



PHILADELPHIA MUSEUM OF ART

Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

(With Independent Auditors' Report Thereon)

PHILADELPHIA MUSEUM OF ART

Table of Contents

| | Page |
|--|-------------|
| Independent Auditors' Report | 1 |
| Statement of Financial Position, June 30, 2019 (With comparative financial information for June 30, 2018) | 3 |
| Statement of Activities, year ended June 30, 2019 (With summarized comparative financial information for June 30, 2018) | 4 |
| Statement of Cash Flows, year ended June 30, 2019 (With comparative financial information for June 30, 2018) | 5 |
| Statement of Functional Expenses, year ended June 30, 2019 (With summarized comparative financial information for June 30, 2018) | 6 |
| Notes to Financial Statements | 7 |



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
Philadelphia Museum of Art:

We have audited the accompanying financial statements of Philadelphia Museum of Art, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Museum of Art as of June 30, 2019, and the results of its change in net assets, its cash flows, and its functional expenses for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(t) to the financial statements, the Philadelphia Museum of Art adopted Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958), *Presentation of Financial Statements of Not-For-Profit Entities*, ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions*



Received and Contributions Made, and ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the financial statements of Philadelphia Museum of Art as of and for the year ended June 30, 2018 and we expressed an unmodified opinion on those audited financial statements in our report dated October 11, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt ASU 2016-14. As part of our audit of the 2019 financial statements, we also audited the adjustments described in note 1(t) that were applied to adopt ASU 2016-14 retrospectively in the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

Philadelphia, Pennsylvania
October 22, 2019

PHILADELPHIA MUSEUM OF ART

Statement of Financial Position

June 30, 2019

(With comparative financial information for June 30, 2018)

| Assets | 2019 | 2018 |
|--|--------------------------------|--------------------------------|
| Current assets: | | |
| Cash and cash equivalents (note 1) | \$ 42,571,688 | 47,474,782 |
| Short-term investments (note 1) | 16,057,587 | 15,404,934 |
| Accounts receivable and accrued income | 990,907 | 1,020,402 |
| Inventories and supplies | 608,304 | 927,376 |
| Prepaid expenses and other assets | 1,875,447 | 1,706,694 |
| Contributions and grants receivable, net (note 3) | 28,258,143 | 16,331,776 |
| Investments appropriated for current use (notes 4 and 8) | <u>26,382,937</u> | <u>25,399,263</u> |
| Total current assets | <u>116,745,013</u> | <u>108,265,227</u> |
| Noncurrent assets: | | |
| Contributions and grants receivable, net (note 3) | 69,085,276 | 56,500,584 |
| Funds held in trust by others (note 5) | 12,087,474 | 12,809,685 |
| Investments, net of amounts appropriated for current use (notes 4 and 8) | 460,167,285 | 461,935,210 |
| Property and equipment, net (note 6) | 431,241,255 | 369,812,959 |
| Collections (note 1) | <u>—</u> | <u>—</u> |
| Total noncurrent assets | <u>972,581,290</u> | <u>901,058,438</u> |
| Total assets | \$ <u><u>1,089,326,303</u></u> | \$ <u><u>1,009,323,665</u></u> |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 28,542,829 | 23,409,514 |
| Obligations under split-interest agreements | 391,288 | 462,749 |
| Loans payable (note 7) | 3,200,000 | 3,115,000 |
| Deferred revenue | <u>295,042</u> | <u>286,198</u> |
| Total current liabilities | <u>32,429,159</u> | <u>27,273,461</u> |
| Noncurrent liabilities: | | |
| Postretirement benefit obligation (note 10) | 505,517 | 494,213 |
| Obligations under split-interest agreements | 1,286,928 | 1,524,453 |
| Loans payable (note 7) | 104,124,204 | 63,710,138 |
| Deferred revenue | <u>1,739,927</u> | <u>1,515,391</u> |
| Total noncurrent liabilities | <u>107,656,576</u> | <u>67,244,195</u> |
| Total liabilities | <u>140,085,735</u> | <u>94,517,656</u> |
| Net assets: | | |
| Without donor restrictions: | | |
| Undesignated | 9,022,783 | 13,642,508 |
| Board-designated for endowment (note 8) | 87,892,033 | 90,155,380 |
| Invested in property and equipment | <u>320,822,340</u> | <u>301,409,743</u> |
| | 417,737,156 | 405,207,631 |
| With donor restrictions (note 9): | | |
| Purpose or time restrictions | 212,602,525 | 194,489,687 |
| Funds held in trust by others | 12,087,474 | 12,809,685 |
| Perpetual in nature (note 8) | <u>306,813,413</u> | <u>302,299,006</u> |
| | 531,503,412 | 509,598,378 |
| Total net assets | <u>949,240,568</u> | <u>914,806,009</u> |
| Total liabilities and net assets | \$ <u><u>1,089,326,303</u></u> | \$ <u><u>1,009,323,665</u></u> |

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Activities

Year ended June 30, 2019

(With summarized comparative financial information for year ended June 30, 2018)

| | <u>Without donor restrictions</u> | <u>With donor restrictions</u> | <u>Total</u> | |
|---|---------------------------------------|------------------------------------|--------------------|---------------------|
| | | | <u>2019</u> | <u>2018</u> |
| Operating revenue and support (note 1): | | | | |
| Endowment, trusts, and estates income | \$ 19,607,545 | 4,355,823 | 23,963,368 | 23,400,544 |
| Contributions and grants | 6,759,543 | 8,541,698 | 15,301,241 | 12,981,879 |
| Memberships | 5,070,319 | — | 5,070,319 | 5,071,988 |
| Admissions | 5,653,093 | — | 5,653,093 | 5,126,866 |
| Sales of retail operations | 3,056,453 | — | 3,056,453 | 2,888,675 |
| City appropriations for expenses: | | | | |
| Funding provided for operations | 2,550,000 | — | 2,550,000 | 2,550,000 |
| Value of utilities provided | 3,400,000 | — | 3,400,000 | 3,500,000 |
| Other revenue and support | 3,841,288 | 1,349,297 | 5,190,585 | 4,583,646 |
| Net assets released from restrictions to fund operating expenses | <u>10,962,703</u> | <u>(10,962,703)</u> | <u>—</u> | <u>—</u> |
| Total operating revenue and support | <u>60,900,944</u> | <u>3,284,115</u> | <u>64,185,059</u> | <u>60,103,598</u> |
| Operating expenses: | | | | |
| Program activities | 48,383,241 | — | 48,383,241 | 48,550,566 |
| Management and general | 8,254,254 | — | 8,254,254 | 7,918,834 |
| Fundraising | <u>6,740,427</u> | <u>—</u> | <u>6,740,427</u> | <u>6,410,492</u> |
| Total operating expenses before depreciation | <u>63,377,922</u> | <u>—</u> | <u>63,377,922</u> | <u>62,879,892</u> |
| Operating surplus (deficit) before depreciation | (2,476,978) | 3,284,115 | 807,137 | (2,776,294) |
| Depreciation | <u>9,711,125</u> | <u>—</u> | <u>9,711,125</u> | <u>9,298,567</u> |
| Change in net assets from operations | <u>(12,188,103)</u> | <u>3,284,115</u> | <u>(8,903,988)</u> | <u>(12,074,861)</u> |
| Nonoperating revenue, support, gains, and losses: | | | | |
| Gifts and grants designated for long-term investment, capital expenditures, and art purchases | 14,821,703 | 37,127,416 | 51,949,119 | 30,856,619 |
| Proceeds from sales of art objects | 27,276 | — | 27,276 | 157,422 |
| Endowment and trust income for art purchases | — | 1,871,022 | 1,871,022 | 1,850,525 |
| Acquisitions of art objects | (1,700,549) | — | (1,700,549) | (2,533,110) |
| Net assets released from restriction to fund nonoperating activities | 14,489,582 | (14,489,582) | — | — |
| Investment return in (deficit) excess of amounts distributed under spending policy | (1,036,055) | (5,485,857) | (6,521,912) | 15,644,083 |
| Change in fair value of interest rate exchange agreement and effect of interest rate swap | (1,884,329) | — | (1,884,329) | 993,803 |
| Other | <u>—</u> | <u>(402,080)</u> | <u>(402,080)</u> | <u>1,105,485</u> |
| Change in net assets | <u>12,529,525</u> | <u>21,905,034</u> | <u>34,434,559</u> | <u>35,999,966</u> |
| Net assets at beginning of year | <u>405,207,631</u> | <u>509,598,378</u> | <u>914,806,009</u> | <u>878,806,043</u> |
| Net assets at end of year | \$ <u>417,737,156</u> | <u>531,503,412</u> | <u>949,240,568</u> | <u>914,806,009</u> |

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Cash Flows

Year ended June 30, 2019

(With comparative financial information for year ended June 30, 2018)

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 34,434,559 | 35,999,966 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 9,711,125 | 9,298,567 |
| Gifts designated for long-term investment, capital expenditures, and art purchases | (27,948,602) | (53,082,606) |
| Endowment and trust income for art purchases | (1,871,022) | (1,850,525) |
| Proceeds from sales of art objects | (27,276) | (157,422) |
| Acquisitions of art objects | 1,700,549 | 2,533,110 |
| Net realized and unrealized losses (gains) on long-term investments: | | |
| Funds held in trust by others | 722,211 | (1,327,481) |
| Investments | (15,492,011) | (39,480,076) |
| Amortization of debt discount and debt issuance costs | 114,066 | 121,292 |
| Changes in assets and liabilities: | | |
| Short-term investments | (652,653) | (1,336) |
| Accounts receivable and accrued income | 29,495 | (30,326) |
| Inventories and supplies | 319,072 | 622,441 |
| Prepaid expenses and other assets | (168,753) | 1,775,712 |
| Contributions and grants receivable, net | (24,511,059) | 28,304,126 |
| Accounts payable and accrued expenses | 3,554,098 | 115,835 |
| Obligations under split-interest agreements | (308,986) | (70,787) |
| Postretirement benefit obligation (note 10) | 11,304 | (3,434) |
| Deferred revenue | 233,380 | 1,442,761 |
| Net cash used in operating activities | <u>(20,150,503)</u> | <u>(15,790,183)</u> |
| Cash flows from investing activities: | | |
| Investments in property and equipment (note 11) | (69,560,204) | (59,235,814) |
| Proceeds from sales of art objects | 27,276 | 157,422 |
| Acquisitions of art objects | (1,700,549) | (2,533,110) |
| Purchase of investments | (74,821,056) | (67,245,179) |
| Proceeds from sales of investments | 91,097,318 | 86,116,573 |
| Net cash used in investing activities | <u>(54,957,215)</u> | <u>(42,740,108)</u> |
| Cash flows from financing activities: | | |
| Gifts designated for long-term investment, capital expenditures, and art purchases | 27,948,602 | 53,082,606 |
| Endowment and trust income for art purchases | 1,871,022 | 1,850,525 |
| Proceeds of debt issuance | 43,500,000 | 20,500,000 |
| Payments on debt | (3,115,000) | (13,025,000) |
| Payments on contractual obligations | — | (195,000) |
| Net cash provided by financing activities | <u>70,204,624</u> | <u>62,213,131</u> |
| Net (decrease) increase in cash and cash equivalents | (4,903,094) | 3,682,840 |
| Cash and cash equivalents, beginning of year | 47,474,782 | 43,791,942 |
| Cash and cash equivalents, end of year | \$ <u>42,571,688</u> | <u>47,474,782</u> |

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Functional Expenses

Year ended June 30, 2019

(with summarized comparative financial information for year ended June 30, 2018)

| | <u>Program activities</u> | | | <u>Supporting services</u> | | <u>Total 2019</u> | <u>Total 2018</u> |
|---|---|---|--|---------------------------------------|--------------------|-----------------------|-----------------------|
| | <u>Exhibitions, Curatorial, and Collections</u> | <u>Education, Library, and Community Programs</u> | <u>Auxiliary Activities and Public Relations</u> | <u>Management and General</u> | <u>Fundraising</u> | | |
| Salaries | \$ 10,509,524 | 5,035,912 | 4,580,457 | 4,079,043 | 3,771,812 | 27,976,748 | 27,338,571 |
| Benefits | 2,634,160 | 1,205,726 | 1,120,352 | 979,997 | 832,800 | 6,773,035 | 6,554,645 |
| Maintenance and repairs | 3,951,822 | 370,697 | 449,789 | 339,251 | 156,558 | 5,268,117 | 5,089,140 |
| Security | 3,221,947 | 256,603 | 283,926 | 256,953 | 87,871 | 4,107,300 | 4,125,901 |
| Utilities | 2,873,108 | 238,792 | 168,423 | 240,955 | 83,671 | 3,604,949 | 3,707,616 |
| Consultants | 358,590 | 443,994 | 182,620 | 299,854 | 186,669 | 1,471,727 | 1,593,854 |
| Cost of sales of retail operations | — | — | 1,629,799 | — | — | 1,629,799 | 1,930,757 |
| Advertising | 561,387 | 133,639 | 746,486 | 6,380 | 65,269 | 1,513,161 | 1,349,427 |
| Insurance | 332,963 | 2,436 | 35,738 | 729,904 | 854 | 1,101,895 | 1,035,857 |
| Interest and debt expense | 914,571 | 76,009 | 53,618 | 76,701 | 26,631 | 1,147,530 | 928,687 |
| Travel | 372,050 | 143,675 | 71,415 | 34,530 | 21,128 | 642,798 | 732,844 |
| Other | 2,439,879 | 1,367,362 | 1,615,772 | 1,210,686 | 1,507,164 | 8,140,863 | 8,492,593 |
| Total operating expenses before depreciation | 28,170,001 | 9,274,845 | 10,938,395 | 8,254,254 | 6,740,427 | 63,377,922 | 62,879,892 |
| Depreciation | 7,739,679 | 643,239 | 453,744 | 649,092 | 225,371 | 9,711,125 | 9,298,567 |
| Total operating expenses – 2019 | <u>\$ 35,909,680</u> | <u>9,918,084</u> | <u>11,392,139</u> | <u>8,903,346</u> | <u>6,965,798</u> | <u>73,089,047</u> | <u>72,178,459</u> |
| Total operating expenses – 2018 | \$ 35,887,161 | 9,667,749 | 11,455,911 | 8,540,350 | 6,626,288 | — | 72,178,459 |

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

(1) General Matters, Significant Accounting Policies, and Financial Statement Presentation

(a) General

The Board of Trustees of the Philadelphia Museum of Art (the Museum) administer, pursuant to an agreement with the City of Philadelphia, certain Museum buildings and art collections. The City of Philadelphia (the City) directly pays all utilities and certain capital costs of maintaining these buildings. The amount of utilities costs is \$3,400,000 in 2019 and \$3,500,000 in 2018 and has been recorded in the financial statements in the revenue caption City appropriations for expenses and offset by an equal amount of expense that has been charged to utilities expense. The City also provides appropriations for the general operating support of the Museum. Such appropriations amounted to \$2,550,000 in 2019 and 2018.

(b) Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles for not-for-profit organizations. Under those accounting principles, resources are required to be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of net assets into two classes: without donor restrictions and with donor restrictions. Description of the two net asset categories and the types of transactions affecting each category follow:

Net assets without donor restrictions include net assets that are not subject to any donor-imposed restrictions. From time to time the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion. For example, the Board has designated a portion of net assets without donor restrictions as a quasi-endowment (an amount to be treated by management as if it were part of the donor-restricted endowment) for the purpose of securing the Museum's long-term financial viability.

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

The Museum reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when the stipulated time restrictions ends or purpose restrictions is accomplished, the net assets are reclassified as net assets without donor restrictions and reported as net assets released from restrictions.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Museum to spend the accumulated earnings generated by these assets in accordance with the provision of additional imposed stipulations or a Board-approved spending policy.

See note 9 for more information on the composition of net assets with donor restrictions.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

(c) *Prior Year Summarized Information*

The financial statements include certain prior year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2018, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to current year presentation for the adoption of Accounting Standards Update (ASU) No. 2016-14 *Presentation of Financial Statements of Not-For-Profit Entities*.

(d) *Cash, Cash Equivalents, and Short-Term Investments*

Cash equivalents consist of short-term interest-bearing investments, including mutual funds and money market accounts with original maturities of three months or less. Short-term investments primarily consist of U.S. government and government agency issues and corporate notes. These investments are readily convertible to cash and are stated at fair value. Cash equivalents in the Museum's endowment are considered long-term investments.

(e) *Inventories*

Inventories of the Museum's retail operations are stated at the lower of average cost or net realizable value.

(f) *Prepaid Expenses and Other Assets*

Prepaid expenses and other assets include certain expenditures made in connection with the development of future exhibitions. The future exhibition expenditures generally include such items as curatorial research, travel, insurance, transportation costs, and other costs related to the development of the exhibition.

(g) *Revenues*

Revenues are measured based on consideration specified in a contract with a customer. The Museum recognizes revenue when it satisfies a performance obligation by transferring control over a promised good or service to a customer. The Museum's principal activities resulting in contracts with customers include admissions, retail operation sales, and benefits received from memberships.

(i) *Admissions*

The performance obligation related to admissions is to provide customer access to the Museum or exhibition on a specific date. Admissions are based on published rates, and tickets are nonrefundable. Customers either pay at the time of purchase on-site at the Museum or online. The Museum recognizes revenue from admissions on the date the ticket is dated for use. Amounts received in advance are reported as current deferred revenue in the statement of financial position.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

(ii) Retail Operation Sales

The performance obligation related to retail operation sales is to provide the customer with the goods purchased. The transaction price is the stated retail price unless the customer is a member or staff and a discount is provided. The discounts provided are not significant. The Museum recognizes revenue from retail sales in the period the goods or services are provided.

(iii) Memberships

Membership dues are based on fixed rate schedules at the beginning of the membership year and are nonrefundable. Membership dues comprise of an exchange element based upon the benefits provided to a member and a contribution element for the portion of the membership dues received in excess of the member benefits. The Museum determines the value of the membership benefits based on the fair value of the benefits provided in combination with historical data indicating member utilization of the benefits. For the year ended June 30, 2019, the estimated value of benefits provided to its members totaled \$2,697,158 and is reported within membership without donor restrictions in the statement of activities. The Museum recognized revenue upon receipt or commitment of the entire value of the membership since there is not a significant variance in revenue recognized between recording membership revenue upon receipt as compared to recognizing membership revenues on a pro rata basis over the membership period.

Because the contracts for admissions, retail operation sales, and benefits received from memberships have an original expected duration of one year or less, the Museum has elected the practical expedient and not disclosed the value of unsatisfied performance obligations and expected timing for completion related to these revenues.

(h) Deferred Revenue

Deferred revenue consists mainly of an advanced transaction fee received on a food service concession contract, which is recognized as other revenue and support in the statement of activities over the life of the contract. The remaining amounts deferred related to deposits or prepaid amounts for space rentals or pre-purchased tickets that are recognized as revenue upon utilization or expiration. Of the June 30, 2018 deferred revenue of \$1,801,589, there was \$286,198 recognized as revenue during the year ended June 30, 2019. The balance of deferred revenue of \$2,034,969 at June 30, 2019 will be primarily recognized as revenue over the next nine years.

(i) Contributions

Unconditional contributions, including unconditional promises to give and notification of a beneficial interest, are recognized as revenue in the period received.

A contribution, gift or grant is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until they become unconditional, that is, when the barrier(s) in the agreement are overcome.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

Unconditional contributions with no purpose or time restrictions are reported as revenue without donor restrictions.

Unconditional contributions with donor-imposed restrictions that limit the use of the asset are reported as revenues with donor restrictions and are reclassified to net assets without donor restrictions when an expense is incurred that satisfies the donor-imposed restriction. However, for unconditional donor-restricted contributions that were initially conditional, if donor-imposed restrictions are met in the same year that they become unconditional, the revenues are reported as revenues without donor restrictions on the statement of activities. Contributions restricted for the acquisition of plant and equipment are released from restriction when the asset is placed in service.

Contributions of assets other than cash, including long-lived assets, are recorded at their estimated fair value, which is determined based on the present value of future cash flows as described in note 3 using level 3 inputs (note 1(l)). Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fundraising activity. Contributions receivable are recorded at estimated fair value on the date the donor's unconditional promise to contribute is made using the present value of future cash flows. Contributions receivable are not measured at fair value subsequent to initial measurement.

Volunteers contribute significant amounts of time to the Museum's program services; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such good or services were received during the years ended June 30, 2019, and 2018, respectively.

(j) Property and Equipment

Property and equipment are stated at cost, if purchased, or at fair value at the date of acquisition, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 50 years. The landmark main Museum building on Fairmount, the Rodin Museum building, the Mount Pleasant and Cedar Grove mansions in Fairmount Park, and The Ruth and Raymond G. Perelman Building are owned by the City of Philadelphia and operated by the Museum. The values of the original main Museum building, the original Rodin Museum building, and the original Mount Pleasant and Cedar Grove mansions are not recognized in the accompanying financial statements, since they are fully depreciated. The Perelman Building, purchased in June 2000 by the City in conjunction with the Museum, and improvements to City-owned buildings operated by the Museum have been recognized in the accompanying financial statements.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

(k) Collections

The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Additions to the permanent collection are made either by gifts, bequests, or through purchases using the Museum's acquisition funds. These acquisition funds may be classified as with donor restrictions, for which the funds may only be used for acquisitions, or without donor restrictions representing funds designated by the Board to be used for acquisitions.

The withdrawal of works of art from the collection, known as deaccessioning, is performed in accordance with the Museum's policy. Unexpended proceeds from deaccessions are reported as net assets without donor restrictions. Their use is limited, however, by museum professional standards, which require that such proceeds be made available for acquisition of other art objects.

All works of art are held for public exhibition, education, or research; they are protected, kept unencumbered, cared for, and preserved and are subject to strict museum policies governing their use. The value of the Museum's permanent collection is not subject to reasonable estimation. Therefore, it is not included in the statement of financial position.

(l) Fair Value

The carrying amount of accounts receivable, accrued income, accounts payable and accrued expenses approximates fair value due to the short maturity of these financial instruments. The Museum reports its investments, certain split-interest agreements, interest rate swaps related to its debt, and contributions receivable at inception at fair value using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose primary values are observable.

Level 3: Instruments whose primary inputs to fair value are unobservable.

(m) Investments

Investments are measured at fair value. Equity securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded, they are categorized in Level 1 of the fair value hierarchy. U.S. Treasuries and registered mutual funds are classified in Level 1 of the fair value hierarchy because their fair values are based on quoted prices for identical securities. Other U.S. government and agency mortgage-backed debt securities are generally Level 2.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

Investments in private equity and venture capital, certain real estate, natural resources, marketable alternatives, and public equities held through commingled funds (collectively, alternative investment funds) are stated at estimated fair value based on the funds' net asset values, or their equivalents (collectively, NAV) as a practical expedient, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2019, the Museum had no plans or intentions to sell investments at amounts different from NAV. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments, and the differences could be significant.

Investments are exposed to various risks, including business, interest rate, market, exchange rate, liquidity, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that significant changes in the values of investments could occur in the near term.

Purchases and sales of securities are reflected on a trade date basis. Gain or loss on sales of securities is based on average historical cost basis, where such basis represents the cost of securities purchased or the fair value at the date of gift if received by donation. Dividend and interest income is recorded on the accrual basis.

(n) Split-Interest Agreements

The Museum's split-interest agreements with donors consist primarily of charitable gift annuities. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

Contribution revenue for charitable gift annuities is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments.

The present value of payments to beneficiaries of charitable gift annuities is calculated using discount rates, which approximate the rate of return on similarly termed securities in existence at the date of the gift. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the respective net asset category in the accompanying financial statements.

(o) Debt and Related Interest Rate Swaps

The fair value of the Museum's interest rate swaps related to its debt obligations (note 7) is primarily based on Level 2 observable inputs.

Debt discount and debt issuance costs are being amortized over the term of the related debt.

(p) Interest Expense

Interest on borrowings applicable to major construction projects in progress is capitalized and depreciated when placed into service. Interest not capitalized is charged to operating activities.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

(q) Tax Status

The Museum has been recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Accounting principles generally accepted in the United States require management to evaluate tax positions taken by the Museum and recognize a tax liability (or an asset) if the museum has an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has concluded that as of June 30, 2019, there are no uncertain tax positions taken or expected to be taken by the Museum that would require recognition of a liability (or an asset) or disclosure in the financial statements.

(r) Allocation of Expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by program activities and supporting services. Certain categories of expenses are attributed to more than one program or supporting function; therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include building and security (\$16,312,872), depreciation (\$9,711,125) and interest and debt expenses (\$1,147,530) which are allocated on a square footage basis; and information and interpretative technology related expenses (\$3,283,968) which are allocated based on full-time equivalent staff counts. Expenses that can be identified with a specific program or supporting service are recorded directly.

(s) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

(t) Recently Adopted Accounting Standards

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*. This standard simplifies and improves how a not-for-profit organization classifies its net assets as well as information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The Museum adopted ASU No. 2016-14 effective July 1, 2018 and applied the changes retrospectively. ASU 2016-14 reduces the number of net asset classes from three to two. Net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily and permanently restricted net assets. As a result of adopting this standard certain prior year amounts were reclassified to conform to the presentation requirements of the standard. A summary of the net asset reclassifications resulting from adoption of ASU 2016-14 as of June 30, 2018 is as follows:

| <u>Net asset classifications</u> | <u>ASU 2016-14 classifications</u> | | |
|--|------------------------------------|--------------------------------|-------------------------|
| | <u>Without donor restrictions</u> | <u>With donor restrictions</u> | <u>Total net assets</u> |
| As previously presented, June 30, 2018: | | | |
| Unrestricted | \$ 405,017,600 | — | 405,017,600 |
| Temporarily restricted | — | 179,709,834 | 179,709,834 |
| Permanently restricted | — | 330,078,575 | 330,078,575 |
| Net assets as previously presented | 405,017,600 | 509,788,409 | 914,806,009 |
| Reclassification to implement ASU 2016-14: | | | |
| Funds with deficiencies (underwater) | 190,031 | (190,031) | — |
| Net assets as reclassified, June 30, 2018 | <u>\$ 405,207,631</u> | <u>509,598,378</u> | <u>914,806,009</u> |

In May 2014, FASB issue ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and International Financial Reporting Standards. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosure about revenue. The Museum adopted ASU No. 2014-09 on July 1, 2018 using the modified retrospective method and elected to apply the standard only to contracts that were not completed as of that date. The amendments did not significantly impact the results of operations or changes in net assets.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Museum has implemented the provision of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements on a prospective basis. The Museum has determined that there is no effect on net assets in connection with the adoption of ASU 2018-08.

(2) Liquidity Management and Availability of Resources

Financial assets liquidity resources available for general expenditures at June 30, 2019 are as follows:

| | 2019 |
|---|---------------|
| Cash and cash equivalents | \$ 42,571,688 |
| Short-term investments | 16,057,587 |
| Accounts receivable and accrued income | 990,907 |
| Contributions and grants receivable within one year | 28,258,143 |
| Investment appropriated for current use | 26,382,937 |
| Total current financial assets available within one year | 114,261,262 |
| Less amounts unavailable for general expenditures: | |
| Restricted by donors with purpose or time restrictions | (44,227,506) |
| Endowment appropriated with donor-imposed restrictions | (6,042,659) |
| Total amounts unavailable for general expenditures within one year | (50,270,165) |
| Total financial assets available to meet general expenditures within one year | \$ 63,991,097 |

The Museum maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. It invests cash in excess of daily liquidity needs in short-term investments.

To help manage unanticipated liquidity needs, the Museum has a committed line of credit in the amount of \$15 million, which it can draw upon to meet cash flow needs. Additionally, the Museum has board-designated net assets without donor restrictions of approximately \$88 million subject to an annual spending policy as described in note 8. Although the Museum does not intend to spend from its board-designated endowment (other than amounts appropriated for general expenditure as part of the Boards annual budget approval and appropriation), these amounts could be made available if necessary. However, both the board-designated endowment and the donor-restricted endowments contain investments with lockup provisions that would reduce the total investments that could be made available within one year (note 4).

In the next 12 months, the Museum has a debt service payment due on its Revenue Bonds of \$3.2 million. The funds to support debt service are board-designated endowment funds (note 7).

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

(3) Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2019 and 2018 consist principally of unconditional promises to give that have been made for the following purposes:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|---------------------|
| Endowment | \$ 21,228,104 | 19,054,802 |
| Building and other capital projects | 79,581,098 | 64,617,108 |
| Grants receivable from Commonwealth of Pennsylvania and City of Philadelphia | 10,000,000 | — |
| Restricted for special purposes | 6,754,187 | 6,412,676 |
| Less unamortized discount for present value | <u>(17,999,454)</u> | <u>(15,389,480)</u> |
| Total promises to give at estimated present values | 99,563,935 | 74,695,106 |
| Less allowance for doubtful accounts | <u>(2,220,516)</u> | <u>(1,862,746)</u> |
| Total contributions and grants receivable, net | <u>\$ 97,343,419</u> | <u>72,832,360</u> |

The discount rate used to measure present value ranges from 0.75% to 4.125%. Unconditional promises to give are payable over an extended period of years as indicated by the donors or their estates and expected to be collected as follows:

| | <u>Gross contributions and grants receivable</u> | <u>Discount</u> | <u>Allowance</u> | <u>Net contributions and grants receivable</u> |
|----------------------|--|---------------------|--------------------|--|
| Less than one year | \$ 32,466,793 | (3,759,551) | (449,099) | 28,258,143 |
| One to five years | 36,496,969 | (6,107,333) | (759,741) | 29,629,895 |
| More than five years | <u>48,599,627</u> | <u>(8,132,570)</u> | <u>(1,011,676)</u> | <u>39,455,381</u> |
| | <u>\$ 117,563,389</u> | <u>(17,999,454)</u> | <u>(2,220,516)</u> | <u>97,343,419</u> |

During 2019, the Museum was awarded grants from the Commonwealth of Pennsylvania totaling \$5,000,000 to support its capital program. The grant awards have various conditions that have to be met and require a complex application and execution process. In 2019, none of the conditions had been met and grants had not been utilized. Consequently no grant revenue has been recognized in the accompanying financial statements for the year ended June 30, 2019.

The Museum has been awarded grants from the City of Philadelphia to support its capital program. During 2019 and 2018, support from the grants of \$14,584,145 and \$6,645,428, respectively, has been recognized in the accompanying financial statements.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

(4) Investments

Investment Objective

The overall investment objective of the Museum is to attain a long-term rate of return sufficient to fund a portion of its annual activities and to preserve and enhance the real (inflation-adjusted) purchasing power of the investment portfolio. The Museum diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Investment Committee of the Board of Trustees, which oversees the Museum's investment program in accordance with established guidelines.

Investment Strategies

In addition to traditional stocks and fixed income securities, the Museum may also hold shares or units in traditional institutional funds as well as in alternative investment funds involving hedged strategies, private equity, and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges, and other instruments and are valued accordingly. Private equity funds employ buyout and venture capital strategies. Real asset funds generally hold interests in public real asset funds, commercial real estate limited partnerships, and oil and gas limited partnerships.

The Museum's investments are summarized by major category in the following fair value hierarchy table, except for those investments measured at NAV per share as a practical expedient as of June 30, 2019 and 2018:

| Investment strategy | Total | 2019 | | 2018 | | |
|--|-----------------------|--|-----------------------------|--------------------|--|-----------------------------|
| | | Quoted prices in active markets for identical assets (Level 1) | Investments measured at NAV | Total | Quoted prices in active markets for identical assets (Level 1) | Investments measured at NAV |
| Cash and cash equivalents | \$ — | — | — | 4,123,970 | 4,123,970 | — |
| Fixed income: | | | | | | |
| U.S. Treasury funds | 41,764,854 | 41,764,854 | — | 30,449,994 | 30,449,994 | — |
| U.S. government bond funds | 20,795,677 | 20,795,677 | — | 25,182,933 | 25,182,933 | — |
| Mortgage-backed securities | — | — | — | 110,901 | — | 110,901 |
| U.S. common stocks | 79,744,866 | 29,829,032 | 49,915,834 | 95,393,057 | 45,805,860 | 49,587,197 |
| Global stock funds | 113,661,680 | 12,310,024 | 101,351,656 | 113,106,567 | 15,648,592 | 97,457,975 |
| Emerging market funds | 41,713,889 | 16,368,949 | 25,344,940 | 42,402,290 | 10,930,963 | 31,471,327 |
| Hedge funds | 94,306,966 | — | 94,306,966 | 94,724,257 | — | 94,724,257 |
| Private equity and venture capital funds | 68,404,542 | — | 68,404,542 | 47,796,859 | — | 47,796,859 |
| Real asset funds | 25,049,582 | 3,489,509 | 21,560,073 | 33,537,022 | 8,918,151 | 24,618,871 |
| Other investments | 1,108,166 | — | 1,108,166 | 506,623 | — | 506,623 |
| | <u>\$ 486,550,222</u> | <u>124,558,045</u> | <u>361,992,177</u> | <u>487,334,473</u> | <u>141,060,463</u> | <u>346,274,010</u> |

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

Equities and alternative investment funds for which fair value is estimated using NAV have not been categorized within the fair value hierarchy; however, these investments are included in the tables above to provide a reconciliation to total investments.

Certain alternative investments, such as private equity and venture capital investments, are generally made through limited partnerships. Under the terms of such agreements, the Museum may be required to provide additional funding when capital or liquidity calls are made by fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Museum cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur, they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain.

Certain hedge funds contain "rolling" lockup provisions. Under such provisions, tranches of the investment are available for redemption generally at calendar year-end, once a year or once every two or three years, if the Museum makes a redemption request prior to the next available withdrawal date in accordance with the notification terms of the agreement.

The unfunded commitments, redemption frequency, and redemption notice period of the pooled investments held at NAV or its equivalent are as follows as of June 30, 2019 and 2018:

| | 2019 | | | | |
|--|-----------------------|-----------------------------|-----------------------------|--|---|
| | <u>Fair value</u> | <u>Unfunded commitments</u> | <u>Redemption frequency</u> | <u>Redemption notice period (days)</u> | <u>Lockup or gate</u> |
| U.S. common stocks | \$ 49,915,834 | N/A | Q(\$40M) | 60/90 | 3-year rolling lockup (\$10M) |
| Global stock funds | 101,351,656 | N/A | M(\$70M)/Q(\$19M) | 5/10/30 | 1-year lockup (\$12M) |
| Emerging market funds | 25,344,940 | N/A | M(\$17M) | 7/30/120 | 2-year rolling lockup (\$8M) |
| Hedge funds | 94,306,966 | N/A | M(\$16M)/Q(\$48M) | 30/60/90 | 3-year rolling lockup (\$4M), 2 year lockup (\$5m), 1-year rolling lockup (\$21M) |
| Private equity and venture capital funds | 68,404,542 | 54,893,905 | I(1-10 years) | N/A | N/A |
| Real asset funds | 21,560,073 | 501,934 | Q(\$5m)/I(16M, 1-5 years) | 60 | N/A |
| Other investments | 1,108,166 | N/A | I | N/A | N/A |
| | <u>\$ 361,992,177</u> | <u>55,395,839</u> | | | |

M=Monthly, Q=Quarterly, I=Illiquid

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

| | 2018 | | | | |
|--|-----------------------|-----------------------------|-----------------------------|--|---|
| | <u>Fair value</u> | <u>Unfunded commitments</u> | <u>Redemption frequency</u> | <u>Redemption notice period (days)</u> | <u>Lockup or gate</u> |
| Mortgage-backed securities \$ | 110,901 | N/A | M | 5 | |
| U.S. common stocks | 49,587,197 | N/A | Q(\$39M) | 60/90 | 3-year rolling lockup (\$11M) |
| Global stock funds | 97,457,975 | N/A | M(\$78M)/Q(\$19M) | 5/30 | |
| Emerging market funds | 31,471,327 | N/A | M(\$23M) | 7/30 | 2-year rolling lockup (\$8M) |
| Hedge funds | 94,724,257 | N/A | M(\$16M)/Q(\$48M) | 30/60/90 | 3-year rolling lockup (\$7M), 2 year lockup (\$3m), 1-year rolling lockup (\$21M) |
| Private equity and venture capital funds | 47,796,859 | 51,631,500 | I(1-7 years) | N/A | N/A |
| Real asset funds | 24,618,871 | 3,232,865 | Q(\$4mM)/I(\$20M) | | |
| | | | 1-5 years) | 60 | N/A |
| Other investments | 506,623 | N/A | I | N/A | N/A |
| | <u>\$ 346,274,010</u> | <u>54,864,365</u> | | | |

M=Monthly, Q=Quarterly, I=Illiquid

Investment liquidity as of June 30, 2019 and 2018 are aggregated below based on redemption or sale period:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|-----------------------|--------------------|
| Investment redemption or sale period: | | |
| Daily | \$ 124,558,046 | 141,060,463 |
| Monthly | 103,630,517 | 118,910,123 |
| Quarterly | 111,061,791 | 109,439,429 |
| Subject to rolling lockups | 60,666,595 | 48,982,077 |
| Illiquid | 86,633,273 | 68,942,381 |
| | <u>\$ 486,550,222</u> | <u>487,334,473</u> |

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

The investment returns for the years ended June 30, 2019 and 2018 are summarized as follows:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|-------------------|
| Investment return: | | |
| Dividends and interest | \$ 6,076,919 | 4,380,845 |
| Realized gains | 19,021,259 | 6,702,688 |
| Changes in unrealized (depreciation) appreciation, net of investment expenses | <u>(6,220,827)</u> | <u>29,399,162</u> |
| Investment return | <u>\$ 18,877,351</u> | <u>40,482,695</u> |

The investment returns for the years ended June 30, 2019 and 2018 are included in the statement of activities as follows:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|-------------------|
| Investment return: | | |
| Endowment, trust, and estates income | \$ 23,528,241 | 22,988,087 |
| Endowment and trust income for art purchases | 1,871,022 | 1,850,525 |
| Investment return in (deficit) excess of amounts distributed under spending policy | <u>(6,521,912)</u> | <u>15,644,083</u> |
| Investment return | <u>\$ 18,877,351</u> | <u>40,482,695</u> |

(5) Funds Held in Trust by Others

The Museum receives income from funds held in trust by others. The Museum does not invest these funds or have responsibility for their management and their fair value at June 30, 2019 and 2018 is considered a Level 3 measurement because, although the trusts are invested primarily in marketable securities, these funds are neither in the possession nor under the control of the Museum. When the Museum is notified of the trust's existence, contribution revenue and an asset are recorded based on the fair value of the trust's assets. Changes in the fair value are recognized as with donor restriction gains and losses in nonoperating expenses other. The income received on these funds was \$435,127 and \$412,457 for the years ended June 30, 2019 and 2018, respectively.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

(6) Property and Equipment

Property and equipment at June 30, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|-----------------------|----------------------|
| Land | \$ 2,983,347 | 2,983,347 |
| Building and improvements | 331,127,117 | 318,011,598 |
| Equipment, furniture, and fixtures | 18,791,013 | 14,126,620 |
| Construction in progress | <u>188,648,190</u> | <u>136,116,142</u> |
| Total property and equipment | 541,549,667 | 471,237,707 |
| Accumulated depreciation | <u>(110,308,412)</u> | <u>(101,424,748)</u> |
| Net property and equipment | <u>\$ 431,241,255</u> | <u>369,812,959</u> |

The Museum is undertaking a major renovation and expansion project of its main Museum building (the Project). The Project started in 2016 and is expected to be completed in 2020. At June 30, 2019, construction in progress includes \$138.3 million related to the Project. During 2019, \$12.7 million of the project was placed in service and is included in building and improvements and equipment, furniture and fixtures. At June 30, 2019, the Museum had outstanding commitments for the Project of approximately \$73 million.

(7) Loans Payable and Interest Rate Swaps

Loans payable at June 30, 2019 and 2018 are summarized as follows:

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-------------------|
| Philadelphia Authority for Industrial Development Revenue Bonds, Series of 2008 | \$ 43,415,000 | 46,530,000 |
| Philadelphia Authority for Industrial Development Revenue Bonds, Series of 2017 | 64,340,000 | 20,840,000 |
| Line of credit | — | — |
| Less unamortized debt discount and debt issuance costs | <u>(430,796)</u> | <u>(544,862)</u> |
| Total loans payable | <u>\$ 107,324,204</u> | <u>66,825,138</u> |

(a) Revenue Bonds, Series of 2008

In June 2008, the Museum entered into a loan agreement with the Philadelphia Authority for Industrial Development (the Authority) to refund its prior Series 2000 and Series 2005 Revenue Bonds and to finance, in part, the construction and renovation of certain facilities of the Museum. Pursuant to the loan agreement, the Authority issued \$68,560,000 Series 2008 Revenue Bonds, payable July 1, 2032, which have adjustable methods of interest rate determination and interest payment dates per the trust indenture under which the bonds were issued. On June 23, 2010, the bonds were purchased by a bank

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

pursuant to a Continuing Covenants Agreement between the bank and the Museum. In August 2017, the Continuing Covenants Agreement was amended such that the Bonds are subject to mandatory tender for purchase on April 2022.

Under the trust indenture, the Museum has elected to convert to an Index Rate such that the interest rate borne by the bonds is calculated on a monthly basis as a percentage of one-month LIBOR plus a spread determined periodically by the long-term unsecured credit rating of the Museum. At June 30, 2019 and 2018, the interest rate on the bonds was 2.42% and 2.34%, respectively.

(b) Revenue Bond, Series of 2017

In April 2017, the Museum entered into a Bond Purchase and Loan Agreement (the Loan Agreement) with the Philadelphia Authority for Industrial Development (the Authority) and a bank to finance the construction and renovation of certain facilities of the Museum. Pursuant to the Loan Agreement, the Authority issued up to \$100,000,000 Series 2017 Revenue Bond, payable April 2047, which were simultaneously purchased by the bank. The Loan Agreement permits the Museum to periodically request the bank to advance the proceeds from the Bond up to the maximum principal amount through April 2020. The Bond bears interest at a rate calculated on a monthly basis as a percentage of one-month LIBOR plus a spread determined periodically by the long-term unsecured credit rating of the Museum. The Bond is subject to mandatory tender for purchase at par plus accrued interest by the Museum on April 2022, unless the Museum and the bank agree to a later date. At June 30, 2019 and 2018, the interest rate on the Bond was 2.51% and 2.25%, respectively.

Although neither the 2008 Revenue Bond nor the 2017 Revenue Bond is direct indebtedness of the Museum, the Loan Agreements obligate the Museum to make payments equal to the interest payment and principal repayment provisions of the bond, which is a general obligation of the Museum. A liability equal to the principal amount of the Authority's outstanding Bonds are reflected in the statement of financial position at June 30, 2019.

(c) Interest Rate Swaps

In April 2010, the Museum entered into an interest rate swap agreement related to the Series 2008 Revenue Bonds. The initial notional amount of the swap was \$30,000,000. The notional amount is reduced annually, with final maturity of July 2029. Under the terms of the interest rate swap agreement, the Museum receives a variable rate consistent with the variable LIBOR-index rate component on the outstanding Revenue Bonds and pays a fixed rate of 3.363%.

In October 2017, the Museum entered into a forward interest rate swap agreement related to the Series 2017 Revenue Bonds beginning April 2019 and ending April 2022. The initial notional amount of the swap is \$40,000,000, decreasing to \$30,000,000 on April 2021. Under the terms of the interest rate swap agreement, the Museum receives a variable rate consistent with the variable LIBOR-index rate component on the Series 2017 Revenue Bonds and pays a fixed rate of 1.558%.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

The fair value of the interest rate swap agreements as of June 30, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|---------------------------|------------------------------|---------------------------|
| Series 2008 Revenue Bonds | \$ (2,697,088) | (2,030,370) |
| Series 2017 Revenue Bonds | <u>(392,623)</u> | <u>452,292</u> |
| Fair value obligation | \$ <u><u>(3,089,711)</u></u> | <u><u>(1,578,078)</u></u> |

The fair value of the swap (obligation) receivable has been reported in accounts payable and accrued expenses in the statement of financial position. The change in the fair value of the swap agreements is recognized in change in fair value of interest rate exchange agreements and effect of interest rate swaps on the statement of activities.

(d) Revolving Line of Credit

The Museum has a revolving line of credit with a bank in the amount of \$15,000,000 to be used for construction and renovation costs associated with its capital program. The line expires June 1, 2020 and, if used, bears interest at prime or upon a LIBOR-based formula. There were no new borrowings during the year or balance outstanding as of June 30, 2019 and 2018.

The Museum's debt agreements contain restrictive covenants, including the maintenance of certain debt ratios and other matters. The Museum was in compliance with these covenants at June 30, 2019 and 2018. Further, the Museum's interest rate swap agreements contain provisions that require the Museum to maintain certain credit ratings from either of the major credit rating agencies. If the Museum were to violate these provisions, the counterparties to the swap agreements could request next-day collateralization if the swap was in a net liability position. To date, the Museum has not posted collateral for any interest rate swap agreements. If the credit risk-related contingent features underlying this agreement were triggered on June 30, 2019, the Museum would be required to post up to \$3,090,000 of collateral to the counterparty.

Annual principal payments under the loan agreements due during the next five years and in total thereafter are as follows:

| | |
|----------------------|------------------------------|
| Year ending June 30: | |
| 2020 | \$ 3,200,000 |
| 2021 | 3,315,000 |
| 2022 | 67,770,000 |
| 2023 | 3,545,000 |
| 2024 | 3,660,000 |
| Thereafter | <u>26,265,000</u> |
| | \$ <u><u>107,755,000</u></u> |

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

The above amounts assume that the Revenue Bonds, Series of 2008 will be remarketed prior to April 1, 2022. If the bonds are not remarketed by that date and are subject to mandatory tender, principal payments in each of the fiscal years 2023, 2024 and 2025 would be \$11,156,667.

(8) Endowments

The Museum's endowment consists of approximately 240 individual funds established by donors to provide annual funding for specific activities and general operations. The endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board. The Museum retains in perpetuity within net assets with donor restrictions (a) the original value of the initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity is subject to appropriation for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by relevant law. The Museum's endowment is generally governed by Commonwealth of Pennsylvania law. Such law permits the Board to make an annual election to appropriate for expenditure a selected percentage between 2% and 7% of the fair value of the assets related to donor-restricted endowment funds averaged over a period of three or more preceding years, provided the Board has determined that such percentage is consistent with the long-term preservation of the real value of such assets.

The Museum has adopted investment and spending policies for endowment assets that are intended to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

To satisfy its long-term rate of return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The Museum's investment policy includes a target asset allocation, well diversified among suitable asset classes, that is expected to generate, on average, the level of expected return necessary to meet endowment objectives at a responsible level of volatility consistent with achieving that return.

According to the Museum's spending policy, a portion of the total investment return derived from investments is available to support current activities, while the remainder is reinvested. Under this spending policy, annual distributions are based on the prior year spending plus 3.0% subject to a floor of 4.5% and a ceiling of 5.5% of the average market value of endowment assets at the end of the three preceding years.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

Endowment funds classified by type as of June 30, 2019 and 2018 are as follows:

| | 2019 | | |
|----------------------------------|---------------------------------------|------------------------------------|--------------------|
| | Without donor restrictions | With donor restrictions | Total |
| Board-designated endowment funds | \$ 87,892,033 | — | 87,892,033 |
| Accumulated earnings | — | 89,119,045 | 89,119,045 |
| Original gift values | — | 306,813,413 | 306,813,413 |
| | <u>\$ 87,892,033</u> | <u>395,932,458</u> | <u>483,824,491</u> |

| | 2018 | | |
|----------------------------------|---------------------------------------|------------------------------------|--------------------|
| | Without donor restrictions | With donor restrictions | Total |
| Board-designated endowment funds | \$ 90,155,380 | — | 90,155,380 |
| Accumulated earnings | — | 94,880,087 | 94,880,087 |
| Original gift values | — | 302,299,006 | 302,299,006 |
| | <u>\$ 90,155,380</u> | <u>397,179,093</u> | <u>487,334,473</u> |

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donor or law (underwater endowments). We have interpreted the Commonwealth of Pennsylvania law to permit spending from underwater endowments in accordance with prudent measures required under the law. At June 30, 2019 and 2018, donor-restricted endowment funds with original gift values less than their fair values as of June 30, 2019 and 2018 of \$6,602,175 and \$5,660,609, resulted in deficits of \$(278,965) and \$(190,031) respectively.

Changes in endowment funds for the years ended June 30, 2019 and 2018 are as follows:

| | 2019 | | |
|---|---------------------------------------|------------------------------------|--------------------|
| | Without Donor restrictions | With Donor restrictions | Total |
| Beginning balance, July 1, 2018 | \$ 90,155,380 | 397,179,093 | 487,334,473 |
| Total return on long-term investments | 3,430,295 | 15,447,056 | 18,877,351 |
| Contributions | 237,558 | 4,514,406 | 4,751,964 |
| Investment return designated for current activities | (4,466,350) | (20,932,913) | (25,399,263) |
| Distribution and other changes | (1,464,850) | (275,184) | (1,740,034) |
| Ending balance, June 30, 2019 | <u>\$ 87,892,033</u> | <u>395,932,458</u> | <u>483,824,491</u> |

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

Note: As of June 30, 2019, the investment portfolio has a negative \$2,725,731 in transit activity. Total investments of \$486,550,222 less in transit of \$2,725,731 bring the total endowment balance to \$483,824,491.

| | 2018 | | |
|---|---------------------------------------|------------------------------------|--------------------|
| | Without donor restrictions | With donor restrictions | Total |
| Beginning balance, July 1, 2017 | \$ 88,186,445 | 378,539,346 | 466,725,791 |
| Total return on long-term investments | 7,714,438 | 32,768,257 | 40,482,695 |
| Contributions | 123,693 | 6,434,469 | 6,558,162 |
| Investment return designated for current activities | (4,431,435) | (20,407,177) | (24,838,612) |
| Distribution and other changes | (1,437,761) | (155,802) | (1,593,563) |
| Ending balance, June 30, 2018 | <u>\$ 90,155,380</u> | <u>397,179,093</u> | <u>487,334,473</u> |

(9) Composition of Net Assets with Donor Restrictions

As of June 30, 2019 and 2018, net assets with donor restrictions are composed of the following:

| | 2019 | 2018 |
|--|-----------------------|--------------------|
| Acquisitions of art objects | \$ 39,420,663 | 38,763,624 |
| Curatorial and conservation | 165,880,386 | 163,092,422 |
| Education library and community programs | 33,522,623 | 28,405,306 |
| Special exhibitions and publications | 46,565,659 | 47,171,677 |
| Building improvements and equipment | 77,097,913 | 58,880,679 |
| General operations and other | 169,016,168 | 173,284,670 |
| | <u>\$ 531,503,412</u> | <u>509,598,378</u> |

(10) Postretirement Benefits

The Museum has a defined-contribution retirement plan provided through the Teachers Insurance Annuity Association and College Retirement Equities Fund covering substantially all employees. The total expenses under this plan amounted to \$1,038,232 in 2019 and \$991,591 in 2018 and is reported within benefits expense on the statement of functional expenses.

The Museum provides healthcare benefits to retired employees for two years after the date of retirement. Substantially all of the Museum's employees will become eligible for this benefit if they reach retirement age while working for the Museum. The Museum recognizes the cost of such postretirement benefits on an accrual basis as employees perform services to earn the benefits. The postretirement benefit obligation liability as of June 30, 2019 and 2018 was \$505,517 and \$494,213, respectively.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2019

(With comparative financial information for June 30, 2018)

(11) Supplemental Disclosures

Supplemental disclosure of cash flow information is as follows:

| | <u>2019</u> | <u>2018</u> |
|--|--------------|-------------|
| Cash paid during the year for interest (net of amounts capitalized of \$1,261,216 in 2019 and \$409,726 in 2018) | \$ 1,018,297 | 813,084 |

Capital expenditures included in accounts payable and accrued expenses and thus not presented in the statement of cash flows are \$1,579,217 and \$1,999,311 for the years ended June 30, 2019 and 2018, respectively.

(12) Subsequent Events

The Museum has evaluated subsequent events through October 22, 2019, which is the date the financial statements were issued, noting no additional events that affect the financial statements as of June 30, 2019.