

Report of the Chief Financial Officer

In a year of significant strategic accomplishments, the Museum also addressed concerns regarding its growing deficit. Even with record-breaking attendance, revenue growth softened compared to prior years: declining per-capita levels and considerable retail operation challenges contributed to this result. Fiscal year 2016 also highlighted the concurrent challenges of the significant growth of the Museum’s core expenses, such as pension, health-care, and interest costs, and the slower growth of its revenue base. After a mid-year reforecast, the Museum projected a potential deficit of \$23 million for fiscal year 2016 as compared to its budgeted deficit of \$8 million. To realign projections with the original budgeted deficit, the Museum directed departments across the organization to reduce expenses, implemented a soft hiring freeze, and increased transfers of support. Although the Museum successfully implemented these short-term measures to contain its operating deficit to \$8 million in fiscal year 2016, concerns regarding the growing structural deficit prompted the Museum to launch a twenty-four-month financial restructuring plan in April.

Operating Results

The Museum ended the year with an operating deficit of \$8.3 million, reflecting a marginal increase over the fiscal year 2015 deficit of \$7.7 million. This figure does not include \$12.2 million of interest expense, which, due to its sole use toward infrastructure spending, is

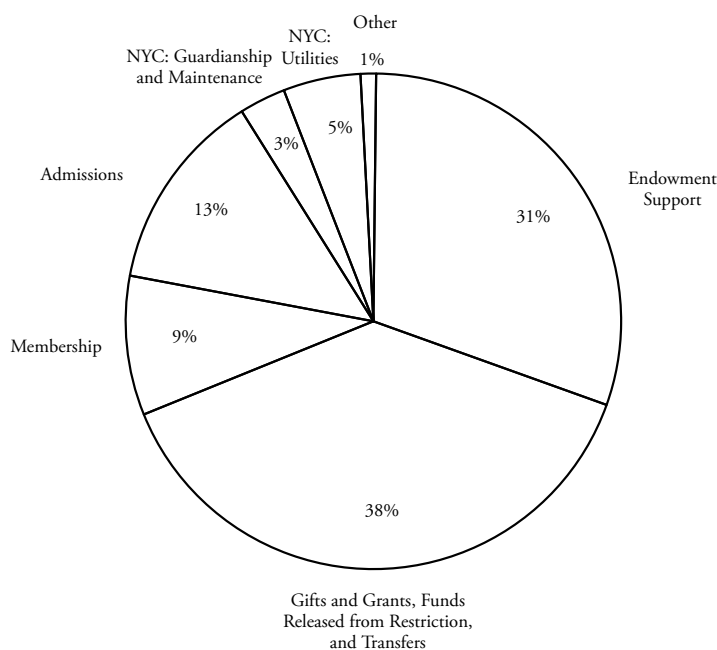
reflected as a non-operating charge in the Museum’s Statement of Activities.

In fiscal year 2016, operating revenue, support, and transfers (excluding auxiliary activities) totaled \$309.7 million, a \$35 million (13 percent) increase over 2015. About a third of this increase is due to the philanthropic support for The Met Breuer, while the balance is attributable to higher general operating support, unrestricted gifts, and transfers of support for programmatic and operating expenses.

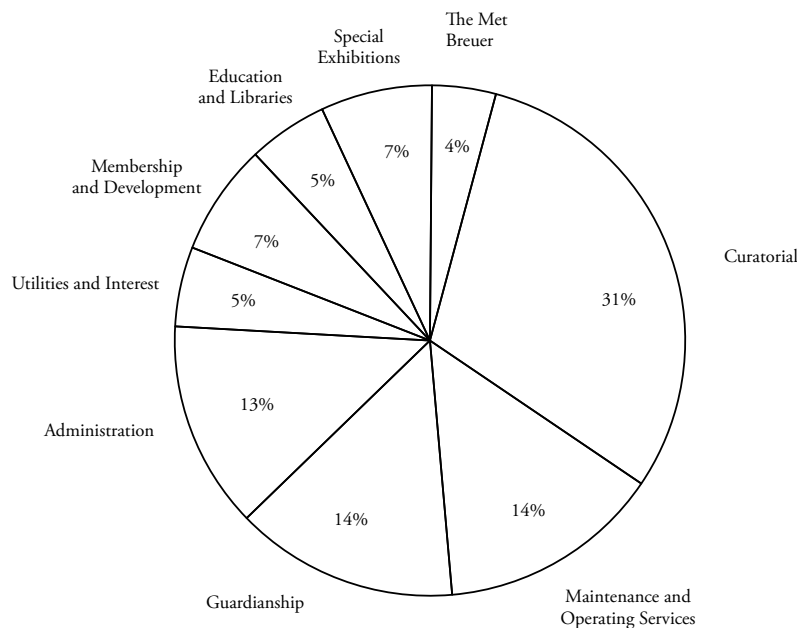
Earned revenue in fiscal year 2016—\$102.4 million, with auxiliaries net—exceeded last year’s level by \$2 million (2 percent). Admissions revenue of \$39.5 million, a 4 percent improvement from 2015, was supported by the addition of The Met Breuer and softened by the negative impact of declining per-capita levels at The Met Fifth Avenue. Membership revenue reached nearly \$29 million, a slight decline from 2015. Attendance-driven revenues, including retail and restaurant income, also declined from 2015 levels, reporting an overall loss of \$2.7 million. To address evolving concerns regarding the growth rate of the Museum’s auxiliary revenues, the Museum launched initiatives in the spring to better position its retail and restaurant operations to achieve higher revenues and income in fiscal year 2017 and beyond.

At \$91.3 million, support from the Museum’s general operating endowment increased 7 percent (\$5.8 million) from its 2015 level. The Museum continues to use the hybrid spending policy to calculate

2016 Operating Revenue, Support, and Transfers
(Excluding Auxiliary Activities)
\$309.7 Million



2016 Operating Expenses
(Excluding Auxiliary Activities)
\$315.2 Million



its annual spending rate. Of the Museum’s total endowment value of \$2.5 billion at June 30, 2016, \$1.5 billion generates unrestricted support for operations.

Fiscal year 2016 witnessed impressive fundraising achievements for the Museum. In combination, the Museum’s Trustees, executive leadership, curators, and Development and Membership staff secured approximately \$214 million of philanthropic gifts, Membership dues, and government support, a \$4 million improvement over 2015. This figure reflects new support and includes outright, pledged, planned, and estate gifts.

Government funding remains a critical source of support for the Museum’s operating and capital needs. To support operating and energy costs, the Museum received over \$27 million in funding from the City of New York in fiscal year 2016; also, thanks to a \$2.4 million appropriation from the City, the Museum continued mission-critical infrastructure work on its buildings. A \$250,000 State of New York grant secured by Assembly Member Dan Quart further contributed to this effort.

Operating expenses, excluding auxiliary activities, reached \$315 million in fiscal year 2016, an 11 percent (\$30.8 million) increase over the previous year. Key drivers of this increase included higher pension and postretirement expenses due to the adoption of new mortality tables, the impact of inflationary pressure on compensation and programmatic expenses, and the opening of The Met Breuer. The Met Breuer contributed a little under \$13 million to the Museum’s fiscal year 2016 expenses, all of which was fully funded through philanthropic support.

Capital Expenditures

Capital construction and building-related expenditures amounted to almost \$50 million in fiscal year 2016, of which \$10.4 million was spent on the fit-out of The Met Breuer before its opening, and of

which \$10.6 million was invested for the design phase of the Southwest Wing. In addition, the Ptolemaic Galleries project for the Department of Egyptian Art had a total project cost of \$1.5 million. The Museum also commenced a yearlong project to renovate the Musical Instruments Galleries in late fiscal year 2016.

The Museum invested in multiple infrastructure projects during the year, focusing on the Sackler Wing HVAC improvement project, the design and planning of the skylight project in Wings A, B, and C, the 91st Street Art Storage Warehouse upgrade, and the fire-detection and alarm-installation upgrade. Lastly, 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 \$3 million for lighting upgrades, energy efficiency studies, and air handler replacements in fiscal year 2016.

Statement of Financial Position

With total net assets of \$3 billion on June 30, 2016, compared to \$3.3 billion on June 30, 2015, the Museum’s net assets declined by \$247.5 million during the fiscal year. Two factors accounted for most of this decline: a net investment loss of 0.5 percent, before spending and gifts, on the long-term investment portfolio and a substantial increase in the Museum’s pension, postretirement, and swap liabilities, due to a decrease in year-end discount rates. The Museum’s long-term investment portfolio remained the most significant component of total assets at June 30, 2016, representing \$3.2 billion of the \$3.8 billion in total assets.

Financial Restructuring

In April 2016, the Museum announced the launch of a twenty-four-month financial restructuring plan aimed at balancing the budget by the end of fiscal year 2018. The plan is founded on three guiding principles—Mission, Sustainability, and Efficiency—highlighted in

the “Report from the Director and the President” (pp. 6–10). The plan outlines four core deficit-reduction initiatives: (1) complete a voluntary retirement program by the end of summer, fiscal year 2017, with an acceptance rate of over thirty percent; (2) build and strengthen revenue streams, including the restructuring of the Museum’s retail operation; (3) reduce operating expenses by building a more effective procurement process, reviewing existing policy and procedures, and executing multiple process re-engineering projects; and (4) complete an involuntary staff reduction by the end of September, fiscal year 2017, with a total reduction of thirty-five positions. By the fall of fiscal year 2017, the voluntary retirement program and the involuntary staff reductions will be completed, and the Museum will focus on building revenue opportunities and implementing cost-reduction initiatives, with the goal of increasing cost efficiency across the organization.

Looking Forward

The Museum launched its financial restructuring plan from a position of strength: it benefits from a \$2.5 billion endowment, a diverse revenue stream, a remarkable Board, a highly competent and dedicated staff, passionate volunteers, and an exceptionally generous donor base. As it approaches its 150th anniversary, the Museum is fully committed to achieving the objectives established in the Long-Term Feasibility Study, the Audience Engagement Study, and the Five-Year Strategy within the context of its robust financial resources. Led by the Museum’s Director, Thomas P. Campbell, and its President, Daniel H. Weiss, The Metropolitan Museum of Art is committed to achieving excellence, while operating within the disciplined framework of a long-term financial plan.

Statement of Operations (unaudited)

for the year ending June 30, 2016, with comparative totals for 2015 (in thousands)

	2016	2015
REVENUE, SUPPORT, AND TRANSFERS:		
Admissions	\$ 39,463	\$ 38,020
Membership	28,965	29,766
Gifts and grants, net assets released from restrictions, and transfers	116,163	87,966
Appropriations from the City of New York:		
Funds for guardianship and maintenance	10,729	12,641
Value of utilities provided by the City of New York	16,740	15,245
Endowment support	91,317	85,542
Revenue from auxiliary activities:		
Retail	51,866	58,326
Restaurant, parking garage, auditorium, and other	28,230	28,217
Other income	6,305	5,503
Total revenue, support, and transfers	<u>389,778</u>	<u>361,226</u>
EXPENSES:		
Curatorial:		
Curatorial departments, conservation, cataloguing, and scholarly publications	88,193	80,984
Operations of The Met Cloisters	8,728	8,355
Operations of The Met Breuer	12,741	
Special Exhibitions	22,028	21,105
Education, community programs, and libraries	16,114	14,723
Development	13,041	11,238
Membership services	7,889	8,255
Operations:		
Guardianship	43,231	41,797
Maintenance	30,809	29,453
Operating services	13,904	13,308
Utilities provided by the City of New York	15,640	15,245
Communications	7,249	7,604
Financial, legal, and other administrative functions	35,669	32,383
Cost of sales and expenses of auxiliary activities:		
Retail	53,964	56,872
Restaurant, parking garage, auditorium, and other	28,838	27,598
Total expenses	<u>398,038</u>	<u>368,920</u>
(Deficit) from operations	<u>\$ (8,260)</u>	<u>\$ (7,694)</u>