



PHILADELPHIA MUSEUM OF ART

Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

PHILADELPHIA MUSEUM OF ART

Table of Contents

	Page
Independent Auditors' Report	1
Statement of Financial Position, June 30, 2014	3
Statement of Activities, year ended June 30, 2014	4
Statement of Cash Flows, year ended June 30, 2014	5
Notes to Financial Statements	6



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 the Philadelphia Museum of Art, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows 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 the Philadelphia Museum of Art as of June 30, 2014, and the results of its activities and its cash flows 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 the Philadelphia Museum of Art as of and for the year ended June 30, 2013 and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 14, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Philadelphia, Pennsylvania
October 13, 2014

PHILADELPHIA MUSEUM OF ART

Statement of Financial Position

June 30, 2014

(with comparative amounts for 2013)

Assets	2014	2013
Cash and cash equivalents	\$ 49,003,901	69,402,097
Short-term investments	15,048,901	—
Accounts receivable and accrued income, net	1,842,395	1,187,795
Inventories and supplies	2,484,550	2,546,099
Prepaid expenses and other assets	3,869,007	3,533,196
Contributions and grants receivable, net	69,857,879	49,573,230
Funds held in trust by others	11,423,491	9,817,759
Endowment investments	451,468,293	382,041,487
Property and equipment at cost, less accumulated depreciation and amortization of \$69,234,512 in 2014 and \$61,382,708 in 2013	266,524,596	264,469,235
Collections (note 1)	—	—
Total assets	<u>\$ 871,523,013</u>	<u>782,570,898</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 12,346,359	18,063,562
Obligations under split-interest agreements	2,280,522	2,425,970
Notes payable	58,535,000	60,690,000
Contractual obligations	4,751,065	6,260,766
Deferred revenue	1,047,706	1,236,697
Total liabilities	<u>78,960,652</u>	<u>88,676,995</u>
Net assets:		
Unrestricted net assets	317,115,526	302,334,676
Temporarily restricted net assets	177,780,293	115,072,746
Permanently restricted net assets	297,666,542	276,486,481
Total net assets	<u>792,562,361</u>	<u>693,893,903</u>
Total liabilities and net assets	<u>\$ 871,523,013</u>	<u>782,570,898</u>

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Activities

Year ended June 30, 2014
(with comparative totals for 2013)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>	
				<u>2014</u>	<u>2013</u>
Operating revenue and support:					
Endowment, trusts, and estates income	\$ 16,161,541	2,564,892	—	18,726,433	17,726,076
Contributions and grants	5,963,965	12,117,854	—	18,081,819	13,487,941
Gifts, grants, and other revenue for special exhibitions and publications:					
Net assets released from restrictions	4,635,649	(4,635,649)	—	—	—
Other revenue for special exhibitions and publications	127,021	—	—	127,021	80,778
Memberships	5,197,755	—	—	5,197,755	6,034,265
Admissions	3,890,785	—	—	3,890,785	4,135,206
Sales of wholesale and retail operations	2,566,108	—	—	2,566,108	2,771,330
City appropriations for expenses:					
Funding provided for operations	2,550,000	—	—	2,550,000	2,300,000
Value of utilities provided	3,500,000	—	—	3,500,000	2,900,000
Other revenue and support	3,312,696	323,449	—	3,636,145	4,166,410
Net assets released from restrictions to fund operating expenses	<u>7,405,181</u>	<u>(7,405,181)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total operating revenue and support	<u>55,310,701</u>	<u>2,965,365</u>	<u>—</u>	<u>58,276,066</u>	<u>53,602,006</u>
Operating expenses:					
Curatorial, conservation, and registrarial	8,298,709	—	—	8,298,709	7,809,069
Education, library, and community programs	6,104,543	—	—	6,104,543	5,753,584
Special exhibitions and publications	4,740,845	—	—	4,740,845	4,703,640
Cost of sales and expenses of wholesale and retail operations	2,802,290	—	—	2,802,290	3,197,042
Development, public relations, membership, and visitor services	9,505,303	—	—	9,505,303	9,602,754
General and administrative	7,967,950	—	—	7,967,950	7,619,980
Building and security	14,640,229	—	—	14,640,229	13,944,552
Interest and debt expense	<u>689,358</u>	<u>—</u>	<u>—</u>	<u>689,358</u>	<u>766,230</u>
Total operating expenses before depreciation and amortization	<u>54,749,227</u>	<u>—</u>	<u>—</u>	<u>54,749,227</u>	<u>53,396,851</u>
Operating surplus (deficit) before depreciation and amortization	561,474	2,965,365	—	3,526,839	205,155
Depreciation and amortization	<u>7,902,723</u>	<u>—</u>	<u>—</u>	<u>7,902,723</u>	<u>6,950,895</u>
Change in net assets from operations	<u>(7,341,249)</u>	<u>2,965,365</u>	<u>—</u>	<u>(4,375,884)</u>	<u>(6,745,740)</u>
Nonoperating revenue, support, gains, and losses:					
Gifts and grants designated for long-term investment, capital expenditures, and art purchases	2,321,037	26,489,846	19,574,329	48,385,212	40,931,291
Proceeds from sales of art objects	784,658	—	—	784,658	2,870,510
Endowment and trust income for art purchases	—	1,220,620	—	1,220,620	1,120,401
Acquisitions of art objects	(2,530,948)	—	—	(2,530,948)	(6,397,243)
Net assets released from restriction to fund nonoperating activities	10,636,610	(10,636,610)	—	—	—
Investment return (less than) in excess of amounts distributed under spending policy	12,039,164	42,516,548	1,605,732	56,161,444	27,306,923
Change in fair value of interest rate exchange agreements and effect of interest rate swaps	(761,508)	—	—	(761,508)	1,151,983
Other	<u>(366,914)</u>	<u>151,778</u>	<u>—</u>	<u>(215,136)</u>	<u>(419,471)</u>
Change in net assets	<u>14,780,850</u>	<u>62,707,547</u>	<u>21,180,061</u>	<u>98,668,458</u>	<u>59,818,654</u>
Net assets at beginning of year	<u>302,334,676</u>	<u>115,072,746</u>	<u>276,486,481</u>	<u>693,893,903</u>	<u>634,075,249</u>
Net assets at end of year	\$ <u>317,115,526</u>	\$ <u>177,780,293</u>	\$ <u>297,666,542</u>	\$ <u>792,562,361</u>	\$ <u>693,893,903</u>

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Cash Flows

Year ended June 30, 2014

(with comparative amounts for 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 98,668,458	59,818,654
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	7,902,723	6,950,895
Gifts designated for long-term investment, capital expenditures, and art purchases	(29,342,290)	(28,368,697)
Endowment and trust income for art purchases	(1,220,620)	(1,120,401)
Proceeds from sales of art objects	(784,658)	(2,870,510)
Acquisitions of art objects	2,530,948	6,397,243
Net realized and unrealized losses (gains) on long-term investments	(74,227,915)	(44,605,560)
Amortization of debt discount on contractual obligations	110,041	142,242
Changes in assets and liabilities:		
Accounts receivable and accrued income, net	(654,600)	(325,349)
Inventories and supplies	61,549	(115,073)
Prepaid expenses and other assets	(335,811)	(957,491)
Contributions and grants receivable, net	(20,284,649)	(13,101,549)
Accounts payable and accrued expenses	(5,717,203)	(7,743,639)
Obligations under split-interest agreements	(145,448)	(141,129)
Contractual obligations, net of discount	271,924	4,540,930
Deferred revenue	(188,991)	(356,202)
Net cash used in operating activities	<u>(23,356,542)</u>	<u>(21,855,636)</u>
Cash flows from investing activities:		
Investments in property and equipment	(9,958,084)	(22,857,155)
Proceeds from sales of art objects	784,658	2,870,510
Acquisitions of art objects	(2,530,948)	(6,397,243)
Purchase of investments	(82,786,716)	(60,498,251)
Proceeds from sales of investments	<u>70,933,192</u>	<u>67,815,638</u>
Net cash used in investing activities	<u>(23,557,898)</u>	<u>(19,066,501)</u>
Cash flows from financing activities:		
Gifts designated for long-term investment, capital expenditures, and art purchases	29,342,290	28,368,697
Endowment and trust income for art purchases	1,220,620	1,120,401
Proceeds of notes payable	500,000	—
Payments on long-term debt	(2,655,000)	(2,570,000)
Payments on contractual obligations	<u>(1,891,666)</u>	<u>(3,800,000)</u>
Net cash provided by financing activities	<u>26,516,244</u>	<u>23,119,098</u>
Net decrease in cash and cash equivalents	(20,398,196)	(17,803,039)
Cash and cash equivalents, beginning of year	<u>69,402,097</u>	<u>87,205,136</u>
Cash and cash equivalents, end of year	\$ <u>49,003,901</u>	<u>69,402,097</u>

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

(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 estimated to be \$3,500,000 in 2014 and \$2,900,000 in 2013 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 building and security expenses. The City also provides appropriations for the general operating support of the Museum. Such appropriations amounted to \$2,550,000 in 2014 and \$2,300,000 in 2013.

(b) Not-for-Profit Accounting

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 classified for accounting and reporting purposes into net asset categories, based on the existence or absence of donor-imposed restrictions.

The net assets of the Museum are reported in three categories as follows:

Unrestricted net assets include those resources that have not been restricted by donors and resources for which the donor restriction has expired. The Board of Trustees has designated certain unrestricted net assets as funds functioning as endowment. As such, the principal of these funds is invested and only the income is made available for operating purposes.

Temporarily restricted net assets include those resources the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Museum. Contributions and other revenue with donor-imposed restrictions are reported as temporarily restricted revenue and are reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction. Contributions restricted for the acquisition of plant and equipment are reported as temporarily restricted revenue. These contributions are reclassified to unrestricted net assets when the asset has been acquired or placed in service.

Permanently restricted net assets include those resources subject to donor instruments requiring that the principal be invested in perpetuity and that only the income be utilized either for operations or for some specified purpose.

(c) Prior Year Summarized Information

The financial statements include certain prior year summarized comparative 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, 2013, from which the summarized information was derived.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

(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. At June 30, 2014, cash, cash equivalents, and short-term investments restricted for capital expenditures amounted to approximately \$29,000,000.

(e) Inventories

Inventories of the Museum's wholesale and retail operations are stated at the lower of average cost or market value.

(f) Prepaid Expenses and Other Assets

Prepaid expenses and other assets include certain expenditures made in connection with the development of future exhibitions and deferred financing costs. 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. The deferred financing costs are being amortized over the term of the related debt.

(g) Contributions

Unconditional contributions including cash, promises to give, certain contributed services and gifts of long-lived and other assets are recorded when received as revenue at their fair value, which is determined based on the present value of future cash flows as described in note 2 using level 3 inputs (see note 1(j)) and reported net of estimated uncollectible amounts. Contributions receivable are not measured at fair value subsequent to this initial measurement.. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

(h) Property and Equipment

Property and equipment are stated at cost, if purchased or at fair value at date of acquisition, if donated. Depreciation and amortization are 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 value 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, has been recognized in the accompanying financial statements.

(i) 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. Purchases of collection items are recorded as decreases in net assets in the year in which the items are acquired. Unexpended

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

proceeds from deaccessions are reflected in the unrestricted net asset class. Their use is limited, however, by museum professional standards, which require that such proceeds be made available for acquisition of other art objects.

(j) Fair Value

The carrying amount of accounts receivable and accrued income and 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. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate-debt securities, and liquid alternative investments.

Level 3: Instruments whose primary inputs to fair value are unobservable. This category generally includes certain private debt and equity funds and certain illiquid alternative investments.

(k) Investments

Investments are carried 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. Equity securities traded on inactive markets or valued by reference to similar instruments are categorized in Level 2.

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. Most investments classified in Levels 2 and 3 consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Other debt securities are valued at the closing price reported in the active market in which the bond is traded, if available. If such information is not available, debt is valued based on yields currently available on comparable securities for issuers with similar credit ratings or it is estimated based on models considering the estimated cash flows and expected yield. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

The Museum generally uses unadjusted net asset value per share as reported by investment managers as a practical expedient to fair value for its investments in alternative investment funds for which there is no readily determinable market value. Net asset values provided by external investment managers are based on quoted prices for the funds' underlying securities (some of which are marketable), estimates, appraisals, assumptions, and methods that are reviewed by management. The Museum considers adjustment of net asset value as reported by the external investment managers in circumstances in which the reported net assets value is not as of the Museum's measurement date or in which the investment does not measure net asset value or fair value on a recurring basis. Net asset value may differ from fair value. The level in which a fund's fair value measurement is classified is based on the Museum's ability to redeem its investment at or near the date of the statement of financial position. Therefore, private equity, venture capital, private real estate, and oil and gas funds are classified as Level 3 because they have no redemption provisions, and hedge funds are classified as Level 2 or 3 depending on their redemption provisions.

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.

(l) *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 are 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.

(m) *Debt and Related Interest Rate Swaps*

The carrying value of the Museum's debt (note 7) approximates its fair value.

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

(n) *Advertising Expense*

Advertising costs are expensed in the period incurred. Total advertising expense amounted to \$1,409,381 in 2014 and \$1,031,405 in 2013.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

(o) Interest Expense

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

(p) 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 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, 2014 and 2013, there are no uncertain tax positions taken or expected to be taken by the Museum that would require recognition of a liability (or asset) or disclosure in the financial statements.

(q) Allocation of Expenses

The Museum allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated based on various bases.

Included in the various categories of expenses shown in note 13 are expenses related to building maintenance, operation, security, interest, and depreciation in the aggregate amounts of \$23,232,310 in 2014 and \$21,661,677 in 2013.

(r) 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.

(s) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

(2) Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2014 and 2013 consist principally of promises to give that have been made for the following purposes:

	2014	2013
Endowment	\$ 26,124,326	21,774,290
Restricted for special purposes	56,630,085	31,569,713
Grants receivable from Commonwealth of Pennsylvania and City of Philadelphia	937,500	260,471
Less unamortized discount for present value	(12,066,843)	(2,766,814)
Total promises to give at estimated present values	71,625,068	50,837,660
Less allowance for possible uncollectible contributions	(1,767,189)	(1,264,430)
Total contributions and grants receivable, net	\$ 69,857,879	49,573,230

The discount rate used to measure present value ranges from 0.75% to 4.875%. The promises to give are payable over an extended period of years as indicated by the donors or their estates. Maturities of these promises to give (reflected in the financial statements on a present value basis of approximately \$71.6 million at June 30, 2014 and shown below at their committed values) are anticipated to be as follows:

Maturing in:	
Less than one year	\$ 18,717,865
One to five years	31,962,405
More than five years	33,011,641
	\$ 83,691,911

The Museum has been awarded grants from the Commonwealth of Pennsylvania in the amount of \$80,000,000 to support its capital program. The grant awards require a complex application and execution process. During 2014 and 2013, support from the grants of \$1,854,253 and \$4,737,622, respectively, has been recognized in the accompanying financial statements; and as of June 30, 2014, cumulative support from the grants of \$75,000,000 has been recognized.

The Museum has also received grants from the City of Philadelphia in the amount of \$8,027,143 to support its capital program. During 2014 and 2013, support from the grants of \$33,018 and \$2,365,804, respectively, has been recognized in the accompanying financial statements; and as of June 30, 2014, cumulative support from the grants of \$8,026,992 has been recognized.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

(3) 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 increase investment value after inflation. 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.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

The Museum's investments by major category in the fair value hierarchy as of June 30, 2014 and 2013, as well as related strategy, liquidity, and funding commitments are as follows:

Investment strategy	June 30, 2014				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Fixed income:						
U.S. Treasuries funds	\$ 17,704,670	—	—	17,704,670	Daily	One
U.S. government bond funds	4,860,577	—	—	4,860,577	Daily	One
U.S. bond funds	8,340,983	—	—	8,340,983	Daily	One
Global bond funds and other	—	21,006,693	—	21,006,693	Daily/Monthly	One/30/60/90
Total	<u>30,906,230</u>	<u>21,006,693</u>	<u>—</u>	<u>51,912,923</u>		
Equities:						
Common stocks	32,304,029	—	—	32,304,029	Daily	One
U.S. stock funds	—	36,450,220	—	36,450,220	Quarterly	60
Global stock funds	—	45,550,757	—	45,550,757	Monthly/Quarterly	One/30
Global (ex-U.S.) stock funds:						
Developed markets	—	53,823,015	—	53,823,015	Monthly	30
Emerging markets	15,071,674	33,250,388	—	48,322,062	Daily/Monthly	One/30
Total	<u>47,375,703</u>	<u>169,074,380</u>	<u>—</u>	<u>216,450,083</u>		
Hedge funds	—	10,925,956	84,592,296	95,518,252	Locked-up (1)	30/90
Private equity and venture capital funds	—	—	35,109,500	35,109,500	Illiquid (2)	N/A
Real assets:						
Real asset funds	9,460,598	—	3,439,313	12,899,911	Monthly/Quarterly	8/60
Private real estate funds	—	—	18,624,710	18,624,710	Illiquid (3)	N/A
Oil and gas funds	—	9,985,567	4,437,333	14,422,900	Illiquid (4)	N/A
Total	<u>9,460,598</u>	<u>9,985,567</u>	<u>26,501,356</u>	<u>45,947,521</u>		
Other investments	—	—	611,848	611,848	Illiquid	N/A
Cash and cash equivalents	10,359,957	—	—	10,359,957	Daily	One
	<u>\$ 98,102,488</u>	<u>210,992,596</u>	<u>146,815,000</u>	455,910,084		
Less amount attributable to Samuel S. Fleisher Art Memorial, Inc. (note 6)				<u>(4,441,791)</u>		
Total investments				<u>\$ 451,468,293</u>		

- (1) \$10,097,789 subject to a 3-year rolling lock-up with \$5,888,979 available December 2015 and \$4,208,810 available December 2016; \$3,433,012 subject to a 2-year lock-up available March 2016; and \$26,032,230 subject to a 1-year rolling lock-up with \$22,642,612 available December 2014 and \$3,388,617 available March 2015; \$51,669,993 available quarterly; and \$4,285,228 available monthly.
- (2) These funds are expected to liquidate within 3-10 years. Unfunded future commitments aggregate \$13,323,000.
- (3) These funds are expected to liquidate within 1-2 years. Unfunded future commitments aggregate \$5,868,000.
- (4) These funds are expected to liquidate within 2-6 years. Unfunded future commitments aggregate \$2,011,000.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

Investment strategy	June 30, 2013				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Fixed income:						
U.S. Treasuries funds	\$ 15,726,610	—	—	15,726,610	Daily	One
U.S. government bond funds	4,889,423	—	—	4,889,423	Daily	One
U.S. bond funds	7,953,326	—	—	7,953,326	Daily	One
Global bond funds and other	—	19,206,386	—	19,206,386	Daily/Monthly	One/30/60/90
Total	<u>28,569,359</u>	<u>19,206,386</u>	<u>—</u>	<u>47,775,745</u>		
Equities:						
Common stocks	30,515,384	—	—	30,515,384	Daily	One
U.S. stock funds	—	30,183,151	—	30,183,151	Quarterly	60
Global stock funds	—	41,996,216	—	41,996,216	Monthly/Quarterly	One/30
Global (ex-U.S.) stock funds:						
Developed markets	—	43,906,683	—	43,906,683	Monthly	30
Emerging markets	—	32,649,694	—	32,649,694	Monthly	30
Total	<u>30,515,384</u>	<u>148,735,744</u>	<u>—</u>	<u>179,251,128</u>		
Hedge funds	—	13,561,377	64,015,860	77,577,237	Locked-up (1)	30/90
Private equity and venture capital funds	—	—	24,297,374	24,297,374	Illiquid (2)	N/A
Real assets:						
Real asset funds	—	20,213,767	2,439,723	22,653,490	Monthly/Quarterly	8/60
Private real estate funds	—	—	17,768,083	17,768,083	Illiquid (3)	N/A
Oil and gas funds	—	—	4,728,470	4,728,470	Illiquid (4)	N/A
Total	<u>—</u>	<u>20,213,767</u>	<u>24,936,276</u>	<u>45,150,043</u>		
Other investments	—	—	2,073,412	2,073,412	Illiquid	N/A
Cash and cash equivalents	9,783,370	—	—	9,783,370	Daily	One
	<u>\$ 68,868,113</u>	<u>201,717,274</u>	<u>115,322,922</u>	<u>385,908,309</u>		
Less amount attributable to Samuel S. Fleisher Art Memorial, Inc. (note 6)				<u>(3,866,822)</u>		
Total investments				<u>\$ 382,041,487</u>		

- (1) \$6,854,389 subject to a 3-year rolling lock-up with \$3,428,709 available December 2013 and \$3,425,680 available March 2016; \$8,026,052 subject to a 2-year lock-up with \$4,888,851 available December 2013, and \$3,137,201 available March 2015; and \$25,807,082 subject to a 1-year rolling lock-up with \$11,006,763 available December 2013, \$5,129,768 available March 2014 and \$9,670,521 available June 2014; \$32,918,362 available quarterly; and \$3,971,351 available monthly.
- (2) These funds are expected to liquidate within 4-11 years. Unfunded future commitments aggregate \$11,011,000.
- (3) These funds are expected to liquidate within 2-3 years. Unfunded future commitments aggregate \$6,615,000.
- (4) These funds are expected to liquidate within 3-7 years. Unfunded future commitments aggregate \$3,002,000.

A portion of the investments of the Samuel S. Fleisher Art Memorial, Inc., are invested with Museum funds and is deducted in the tables above.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

The following tables present the Museum's activities for the years ended June 30, 2014 and 2013 for investments classified in Level 3:

Level 3 rollforward	2014				
	Hedge funds	Private equity and venture capital funds	Real assets	Other investments	Total
Beginning value as of July 1, 2013	\$ 64,015,860	24,297,374	24,936,276	2,073,412	115,322,922
Purchases	17,000,000	4,150,358	2,939,841	—	24,090,199
Net realized and unrealized gains (losses)	8,888,421	16,092,476	4,753,792	639	29,735,328
Sales, redemptions, and distributions	(5,311,985)	(9,430,708)	(6,128,553)	(1,462,203)	(22,333,449)
Fair value at June 30, 2014	<u>\$ 84,592,296</u>	<u>35,109,500</u>	<u>26,501,356</u>	<u>611,848</u>	<u>146,815,000</u>
Net gains (losses) in Level 3 attributable to changes in net unrealized gains (losses) relating to those investments still held at June 30, 2014	\$ 7,864,901	9,675,532	3,636,102	—	21,176,535

Level 3 rollforward	2013				
	Hedge funds	Private equity and venture capital funds	Real assets	Other investments	Total
Beginning value as of July 1, 2012	\$ 57,896,715	20,862,034	25,494,817	672,852	104,926,418
Purchases	12,000,000	4,487,385	5,410,207	1,462,203	23,359,795
Net realized and unrealized gains (losses)	8,741,177	6,341,145	967,436	(61,643)	15,988,115
Sales, redemptions, and distributions	(14,622,032)	(7,393,190)	(6,936,184)	—	(28,951,406)
Fair value at June 30, 2013	<u>\$ 64,015,860</u>	<u>24,297,374</u>	<u>24,936,276</u>	<u>2,073,412</u>	<u>115,322,922</u>
Net gains (losses) in Level 3 attributable to changes in net unrealized gains (losses) relating to those investments still held at June 30, 2013	\$ 5,645,873	6,361,145	967,436	—	12,974,454

There were no transfers into or out of Level 1, Level 2, or Level 3 for the year ended June 30, 2014.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

The investment returns for the years ended June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Investment return:		
Interest and dividends, net of certain investment management expenses	\$ 1,424,784	1,109,656
Net realized and unrealized gains (losses)	<u>72,672,183</u>	<u>44,005,536</u>
Investment return	<u>\$ 74,096,967</u>	<u>45,115,192</u>

The unrestricted and temporarily restricted investment returns for the years ended June 30, 2014 and 2013 are included in the statements of activities as follows:

	<u>2014</u>	<u>2013</u>
Investment return:		
Endowment, trust, and estates income	\$ 18,320,635	17,287,892
Endowment and trust income for art purchases	1,220,620	1,120,401
Investment return in excess of amounts distributed under spending policy	<u>54,555,712</u>	<u>26,706,899</u>
Investment return	<u>\$ 74,096,967</u>	<u>45,115,192</u>

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" lock-up provisions. Under such provisions, tranches of the investment are available for redemption generally at calendar year-end 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.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

Investment liquidity as of June 30, 2014 is aggregated below based on redemption or sale period:

Investment redemption or sale period:	
Daily	\$ 104,035,558
Monthly	118,791,651
Quarterly	121,311,569
Subject to rolling lock-ups	39,563,031
Illiquid	<u>72,208,275</u>
	<u>\$ 455,910,084</u>

(4) 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, 2014 and 2013 is considered a Level 3 measurement because, although the trusts are invested primarily in marketable securities, the Museum is unlikely to receive the trust assets. 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 permanently restricted gains and losses. The income received on these funds was \$405,798 and \$438,184 for the years ended June 30, 2014 and 2013, respectively.

(5) Property and Equipment

Property and equipment at June 30, 2014 and 2013 are as follows:

	2014	2013
Land	\$ 2,983,347	2,983,347
Building and improvements	284,814,242	282,512,350
Equipment, furniture, and fixtures	12,484,218	12,214,831
Construction in progress	<u>35,477,301</u>	<u>28,141,415</u>
Total property and equipment	335,759,108	325,851,943
Less accumulated depreciation and amortization	<u>(69,234,512)</u>	<u>(61,382,708)</u>
Net property and equipment	<u>\$ 266,524,596</u>	<u>264,469,235</u>

(6) Samuel S. Fleisher Art Memorial, Inc.

The Samuel S. Fleisher Art Memorial, Inc. (the Memorial) is administered by the Museum under terms of the will of the late Samuel S. Fleisher. The approximate market value of the principal of the estate of Samuel S. Fleisher, at values furnished by the trustee, is \$15,425,000 and \$14,105,000 at June 30, 2014 and 2013, respectively. Such amounts are not included in the accompanying financial statements.

Revenues of the Memorial were approximately \$1,900,000 and \$2,300,000 in 2014 and 2013, respectively. Total assets of the Memorial, including the trust assets, were \$18,586,000 and \$17,054,000 at June 30, 2014 and 2013, respectively.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

(7) Notes Payable and Lines of Credit

Notes payable at June 30, 2014 and 2013, are summarized as follows:

	2014	2013
Philadelphia Authority for Industrial Development		
Revenue Bonds, Series of 2008	\$ 58,035,000	60,690,000
Line of credit	500,000	—
Total notes payable	\$ 58,535,000	60,690,000

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. On June 23, 2010, the trust indenture under which the Bonds were issued was amended to establish a new variable rate interest mode (the Index Rate) in which the interest rate borne by the Bonds will be 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. On the same date, the Museum elected to (i) convert the interest rate borne by the Bonds from the Daily Rate to the Index Rate and (ii) the bonds were purchased by a bank pursuant to a Continuing Covenants Agreement, between the bank and the Museum, whereby the Bonds shall be subject to mandatory tender for purchase at par plus accrued interest by the Museum on June 30, 2014. On January 2, 2013, the Continuing Covenants Agreement was amended whereby the date that the Bonds shall be subject to mandatory tender for purchase was extended to January 1, 2018. The Museum may remarket the bonds to the bank or new investors at any of the interest rate options provided in the trust indenture. At June 30, 2014 and 2013, the interest rate on the Bonds was 0.81% and 0.84%, respectively.

Although the Revenue Bonds are not direct indebtedness of the Museum, the loan agreement with the Authority obligates the Museum to make payments equal to the interest and redemption payment provisions of the Revenue Bonds, which are general obligations of the Museum. A liability equal to the principal amount of the Authority's outstanding Revenue Bonds is reflected in the statement of financial position at June 30, 2014 and 2013.

In April 2010, the Museum entered into an interest rate swap agreement with a bank to replace two similar interest swap agreements with another financial institution, which creates a synthetic fixed interest rate on part of the outstanding variable rate Revenue Bonds. The initial notional amount of the swap is \$30,000,000 and will be reduced in amounts ranging from \$578,571 in July 2011 to \$1,671,429 per year through July 1, 2029. Under the terms of the interest rate swap agreements, the Museum receives a variable rate comparable to the rate on the outstanding Revenue Bonds, and pays a fixed rate of 3.363%. At June 30, 2014 and 2013, the fair value of the swap agreements amounted to (\$3,560,280) and (\$3,659,285), respectively, and has been recognized 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.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

In addition, the Museum has a revolving line of credit with a bank in the amount of \$25,000,000 to be used for construction and renovation costs associated with its capital program. The line expires June 1, 2017 and, if used, bears interest at prime or upon a LIBOR-based formula. At June 30, 2014, \$500,000 was outstanding under the line of credit with interest at 0.65%.

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, 2014 and 2013. Further, the Museum's interest rate swap agreement contains 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 counterparty to the swap agreement 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, 2014, the Museum would be required to post up to \$3,560,000 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:	
2015	\$ 2,740,000
2016	2,825,000
2017	3,415,000
2018	3,115,000
2019	3,200,000
Thereafter	<u>43,240,000</u>
	<u>\$ 58,535,000</u>

The above amounts assume that the bonds will be remarketed prior to January 1, 2018. If the bonds are not remarketed by that date and are subject to mandatory tender, annual principal payments in each of the fiscal years 2019, 2020, and 2021 would be \$16,518,000.

(8) Contractual Obligations

The Museum enters into contractual obligations with various parties for the acquisition of art for its collection from time to time. These contractual obligations are unsecured and noninterest bearing, and require annual payments of \$2,881,667 in 2015, \$1,091,667 in 2016, \$1,010,000 in 2017, and \$10,000 in 2018. The contractual obligations are reflected in the accompanying financial statements, net of unamortized discount of \$242,269.

(9) Endowments

The Museum's endowment consists of approximately 220 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

The Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent additional gifts to the existing permanent endowment funds; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated 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 of Trustees 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% 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.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. Deficiencies of this nature were \$1,598,844 as of June 30, 2013. Such deficiencies were recorded in unrestricted net assets and were recovered during the year ended June 30 2014. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

Endowment funds classified by type as of June 30, 2014 and 2013 are as follows:

	2014		2013	
	Donor-restricted	Board-designated	Donor-restricted	Board-designated
Unrestricted	\$ —	89,692,356	(1,598,844)	79,598,051
Temporarily restricted	98,707,105	—	56,527,579	—
Permanently restricted	263,068,832	—	247,514,701	—
	<u>\$ 361,775,937</u>	<u>89,692,356</u>	<u>302,443,436</u>	<u>79,598,051</u>

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

Changes in endowment funds for the years ended June 30, 2014 and 2013 are as follows:

	Year ended June 30, 2014			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Net assets, beginning of year	\$ 77,999,207	56,527,579	247,514,701	382,041,487
Dividends and interest, net of certain investment management expenses	279,401	1,145,383	—	1,424,784
Realized gains	3,005,447	12,737,326	—	15,742,773
Changes in unrealized appreciation	12,575,589	44,353,821	—	56,929,410
Total return on long-term investments	15,860,437	58,236,530	—	74,096,967
Contributions	439,266	—	15,594,242	16,033,508
Investment return designated for current activities	(3,821,274)	(15,719,981)	—	(19,541,255)
Other changes	(785,280)	(337,023)	(40,111)	(1,162,414)
Net assets, end of year	\$ 89,692,356	98,707,105	263,068,832	451,468,293

	Year ended June 30, 2013			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Net assets, beginning of year	\$ 69,229,574	36,475,014	239,648,750	345,353,338
Dividends and interest, net of certain investment management expenses	216,624	893,032	—	1,109,656
Realized gains	515,387	2,147,123	—	2,662,510
Changes in unrealized appreciation	10,049,434	31,293,592	—	41,343,026
Total return on long-term investments	10,781,445	34,333,747	—	45,115,192
Contributions	—	—	8,051,322	8,051,322
Investment return designated for current activities	(3,704,626)	(14,703,667)	—	(18,408,293)
Other changes	1,692,814	422,485	(185,371)	1,929,928
Net assets, end of year	\$ 77,999,207	56,527,579	247,514,701	382,041,487

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

(10) Analysis of Restricted Net Assets

As of June 30, 2014 and 2013, restricted net assets consisted of the following:

	2014		2013	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Acquisitions of art objects	\$ 13,902,908	23,332,076	10,438,785	22,854,114
Curatorial and conservation	34,142,502	104,865,406	20,588,419	90,322,042
Education, library, and community programs	8,993,816	13,490,454	5,948,652	12,017,907
Special exhibitions and publications	14,811,794	31,939,294	7,933,665	27,993,463
Building improvements and equipment	48,150,672	527,228	36,008,034	527,228
General operations and other	45,479,664	123,512,084	25,208,162	122,771,727
To be designated	12,298,937	—	8,947,029	—
	<u>\$ 177,780,293</u>	<u>297,666,542</u>	<u>115,072,746</u>	<u>276,486,481</u>

(11) Pension Plan

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 pension expense under this plan amounted to \$834,870 in 2014 and \$814,477 in 2013.

(12) Postretirement Benefits

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 other than pensions on an accrual basis as employees perform services to earn the benefits. The postretirement benefit cost includes the following components:

	2014	2013
Service cost	\$ 43,562	47,820
Interest cost	25,934	28,698
Amortization of transition obligation	—	—
Amortization of unrecognized net gain	<u>(11,202)</u>	<u>(6,936)</u>
Net postretirement benefit cost	<u>\$ 58,294</u>	<u>69,582</u>

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

Changes in the benefit obligation for the Museum's postretirement benefit plan for the years ended June 30, 2014 and 2013 (the measurement date) are as follows:

	2014	2013
Benefit obligation at beginning of year	\$ 510,558	460,005
Service cost	43,562	47,820
Interest cost on projected benefit obligation	25,934	28,698
Net loss (gain)	(92,251)	14,914
Benefits paid	(38,457)	(40,879)
Benefit obligation at end of year	\$ 449,346	510,558

The healthcare cost trend rate assumptions used in determining the projected benefit obligation are 8% for fiscal years 2015 through 2019, and 5% thereafter. The discount rate used in determining the accumulated postretirement benefit obligation was 6% at June 30, 2014 and 2013.

The benefits expected to be paid in each year from 2015 – 2019 are \$75,877, \$70,100, \$11,371, \$16,374 and \$17,684, respectively. The aggregate benefits expected to be paid in the five years from 2020 – 2024 are \$181,350.

(13) Functional Allocation of Expenses

Expenses by functional classification for the years ended June 30, 2014 and 2013 are as follows:

	2014	2013
Program expenses:		
Curatorial, conservation, and registrarial	\$ 25,481,501	23,812,817
Education, library, and community programs	7,655,515	7,201,873
Special exhibitions and publications	5,940,208	5,815,349
Cost of sales and expenses of wholesale and retail operations	3,352,337	3,706,889
Public services and other	9,448,123	9,663,257
Total program expenses	51,877,684	50,200,185
Development	4,499,587	4,475,471
General and administrative	6,274,679	5,672,090
Total expenses	\$ 62,651,950	60,347,746

PHILADELPHIA MUSEUM OF ART

Notes to Financial Statements

June 30, 2014

(14) Supplemental Disclosures

Supplemental disclosure of noncash investing and financing activities:

During the year ended June 30, 2014 and 2013, the Museum acquired certain art objects for cash and contractual obligations as follows:

	<u>2014</u>	<u>2013</u>
Art objects acquired	\$ 295,000	5,000,000
Less contractual obligations	<u>285,000</u>	<u>5,000,000</u>
Cash paid	<u>\$ 10,000</u>	<u>—</u>

Supplemental disclosure of cash flow information:

	<u>2014</u>	<u>2013</u>
Cash paid during the year for interest	\$ 637,182	712,495

(15) Subsequent Events

The Museum has evaluated subsequent events through October 13, 2014, which is the date the financial statements were issued, noting no events that affect the financial statements as of June 30, 2014.