

Report from the Chief Financial Officer

As reported in the “Report from the President and the Director,” The Met faced extraordinary financial challenges in fiscal year 2020, when the COVID-19 pandemic forced the Museum to close its doors on March 13. The Museum’s closure through August 29, coupled with its subsequent reopening at significantly reduced visitor levels, resulted in a severe reduction in earned revenue, with losses of up to \$150 million of total revenue and support possible through fiscal year 2021. As of the date of this report, significant uncertainty around the timing and strength of The Met’s financial recovery remains, given the Museum’s dependence on a wide range of macro factors, including the risk of a second wave of COVID-19 cases in New York, the timing of a vaccine or therapeutic responses, and the length of the domestic and global economic recovery. To manage this uncertain period, The Met continues to adapt its COVID-19 Financial Response Plan to identify and pressure-test multiple contingency strategies under a wide range of financial outcomes.

COVID-19 Financial Response Plan

In the spring of fiscal year 2020, The Met built a comprehensive and dynamic financial crisis response plan that enables the Museum to evolve its response. The Museum remains ready and able to adapt to the crisis as the strength and timing of public health and economic recovery become clearer.

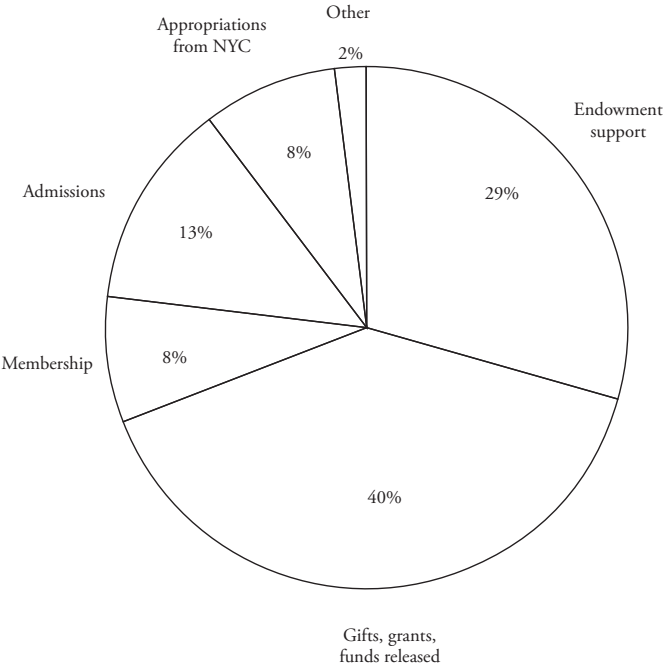
In fiscal year 2020, the Museum executed the following components of this plan:

- Established a \$75 million Emergency Relief Fund (“ERF”) consisting of reallocated flexible endowment funds and new fundraising from Trustees and key donors. The Museum used \$32 million of this ERF to fund operating losses in fiscal year 2020.
- Reduced head-count levels by 81 in Visitor Experience and Merchandising and Retail, mostly part-time roles; offered a Voluntary Retirement Program (“VRP”) to 105 nonunion staff, of whom 49 accepted by June 30; and implemented a hiring freeze.
- Canceled the nonunion merit program for fiscal year 2021 and announced executive pay cuts.
- Reduced acquisition, programmatic, and other discretionary project spending by over 25%.

In August of fiscal year 2021, the Museum executed the following additional components of this plan:

- Reduced head-count levels by 15% through a VRP (nonunion and union), reductions in force, and furloughs, yielding a 20% total reduction in head-count levels since the beginning of the crisis.

2020 Operating Revenue, Support, and Transfers
(Excluding Auxiliary Activities)
\$293.5 Million



Operating Results

The Met ended fiscal year 2020 with a \$7.7 million deficit, after the transfer of \$32 million of the ERF, as compared to a \$2.3 million surplus in the prior year. Fiscal year 2019 results have been adjusted from the prior year to reflect the retrospective adoption of ASU 2017-07 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Total unrestricted revenue, support, and transfers (excluding auxiliary activities) totaled \$293.5 million in fiscal year 2020, reflecting a \$9.1 million (3%) decrease since the prior year. When excluding the transfer of the ERF to The Met's operating budget in fiscal year 2020, this figure reduces to \$261.5 million, reflecting a \$41.1 million (14%) decrease compared to the prior fiscal year. Total operating expenses (excluding auxiliary activities) reduced to \$287.6 million in fiscal year 2020, representing a \$13.7 million (5%) decrease compared to the prior year.

Revenue

Unrestricted revenue (including auxiliary activities, net) totaled \$51.8 million in fiscal year 2020, compared to \$93.4 million in the prior year, marking a \$41.6 million (45%) decrease over the prior year. Admissions and membership revenue represent the most significant contributors to the Museum's unrestricted revenue (excluding auxiliary activities) and both were severely impacted by The Met's closure from March 13 to August 29. In fiscal year 2020, admissions revenue declined by \$17.5 million (32%) to reach \$37.5 million, while membership revenue declined by \$6.2 million (21%) to reach \$22.9 million.

Revenues from auxiliary activities, primarily reflecting the Museum's retail and restaurant operations, declined by \$27.7 million (32%) to end fiscal year 2020 at \$58.2 million. Operating expenses from auxiliary activities were correspondingly reduced by \$13.1 million (15%) in fiscal year 2020 in order to contain net losses for the fiscal year. Net losses from auxiliary activities reached \$13.6 million in fiscal year 2020, compared to \$1 million in net income in the prior year.

Support and Transfers

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 \$141.7 million, reflecting a \$12.3 million or 9.5% increase over the prior year. This increase is primarily attributed to the transfer of \$32 million from the Museum's ERF to its operating budget, captured in the Statement of Activities under Net Assets Released from Donor Restrictions to Fund Operating Expenses and the Transfer of Non-Operating Funds. Offsetting this increase, operating appropriations from the City of New York and unrestricted gifts and grants decreased by \$2.4 million and \$11.8 million, respectively.

The annual support from the Museum's endowment, as set by The Met's Spending Policy, provided a significant source of financial strength and stability during the Museum's closure in fiscal year 2020. In fiscal year 2020, the Museum appropriated \$159.9 million from its endowment through its Spending Policy, representing a 3.8% increase over the prior year. Of the total appropriation, \$86.4 million, or 54% of the total appropriation, reflects operating support for current operations. This figure excludes the transfer of reallocated flexible endowment funds that were included in The Met's ERF as highlighted above. The Museum's spending rate (i.e., the dollars appropriated annually as a percentage of the endowment's prior year-end market value) was 5.0% in fiscal year 2020, compared to 4.9% in the prior year.

Operating Expenses

Unrestricted operating expenses (excluding auxiliary activities) decreased by \$13.7 million (5%) compared to the prior year, totaling \$287.6 million in fiscal year 2020. Key drivers of this decrease include reduced programmatic and discretionary project expenses, as well as the impact of the employee retention credit offered under the Federal CARES Act.

The Museum's interest expense on its bond and interest rate swaps is reported as a non-operating charge and totaled \$12.9 million in fiscal year 2020, relatively flat with the prior year. Interest expense is fully 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.

Fundraising

Fiscal year 2020 marked another strong fundraising year for the Museum. The Trustees, executive leadership, curators, and Development and Membership staff together secured approximately \$208.7 million in philanthropic gifts, membership dues, and government support. This figure reflects new support, including funds raised for the ERF, and other outright, pledged, planned, and estate gifts.

Capital Expenditures

Capital construction and infrastructure-related expenditures amounted to almost \$64.5 million in fiscal year 2020, 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 \$5.9 million.

Statement of Financial Position

Year-end net assets remained level at \$3.7 billion at June 30, marking only a \$57 million decline over the prior year. The Museum's assets increased by \$54 million (1.2%) in fiscal year 2020, reaching \$4.5 billion by June 30. The majority of this increase is tied to the Museum's cash and cash equivalents balance, which increased by \$61 million over the prior year. This increase is fully attributed to the Museum's defensive drawdown on its available lines of credit in the spring of fiscal year 2020. The proceeds from these lines of credit remain unspent as of the date of this report. The Museum's long-term investment portfolio posted 3.7% in investment returns, remaining relatively unchanged at \$3.9 billion, of which \$3.3 billion represents the Museum's endowment.

The Museum's liabilities increased by \$111 million as of June 30, due primarily to a \$59 million increase in notes payable and a \$46 million increase in the Museum's pension and postretirement liabilities due to year-end decline in interest rates.

Looking Forward

On August 29, the Museum reopened to the public after five months of closure, marking a joyful and inspiring moment for the Museum and the City of New York. Despite its reopening, however, the Museum will continue to face significant financial and operating uncertainty due to the impact of the pandemic for the months and years to come. In the short term, New York continues to see tourism at historic lows while capacity constraints significantly limit the number of visitors that may come to the Museum; both factors will place significant pressure on unrestricted revenue for the balance of fiscal year 2021. The Museum continues to maintain and evolve a comprehensive set of contingency plans, however, to ensure that it is ready to pivot its financial response and operations for a wide range of possible recovery timelines.

Statement of Operations (unaudited)

for the year ending June 30, 2020, with comparative totals for 2019 (in thousands)

	2020	2019
REVENUE, SUPPORT, AND TRANSFERS:		
Admissions	\$ 37,527	\$ 55,059
Membership	22,882	29,091
Gifts and grants	17,648	29,482
Operating appropriations from the City of New York (Note A)	24,438	26,822
Endowment support for current activities (Note G)	86,413	80,826
Retail and other auxiliary activities	58,159	85,842
Other income	4,947	8,232
Release from restriction and transfers	99,605	73,088
Total revenue, support, and transfers	351,619	388,442
EXPENSES:		
Program services	217,017	222,898
Auxiliary activities	71,742	84,826
Supporting services	70,608	78,458
Total expenses	359,367	386,182
Change in net assets from operating activities	\$ (7,748)	\$ 2,260

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