



PHILADELPHIA MUSEUM OF ART

Financial Statements

June 30, 2020

(With comparative financial information for June 30, 2019)

(With Independent Auditors' Report Thereon)

PHILADELPHIA MUSEUM OF ART

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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, 2020, 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, 2020, 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.



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, 2019 and we expressed an unmodified opinion on those audited financial statements in our report dated October 22, 2019.

KPMG LLP

Philadelphia, Pennsylvania
October 8, 2020

PHILADELPHIA MUSEUM OF ART
Statement of Financial Position
June 30, 2020
(With comparative financial information for June 30, 2019)

Assets	2020	2019
Current assets:		
Cash and cash equivalents (note 1)	\$ 59,915,748	42,571,688
Short-term investments (note 1)	16,515,749	16,057,587
Accounts receivable and accrued income	1,410,668	990,907
Inventories and supplies	544,069	608,304
Prepaid expenses and other assets	1,567,881	1,875,447
Contributions and grants receivable, net (note 3)	12,788,763	28,258,143
Investments appropriated for current use (notes 4 and 9)	<u>26,569,056</u>	<u>26,382,937</u>
Total current assets	<u>119,311,934</u>	<u>116,745,013</u>
Noncurrent assets:		
Contributions and grants receivable, net (note 3)	59,195,104	69,085,276
Funds held in trust by others (note 5)	12,052,968	12,087,474
Investments, net of amounts appropriated for current use (notes 4 and 9)	436,896,956	460,167,285
Property and equipment, net (note 6)	471,580,409	431,241,255
Collections (note 1)	<u>—</u>	<u>—</u>
Total noncurrent assets	<u>979,725,437</u>	<u>972,581,290</u>
Total assets	<u>\$ 1,099,037,371</u>	<u>1,089,326,303</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 17,860,867	25,448,118
Obligations under split-interest agreements	376,054	391,288
Loans payable (note 7)	3,315,000	3,200,000
Deferred revenue (note 1)	<u>308,174</u>	<u>295,042</u>
Total current liabilities	<u>21,860,095</u>	<u>29,334,448</u>
Noncurrent liabilities:		
Postretirement benefit obligation (note 11)	196,737	505,517
Obligations under split-interest agreements	1,201,876	1,286,928
Loans payable (note 7)	141,680,591	104,124,204
Interest rate swap agreements (note 8)	4,424,263	3,094,711
Deferred revenue (note 1)	<u>1,558,324</u>	<u>1,739,927</u>
Total noncurrent liabilities	<u>149,061,791</u>	<u>110,751,287</u>
Total liabilities	<u>170,921,886</u>	<u>140,085,735</u>
Net assets:		
Without donor restrictions:		
Undesignated	4,016,907	9,022,783
Board-designated for endowment (note 9)	83,199,463	87,892,033
Invested in property and equipment	<u>326,937,612</u>	<u>320,822,340</u>
	<u>414,153,982</u>	<u>417,737,156</u>
With donor restrictions (note 10):		
Purpose or time restrictions	191,291,943	212,602,525
Funds held in trust by others	12,052,968	12,087,474
Perpetual in nature (note 9)	<u>310,616,592</u>	<u>306,813,413</u>
	<u>513,961,503</u>	<u>531,503,412</u>
Total net assets	<u>928,115,485</u>	<u>949,240,568</u>
Total liabilities and net assets	<u>\$ 1,099,037,371</u>	<u>1,089,326,303</u>

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Activities

Year ended June 30, 2020

(With summarized comparative financial information for year ended June 30, 2019)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	
			<u>2020</u>	<u>2019</u>
Operating revenue and support (note 1):				
Endowment, trusts, and estates income	\$ 19,969,581	4,689,933	24,659,514	23,963,368
Contributions and grants	8,098,296	6,095,272	14,193,568	15,301,241
Memberships	4,108,238	—	4,108,238	5,070,319
Admissions	4,088,799	—	4,088,799	5,653,093
Sales of retail operations	1,841,580	—	1,841,580	3,056,453
City appropriations for expenses:				
Funding provided for operations	2,550,000	—	2,550,000	2,550,000
Value of utilities provided	3,000,000	—	3,000,000	3,400,000
Other revenue and support	1,993,217	765,171	2,758,388	5,190,585
Net assets released from restrictions to fund operating expenses	<u>10,452,069</u>	<u>(10,452,069)</u>	<u>—</u>	<u>—</u>
Total operating revenue and support	<u>56,101,780</u>	<u>1,098,307</u>	<u>57,200,087</u>	<u>64,185,059</u>
Operating expenses:				
Program activities	43,856,439	—	43,856,439	48,383,241
Management and general	9,183,903	—	9,183,903	8,254,254
Fundraising	<u>5,104,018</u>	<u>—</u>	<u>5,104,018</u>	<u>6,740,427</u>
Total operating expenses before depreciation	<u>58,144,360</u>	<u>—</u>	<u>58,144,360</u>	<u>63,377,922</u>
Operating surplus (deficit) before depreciation	(2,042,580)	1,098,307	(944,273)	807,137
Depreciation	<u>11,440,543</u>	<u>—</u>	<u>11,440,543</u>	<u>9,711,125</u>
Change in net assets from operations	<u>(13,483,123)</u>	<u>1,098,307</u>	<u>(12,384,816)</u>	<u>(8,903,988)</u>
Nonoperating revenue, support, gains, and losses:				
Gifts and grants designated for long-term investment, capital expenditures, and art purchases	4,734,488	12,273,181	17,007,669	51,949,119
Proceeds from sales of art objects	3,798	—	3,798	27,276
Endowment and trust income for art purchases	—	1,966,451	1,966,451	1,871,022
Acquisitions of art objects	(2,851,699)	—	(2,851,699)	(1,700,549)
Net assets released from restriction to fund nonoperating activities	13,787,474	(13,787,474)	—	—
Investment return in deficit of amounts distributed under spending policy	(3,982,324)	(19,367,934)	(23,350,258)	(6,521,912)
Change in fair value of interest rate exchange agreement and effect of interest rate swap	(1,791,788)	—	(1,791,788)	(1,884,329)
Other	<u>—</u>	<u>275,560</u>	<u>275,560</u>	<u>(402,080)</u>
Change in net assets	<u>(3,583,174)</u>	<u>(17,541,909)</u>	<u>(21,125,083)</u>	<u>34,434,559</u>
Net assets at beginning of year	<u>417,737,156</u>	<u>531,503,412</u>	<u>949,240,568</u>	<u>914,806,009</u>
Net assets at end of year	\$ <u><u>414,153,982</u></u>	\$ <u><u>513,961,503</u></u>	\$ <u><u>928,115,485</u></u>	\$ <u><u>949,240,568</u></u>

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Cash Flows

Year ended June 30, 2020

(With comparative financial information for year ended June 30, 2019)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (21,125,083)	34,434,559
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	11,440,543	9,711,125
Gifts designated for long-term investment, capital expenditures, and art purchases	(42,927,101)	(27,948,602)
Endowment and trust income for art purchases	(1,966,451)	(1,871,022)
Proceeds from sales of art objects	(3,798)	(27,276)
Acquisitions of art objects	2,851,699	1,700,549
Net realized and unrealized losses (gains) on long-term investments:		
Funds held in trust by others	34,506	722,211
Investments	(319,588)	(15,492,011)
Interest rate swap agreements	1,329,552	1,516,633
Amortization of debt discount and debt issuance costs	111,940	114,066
Changes in assets and liabilities:		
Short-term investments	(458,162)	(652,653)
Accounts receivable and accrued income	(419,761)	29,495
Inventories and supplies	64,235	319,072
Prepaid expenses and other assets	307,566	(168,753)
Contributions and grants receivable, net	25,359,552	(24,511,059)
Accounts payable and accrued expenses	(839,573)	2,037,465
Obligations under split-interest agreements	(100,286)	(308,986)
Postretirement benefit obligation (note 10)	(308,780)	11,304
Deferred revenue	(168,471)	233,380
Net cash used in operating activities	(27,137,461)	(20,150,503)
Cash flows from investing activities:		
Investments in property and equipment (note 11)	(58,527,375)	(69,560,204)
Proceeds from sales of art objects	3,798	27,276
Acquisitions of art objects	(2,851,699)	(1,700,549)
Purchase of investments	(89,752,522)	(74,821,056)
Proceeds from sales of investments	113,156,320	91,097,318
Net cash used in investing activities	(37,971,478)	(54,957,215)
Cash flows from financing activities:		
Gifts designated for long-term investment, capital expenditures, and art purchases	42,927,101	27,948,602
Endowment and trust income for art purchases	1,966,451	1,871,022
Proceeds of debt issuance	40,759,447	43,500,000
Payments on debt	(3,200,000)	(3,115,000)
Net cash provided by financing activities	82,452,999	70,204,624
Net increase (decrease) in cash and cash equivalents	17,344,060	(4,903,094)
Cash and cash equivalents, beginning of year	42,571,688	47,474,782
Cash and cash equivalents, end of year	\$ 59,915,748	42,571,688

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Functional Expenses

Year ended June 30, 2020

(with summarized comparative financial information for year ended June 30, 2019)

	<u>Program activities</u>			<u>Supporting services</u>		<u>Total 2020</u>	<u>Total 2019</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	\$ 10,044,941	4,977,166	4,742,451	3,992,341	3,053,429	26,810,328	27,976,748
Benefits	2,667,620	1,288,543	1,188,317	1,142,915	784,657	7,072,052	6,773,035
Maintenance and repairs	3,625,776	353,436	373,809	311,012	134,194	4,798,227	5,268,117
Security	2,494,810	194,292	216,668	198,116	69,499	3,173,385	4,107,300
Utilities	2,537,687	210,907	148,774	212,824	73,893	3,184,085	3,604,949
Consultants	180,082	276,527	160,549	1,216,866	288,070	2,122,094	1,471,727
Cost of sales of retail operations	—	—	1,140,008	—	—	1,140,008	1,629,799
Advertising	369,161	58,528	242,213	7,028	28,385	705,315	1,513,161
Insurance	310,673	3,856	34,163	752,033	1,316	1,102,041	1,101,895
Interest and debt expense	644,024	53,525	37,757	54,011	18,753	808,070	1,147,530
Travel	279,183	81,842	57,526	12,081	19,953	450,585	642,798
Other	2,001,416	1,359,242	1,500,967	1,284,676	631,869	6,778,170	8,140,863
Total operating expenses before depreciation	25,155,373	8,857,864	9,843,202	9,183,903	5,104,018	58,144,360	63,377,922
Depreciation	9,118,011	757,790	534,550	764,686	265,506	11,440,543	9,711,125
Total operating expenses – 2020	<u>\$ 34,273,384</u>	<u>9,615,654</u>	<u>10,377,752</u>	<u>9,948,589</u>	<u>5,369,524</u>	<u>69,584,903</u>	<u>73,089,047</u>
Total operating expenses – 2019	\$ 35,909,680	9,918,084	11,392,139	8,903,346	6,965,798		73,089,047

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2020

(With comparative financial information for June 30, 2019)

(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 \$3,000,000 in 2020 and \$3,400,000 in 2019 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 2020 and 2019.

(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 10 for more information on the composition of net assets with donor restrictions.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2020

(With comparative financial information for June 30, 2019)

(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, 2019, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to current year presentation.

(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.

Cash equivalents that are part of endowment investments are shown therewith, as such funds are utilized for endowment purposes rather than Museum operating needs and therefore are not included in cash and cash equivalents for purposes of the statement of cash flows.

(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, 2020

(With comparative financial information for June 30, 2019)

(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, 2020, the estimated value of benefits provided to its members totaled \$1.7 million 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, 2019 deferred revenue of \$2,034,969, there was \$297,042 recognized as revenue during the year ended June 30, 2020. The balance of deferred revenue of \$1,866,498 at June 30, 2020 will be primarily recognized as revenue over the next eight 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.

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Notes to Financial Statements

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(With comparative financial information for June 30, 2019)

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, 2020, and 2019, 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.

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June 30, 2020

(With comparative financial information for June 30, 2019)

(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.

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Notes to Financial Statements

June 30, 2020

(With comparative financial information for June 30, 2019)

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, 2020, 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 8) is primarily based on Level 2 observable inputs.

Debt discount and debt issuance costs are 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.

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Notes to Financial Statements

June 30, 2020

(With comparative financial information for June 30, 2019)

(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, 2020, 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 \$(14,917,292), depreciation \$(11,440,543) and interest and debt expenses \$(808,070) which are allocated on a square footage basis; and information and interpretative technology related expenses \$(3,254,657) 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.

(t) Recently Adopted Accounting Standards

In August 2016, the FASB issued *ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 provides guidance on how to record eight specific cash flow issues, and how the predominant principle should be applied when cash receipts and cash payments have more than one class of cash flows. The Museum adopted ASU No. 2016-15 on July 1, 2019 using the retrospective transition method. The adoption of this guidance did not have an impact on the financial statements.

In November 2016, the FASB issued *ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash*. The new guidance requires that a statement of cash flows explain the change in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning and ending total amounts shown on the statements of cash flows. The Museum adopted ASU No. 2016-18 on July 1, 2019 using the retrospective transition method. The adoption of this guidance did not have an impact on the financial statement.

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Notes to Financial Statements

June 30, 2020

(With comparative financial information for June 30, 2019)

(2) Liquidity Management and Availability of Resources

Financial assets liquidity resources available for general expenditures at June 30, 2020 are as follows:

	<u>2020</u>
Cash and cash equivalents	\$ 59,915,748
Short-term investments	16,515,749
Accounts receivable and accrued income	1,410,668
Contributions and grants receivable within one year	12,788,763
Investments appropriated for current use	<u>26,569,056</u>
Total current financial assets available within one year	<u>117,199,984</u>
Less amounts unavailable for general expenditures:	
Restricted by donors with purpose or time restrictions	(54,557,033)
Endowment appropriated with donor-imposed restrictions	<u>(6,414,443)</u>
Total amounts unavailable for general expenditures within one year	<u>(60,971,476)</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 56,228,508</u>

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 \$83 million subject to an annual spending policy as described in note 9. Although the Museum does not intend to spend from its board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's 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 \$3.3 million. The funds to support debt service are board-designated endowment funds (notes 7 and 9).

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Notes to Financial Statements

June 30, 2020

(With comparative financial information for June 30, 2019)

(3) Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2020 and 2019 consist principally of unconditional promises to give that have been made for the following purposes:

	<u>2020</u>	<u>2019</u>
Endowment	\$ 19,454,188	21,228,104
Building and other capital projects	63,375,784	79,581,098
Grants receivable from Commonwealth of Pennsylvania and City of Philadelphia	—	10,000,000
Other restricted	7,109,169	6,754,187
Less unamortized discount for present value	<u>(16,153,590)</u>	<u>(17,999,454)</u>
Total promises to give at estimated present values	73,785,551	99,563,935
Less allowance for doubtful accounts	<u>(1,801,684)</u>	<u>(2,220,516)</u>
Total contributions and grants receivable, net	\$ <u><u>71,983,867</u></u>	\$ <u><u>97,343,419</u></u>

The discount rate used to measure present value ranges from 0.25% to 4.125%. As of June 30, 2020, 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	\$ 15,934,564	(2,861,940)	(283,861)	12,788,763
One to five years	25,958,757	(4,662,343)	(532,410)	20,764,004
More than five years	<u>48,045,820</u>	<u>(8,629,307)</u>	<u>(985,413)</u>	<u>38,431,100</u>
	\$ <u><u>89,939,141</u></u>	<u><u>(16,153,590)</u></u>	<u><u>(1,801,684)</u></u>	<u><u>71,983,867</u></u>

At June 30, 2020, there are six donors that account for more than 5% of the Museum's gross contributions and grants receivable totaling \$35,003,642 and 49% of the outstanding balance.

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Notes to Financial Statements

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(With comparative financial information for June 30, 2019)

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 2020, 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, 2020.

The Museum has been awarded grants from the City of Philadelphia to support its capital program. During 2020 and 2019, support from the grants of \$4,234,488 and \$14,584,145, respectively, has been recognized in the accompanying financial statements.

(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.

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Notes to Financial Statements

June 30, 2020

(With comparative financial information for June 30, 2019)

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, 2020 and 2019:

Investment strategy	2020			2019		
	Total	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 equivalents	\$ 17,375,553	17,375,553	—	—	—	—
Fixed income:						
U.S. Treasury funds	37,868,617	37,868,617	—	41,764,854	41,764,854	—
U.S. government bond funds	15,566,951	15,566,951	—	20,795,677	20,795,677	—
U.S. common stocks	80,749,620	26,354,984	54,394,636	79,744,866	29,829,032	49,915,834
Global stock funds	104,622,983	14,827,476	89,795,507	113,661,680	12,310,024	101,351,656
Emerging market funds	35,248,680	9,606,857	25,641,823	41,713,889	16,368,949	25,344,940
Hedge funds	72,727,328	—	72,727,328	94,306,966	—	94,306,966
Private equity and venture capital funds	85,864,844	—	85,864,844	68,404,542	—	68,404,542
Real asset funds	12,359,215	—	12,359,215	25,049,582	3,489,509	21,560,073
Other investments	1,082,221	—	1,082,221	1,108,166	—	1,108,166
	<u>\$ 463,466,012</u>	<u>121,600,438</u>	<u>341,865,574</u>	<u>486,550,222</u>	<u>124,558,045</u>	<u>361,992,177</u>

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.

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(With comparative financial information for June 30, 2019)

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, 2020 and 2019:

2020					
	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period (days)	Lockup or gate
U.S. common stocks	\$ 54,394,636	N/A	Q(\$45M)/I(\$10M)	60/90	3-year rolling lockup (\$10M)
Global stock funds	89,795,507	N/A	M(\$90M)	5/10/35	Lockup expired
Emerging market funds	25,641,823	N/A	M(\$8M)/Q(\$11M)/I(\$7)	35/60/120	2-year rolling lockup (\$7M)
Hedge funds	72,727,328	N/A	M(\$7M)/Q(\$49M) A(\$10M)/S(6M)	30/60/90	2-year rolling lockup (\$7M), 1-year lockup (\$5m)
Private equity and venture capital funds	85,864,844	55,487,694	I(1–10 years)	N/A	N/A
Real asset funds	12,359,215	1,144,964	Q(\$5M),I(\$7M, 1–5 years)	60	N/A
Other investments	1,082,221	N/A	I	N/A	N/A
	<u>\$ 341,865,574</u>	<u>56,632,658</u>			

A=Annually, M=Monthly, Q=Quarterly, S=Semi-Annually, I=Illiquid

2019					
	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period (days)	Lockup or gate
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

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Notes to Financial Statements

June 30, 2020

(With comparative financial information for June 30, 2019)

Investment liquidity as of June 30, 2020 and 2019 are aggregated below based on redemption or sale period:

	<u>2020</u>	<u>2019</u>
Investment redemption or sale period:		
Daily	\$ 121,600,439	124,558,046
Monthly	105,136,063	103,630,517
Quarterly	108,416,477	111,061,791
Subject to rolling lockups	16,413,489	60,666,595
Illiquid	<u>111,899,544</u>	<u>86,633,273</u>
	<u>\$ 463,466,012</u>	<u>486,550,222</u>

The investment returns for the years ended June 30, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Investment return:		
Dividends and interest	\$ 5,113,263	6,076,919
Realized gains	19,087,977	19,021,259
Unrealized loss, net of investment expenses	<u>(21,451,077)</u>	<u>(6,220,827)</u>
Investment return	<u>\$ 2,750,163</u>	<u>18,877,351</u>

The investment returns for the years ended June 30, 2020 and 2019 are included in the statement of activities as follows:

	<u>2020</u>	<u>2019</u>
Investment return:		
Endowment, trusts, and estates income	\$ 24,133,970	23,528,241
Endowment and trust income for art purchases	1,966,451	1,871,022
Investment return in (deficit) excess of amounts distributed under spending policy	<u>(23,350,258)</u>	<u>(6,521,912)</u>
Investment return	<u>\$ 2,750,163</u>	<u>18,877,351</u>

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Notes to Financial Statements

June 30, 2020

(With comparative financial information for June 30, 2019)

(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, 2020 and 2019 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 \$525,544 and \$435,127 for the years ended June 30, 2020 and 2019, respectively.

(6) Property and Equipment

Property and equipment at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 2,983,347	2,983,347
Building and improvements	402,081,730	331,127,117
Equipment, furniture, and fixtures	27,450,568	18,791,013
Construction in progress	<u>160,580,543</u>	<u>188,648,190</u>
Total property and equipment	593,096,188	541,549,667
Accumulated depreciation	<u>(121,515,779)</u>	<u>(110,308,412)</u>
Net property and equipment	<u>\$ 471,580,409</u>	<u>431,241,255</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 2021. At June 30, 2020, construction in progress includes \$118.2 million related to the Project. During 2020, \$65.7 million of the Project was placed in service and is included in building and improvements and equipment, furniture and fixtures. At June 30, 2020, the Museum had outstanding commitments for the Project of approximately \$31.3 million.

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Notes to Financial Statements

June 30, 2020

(With comparative financial information for June 30, 2019)

(7) Loans Payable

Loans payable at June 30, 2020 and 2019 are summarized as follows:

	2020	2019
Philadelphia Authority for Industrial Development Revenue Bonds, Series of 2008	\$ 40,215,000	43,415,000
Philadelphia Authority for Industrial Development Revenue Bonds, Series of 2017	100,000,000	64,340,000
Payroll Protection Program Loan	5,099,447	—
Line of credit	—	—
Less unamortized debt discount and debt issuance costs	(318,856)	(430,796)
Total loans payable	\$ 144,995,591	107,324,204

(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 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, 2020 and 2019, the interest rate on the bonds was 0.69% and 2.42%, 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, 2020 and 2019, the interest rate on the Bond was 0.67% and 2.51%, respectively.

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Notes to Financial Statements

June 30, 2020

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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, 2020.

(c) Payroll Protection Program Loan

On May 1, 2020, the Museum received loan proceeds in the amount of \$5,099,447 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after either eight weeks or twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the forgiveness period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Museum intends to use the proceeds for purposes consistent with the PPP.

(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, 2020 and 2019.

(e) Covenants

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, 2020 and 2019.

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

Year ending June 30:	
2021	\$ 3,315,000
2022	108,529,447
2023	3,545,000
2024	3,660,000
2025	3,780,000
Thereafter	<u>22,485,000</u>
	<u>\$ 145,314,447</u>

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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) 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%.

The fair value of the interest rate swap agreements as of June 30, 2020 and 2019 are as follows:

	2020	2019
Series 2008 Revenue Bonds	\$ (3,483,710)	(2,697,088)
Series 2017 Revenue Bonds	(940,553)	(397,623)
Fair value obligation	\$ (4,424,263)	(3,094,711)

The fair value of the swap obligation has been reported as a noncurrent liability 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.

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.

(9) Endowments

The Museum's endowment consists of approximately 250 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.

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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.

Endowment funds classified by type as of June 30, 2020 and 2019 are as follows:

	2020		
	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	\$ 83,199,463	—	83,199,463
Accumulated earnings	—	69,649,957	69,649,957
Original gift values	—	310,616,592	310,616,592
	<u>\$ 83,199,463</u>	<u>380,266,549</u>	<u>463,466,012</u>
	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>

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(With comparative financial information for June 30, 2019)

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, 2020 and 2019, donor-restricted endowment funds with original gift values less than their fair values as of June 30, 2020 and 2019 of \$46,923,644 and \$6,602,175, resulted in deficits of \$(1,444,926) and \$(278,965), respectively.

Changes in endowment funds for the years ended June 30, 2020 and 2019 are as follows:

	2020		
	Without Donor restrictions	With Donor restrictions	Total
Beginning balance, July 1, 2019	\$ 87,892,033	395,932,458	483,824,491
Total return on long-term investments	538,581	2,211,582	2,750,163
Contributions	500,000	3,803,179	4,303,179
Investment return designated for current activities	(4,520,905)	(21,579,516)	(26,100,421)
Distribution and other changes	<u>(1,210,246)</u>	<u>(101,154)</u>	<u>(1,311,400)</u>
Ending balance, June 30, 2020	<u>\$ 83,199,463</u>	<u>380,266,549</u>	<u>463,466,012</u>
	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	<u>(1,464,850)</u>	<u>(275,184)</u>	<u>(1,740,034)</u>
Ending balance, June 30, 2019	<u>\$ 87,892,033</u>	<u>395,932,458</u>	<u>483,824,491</u>

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.

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(10) Composition of Net Assets with Donor Restrictions

As of June 30, 2020 and 2019, net assets with donor restrictions are composed of the following:

	<u>2020</u>	<u>2019</u>
Acquisitions of art objects	\$ 38,953,579	39,420,663
Curatorial and conservation	160,208,179	165,880,386
Education library and community programs	33,266,750	33,522,623
Special exhibitions and publications	44,640,718	46,565,659
Building improvements and equipment	74,507,914	77,097,913
General operations and other	<u>162,384,363</u>	<u>169,016,168</u>
	\$ <u>513,961,503</u>	<u>531,503,412</u>

(11) 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 \$1,068,348 in 2020 and \$1,038,232 in 2019 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, 2020 and 2019 was \$196,737 and \$505,517, respectively.

(12) Supplemental Disclosures

Supplemental disclosure of cash flow information is as follows:

	<u>2020</u>	<u>2019</u>
Cash paid during the year for interest (net of amounts capitalized of \$1,686,259 in 2020 and \$1,261,216 in 2019) \$	680,921	1,018,297

Capital expenditures included in accounts payable and accrued expenses and thus not presented in the statement of cash flows are \$8,228,381 and \$14,976,059 for the years ended June 30, 2020 and 2019, respectively.

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(13) Risk and Uncertainties

In early 2020, an outbreak of the novel strain of corona virus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The pandemic may continue to adversely affect operations and financial condition, including but not limited to the ability of the Museum to remain open to the public, state and local support, financial markets impacting investment valuations and interest rates. The Museum continues to monitor the pandemic and is prepared to take additional measures to protect the financial health of the Museum and promote the continuity of its mission.

(14) Subsequent Events

Management has evaluated subsequent events through October 8, 2020, which represents the date the financial statements were available for issuance.

On August 18, 2020, the Museum amended its Continuing Covenants Agreement to the Series 2008 Revenue Bonds and the Bond Purchase and Loan Agreement of the Series 2017 Revenue Bonds. Both amendments modified certain restrictive covenants, effective June 30, 2020.

On July 10, 2020 the Museum amended its existing revolving credit facility in the amount of \$15 million to extend the maturity date from June 30, 2020 to August 29, 2020. On August 18, 2020, the Museum further amended the revolving credit facility to extend its maturity date to August 17, 2021. The amendment also provided for up to 50% of the facility to be used for working capital purposes while the remainder of the facility is restricted to expenditures for capital projects. The restrictive covenants were also modified to be consistent with those of the Series 2008 and Series 2017 Revenue Bonds.