

**The Philbrook Museum of Art, Inc.
and Subsidiary**

Consolidated Financial Statements
and
Independent Auditor's Report

June 30, 2016 and 2015

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Independent Auditor's Report

To the Board of Trustees
The Philbrook Museum of Art, Inc.

We have audited the accompanying consolidated financial statements of The Philbrook Museum of Art, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Philbrook Museum of Art, Inc. and Subsidiary as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tulsa, Oklahoma
November 11, 2016

Stanfield & O'Dell P.C.

The Philbrook Museum of Art, Inc. and Subsidiary

Consolidated Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash and cash equivalents	3,373,270	3,093,734
Contributions and bequests receivable	1,687,775	917,007
Inventories	139,981	152,952
Other	246,666	233,708
Total current assets	5,447,692	4,397,401
Contributions receivable, net	597,124	1,105,998
Investments	35,001,861	37,470,925
Beneficial interest in assets held by others	1,025,551	1,363,873
Property and equipment, net	16,312,304	17,327,368
Assets designated for deferred compensation	-	87,704
Permanent art collection (See Note A-4)	-	-
Total assets	<u>\$ 58,384,532</u>	<u>\$ 61,753,269</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 128,572	\$ 314,248
Accrued liabilities	154,560	106,369
Obligation under capital lease	345,671	338,833
Total current liabilities	628,803	759,450
Obligation under capital lease, less current maturities	3,121,236	3,466,907
Executive deferred compensation plan	-	87,704
Total liabilities	<u>3,750,039</u>	<u>4,314,061</u>
Net assets:		
Unrestricted:		
Board designated	2,698,086	2,513,715
Other	4,450,289	4,031,367
Total unrestricted	7,148,375	6,545,082
Temporarily restricted	19,504,852	23,162,860
Permanently restricted	27,981,266	27,731,266
Total net assets	<u>54,634,493</u>	<u>57,439,208</u>
Total liabilities and net assets	<u>\$ 58,384,532</u>	<u>\$ 61,753,269</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Philbrook Museum of Art, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Summarized 2015 Total
Revenues, Gains and Other Support					
Fundraising Events Revenue	\$ 2,804,838	\$ -	\$ -	\$ 2,804,838	\$ 669,137
Less: Cost of direct benefits to donors	(502,713)	-	-	(502,713)	(131,977)
Net revenues from fundraising events	2,302,125	-	-	2,302,125	537,160
Contributions and bequests	1,734,944	1,307,826	250,000	3,292,770	3,867,053
Retail shop	478,471	-	-	478,471	499,494
Admissions	316,345	-	-	316,345	366,726
Net unrealized and realized gain (loss) on investments	(204,348)	(3,215,992)	-	(3,420,340)	(2,985,619)
Interest and dividends	130,691	2,234,279	-	2,364,970	2,433,094
Other	834,248	3,111	-	837,359	857,136
Net assets released from restrictions	3,987,232	(3,987,232)	-	-	-
Total revenues, gains and other support	9,579,708	(3,658,008)	250,000	6,171,700	5,575,044
Expenses					
Museum operations	2,188,940	-	-	2,188,940	2,060,740
Exhibits and permanent art collection maintenance	1,433,251	-	-	1,433,251	1,351,324
Downtown facility	972,929	-	-	972,929	920,621
Education	1,043,533	-	-	1,043,533	904,744
Gardens and grounds	681,049	-	-	681,049	746,100
Retail shop	508,531	-	-	508,531	571,957
Member services	231,844	-	-	231,844	228,549
Fundraising	944,042	-	-	944,042	752,057
Administrative and overhead	614,937	-	-	614,937	641,406
Investment custodial and advisory fees	201,460	-	-	201,460	247,139
Interest	73,019	-	-	73,019	79,769
Total expenses	8,893,535	-	-	8,893,535	8,504,406
Change in net assets before changes related to collection items not capitalized	686,173	(3,658,008)	250,000	(2,721,835)	(2,929,362)
Collection items purchased not capitalized	(82,880)	-	-	(82,880)	(583,537)
Change in net assets	603,293	(3,658,008)	250,000	(2,804,715)	(3,512,899)
Net assets, beginning of year	6,545,082	23,162,860	27,731,266	57,439,208	60,952,107
Net assets, end of year	\$ 7,148,375	\$ 19,504,852	\$ 27,981,266	\$ 54,634,493	\$ 57,439,208

The accompanying notes are an integral part of these consolidated financial statements.

The Philbrook Museum of Art, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Summarized 2014 Total
Revenues, Gains and Other Support					
Fundraising Events Revenue	\$ 669,137	\$ -	\$ -	\$ 669,137	\$ 2,554,609
Less: Cost of direct benefits to donors	(131,977)	-	-	(131,977)	(368,668)
Net revenues from fundraising events	537,160	-	-	537,160	2,185,941
Contributions and bequests	1,570,775	1,194,973	1,101,305	3,867,053	3,175,773
Retail shop	499,494	-	-	499,494	383,529
Admissions	366,726	-	-	366,726	185,016
Net unrealized and realized gain (loss) on investments	(179,070)	(2,806,549)	-	(2,985,619)	3,982,535
Interest and dividends	146,634	2,286,460	-	2,433,094	1,070,170
Other	815,727	41,409	-	857,136	976,322
Net assets released from restrictions	4,045,297	(4,045,297)	-	-	-
Total revenues, gains and other support	7,802,743	(3,329,004)	1,101,305	5,575,044	11,959,286
Expenses					
Museum operations	2,060,740	-	-	2,060,740	1,987,870
Exhibits and permanent art collection maintenance	1,351,324	-	-	1,351,324	1,223,156
Downtown facility	920,621	-	-	920,621	1,042,873
Education	904,744	-	-	904,744	801,558
Gardens and grounds	746,100	-	-	746,100	687,978
Retail shop	571,957	-	-	571,957	508,200
Member services	228,549	-	-	228,549	222,580
Fundraising	752,057	-	-	752,057	994,874
Administrative and overhead	641,406	-	-	641,406	573,235
Investment custodial and advisory fees	247,139	-	-	247,139	140,507
Interest	79,769	-	-	79,769	144,650
Total expenses	8,504,406	-	-	8,504,406	8,327,481
Change in net assets before changes related to collection items not capitalized	(701,663)	(3,329,004)	1,101,305	(2,929,362)	3,631,805
Collection items purchased not capitalized	(583,537)	-	-	(583,537)	(112,125)
Change in net assets	(1,285,200)	(3,329,004)	1,101,305	(3,512,899)	3,519,680
Net assets, beginning of year	7,830,282	26,491,864	26,629,961	60,952,107	57,432,427
Net assets, end of year	\$ 6,545,082	\$ 23,162,860	\$ 27,731,266	\$ 57,439,208	\$ 60,952,107

The accompanying notes are an integral part of these consolidated financial statements.

The Philbrook Museum of Art, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets before changes related to collection items not capitalized	\$ (2,721,835)	\$ (2,929,362)
Adjustments to reconcile to net cash provided by (used in) operating activities:		
Depreciation	1,085,387	1,007,903
Net return on investments	1,256,831	799,667
Change in discount on contributions receivable	(34,334)	(24,193)
Endowment earnings applied	1,806,950	1,745,900
Contributions and bequest restricted for long-term investments	(250,000)	-
Loss on disposal of capital asset	11,664	-
Change in working capital components:		
Contributions receivable	(642,560)	324,073
Inventories	12,971	1,399
Other assets	(12,958)	(46,987)
Accounts payable	(185,676)	38,414
Accrued liabilities	48,191	6,526
Net cash provided by operating activities	<u>374,631</u>	<u>923,340</u>
Cash Flows from Investing Activities		
Payments for the purchase of property and equipment	(81,987)	(170,806)
Collection items purchased not capitalized	(82,880)	(583,537)
Proceeds from sale of short term investment	-	500,000
Proceeds from sales of investments	1,725,843	1,625,086
Purchase of investments	(513,610)	(1,321,548)
Change in beneficial interest in assets held by others	338,322	12,392
Endowment earnings applied	(1,806,950)	(1,745,900)
Net cash used in investing activities	<u>(421,262)</u>	<u>(1,684,313)</u>
Cash Flows from Financing Activities		
Proceeds from contributions restricted for long-term investments in grounds, capital improvements and endowment	665,000	1,705,193
Principal payments on capital lease obligation	(338,833)	(332,083)
Net cash provided by financing activities	<u>326,167</u>	<u>1,373,110</u>
Increase in cash and cash equivalents	279,536	612,137
Cash and cash equivalents, beginning of year	<u>3,093,734</u>	<u>2,481,597</u>
Cash and cash equivalents, end of year	<u>\$ 3,373,270</u>	<u>\$ 3,093,734</u>

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note A – Nature of Operations and Summary of Significant Accounting Policies

1. Nature of Operations

The Philbrook Museum of Art, Inc. (Philbrook) opened as a privately funded art museum in 1939. As its mission, Philbrook strives to be an essential and exceptional participant in the cultural, educational and economic life of a growing and diverse community. Defined by a unique combination of tradition and innovation, Philbrook's collections, historic structures, programs and exhibitions are dedicated to inspiring the broadest possible public engagement, access and service.

2. Principles of Consolidation

The consolidated financial statements include the accounts of Philbrook and its wholly owned inactive for-profit subsidiary, la Villa Restaurant, Inc. (la Villa).

3. Basis of Presentation

Philbrook reports its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Expenses are reported by functional activities.

4. Collections

Works of art in Philbrook's collection are not recognized as assets on the statement of financial position, consistent with other similar museums. Purchases of artworks are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily restricted net assets if a donor makes a contribution intended to fund a subsequent purchase of artwork. Donated works of art are not reflected on the financial statements.

5. Contributions

Philbrook reports gifts of cash and other assets as restricted support if they are received with donor stipulations limiting the use of the donated assets. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Philbrook reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Philbrook reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service, except that the cost of improvements of buildings and grounds are reported as temporarily restricted.

Contributions of services are recorded as revenue at their estimated fair value when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note A – Nature of Operations and Summary of Significant Accounting Policies - Continued

5. Contributions - Continued

donated. Contributions of the use of property are recorded as revenue at their estimated fair values if reasonably determinable. Additionally, volunteers donate services to Philbrook in various capacities, which do not meet the criteria for revenue recognition. The value of these services is not readily determinable.

6. Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, cash and cash equivalents include demand deposit bank accounts and unrestricted short-term investments with original maturities of 90 days or less. Certificates of deposit having original maturities of longer than 90 days are reported as short-term investments.

Philbrook has policies and procedures to maintain cash balances within insurance coverage provided by the U.S. Federal Deposit Insurance Corporation (FDIC). However, cash balances from time to time may exceed FDIC coverage limits due to the timing of transfers between automated bank accounts. Philbrook has not experienced any losses on cash deposits and believes it is not exposed to any significant cash credit risk.

Interest paid and incurred during 2016 and 2015 was \$73,019 and \$79,769, respectively, which relates to obligation under capital lease.

7. Inventories

Museum shop inventories are stated at the lower of cost (first-in, first-out) or market.

8. Investments

Investments in marketable equity securities and debt securities are recorded at fair value based upon quotations of market values from published sources.

Interest and dividends earned on investments and realized and unrealized investment appreciation (depreciation) are reported as an increase (decrease) in unrestricted net assets, except to the extent their use is temporarily or permanently restricted by explicit donor-imposed restrictions or by applicable law. Amount equal to depreciation expense, determined on a 40-year life on building and improvements, is released from restriction annually.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note A – Nature of Operations and Summary of Significant Accounting Policies - Continued

9. Property and Equipment

Property and equipment are recorded at purchase cost or fair value at the time of donation. Additions in excess of \$1,000 are capitalized whereas the cost of repairs and maintenance are charged to expense as incurred. Depreciation is computed using the straight-line method. Furniture, fixtures and equipment are depreciated using three to fifteen year lives. Property and equipment subject to capital lease are included with property and equipment and are depreciated over the lease term. Due to the restrictive nature of the gift of the historic house and grounds, buildings and grounds improvements are reported as temporarily restricted. An amount equal to depreciation expense, determined on a 40-year life on building and improvements, is related from restriction annually.

10. Income Taxes

Philbrook is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been determined not to be a private foundation under Section 509(a) of the Code. As a result, as long as the Philbrook maintains its tax exemption, it will not be subject to income tax. The Organization's Information Returns (Form 990) are generally subject to examination by the IRS for a period of three years from the original due date or, if extended, the actual date they were filed.

11. Functional Expenses

Generally, expenses are specifically identified with a particular program. Certain administrative expenses are allocated to programs based on estimates of time devoted to each function. Occupancy expenses are allocated based on square footage.

12. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures in the notes thereto. Actual results could differ from those estimates.

13. Reclassifications

Certain prior year amounts have been reclassified to conform to current year's presentation. The reclassifications had no effect on the previously reported increase in net assets.

14. Subsequent Events

Management has evaluated subsequent events through November 11, 2016, the date the financial statements were available to be issued.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note B – Contributions Receivable

Contributions receivable at June 30 are summarized as follows:

	2016	2015
Total contributions receivable	\$ 2,305,058	\$ 2,077,498
Less unamortized discount	20,159	54,493
Net contributions receivable	<u>\$ 2,284,899</u>	<u>\$ 2,023,005</u>
Amount due in:		
Less than one year	\$ 1,687,775	\$ 917,007
One to five years	597,124	1,105,998
Total	<u>\$ 2,284,899</u>	<u>\$ 2,023,005</u>

The discount rate was 2.00% at years ended June 30, 2016 and 2015.

Contributions receivable are due from companies, individuals and private foundations. Historically, Philbrook has not experienced significant losses related to an inability to collect contributions receivable. An adverse change in the financial condition of a particular individual or company could significantly affect the recoverability of contributions receivable. A contribution receivable with a balance of \$298,000 and \$353,000 as of June 30, 2016 and 2015, respectively, has been past due since 2011 and has not yet been collected fully. Payments of \$55,000 and \$35,672 were received during the years ended June 30, 2016 and 2015, respectively. Management believes the receivable will be collected and has not provided an allowance for doubtful accounts as of June 30, 2016.

Note C – Investments and Investing Activity

The fair value of long-term investments consists of the following at June 30:

	2016	2015
Money Market Funds	\$ 1,221,428	\$ 1,683,213
Fixed Income Funds	6,928,825	7,028,892
Equity Securities	23,180,609	24,946,888
Hedge Funds	3,670,999	3,811,932
	<u>\$ 35,001,861</u>	<u>\$ 37,470,925</u>

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note C – Investments and Investing Activity - Continued

Investment activity for the years ended June 30, 2016 and 2015 is summarized as follows:

	Endowment Funds			Total Long-Term Investments
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Investments June 30, 2014	\$ 2,087,280	\$ 10,286,610	\$ 26,200,240	\$ 38,574,130
Investment return:				
Interest and dividends	146,634	2,286,460	-	2,433,094
Net decline in fair value	(179,070)	(2,806,549)	-	(2,985,619)
Total investment return	(32,436)	(520,089)	-	(552,525)
Investment funds deposited	-	-	1,321,548	1,321,548
Appropriation of endowment assets for expenditures	(111,364)	(1,760,864)	-	(1,872,228)
Investments June 30, 2015	1,943,480	8,005,657	27,521,788	37,470,925
Investment return:				
Interest and dividends	130,691	2,234,279	-	2,364,970
Net decline in fair value	(204,348)	(3,215,992)	-	(3,420,340)
Total investment return	(73,657)	(981,713)	-	(1,055,370)
Investment funds deposited	188,610	-	325,000	513,610
Appropriation of endowment assets for expenditures	(112,529)	(1,814,775)	-	(1,927,304)
Investments June 30, 2016	\$ 1,945,904	\$ 5,209,169	\$ 27,846,788	\$ 35,001,861

Philbrook maintains its investments at Deutsche Bank Trust Company Americas, pursuant to investment management and custodial agreements. Investments are being maintained under an investment management and custodial agreement. These investments are composed of donor-restricted endowments, unappropriated endowment investment earnings and board-designated endowments.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note C – Investments and Investing Activity - Continued

Philbrook's Board of Trustees interprets Oklahoma law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The Board has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding for museum operations supported by the endowment. Investment objectives are to maintain a long-term portfolio of diversified investments with returns comparable to established benchmarks. The Board has a current strategy target asset allocation of 47% in global equities, 27% in alternative assets, and 26% in fixed income to achieve its long-term return objectives within prudent risk constraints.

Amounts distributed annually from the endowment fund are designed to fund a relatively constant portion of operating expenditures. Philbrook's investment policy states that no more than 7% of the three-year annual average of the endowment fund can be distributed annually for museum operations. The Board of Trustees approved a distribution rate of 4.8% and 4.9% for the years ended June 30, 2016 and 2015, respectively. These appropriations of temporarily-restricted endowment funds amounted to \$1,814,775 and \$1,760,864 for the years ended June 30, 2016 and 2015, respectively.

Investment securities are exposed to various risks such as interest rate, market risk and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term may materially affect the amounts reported in the financial statements.

Note D – Beneficial Interest In Assets Held By Others

In 2009, Philbrook was informed it is 13 percent beneficiary of an irrevocable trust created by a donor. The trust was amended three times during the donor's life, the second of which included a provision that the corpus was to be distributed 20 years after the donor's death. The third amendment, dated two weeks before the donor's death, added Bank of Oklahoma, N.A., as co-trustee but omitted the 20-year distribution provision. Beneficiaries contended that the omission of the 20-year distribution provision was consistent with the donor's intent, while the co-trustee asserted that the omission was a Scribner's error. While the dispute remained unsettled, the co-trustee made periodic distributions to beneficiaries. During the year ended June 30, 2016 and in order to settle the dispute, the co-trustee and trust beneficiaries agreed, among other things, that a 6.5% unitrust would be paid annually to beneficiaries, the final distribution of remaining assets would occur on December 31, 2023, and that a "catch up" payment to beneficiaries, payable as of December 31, 2015, would be made based on what distributions would have been had the 6.5% unitrust been in force since the donor's death. Distributions of \$328,934 and \$39,793 occurred during the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, the value of beneficial interest in assets held by others was \$1,025,551 and \$1,368,873, respectively.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note E – Fair Value Measurements

The fair value measurement standards define fair value, establish a consistent framework for measuring fair value and establish a fair value hierarchy based on the observability of inputs used to measure fair value. These inputs are summarized in the three broad levels listed below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Significant other observable inputs.
- Level 3 – Significant unobservable inputs.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Description	Fair Value Measurements at June 30, 2016			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 1,221,429	\$ -	\$ -	\$ 1,221,429
Fixed income funds:				
Fixed income opportunity	1,936,993	-	-	1,936,993
Inflation protected securities	1,486,002	-	-	1,486,002
Other	3,505,830	-	-	3,505,830
	<u>6,928,825</u>	-	-	<u>6,928,825</u>
Marketable equity securities:				
Institutional international	7,968,134	-	-	7,968,134
Institutional growth	4,816,345	-	-	4,816,345
Emerging markets	3,409,764	-	-	3,409,764
Institutional value	3,424,528	-	-	3,424,528
Commodity related securities	2,622,348	-	-	2,622,348
Other	939,490	-	-	939,490
	<u>23,180,609</u>	-	-	<u>23,180,609</u>
Hedge funds				
Total return offshore fund II	-	-	2,611,410	2,611,410
Absolute return offshore fund II	-	-	1,059,588	1,059,588
	-	-	<u>3,670,998</u>	<u>3,670,998</u>
Total investments	<u>31,330,863</u>	-	<u>3,670,998</u>	<u>35,001,861</u>
Beneficial interest in assets held by others	-	-	1,025,551	1,025,551
Total	<u>\$ 31,330,863</u>	<u>\$ -</u>	<u>\$ 4,696,549</u>	<u>\$ 36,027,412</u>

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note E – Fair Value Measurements - Continued

Description	Fair Value Measurements at June 30, 2015			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 1,683,213	\$ -	\$ -	\$ 1,683,213
Fixed income funds:				
Fixed income opportunity	1,948,826	-	-	1,948,826
Inflation protected securities	1,768,776	-	-	1,768,776
Other	3,311,291	-	-	3,311,291
	<u>7,028,893</u>	<u>-</u>	<u>-</u>	<u>7,028,893</u>
Marketable equity securities:				
Institutional international	8,808,578	-	-	8,808,578
Institutional growth	5,122,284	-	-	5,122,284
Emerging markets	3,859,982	-	-	3,859,982
Institutional value	3,343,032	-	-	3,343,032
Commodity related securities	2,881,871	-	-	2,881,871
Other	931,141	-	-	931,141
	<u>24,946,888</u>	<u>-</u>	<u>-</u>	<u>24,946,888</u>
Hedge funds				
Total return offshore fund II	-	-	2,718,065	2,718,065
Absolute return offshore fund II	-	-	1,093,866	1,093,866
	<u>-</u>	<u>-</u>	<u>3,811,931</u>	<u>3,811,931</u>
Total investments	<u>33,658,994</u>	<u>-</u>	<u>3,811,931</u>	<u>37,470,925</u>
Beneficial interest in assets held by others	-	-	1,363,873	1,363,873
Total	<u>\$ 33,658,994</u>	<u>\$ -</u>	<u>\$ 5,175,804</u>	<u>\$ 38,834,798</u>

There were no transfers into or out of Levels 1, 2, or 3 for the years ended June 30, 2016 and 2015.

Although beneficial interest in assets held by others is classified as a level 3 instrument, the fair value of Philbrook's beneficial interest in assets held by others is based on the reported fair values of the underlying investments held in trust, which include both level 1 and level 3 investments.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note E – Fair Value Measurements – Continued

The changes in the fair value of Philbrook’s Level 3 assets held for the years ended June 30, 2016 and 2015 are as follows:

Balance as of June 30, 2014	\$ 4,901,831
Purchases, issuances, sales (net)	-
Unrealized gains (losses)	313,766
Distribution of beneficial interest in assets held by others	(39,793)
	<hr/>
Balance as of June 30, 2015	5,175,804
Purchases, issuances, sales (net)	-
Unrealized gains (losses)	(150,321)
Distribution of beneficial interest in assets held by others	(328,934)
	<hr/>
Balance of June 30, 2016	<u><u>\$ 4,696,549</u></u>

Note F – Property and Equipment

Components of property and equipment at June 30 are as follows:

	2016	2015
Land	\$ 85,000	\$ 85,000
Building	15,770,350	15,770,350
Leasehold improvements of downtown facility	6,128,677	6,128,677
Furniture, fixtures and equipment	3,727,843	3,732,026
Grounds improvements	6,815,254	6,792,359
Adjacent property	2,327,477	2,327,477
	<hr/>	<hr/>
	34,854,601	34,835,889
Less accumulated depreciation	(18,542,297)	(17,508,521)
	<hr/>	<hr/>
Property and equipment, net	<u><u>\$ 16,312,304</u></u>	<u><u>\$ 17,327,368</u></u>

Depreciation expense is \$1,085,387 and \$1,007,903 for the years ended June 30, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note G – Permanent Art Collection

Philbrook is a general fine arts museum committed to collecting and exhibiting art from a broad range of periods and cultures. The size (approximately 13,000 objects, including long-term loans) and variety of the collection has made Philbrook a unique resource for the state and region. Collection areas include: American and European painting and sculpture; Native American art, prints and drawings; Asian art; African sculpture; American and European decorative art; and antiquities.

Philbrook adopted a comprehensive collections management policy in 1981 which was revised and updated with staff input and Collection Committee approval in 1992, 2006 and 2008. This policy addresses procedures for accessioning, deaccessioning, security, documentation and other aspects of collection management. Philbrook's collection policy provides that permanent collections are 1) held for public exhibition, education or research in furtherance of public service rather than financial gain; 2) protected, kept unencumbered, cared for and preserved; and 3) subject to a policy that requires the proceeds from sales of collection items to be restricted to the acquisition of other items for collections.

Note H – Deferred Compensation Plan

On May 23, 2011, the Executive Committee of the Philbrook Board of Trustees terminated the executive deferred compensation plan approved in 2000 and established new plans for the benefit of Philbrook's former Chief Executive Officer and former Chief Operating Officer. Annual contributions were made to these plans at the discretion of the Board. As of June 30, 2015, the value of investments in the amount of \$87,704 was equal to the amount of the deferred compensation obligations. All deferred compensation has been paid as of June 30, 2016.

Note I – Net Assets

The Board of Trustees has designated a portion of Philbrook's unrestricted net assets as reserve funds to be used in the future for specific purposes.

Board designated net assets at June 30 are designated for the following purposes:

	2016	2015
Programming media	67,988	\$ 67,908
Philbrook-organized art tours	36,051	36,051
Maintenance reserve	190,000	190,000
Accessions art purchase funds	157,662	133,461
Board designated endowment:		
Conservation	260,594	284,046
Accessions	1,546,007	1,528,788
General	439,784	273,461
	<u>\$ 2,698,086</u>	<u>\$ 2,513,715</u>

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note I – Net Assets – Continued

Temporarily restricted net assets at June 30 are available for the following purposes:

	2016	2015
Exhibit programs	\$ 999,414	\$ 647,456
Building and related improvements	8,919,613	9,232,689
Philbrook Downtown	2,760,556	3,172,408
Special projects	305,833	475,489
Art acquisition	166,608	128,977
Beneficial interest in funds to be received	1,025,551	1,363,873
Unappropriated endowment fund earnings:		
Grounds maintenance	1,176,151	1,963,488
Other designated programs	735,400	986,032
Available for unrestricted appropriation	3,249,435	5,007,921
Art acquisition	166,291	184,527
Total unappropriated endowment fund earnings	<u>5,327,277</u>	<u>8,141,968</u>
	<u>\$ 19,504,852</u>	<u>\$ 23,162,860</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses or by occurrence of other events specified by donor satisfying the restriction for the following purposes:

	2016	2015
Exhibit programs	\$ 850,155	\$ 934,982
Building and related improvements	383,328	173,492
Philbrook Downtown	411,852	628,825
Special projects	163,491	217,111
Art acquisition	42,522	305,194
Received beneficial interest	328,934	39,793
Endowment earnings applied	1,806,950	1,745,900
	<u>\$ 3,987,232</u>	<u>\$ 4,045,297</u>

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note I – Net Assets – Continued

Permanently restricted net assets at June 30 are restricted to:

	2016	2015
Land	\$ 85,000	\$ 85,000
Endowment, the earnings of which are unrestricted	14,044,117	13,877,451
Endowment, the earnings of which are restricted for grounds maintenance	7,100,500	7,100,500
Endowment, the earnings of which are restricted for building and grounds maintenance	3,352,841	3,352,841
Endowment, the earnings of which are restricted for the contemporary art program	1,930,000	1,930,000
Endowment, the earnings of which are restricted for other programs	118,306	118,306
Endowment, the earnings of which are restricted for artwork acquisition	350,002	266,668
Working capital	1,000,500	1,000,500
	<u>\$ 27,981,266</u>	<u>\$ 27,731,266</u>

A portion of the working capital fund is available to be loaned to the operating fund for working capital needs. Any funds borrowed should be repaid annually if possible, and if not, no further borrowing is permitted without the approval of the Executive Committee of the Board of Trustees. There were no working capital borrowings during fiscal 2016 or 2015.

	2016	2015
Permanently restricted net assets are composed of:		
Land comprising the original Villa Philbrook property	\$ 85,000	\$ 85,000
Endowment fund investments	27,846,788	27,521,788
Contribution receivable	-	20,000
Loan to grounds renovation project	49,478	104,478
	<u>\$ 27,981,266</u>	<u>\$ 27,731,266</u>

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note J – Post-Employment Benefits

Philbrook sponsors a 403(b) plan that covers all full-time employees who are at least 21 years of age. Philbrook's contributions to the plan are discretionary. Philbrook contributed \$100,398 and \$108,779 in 2016 and 2015, respectively.

Note K – Philbrook Downtown

In a prior year, George Kaiser Family Foundation (GKFF) provided to Philbrook approximately 30,000 square feet of space within the former Mathews Warehouse, located in Tulsa's historic Brady District. Philbrook Downtown, completed in 2013, houses two distinct but interrelated initiatives. The facility's first level is dedicated to modern and contemporary art. The second level houses the Eugene B. Adkins Collection and study center.

Philbrook was responsible for the design, build-out and furnishing of the space. The total estimated cost incurred was \$6.9 million. GKFF agreed to fund the build-out costs of \$4.9 million, repayable under a 14-year lease agreement, reported as a capital lease. The asset, included in property and equipment, and the related liability under the capital lease were recorded in 2012 at the present value of the future payments using a 2% interest rate through December 2017, and a 4% interest rate from January 2018 through to November 2025. The liability under the lease at June 30, 2012 of \$4,782,498 is due in monthly installments of \$34,321 through December 2017, increasing to monthly installments of \$36,330 from January 2018 to November 2025. Lease payments began in November 2011.

Future minimum lease payments are as follows:

Year ending	Amount
2017	\$ 411,852
2018	423,906
2019	435,960
2020	435,960
2021	435,960
Thereafter	<u>1,907,371</u>
Total minimum lease payments	4,051,009
Less interest	<u>(584,102)</u>
Present value of minimum lease payments	<u><u>\$ 3,466,907</u></u>