:		
Merchandising	80,848	80,999
Restaurant, parking garage, auditorium, and other	25,030	22,976
Other income	7,672	6,852
TOTAL REVENUE, SUPPORT, AND TRANSFERS	299,472	281,903
EXPENSES		
Curatorial:		
Curatorial departments, conservation, cataloguing, and scholarly publications	50,230	48,105
Operations of The Cloisters	6,178	5,513
Special exhibitions	10,838	11,043
Education, community programs, and libraries	13,998	12,659
Development	6,707	6,394
Membership services	6,690	6,531
Operations:		
Guardianship	29,898	28,210
Maintenance	21,379	18,572
Operating services	12,532	12,096
Value of utilities provided by the City of New York	12,536	11,886
Communications	4,260	4,450
Financial, legal, and other administrative functions	15,905	16,637
Cost of sales and expenses of auxiliary activities:		
Merchandising	81,107	80,072
Restaurant, parking garage, auditorium, and other	23,582	21,699
Interest on debt	1,583	1,187
TOTAL EXPENSES	297,423	285,054
SURPLUS (DEFICIT) FROM OPERATIONS	$ 2,049	$ (3,151)