

# Report of the Chief Financial Officer

The overall operating results for fiscal year 2015 offer fresh evidence of the Museum's strength and vitality. Attendance, at over 6.3 million visitors, was the largest since tracking commenced over forty years ago. This reflects the draw of the Museum's stellar range of exhibitions, its renowned collection, and the worldwide recognition of its excellence.

The Museum managed to maintain, enhance, and expand its unique programmatic activity and collections in an environment of limited resources. Costs continued to climb but strides were made in stemming the growth rate of core expenses. The year ended with an operating deficit of \$7.7 million. In spite of challenging market conditions, there was an overall increase in the Museum's net assets. This resulted from the prudence of the Museum's endowment spending rule and investment management, coupled with the work of its Trustees, staff, volunteers, and generous giving by loyal supporters, members, donors, and the City of New York.

As noted in the Report from the Director, after an impressive forty-year career filled with significant contributions that have immeasurably enhanced the Museum, Emily Kernan Rafferty retired in March 2015 as President of the Museum. Dr. Daniel H. Weiss, an innovative leader in higher education and an accomplished art historian, began his tenure in July 2015. With the naming of a new Museum president, the move to achieve a more balanced operating budget while strengthening the core mission of the Museum gained additional momentum.

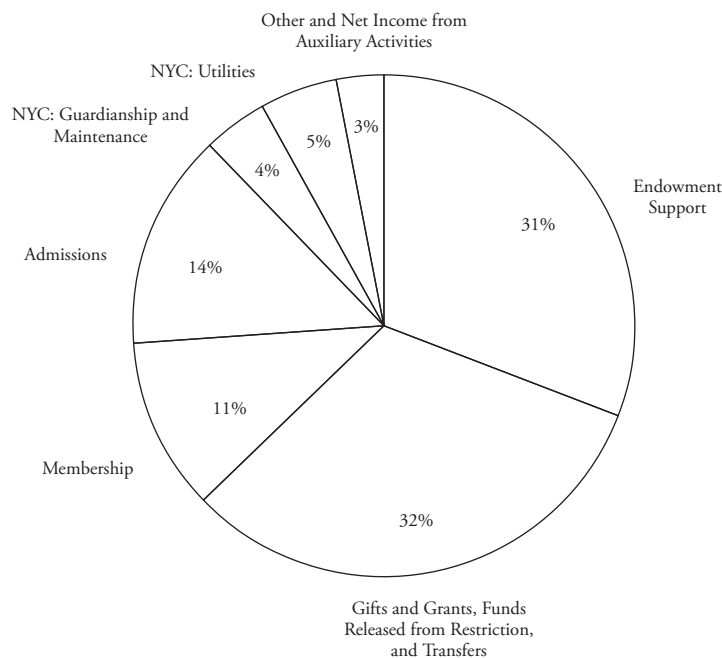
A more detailed discussion of the Museum's financial results for fiscal year 2015 appears below.

## Operating Results

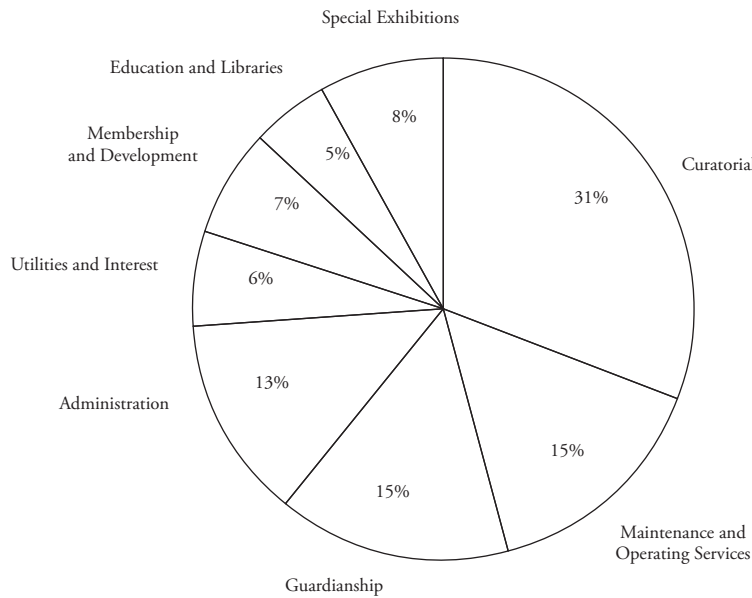
The Metropolitan Museum of Art had an operating deficit of \$7.7 million in fiscal year 2015—a year of major achievements that reflected the Museum's commitments to world-class scholarship, greater accessibility, and engagement with a worldwide community. Total operating revenue, support, and transfers for fiscal year 2015 were \$276.8 million (excluding auxiliary expenses), an increase of \$14.3 million, or 5.4 percent, over fiscal year 2014. Higher earned revenue was partially offset by higher compensation costs and by higher exhibition, legal, recruiting, depreciation, and other general operating costs (partially matched by higher funding).

Earned revenue in fiscal year 2015 was \$100.4 million (with auxiliaries net), \$4.4 million, or 4.6 percent, over fiscal year 2014. Continuing its strong support for the Museum in fiscal year 2015, Membership income reached nearly \$29.8 million, a \$1.1 million increase over fiscal year 2014. Total admissions revenue reached \$38 million. Net income from auxiliary activities increased slightly by \$0.2 million year-over-year. Retail Operations, which make up the bulk of the Museum's auxiliary activities, was affected by a climate of fiscal uncertainty, and a reassessment of its business model necessary to refocus and grow the business in the long term.

## 2015 Operating Revenue, Support, and Transfers \$276.8 Million



2015 Operating Expenses  
(Excluding Auxiliary Activities)  
\$284.5 Million



From a fundraising perspective, through the combined efforts of the Metropolitan Museum’s Trustees, executive leadership, curators, and Development and Membership staff, the Museum secured approximately \$208 million in philanthropic gifts, membership dues, and governmental support during fiscal year 2015, compared to \$186 million published last year in fiscal year 2014. This figure reflects new support, and includes outright, pledged, planned, and estate gifts.

Government funding is a critical source of support for the Museum’s operating and capital needs. During the fiscal year, Trustees articulated the Museum’s needs and concerns to government officials in Washington, D.C., in Albany, and at City Hall. The Museum’s Government Affairs office ensured that local representatives were briefed on the contributions made by the Metropolitan to the City of New York including the Museum’s role as a tourist mecca, its positive economic impact, and the strength and reach of its highly regarded education programs, school visits, and teacher training programs.

In fiscal year 2015, the Museum received more than \$27 million in total funding from the City of New York for operating support and energy costs; City funding remains vital to the daily operations of the Museum. An appropriation of \$4 million in capital funding was made by the New York City Council for the Museum’s multi-year infrastructure improvements and upgrade efforts. This is the tenth consecutive year in which the City has allocated funding for infrastructure initiatives. At the State level, the Museum received a grant of \$250,000 for similar improvements. In addition, the New York State Council on the Arts renewed its commitment to operating support and to Concerts & Lectures programming, and the New York State Library, Albany, renewed its support of book conservation.

On the Federal level, assistance continues from the National Endowment for the Arts, which awarded the Museum \$65,000 in support of the exhibition “Sultans of Deccan India.”

*Capital Expenditures*

The Metropolitan Museum has been addressing recommendations in a holistic conceptual plan developed by the New York City-based design firm Beyer Blinder Belle Architects & Planners LLP. During fiscal year 2015, David Chipperfield Architects was selected to develop a new design for the Southwest Wing for modern and contemporary art, and potentially for adjacent galleries for the Arts of Africa, Oceania, and the Americas as well as additional operational spaces. The selection was based on three criteria: vision, experience, and compatibility.

Continuing to address the infrastructure needs of the more than two million square feet of space occupied by the Museum required the issuance of \$250 million taxable 30-year bonds. The transaction closed on February 2, 2015, at a yield of 3.431%, believed to be at or near the lowest levels for a 30-year corporate bond.

Capital construction and building-related expenditures amounted to \$35 million in fiscal year 2015. Driving this cost were expenses related to David H. Koch Plaza on Fifth Avenue and several other infrastructure projects.

In tandem with physical improvements, the Museum remains focused on technology and digital media initiatives, including the management, production, and delivery of digital content for a variety of audiences, both online and in the galleries. Fiscal year 2015 represents the first full year of Workday usage—a system implemented in 2013–14 to automate financial, payroll, and human resources processing. Progress continued in the consolidation of constituent systems.

### *Statement of Financial Position*

The Museum's gross assets totaled \$4 billion at June 30, 2015. The long-term investment portfolio, which accounts for the bulk of the Museum's assets, totaled \$3.3 billion at June 30, 2015. For the fiscal year ending June 30, 2015, the Museum's long-term investment portfolio returned a positive 5 percent, before spending and gifts. This return exceeded the Museum's performance benchmarks by substantial margins. Liabilities increased by \$266.9 million, or 59 percent, primarily due to the issuance of \$250 million in taxable 30-year bonds.

### *Looking Forward*

Led by Director and Chief Executive Officer Thomas P. Campbell, and with the support of President Daniel H. Weiss, Trustees, staff, volunteers, members, and donors, the Metropolitan

Museum continues to build on its long tradition of excellence while taking on exciting new initiatives. Guiding our future progress is the Five-Year Strategic Plan that the Museum drafted and the Board of Trustees approved in January 2015. As the Director noted in his report, the plan is the most wide-ranging study ever undertaken of the Met's strengths and needs, setting forth goals and objectives that clarify our direction and priorities for the next five years.

The continuing challenges that the Met faces—as a result of financial market turmoil, fluctuations in tourism, and uncertainty regarding City support—reinforce the importance of the financial planning process and the need to continually assess the budgetary realities facing the Museum. Creativity, prioritization, prudence, vision, and sound management continue to be the primary drivers behind sustaining the Museum's distinction and continued financial strength.

Statement of Operations

for the year ending June 30, 2015, with comparative totals for 2014 (in thousands)

	<u>2015</u>	<u>2014</u>
<b>REVENUE, SUPPORT, AND TRANSFERS:</b>		
Admissions . . . . .	\$ 38,020	\$ 37,935
Membership . . . . .	29,766	28,684
Gifts and grants, net assets released from restrictions, and transfers . . . . .	87,966	76,686
Appropriations from the City of New York:		
Funds for guardianship and maintenance . . . . .	12,641	11,205
Utilities provided by the City of New York . . . . .	15,245	15,157
Endowment support . . . . .	85,542	84,868
Revenue from auxiliary activities:		
Merchandising . . . . .	58,326	70,081
Restaurant, parking garage, auditorium, and other . . . . .	28,217	27,266
Other income . . . . .	5,503	6,134
Total revenue, support, and transfers . . . . .	<u>361,226</u>	<u>358,016</u>
<b>EXPENSES:</b>		
Curatorial:		
Curatorial departments, conservation, cataloguing, and scholarly publications . . . . .	80,984	74,275
Operations of The Cloisters . . . . .	8,355	8,055
Special exhibitions . . . . .	21,105	16,261
Education, community programs, and libraries . . . . .	14,723	13,730
Development . . . . .	11,238	10,884
Membership services . . . . .	8,255	9,002
Operations:		
Guardianship . . . . .	41,797	40,013
Maintenance . . . . .	29,453	27,169
Operating services . . . . .	13,308	15,109
Utilities provided by the City of New York . . . . .	15,245	15,157
Communications . . . . .	7,604	8,684
Financial, legal, and other administrative functions . . . . .	32,383	27,709
Sales and expenses of auxiliary activities:		
Merchandising . . . . .	56,872	67,799
Restaurant, parking garage, auditorium, and other . . . . .	27,598	27,207
Total expenses . . . . .	<u>368,920</u>	<u>361,552</u>
(Deficit) from operations . . . . .	<u>\$ (7,694)</u>	<u>\$ (3,536)</u>