

Report of the Chief Financial Officer

Fiscal 2013 was an exciting year—numerous challenges were addressed with courage, ingenuity, and perseverance. These challenges impacted the Museum’s operating results but did not hinder a strong growth in net assets. Although the year ended with an operating deficit, there was a \$290 million growth in the Museum’s net assets. This growth is the result of positive investment results, close management of operating costs, and continuing fund-raising for necessary initiatives and mission-driven programming. Over the last several years, the focus has been on a few key strategic priorities that have been critical to the Museum’s success: prudent investment in staff and technology, constant improvement in the visitor experience, and maintaining high standards of financial stewardship. This has been another year of great achievement in these key areas and this report provides a synopsis of these accomplishments and an outline of the continuing evolution of the Museum.

The sections below provide a more detailed discussion of the Museum’s financial results for fiscal year 2013. As this discussion highlights, the Museum continues to find new ways to capture visitors with experiences that both exceed expectations and become cherished memories. Its ability to do this is directly linked to the work of its Trustees, staff, volunteers, and the generous support of its members, donors, and the City of New York.

Operating Results

The Metropolitan Museum of Art had an operating deficit of \$4.4 million in fiscal year 2013. This performance masked a solid year for the Museum. The deficit absorbed losses associated with Hurricane Sandy, significantly higher actuarial charges associated with the low

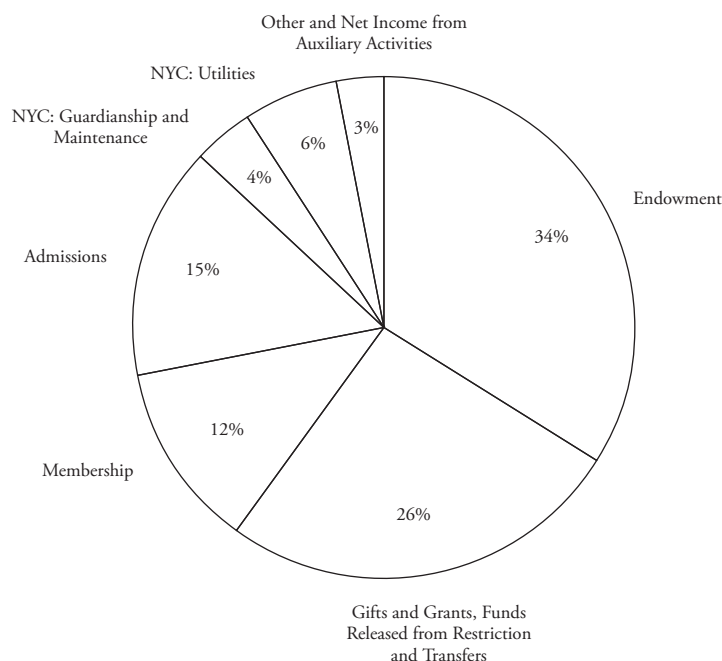
discount rate environment, and strategic investments in staff and technology. Comparisons to fiscal year 2012 are difficult due to the positive impact of the “Alexander McQueen: Savage Beauty” exhibition.

Fiscal year 2013 total operating revenue, support, and transfers were \$248 million, an increase of \$9 million or 3.8 percent over fiscal year 2012. Higher earned revenue was partly offset by higher compensation costs and by higher exhibition, legal, recruiting, depreciation, and other general operating costs (partly matched by higher funding).

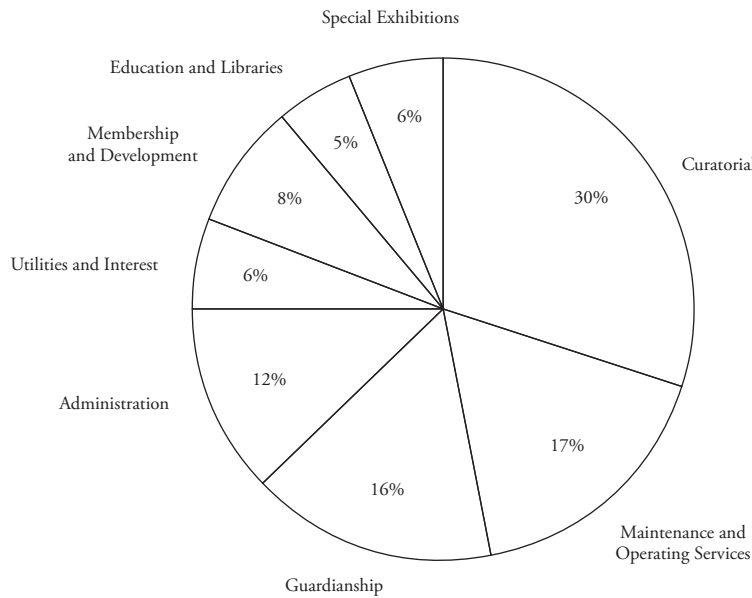
Earned revenue in fiscal year 2013 was nearly \$94 million (with auxiliaries net), \$1.7 million or 1.8 percent over fiscal year 2012. This growth is attributable primarily to strength in membership, as well as admissions. Members continued to show strong support for the Museum in fiscal year 2013. Membership income reached \$29.4 million, a \$2.4 million or 9.0 percent increase over fiscal year 2012. Total admissions revenue grew by \$0.4 million compared to the prior year, reaching \$38.2 million and 6.2 million visitors. Net income from auxiliary activities decreased \$1.6 million year-over-year. This was driven primarily by a \$0.5 million decrease in merchandise results as sales relating to the “Alexander McQueen: Savage Beauty” exhibition declined in fiscal year 2013. Merchandise operations continue to be on target for sales and net profit growth.

Support from the Museum’s general operating endowment was \$74.2 million, an increase of \$5 million or 7.2 percent from fiscal year 2012. In fiscal year 2013, the Museum replaced its previous spending rule with a hybrid model—a calculation that blends the predictable spending element of constant growth with the asset preservation principle of a market-based approach.

2013 Support of Operating Revenue Support and Transfers \$248.2 Million



2013 Operating Expenses
(Excluding Auxiliary Activities)
\$252.6 Million



From a fundraising perspective, fiscal year 2013 reflected increased giving and donor confidence in many programs. The most obvious example of this was the pledge by Leonard A. Lauder to give the Museum his collection—seventy-eight works by Pablo Picasso, Georges Braque, Juan Gris and Fernand Léger—which stands as one of the foremost collections of Cubism in the world. Concurrent with this pledge was an announcement that in coordination with this gift, the Museum was establishing the Leonard A. Lauder Research Center for Modern Art—a new research center supported by a \$22 million endowment funded by grants from Museum Trustees and supporters, including Mr. Lauder. Clearly, modern and contemporary art, including the programming in The Breuer Building, continues to be an area of special focus for the Museum. Additionally, thanks to generous support from our donors, the Museum’s collection was significantly bolstered this year by several acquisitions of artwork which totaled over \$103 million.

Government funding is a critical source of support for the Museum’s operating and capital needs. In fiscal year 2013, the Museum received more than \$24 million in total funding from the City of New York for operating support and energy costs. City funding remains critical and is vital to the daily operation of the Museum. An appropriation of \$6 million in capital funding was made by the New York City Council and the Manhattan Borough President for the Museum’s multiyear infrastructure improvements and upgrade efforts. This was the eighth consecutive year the City has allocated funding for these initiatives. At the State level, the New York State Council on the Arts renewed its commitment to operating support for the Museum; it also approved a new grant for Concerts & Lectures. On the federal level, the National Endowment for the Arts awarded a grant in support of the upcoming exhibition “Silla: Korea’s Golden Kingdom”.

Capital Expenditures

Capital construction and building-related expenditures amounted to \$76.2 million in fiscal year 2013, representing an increase of \$28.8 million or 60.8 percent from the previous fiscal year. Driving this increase are the expenditures relating to the David H. Koch Plaza on Fifth Avenue, Costume Institute renovations, and several other infrastructure projects. The Museum has begun to shift its attention to understanding its long-term capital needs and possibilities for the development of its buildings. This effort is being led by Beyer Blinder Belle Architects & Planners LLP who were commissioned to create a long-term feasibility study. The results of the study will be available in fiscal year 2014.

Fiscal year 2013 saw the reopening of the Museum’s galleries for its world-renowned collection of European Old Master paintings from the thirteenth through the early nineteenth century after extensive renovation and reinstallation. This comprehensive rethinking of the space and art holdings was a striking example of the depth of the Museum’s permanent collection and its ability to reinvent itself.

In tandem with physical improvements, the Museum remains focused on technology and digital media initiatives. To reinforce the importance of these efforts, the Museum created a Chief Digital Officer position, which will explore new digital opportunities for the Museum and will be responsible for managing, producing, and delivering digital media content for a variety of audiences both online and in the galleries. Investment in core information technology and systems will continue. The goal of these investments is to deliver high quality, innovative, and effective solutions that enable significant improvements in day-to-day operations, support academic excellence, and enhance the overall visitor experience. Key events in fiscal year 2013 included approval for the implementation of a new financial and human resources system offering a suite of

online business applications and the continuing consolidation of the Museum's constituent systems.

Statement of Financial Position

The Museum's gross assets totaled \$3.5 billion at June 30, 2013. The long-term investment portfolio, which accounts for the bulk of the Museum's assets, totaled \$2.8 billion at June 30, 2013. For the fiscal year ending June 30, 2013, the Museum's long-term investment portfolio returned a positive 12.6 percent, before spending and gifts. It is worth noting that over the long term period, the Museum's portfolio has significantly outperformed the 70/30 Index, a standard benchmark for not-for-profit endowments. Liabilities decreased by \$21.3 million or 4.4 percent, primarily due to decreases in pension and postretirement obligations and loans payable and other long-term liabilities.

Looking Forward

Led by Director and Chief Executive Officer Thomas P. Campbell, and with constant support from President Emily Kernan Rafferty, Trustees, staff, volunteers, members, and donors, the Metropolitan

Museum continues to build on its long tradition of excellence while taking on exciting new initiatives.

Each of this year's art acquisitions, gallery openings, exhibitions, and publications has expanded the Museum's creative reach and moved it forward on the path to achieving the fullest potential provided by the collection.

Recent announcements have highlighted the Museum's continuing commitment to its visitors and the broader international cultural community. Announcements included a new schedule for the Museum—it is now open on Mondays throughout the year for the first time in forty-two years; and the launch of the Global Museum Leaders Colloquium—a program intended to stimulate and broaden the international dialogue on museum management and collections.

Ongoing investment in staff, technology, educational programs, and gallery space will position the Museum toward the future. As fiscal year 2014 and beyond are contemplated, the Museum's financial strength coupled with the stewardship provided by the Director and the President and the highest standards they set, ensure that the Museum will continue to thrive and deliver on its commitment to local, domestic, and international audiences.

Statement of Operations

for the year ending June 30, 2013 with comparative totals for 2012 (in thousands)

	<u>2013</u>	<u>2012</u>
REVENUE, SUPPORT, AND TRANSFERS:		
Admissions	\$ 38,220	\$ 37,828
Membership	29,430	26,977
Gifts and grants, net assets released from restrictions, and transfers	65,119	62,075
Appropriations from the City of New York:		
Funds for guardianship and maintenance	9,456	9,845
Value of utilities provided	14,980	15,116
Endowment support	82,366	77,311
Revenue from auxiliary activities:		
Merchandising	69,337	72,095
Restaurant, parking garage, auditorium, and other	25,430	26,044
Other income	5,123	4,758
	<u>339,461</u>	<u>332,049</u>
EXPENSES:		
Curatorial:		
Curatorial departments, conservation, cataloguing, and scholarly publications	68,399	67,038
Operations of The Cloisters	7,790	7,057
Special exhibitions	14,000	12,880
Education, community programs, and libraries	13,099	13,417
Development	10,833	9,339
Membership services	8,458	7,771
Operations:		
Guardianship	40,894	36,478
Maintenance	26,221	24,925
Operating services	15,705	15,011
Value of utilities provided by the City of New York	14,980	15,116
Communications	6,010	6,399
Financial, legal, and other administrative functions	25,437	22,587
Cost of sales and expenses of auxiliary activities:		
Merchandising	66,362	68,652
Restaurant, parking garage, auditorium, and other	24,897	24,413
Interest on debt service	782	813
	<u>343,867</u>	<u>331,896</u>
Total expenses		
(Deficit) Surplus from operations	<u>\$ (4,406)</u>	<u>\$ 153</u>