

# Report of the Chief Financial Officer

In fiscal year 2018, The Met made significant progress in the financial transformation work it began last year: the Museum's operating deficit was reduced from \$10.1 million to \$8.3 million and net assets grew by \$238 million to reach \$3.7 billion at the end of the fiscal year, an increase driven primarily by endowment returns and strong fundraising.

*Financial Transformation Plan*

Launched in fiscal year 2017 as part of a larger management plan organized around four principles, the Museum's three-year financial transformation plan is projected to lead the institution toward long-term financial stability by 2020. The financial transformation work includes a wide range of revenue-enhancing and cost-reduction initiatives that align 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.

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. The adoption of the Museum's new admissions policy on March 1, 2018 was a key initiative in the financial transformation plan. The institution achieved strong results from the revenue initiative work completed in fiscal years 2017 and 2018 and is

projecting continued improvement from these efforts over the next few years.

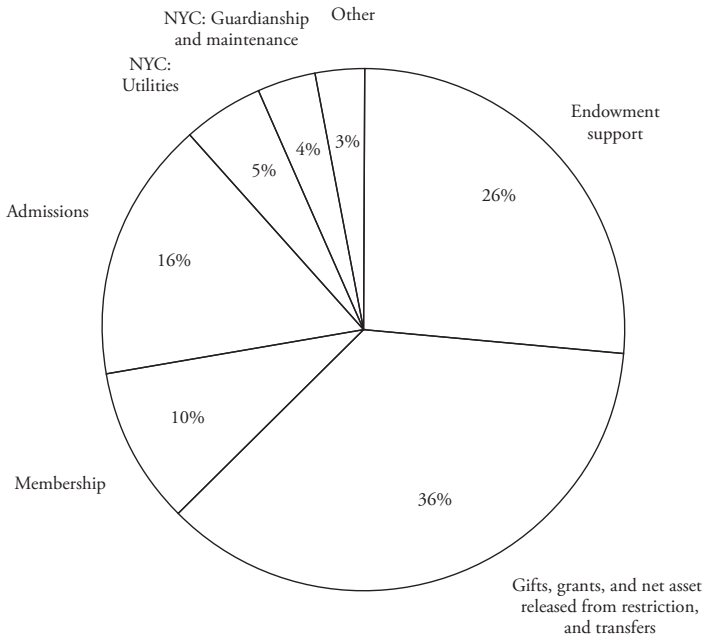
Cost-reduction initiatives focus on building more effective and efficient administrative operations. The Met's cost reduction initiatives include optimizing existing technologies, simplifying and streamlining key operational processes, and building a value-driven procurement function.

*Operating Results*

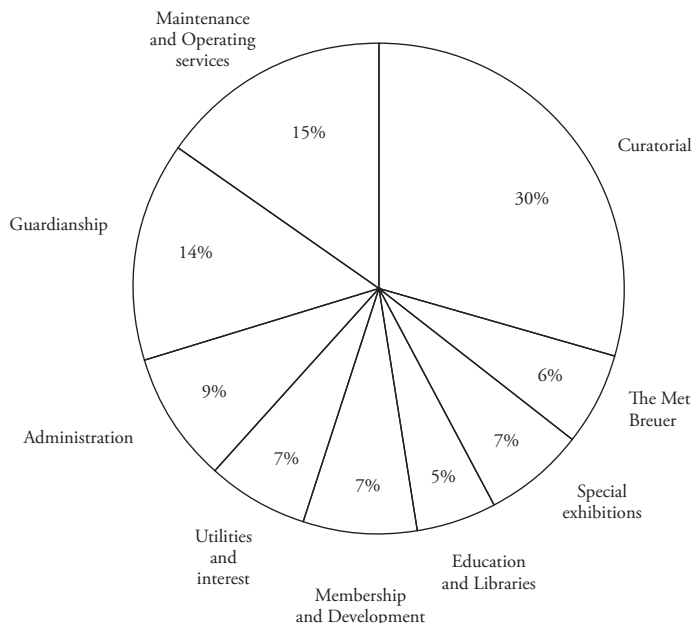
The Museum ended the fiscal year with an operating deficit of \$8.3 million, reflecting a strong improvement over last year's operating deficit of \$10.1 million. In fiscal year 2018, the Museum also started funding its non-operating interest expense with unrestricted endowment support for current activities; this resulted in a \$12.8 million decrease from the prior year in the level of unrestricted endowment support used to fund the Museum's operating activities.

In fiscal year 2018, unrestricted operating revenue, support, and transfers (excluding auxiliary activities) remained relatively flat with the prior year, totaling \$296.6 million. Revenue growth of \$11.1 million (15 percent) from admissions, membership, auxiliary net income, and other income, coupled with an increase in gifts, grants, and net assets released from restriction, helped offset the decrease of \$12.8 million in unrestricted endowment support for current activities, as discussed above.

2018 Operating Revenue, Support, and Transfers  
(Excluding Auxiliary Activities)  
\$296.6 Million



**2018 Operating Expenses**  
 (Excluding Auxiliary Activities)  
 \$304.7 Million



Admissions, membership, auxiliary net income, and other income totaled \$85 million, reflecting an \$11.1 million (15 percent) growth compared to the prior year. A number of revenue-enhancement initiatives, including the adoption of the new admissions pricing policy, helped generate strong growth in fiscal year 2018. On the admissions side, record-level attendance, coupled with the new admissions pricing policy, resulted in a \$5.4 million (13 percent) increase in admissions revenue compared to the prior year. The Museum’s membership renewals, supported by a strong exhibition schedule and the new admissions pricing policy, also strengthened in fiscal year 2018, resulting in a \$1.2 million (4 percent) increase in membership revenue compared to the prior year.

Other income, including net income from auxiliary activities, grew by \$4.6 million to \$8.2 million in fiscal year 2018. Net income performance from special events, retail, and restaurants all contributed to this increase.

During fiscal year 2018 contributions and grants used to fund Museum operations, including a portion of net assets released from restrictions, totaled \$107.3 million, reflecting a \$5.7 million (6 percent) increase compared to the prior year. Government funding remained a critical source of support for the Museum’s operating and capital needs in fiscal year 2018, with \$25.4 million received to support operating and energy costs. This funding decreased slightly compared to the prior year, due primarily to the valuation of energy costs and, to a small extent, a reduced operating appropriation from the City of New York related to the Museum’s adoption of the new admissions policy.

Support from the Museum’s unrestricted endowment support decreased by \$13.1 million compared to fiscal year 2017, reaching \$78.8 million in fiscal year 2018. The decrease is primarily attributed to the designation of \$12.8 million of unrestricted endowment

support for current activities from operating to non-operating support for the purpose of funding the Museum’s non-operating interest expense. The Museum continues to use the hybrid spending policy to calculate its annual spending rate. Of the Museum’s total endowment value of \$3.1 billion at June 30, 2018, \$1.9 billion generates unrestricted support for operations.

Unrestricted operating expenses (excluding auxiliary activities) were flat with the prior year, totaling \$304.7 million in fiscal year 2018. Excluding one-time charges of \$10.8 million associated with the Museum’s voluntary retirement program and restructuring costs in fiscal year 2017, total operating expenses in fiscal year 2018 increased by approximately \$10 million (3.6 percent) compared to the prior year. This increase was due primarily to an increase in funded programming, including special exhibitions, as well as general standard increases related to the Museum’s annual merit and benefit programs.

*Fundraising*

Fiscal year 2018 was another strong fundraising year for the Museum. The Met’s Trustees, leadership, staff, curators, and staff in Development and Member and Visitor Services together secured approximately \$197.8 million in philanthropic gifts, membership dues, and government support. This figure reflects new support and includes outright, pledged, planned, and estate gifts.

*Capital Expenditures*

Capital construction and building-related expenditures totaled almost \$25.4 million in fiscal year 2018, reflecting investment in a wide range of capital and infrastructure related projects. The Museum spent approximately \$6 million on the project to replace the electrical service switchboard and approximately \$7 million on

the British Galleries project this fiscal year. Spending on infrastructure-related projects totaled \$17 million. 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 \$0.5 million for lighting upgrades, energy-efficiency studies, and air-handler replacements in fiscal year 2018.

#### *Statement of Financial Position*

The Met's net assets grew by \$238 million in fiscal year 2018, from \$3.4 billion to \$3.7 billion. Investment returns of 10.8% drove a substantial part of this improvement, coupled with \$39.0 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, 2018 was \$34.3 million due, in part, to the timing of year-end cash gifts. The Museum's long-term investment portfolio remained the most significant component of total assets at June 30, 2018, representing \$3.7 billion of the \$4.3 billion in total assets.

#### *Looking Forward*

The Museum enters the third phase of its financial transformation work from a position of strength: following a significant deficit challenge in fiscal year 2016, the Museum has successfully grown revenues and unrestricted fundraising support and reduced costs in order to substantially improve the Museum's long-term financial sustainability. In the next phase, The Met will work toward achieving a balanced budget by fiscal year 2020 through continuing to focus on revenue growth, cost management, and operational effectiveness and efficiency.

## Statement of Operations (unaudited)

for the year ending June 30, 2018 with comparative totals for 2017 (in thousands)

	2018	2017
<b>REVENUE, SUPPORT, AND TRANSFERS:</b>		
Admissions . . . . .	\$ 48,148	\$ 42,757
Membership . . . . .	28,650	27,461
Gifts and grants, net assets released from restrictions, and transfers . . . . .	107,260	101,533
Operating appropriations from the City of New York . . . . .	25,446	27,667
Endowment support . . . . .	78,759	91,887
Other income . . . . .	8,357	6,470
Revenue from auxiliary activities:		
Retail . . . . .	51,539	56,084
Restaurant, parking garage, auditorium, and other . . . . .	36,578	31,463
Total revenue, support, and transfers . . . . .	<u>384,737</u>	<u>385,322</u>
<b>EXPENSES:</b>		
Curatorial including special exhibitions . . . . .	129,406	124,077
Education, community programs, and libraries . . . . .	15,422	14,778
Development . . . . .	14,250	12,799
Membership services . . . . .	8,730	8,914
Operations . . . . .	103,815	98,070
Communications . . . . .	6,504	5,490
Financial, legal, and other administrative functions . . . . .	26,585	30,109
Restructuring charges (excluding auxiliary) . . . . .		10,804
Cost of sales and expenses of auxiliary activities:		
Retail . . . . .	52,505	57,985
Restaurant, parking garage, auditorium, and other . . . . .	35,770	32,394
Total expenses . . . . .	<u>392,987</u>	<u>395,420</u>
(Deficit) from operations . . . . .	<u>\$ (8,250)</u>	<u>\$ (10,098)</u>

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