Report of the Chief Financial Officer

The Metropolitan Museum of Art continued to enjoy a strong financial position with assets totaling $3.5 billion, despite the challenges faced in the last year. While we ended fiscal year 2008 with an operating deficit of $3.2 million, we reached an attendance level of 4.76 million visitors and were able to continue with our "21st-Century Met" capital program.

In addition, as part of the conversion of the Museum's Series 2006A tax-exempt bonds from auction rate notes to variable rate demand bonds, Standard and Poor's and Moody's agencies affirmed the Museum's long-term AAA rating and provided a similar short-term credit rating.

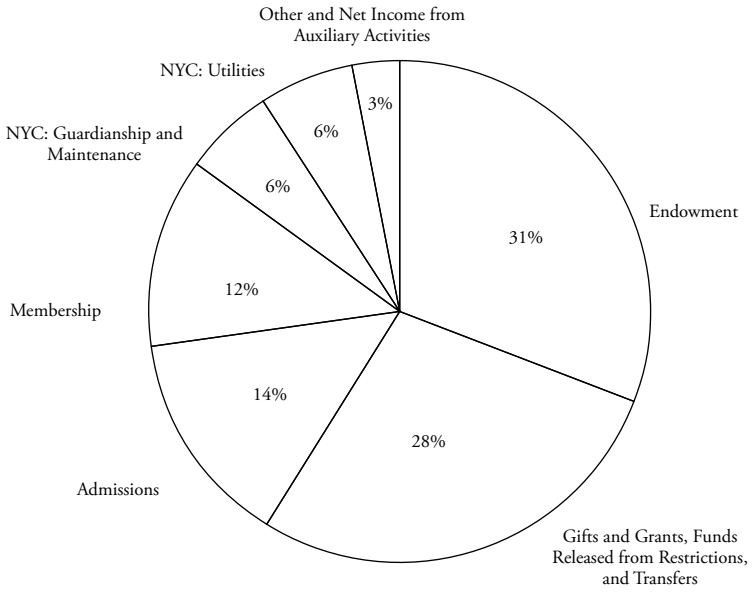
As we prepare to say farewell to Philippe de Montebello after more than thirty years of service as Director of the Museum, we are enthusiastic about a new era in the Museum's history under the leadership of our Director-Elect, Thomas P. Campbell. Given the current economic and financial climate, we expect difficult times ahead. We are prepared to meet those challenges with our solid financial position; the work of our superb trustees, staff, and volunteers; and the generous support of our donors. The sections below provide a more detailed discussion of the Museum's financial results for fiscal year 2008.

Operating Results

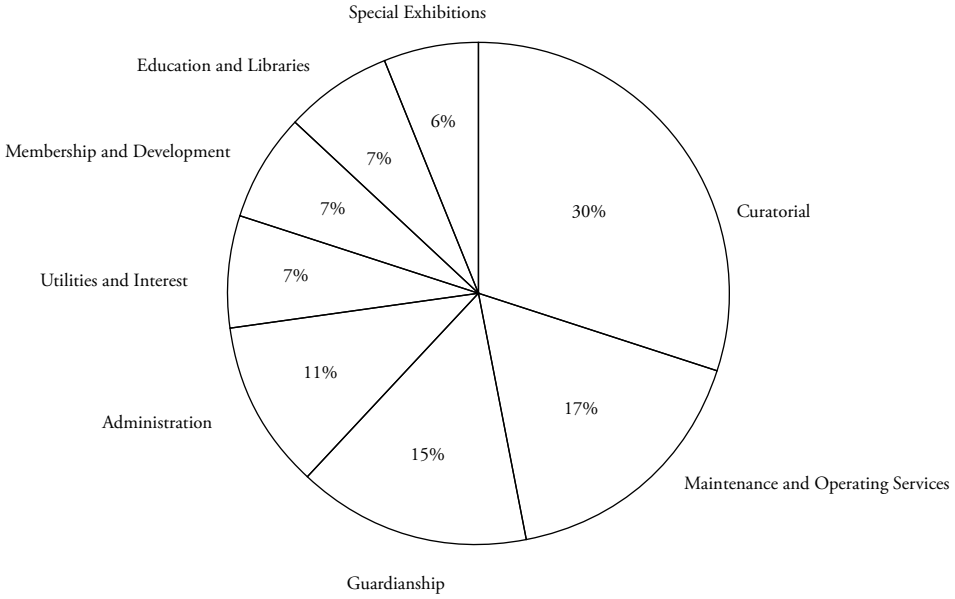
The Metropolitan Museum of Art had an operating deficit of $3.2 million in fiscal year 2008 following a surplus of $2.6 million in fiscal year 2007. The current deficit reflects strong revenue results across all areas of the Museum offset by higher operating expenses, including the impact of a new pension program and related consulting and legal costs. Fiscal year 2008 operating revenue, support, and transfers improved by 5.2 percent to $204.9 million, an increase of $10.2 million. This growth is mainly attributable to increased endowment support, gifts and grants, net assets released from restrictions, and higher membership and admissions income, offset by lower net income from merchandising operations and operating support from the City of New York. Total admissions revenue grew by 8.3 percent compared to the prior year. Overall attendance at the main building and The Cloisters increased by 3.4 percent, from 4.6 million visitors in fiscal year 2007 to 4.76 million in fiscal year 2008, the highest levels since 2001. Higher attendance had a favorable impact on attendance-dependent revenue streams, including admissions, audio tours, and restaurants. Members continued to show strong support for the Museum in fiscal year 2008, with Membership income reaching an all-time high of $25.1 million, or a 3 percent increase. The number of members remained close to 2007 levels at 133,496. Membership Internet sales continued to be strong, with 26 percent growth. Support from the Museum's operating endowment increased by $4.7 million, or 8 percent. Pursuant to our endowment spending policy, the endowment distribution was calculated as 5.25 percent of the average market value of the endowment measured over the twenty quarters ending December 31, 2006. The increase reflects the growth in the market value of the Museum's investments over that period as well as the continued generosity of donors to The Fund for the Met campaign.

Overall, annual fundraising programs, benefits, and the capital campaign had another exceptional year in 2008. Individual annual giving programs continue to thrive with the Friends program attracting new members and the Chairman's Council dues remaining a strong source of operating support. Other programs had record

2008 Sources of Operating Revenue, Support, and Transfers
$204.9 Million



2008 Operating Expenses
(Excluding Auxiliary Activities)
$208.1 Million



years, including the Real Estate Council Program and The Apollo Circle. Gala benefits also experienced an extraordinary year, with the Costume Institute Benefit raising a record $7.3 million, the Real Estate Council Benefit surpassing its goal by more than half a million dollars, and the Corporate Benefit producing its highest gross income ever, with $1.3 million. Total support for special exhibitions reached $12 million, or 81 percent of the costs of the exhibitions. Foundation support remained strong with incoming gifts totaling $47 million, an increase of 31 percent over fiscal year 2007. Contributing to this strength were capital support and gifts from key foundations that continue to give generous grants in a number of areas. Likewise, The Fund for the Met had another stellar year, raising nearly $100 million thanks to a number of significant gifts, many secured after years of cultivation. Planned Giving, with the anticipation of lowered interest rates, secured a record number of annuities this year.

Government funding is a critical source of support for the Museum's operating and capital needs. The City of New York provided operating support of $12.3 million, including allocations for security enhancements. While the Museum's operating support from the City declined by approximately $2.2 million, the City provided a similar increase in funding for capital construction and infrastructure projects and continued to fully fund the utilities for the Museum's main building. The Mayor, City Council, and Manhattan Borough President all made allocations for the Museum's capital infrastructure projects in the third year of a seven-year $100 million funding request presented by the Museum. At the state level, The New York State Council on the Arts continues to provide operating support of over $200,000 annually.

Net income from auxiliary activities decreased by $1.5 million for the year, mainly as a result of losses related to the Museum's merchandising activities, partly offset by growth in net income from restaurants. During the fiscal year the Museum conducted a review of our satellite store operation (defined as those retail stores located outside the Museum). As part of a profit improvement strategy for the Merchandising operations, it was determined that up to nine satellite stores would be closed. In February, a decision was made to close four underperforming stores: Las Vegas, Belmar, Scottsdale, and San Francisco. In addition, the store in Pasadena was closed due to a landlord-executed lease termination option. The impact of the store closings is separately displayed in the Statement of Activities as a $4.5 million loss from discontinued operations. The closing of these stores is expected to have a positive impact on earnings of close to $0.6 million in the first full year.

Operating expenses (excluding auxiliary activities) totaled $208.1 million for fiscal year 2008, an increase of $15.4 million, or 8 percent. This growth was driven by the implementation of a new pension program for non-union staff and additional consulting and legal expenses related to the new plans. Over the last year, the Museum engaged in a full review of the pension benefits offered to its non-union employees. This review resulted in the recommendation by management of a number of changes to the Museum's two existing defined contribution plans, as well as the creation of a new defined contribution plan. As a result of these changes, the Museum increased its contribution to the basic plan from 6 percent to 8 percent. In addition, under the new matching plan, the Museum will match non-union employee contributions up to 3 percent of employees' annual compensation.

Capital Expenditures

As the Metropolitan forged ahead with its "21st-Century Met" master plan, capital construction and building-related expenditures amounted to $82.5 million in fiscal year 2008, representing a decrease of $3.0 million, or 3.6 percent, from the previous year. Nearly $14 million of these costs related to the completion of the Greek and Roman Wing, Wing K, and the new Ruth and Harold D. Uris Center for Education, which opened last fall. Another $28.4 million was used for the second phase of the American Wing

renovation. Other project expenses included $6.3 million for the newly expanded Galleries for 19th- and Early 20th-Century European Paintings and Sculpture and the new Galleries for Oceanic Art and Art of Native North America, and $3.6 million toward the refurbishment of the Wrightsman Galleries for French Decorative Arts, all of which also opened last fall. The Museum continued its long-range plan to address major infrastructure needs at the main building, with partial support from the City of New York. The Museum remains focused on technology and invested $3.2 million in information technology projects, including the second phase of the Met Images project, and the final phase of new merchandising, inventory control, warehousing, and point-of-sale systems for the Museum's retail operations.

Statement of Financial Position

The Museum's gross assets totaled $3.5 billion at June 30, 2008, a slight decline from June 30, 2007. This reduction is attributable to lower cash, investments, accounts receivable and other assets, and charitable remainder trust assets, partly offset by increases in fixed assets, contributions receivable, and inventory. The decrease in overall investments is directly related to the growth in fixed assets, as funds were used to support the Museum's capital program. The Museum's long-term investment portfolio, which comprises the majority of the Museum's investments, generated a return of 2.5 percent for fiscal year 2008, exceeding all of the Museum's performance benchmarks. Although the positive investment returns did not fully cover the endowment support for current activities, the portfolio balance remained flat because of additional gifts from The Fund for the Met campaign. Assets held in trust declined by $5.2 million as a result of the expiration of a large trust and the impact of negative investment results on trust assets. New pledges from the City of New York of $20.3 million and several large gifts from key donors, combined with declines in the discount rates applied to pledges, contributed to the growth in contributions receivable.

Liabilities increased by $21.6 million, or 6 percent, primarily due to higher pension and postretirement obligations, loans payable and other long-term liabilities, accounts payable and accrued expenses, and notes payable. The growth in pension and postretirement obligations of $6.1 million mostly relates to postretirement actuarial changes in health-care trends and higher per capita claims. The increase in loans payable and other long-term liabilities of $6.7 million was driven by the growth in the value of interest rate exchange agreements offset by a mandatory payment of $2.2 million on the Series A 1993 Dormitory Authority bonds. Construction and art acquisition activities factored into the $3.0 million increase in accounts payable and accrued expenses, while the timing of the payroll cycle was the main reason for the $2 million increase in accrued salaries and benefits.

Because of the dislocation in the credit markets and more specifically the failure of the auction rate market, the Museum's Series 2006A bonds experienced a failed auction in mid-February, which resulted in the Museum paying the default rate on the bonds (15 percent) for one week only. After reviewing several options, in April the Museum converted its auction rate bonds to variable rate demand bonds. Because of this conversion, we wrote off the unamortized closing costs related to the original transaction amounting to $1.5 million. As part of the conversion, Moody's and Standard and Poor's agencies affirmed the Museum's AAA credit rating. In addition, the Museum obtained a $130 million credit facility to support the bonds in the event of a put. Because of this additional credit facility and the Museum's self-liquidity, the Museum also received the highest short-term rating from the rating agencies.

Management has begun a series of initiatives aimed at creating savings and operating efficiencies to offset the impact of the current economic climate. Although we have been experiencing very positive trends in admissions for the first few months of fiscal year 2009, we are anticipating a decrease in funding from the City of New York and potentially lower revenues from our merchandising operations as a direct result of the economic conditions. Some of the potential mitigating actions that may be undertaken to dampen the impact of an economic downturn include evaluating vacancies to determine if any could be eliminated; reviewing the use of temporary agencies and messenger services; evaluating the current use of newspaper and magazine subscriptions; and reviewing the operations of the Image Library, Education, and Editorial areas. There are opportunities for these areas to have enhanced revenue streams that create a business/commercial element while contributing to the fulfillment of the Museum's mission.

The future of the Museum will be shaped by the direction of our Director-Elect, Thomas P. Campbell. With the support of the Museum's staff, trustees, volunteers, and donors, the Metropolitan will continue to build on its long tradition of excellence and its position as the world's most encyclopedic art museum.

Statement of Operations

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

	2008	2007
REVENUE, SUPPORT, AND TRANSFERS:		
Admissions	$ 27,895	$ 25,753
Membership	25,104	24,348
Gifts and grants, net assets released from restrictions, and transfers	56,857	50,245
Appropriations from the City of New York:		
Funds for guardianship and maintenance	12,321	14,689
Value of utilities provided	12,709	12,536
Endowment support	63,008	58,351
Revenue of auxiliary activities:		
Merchandising	75,554	77,637
Restaurant, parking garage, auditorium, and other	26,721	25,030
Other income	6,774	7,672
TOTAL REVENUE, SUPPORT, AND TRANSFERS	306,943	296,261
EXPENSES:		
Curatorial:		
Curatorial departments, conservation, cataloguing, and scholarly publications	56,131	50,230
Operations of The Cloisters	6,396	6,178
Special exhibitions	11,811	10,838
Education, community programs, and libraries	15,812	13,998
Development	7,569	6,707
Membership services	6,776	6,690
Operations:		
Guardianship	30,604	29,898
Maintenance	21,327	21,379
Operating services	13,350	12,532
Value of utilities provided by the City of New York	12,709	12,536
Communications	5,053	4,260
Financial, legal, and other administrative functions	19,428	15,905
Cost of sales and expenses of auxiliary activities:		
Merchandising	76,990	77,319
Restaurant, parking garage, auditorium, and other	25,017	23,582
Interest on debt service	1,186	1,583
TOTAL EXPENSES	310,159	293,635
(DEFICIT) SURPLUS FROM OPERATIONS	**$ (3,216)**	**$ 2,626**

*Fiscal year 2007 amounts have been reclassified to conform with current year presentation.