KPMG

PHILADELPHIA MUSEUM OF ART

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

PHILADELPHIA MUSEUM OF ART

Table of Contents

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 statement of financial position of the Philadelphia Museum of Art (the Museum) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Museum's 2010 financial statements, and in our report dated October 15, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 19, 2011

PHILADELPHIA MUSEUM OF ART

Statement of Financial Position

June 30, 2011
(with comparative amounts for 2010)

Assets		**2011**	**2010**
Cash and cash equivalents	$	90,481,533	112,520,084
Accounts receivable and accrued income, net		1,542,983	1,105,071
Inventories and supplies		2,508,201	2,570,781
Prepaid expenses and other assets		3,129,680	3,599,255
Contributions and grants receivable, net		36,312,009	33,362,331
Funds held in trust by others		9,441,327	7,876,105
Endowment investments		363,013,624	306,840,267
Property and equipment at cost, less accumulated depreciation and amortization of $48,507,177 in 2011 and $42,626,675 in 2010		221,678,457	200,782,004
Collections (note 1)		—	—
Total assets	$	728,107,814	668,655,898
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	15,330,407	13,359,346
Obligations under split-interest agreements		2,648,334	2,688,198
Notes payable		65,745,000	66,820,000
Contractual obligations		6,832,265	9,280,870
Deferred revenue		1,408,655	1,105,864
Total liabilities		91,964,661	93,254,278
Net assets:			
Unrestricted net assets		259,352,449	223,941,857
Temporarily restricted net assets		123,322,301	103,013,258
Permanently restricted net assets		253,468,403	248,446,505
Total net assets		636,143,153	575,401,620
Total liabilities and net assets	$	728,107,814	668,655,898

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Activities

Year ended June 30, 2011
(with comparative totals for 2010)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2011	Total 2010
Operating revenue and support:					
Endowment, trusts, and estates income	$ 13,666,120	2,282,769	—	15,948,889	15,724,958
Contributions and grants	5,434,941	6,366,367	—	11,801,308	12,552,948
Gifts, grants, and other revenue for special exhibitions and publications:					
Net assets released from restrictions	3,224,404	(3,224,404)	—	—	—
Other revenue for special exhibitions and publications	339,360	—	—	339,360	245,296
Memberships	6,829,581	—	—	6,829,581	6,710,552
Admissions	3,908,599	—	—	3,908,599	3,873,050
Sales of wholesale and retail operations	3,627,008	—	—	3,627,008	3,031,603
City appropriations for expenses:					
Funding provided for operations	2,300,000	—	—	2,300,000	2,300,000
Value of utilities provided	3,200,000	—	—	3,200,000	2,825,000
Other revenue and support	3,429,619	167,502	—	3,597,121	4,258,075
Net assets released from restrictions to fund operating expenses	5,202,518	(5,202,518)	—	—	—
Total operating revenue and support	51,162,150	389,716	—	51,551,866	51,521,482
Operating expenses:					
Curatorial, conservation, and registraral	7,081,978	—	—	7,081,978	6,756,999
Education, library, and community programs	5,413,498	—	—	5,413,498	5,310,586
Special exhibitions and publications	3,547,599	—	—	3,547,599	4,886,887
Cost of sales and expenses of wholesale and retail operations	3,516,321	—	—	3,516,321	3,215,073
Development, public relations, membership, and visitor services	9,147,831	—	—	9,147,831	9,165,309
General and administrative	7,307,712	—	—	7,307,712	6,965,293
Building and security	13,953,156	—	—	13,953,156	13,747,246
Interest and debt expense	898,956	—	—	898,956	700,063
Total operating expenses before depreciation and amortization	50,867,051	—	—	50,867,051	50,747,456
Operating surplus before depreciation and amortization	295,099	389,716	—	684,815	774,026
Depreciation and amortization	5,970,284	—	—	5,970,284	5,600,299
Excess (deficiency) of operating revenue and support over (under) operating expenses	(5,675,185)	389,716	—	(5,285,469)	(4,826,273)
Nonoperating revenue, support, gains, and losses:					
Gifts and grants designated for long-term investment, capital expenditures, and art purchases	6,920,665	12,681,798	3,413,194	23,015,657	48,974,649
Proceeds from sales of art objects	216,888	—	—	216,888	195,572
Endowment and trust income for art purchases	—	1,062,242	—	1,062,242	1,139,573
Acquisitions of art objects	(7,969,548)	—	—	(7,969,548)	(18,764,500)
Net assets released from restriction to fund nonoperating activities	27,756,876	(27,756,876)	—	—	—
Investment return in excess of amounts distributed under spending policy	14,224,307	33,835,575	1,565,222	49,625,104	21,580,385
Change in fair value of interest rate exchange agreements and effect of interest rate swaps	(63,411)	—	—	(63,411)	(1,909,715)
Other	—	96,588	43,482	140,070	(2,272,494)
Change in net assets	35,410,592	20,309,043	5,021,898	60,741,533	44,117,197
Net assets at beginning of year	223,941,857	103,013,258	248,446,505	575,401,620	531,284,423
Net assets at end of year	$ 259,352,449	123,322,301	253,468,403	636,143,153	575,401,620

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Cash Flows

Year ended June 30, 2011

(with comparative amounts for 2010)

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	60,741,533	44,117,197
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		5,970,284	5,600,299
Gifts designated for long-term investment, capital expenditures, and art purchases		(18,570,307)	(53,278,355)
Endowment and trust income for art purchases		(1,062,242)	(1,139,573)
Proceeds from sales of art objects		(216,888)	(195,572)
Acquisitions of art objects		7,969,548	9,893,574
Net realized and unrealized gains on long-term investments		(63,935,646)	(35,335,186)
Amortization of debt discount on contractual obligations		245,145	40,419
Changes in assets and liabilities:			
Accounts receivable and accrued income, net		(437,912)	2,196,746
Inventories and supplies		62,580	(138,456)
Prepaid expenses and other assets		469,575	(48,394)
Contributions and grants receivable, net		(2,949,678)	4,643,130
Accounts payable and accrued expenses		1,971,061	(5,157,332)
Obligations under split-interest agreements		(39,864)	(215,272)
Contractual obligations, net of discount		—	8,830,507
Deferred revenue		302,791	(1,439,431)
Net cash used in operating activities		(9,480,020)	(21,625,699)
Cash flows from investing activities:			
Investments in property and equipment		(26,866,737)	(11,862,877)
Proceeds from sales of art objects		216,888	195,572
Acquisitions of art objects		(7,969,548)	(9,893,574)
Purchase of investments		(80,023,071)	(288,608,529)
Proceeds from sales of investments		86,220,138	285,249,341
Net cash used in investing activities		(28,422,330)	(24,920,067)
Cash flows from financing activities:			
Gifts designated for long-term investment, capital expenditures, and art purchases		18,570,307	51,379,656
Endowment and trust income for art purchases		1,062,242	1,139,573
Payments on long-term debt		(1,075,000)	(1,740,000)
Payments on contractual obligations		(2,693,750)	(937,500)
Net cash provided by financing activities		15,863,799	49,841,729
Net increase (decrease) in cash and cash equivalents		(22,038,551)	3,295,963
Cash and cash equivalents, beginning of year		112,520,084	109,224,121
Cash and cash equivalents, end of year	$	90,481,533	112,520,084

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 $3,200,000 in 2011 and $2,825,000 in 2010 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 capital improvements paid by the City amounted to $62,699 in 2010 and have been recorded in the financial statements as property and equipment. The City also provides appropriations for the general operating support of the Museum. Such appropriations amounted to $2,300,000 in both 2011 and 2010. In addition, the Museum received grants from the City of $2,445,000 in 2010 in support of its capital program.

(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, 2010, from which the summarized information was derived.

(d) Cash and Cash Equivalents

Cash equivalents consist of short-term interest-bearing investments, including mutual funds and money market accounts with original maturities of three months or less. The 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, 2011 and 2010, cash and cash equivalents restricted for capital expenditures amounted to approximately $30,000,000 and $49,800,000, respectively.

(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 value. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions receivable are recorded at the present value of future cash flows as described in note 2 and are reported net of estimated uncollectible amounts. Contributions receivable are not measured at fair value subsequent to this initial measurement.

(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 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 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.

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.

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 debt (note 7) is based on Level 2 inputs.

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 $966,269 in 2011 and $1,360,778 in 2010.

(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 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, 2011, 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 $20,647,396 in 2011 and $20,047,608 in 2010.

(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.

(t) ***New Accounting Pronouncements***

In January 2010, the Financial Accounting Standards Board (FASB) issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends Accounting Standard Codification (ASC) 820 to require additional disclosures. The guidance requires entities to disclose transfers of net assets in and out of Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 reconciliation. The guidance is effective for periods beginning after December 15, 2009, except for the requirement to detail the Level 3 activity among purchases, sales, issuances and settlements on a gross basis. That requirement is effective for fiscal years beginning after December 15, 2010. The Museum adopted the provisions of ASU No. 2010-06 for the year ended June 30, 2011.

(2) Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2011 and 2010 consist principally of promises to give that have been made for the following purposes:

		2011	2010
Endowment	$	14,898,165	19,945,007
Restricted for special purposes		20,622,434	15,845,434
Grants receivable from Commonwealth of Pennsylvania and City of Philadelphia		3,945,489	908,156
Less unamortized discount for present value		(2,324,168)	(2,504,108)
Total promises to give at estimated present values		37,141,920	34,194,489
Less allowance for possible uncollectible contributions		(829,911)	(832,158)
Total contributions and grants receivable, net	$	36,312,009	33,362,331

The discount rate used to measure present value ranges from 1.5% to 5.125%. 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 $37.1 million and shown below at their committed values) are anticipated to be as follows:

Maturing in:		
Less than one year	$	16,381,475
One to five years		15,658,787
More than five years		7,425,826
	$	39,466,088

The Museum has been awarded grants from the Commonwealth of Pennsylvania in the amount of $75,000,000 to support its capital program. The grant awards require a complex application and execution process. During 2011 and 2010, support from the grants of $4,401,492 and $1,144,879, respectively, has been recognized in the accompanying financial statements; and as of June 30, 2011, cumulative support from the grants of $53,945,489 has been recognized.

The Museum has also received grants from the City of Philadelphia in the amount of $34,513,143 to support its capital program. The grant awards require a complex application and execution process. During 2011 and 2010, support from the grants of $1,965,000 and $5,216,590, respectively, has been recognized in the accompanying financial statements; and as of June 30, 2011, cumulative support from the grants of $34,513,143 has been recognized.

(Continued)

(3) Investments

(a) 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.

(b) 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. Therefore, private equity and real asset strategies often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the Museum's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

The Museum's investments by major category in the fair value hierarchy as of June 30, 2011 and 2010, as well as related strategy, liquidity, and funding commitments are as follows:

Investment strategy	June 30, 2011 Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Fixed income:						
U.S. Treasuries funds	$ 18,791,244	—	—	18,791,244	Daily	One
U.S. government bond funds	4,883,711	—	—	4,883,711	Daily	One
Global bond funds	10,690,879	16,895,893	—	27,586,772	Daily/Monthly	One/10
Total	34,365,834	16,895,893	—	51,261,727		
Equities:						
Common stocks	30,554,032	—	—	30,554,032	Daily	One
U.S. stock funds	—	21,776,335	—	21,776,335	Quarterly	60
Global stock funds	—	38,606,013	—	38,606,013	Monthly/Quarterly	15/30
Global (ex-U.S.) stock funds:						
Developed markets	—	44,495,599	—	44,495,599	Monthly	30
Emerging markets	—	27,709,104	—	27,709,104	Monthly	30
Total	30,554,032	132,587,051	—	163,141,083		
Hedge funds	—	5,442,584	67,338,379	72,780,963	Locked-up (1)	60/90
Private equity and venture capital funds	—	—	17,666,929	17,666,929	Illiquid (2)	N/A
Real assets:						
Real asset funds	—	31,736,206	—	31,736,206	Monthly/Quarterly	8/60
Private real estate funds	—	—	13,270,580	13,270,580	Illiquid (3)	N/A
Oil and gas funds	—	—	12,618,936	12,618,936	Illiquid (4)	N/A
Total	—	31,736,206	25,889,516	57,625,722		
Other investments	—	—	672,777	672,777	Illiquid	N/A
Cash and cash equivalents	3,729,492	—	—	3,729,492	Daily	One
	$ 68,649,358	186,661,734	111,567,601	366,878,693		
Less amount attributable to Samuel S. Fleisher Art Memorial, Inc. (note 6)				(3,865,069)		
Total investments				$ 363,013,624		

(1) $16,912,431 subject to a 3-year rolling lock-up with $13,933,750 available December 2012 and $2,978,681 available December 2013; $14,061,216 subject to a 2-year lock-up with $11,538,800 December 2012 and $2,522,416 available June 2013; $36,364,731 subject to a 1-year rolling with $28,573,974 available December 2011 and $7,790,758 available June 2012; and $5,442,584 available quarterly.

(2) These funds are expected to liquidate within 6-13 years. Unfunded future commitments aggregate $9,251,000.

(3) These funds are expected to liquidate within 4-6 years. Unfunded future commitments aggregate $12,269,000.

(4) These funds are expected to liquidate within 5-7 years. Unfunded future commitments aggregate $4,650,000.

Investment strategy	June 30, 2010 Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Fixed income:						
U.S. Treasuries funds	$ 29,114,731	—	—	29,114,731	Daily	One
U.S. government bond funds	4,969,118	—	—	4,969,118	Daily	One
Global bond funds	—	15,573,808	—	15,573,808	Monthly	10
Total	34,083,849	15,573,808	—	49,657,657		
Equities:						
Common stocks	33,728,291	—	—	33,728,291	Daily	One
U.S. stock funds	—	16,173,613	—	16,173,613	Quarterly	60
Global stock funds	10,353,664	22,150,985	—	32,504,649	Daily/Monthly	One/30
Global (ex-U.S.) stock funds:						
Developed markets	—	39,416,667	—	39,416,667	Monthly	30
Emerging markets	—	21,717,335	—	21,717,335	Monthly	30
Total	44,081,955	99,458,600	—	143,540,555		
Hedge funds	—	5,000,000	46,267,650	51,267,650	Locked-up (1)	95
Private equity and venture capital funds	—	—	9,883,997	9,883,997	Illiquid (2)	N/A
Real assets:						
Real asset funds	—	24,947,309	—	24,947,309	Monthly	10
Private real estate funds	—	—	9,779,876	9,779,876	Illiquid (3)	N/A
Oil and gas funds	—	—	10,868,191	10,868,191	Illiquid (4)	N/A
Total	—	24,947,309	20,648,067	45,595,376		
Other investments	—	—	688,767	688,767	Illiquid	N/A
Cash and cash equivalents	9,542,726	—	—	9,542,726	Daily	One
	$ 87,708,530	144,979,717	77,488,481	310,176,728		
Less amount attributable to Samuel S. Fleisher Art Memorial, Inc. (note 6)				(3,336,461)		
Total investments				$ 306,840,267		

(1) $21,143,019 subject to 3-year rolling lock-up with $8,578,769 available December 2010 and $12,564,250 available December 2012; $10,435,400 subject to 2-year lock-up with quarterly redemption available December 2011; $14,689,231 subject to a 1-year rolling lock-up available December 2010; and $5,000,000 available quarterly.

(2) These funds are expected to liquidate within 7-14 years. Unfunded future commitments aggregate $4,932,000.

(3) These funds are expected to liquidate within 4-7 years. Unfunded future commitments aggregate $14,612,000.

(4) These funds are expected to liquidate within 6-8 years. Unfunded future commitments aggregate $4,720,000.

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.

The following tables present the Museum's activities for the years ended June 30, 2011 and 2010 for investments classified in Level 3:

		2011				
Level 3 rollforward		**Hedge funds**	**Private equity and venture capital funds**	**Real assets**	**Other investments**	**Total**
Beginning value as of July 1, 2010	$	46,267,650	9,883,997	20,648,067	688,767	77,488,481
Purchases		25,000,000	5,233,677	5,412,572	—	35,646,249
Net realized and unrealized gains (losses)		5,418,176	3,988,712	5,819,715	1,010	15,227,613
Sales, redemptions, and distributions		(9,347,447)	(1,439,457)	(5,990,838)	(17,000)	(16,794,742)
Fair value at June 30, 2011	$	67,338,379	17,666,929	25,889,516	672,777	111,567,601
Net gains (losses) in Level 3 attributable to changes in net unrealized gains (losses) relating to those investments still held at June 30, 2011	$	3,730,390	192,552	2,749,335	1,010	6,673,287

		2010				
Level 3 rollforward		**Hedge funds**	**Private equity and venture capital funds**	**Real assets**	**Other investments**	**Total**
Beginning value as of July 1, 2009	$	10,216,689	3,315,658	16,494,078	4,307,500	34,333,925
Purchases		37,500,000	5,883,849	6,421,267	2,500	49,807,616
Net realized and unrealized gains (losses)		1,333,883	1,033,802	45,427	5,299	2,418,411
Sales, redemptions, and distributions		(2,782,922)	(349,312)	(2,312,705)	—	(5,444,939)
Transfers out of Level 3		—	—	—	(3,626,532)	(3,626,532)
Fair value at June 30, 2010	$	46,267,650	9,883,997	20,648,067	688,767	77,488,481
Net gains (losses) in Level 3 attributable to changes in net unrealized gains (losses) relating to those investments still held at June 30, 2010	$	1,333,883	624,879	(414,147)	5,299	1,549,914

There were no significant transfers into or out of level 1, level 2, or level 3 for the year ended June 30, 2011.

The investment returns for the years ended June 30, 2011 and 2010 are summarized as follows:

		2011	2010
Investment return:			
Interest and dividends, net of expenses of $2,675,061 in 2011 and $2,573,666 in 2010	$	2,332,202	2,696,392
Net realized and unrealized gains (losses)		62,370,424	35,000,046
Investment return	$	64,702,626	37,696,438

The investment returns for the years ended June 30, 2011 and 2010 are included in the statements of activities as follows:

		2011	2010
Investment return:			
Endowment, trust, and estates income	$	15,580,502	15,361,863
Endowment and trust income for art purchases		1,062,242	1,089,330
Investment return in excess of amounts distributed under spending policy		48,059,882	21,245,245
Investment return	$	64,702,626	37,696,438

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, 2011 is aggregated below based on redemption or sale period:

Investment redemption or sale period:		
Daily	$	68,649,358
Monthly		141,904,930
Quarterly		44,756,804
Subject to rolling lock-ups		67,338,379
Illiquid		44,229,222
	$	366,878,693

(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, 2011 is measured using Level 2 inputs. 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 $368,387 and $363,095 for the years ended June 30, 2011 and 2010, respectively.

(5) Property and Equipment

Property and equipment at June 30, 2011 and 2010 are as follows:

		2011	2010
Land	$	2,983,347	2,983,347
Building and improvements		203,943,107	200,209,743
Equipment, furniture, and fixtures		11,496,535	11,447,647
Construction in progress		51,762,645	28,767,942
Total property and equipment		270,185,634	243,408,679
Less accumulated depreciation and amortization		(48,507,177)	(42,626,675)
Net property and equipment	$	221,678,457	200,782,004

(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 $13,700,000 and $12,100,000 at June 30, 2011 and 2010, respectively. Such amounts are not included in the accompanying financial statements.

Revenues of the Memorial were approximately $2,000,000 and $1,900,000 in 2011 and 2010, respectively. Total assets of the Memorial, including the trust assets, were $16,800,000 and $14,800,000 at June 30, 2011 and 2010, respectively.

(7) Notes Payable and Lines of Credit

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, 2013. 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, 2011, the interest rate on the Bonds was 0.87%.

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, 2011.

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 consistent with the rate on the outstanding Revenue Bonds, and pays a fixed rate of 3.363%. At June 30, 2011 and 2010, the fair value of the swap agreements amounted to ($3,358,696) and ($3,754,560), 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.

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, 2012 and, if used, bears interest at prime or upon a LIBOR-based formula. The line was not used in 2011 or 2010.

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, 2011. 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

(Continued)

agreements. If the credit risk related contingent features underlying this agreement were triggered on June 30, 2011, the Museum would be required to post up to $3,350,000 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:		
2012	$	2,485,000
2013		2,570,000
2014		2,655,000
2015		2,740,000
2016		2,825,000
Thereafter		52,470,000
	$	65,745,000

The above amounts assume that the bonds will be remarketed prior to June 30, 2013. If the bonds are not remarketed by that date and are subject to mandatory tender, annual principal payments in each of the fiscal years 2014, 2015 and 2016 would be $20,230,000.

(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. At June 30, 2011, one such contractual obligation was outstanding which is due in annual installments of $1,800,000 in 2012, 2013, 2014, and 2015 and is reflected in the accompanying financial statements, net of unamortized discount of $367,735.

(9) Endowments

The Museum's endowment consists of approximately 190 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. Deficiencies of this nature were $1,368,590 and $5,691,103 as of June 30, 2011 and 2010, respectively. Such deficiencies are recorded in unrestricted net assets. 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, 2011 and 2010 are as follows:

	2011		**2010**	
	Donor-restricted	**Board-designated**	**Donor-restricted**	**Board-designated**
Unrestricted	$ (1,368,590)	77,972,602	(5,691,103)	68,185,962
Temporarily restricted	54,940,686	—	21,194,284	—
Permanently restricted	231,468,926	—	223,151,124	—
	$ 285,041,022	77,972,602	238,654,305	68,185,962

Changes in endowment funds for the year ended June 30, 2011 and 2010 are as follows:

	Year ended June 30, 2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 62,494,859	21,194,284	223,151,124	306,840,267
Dividends and interest, net of expenses of $2,675,061	476,435	1,855,767	—	2,332,202
Realized gains	2,339,676	9,100,618	—	11,440,294
Changes in unrealized appreciation	14,936,158	35,993,972	—	50,930,130
Total return on long-term investments	17,752,269	46,950,357	—	64,702,626
Contributions	—	—	8,274,320	8,274,320
Investment return designated for current activities	(3,527,962)	(13,114,783)	—	(16,642,745)
Other changes	(115,154)	(89,172)	43,482	(160,844)
Net assets, end of year	$ 76,604,012	54,940,686	231,468,926	363,013,624

	Year ended June 30, 2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 49,572,905	6,534,350	212,373,778	268,481,033
Dividends and interest, net of expenses of $2,573,666	541,164	2,155,228	—	2,696,392
Realized losses	(642,848)	(2,731,050)	—	(3,373,898)
Changes in unrealized appreciation	9,952,380	28,421,564	—	38,373,944
Total return on long-term investments	9,850,696	27,845,742	—	37,696,438
Contributions	6,571,949	—	10,892,970	17,464,919
Investment return designated for current activities	(3,500,691)	(12,950,501)	—	(16,451,192)
Other changes	—	(235,307)	(115,624)	(350,931)
Net assets, end of year	$ 62,494,859	21,194,284	223,151,124	306,840,267

(Continued)

(10) Analysis of Restricted Net Assets

As of June 30, 2011 and 2010, restricted net assets consisted of the following:

	2011		2010	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Acquisitions of art objects	$ 10,180,687	22,774,183	7,779,847	22,154,175
Curatorial and conservation	20,000,536	71,444,978	13,668,797	68,931,103
Education, library, and community programs	6,601,269	12,027,767	5,379,664	11,893,460
Special exhibitions and publications	8,673,549	27,547,099	4,951,124	26,743,302
Building improvements and equipment	52,513,596	527,228	63,917,698	527,228
General operations and other	25,352,664	119,147,148	7,316,128	118,197,237
	$ 123,322,301	253,468,403	103,013,258	248,446,505

(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 $778,756 in 2011 and $756,898 in 2010.

(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:

	2011	2010
Service cost	$ 43,665	41,353
Interest cost	24,809	24,426
Amortization of transition obligation	13,391	13,921
Amortization of unrecognized net gain	(7,732)	(6,789)
Net postretirement benefit cost	$ 74,133	72,911

Changes in the benefit obligation for the Museum's postretirement benefit plan for the year ended June 30, 2011 and 2010 (the measurement date) are as follows:

		2011	2010
Benefit obligation at beginning of year	$	417,632	326,015
Service cost		43,665	41,353
Interest cost on projected benefit obligation		24,809	24,426
Net loss (gain)		(25,643)	72,464
Benefits paid		(31,068)	(46,626)
Benefit obligation at end of year	$	429,395	417,632

The healthcare cost trend rate assumptions used in determining the projected benefit obligation are 8% for fiscal years 2012 through 2016, and 5% thereafter. The discount rate used in determining the accumulated postretirement benefit obligation was 6% at June 30, 2011 and 2010.

The benefits expected to be paid in each year from 2012 – 2016 are $52,083, $48,327, $26,567, $39,043, and $31,301, respectively. The aggregate benefits expected to be paid in the five years from 2017 – 2021 are $165,942.

(13) Functional Allocation of Expenses

Expenses by functional classification for the years ended June 30, 2011 and 2010 are as follows:

		2011	2010
Program expenses:			
Curatorial, conservation, and registraral	$	22,442,776	21,569,541
Education, library, and community programs		6,808,533	6,650,801
Special exhibitions and publications		4,607,595	5,916,242
Cost of sales and expenses of wholesale and retail operations		4,002,452	3,687,152
Public services and other		9,612,426	9,294,055
Total program expenses		47,473,782	47,117,791
Development		3,484,194	3,524,388
General and administrative		5,879,359	5,705,576
Total expenses	$	56,837,335	56,347,755

(14) Supplemental Disclosures

Supplemental disclosure of noncash investing and financing activities:

During the year ended June 30, 2010, the Museum acquired certain art objects for cash and contractual obligations as follows:

		2010
Art objects acquired	$	10,325,000
Less contractual obligations		9,425,000
Cash paid	$	900,000

Supplemental disclosure of cash flow information:

		2011	2010
Cash paid during the year for interest	$	850,008	149,935

(15) Subsequent Events

The Museum has evaluated subsequent events through October 19, 2011, which is the date the financial statements were issued, noting no events that affect the financial statements as of June 30, 2011.