PHILADELPHIA MUSEUM OF ART

Financial Statements

June 30, 2016

(With Independent Auditors' Report Thereon)

PHILADELPHIA MUSEUM OF ART

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
Philadelphia Museum of Art:

We have audited the accompanying financial statements of the Philadelphia Museum of Art, which comprise the statement of financial position as of June 30, 2016, 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, 2016, and the results of its change in net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG

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, 2015 and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 14, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Philadelphia, Pennsylvania
October 14, 2016

PHILADELPHIA MUSEUM OF ART

Statement of Financial Position

June 30, 2016
(with comparative amounts for 2015)

Assets		2016	2015
Cash and cash equivalents	$	64,271,277	52,964,692
Short-term investments		15,364,962	15,147,980
Accounts receivable and accrued income, net		988,904	958,196
Inventories and supplies		1,900,775	2,151,668
Prepaid expenses and other assets		3,110,025	4,028,942
Contributions and grants receivable, net		91,997,275	68,109,957
Funds held in trust by others		10,895,747	11,290,942
Endowment investments		437,090,620	454,571,342
Property and equipment at cost, less accumulated depreciation and amortization of $83,615,420 in 2016 and $75,791,323 in 2015		279,980,373	274,062,266
Collections (note 1)		—	—
Total assets	$	905,599,958	883,285,985
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	18,270,647	14,627,148
Obligations under split-interest agreements		2,117,916	2,140,690
Notes payable		62,136,938	60,913,093
Contractual obligations		19,157	2,007,040
Deferred revenue		743,837	1,192,873
Total liabilities		83,288,495	80,880,844
Net assets:			
Unrestricted net assets		317,902,508	318,807,269
Temporarily restricted net assets		189,838,161	180,483,782
Permanently restricted net assets		314,570,794	303,114,090
Total net assets		822,311,463	802,405,141
Total liabilities and net assets	$	905,599,958	883,285,985

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Activities

Year ended June 30, 2016
(with comparative totals for 2015)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2016	Total 2015
Operating revenue and support:					
Endowment, trusts, and estates income	$ 17,837,924	3,074,110	—	20,912,034	20,345,412
Contributions and grants	6,175,568	5,836,711	—	12,012,279	16,063,867
Gifts, grants, and other revenue for special exhibitions and publications:					
Net assets released from restrictions	5,102,850	(5,102,850)	—	—	—
Other revenue for special exhibitions and publications	45,948	—	—	45,948	189,647
Memberships	5,881,950	—	—	5,881,950	5,252,455
Admissions	5,441,909	—	—	5,441,909	4,242,857
Sales of retail operations	3,463,010	—	—	3,463,010	2,130,958
City appropriations for expenses:					
Funding provided for operations	2,550,000	—	—	2,550,000	2,550,000
Value of utilities provided	3,000,000	—	—	3,000,000	3,250,000
Other revenue and support	3,467,135	285,052	—	3,752,187	2,973,379
Net assets released from restrictions to fund operating expenses	6,216,979	(6,216,979)	—	—	—
Total operating revenue and support	59,183,273	(2,123,956)	—	57,059,317	56,998,575
Operating expenses:					
Curatorial, conservation, and registraral	8,718,336	—	—	8,718,336	8,818,625
Education, library, and community programs	6,896,642	—	—	6,896,642	6,367,068
Special exhibitions and publications	5,644,520	—	—	5,644,520	4,854,389
Cost of sales and expenses of retail operations	3,070,470	—	—	3,070,470	2,387,268
Development, public relations, membership, and visitor services	10,248,729	—	—	10,248,729	9,500,466
General and administrative	8,844,130	—	—	8,844,130	8,115,459
Building and security	14,772,826	—	—	14,772,826	14,544,925
Interest and debt expense	569,479	—	—	569,479	575,730
Total operating expenses before depreciation and amortization	58,765,132	—	—	58,765,132	55,163,930
Operating surplus (deficit) before depreciation and amortization	418,141	(2,123,956)	—	(1,705,815)	1,834,645
Depreciation and amortization	7,847,642	—	—	7,847,642	7,750,046
Change in net assets from operations	(7,429,501)	(2,123,956)	—	(9,553,457)	(5,915,401)
Nonoperating revenue, support, gains, and losses:					
Gifts and grants designated for long-term investment, capital expenditures, and art purchases	11,733,902	46,548,997	11,851,899	70,134,798	24,445,270
Proceeds from sales of art objects	838,002	—	—	838,002	368,681
Endowment and trust income for art purchases	—	1,588,125	—	1,588,125	1,269,648
Acquisitions of art objects	(2,389,875)	—	—	(2,389,875)	(2,410,522)
Net assets released from restriction to fund nonoperating activities	6,976,390	(6,976,390)	—	—	—
Investment return less than amounts distributed under spending policy	(8,807,454)	(29,827,312)	(395,195)	(39,029,961)	(6,355,955)
Change in fair value of interest rate exchange agreement and effect of interest rate swap	(1,858,000)	—	—	(1,858,000)	(895,094)
Other	31,775	144,915	—	176,690	(663,847)
Change in net assets	(904,761)	9,354,379	11,456,704	19,906,322	9,842,780
Net assets at beginning of year	318,807,269	180,483,782	303,114,090	802,405,141	792,562,361
Net assets at end of year	$ 317,902,508	189,838,161	314,570,794	822,311,463	802,405,141

See accompanying notes to financial statements.

PHILADELPHIA MUSEUM OF ART

Statement of Cash Flows

Year ended June 30, 2016
(with comparative amounts for 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 19,906,322	9,842,780
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	7,847,642	7,750,046
Gifts designated for long-term investment, capital expenditures, and art purchases	(42,936,359)	(25,341,084)
Endowment and trust income for art purchases	(1,588,125)	(1,269,648)
Proceeds from sales of art objects	(838,002)	(368,681)
Acquisitions of art objects	2,389,875	2,410,522
Net realized and unrealized losses (gains) on long-term investments	17,745,750	(13,515,844)
Amortization of debt discount and debt issuance costs	142,629	198,143
Changes in assets and liabilities:		
Accounts receivable and accrued income, net	(30,708)	884,199
Short-term investments	(216,982)	(99,079)
Inventories and supplies	250,893	332,882
Prepaid expenses and other assets	918,917	(592,343)
Contributions and grants receivable, net	(23,887,318)	1,747,922
Accounts payable and accrued expenses	638,123	1,503,065
Obligations under split-interest agreements	(22,774)	(139,832)
Deferred revenue	(449,036)	145,167
Net cash used in operating activities	(20,129,153)	(16,511,785)
Cash flows from investing activities:		
Investments in property and equipment	(10,760,373)	(14,509,992)
Proceeds from sales of art objects	838,002	368,681
Acquisitions of art objects	(2,389,875)	(2,410,522)
Purchase of investments	(64,587,644)	(103,999,510)
Proceeds from sales of investments	64,717,811	114,544,854
Net cash used in investing activities	(12,182,079)	(6,006,489)
Cash flows from financing activities:		
Gifts designated for long-term investment, capital expenditures, and art purchases	42,936,359	25,341,084
Endowment and trust income for art purchases	1,588,125	1,269,648
Proceeds of notes payable	4,000,000	5,500,000
Payments on long-term debt	(2,825,000)	(2,740,000)
Payments on contractual obligations	(2,081,667)	(2,891,667)
Net cash provided by financing activities	43,617,817	26,479,065
Net increase in cash and cash equivalents	11,306,585	3,960,791
Cash and cash equivalents, beginning of year	52,964,692	49,003,901
Cash and cash equivalents, end of year	$ 64,271,277	52,964,692

See accompanying notes to financial statements.

(1) General Matters, Significant Accounting Policies, and Financial Statement Presentation

(a) General

The Board of Trustees of the Philadelphia Museum of Art (the Museum) administer, pursuant to an agreement with the City of Philadelphia, certain Museum buildings and art collections. The City of Philadelphia (the City) directly pays all utilities and certain capital costs of maintaining these buildings. The amount of utilities costs is estimated to be $3,000,000 in 2016 and $3,250,000 in 2015 and has been recorded in the financial statements in the revenue caption City appropriations for expenses and offset by an equal amount of expense that has been charged to building and security expenses. The City also provides appropriations for the general operating support of the Museum. Such appropriations amounted to $2,550,000 in 2016 and 2015.

(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, 2015, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to current year presentation.

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

Cash equivalents consist of short term interest bearing investments, including mutual funds and money market accounts with original maturities of three months or less. Short-term investments primarily consist of U.S. government and government agency issues and corporate notes. These investments are readily convertible to cash, and are stated at fair value. Cash equivalents in the Museum's endowment are considered long term investments. At June 30, 2016, cash, cash equivalents, and short-term investments restricted for capital expenditures amounted to approximately $36,000,000.

(e) Inventories

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

(f) Prepaid Expenses and Other Assets

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

(g) Contributions

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

(h) Property and Equipment

Property and equipment are stated at cost, if purchased or at fair value at date of acquisition, if donated. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 50 years. The landmark main Museum building on Fairmount, the Rodin Museum building, the Mount Pleasant and Cedar Grove mansions in Fairmount Park, and The Ruth and Raymond G. Perelman Building are owned by the City of Philadelphia and operated by the Museum. The value of the original main Museum building, the original Rodin Museum building, and the original Mount Pleasant and Cedar Grove mansions are not recognized in the accompanying financial statements, since they are fully depreciated. The

Perelman Building, purchased in June 2000 by the City in conjunction with the Museum, has been recognized in the accompanying financial statements.

(i) Collections

The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets in the year in which the items are acquired. Unexpended proceeds from deaccessions are reflected in the unrestricted net asset class. Their use is limited, however, by museum professional standards, which require that such proceeds be made available for acquisition of other art objects.

(j) Fair Value

The carrying amount of accounts receivable and accrued income and accounts payable and accrued expenses approximates fair value due to the short maturity of these financial instruments. The Museum reports its investments, certain split-interest agreements, interest rate swap related to its debt, and contributions receivable at inception at fair value using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

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

Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose primary values are observable.

Level 3: Instruments whose primary inputs to fair value are unobservable.

(k) Investments

Investments are 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. U.S. Treasuries and registered mutual funds are classified in Level 1 of the fair value hierarchy because their fair values are based on quoted prices for identical securities. Other U.S. government and agency mortgage-backed debt securities are generally Level 2.

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 institutional and 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. Net asset value may differ from fair value.

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

(l) Split-Interest Agreements

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

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

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

(m) Debt and Related Interest Rate Swaps

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

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

(n) Advertising Expense

Advertising costs are expensed in the period incurred. Total advertising expense amounted to $1,268,435 in 2016 and $1,135,557 in 2015.

(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

(Continued)

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, 2016 and 2015, 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 12 are expenses related to building maintenance, operation, security, interest, and depreciation in the aggregate amounts of $23,189,947 in 2016 and $22,870,701 in 2015.

(r) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) Recent Accounting Pronouncements

During 2016, the Museum adopted the early application guidance of ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, and modified related disclosures to conform. ASU No. 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including exempting all non-public business entities from disclosing fair value information for financial instruments measured at amortized cost.

(2) Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2016 and 2015 consist principally of promises to give that have been made for the following purposes:

		2016	2015
Endowment	$	16,693,135	22,182,724
Building and other capital projects		84,843,315	48,674,615
Grants receivable from Commonwealth of Pennsylvania and City of Philadelphia		5,345,640	3,011,517
Restricted for special purposes		3,795,534	10,435,274
Less unamortized discount for present value		(16,458,512)	(14,524,982)
Total promises to give at estimated present values		94,219,112	69,779,148
Less allowance for possible uncollectible contributions		(2,221,837)	(1,669,191)
Total contributions and grants receivable, net	$	91,997,275	68,109,957

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 $94.2 million at June 30, 2016 and shown below at their committed values) are anticipated to be as follows:

Maturing in:		
Less than one year	$	28,668,201
One to five years		43,007,373
More than five years		39,002,050
	$	110,677,624

The Museum has been awarded grants from the Commonwealth of Pennsylvania in the amount of $10,000,000 to support its capital program. The grant awards require a complex application and execution process. During 2016 and 2015, support from the grants of $1,250,034 and $2,731,014, respectively, has been recognized in the accompanying financial statements; and as of June 30, 2016, cumulative support from the grants of $3,981,048 has been recognized.

The Museum also receives grants from the City of Philadelphia to support its capital program. During 2016 and 2015, support from the grants of $5,000,000 and $3,600,000, respectively, has been recognized in the accompanying financial statements.

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

Investment Strategies

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

(Continued)

The Museum's investments by major category in the fair value hierarchy as of June 30, 2016 and 2015, as well as related strategy, liquidity, and funding commitments are as follows:

Investment Strategy	June 30, 2016 Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days' Notice
Cash and cash equivalents	$ 18,466,978	-	-	18,466,978	Daily	One
Fixed income:						
U.S. Treasuries funds	32,548,622	-	-	32,548,622	Daily	One
U.S. Government bond funds	4,817,308	-	-	4,817,308	Daily	One
Total	37,365,930	-	-	37,365,930		
Equities:						
Common stocks	14,374,065	-	-	14,374,065	Daily	One
Common stock funds	11,740,227	-	-	11,740,227	Daily	One
Global stock funds	13,864,828	-	-	13,864,828	Daily	One
Emerging market funds	12,500,790	-	-	12,500,790	Daily	One
Total	52,479,910	-	-	52,479,910		
Real asset funds	14,604,478	-	-	14,604,478	Daily	One
	$ 122,917,296	-	-	122,917,296		
Investment measured at net assets value as a practical expedient:						
Mortgage backed securities fund				20,907,755	Monthly	5
U.S. Stock Funds				40,889,808	Quarterly/Locked-up (1)	60/90
Global stock funds				26,956,751	Monthly/Quarterly	5/30
Global (ex-U.S.) stock funds				52,614,447	Monthly	30
Emerging market funds				20,429,176	Monthly	7/30
Alternative investments:						
Hedge funds				93,507,100	Locked-up (2)	30/60/90
Real asset funds				2,043,279	Quarterly	60
Private equity and venture capital funds				36,963,581	Illiquid (3)	N/A
Private real estate funds				13,626,031	Illiquid (4)	N/A
Oil and gas funds				10,036,699	Illiquid (5)	N/A
Other investments				595,962	Illiquid	N/A
				441,487,885		
Less amount attributable to Samuel S. Fleisher Art Memorial, Inc. (note 6)				(4,397,265)		
Total investments				$ 437,090,620		

(1) $8,191,616 subject to a 3-year rolling lock-up available April 2018; $32,698,192 available quarterly.
(2) $9,778,234 subject to a 3-year rolling lock-up with $3,721,184 available December 2016 and $6,057,050 available March 2017; $2,944,586 subject to a 2-year lock-up available March 2017; $23,192,590 subject to a 1-year rolling with $15,948,945 available December 2016 and $2,877,293 available March 2017 and $4,366,352 available June 2017; $43,780,860 available quarterly; and $13,810,830 available monthly.
(3) These funds are expected to liquidate within 1-10 years. Unfunded future commitments aggregate $38,916,000.
(4) These funds are expected to liquidate within 1-3 years. Unfunded future commitments aggregate $1,342,000.
(5) These funds are expected to liquidate within 1-6 years. Unfunded future commitments aggregate $4,658,000.

Investment Strategy	June 30, 2015 Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days' Notice
Cash and cash equivalents	$ 6,076,777	-	-	6,076,777	Daily	One
Fixed income:						
U.S. Treasuries funds	24,592,320	-	-	24,592,320	Daily	One
U.S. Government bond funds	4,836,538	-	-	4,836,538	Daily	One
Total	29,428,858	-	-	29,428,858		
Equities:						
Common stocks	16,166,946	-	-	16,166,946	Daily	One
Common stock funds	11,510,756	-	-	11,510,756	Daily	One
Emerging market funds	14,678,848	-	-	14,678,848	Daily	One
Total	42,356,550	-	-	42,356,550		
Real asset funds	15,744,192	-	-	15,744,192	Daily	One
	$ 93,606,377	-	-	93,606,377		
Investment measured at net assets value as a practical expedient:						
Global bond funds				14,065,010	Monthly	10
Mortgage backed securities fund				11,578,714	Monthly	5
U.S. Stock Funds				47,495,761	Quarterly/Locked-up (1)	60/90
Global stock funds				42,305,659	Monthly/Quarterly	One/5/30
Global (ex-U.S.) stock funds				58,431,370	Monthly	30
Emerging market funds				21,828,215	Monthly	30
Alternative investments:						
Hedge funds:				101,598,925	Locked-up (2)	60/90
Real asset funds				2,480,163	Quarterly	60
Private equity and venture capital funds				34,607,542	Illiquid (3)	N/A
Private real estate funds				18,116,689	Illiquid (4)	N/A
Oil and gas funds				12,271,932	Illiquid (5)	N/A
Other investments				796,313	Illiquid	N/A
				459,182,670		
Less amount attributable to Samuel S. Fleisher Art Memorial, Inc. (note 6)				(4,611,328)		
Total investments				$ 454,571,342		

(1) $10,158,289 subject to a 3-year rolling lock-up available April 2018; $37,337,472 available quarterly.
(2) $11,306,968 subject to a 3-year rolling lock-up with $6,421,867 available March 2016 and $4,885,101 available December 2016; $3,449,260 subject to a 2-year lock-up available December 2016; $26,238,694 subject to a 1-year rolling with $22,850,147 available December 2015 and $3,388,547 available March 2016; $55,815,101 available quarterly; and $4,788,902 available monthly.
(3) These funds are expected to liquidate within 2-10 years. Unfunded future commitments aggregate $20,168,000.
(4) These funds are expected to liquidate within 1-2 years. Unfunded future commitments aggregate $5,536,000.
(5) These funds are expected to liquidate within 2-7 years. Unfunded future commitments aggregate $1,665,000.

The fair values of institutional and alternative investment funds represent the Museum's ownership interests in the net asset value (NAV) as reported by the external investment managers as a practical expedient to fair value. They are included in the tables above to provide a reconciliation to total investments.

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

There were no transfers into or out of Level 1, Level 2, or Level 3 for the year ended June 30, 2016.

The investment returns for the years ended June 30, 2016 and 2015 are summarized as follows:

		2016	2015
Investment return:			
Interest and dividends, net of certain investment management expenses	$	713,282	1,230,425
Net realized and unrealized gains (losses)		(17,350,555)	13,648,393
Investment return	$	(16,637,273)	14,878,818

The unrestricted and temporarily restricted investment returns for the years ended June 30, 2016 and 2015 are included in the statements of activities as follows:

		2016	2015
Investment return:			
Endowment, trust, and estates income	$	20,409,368	19,832,576
Endowment and trust income for art purchases		1,588,125	1,269,648
Investment return less than amounts distributed under spending policy		(38,634,766)	(6,223,406)
Investment return	$	(16,637,273)	14,878,818

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, 2016 is aggregated below based on redemption or sale period:

Investment redemption or sale period:		
Daily	$	122,917,296
Monthly		114,001,226
Quarterly		93,986,698
Subject to rolling lock-ups		49,360,391
Illiquid		61,222,274
	$	441,487,885

(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, 2016 and 2015 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 $501,730 and $475,859 for the years ended June 30, 2016 and 2015, respectively.

(5) Property and Equipment

Property and equipment at June 30, 2016 and 2015 are as follows:

		2016	2015
Land	$	2,983,347	2,983,347
Building and improvements		294,324,748	285,110,658
Equipment, furniture, and fixtures		12,014,587	11,616,126
Construction in progress		54,273,111	50,143,458
Total property and equipment		363,595,793	349,853,589
Less accumulated depreciation and amortization		(83,615,420)	(75,791,323)
Net property and equipment	$	279,980,373	274,062,266

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

The Samuel S. Fleisher Art Memorial, Inc. (the Memorial) is administered by the Museum under terms of the will of the late Samuel S. Fleisher. The approximate market value of the principal of the estate of Samuel S. Fleisher, at values furnished by the trustee, is $15,029,000 and $15,559,000 at June 30, 2016 and 2015, respectively. Such amounts are not included in the accompanying financial statements.

Revenues of the Memorial were approximately $2,100,000 and $2,200,000 in 2016 and 2015, respectively. Total assets of the Memorial, including the trust assets, were $17,050,000 and $18,270,000 at June 30, 2016 and 2015, respectively.

(7) Notes Payable and Lines of Credit

Notes payable at June 30, 2016 and 2015, are summarized as follows:

		2016	2015
Philadelphia Authority for Industrial Development Revenue Bonds, Series of 2008	$	52,470,000	55,295,000
Line of credit		10,000,000	6,000,000
Less unamortized debt discount and debt issuance costs		(333,062)	(381,907)
Total notes payable	$	62,136,938	60,913,093

In June 2008, the Museum entered into a loan agreement with the Philadelphia Authority for Industrial Development (the Authority) to refund its prior Series 2000 and Series 2005 Revenue Bonds and to finance, in part, the construction and renovation of certain facilities of the Museum.

Pursuant to the loan agreement, the Authority issued $68,560,000 Series 2008 Revenue Bonds, payable July 1, 2032, which have adjustable methods of interest rate determination and interest payment dates. On June 23, 2010, the trust indenture under which the Bonds were issued was amended to establish a new variable rate interest mode (the Index Rate) in which the interest rate borne by the Bonds will be calculated on a monthly basis as a percentage of one-month LIBOR plus a spread determined periodically by the long-term unsecured credit rating of the Museum. On the same date, the Museum elected to (i) convert the interest rate borne by the Bonds from the Daily Rate to the Index Rate and (ii) the bonds were purchased by a bank pursuant to a Continuing Covenants Agreement, between the bank and the Museum, whereby the Bonds were subject to mandatory tender for purchase at par plus accrued interest by the Museum on June 30, 2013. 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, 2016 and 2015, the interest rate on the Bonds was 1.03% and 0.83%, 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, 2016 and 2015.

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 was $30,000,000 and is being 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 agreement, 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, 2016 and 2015, the fair value of the swap agreement amounted to ($4,736,872) and ($3,634,743), 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 agreement is recognized in change in fair value of interest rate exchange agreements and effect of interest rate swaps on the statement of activities.

In addition, the Museum has a revolving line of credit with a bank in the amount of $25,000,000 to be used for construction and renovation costs associated with its capital program. The line expires June 1, 2017 and, if used, bears interest at prime or upon a LIBOR-based formula. At June 30, 2016 and 2015, $10,000,000 and $6,000,000 was outstanding under the line of credit with interest at 0.95% and 0.69%, respectively

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, 2016 and 2015. 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, 2016, the Museum would be required to post up to $4,730,000 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:		
2017	$	12,915,000
2018		3,025,000
2019		3,115,000
2020		3,200,000
2021		3,315,000
Thereafter		36,900,000
	$	62,470,000

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 $15,510,000.

(8) Endowments

The Museum's endowment consists of approximately 240 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by relevant law. The Museum's endowment is generally governed by Commonwealth of Pennsylvania law. Such law permits the Board of Trustees to make an annual election to appropriate for expenditure a selected percentage between 2% and 7% of the fair value of the assets related to donor-restricted endowment funds averaged over a period of three or more preceding years, provided the Board has determined that such percentage is consistent with the long-term preservation of the real value of such assets.

The Museum has adopted investment and spending policies for endowment assets that are intended to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

To satisfy its long-term rate of return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The Museum's investment policy includes a target asset allocation, well diversified among suitable asset classes, that is expected to generate, on average, the level of expected return necessary to meet endowment objectives at a responsible level of volatility consistent with achieving that return.

According to the Museum's spending policy, a portion of the total investment return derived from investments is available to support current activities, while the remainder is reinvested. Under this spending policy, annual distributions are based on the prior year spending plus 3% subject to a floor of 4.5% and a ceiling of 5.5% of the average market value of endowment assets at the end of the three preceding years.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions by the Museum. At June 30, 2016 such deficiencies amounted to $ 1,691,913 and are recorded in unrestricted net assets. There were no such deficiencies at June 30, 2015.

Endowment funds classified by type as of June 30, 2016 and 2015 are as follows:

	2016		2015	
	Donor-restricted	Board-designated	Donor-restricted	Board-designated
Unrestricted	$ (1,691,913)	84,972,154	—	87,856,956
Temporarily restricted	63,891,545	—	93,773,344	—
Permanently restricted	289,918,834	—	272,941,042	—
	$ 352,118,466	84,972,154	366,714,386	87,856,956

Changes in endowment funds for the years ended June 30, 2016 and 2015 are as follows:

	Year ended June 30, 2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 87,856,956	93,773,344	272,941,042	454,571,342
Dividends and interest, net of certain investment management expenses	129,929	583,353	—	713,282
Realized gains	1,489,454	6,763,972	—	8,253,426
Changes in unrealized appreciation	(6,386,470)	(19,217,511)	—	(25,603,981)
Total return on long-term investments	(4,767,087)	(11,870,186)	—	(16,637,273)
Contributions	5,471,344	—	17,477,203	22,948,547
Investment return designated for current activities	(4,040,367)	(17,957,126)	—	(21,997,493)
Other changes	(1,240,605)	(54,487)	(499,411)	(1,794,503)
Net assets, end of year	$ 83,280,241	63,891,545	289,918,834	437,090,620

	Year ended June 30, 2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 89,692,356	98,707,105	263,068,832	451,468,293
Dividends and interest, net of certain investment management expenses	226,403	1,004,022	—	1,230,425
Realized gains	2,754,613	12,085,684	—	14,840,297
Changes in unrealized appreciation	(503,619)	(688,285)	—	(1,191,904)
Total return on long-term investments	2,477,397	12,401,421	—	14,878,818
Contributions	759,687	—	10,130,564	10,890,251
Investment return designated for current activities	(3,916,526)	(17,185,698)	—	(21,102,224)
Other changes	(1,155,958)	(149,484)	(258,354)	(1,563,796)
Net assets, end of year	$ 87,856,956	93,773,344	272,941,042	454,571,342

(9) Analysis of Restricted Net Assets

As of June 30, 2016 and 2015, restricted net assets consisted of the following:

	2016		2015	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Acquisitions of art objects	$ 12,790,814	23,157,165	13,888,385	23,197,508
Curatorial and conservation	26,100,917	121,172,957	33,692,181	108,777,783
Education, library, and community programs	7,402,988	14,037,440	9,033,010	13,485,636
Special exhibitions and publications	9,731,452	34,075,087	14,708,972	31,922,120
Building improvements and equipment	98,496,397	555,650	53,741,977	527,228
General operations and other	30,693,449	121,572,495	43,310,015	125,203,815
To be designated	4,622,144	-	12,109,242	-
	$ 189,838,161	314,570,794	180,483,782	303,114,090

(10) 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 $830,107 in 2016 and $821,781 in 2015.

(11) Postretirement Benefits

The Museum provides healthcare benefits to retired employees for two years after the date of retirement. Substantially all of the Museum's employees will become eligible for this benefit if they reach retirement age while working for the Museum.

The Museum recognizes the cost of such postretirement benefits on an accrual basis as employees perform services to earn the benefits. The postretirement benefit cost includes the following components:

		2016	2015
Service cost	$	55,427	47,685
Interest cost		24,813	28,528
Amortization of transition obligation		—	—
Amortization of unrecognized net gain		(9,691)	(9,402)
Net postretirement benefit cost	$	70,549	66,811

Changes in the benefit obligation for the Museum's postretirement benefit plan for the years ended June 30, 2016 and 2015 (the measurement date) are as follows:

		2016	2015
Benefit obligation at beginning of year	$	507,493	449,346
Service cost		55,427	47,685
Interest cost on projected benefit obligation		24,813	28,528
Net loss (gain)		(15,181)	24,801
Benefits paid		(52,601)	(42,867)
Benefit obligation at end of year	$	519,951	507,493

The healthcare cost trend rate assumptions used in determining the projected benefit obligation are 8% for fiscal years 2017 through 2020, and 5% thereafter. The discount rate used in determining the accumulated postretirement benefit obligation was 5% at June 30, 2016 and 6% at June 30, 2015.

The benefits expected to be paid in each year from 2017 – 2021 are $99,942, $90,809, $7,571, $22,485 and $33,114, respectively. The aggregate benefits expected to be paid in the five years from 2022 – 2026 are $161,006.

(Continued)

(12) Functional Allocation of Expenses

Expenses by functional classification for the years ended June 30, 2016 and 2015 are as follows:

		2016	2015
Program expenses:			
Curatorial, conservation, and registraral	$	25,886,506	25,748,465
Education, library, and community programs		8,442,699	7,892,089
Special exhibitions and publications		6,848,006	6,040,558
Cost of sales and expenses of retail operations		3,622,408	2,931,264
Public services and other		10,263,870	9,428,156
Total program expenses		55,063,489	52,040,532
Development		4,701,159	4,413,721
General and administrative		6,848,126	6,459,723
Total expenses	$	66,612,774	62,913,976

(13) Supplemental Disclosures

Supplemental disclosure of cash flow information:

		2016	2015
Cash paid during the year for interest (net of amounts capitalized of $68,288 in 2016 and $64,069 in 2015)	$	516,633	525,229

Capital expenditures included in accounts payable and accrued expenses and thus not presented in the statements of cash flows are $3,005,376 and $777,724 for the years ended June 30, 2016 and 2015, respectively.

(14) Subsequent Events

In June 2016 the Trustees of the Museum authorized proceeding with the Core Project, the scope of which includes the renovation and expansion of certain areas in the main Museum Building and in August 2016 the Museum entered into a construction management agreement for the completion of the Core Project. Total commitments related to the Core Project amount to approximately $200,000,000.

The Museum has evaluated subsequent events through October 14, 2016, which is the date the financial statements were issued, noting additional events that affect the financial statements as of June 30, 2016.