PHILADELPHIA MUSEUM OF ART

Financial Statements

June 30, 2013

(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 financial statements of the Philadelphia Museum of Art, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Philadelphia Museum of Art as of June 30, 2013, and the results of its activities and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the financial statements of the Philadelphia Museum of Art as of and for the year ended June 30, 2012 and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 17, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Philadelphia, Pennsylvania
October 14, 2013

PHILADELPHIA MUSEUM OF ART

Statement of Financial Position

June 30, 2013
(with comparative amounts for 2012)

Assets		2013	2012
Cash and cash equivalents	$	69,402,097	87,205,136
Accounts receivable and accrued income, net		1,187,795	862,446
Inventories and supplies		2,546,099	2,431,026
Prepaid expenses and other assets		3,533,196	2,575,705
Contributions and grants receivable, net		49,573,230	36,471,681
Funds held in trust by others		9,817,759	9,217,735
Endowment investments		382,041,487	345,353,338
Property and equipment at cost, less accumulated depreciation and amortization of $61,382,708 in 2013 and $54,449,405 in 2012		264,469,235	248,562,975
Collections (note 1)		—	—
Total assets	$	782,570,898	732,680,042
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	18,063,562	25,807,201
Obligations under split-interest agreements		2,425,970	2,567,099
Notes payable		60,690,000	63,260,000
Contractual obligations		6,260,766	5,377,594
Deferred revenue		1,236,697	1,592,899
Total liabilities		88,676,995	98,604,793
Net assets:			
Unrestricted net assets		302,334,676	278,285,833
Temporarily restricted net assets		115,072,746	92,771,580
Permanently restricted net assets		276,486,481	263,017,836
Total net assets		693,893,903	634,075,249
Total liabilities and net assets	$	782,570,898	732,680,042

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Activities

Year ended June 30, 2013
(with comparative totals for 2012)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2013	Total 2012
Operating revenue and support:					
Endowment, trusts, and estates income	$ 15,173,873	2,552,203	—	17,726,076	16,549,328
Contributions and grants	6,127,918	7,360,023	—	13,487,941	10,885,841
Gifts, grants, and other revenue for special exhibitions and publications:					
Net assets released from restrictions	4,622,863	(4,622,863)	—	—	—
Other revenue for special exhibitions and publications	80,778	—	—	80,778	215,266
Memberships	6,034,265	—	—	6,034,265	8,348,420
Admissions	4,135,206	—	—	4,135,206	6,077,202
Sales of wholesale and retail operations	2,771,330	—	—	2,771,330	5,440,549
City appropriations for expenses:					
Funding provided for operations	2,300,000	—	—	2,300,000	2,300,000
Value of utilities provided	2,900,000	—	—	2,900,000	2,950,000
Other revenue and support	3,863,812	302,598	—	4,166,410	3,964,226
Net assets released from restrictions to fund operating expenses	5,998,589	(5,998,589)	—	—	—
Total operating revenue and support	54,008,634	(406,628)	—	53,602,006	56,730,832
Operating expenses:					
Curatorial, conservation, and registrarial	7,578,982	—	—	7,578,982	7,360,221
Education, library, and community programs	5,490,934	—	—	5,490,934	5,535,698
Special exhibitions and publications	4,703,640	—	—	4,703,640	5,697,437
Cost of sales and expenses of wholesale and retail operations	3,197,042	—	—	3,197,042	4,877,300
Development, public relations, membership, and		—	—		
visitor services	9,865,404	—	—	9,865,404	9,998,308
General and administrative	7,850,067	—	—	7,850,067	7,701,400
Building and security	13,944,552	—	—	13,944,552	14,392,820
Interest and debt expense	766,230	—	—	766,230	804,016
Total operating expenses before depreciation and amortization	53,396,851	—	—	53,396,851	56,367,200
Operating surplus (deficit) before depreciation and amortization	611,783	(406,628)	—	205,155	363,632
Depreciation and amortization	6,950,895	—	—	6,950,895	5,974,566
Change in net assets from operations	(6,339,112)	(406,628)	—	(6,745,740)	(5,610,934)
Nonoperating revenue, support, gains, and losses:					
Gifts and grants designated for long-term investment, capital expenditures, and art purchases	7,477,947	20,584,723	12,868,621	40,931,291	35,431,455
Proceeds from sales of art objects	2,870,510	—	—	2,870,510	1,831,548
Endowment and trust income for art purchases	—	1,120,401	—	1,120,401	1,055,229
Acquisitions of art objects	(6,397,243)	—	—	(6,397,243)	(3,784,696)
Net assets released from restriction to fund nonoperating activities	18,207,939	(18,207,939)	—	—	—
Investment return (less than) in excess of amounts distributed under spending policy	7,076,819	19,630,080	600,024	27,306,923	(26,697,411)
Change in fair value of interest rate exchange agreements and effect of interest rate swaps	1,151,983	—	—	1,151,983	(3,765,494)
Other	—	(419,471)	—	(419,471)	(527,601)
Change in net assets	24,048,843	22,301,166	13,468,645	59,818,654	(2,067,904)
Net assets at beginning of year	278,285,833	92,771,580	263,017,836	634,075,249	636,143,153
Net assets at end of year	$ 302,334,676	115,072,746	276,486,481	693,893,903	634,075,249

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Cash Flows

Year ended June 30, 2013
(with comparative amounts for 2012)

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 59,818,654	(2,067,904)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	6,950,895	5,974,566
Gifts designated for long-term investment, capital expenditures, and art purchases	(28,368,697)	(34,190,639)
Endowment and trust income for art purchases	(1,120,401)	(1,055,229)
Proceeds from sales of art objects	(2,870,510)	(1,831,548)
Acquisitions of art objects	6,397,243	3,566,330
Net realized and unrealized losses (gains) on long-term investments	(44,605,560)	10,972,509
Amortization of debt discount on contractual obligations	142,242	176,963
Changes in assets and liabilities:		
Accounts receivable and accrued income, net	(325,349)	680,537
Inventories and supplies	(115,073)	77,175
Prepaid expenses and other assets	(957,491)	553,975
Contributions and grants receivable, net	(13,101,549)	(159,672)
Accounts payable and accrued expenses	(7,743,639)	10,476,794
Obligations under split-interest agreements	(141,129)	(81,235)
Contractual obligations, net of discount	4,540,930	218,366
Deferred revenue	(356,202)	184,244
Net cash used in operating activities	(21,855,636)	(6,504,768)
Cash flows from investing activities:		
Investments in property and equipment	(22,857,155)	(32,859,084)
Proceeds from sales of art objects	2,870,510	1,831,548
Acquisitions of art objects	(6,397,243)	(3,566,330)
Purchase of investments	(60,498,251)	(69,749,022)
Proceeds from sales of investments	67,815,638	76,660,391
Net cash used in investing activities	(19,066,501)	(27,682,497)
Cash flows from financing activities:		
Gifts designated for long-term investment, capital expenditures, and art purchases	28,368,697	34,190,639
Endowment and trust income for art purchases	1,120,401	1,055,229
Payments on long-term debt	(2,570,000)	(2,485,000)
Payments on contractual obligations	(3,800,000)	(1,850,000)
Net cash provided by financing activities	23,119,098	30,910,868
Net decrease in cash and cash equivalents	(17,803,039)	(3,276,397)
Cash and cash equivalents, beginning of year	87,205,136	90,481,533
Cash and cash equivalents, end of year	$ 69,402,097	87,205,136

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 $2,900,000 in 2013 and $2,950,000 in 2012 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 2013 and 2012. In addition, the Museum received grants from the City of $1,980,000 in 2013 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, 2012, 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, 2013 and 2012, cash and cash equivalents restricted for capital expenditures amounted to approximately $29,000,000.

(e) Inventories

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

(f) Prepaid Expenses and Other Assets

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

(g) Contributions

Unconditional contributions including cash, promises to give, certain contributed services and gifts of long-lived and other assets are recorded when received as revenue at their 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 carrying amount of accounts receivable and accrued income and accounts payable and accrued expenses approximates fair value due to the short maturity of these financial instruments. The Museum reports its investments, certain split-interest agreements, interest rate swaps related to its debt, and contributions receivable at inception at fair value using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose primary values are observable. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate-debt securities, and liquid alternative investments.

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

(k) Investments

Investments are carried at fair value. Equity securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded, they are categorized in Level 1 of the fair value hierarchy. Equity securities traded on inactive markets or valued by reference to similar instruments are categorized in Level 2.

U.S. Treasuries and registered mutual funds are classified in Level 1 of the fair value hierarchy because their fair values are based on quoted prices for identical securities. Most investments classified in Levels 2 and 3 consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Other debt securities are valued at the closing price reported in the active market in which the bond is traded, if available. If such information is not available, debt is valued based on yields currently available on comparable securities for issuers with similar credit ratings or it is estimated based on models considering the estimated cash flows and expected yield. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

The Museum generally uses unadjusted net asset value per share as reported by investment managers as a practical expedient to fair value for its investments in alternative investment funds for which there is no readily determinable market value. Net asset values provided by external investment managers are based on quoted prices for the funds' underlying securities (some of which are marketable), estimates, appraisals, assumptions, and methods that are reviewed by management. The Museum considers adjustment of net asset value as reported by the external investment managers in circumstances in which the reported net assets value is not as of the Museum's measurement date or in which the investment does not measure net asset value or fair value on a recurring basis. Net asset value may differ from fair value. The level in which a fund's fair value measurement is classified is based on the Museum's ability to redeem its investment at or near the date of the statement of financial position. Therefore, private equity, venture capital, private real estate, and oil and 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 carrying value of the Museum's debt (note 7) approximates its fair value.

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

(n) Advertising Expense

Advertising costs are expensed in the period incurred. Total advertising expense amounted to $1,031,405 in 2013 and $1,699,606 in 2012.

(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, 2013 and 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 $21,661,677 in 2013 and $21,171,402 in 2012.

(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, 2013 and 2012 consist principally of promises to give that have been made for the following purposes:

		2013	2012
Endowment	$	21,774,290	16,338,929
Restricted for special purposes		31,569,713	18,060,146
Grants receivable from Commonwealth of Pennsylvania and City of Philadelphia		260,471	4,833,005
Less unamortized discount for present value		(2,766,814)	(1,949,151)
Total promises to give at estimated present values		50,837,660	37,282,929
Less allowance for possible uncollectible contributions		(1,264,430)	(811,248)
Total contributions and grants receivable, net	$	49,573,230	36,471,681

The discount rate used to measure present value ranges from 0.75% to 4.875%. The promises to give are payable over an extended period of years as indicated by the donors or their estates. Maturities of these promises to give (reflected in the financial statements on a present value basis of approximately $50.8 million and shown below at their committed values) are anticipated to be as follows:

Maturing in:		
Less than one year	$	16,055,884
One to five years		28,113,290
More than five years		9,435,300
	$	53,604,474

The Museum has been awarded grants from the Commonwealth of Pennsylvania in the amount of $80,000,000 to support its capital program. The grant awards require a complex application and execution process. During 2013 and 2012, support from the grants of $4,737,622 and $14,462,636, respectively, has been recognized in the accompanying financial statements; and as of June 30, 2013, cumulative support from the grants of $73,145,747 has been recognized.

The Museum has also received grants from the City of Philadelphia in the amount of $8,027,143 to support its capital program. The grant awards require a complex application and execution process. During 2013 and 2012, support from the grants of $2,365,804 and $1,115,506, respectively, has been recognized in the accompanying financial statements; and as of June 30, 2013, cumulative support from the grants of $7,993,974 has been recognized.

(Continued)

(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, 2013 and 2012, as well as related strategy, liquidity, and funding commitments are as follows:

	June 30, 2013				Redemption or	Days'
Investment strategy	**Level 1**	**Level 2**	**Level 3**	**Total**	**liquidation**	**notice**
Fixed income:						
U.S. Treasuries funds	$ 15,726,610	—	—	15,726,610	Daily	One
U.S. government bond funds	4,889,423	—	—	4,889,423	Daily	One
U.S. bond funds	7,953,326	—	—	7,953,326	Daily	One
Global bond funds	8,061,321	11,145,065	—	19,206,386	Daily/Monthly	One/30
Total	36,630,680	11,145,065	—	47,775,745		
Equities:						
Common stocks	30,515,384	—	—	30,515,384	Daily	One
U.S. stock funds	—	30,183,151	—	30,183,151	Quarterly	60
Global stock funds	—	41,996,216	—	41,996,216	Monthly/Quarterly	One/30
Global (ex-U.S.) stock funds:						
Developed markets	—	43,906,683	—	43,906,683	Monthly	30
Emerging markets	—	32,649,694	—	32,649,694	Monthly	30
Total	30,515,384	148,735,744	—	179,251,128		
Hedge funds	—	13,561,377	64,015,860	77,577,237	Locked-up (1)	30/90
Private equity and venture capital funds	—	—	24,297,374	24,297,374	Illiquid (2)	N/A
Real assets:						
Real asset funds	—	20,213,767	2,439,723	22,653,490	Monthly/Quarterly	8/60
Private real estate funds	—	—	17,768,083	17,768,083	Illiquid (3)	N/A
Oil and gas funds	—	—	4,728,470	4,728,470	Illiquid (4)	N/A
Total	—	20,213,767	24,936,276	45,150,043		
Other investments	—	—	2,073,412	2,073,412	Illiquid	N/A
Cash and cash equivalents	9,783,370	—	—	9,783,370	Daily	One
	$ 76,929,434	193,655,953	115,322,922	385,908,309		
Less amount attributable to Samuel S. Fleisher Art Memorial, Inc. (note 6)				(3,866,822)		
Total investments				$ 382,041,487		

(1) $6,854,389 subject to a 3-year rolling lock-up with $3,428,709 available December 2013 and $3,425,680 available March 2016; $8,026,052 subject to a 2-year lock-up with $4,888,851 available December 2013, and $3,137,201 available March 2015; and $25,807,082 subject to a 1-year rolling lock-up with $11,006,763 available December 2013, $5,129,768 available March 2014 and $9,670,521 available June 2014; $32,918,362 available quarterly; and $3,971,351 available monthly.

(2) These funds are expected to liquidate within 4-11 years. Unfunded future commitments aggregate $11,011,000.

(3) These funds are expected to liquidate within 2-3 years. Unfunded future commitments aggregate $6,615,000.

(4) These funds are expected to liquidate within 3-7 years. Unfunded future commitments aggregate $3,002,000.

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 fun	—	—	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.

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, 2013 and 2012 for investments classified in Level 3:

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

Level 3 rollforward		2012 Hedge funds	2012 Private equity and venture capital funds	2012 Real assets	2012 Other investments	2012 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)

There were no transfers into or out of Level 1, Level 2, or Level 3 for the year ended June 30, 2013.

The investment returns for the years ended June 30, 2013 and 2012 are summarized as follows:

		2013	2012
Investment return:			
Interest and dividends, net of certain investment management expenses	$	1,109,656	1,520,115
Net realized and unrealized gains (losses)		44,005,536	(10,662,326)
Investment return	$	45,115,192	(9,142,211)

The investment returns for the years ended June 30, 2013 and 2012 are included in the statements of activities as follows:

		2013	2012
Investment return:			
Endowment, trust, and estates income	$	17,287,892	16,189,788
Endowment and trust income for art purchases		1,120,401	1,055,229
Investment return in excess of amounts distributed under spending policy		26,706,899	(26,387,228)
Investment return	$	45,115,192	(9,142,211)

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, 2013 is aggregated below based on redemption or sale period:

Investment redemption or sale period:		
Daily	$	91,233,177
Monthly		121,348,960
Quarterly		83,351,146
Subject to rolling lock-ups		38,667,964
Illiquid		51,307,062
	$	385,908,309

(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, 2013 and 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 $438,184 and $359,540 for the years ended June 30, 2013 and 2012, respectively.

(5) Property and Equipment

Property and equipment at June 30, 2013 and 2012 are as follows:

		2013	2012
Land	$	2,983,347	2,983,347
Building and improvements		282,512,350	204,321,346
Equipment, furniture, and fixtures		12,214,831	11,588,242
Construction in progress		28,141,415	84,119,445
Total property and equipment		325,851,943	303,012,380
Less accumulated depreciation and amortization		(61,382,708)	(54,449,405)
Net property and equipment	$	264,469,235	248,562,975

(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 $14,105,000 and $13,305,000 at June 30, 2013 and 2012, respectively. Such amounts are not included in the accompanying financial statements.

Revenues of the Memorial were approximately $2,300,000 and $2,250,000 in 2013 and 2012, respectively. Total assets of the Memorial, including the trust assets, were $17,054,000 and $16,100,000 at June 30, 2013 and 2012, 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. On January 2, 2013, the Continuing Covenants Agreement was amended whereby the date that the Bonds shall be subject to mandatory tender for purchase was extended to January 1, 2018. The Museum may remarket the bonds to the bank or new investors at any of the interest rate options provided in the trust indenture. At June 30, 2013 and 2012, the interest rate on the Bonds was 0.84% and 0.91%, respectively.

Although the Revenue Bonds are not direct indebtedness of the Museum, the loan agreement with the Authority obligates the Museum to make payments equal to the interest and redemption payment provisions of the Revenue Bonds, which are general obligations of the Museum. A liability equal to the principal amount of the Authority's outstanding Revenue Bonds is reflected in the statement of financial position at June 30, 2013 and 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 comparable to the rate on the outstanding Revenue Bonds, and pays a fixed rate of 3.363%. At June 30, 2013 and 2012, the fair value of the swap agreements amounted to ($3,659,285) and ($5,702,355), 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 2013 or 2012.

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, 2013 and 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, 2013 and 2012, the Museum would be required to post up to $3,660,000 and $5,700,000 of collateral to the counterparty, respectively.

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

Year ending June 30:		
2014	$	2,655,000
2015		2,740,000
2016		2,825,000
2017		2,915,000
2018		3,115,000
Thereafter		46,440,000
	$	60,690,000

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

(8) Contractual Obligations

The Museum enters into contractual obligations with various parties for the acquisition of art for its collection from time to time. These contractual obligations are unsecured and noninterest bearing, and require annual payments of $1,800,000 in 2014, $2,800,000 in 2015, and $1,000,000 in 2016 and 2017. The contractual obligations are reflected in the accompanying financial statements, net of unamortized discount of $397,826.

(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 $1,598,844 and $3,420,897 as of June 30, 2013 and 2012, 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, 2013 and 2012 are as follows:

	2013		2012	
	Donor-restricted	**Board-designated**	**Donor-restricted**	**Board-designated**
Unrestricted	$ (1,598,844)	79,598,051	(3,420,897)	72,650,471
Temporarily restricted	56,527,579	—	36,475,014	—
Permanently restricted	247,514,701	—	239,648,750	—
	$ 302,443,436	79,598,051	272,702,867	72,650,471

Changes in endowment funds for the years ended June 30, 2013 and 2012 are as follows:

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

	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 certain investment management expenses	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

(Continued)

(10) Analysis of Restricted Net Assets

As of June 30, 2013 and 2012, restricted net assets consisted of the following:

	2013		2012	
	Temporarily restricted	**Permanently restricted**	**Temporarily restricted**	**Permanently restricted**
Acquisitions of art objects	$ 10,438,785	22,854,114	8,596,813	22,562,448
Curatorial and conservation	20,588,419	90,322,042	16,070,980	80,928,409
Education, library, and community programs	5,948,652	12,017,907	4,993,265	12,010,269
Special exhibitions and publications	7,933,665	27,993,463	6,099,760	28,014,082
Building improvements and equipment	36,008,034	527,228	40,643,524	527,228
General operations and other	25,208,162	122,771,727	16,367,238	118,975,400
To be designated	8,947,029	—	—	—
	$ 115,072,746	276,486,481	92,771,580	263,017,836

(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 $814,477 in 2013 and $807,364 in 2012.

(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:

	2013	2012
Service cost	$ 47,820	50,483
Interest cost	28,698	25,028
Amortization of transition obligation	—	—
Amortization of unrecognized net gain	(6,936)	(8,086)
Net postretirement benefit cost	$ 69,582	67,425

Changes in the benefit obligation for the Museum's postretirement benefit plan for the years ended June 30, 2013 and 2012 (the measurement date) are as follows:

		2013	2012
Benefit obligation at beginning of year	$	460,005	429,395
Service cost		47,820	50,483
Interest cost on projected benefit obligation		28,698	25,028
Net loss (gain)		14,914	(14,824)
Benefits paid		(40,879)	(30,077)
Benefit obligation at end of year	$	510,558	460,005

The healthcare cost trend rate assumptions used in determining the projected benefit obligation are 8% for fiscal years 2014 through 2018, and 5% thereafter. The discount rate used in determining the accumulated postretirement benefit obligation was 6% at June 30, 2013 and 2012.

The benefits expected to be paid in each year from 2014 – 2018 are $68,033, $73,475, $20,786, $35,918 and $19,396, respectively. The aggregate benefits expected to be paid in the five years from 2019 – 2023 are $189,643.

(13) Functional Allocation of Expenses

Expenses by functional classification for the years ended June 30, 2013 and 2012 are as follows:

		2013	2012
Program expenses:			
Curatorial, conservation, and registrarial	$	23,582,730	22,993,982
Education, library, and community programs		6,939,223	6,952,180
Special exhibitions and publications		5,815,349	6,781,051
Cost of sales and expenses of wholesale and retail operations		3,706,889	5,374,263
Public services and other		9,925,906	9,662,848
Total program expenses		49,970,097	51,764,324
Development		4,475,471	4,416,687
General and administrative		5,902,178	6,160,755
Total expenses	$	60,347,746	62,341,766

(14) Supplemental Disclosures

Supplemental disclosure of noncash investing and financing activities:

During the year ended June 30, 2013 and 2012, the Museum acquired certain art objects for cash and contractual obligations as follows:

		2013	2012
Art objects acquired	$	5,000,000	400,000
Less contractual obligations		5,000,000	225,000
Cash paid	$	—	175,000

Supplemental disclosure of cash flow information:

		2013	2012
Cash paid during the year for interest	$	712,495	752,293

(15) Subsequent Events

The Museum has evaluated subsequent events through October 14, 2013, which is the date the financial statements were issued, noting no events that affect the financial statements as of June 30, 2013.