PHILADELPHIA MUSEUM OF ART

Financial Statements

June 30, 2012

(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, 2012, 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 2011 financial statements, and in our report dated October 19, 2011, 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, 2012, 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 17, 2012

PHILADELPHIA MUSEUM OF ART

Statement of Financial Position

June 30, 2012
(with comparative amounts for 2011)

Assets		**2012**	**2011**
Cash and cash equivalents	$	87,205,136	90,481,533
Accounts receivable and accrued income, net		862,446	1,542,983
Inventories and supplies		2,431,026	2,508,201
Prepaid expenses and other assets		2,575,705	3,129,680
Contributions and grants receivable, net		36,471,681	36,312,009
Funds held in trust by others		9,217,735	9,441,327
Endowment investments		345,353,338	363,013,624
Property and equipment at cost, less accumulated depreciation and amortization of $54,449,405 in 2012 and $48,507,177 in 2011		248,562,975	221,678,457
Collections (note 1)		—	—
Total assets	$	732,680,042	728,107,814
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	25,807,201	15,330,407
Obligations under split-interest agreements		2,567,099	2,648,334
Notes payable		63,260,000	65,745,000
Contractual obligations		5,377,594	6,832,265
Deferred revenue		1,592,899	1,408,655
Total liabilities		98,604,793	91,964,661
Net assets:			
Unrestricted net assets		278,285,833	259,352,449
Temporarily restricted net assets		92,771,580	123,322,301
Permanently restricted net assets		263,017,836	253,468,403
Total net assets		634,075,249	636,143,153
Total liabilities and net assets	$	732,680,042	728,107,814

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Activities

Year ended June 30, 2012
(with comparative totals for 2011)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2012	Total 2011
Operating revenue and support:					
Endowment, trusts, and estates income	$ 13,986,772	2,562,556	—	16,549,328	15,948,889
Contributions and grants	5,778,440	5,107,401	—	10,885,841	11,801,308
Gifts, grants, and other revenue for special exhibitions and publications:					
Net assets released from restrictions	4,665,069	(4,665,069)	—	—	—
Other revenue for special exhibitions and publications	215,266	—	—	215,266	339,360
Memberships	8,348,420	—	—	8,348,420	6,829,581
Admissions	6,077,202	—	—	6,077,202	3,908,599
Sales of wholesale and retail operations	5,440,549	—	—	5,440,549	3,627,008
City appropriations for expenses:					
Funding provided for operations	2,300,000	—	—	2,300,000	2,300,000
Value of utilities provided	2,950,000	—	—	2,950,000	3,200,000
Other revenue and support	3,525,758	438,468	—	3,964,226	3,597,121
Net assets released from restrictions to fund operating expenses	4,198,905	(4,198,905)	—	—	—
Total operating revenue and support	57,486,381	(755,549)	—	56,730,832	51,551,866
Operating expenses:					
Curatorial, conservation, and registrarial	7,360,221	—	—	7,360,221	7,081,978
Education, library, and community programs	5,535,698	—	—	5,535,698	5,413,498
Special exhibitions and publications	5,697,437	—	—	5,697,437	3,547,599
Cost of sales and expenses of wholesale and retail operations	4,877,300	—	—	4,877,300	3,516,321
Development, public relations, membership, and visitor services	9,998,308	—	—	9,998,308	9,147,831
General and administrative	7,701,400	—	—	7,701,400	7,307,712
Building and security	14,392,820	—	—	14,392,820	13,953,156
Interest and debt expense	804,016	—	—	804,016	898,956
Total operating expenses before depreciation and amortization	56,367,200	—	—	56,367,200	50,867,051
Operating surplus (deficit) before depreciation and amortization	1,119,181	(755,549)	—	363,632	684,815
Depreciation and amortization	5,974,566	—	—	5,974,566	5,970,284
Change in net assets from operations	(4,855,385)	(755,549)	—	(5,610,934)	(5,285,469)
Nonoperating revenue, support, gains, and losses:					
Gifts and grants designated for long-term investment, capital expenditures, and art purchases	15,936,294	9,091,774	10,403,387	35,431,455	23,015,657
Proceeds from sales of art objects	1,831,548	—		1,831,548	216,888
Endowment and trust income for art purchases	—	1,055,229		1,055,229	1,062,242
Acquisitions of art objects	(3,784,696)	—	—	(3,784,696)	(7,969,548)
Net assets released from restriction to fund nonoperating activities	21,217,499	(21,217,499)	—	—	—
Investment return (less than) in excess of amounts distributed under spending policy	(7,646,382)	(18,740,846)	(310,183)	(26,697,411)	49,625,104
Change in fair value of interest rate exchange agreements and effect of interest rate swaps	(3,765,494)	—	—	(3,765,494)	(63,411)
Other	—	16,170	(543,771)	(527,601)	140,070
Change in net assets	18,933,384	(30,550,721)	9,549,433	(2,067,904)	60,741,533
Net assets at beginning of year	259,352,449	123,322,301	253,468,403	636,143,153	575,401,620
Net assets at end of year	$ 278,285,833	92,771,580	263,017,836	634,075,249	636,143,153

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Cash Flows

Year ended June 30, 2012
(with comparative amounts for 2011)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(2,067,904)	60,741,533
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		5,974,566	5,970,284
Gifts designated for long-term investment, capital expenditures, and art purchases		(34,190,639)	(18,570,307)
Endowment and trust income for art purchases		(1,055,229)	(1,062,242)
Proceeds from sales of art objects		(1,831,548)	(216,888)
Acquisitions of art objects		3,566,330	7,969,548
Net realized and unrealized losses (gains) on long-term investments		10,972,509	(63,935,646)
Amortization of debt discount on contractual obligations		176,963	245,145
Changes in assets and liabilities:			
Accounts receivable and accrued income, net		680,537	(437,912)
Inventories and supplies		77,175	62,580
Prepaid expenses and other assets		553,975	469,575
Contributions and grants receivable, net		(159,672)	(2,949,678)
Accounts payable and accrued expenses		10,476,794	1,971,061
Obligations under split-interest agreements		(81,235)	(39,864)
Contractual obligations, net of discount		218,366	—
Deferred revenue		184,244	302,791
Net cash used in operating activities		(6,504,768)	(9,480,020)
Cash flows from investing activities:			
Investments in property and equipment		(32,859,084)	(26,866,737)
Proceeds from sales of art objects		1,831,548	216,888
Acquisitions of art objects		(3,566,330)	(7,969,548)
Purchase of investments		(69,749,022)	(80,023,071)
Proceeds from sales of investments		76,660,391	86,220,138
Net cash used in investing activities		(27,682,497)	(28,422,330)
Cash flows from financing activities:			
Gifts designated for long-term investment, capital expenditures, and art purchases		34,190,639	18,570,307
Endowment and trust income for art purchases		1,055,229	1,062,242
Payments on long-term debt		(2,485,000)	(1,075,000)
Payments on contractual obligations		(1,850,000)	(2,693,750)
Net cash provided by financing activities		30,910,868	15,863,799
Net decrease in cash and cash equivalents		(3,276,397)	(22,038,551)
Cash and cash equivalents, beginning of year		90,481,533	112,520,084
Cash and cash equivalents, end of year	$	87,205,136	90,481,533

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 $2,950,000 in 2012 and $3,200,000 in 2011 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 $2,300,000 in both 2012 and 2011. In addition, the Museum received grants from the City of $1,534,000 in 2012 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, 2011, 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, 2012 and 2011, cash and cash equivalents restricted for capital expenditures amounted to approximately $22,000,000 and $30,000,000, 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. The level in which a fund's fair value measurement is classified in based on the Museum's ability to redeem its investment at or near the date of the statement of financial position. Therefore, private equity, venture capital, private real estate, and oil and cash funds are classified as Level 3 because they have no redemption provisions, and hedge funds are classified as Level 2 or 3 depending on their redemption provisions.

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

(l) Split-Interest Agreements

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

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

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

(m) Debt and Related Interest Rate Swaps

The 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 $1,699,606 in 2012 and $966,269 in 2011.

(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, 2012, 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 $21,171,402 in 2012 and $20,822,396 in 2011.

(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, 2012 and 2011 consist principally of promises to give that have been made for the following purposes:

		2012	**2011**
Endowment	$	16,338,929	14,898,165
Restricted for special purposes		18,060,146	20,622,434
Grants receivable from Commonwealth of Pennsylvania and City of Philadelphia		4,833,005	3,945,489
Less unamortized discount for present value		(1,949,151)	(2,324,168)
Total promises to give at estimated present values		37,282,929	37,141,920
Less allowance for possible uncollectible contributions		(811,248)	(829,911)
Total contributions and grants receivable, net	$	36,471,681	36,312,009

The discount rate used to measure present value ranges from 0.75% 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 $37.3 million and shown below at their committed values) are anticipated to be as follows:

Maturing in:		
Less than one year	$	17,587,413
One to five years		14,514,728
More than five years		7,129,939
	$	39,232,080

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 2012 and 2011, support from the grants of $14,462,636 and $4,401,492, respectively, has been recognized in the accompanying financial statements; and as of June 30, 2012, cumulative support from the grants of $68,408,125 has been recognized.

The Museum has also received grants from the City of Philadelphia in the amount of $36,047,143 to support its capital program. The grant awards require a complex application and execution process. During 2012 and 2011, support from the grants of $1,115,506 and $1,965,000, respectively, has been recognized in the accompanying financial statements; and as of June 30, 2012, cumulative support from the grants of $35,628,649 has been recognized.

(3) Investments

Investment Objective

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

Investment Strategies

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

The Museum's investments by major category in the fair value hierarchy as of June 30, 2012 and 2011, as well as related strategy, liquidity, and funding commitments are as follows:

Investment strategy	June 30, 2012 Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Fixed income:						
U.S. Treasuries funds	$ 20,781,361	—	—	20,781,361	Daily	One
U.S. government bond funds	4,971,154	—	—	4,971,154	Daily	One
U.S. bond funds	7,651,761	—	—	7,651,761	Daily	One
Global bond funds	5,147,520	14,047,086	—	19,194,606	Daily/Monthly	One/10
Total	38,551,796	14,047,086	—	52,598,882		
Equities:						
Common stocks	26,071,899	—	—	26,071,899	Daily	One
U.S. stock funds	—	23,921,629	—	23,921,629	Quarterly	60
Global stock funds	—	36,712,249	—	36,712,249	Monthly/Quarterly	15/30
Global (ex-U.S.) stock funds:			—			
Developed markets	—	38,050,549	—	38,050,549	Monthly	30
Emerging markets	—	31,075,504	—	31,075,504	Monthly	30
Total	26,071,899	129,759,931	—	155,831,830		
Hedge funds	—	12,310,591	57,896,715	70,207,306	Locked-up (1)	60/90
Private equity and venture capital funds	—	—	20,862,035	20,862,035	Illiquid (2)	N/A
Real assets:						
Real asset funds	—	22,064,789	1,615,960	23,680,749	Monthly/Quarterly	8/60
Private real estate funds	—	—	15,438,536	15,438,536	Illiquid (3)	N/A
Oil and gas funds	—	—	8,440,321	8,440,321	Illiquid (4)	N/A
Total	—	22,064,789	25,494,817	47,559,606		
Other investments	—	—	672,852	672,852	Illiquid	N/A
Cash and cash equivalents	1,206,105	—	—	1,206,105	Daily	One
	$ 65,829,800	178,182,397	104,926,419	348,938,616		
Less amount attributable to Samuel S. Fleisher Art Memorial, Inc. (note 6)				(3,585,278)		
Total investments				$ 345,353,338		

(1) $16,548,228 subject to a 3-year rolling lock-up with $13,825,164 available December 2012 and $2,733,064 available December 2013; $11,676,166 subject to a 2-year lock-up with $5,025,257 available December 2012, $2,624,528 available June 2013, and $4,026,381 available December 2013; $29,672,320 subject to a 1-year rolling with $20,381,467 available December 2012 and $9,290,853 available June 2013; $8,855,874 available quarterly; and $3,454,717 available monthly.

(2) These funds are expected to liquidate within 5-12 years. Unfunded future commitments aggregate $12,203,000.

(3) These funds are expected to liquidate within 3-5 years. Unfunded future commitments aggregate $9,442,000.

(4) These funds are expected to liquidate within 4-8 years. Unfunded future commitments aggregate $4,794,000.

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 available December 2011 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 5-9 years. Unfunded future commitments aggregate $4,650,000.

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, 2012 and 2011 for investments classified in Level 3:

Level 3 rollforward		**2012** Hedge funds	Private equity and venture capital funds	Real assets	Other investments	Total
Beginning value as of July 1, 2011	$	67,338,379	17,666,929	25,889,516	672,777	111,567,601
Purchases		18,500,000	5,393,554	5,714,195	—	29,607,749
Net realized and unrealized gains (losses)		(1,081,654)	36,053	2,016,927	5,075	976,401
Sales, redemptions, and distributions		(26,860,010)	(2,234,502)	(8,125,821)	(5,000)	(37,225,333)
Fair value at June 30, 2012	$	57,896,715	20,862,034	25,494,817	672,852	104,926,418
Net gains (losses) in Level 3 attributable to changes in net unrealized gains (losses) relating to those investments still held at June 30, 2012	$	(2,164,926)	(442,620)	(3,273,636)	5,075	(5,876,107)

Level 3 rollforward		**2011** 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

There were no significant transfers into or out of Level 1, Level 2, or Level 3 for the year ended June 30, 2012.

The investment returns for the years ended June 30, 2012 and 2011 are summarized as follows:

		2012	2011
Investment return:			
Interest and dividends, net of expenses of $2,919,630 in 2012 and $2,675,061 in 2011	$	1,520,115	2,332,202
Net realized and unrealized gains (losses)		(10,662,326)	62,370,424
Investment return	$	(9,142,211)	64,702,626

The investment returns for the years ended June 30, 2012 and 2011 are included in the statements of activities as follows:

		2012	2011
Investment return:			
Endowment, trust, and estates income	$	16,189,788	15,580,502
Endowment and trust income for art purchases		1,055,229	1,062,242
Investment return in excess of amounts distributed under spending policy		(26,387,228)	48,059,882
Investment return	$	(9,142,211)	64,702,626

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, 2012 is aggregated below based on redemption or sale period:

Investment redemption or sale period:		
Daily	$	65,829,800
Monthly		129,151,361
Quarterly		49,031,036
Subject to rolling lock-ups		57,896,715
Illiquid		47,029,704
	$	348,938,616

(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, 2012 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 $359,540 and $368,387 for the years ended June 30, 2012 and 2011, respectively.

(5) Property and Equipment

Property and equipment at June 30, 2012 and 2011 are as follows:

		2012	2011
Land	$	2,983,347	2,983,347
Building and improvements		204,321,346	203,943,107
Equipment, furniture, and fixtures		11,588,242	11,496,535
Construction in progress		84,119,445	51,762,645
Total property and equipment		303,012,380	270,185,634
Less accumulated depreciation and amortization		(54,449,405)	(48,507,177)
Net property and equipment	$	248,562,975	221,678,457

(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 $13,305,000 and $13,700,000 at June 30, 2012 and 2011, respectively. Such amounts are not included in the accompanying financial statements.

Revenues of the Memorial were approximately $2,250,000 and $2,000,000 in 2012 and 2011, respectively. Total assets of the Memorial, including the trust assets, were $16,100,000 and $16,800,000 at June 30, 2012 and 2011, 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, 2012, the interest rate on the Bonds was 0.91%.

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, 2012.

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, 2012 and 2011, the fair value of the swap agreements amounted to ($5,702,355) and ($3,358,696), 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, 2017 and, if used, bears interest at prime or upon a LIBOR-based formula. The line was not used in 2012 or 2011.

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, 2012. 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, 2012, the Museum would be required to post up to $5,700,000 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:		
2013	$	2,570,000
2014		2,655,000
2015		2,740,000
2016		2,825,000
2017		2,915,000
Thereafter		49,555,000
	$	63,260,000

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, and require annual payments of $1,975,000 in 2013 and $1,800,000 in 2014 and 2015. The contractual obligations are reflected in the accompanying financial statements, net of unamortized discount of $197,406.

(9) Endowments

The Museum’s endowment consists of approximately 200 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 $3,420,897 and $1,368,590 as of June 30, 2012 and 2011, 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, 2012 and 2011 are as follows:

	2012		**2011**	
	Donor-restricted	**Board-designated**	**Donor-restricted**	**Board-designated**
Unrestricted	$ (3,420,897)	72,650,471	(1,368,590)	77,972,602
Temporarily restricted	36,475,014	—	54,940,686	—
Permanently restricted	239,648,750	—	231,468,926	—
	$ 272,702,867	72,650,471	285,041,022	77,972,602

Changes in endowment funds for the years ended June 30, 2012 and 2011 are as follows:

	Year ended June 30, 2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net assets, beginning of year	$ 76,604,012	54,940,686	231,468,926	363,013,624
Dividends and interest, net of expenses of $2,919,630	299,480	1,220,635	—	1,520,115
Realized gains	810,511	3,261,874	—	4,072,385
Changes in unrealized appreciation	(5,200,221)	(9,534,490)	—	(14,734,711)
Total return on long-term investments	(4,090,230)	(5,051,981)	—	(9,142,211)
Contributions	—	—	8,723,595	8,723,595
Investment return designated for current activities	(3,556,152)	(13,688,865)	—	(17,245,017)
Other changes	271,944	275,174	(543,771)	3,347
Net assets, end of year	$ 69,229,574	36,475,014	239,648,750	345,353,338

	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

(10) Analysis of Restricted Net Assets

As of June 30, 2012 and 2011, restricted net assets consisted of the following:

	2012		2011	
	Temporarily restricted	**Permanently restricted**	**Temporarily restricted**	**Permanently restricted**
Acquisitions of art objects	$ 8,596,813	22,562,448	10,180,687	22,774,183
Curatorial and conservation	16,070,980	80,928,409	20,000,536	71,444,978
Education, library, and community programs	4,993,265	12,010,269	6,601,269	12,027,767
Special exhibitions and publications	6,099,760	28,014,082	8,673,549	27,547,099
Building improvements and equipment	40,643,524	527,228	52,513,596	527,228
General operations and other	16,367,238	118,975,400	25,352,664	119,147,148
	$ 92,771,580	263,017,836	123,322,301	253,468,403

(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 $807,364 in 2012 and $778,756 in 2011.

(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:

	2012	2011
Service cost	$ 50,483	43,665
Interest cost	25,028	24,809
Amortization of transition obligation	—	13,391
Amortization of unrecognized net gain	(8,086)	(7,732)
Net postretirement benefit cost	$ 67,425	74,133

Changes in the benefit obligation for the Museum's postretirement benefit plan for the years ended June 30, 2012 and 2011 (the measurement date) are as follows:

		2012	2011
Benefit obligation at beginning of year	$	429,395	417,632
Service cost		50,483	43,665
Interest cost on projected benefit obligation		25,028	24,809
Net gain		(14,824)	(25,643)
Benefits paid		(30,077)	(31,068)
Benefit obligation at end of year	$	460,005	429,395

The healthcare cost trend rate assumptions used in determining the projected benefit obligation are 8% for fiscal years 2013 through 2017, and 5% thereafter. The discount rate used in determining the accumulated postretirement benefit obligation was 6% at June 30, 2012 and 2011.

The benefits expected to be paid in each year from 2013 – 2017 are $60,462, $63,070, $17,341, $26,002, and $30,423, respectively. The aggregate benefits expected to be paid in the five years from 2018 – 2022 are $174,616.

(13) Functional Allocation of Expenses

Expenses by functional classification for the years ended June 30, 2012 and 2011 are as follows:

		2012	2011
Program expenses:			
Curatorial, conservation, and registrarial	$	22,993,982	22,442,776
Education, library, and community programs		6,952,180	6,808,533
Special exhibitions and publications		6,781,051	4,607,595
Cost of sales and expenses of wholesale and retail operations		5,374,263	4,002,452
Public services and other		9,662,848	9,612,426
Total program expenses		51,764,324	47,473,782
Development		4,416,687	3,484,194
General and administrative		6,160,755	5,879,359
Total expenses	$	62,341,766	56,837,335

(14) Supplemental Disclosures

Supplemental disclosure of noncash investing and financing activities:

During the year ended June 30, 2012, the Museum acquired certain art objects for cash and contractual obligations as follows:

Art objects acquired	$	400,000
Less contractual obligations		225,000
Cash paid	$	175,000

Supplemental disclosure of cash flow information:

		2012	2011
Cash paid during the year for interest	$	752,293	850,008

(15) Subsequent Events

The Museum has evaluated subsequent events through October 17, 2012, which is the date the financial statements were issued, noting no events that affect the financial statements as of June 30, 2012.