

Report of the Chief Financial Officer

Fiscal year 2017 marked a period of strong financial performance for The Met: the Museum’s operating deficit was contained to \$10.1 million and its net assets increased by almost \$400 million to reach \$3.4 billion at the end of the fiscal year. Operating results saw significant improvement due to our financial transformation plan, while the net asset improvement was driven primarily by 14.1% endowment returns and a record fundraising year.

Financial Transformation Plan

As part of our 2017 to 2020 management plan, The Met developed a comprehensive long-term financial plan in fiscal year 2017. The multielement plan captures assumptions ranging from long-term endowment spending rates, infrastructure provision needs, debt repayment plans, and fundraising needs. The financial model aligns with the institution’s principles of *Balance* and *Sustainability* by supporting improved prioritization of strategic and operational initiatives and decision-making around financial resource allocation. The financial transformation plan also includes a wide range of revenue-enhancement and cost-reduction initiatives that will lead the institution toward long-term financial sustainability by fiscal year 2020.

Revenue initiatives, including those in visitorship, membership, retail, restaurants, and special events, build on The Met’s diverse revenue base and focus on closing the gap between revenue and expense

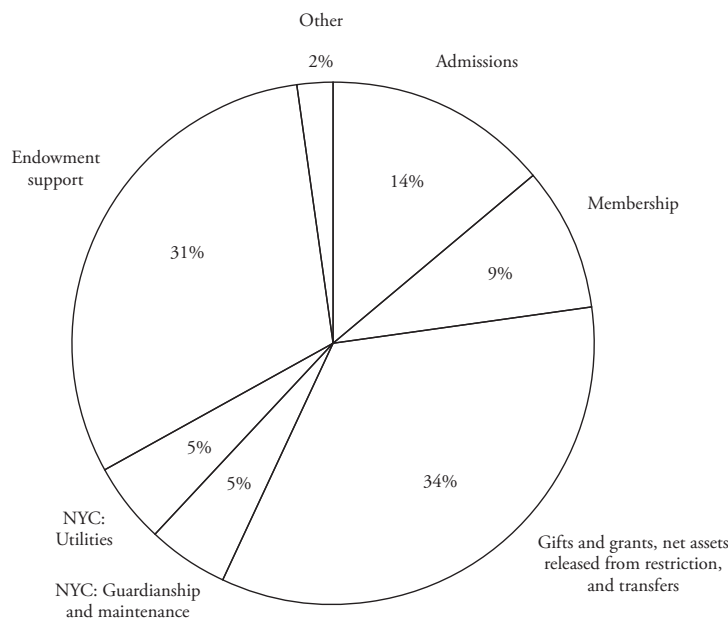
growth rates. Most of these initiatives include multiyear plans that the Museum expects to see strong revenue growth from over the next few years.

Cost-reduction initiatives focus on building more effective and efficient administrative operations. Key elements of this multiproject plan include optimizing existing technologies, simplifying and streamlining key operational processes, and building a value-driven procurement function. In fiscal year 2017 we also completed a voluntary retirement program and involuntary staff reductions to effect immediate improvement in The Met’s operating budget. These programs affected 106 employees and resulted in approximately \$10.8 million of restructuring costs, which are included in the Museum’s operating measure. In conjunction with these restructuring activities, we also discontinued the Museum’s pay for unused sick leave benefit for any non-union employees who do not already meet the age and service restrictions of the plan.

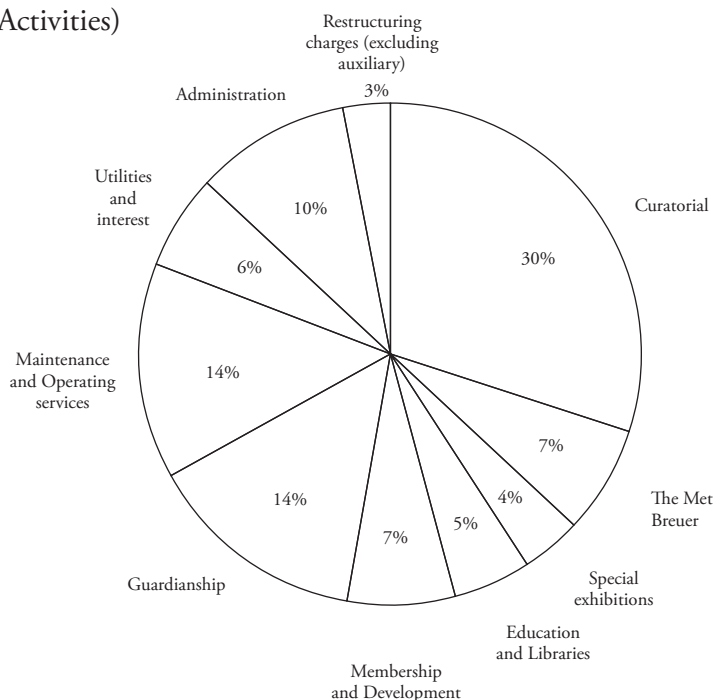
Operating Results

The Museum ended the fiscal year with an operating deficit of \$10.1 million, reflecting a marginal increase over last year’s deficit of \$8.3 million but a substantial improvement over budget. The operating deficit for fiscal year 2017 does not include \$12.2 million of interest expense, which is reflected as a non-operating charge in the Museum’s Statement of Activities.

2017 Operating Revenue, Support, and Transfers (Excluding Auxiliary Activities) \$297.8 Million



2017 Operating Expenses
(Excluding Auxiliary Activities)
\$305.0 Million



In fiscal year 2017, unrestricted operating revenue, support, and transfers (excluding auxiliary activities) totaled \$297.8 million, a \$10.3 million (3 percent) decrease over 2016. The majority of this reduction is due to total net assets released from donor restrictions to fund operating expenses, including the transfer of funds from non-operating to operating, which declined by \$14.5 million in fiscal year 2017. This decrease aligns with the Museum’s overall reduction in operating expenses.

Earned revenue, excluding unrestricted giving, grants, and one-time auxiliary charges, totaled \$75.9 million in fiscal year 2017, an improvement of \$3.8 million (5 percent) over the prior year. The Met continued to enjoy record attendance levels during this fiscal year, aided by a full year of operations at The Met Breuer, which helped improve admissions revenue by \$3.3 million (8 percent) to \$42.8 million. The Museum’s retail operations broke even in fiscal year 2017 (excluding one-time charges), leading to an overall improvement of \$2.2 million when compared to fiscal year 2016. Other revenue streams remained level or slightly down with strong plans in place to achieve longer-term growth.

During fiscal year 2017, contributions and grants used to fund Museum operations, including a portion of net assets released from restrictions, totaled \$101.5 million. Government funding remained a critical source of support for the Museum’s operating and capital needs, with \$27.7 million received in fiscal year 2017 to support operating and energy costs.

Support from the Museum’s general operating endowment increased by \$0.6 million since fiscal year 2016 to reach \$91.9 million in fiscal year 2017. The Museum continues to use the hybrid spending policy to calculate its annual spending rate. Of the Museum’s total endowment value of \$2.9 billion at June 30, 2017, \$1.6 billion generates unrestricted support for operations.

Unrestricted operating expenses (excluding auxiliary activities) totaled \$305.0 million reflecting an \$8.6 million decrease over fiscal year 2016. This budget includes \$10.8 of restructuring charges associated with the voluntary retirement program and involuntary staff reductions completed in the fall of fiscal year 2017. The Met Breuer was fully operational throughout the fiscal year, resulting in an increase in its operating expenses to \$20.3 million from \$12.7 million the prior year. Special exhibitions expenses declined by \$9.3 million in fiscal year 2017 to \$12.7 million, due to improved cost control over large-scale exhibitions and refinement in the accrual of exhibition closing costs.

Fundraising

Fiscal year 2017 also saw impressive fundraising achievements for the Museum. The Met’s Trustees, executive leadership, curators, and Development and Membership staff together secured approximately \$232.2 million of philanthropic gifts, Membership dues, and government support, a significant improvement over the prior year. This figure reflects new support and includes outright, pledged, planned, and estate gifts.

Capital Expenditures

Capital construction and building-related expenditures amounted to almost \$37 million in fiscal year 2017, reflecting investment in a wide range of capital and infrastructure related projects. Work on The Met’s skylight project and renovation of our 91st Street Warehouse accounted for \$11.1 million of this investment while an additional \$3.0 million investment was made in The Met Breuer building. Renovations of the Musical Instruments Galleries and British Galleries totaled \$2.0 million and \$1.3 million, respectively, for the fiscal year. As part of the Museum’s continued work on a

number of energy-efficiency projects funded in part by the City of New York, the Museum received \$6.0 million for lighting upgrades, energy-efficiency studies, and air-handler replacements in fiscal year 2017.

Statement of Financial Position

The Met's net assets grew by \$399 million in fiscal year 2017, from \$3.0 billion to \$3.4 billion. Investment returns of 14.1% drove a substantial part of this improvement, coupled with \$106.5 million of endowment gifts. Also, the Museum's pension, post-retirement, and swap liabilities decreased due to an increase in year-end discount rates. Cash at June 30, 2017 increased to \$53.7 million due to the timing of significant year-end cash gifts. The Museum's long-term investment portfolio remained the most significant component of total assets at June 30, 2017, representing \$3.4 billion of the \$4.2 billion in total assets.

Looking Forward

The Museum continues to approach its financial transformation work from a position of strength: the institution benefits from a \$2.9 billion endowment, diverse revenue stream, comprehensive long-term financial plan, remarkable Board, highly competent and dedicated staff, passionate volunteers, and an exceptionally generous donor base. Fiscal year 2018 marks the next phase of the Museum's financial transformation work, which will focus on driving revenue growth further, cost reductions, and achieving more effective and efficient operations. As The Met follows its path to a balanced budget by fiscal year 2020, the Museum's management plan and four institutional principles—*Excellence, Balance, Community, and Sustainability*—will remain the foundation of all revenue and cost reduction initiatives in fiscal year 2018.

Statement of Operations (unaudited)

for the year ending June 30, 2017 with comparative totals for 2016 (in thousands)

	2017	2016
REVENUE, SUPPORT, AND TRANSFERS:		
Admissions	\$ 42,757	\$ 39,463
Membership	27,461	28,965
Gifts and grants, net assets released from restrictions, and transfers	101,533	116,163
Appropriations from the City of New York:		
Funds for guardianship and maintenance	14,131	10,729
Value of utilities provided by the City of New York	13,536	16,740
Endowment support	91,887	91,317
Revenue from auxiliary activities:		
Retail	56,084	51,866
Restaurant, parking garage, auditorium, and other	31,463	28,230
Other income	6,470	6,305
Total revenue, support, and transfers	<u>385,322</u>	<u>389,778</u>
EXPENSES:		
Curatorial:		
Curatorial departments, conservation, cataloguing, and scholarly publications	82,542	88,193
Operations of The Met Cloisters	8,558	8,728
Operations of The Met Breuer	20,296	12,741
Special exhibitions	12,681	22,028
Education, community programs, and Libraries	14,778	16,114
Development	12,799	13,041
Membership services	8,914	7,889
Operations:		
Guardianship	42,004	43,231
Maintenance	30,290	30,809
Operating services	13,233	13,904
Utilities provided by the City of New York	12,543	15,640
Communications	5,490	7,249
Financial, legal, and other administrative functions	30,109	35,669
Restructuring charges (excluding auxiliary)	10,804	
Cost of sales and expenses of auxiliary activities:		
Retail	57,985	53,964
Restaurant, parking garage, auditorium, and other	32,394	28,838
Total expenses	<u>395,420</u>	<u>398,038</u>
(Deficit) from operations	<u>\$ (10,098)</u>	<u>\$ (8,260)</u>

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