Report of the Chief Financial Officer

As the Director and President report on pages 4–6, fiscal year 2005 was marked by significant achievements at The Metropolitan Museum of Art—two major acquisitions, several groundbreaking and highly popular exhibitions, and steady progress in the large-scale "21st-Century Met" construction program. In addition, the Metropolitan continued to focus on building the financial strength of the institution in order to retain the flexibility to make future significant acquisitions, improve our galleries and public spaces, and support the rising cost of operating the Museum.

The financial environment for museums is a challenging one, and, like many institutions, the Met continues to face ongoing operating deficits due to the persistent trend of expense growth exceeding revenue growth. The Metropolitan ended the year with a deficit of $3.4 million, a small improvement over the prior year's $4.8 million deficit. Major factors that helped reduce the deficit this past year included an increase in admission fees; a boost in certain attendance-related revenues; outstanding fund-raising results across many programs; continued expansion of Membership program revenues; and the implementation of several initiatives to reduce expenses. However, the Museum also experienced increased costs related to special exhibitions, salaries, legal services, and facilities management; and a temporary decline in merchandising revenues due to the partial closing of the Museum's flagship satellite store at Rockefeller Center during renovations.

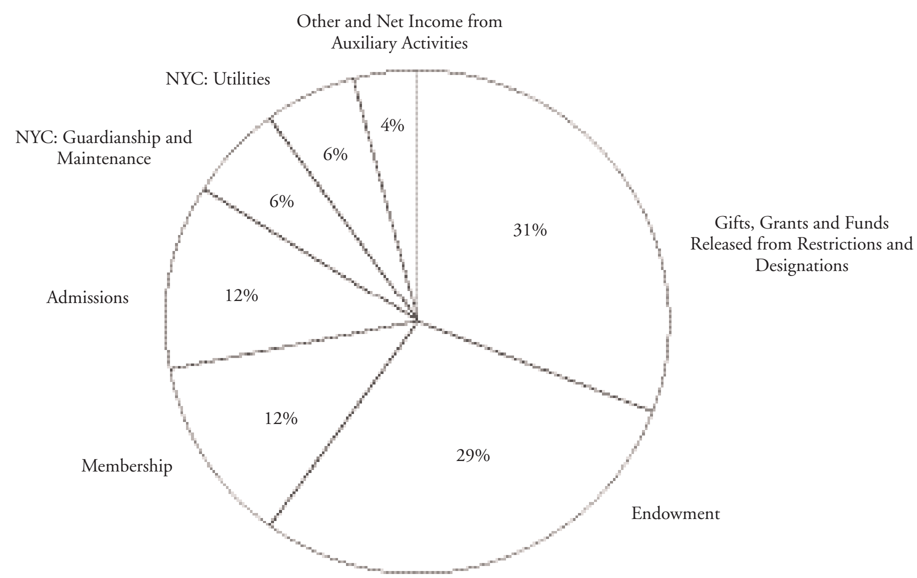
While the Met is committed to continuing its effort to explore ways to balance its budget, the Museum's long-term financial health remains very strong, due to the commitment of its staff, volunteers, trustees, and contributors; its ability to mount world-class exhibitions and attract millions of visitors every year; and its healthy investments of $2.2 billion. The sections below provide a more detailed discussion of the Museum's financial results for fiscal year 2005.

Operating Results

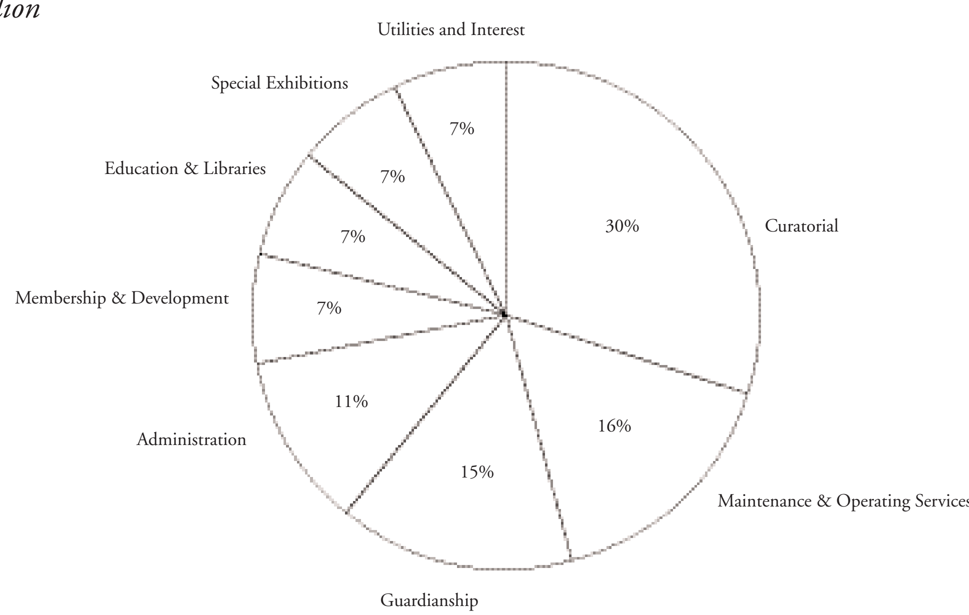
Total revenue, support, and transfers improved by 4.2 percent to a total of $270 million during this fiscal year. The increase in revenues was due in part to an increase in our suggested admissions fee to $15 for adults as of January 2005. (The Museum continues to offer a "pay as you wish" suggested admissions policy and does not charge additional fees for special exhibitions.) Attendance and attendance-driven revenue increased during the special viewing of *The Gates* in Central Park in February and the Chanel exhibition in the spring, but the increases were not sufficient to change the overall annual attendance trends of the last few years. The combined attendance for both the main building and The Cloisters in fiscal year 2005 was 4.5 million visitors, a slight increase from the previous year but below the Museum's peak attendance of 5 million visitors in 2001. Membership income also contributed to the increase in revenues, reaching $20.8 million for fiscal year 2005, with the total number of members increasing to 119,245. A new membership category, the President's Circle, was created and was very well received, with several members upgrading to the new level in fiscal year 2005. In addition, membership sales through all merchandise channels, including satellite stores, mail order, and the Internet, grew 22 percent.

The Museum had an exceptional fund-raising year in all major program areas. Annual Development programs, including the Apollo Circle, the Met Family Circle, the Corporate Patron Program, and Friends Groups, all reported significant increases. Travel programs, Development's annual appeal, and special exhibitions raised the highest amounts in the last decade. Sponsorship of special exhibitions by foundations and corporations continued its upward trend, with sponsorship by foreign government agencies helping to contribute to this growth. In the area of fund-raising benefits, it was a banner year: both the annual Costume Institute

2005 Sources of Operating Revenue, Support, and Transfers
$169.1 Million



2005 Operating Expenses
(Excluding Auxiliary Activities)
$172.5 Million



Benefit and Acquisitions Benefit saw the highest net incomes since their inception.

At a time when overall support from the City of New York is subject to the City's continued budget uncertainty, the City did maintain its overall level of funding in fiscal year 2005, with a slight increase to cover retroactive union salary increases. Although appropriations from the City of New York for operating activities decreased by $2.3 million, the City compensated for that by increasing support by the same amount for critical capital programs at The Cloisters, for the renovation of the main building's landmark facade, and for fire-safety enhancements in the main building. The Museum received from the City $5.1 million in contributions to support its capital program during fiscal year 2005.

The Museum also benefited from the income generated by its merchandising activities. Overall net income from these activities amounted to $768,000, largely driven by sales in the main building. Sales and operating margins for all other distribution channels remain strong, with Internet sales experiencing an 11 percent growth this year. Of the Museum's nineteen satellite stores, two opened in fiscal year 2005: one at Logan Airport in Boston and another at the Belmar Shopping Center in Denver (the other Denver store closed, as did the store in New York City's Soho neighborhood).

Endowment support declined by 3 percent during fiscal year 2005. Endowment support is calculated using the Museum's spending policy of 5.25 percent of the average market value of the endowment measured over the 12 quarters ending December 31, 2003. The decline in endowment support resulted from investment returns in prior years that were better-than-benchmark but insufficient to cover spending.

Expenses rose by 3.6 percent during the fiscal year with rising costs in several key areas, such as health-care expenses, legal costs, building supplies, and special exhibitions. As a result, over the short- and long-term, the Metropolitan is concentrating its efforts on identifying savings opportunities in all areas of the Museum. Several initiatives that will result in both savings and improved efficiency over the long run have already been identified through a review of procedures in the finance, purchasing, and contracts areas. Additionally, more services are being performed in house, resulting in further significant savings.

Salary increases and the rising cost of benefits also contributed to the growth in expenses. Headcount did not increase, but salaries and wages grew because of standard merit increases for non-union staff and a 3 percent contractual increase for union staff. Fringe benefits increased slightly from the previous year, mainly due to increases in health insurance and other payroll-related taxes. Pension expense declined because pension assets increased as a result of better-than-expected return and the $6.8 million contribution the Museum made to the plan during the fiscal year.

Capital Spending

The Museum continued to make major progress on its "21st-Century Met" construction program and also entered the final stage of its four-year project to renovate the facade. Capital expenditures amounted to $61.4 million, of which approximately $35.5 million, or over half, were related to the construction of the new Leon Levy and Shelby White Court for Roman and Etruscan art and the renovation of the Ruth and Harold D. Uris Center for Education and related projects. Another $3.4 million was spent on the 19th-Century Galleries expansion, which will provide an additional 9,000 square feet of space to showcase works from the late nineteenth century and early twentieth century. Additional capital resources were used to support auxiliary activities, including renovations at the Rockefeller Center satellite store and construction of two new locations. As part of the Metropolitan's continuing efforts to improve the Museum's information technology, the Museum invested $2.0 million in various projects, including the human resources information system, the design phase of a new warehouse management system, retail merchandising software, and other upgrades to the internal network and website, www.metmuseum.org.

Balance Sheet

With year-end total net assets of $2.4 billion, a 5.8 percent increase over fiscal year 2004, the Museum's financial position remains strong. The increase in net assets reflects the continued success of The Fund for the Met campaign and increased fixed assets, a direct result of the current construction program. The increase also reflects the outstanding investment returns generated this year. The Metropolitan's long-term investment portfolio, which includes most of the Museum's investment assets, generated a return of 15.6 percent for fiscal year 2005. The portfolio's return exceeded by significant margins both the Museum's performance benchmarks and the median return of other endowed institutions, based on data supplied by Cambridge Associates. The portfolio is managed by outside investment managers and is highly diversified across a range of asset classes. At June 30, 2005, total investments amounted to $2.2 billion, compared with $2.0 billion the previous fiscal year.

Total liabilities increased by 23 percent to $238 million, mainly due to a one-time accrual of postretirement benefits for union employees. During the current fiscal year, the Museum determined that postretirement benefit obligations for medical coverage related to union staff was not part of a multiemployer plan as previously interpreted. Therefore, the Museum recorded a cumulative adjustment of $23.8 million to reflect this liability. Other increases are related to the timing of salary and benefits accrual and investment trades payable.

Total debt increased by 9 percent to $75.7 million, including $35.4 million in tax-exempt bonds used for capital projects, $2.5 million fair value of an interest rate exchange agreement related to the 1993 Series A tax-exempt bonds, and $37.8 million used to finance merchandise assets, working capital needs, and bridge financing related to City-funded projects.

On a personal note, the Museum lost its treasured friend and colleague Jeff Russian, who at the time of his death last January was Vice President for Finance and Planning. Jeff played a central role in the Museum's executive team for the last thirteen years. His brilliance, kindness, creativity, and his tireless efforts to maintain the financial health and mission of the Museum will always be remembered, and he will be sorely missed.

Statement of Operations

for the year ended June 30, 2005, with comparative totals for 2004 (in thousands)

	2005	2004*
REVENUE AND SUPPORT		
Admissions	$ 20,150	$ 19,042
Memberships	20,769	20,188
Gifts and grants, net assets released from restrictions, and transfers	52,399	42,473
Appropriation from the City of New York:		
Funds for guardianship and maintenance	8,579	11,947
Value of utilities provided	10,361	9,250
Endowment support	49,386	50,836
Revenue of auxiliary activities:		
Merchandising	80,741	79,748
Restaurant, parking garage, auditorium, and other	21,564	20,761
Other income	5,897	4,746
TOTAL REVENUE, SUPPORT, AND TRANSFERS	269,846	258,991
EXPENSES		
Curatorial:		
Curatorial departments, conservation, cataloguing, and scholarly publications	45,846	43,005
Operations of The Cloisters	5,287	5,413
Special exhibitions.	12,263	13,176
Education, community programs, and libraries	11,860	11,645
Development	6,237	6,287
Membership services	5,757	6,033
Operations:		
Guardianship	26,542	26,700
Maintenance	15,901	15,322
Operating services	12,122	11,131
Value of utilities provided by the City of New York	10,361	9,250
Communications	3,761	3,825
Financial, legal, and other administrative functions	15,786	14,183
Cost of sales and expenses of auxiliary activities:		
Merchandising	79,973	77,796
Restaurant, parking garage, auditorium, and other	20,779	19,547
Interest on debt service	797	489
TOTAL EXPENSES	273,272	263,802
(DEFICIT) FROM OPERATIONS	$ (3,426)	$ (4,811)

*Fiscal year 2004 amounts have been reclassified to conform with current year presentation.