PHILADELPHIA MUSEUM OF ART

Financial Statements

June 30, 2018

(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 the Philadelphia Museum of Art, which comprise the statement of financial position as of June 30, 2018, 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, 2018, and the results of its change in net assets 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, 2017 and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Philadelphia, Pennsylvania
October 11, 2018

PHILADELPHIA MUSEUM OF ART

Statement of Financial Position

June 30, 2018
(with comparative amounts for 2017)

Assets		2018	2017
Cash and cash equivalents	$	47,474,782	43,791,942
Short-term investments		15,404,934	15,403,598
Accounts receivable and accrued income, net		1,020,402	990,076
Inventories and supplies		927,376	1,549,817
Prepaid expenses and other assets		1,706,694	3,580,740
Contributions and grants receivable, net		72,832,360	101,136,486
Funds held in trust by others		12,809,685	11,482,204
Endowment investments		487,334,473	466,725,791
Property and equipment at cost, less accumulated depreciation and amortization of $101,424,748 in 2018 and $92,267,632 in 2017		369,812,959	317,876,401
Collections (note 1)		—	—
Total assets	$	1,009,323,665	962,537,055
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	23,903,727	21,792,015
Obligations under split-interest agreements		1,987,202	2,057,989
Loans payable		66,825,138	59,332,870
Contractual obligations		—	189,310
Deferred revenue		1,801,589	358,828
Total liabilities		94,517,656	83,731,012
Net assets:			
Unrestricted net assets		405,017,600	361,662,521
Temporarily restricted net assets		179,709,834	198,520,836
Permanently restricted net assets		330,078,575	318,622,686
Total net assets		914,806,009	878,806,043
Total liabilities and net assets	$	1,009,323,665	962,537,055

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Activities

Year ended June 30, 2018
(with comparative totals for 2017)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2018	Total 2017
Operating revenue and support:					
Endowment, trusts, and estates income	$ 18,897,370	4,503,174	—	23,400,544	22,472,664
Contributions and grants	6,718,568	6,263,311	—	12,981,879	18,399,538
Gifts, grants, and other revenue for special exhibitions and publications:					
Net assets released from restrictions	4,532,605	(4,532,605)	—	—	—
Other revenue for special exhibitions and publications	115,195	—	—	115,195	134,006
Memberships	5,071,988	—	—	5,071,988	5,584,431
Admissions	5,126,866	—	—	5,126,866	5,383,577
Sales of retail operations	2,888,675	—	—	2,888,675	3,326,690
City appropriations for expenses:					
Funding provided for operations	2,550,000	—	—	2,550,000	2,550,000
Value of utilities provided	3,500,000	—	—	3,500,000	3,400,000
Other revenue and support	3,696,245	772,206	—	4,468,451	3,536,858
Net assets released from restrictions to fund operating expenses	7,208,129	(7,208,129)	—	—	—
Total operating revenue and support	60,305,641	(202,043)	—	60,103,598	64,787,764
Operating expenses:					
Curatorial, conservation, and registrar	9,585,936	—	—	9,585,936	9,550,540
Education, library, and community programs	8,088,401	—	—	8,088,401	6,975,217
Special exhibitions and publications	4,382,695	—	—	4,382,695	4,662,736
Cost of sales and expenses of retail operations	3,456,956	—	—	3,456,956	3,191,057
Development, public relations, membership, and visitor services	10,955,148	—	—	10,955,148	11,578,844
General and administrative	9,439,007	—	—	9,439,007	8,808,630
Building and security	16,043,063	—	—	16,043,063	15,413,777
Interest and debt expense	928,686	—	—	928,686	670,973
Total operating expenses before depreciation and amortization	62,879,892	—	—	62,879,892	60,851,774
Operating surplus (deficit) before depreciation and amortization	(2,574,251)	(202,043)	—	(2,776,294)	3,935,990
Depreciation and amortization	9,298,567			9,298,567	8,660,854
Change in net assets from operations	(11,872,818)	(202,043)	—	(12,074,861)	(4,724,864)
Nonoperating revenue, support, gains, and losses:					
Gifts and grants designated for long-term investment, capital expenditures, and art purchases	6,769,121	13,959,090	10,128,408	30,856,619	38,404,998
Proceeds from sales of art objects	157,422	—	—	157,422	97,019
Endowment and trust income for art purchases	—	1,850,525	—	1,850,525	1,646,261
Acquisitions of art objects	(2,533,110)	—	—	(2,533,110)	(4,863,179)
Net assets released from restriction to fund nonoperating activities	46,747,689	(46,747,689)	—	—	—
Investment return in excess of amounts distributed under spending policy	3,092,972	12,551,111	1,327,481	16,971,564	25,652,307
Change in fair value of interest rate exchange agreement and effect of interest rate swap	993,803	—	—	993,803	1,003,149
Other	—	(221,996)	—	(221,996)	(721,111)
Change in net assets	43,355,079	(18,811,002)	11,455,889	35,999,966	56,494,580
Net assets at beginning of year	361,662,521	198,520,836	318,622,686	878,806,043	822,311,463
Net assets at end of year	$ 405,017,600	179,709,834	330,078,575	914,806,009	878,806,043

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Cash Flows

Year ended June 30, 2018
(with comparative amounts for 2017)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	35,999,966	56,494,580
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		9,298,567	8,660,854
Gifts designated for long-term investment, capital expenditures, and art purchases		(53,082,606)	(30,398,552)
Endowment and trust income for art purchases		(1,850,525)	(1,646,261)
Proceeds from sales of art objects		(157,422)	(97,019)
Acquisitions of art objects		2,533,110	4,863,179
Net realized and unrealized losses (gains) on long-term investments		(40,807,557)	(48,953,619)
Amortization of debt discount and debt issuance costs		121,292	63,114
Changes in assets and liabilities:			
Accounts receivable and accrued income, net		(30,326)	(1,172)
Short-term investments		(1,336)	(38,636)
Inventories and supplies		622,441	350,958
Prepaid expenses and other assets		1,775,712	(761,168)
Contributions and grants receivable, net		28,304,126	(9,139,211)
Accounts payable and accrued expenses		112,401	(4,093,063)
Obligations under split-interest agreements		(70,787)	(59,927)
Deferred revenue		1,442,761	(385,009)
Net cash used in operating activities		(15,790,183)	(25,140,952)
Cash flows from investing activities:			
Investments in property and equipment		(59,235,814)	(38,942,452)
Proceeds from sales of art objects		157,422	97,019
Acquisitions of art objects		(2,533,110)	(4,863,179)
Purchase of investments		(67,245,179)	(43,122,562)
Proceeds from sales of investments		86,116,573	61,854,554
Net cash used in investing activities		(42,740,108)	(24,976,620)
Cash flows from financing activities:			
Gifts designated for long-term investment, capital expenditures, and art purchases		53,082,606	30,398,552
Endowment and trust income for art purchases		1,850,525	1,646,261
Proceeds of debt issuance		20,500,000	340,000
Payments on debt		(13,025,000)	(2,915,000)
Contractual obligations		—	388,424
Payments on contractual obligations		(195,000)	(220,000)
Net cash provided by financing activities		62,213,131	29,638,237
Net increase (decrease) in cash and cash equivalents		3,682,840	(20,479,335)
Cash and cash equivalents, beginning of year		43,791,942	64,271,277
Cash and cash equivalents, end of year	$	47,474,782	43,791,942

See accompanying notes to financial statements.

(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 2018 and $3,400,000 in 2017 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 2018 and 2017.

(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, 2017, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to current year presentation.

(Continued)

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

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

(e) Inventories

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

(f) Prepaid Expenses and Other Assets

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

(g) 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, and improvements to City owned buildings operated by 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 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 swap 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.

(k) Investments

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

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, 2018, 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.

(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 fair value of the Museum’s interest rate swap related to its debt obligations (note 6) is primarily based on Level 2 observable inputs.

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

(n) Advertising Expense

Advertising costs are expensed in the period incurred. Total advertising expense amounted to $1,065,641 in 2018 and $1,052,794 in 2017.

(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, 2018 and 2017, 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 11 are expenses related to building maintenance, operation, security, interest, and depreciation in the aggregate amounts of $26,270,316 in 2018 and $24,745,604 in 2017.

(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.

(2) Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2018 and 2017 consist principally of promises to give that have been made for the following purposes:

		2018	2017
Endowment	$	19,054,802	14,323,095
Building and other capital projects		64,617,108	79,786,478
Grants receivable from Commonwealth of Pennsylvania and City of Philadelphia		—	13,000,000
Restricted for special purposes		6,412,676	12,727,834
Less unamortized discount for present value		(15,389,480)	(16,445,011)
Total promises to give at estimated present values		74,695,106	103,392,396
Less allowance for possible uncollectible contributions		(1,862,746)	(2,255,910)
Total contributions and grants receivable, net	$	72,832,360	101,136,486

The discount rate used to measure present value ranges from 0.75% to 4.125%. 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 $74.7 million at June 30, 2018 and shown below at their committed values) are anticipated to be as follows:

Maturing in:		
Less than one year	$	16,331,776
One to five years		34,965,510
More than five years		38,787,300
	$	90,084,586

The Museum has been awarded grants from the Commonwealth of Pennsylvania in the amount of $10,000,000 to support its capital program. The grant awards require a complex application and execution process. During 2018 and 2017, support from the grants of $0 and $6,018,952, respectively, has been recognized in the accompanying financial statements; and as of June 30, 2018, cumulative support from the grants of $10,000,000 has been recognized.

The Museum has been awarded grants from the City of Philadelphia to support its capital program. During 2018 and 2017, support from the grants of $6,645,428 and $7,500,000, respectively, has been recognized in the accompanying financial statements.

(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 to preserve and enhance the real (inflation-adjusted) purchasing power of the investment portfolio. The Museum diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Investment Committee of the Board of Trustees, which oversees the Museum's investment program in accordance with established guidelines.

Investment Strategies

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

The Museum's investments by major category in the fair value hierarchy as of June 30, 2018 and 2017, as well as related strategy, liquidity, and funding commitments are as follows:

Investment strategy	June 30, 2018 Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' Notice
Cash and cash equivalents	$ 4,163,677	—	—	4,163,677	Daily	One
Fixed income:						
U.S. Treasuries funds	30,743,173	—	—	30,743,173	Daily	One
U.S. Government bond funds	25,425,400	—	—	25,425,400	Daily	One
Total	56,168,573	—	—	56,168,573		
Equities:						
Common stocks	14,846,961	—	—	14,846,961	Daily	One
Common stock funds	31,399,928	—	—	31,399,928	Daily	One
Global stock funds	15,799,260	—	—	15,799,260	Daily	One
Emerging market funds	11,036,209	—	—	11,036,209	Daily	One
Total	73,082,358	—	—	73,082,358		
Real asset funds	9,004,017	—	—	9,004,017	Daily	One
	$ 142,418,625	—	—	142,418,625		
Investment measured at net assets value as a practical expedient:						
Mortgage backed securities fund				111,968	Monthly	5
U.S. Stock funds				50,064,634	Quarterly/Locked-up (1)	60/90
Global stock funds				31,906,959	Monthly/Quarterly	5/30
Global (ex-U.S.) stock funds				66,489,365	Monthly	30
Emerging market funds				31,774,340	Monthly/Locked-up (2)	7/30
Alternative investments:						
Hedge funds				95,636,283	Locked-up (3)	30/60/90
Real asset funds				4,460,318	Quarterly	60
Private equity and venture capital funds				48,257,058	Illiquid (4)	N/A
Private real estate funds				8,816,952	Illiquid (5)	N/A
Oil and gas funds				11,578,637	Illiquid (6)	N/A
Other investments				511,500	Illiquid	N/A
				492,026,639		
Less amount attributable to Samuel S. Fleisher Art Memorial, Inc.				(4,692,166)		
Total investments				$ 487,334,473		

(1) $10,579,838 subject to a 3-year rolling lock-up available April 2021; $39,484,796 available quarterly.
(2) $8,572,454 subject to a 2-year rolling lock-up available April 2020; $23,201,886 available monthly.
(3) $6,681,826 subject to a 3-year rolling lock-up available March 2019; $3,114,420 subject to a 2-year rolling lock-up available March 2019; $20,505,149 subject to a 1-year rolling lock-up available December 2018; $48,751,881 available quarterly; $16,140,980 available monthly and $442,072 is expected to liquidate within 1 year.
(4) These funds are expected to liquidate within 1-7 years. Unfunded future commitments aggregate $51,631,500.
(5) These funds are expected to liquidate within 1 year. Unfunded future commitments aggregate $1,342,865.
(6) These funds are expected to liquidate within 1-5 years. Unfunded future commitments aggregate $1,890,000.

Investment strategy	June 30, 2017 Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' Notice
Cash and cash equivalents	$ 16,147,954	—	—	16,147,954	Daily	One
Fixed income:						
U.S. Treasuries funds	30,859,060	—	—	30,859,060	Daily	One
U.S. Government bond funds	4,740,385	—	—	4,740,385	Daily	One
Total	35,599,445	—	—	35,599,445		
Equities:						
Common stocks	14,175,982	—	—	14,175,982	Daily	One
Common stock funds	18,905,129	—	—	18,905,129	Daily	One
Global stock funds	14,912,043	—	—	14,912,043	Daily	One
Emerging market funds	10,332,801	—	—	10,332,801	Daily	One
Total	58,325,955	—	—	58,325,955		
Real asset funds	14,451,234	—	—	14,451,234	Daily	One
	$ 124,524,588	—	—	124,524,588		
Investment measured at net assets value as a practical expedient:						
Mortgage backed securities fund				21,972,262	Monthly	5
U.S. Stock funds				48,310,526	Quarterly/Locked-up (1)	60/90
Global stock funds				31,700,003	Monthly/Quarterly	5/30
Global (ex-U.S.) stock funds				61,897,645	Monthly	30
Emerging market funds				30,410,851	Monthly/Locked-up (2)	7/30
Alternative investments:						
Hedge funds				89,742,117	Locked-up (3)	30/60/90
Real asset funds				2,106,173	Quarterly	60
Private equity and venture capital funds				37,734,392	Illiquid (4)	N/A
Private real estate funds				10,549,704	Illiquid (5)	N/A
Oil and gas funds				11,847,305	Illiquid (6)	N/A
Other investments				595,482	Illiquid	N/A
				471,391,048		
Less amount attributable to Samuel S. Fleisher Art Memorial, Inc.				(4,665,257)		
Total investments				$ 466,725,791		

(1) $9,141,577 subject to a 3-year rolling lock-up available April 2018; $39,168,949 available quarterly.
(2) $8,465,265 subject to a 2-year rolling lock-up available April 2019; $21,945,586 available monthly.
(3) $6,550,170 subject to a 3-year rolling lock-up available December 2017; $3,113,849 subject to a 2-year rolling lock-up available March 2019; $24,977,831 subject to a 1-year rolling lock-up available December 2017; $33,537,325 available quarterly; $14,287,554 available monthly and $7,285,273 is expected to liquidate within 1 year.
(4) These funds are expected to liquidate within 1-8 years. Unfunded future commitments aggregate $42,162,888.
(5) These funds are expected to liquidate within 1 year. Unfunded future commitments aggregate $1,342,865.
(6) These funds are expected to liquidate within 1-6 years. Unfunded future commitments aggregate $2,561,844.

Institutional and alternative investment funds for which fair value is estimated using the Museum's ownership interests in the net asset value (NAV) reported by external investment managers as a practical expedient 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.

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.

There were no transfers into or out of Level 1, Level 2, or Level 3 for the year ended June 30, 2018.

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.

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

Investment redemption or sale period:		
Daily	$	142,418,625
Monthly		120,055,016
Quarterly		110,493,137
Subject to rolling lock-ups		49,453,687
Illiquid		69,606,174
	$	492,026,639

The investment returns for the years ended June 30, 2018 and 2017 are summarized as follows:

		2018	2017
Investment return:			
Dividends and interest	$	4,380,845	3,453,904
Realized gains		6,702,688	3,662,482
Changes in unrealized appreciation		32,777,388	44,704,681
Investment management expenses		(3,378,226)	(3,040,401)
Investment return	$	40,482,695	48,780,666

The unrestricted and temporarily restricted investment returns for the years ended June 30, 2018 and 2017 are included in the statements of activities as follows:

		2018	2017
Investment return:			
Endowment, trust, and estates income	$	22,988,087	22,068,555
Endowment and trust income for art purchases		1,850,525	1,646,261
Investment return in excess of amounts distributed under spending policy		15,644,083	25,065,850
Investment return	$	40,482,695	48,780,666

(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, 2018 and 2017 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 $412,457 and $399,466 for the years ended June 30, 2018 and 2017, respectively.

(5) Property and Equipment

Property and equipment at June 30, 2018 and 2017 are as follows:

		2018	2017
Land	$	2,983,347	2,983,347
Building and improvements		318,011,598	315,569,986
Equipment, furniture, and fixtures		14,126,620	13,201,350
Construction in progress		136,116,142	78,389,350
Total property and equipment		471,237,707	410,144,033
Less accumulated depreciation and amortization		(101,424,748)	(92,267,632)
Net property and equipment	$	369,812,959	317,876,401

The Museum is under taking a major renovation and expansion project of its main Museum Building, the Core Project. The Project started in 2016 and is expected to be completed in June 2020. At June 30, 2018, construction in progress includes $90.3 million related to the Project. During 2018, $1.9 million of the Project was placed in service and is included in building and improvements and equipment, furniture and fixtures. At June 30, 2018, the Museum had outstanding commitments for the Project of approximately $118 million.

(6) Loans Payable

Loans payable at June 30, 2018 and 2017, are summarized as follows:

		2018	2017
Philadelphia Authority for Industrial Development Revenue Bonds, Series of 2008	$	46,530,000	49,555,000
Philadelphia Authority for Industrial Development Revenue Bonds, Series of 2017		20,840,000	340,000
Line of credit		—	10,000,000
Less unamortized debt discount and debt issuance costs		(544,862)	(562,130)
Total loans payable	$	66,825,138	59,332,870

(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. 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 were subject to mandatory tender for purchase at par plus accrued interest by the Museum on June 30, 2013. In August 2017, the Continuing Covenants Agreement covering the Revenue Bonds, Series of 2008 was amended whereby the date that the Bonds shall be subject to mandatory tender for purchase was extended to April 1, 2022. 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, 2018 and 2017, the interest rate on the Bonds was 2.34% and 1.55%, respectively.

Although the 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 Bonds, which are general obligations of the Museum. A liability equal to the principal amount of the Authority's outstanding Bonds is reflected in the statement of financial position at June 30, 2018 and 2017.

(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 1, 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 maximum principal amount through April 12, 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 12, 2022, unless the Museum and the bank agree to a later date. At June 30, 2018 and 2017, the interest rate on the Bond was 2.25% and 1.24%, respectively.

Although the Bond is not direct indebtedness of the Museum, the Loan Agreement obligates 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 Bond is reflected in the statement of financial position at June 30, 2018.

(c) Interest Rate Swaps

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, Series of 2008. The initial notional amount of the swap was $30,000,000 and is being reduced in amounts ranging from $1,157,142 in July 2011 to $3,235,714 through July 1, 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%. At June 30, 2018 and 2017, the fair value of this interest rate swap obligation amounted to $(2,030,370) and $(3,077,806), respectively, and has been reported in accounts payable and accrued expenses in the statement of financial position. The change in the fair value of the swap agreement is recognized in change in fair value of interest rate exchange agreements and effect of interest rate swaps on the statement of activities.

In October 2017, the Museum entered into a forward interest rate swap agreement, which changes the interest rate on part of the Series 2017 Revenue Bonds from a variable rate to a fixed rate for the three-year period beginning April 1, 2019 and ending April 12, 2022. The initial notional amount of the swap is $40,000,000, decreasing to $30,000,000 on April 1, 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%. At June 30, 2018, the fair value of this interest rate swap receivable amounted to $452,292 and has been reported in accounts payable and accrued expenses in the statement of financial position. The change in the fair value of the swap agreement is recognized in change in fair value of interest rate exchange agreements and effect of interest rate swaps on the statement of activities.

(d) Revolving Line of Credit

In addition, 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. At June 30, 2018 and 2017, $0 and $10,000,000, respectively was outstanding under the line of credit. The interest rate on the line of credit was 1.54% at June 30, 2017.

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, 2018 and 2017. 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, 2018, the Museum would be required to post up to $2,030,000 of collateral to the counterparty.

(Continued)

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

Year ending June 30:		
2019	$	3,115,000
2020		3,200,000
2021		3,315,000
2022		24,270,000
2023		3,545,000
Thereafter		29,925,000
	$	67,370,000

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.

(7) Endowments

The Museum's endowment consists of approximately 240 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.

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. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions by the Museum. At June 30, 2018 and 2017 such deficiencies amounted to $190,031 and $464,882, respectively, and are recorded in unrestricted net assets.

Endowment funds classified by type as of June 30, 2018 and 2017 are as follows:

		2018		
		Donor-restricted	Board-designated	Total
Unrestricted	$	(190,031)	90,155,380	89,965,349
Temporarily restricted		95,070,118	—	95,070,118
Permanently restricted		302,299,006	—	302,299,006
	$	397,179,093	90,155,380	487,334,473

		2017		
		Donor-restricted	Board-designated	Total
Unrestricted	$	(464,882)	88,651,327	88,186,445
Temporarily restricted		82,674,809	—	82,674,809
Permanently restricted		295,864,537	—	295,864,537
	$	378,074,464	88,651,327	466,725,791

(Continued)

Changes in endowment funds for the years ended June 30, 2018 and 2017 are as follows:

		Year ended June 30, 2018			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net assets, beginning of year	$	88,186,445	82,674,809	295,864,537	466,725,791
Dividends and interest		782,906	3,597,939	—	4,380,845
Realized gains		1,196,744	5,505,944	—	6,702,688
Changes in unrealized appreciation		6,138,719	26,638,669	—	32,777,388
Investment management expenses		(593,962)	(2,784,264)	—	(3,378,226)
Total return on long-term investments		7,524,407	32,958,288	—	40,482,695
Contributions		123,693	—	6,434,469	6,558,162
Investment return designated for current activities		(4,431,435)	(20,407,177)	—	(24,838,612)
Other changes		(1,437,761)	(155,802)	—	(1,593,563)
Net assets, end of year	$	89,965,349	95,070,118	302,299,006	487,334,473

	Year ended June 30, 2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 83,280,241	63,891,545	289,918,834	437,090,620
Dividends and interest	625,803	2,828,101	—	3,453,904
Realized gains	662,829	2,999,653	—	3,662,482
Changes in unrealized appreciation	9,833,532	34,871,149	—	44,704,681
Investment management expenses	(551,306)	(2,489,095)	—	(3,040,401)
Total return on long-term investments	10,570,858	38,209,808	—	48,780,666
Contributions	175,974	—	5,945,703	6,121,677
Investment return designated for current activities	(4,301,383)	(19,413,433)	—	(23,714,816)
Other changes	(1,539,245)	(13,111)	—	(1,552,356)
Net assets, end of year	$ 88,186,445	82,674,809	295,864,537	466,725,791

(8) Analysis of Restricted Net Assets

As of June 30, 2018 and 2017, restricted net assets consisted of the following:

	2018		2017	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Acquisitions of art objects	$ 15,265,741	23,497,883	13,631,788	23,383,962
Curatorial and conservation	37,943,629	125,289,291	32,988,121	122,888,762
Education, library, and community programs	9,934,964	18,475,960	8,759,883	14,552,925
Special exhibitions and publications	11,876,513	35,295,164	12,255,886	34,950,001
Building improvements and equipment	58,328,546	552,133	85,233,328	554,099
General operations and other	42,282,331	126,968,144	37,836,917	122,292,937
To be designated	4,078,110	—	7,814,913	—
	$ 179,709,834	330,078,575	198,520,836	318,622,686

(9) 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 $ 991,591 in 2018 and $940,597 in 2017.

(10) 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 on an accrual basis as employees perform services to earn the benefits. The postretirement benefit cost includes the following components:

		2018	2017
Service cost	$	60,255	53,806
Interest cost		22,350	23,256
Amortization of unrecognized net gain		(13,968)	(12,030)
Net postretirement benefit cost	$	68,637	65,032

Changes in the benefit obligation for the Museum's postretirement benefit plan for the years ended June 30, 2018 and 2017 (the measurement date) are as follows:

		2018	2017
Benefit obligation at beginning of year	$	497,647	519,951
Service cost		60,255	53,806
Interest cost on projected benefit obligation		22,350	23,256
Net gain		(50,794)	(56,470)
Benefits paid		(35,245)	(42,896)
Benefit obligation at end of year	$	494,213	497,647

The healthcare cost trend rate assumptions used in determining the projected benefit obligation are 8% for fiscal years 2019 through 2022, and 5% thereafter. The discount rate used in determining the accumulated postretirement benefit obligation was 5% at June 30, 2018 and 5% at June 30, 2017.

The benefits expected to be paid in each year from 2019 – 2023 are $94,774, $81,530, $13,225, $24,485, and $26,444, respectively. The aggregate benefits expected to be paid in the five years from 2024 – 2028 are $188,499.

(11) Functional Allocation of Expenses

Expenses by functional classification for the years ended June 30, 2018 and 2017 are as follows:

		2018	2017
Program expenses:			
Curatorial, conservation, and registrar	$	28,994,645	27,861,496
Education, library, and community programs		9,844,813	8,626,101
Special exhibitions and publications		5,730,957	5,943,588
Cost of sales and expenses of retail operations		4,075,290	3,778,476
Public services and other		10,367,227	10,632,726
Total program expenses		59,012,932	56,842,387
Development		5,647,382	5,736,251
General and administrative		7,518,145	6,933,990
Total expenses	$	72,178,459	69,512,628

(12) Supplemental Disclosures

Supplemental disclosure of cash flow information:

		2018	2017
Cash paid during the year for interest (net of amounts capitalized of $409,726 in 2018 and $122,822 in 2017)	$	813,084	609,588

Capital expenditures included in accounts payable and accrued expenses and thus not presented in the statements of cash flows are $1,999,311 and $7,614,431 for the years ended June 30, 2018 and 2017, respectively.

(13) Subsequent Events

In August 2018, the Continuing Covenants Agreement covering the Revenue Bonds, Series of 2008 described in note 6 was amended whereby the interest rate spread on the Bonds was reduced.

The Museum has evaluated subsequent events through October 11, 2018, which is the date the financial statements were issued, noting no additional events that affect the financial statements as of June 30, 2018.