

The Museum of Fine Arts, Houston

Financial Statements as of and for the
Year Ended June 30, 2013, and Independent
Auditors' Report

THE MUSEUM OF FINE ARTS, HOUSTON

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Museum of Fine Arts, Houston
Houston, Texas

We have audited the accompanying financial statements of The Museum of Fine Arts, Houston (the "Museum"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, 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 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 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 auditors consider internal control relevant to the Museum'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 Museum'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 Museum as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Museum's 2012 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 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.

Deloitte's Tsuele LLP

January 20, 2014

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)

(Dollars in thousands)

	2013	2012
ASSETS		
TEMPORARILY RESTRICTED CASH AND CASH EQUIVALENTS	\$ 29,061	\$ 4,061
RECEIVABLES:		
Pledges	103,635	6,054
Grants	321	436
Accounts	3,630	602
Interest/dividends	1,559	1,349
Total receivables	109,145	8,441
INVENTORY	1,371	1,258
PREPAID EXPENSES	233	432
INVESTMENTS	1,061,810	989,513
PROPERTY — Net	111,973	110,774
OTHER ASSETS	1,450	3,645
TOTAL	<u>\$1,315,043</u>	<u>\$1,118,124</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 12,358	\$ 11,662
Deferred revenue	3,439	3,639
Total liabilities	<u>15,797</u>	<u>15,301</u>
COMMITMENTS (Note 9)		
NET ASSETS:		
Unrestricted	226,463	192,823
Temporarily restricted	387,630	226,309
Permanently restricted	685,153	683,691
Total net assets	<u>1,299,246</u>	<u>1,102,823</u>
TOTAL	<u>\$1,315,043</u>	<u>\$1,118,124</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
PUBLIC SUPPORT, REVENUES, AND NET ASSETS RELEASED FROM RESTRICTIONS FOR SATISFACTION OF PROGRAM ACTIVITIES:					
Public support:					
Contributions	\$ 26,196	\$ 142,891	\$ 696	\$ 169,783	\$ 22,958
Deaccessions	80	-	-	80	576
Government grants	1,046	-	-	1,046	858
Museum Gala Ball	1,122	811	-	1,933	1,557
Total public support	28,444	143,702	696	172,842	25,949
Revenues:					
Realized and unrealized investment income — net	45,351	54,909	-	100,260	30,705
Auxiliary activities	3,088	-	-	3,088	2,234
Memberships	3,033	2	-	3,035	2,749
School tuition	1,483	359	-	1,842	1,765
Admissions, tours, and lectures	2,475	-	-	2,475	1,594
Other	2,131	463	-	2,594	2,973
Total revenues	57,561	55,733	-	113,294	42,020
Net assets released from restrictions for satisfaction of program activities	37,348	(37,348)	-	-	-
Total public support, revenues, and net assets released from restrictions for satisfaction of program activities	123,353	162,087	696	286,136	67,969
EXPENSES:					
Program services:					
Accessions	22,195	-	-	22,195	20,610
Curatorial and collections	9,273	-	-	9,273	9,343
Exhibitions	15,168	-	-	15,168	14,766
Education and public programs	8,719	-	-	8,719	9,299
Glassell School	3,616	-	-	3,616	3,647
Bayou Bend	3,775	-	-	3,775	3,721
Rienzi	1,673	-	-	1,673	1,612
Membership activities	1,861	-	-	1,861	1,728
Total program services	66,280	-	-	66,280	64,726
Supporting services:					
Management and general	10,812	-	-	10,812	10,758
Auxiliary activities	3,549	-	-	3,549	3,108
Fund-raising	3,835	-	-	3,835	3,630
Total supporting services	18,196	-	-	18,196	17,496
Depreciation	5,237	-	-	5,237	5,132
Total expenses	89,713	-	-	89,713	87,354
CHANGE IN NET ASSETS	33,640	162,087	696	196,423	(19,385)
CLARIFICATION IN DONOR INTENT	-	(766)	766	-	-
NET ASSETS:					
Beginning of year	192,823	226,309	683,691	1,102,823	1,122,208
End of year	\$ 226,463	\$ 387,630	\$ 685,153	\$ 1,299,246	\$ 1,102,823

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2012) (Dollars in thousands)

Area	Program Services							Supporting Services				Total Expenses before Depreciation for the Year Ended June 30, 2013	Total Expenses before Depreciation for the Year Ended June 30, 2012	
	Accessions, Curatorial, and Collections	Exhibitions	Education and Public Programs	Glassell School	Bayou Bend	Rienzi	Membership Activities	Total	Management and General	Auxiliary Activities	Fund- Raising			Total
Salaries	\$ 5,154	\$ 3,843	\$ 3,918	\$ 2,129	\$ 1,692	\$ 544	\$ 782	\$ 18,062	\$ 4,012	\$ 1,328	\$ 1,813	\$ 7,153	\$ 25,215	\$ 25,517
Employee benefits	873	732	664	398	318	82	151	3,218	1,433	209	271	1,913	5,131	4,298
Payroll taxes	405	282	282	152	122	39	56	1,338	299	98	123	520	1,858	1,866
Total	6,432	4,857	4,864	2,679	2,132	665	989	22,618	5,744	1,635	2,207	9,586	32,204	31,681
Accessions	22,195	-	-	-	-	-	-	22,195	-	-	-	-	22,195	20,610
Professional fees	373	719	726	38	11	32	1	1,900	853	146	19	1,018	2,918	3,423
Investment counseling fees	-	-	-	-	-	-	-	-	1,671	-	-	1,671	1,671	1,443
Occupancy	976	1,343	723	253	350	347	74	4,066	405	243	114	762	4,828	5,215
Programs and previews	24	2,717	149	138	309	144	48	3,529	87	124	22	233	3,762	3,258
Postage and shipping	174	2,452	41	24	14	16	115	2,836	122	46	30	198	3,034	3,199
Contract services	311	168	308	155	456	199	106	1,703	278	235	123	636	2,339	2,325
Supplies	176	944	258	155	101	26	4	1,664	168	81	12	261	1,925	1,978
Insurance	433	1,022	122	56	67	41	4	1,745	237	45	17	299	2,044	1,387
Promotion	3	17	885	23	45	20	395	1,388	60	14	408	482	1,870	1,902
Printing and publications	28	504	178	75	100	16	115	1,016	48	5	63	116	1,132	1,627
Cost of goods sold	-	-	-	-	62	-	-	62	-	922	-	922	984	691
Repairs and maintenance	128	205	109	2	88	129	3	664	168	35	9	212	876	807
Travel	199	212	98	10	11	26	4	560	123	14	34	171	731	888
Museum Gala Ball and benefits	-	-	-	-	-	-	-	-	-	-	732	732	732	430
Dues and subscriptions	4	6	10	5	1	-	-	26	334	2	27	363	389	373
Communications	7	-	-	2	6	1	-	16	287	-	-	287	303	317
Miscellaneous	5	1	-	-	2	7	3	18	227	2	17	246	264	444
Library	-	-	240	-	18	-	-	258	-	-	-	-	258	204
Photography	-	1	8	1	2	4	-	16	-	-	1	1	17	20
TOTAL	\$ 31,468	\$ 15,168	\$ 8,719	\$ 3,616	\$ 3,775	\$ 1,673	\$ 1,861	\$ 66,280	\$ 10,812	\$ 3,549	\$ 3,835	\$ 18,196	\$ 84,476	\$ 82,222

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)

(Dollars in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 196,423	\$ (19,385)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,237	5,132
Gains on sale of investments	(24,743)	(26,310)
Loss on sale of property — net	24	
Net unrealized (appreciation) depreciation on investments	(55,399)	12,574
Distributions from investing activities	16,945	13,773
Contributions restricted by donors	(144,398)	(4,938)
(Increase) decrease in receivables	(100,704)	3,366
(Increase) decrease in inventory	(113)	11
Decrease in prepaid expenses	199	1,396
Increase (decrease) in liabilities	496	(7,616)
	<u>(106,033)</u>	<u>(21,997)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(6,460)	(3,906)
Return of capital on investments	44,466	20,196
Purchases of investments	(157,818)	(78,457)
Proceeds from sale of investments	104,252	81,886
Increase in temporarily restricted cash and cash equivalents	(25,000)	(1,569)
Decrease (increase) in other assets	2,195	(1,091)
	<u>(38,365)</u>	<u>17,059</u>
Net cash (used in) provided by investing activities		
CASH FLOWS FROM FINANCING ACTIVITY — Contributions restricted by donors		
	<u>144,398</u>	<u>4,938</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		
	-	-
CASH AND CASH EQUIVALENTS — Beginning of year		
	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS — End of year		
	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2013 (Dollars in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of The Museum of Fine Arts, Houston (the “Museum”) have been prepared on the accrual basis of accounting. The significant accounting policies followed by the Museum, which is a Texas not-for-profit organization, are described below.

Summarized Financial Information for the Year Ended June 30, 2012 — 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 accounting principles generally accepted in the United States of America (U.S. GAAP). 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.

Use of Estimates — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 these estimates.

Unrestricted Resources — Net assets not restricted by donor-imposed stipulations that may be designated for specific purposes by action of the Museum’s board of trustees (the “Board of Trustees”).

Temporarily Restricted Resources — Net assets resulting from contributions and other inflows of assets whose use by the Museum is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Museum pursuant to these stipulations.

Permanently Restricted Resources — Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Museum. Generally, the donors of these assets permit the Museum to use all or part of the income earned on these assets.

Pledges Receivable — Pledges receivable are presented at the net present value of future cash flows discounted at the five-year Treasury bill rate.

Inventory — Inventory is valued at the lower of cost (moving weighted-average method) or market.

Investments and Income Allocation — The Museum records investments in accordance with the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 958-320, *Not-for-Profit Entities — Investments — Debt and Equity Securities*. This statement establishes standards for the recognition of fair value of investments in certain equity and debt securities with gains and losses included in the statement of activities. Purchases and sales of investments are recorded on the trade date.

The Museum records investments at fair value. The estimated fair value of its investments is based on quoted market prices, except for certain investments for which quoted market prices are not available. Investments may be valued using various techniques, which may include value based upon prices supplied by pricing services, external broker quotes, and internal pricing matrices. In addition, U.S. GAAP provides guidance for estimating the fair value of investments in certain entities that calculate net asset value per share (or its equivalent). As such, the Museum utilizes net asset value as a practical expedient of fair value and other available information to determine fair value for investments meeting the prescribed requirements.

The income from investments, net of realized investment gains on investment transactions, and appreciation/depreciation in market value of investments in the permanently restricted endowment accounts are allocated among temporarily restricted and unrestricted operating and accessions' accounts based on their respective weighted-average number of investment units.

The Museum spending rule attempts to achieve two objectives by using a long-term spending rate of 4.75% combined with a smoothing rule that adjusts spending gradually to changes in endowment value. The amount released under the spending rule is based on a weighted average of prior spending adjusted for inflation (60% weight) and an amount determined by applying the target rate to the current endowment market value as of December 31 (40% weight).

Property — Property is recorded at cost or the estimated fair value at the date of the gift. The Museum 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 temporarily restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service; if insignificant, gifts of long-lived assets are expensed when received.

Depreciation is computed using primarily the straight-line method over 30 years for buildings and capital improvements and five to 10 years for equipment, furniture, and fixtures.

Deferred Revenue — Deferred revenue represents advance rentals related to the expansion of the Museum and is being recognized using the straight-line method over the 30-year lease term.

Statement of Cash Flows — The statement of cash flows is presented using the indirect method. The Museum considers all highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents. Short-term investments that are managed within the Museum's pool of investments are excluded from cash and cash equivalents as they represent investing activities.

Art Collection — With approximately 65,806 works, the Museum's permanent collection of world art spans 6,000 years and six continents. The Museum acquires its art collection through purchases or by gifts. The cost of all art objects purchased, together with the value of art objects obtained by gift (for which the Museum receives a reasonable estimate), is reported as a part of collection expense. In accordance with policies followed by many art museums, no value has been assigned in the statement of financial position to the Museum's art collection.

Purchases for the art collection were \$13,648 and \$14,222 for the years ended June 30, 2013 and 2012, respectively. The value of art objects obtained by gifts is reported as contributions and collection expense in the statement of activities and totaled \$6,020 and \$6,388 for the years ended June 30, 2013 and 2012, respectively. Deaccessions made during the year had a fair market value of \$80, and were executed in accordance with the Museum's policy and accepted national standards.

Gifts of cash or other property restricted by donors for the purchase of items for the art collection are recognized as temporarily restricted revenue until acquisitions are made in accordance with the terms of the gifts. Net assets are transferred from temporarily restricted net assets to unrestricted net assets upon satisfaction of donor restrictions.

Revenue Recognition — The Museum records contributions received, including unconditional promises to give, as revenues in the period received at their fair value.

The Museum classifies net assets, expenses, revenues, and gains/losses as either permanently restricted, temporarily restricted, or unrestricted.

Donated Services — Donated services that create or enhance nonfinancial assets or require specialized skills are recognized as revenues and corresponding expenses. Donated services that do not meet the above conditions are not recognized. In the years ended June 30, 2013 and 2012, the Museum received donated legal services valued at \$230 and \$102, respectively.

Allocation of Functional Expenses — Expenses are allocated to various programs and supporting services based on the ultimate use of the product or services. Expenses related to maintenance, operation, and security of building facilities are allocated based on the estimated use of the facilities.

Federal Income Taxes — The Museum is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal income taxes included in the financial statements.

Contributions — The Museum records contributions receivable in accordance with FASB ASC Topic 958-605, *Not-for-Profit Entities — Revenue Recognition*, which requires that unconditional promises to give be recorded as revenue in the period in which the promise is made and requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. When an externally imposed restriction expires or unrestricted contributions are realized, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions for which restrictions are met in the same period in which the unconditional promise to give is received are recorded as unrestricted revenue. Contributions receivable are recorded at the present value of expected future cash flows, based on both the time value of money and expectations about possible variations in the amounts and timing of the cash flows. The Museum considers rates on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the expected contributions receivable and historical experience with uncollectible contributions to determine the present value factor to apply.

Subsequent Events — We have evaluated subsequent events through January 20, 2014, which is the date the financial statements were available for issuance.

New Accounting Pronouncements — In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-4, *Fair Value Measurement*, which contains amendments to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amendments in this update were applied for the fiscal year ended June 30, 2013, and had no impact on the previously reported balances.

On December 16, 2011, the FASB issued ASU No. 2011-11, *Disclosure about Offsetting Assets and Liabilities*, which contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. Since the Museum does not have financial instruments or derivative instruments with offsetting, netting, or similar arrangements, we do not foresee any material impact on the Museum's financial statements that will result from the adoption of ASU No. 2011-11. This pronouncement is required for annual reporting periods beginning on or after January 1, 2013.

2. ENDOWMENT FUNDS AND INTERPRETATION OF RELEVANT LAW

Effective September 1, 2007, the State of Texas adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which governs Texas charitable institutions with respect to the management, investment, and expenditure of donor-restricted endowment funds.

The Board of Trustees has interpreted Texas's adoption of UPMIFA as requiring the Museum to adopt investment and spending policies that preserve the fair value of the original gift as of the date of gift, absent explicit donor stipulations to the contrary. Although the Museum has a long-term fiduciary duty to the donor (and to others) for a fund of perpetual duration, the preservation of the endowment's purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment's original gift may be appropriated for expenditure in support of the restricted purposes of the endowment if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, the Museum classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net earnings (realized and unrealized) on the investment of endowment assets are classified as temporarily restricted until those amounts are appropriated for expenditure by the Museum in a manner consistent with the purpose or time restrictions if any, imposed by the donor. Any investment return classified as permanently restricted represents only those amounts required to be retained permanently as a result of explicit donor stipulations.

With regard to endowment losses or appropriations in excess of the fair value of the original gift, the portion of a donor-restricted endowment that is classified as permanently restricted is not reduced by losses on the investments of the fund, except to the extent required by the donor, including losses related to specific investments that the donor requires the Museum to hold in perpetuity. Similarly, the amount of permanently restricted net assets is not reduced by the Museum's appropriations from the fund. In the absence of donor stipulations or law to the contrary, losses or appropriations of a donor-restricted endowment reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been satisfied before the loss or appropriation occurs. Any remaining loss or appropriation reduces unrestricted net assets.

In accordance with UPMIFA, the Board of Trustees has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs and operations supported by its own endowment, while also seeking to maintain the long-term purchasing of the endowment assets. Therefore, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Museum and the fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Museum
- The investment policies of the Museum

Endowment net asset composition by type of fund as of June 30, 2013 and 2012, is as follows:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds	<u>\$ 135,377</u>	<u>\$ 226,494</u>	<u>\$ 685,153</u>	<u>\$ 1,047,024</u>
	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds	<u>\$ 108,207</u>	<u>\$ 203,423</u>	<u>\$ 683,691</u>	<u>\$ 995,321</u>

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

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	\$ 108,207	\$ 203,423	\$ 683,691	\$ 995,321
Clarification in donor intent	-	-	766	766
	<u>108,207</u>	<u>203,423</u>	<u>684,457</u>	<u>996,087</u>
Investment return:				
Investment income	9,443	9,941	-	19,384
Net realized gains	12,340	12,403	-	24,743
Net unrealized gains	27,197	28,267	-	55,464
Total investment return	<u>48,980</u>	<u>50,611</u>	<u>-</u>	<u>99,591</u>
Contributions	-	-	696	696
Other	478	465	-	943
Appropriated for expenditures	(3,442)	-	-	(3,442)
Transfers to other funds	(46,851)	-	-	(46,851)
Net assets released from restrictions	<u>28,005</u>	<u>(28,005)</u>	<u>-</u>	<u>-</u>
Endowment net assets — end of year	<u>\$ 135,377</u>	<u>\$ 226,494</u>	<u>\$ 685,153</u>	<u>\$ 1,047,024</u>

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets — beginning of year	<u>\$ 113,982</u>	<u>\$ 216,078</u>	<u>\$ 682,902</u>	<u>\$ 1,012,962</u>
Investment return:				
Investment income	8,193	8,594	-	16,787
Net realized gains	13,140	13,171	-	26,311
Net unrealized loss	<u>(6,738)</u>	<u>(5,837)</u>	<u>-</u>	<u>(12,575)</u>
Total investment return	<u>14,595</u>	<u>15,928</u>	<u>-</u>	<u>30,523</u>
Contributions	-	-	789	789
Other	656	658	-	1,314
Appropriated for expenditures	(3,359)	-	-	(3,359)
Transfers to other funds	(46,908)	-	-	(46,908)
Net assets released from restrictions	<u>29,241</u>	<u>(29,241)</u>	<u>-</u>	<u>-</u>
Endowment net assets — end of year	<u>\$ 108,207</u>	<u>\$ 203,423</u>	<u>\$ 683,691</u>	<u>\$ 995,321</u>

3. INVESTMENTS

Investments are stated at fair value and, if available, quoted market prices are used to value such investments. The financial statements include alternative investments valued at \$280,471 (22% of net assets), whose fair values have been estimated by the Museum's management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Unrealized appreciation or depreciation is recognized within the statement of activities currently. Accumulated unrealized appreciation of investments consists of unrealized gains and losses of \$325,388 and \$269,989 as of June 30, 2013 and 2012, respectively.

The Museum has made capital commitments of \$427,537 and \$404,360 for purchases of limited partnership interests, of which the total net amount funded was \$293,417 and \$246,297 as of June 30, 2013 and 2012, respectively. Subsequent to June 30, 2012, the Museum funded an additional \$10,731. Subsequent to June 30, 2013, the Museum funded an additional \$14,046.

Subsequent to June 30, 2013, the Museum made no additional commitments to investment managers in other asset classes.

A summary of investments as of June 30, 2013 and 2012, is as follows:

	2013		
	Cost	Market Value	Unrealized Appreciation (Depreciation)
At fair value:			
Equity and equity mutual funds	\$ 367,450	\$ 649,218	\$ 281,768
U.S. treasuries, bonds, and bond mutual funds	49,345	53,449	4,104
Alternative investments	247,862	280,471	32,609
Real estate and REITS	17,220	24,127	6,907
Money market mutual funds	<u>54,545</u>	<u>54,545</u>	<u>-</u>
Total investments	<u>\$ 736,422</u>	<u>\$ 1,061,810</u>	<u>\$ 325,388</u>
	2012		
	Cost	Market Value	Unrealized Appreciation (Depreciation)
At fair value:			
Equity and equity mutual funds	\$ 312,122	\$ 544,732	\$ 232,610
U.S. treasuries, bonds, and bond mutual funds	49,013	55,303	6,290
Alternative investments	326,617	351,058	24,441
Real estate and REITS	21,008	27,656	6,648
Money market mutual funds	<u>10,764</u>	<u>10,764</u>	<u>-</u>
Total investments	<u>\$ 719,524</u>	<u>\$ 989,513</u>	<u>\$ 269,989</u>

Investment income earned by the Museum and its allocation among net asset classifications as of June 30, 2013 and 2012, are as follows:

	2013	2012
Investment income	\$ 20,118	\$ 16,969
Net realized gains on investments reported at fair value	24,743	26,310
Net unrealized gains (losses) on investments reported at fair value	<u>55,399</u>	<u>(12,574)</u>
Total investment income	<u>\$ 100,260</u>	<u>\$ 30,705</u>
Net asset classification of investment income:		
Unrestricted	\$ 45,351	\$ 11,581
Temporarily restricted	54,909	19,124
Permanently restricted	<u>-</u>	<u>-</u>
Total investment income	<u>\$ 100,260</u>	<u>\$ 30,705</u>

Fair Value Measurement — The Museum utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment. As of June 30, 2013 and 2012, the Museum valued, using Level 1 inputs, \$767,239 and \$622,444, respectively, of investments, which included equity securities traded on active exchanges.

Level 2 — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. As of June 30, 2013 and 2012, using Level 2 inputs, the Museum valued \$17,559 and \$95,787, respectively, of investments, which included certain commingled equity funds, commingled debt funds and most government agency securities, investment-grade corporate bonds, certain mortgage products, less-liquid equities, and state and municipal obligations.

Level 3 — Valuations based on inputs that are unobservable and not corroborated by market data. As of June 30, 2013 and 2012, using Level 3 inputs, the Museum valued \$277,012 and \$271,282, respectively, of investments, which included certain fixed-income funds, private equity and real estate investments, less-liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, and less-liquid mortgage securities (backed by either commercial or residential real estate). When observable prices are not available for these securities, the Museum uses one or more valuation techniques for which sufficient and reliable data is available. The degree of judgment exercised in determining fair value is greatest for securities categorized in Level 3, due to the inherent uncertainty of these valuations. Level 3 estimated values may differ significantly from the values that would have been used, had a ready market for the investment existed, and the differences could be material.

The inputs used by the Museum in estimating the value of Level 3 investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or nontransferability, with the amount of such discount estimated by the Museum in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis.

The financial instruments carried on in the statement of financial position by caption and by level within the valuation hierarchy as of June 30, 2013 and 2012, were as follows:

	2013			
	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Equity and equity mutual funds	\$ 649,218	\$ -	\$ -	\$ 649,218
U.S. treasuries, bonds, and bond mutual funds	51,343	2,106	-	53,449
Alternative investments	-	15,453	265,018	280,471
Real estate and REITS	12,133	-	11,994	24,127
Money market mutual funds	54,545	-	-	54,545
Total	<u>\$ 767,239</u>	<u>\$ 17,559</u>	<u>\$ 277,012</u>	<u>\$ 1,061,810</u>

Subsequent to June 30, 2013, the Museum sold \$11,994 investment in real estate classified in Level 3 above.

	2012			
	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Equity and equity mutual funds	\$ 544,732	\$ -	\$ -	\$ 544,732
U.S. treasuries, bonds, and bond mutual funds	55,303	-	-	55,303
Alternative investments	-	95,787	255,271	351,058
Real estate and REITS	11,645	-	16,011	27,656
Money market mutual funds	10,764	-	-	10,764
Total	<u>\$ 622,444</u>	<u>\$ 95,787</u>	<u>\$ 271,282</u>	<u>\$ 989,513</u>

The following table includes a rollforward for the year ended June 30, 2013 and 2012, of amounts for financial instruments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. Net operating income/expenses, net realized gains, and net unrealized gains are included within realized and unrealized investment income (loss) — net within the statement of activities.

	Level 3 Investments	
	2013	2012
Balance — beginning of fiscal year	\$ 271,282	\$ 232,963
Purchases	51,210	51,610
Distributions	(65,427)	(33,969)
Net operating income/expenses	(5,099)	(6,415)
Net realized gains	29,479	19,492
Net unrealized (losses) gains	(4,433)	7,601
Balance — June 30, 2013	<u>\$ 277,012</u>	<u>\$ 271,282</u>

4. INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

A description of the alternative investments included in securities measured at fair value with significant unobservable inputs is as follows:

	Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity Long/Short Hedge Funds	(a)	\$ 2,810	N/A	Quarterly	45–60 days
Multi-Strategy Hedge Funds	(b)	25,021	N/A	Quarterly–Annually	30–100 days
Private Equity Funds	(c)	146,198	\$ 58,607	N/A	N/A
Venture Capital Funds	(d)	13,217	2,765	N/A	N/A
Energy/Natural Resources Funds	(e)	61,135	65,243	N/A	N/A
Distressed Debt Funds	(f)	11,555	-	N/A	N/A
Real Estate Funds	(g)	<u>20,535</u>	<u>7,505</u>	N/A	N/A
Total		<u>\$ 280,471</u>	<u>\$ 134,120</u>		

- (a) This category includes investments in hedge funds that invest both long and short, primarily in mid and large cap U.S. common stocks. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.
- (b) This category includes hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' composite portfolio for this category includes investments in U.S. common stocks, credit instruments, and arbitrage investments. The lockup period has expired for these investments. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.
- (c) This category invests in private equity transactions such as growth equity financing, leveraged buyouts, acquisitions and/or industry consolidations, recapitalizations, and restructurings. The fund seeks to earn returns substantially above those on publicly traded stocks over a long-term (seven- to 10-year) horizon. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets for the fund and would be liquidated over five to 10 years. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.
- (d) These venture capital funds invest in early-stage, high-growth private companies, principally in the information technology and life sciences/health care fields. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund and would be liquidated over five to 10 years. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.
- (e) This category invests in exploration and production companies, midstream companies, royalty interests, and other natural resource-focused companies. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.
- (f) This category invests in financially distressed companies or companies in Chapter 11, concentrating on senior and secured debt instruments and U.S. private subordinated debt securities with significant equity components. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.
- (g) This category invests in private equity and debt of real estate investments in the office, industrial, multifamily, hotel, and retail segments. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.

The allocation of investments held by the Museum to the various endowments, operations, accessions, and plant accounts as of June 30, 2013, is as follows:

	Cost	Market Value
Operations Endowment Investment Accounts:		
Museum:		
The Caroline Wiess Law Operating Endowment	\$ 318,014	\$ 333,897
Brown Foundation Maintenance Endowment	32,075	116,251
Alice Pratt Brown, "Brown Wing" Endowment	6,373	28,810
The General and Mrs. Maurice Hirsch Library Endowment	8,649	19,510
Permanent Endowment	2,890	17,607
Alfred C. Glassell, Jr. Endowment Fund for The Museum of Fine Arts, Houston	11,170	13,907
Jesse H. and Mary Gibbs Jones Exhibition Endowment	2,648	8,216
Robert A. Welch — Works of Art Restoration Endowment	1,480	5,080
The Wortham Foundation Audrey Jones Beck Building Endowment	4,077	4,610
W. T. and Louise J. Moran Education Director Endowment	3,271	3,874
Gus and Lyndall Wortham Curatorial Chair Endowment	1,106	3,431
Audrey Jones Beck Capital Campaign Endowment	3,017	2,643
Cullinan Wing Endowment	512	2,606
The Caroline Wiess Law Education Endowment	1,465	2,169
The Carol Crow Photography Conservator Chair Endowment	1,501	1,850
Audrey Jones Beck European Art Curator Endowment	2,011	1,762
Latin American and Latino Art Curator Endowment	1,500	1,682
Fayez Shalaby Sarofim and Meredith J. Long Endowment Fund for Exhibitions	1,000	1,110
William Randolph Hearst Educational Outreach Endowment	520	987
Harry C. Wiess Memorial Endowment	176	912
National Endowment for the Humanities — Education Endowment	602	792
The Fondren Foundation Education Endowment	512	584
B.M.C. Software, Inc. Education Endowment	506	559
The Wallace Foundation Education Endowment	550	538
John Blodgett Davis Endowment Fund	530	521
Shell Companies Exhibition Endowment	99	307
Neal Myers and Ken Black Children's Art Fund	193	303
National Endowment for the Arts — Planning and Stabilization	310	296
The Margaret Cooke Skidmore Endowed Exhibition Fund	246	291
Frank and Eleanor Freed Lecture Series Endowment	133	244
The Cyvia and Melvyn Wolff Endowment for Exhibitions	210	207
The Virginia and Ira Jackson Lecture on Prints and Drawings Endowment	186	195
Houston Antiques Dealers Association Endowment	115	144
Alice Pratt Brown Garden Endowment	47	110
Favrot Education Endowment Fund	101	97
Garden Endowment	20	62
Ralph S. O'Connor Statue Maintenance Endowment	31	34
The John C. Wynne Memorial Lecture Series for Arts Education	29	30
Beth B. Schneider Endowed Summer Internship Fund	22	20
Frank and Eleanor Carroll Lecture Fund	4	3
	<u>407,901</u>	<u>576,251</u>
Total Museum		

(Continued)

	Cost	Market Value
Bayou Bend Collection and Gardens:		
Bayou Bend Trust Endowment	\$ 3,386	\$ 12,800
Bayou Bend Endowments	3,174	9,169
David B. Warren Symposium Endowment	266	309
The Carol and Les Ballard Endowed Lecture Series	257	267
Underwood Bayou Bend Annual Gift Endowment	67	162
The Judy and Charles Tate Education Endowment	103	109
Bayou Bend 50th Anniversary Endowment	111	101
The Twinkle Fund in support of operations for Bayou Bend Collection and Gardens	21	20
The Sparkle Fund in support of education programs for the docents at Bayou Bend Collection and Gardens	<u>5</u>	<u>5</u>
Total Bayou Bend Collection and Gardens	<u>7,390</u>	<u>22,942</u>
Glassell School of Art:		
Alfred C. Glassell, Jr. Endowment Fund	9,980	12,459
Glassell School Endowments	1,851	5,364
Glassell Scholarship Endowments	2,310	3,333
Glassell School Special Endowment	<u>1</u>	<u>1</u>
Total Glassell School of Art	<u>14,142</u>	<u>21,157</u>
Rienzi:		
The Carroll Sterling and Harris Masterson III Endowment	5,432	11,293
The Caroline Wiess Law Endowment	<u>5,353</u>	<u>9,546</u>
Total Rienzi	<u>10,785</u>	<u>20,839</u>
Total Operations Endowment Investment Accounts	<u>440,218</u>	<u>641,189</u>
Accessions Endowment Investment Accounts:		
Caroline Wiess Law Accessions Endowment	203,757	216,202
Brown Foundation Accessions Endowment	12,092	46,341
Alice Pratt Brown Museum Endowment	9,202	42,845
Alfred C. Glassell, Jr. Endowment Fund for Accessions	33,510	41,720
Agnes Cullen Arnold Endowment	4,205	23,867
Director's Accessions Endowment	2,058	13,544
Audrey Jones Beck Accessions Endowment	8,863	10,458
Alvin S. Romansky Print Accessions Endowment	1,029	2,460
Long American Art Endowment	224	1,081
The Cyvia and Melvyn Wolff Endowment for American Art	846	829
S. I. Morris Photography Endowment	263	785
W. H. Keenan Family Endowment Fund	397	430
Lora Jean Kilroy Accessions Endowment	421	436
The Marjorie G. and Evan C. Horning Print Fund	103	347
Jack R. McGregor Endowment Fund for Glass	271	284
Myron Bonham Deily Endowment Fund for Latin American Art	253	240

(Continued)

	Cost	Market Value
Alice C. Simkins Drawing Endowment Fund	\$ 180	\$ 196
The Ann Gordon Trammell American Art Endowment Fund	176	190
Rienzi Collections Endowment Fund	162	157
Marian and Speros Martel Early Americana Accessions Endowment Fund Honoring William S. Kilroy	152	150
Elizabeth S. and Marjorie G. Horning Asian Art Accessions Endowment Fund	105	130
Mundy Photography Department Endowment	124	124
Michael K. Brown Metals Endowment Fund	113	119
The Pamela and David Ott American Art Endowment	113	118
The Ira and Virginia Jackson Endowment Fund	119	118
The Gloria Garic Anderson Endowment Fund for Accessions for Bayou Bend	108	117
Bayou Bend Docent Organization Endowment Fund	87	95
Houston Junior Woman's Club Charitable Fund — an Endowment Fund for Bayou Bend Accessions	81	80
Decorative Arts Accessions Endowment Fund	51	68
The Carol Jean and Michael Moehlman Bayou Bend Accessions Endowment Fund	52	57
The Alice C. Simkins Endowment for Southern Art for Bayou Bend	51	52
The Toni and Ralph Wallingford Accessions Endowment for Bayou Bend	51	46
Marjorie and Evan Horning Endowment for Decorative Arts	35	42
Lynn and Marcel Mason Photography Endowment Fund	25	26
Linda and Ronny Finger Endowment Fund	15	19
Photography Endowment	<u>16</u>	<u>19</u>
 Total Accessions Endowment Investment Accounts	 279,310	 403,792
 Total investments within operations, accessions, and plant accounts	 (970)	 (970)
Total investments within plant account	<u>17,864</u>	<u>17,799</u>
 Total investments	 <u>\$ 736,422</u>	 <u>\$ 1,061,810</u>

(Concluded)

5. PLEDGES RECEIVABLE

As of June 30, 2013 and 2012, the Museum had unconditional pledges receivable of \$106,777 and \$6,151, respectively. Pledges receivable — net represents the present value of future cash flows, discounted at the average five-year Treasury bill rate (1.2% as of June 30, 2013), and are as follows:

	2013	2012
Due within one year	\$ 19,933	\$ 4,461
Due within two to five years	68,844	1,690
Due after five years	<u>18,000</u>	<u>-</u>
Total	106,777	6,151
Less present value discount	<u>(3,142)</u>	<u>(97)</u>
Pledges receivable — net	<u><u>\$ 103,635</u></u>	<u><u>\$ 6,054</u></u>

6. PROPERTY

Property as of June 30, 2013 and 2012, is as follows:

	2013	2012
Land	\$ 28,362	\$ 24,346
Buildings and capital improvements	152,078	149,662
Equipment, furniture, and fixtures	<u>17,557</u>	<u>17,624</u>
Total	197,997	191,632
Less accumulated depreciation	<u>(86,024)</u>	<u>(80,858)</u>
Total	<u><u>\$ 111,973</u></u>	<u><u>\$ 110,774</u></u>

7. PENSION PLAN

The Museum has a money-purchase defined contribution pension plan covering substantially all of its regular full- and part-time employees. The plan provides for employee contributions of up to 100% of compensation, up to the maximum dollar limit, which is set by the Internal Revenue Service, and employer contributions of 5% of the employee's compensation. Museum contributions are fully vested immediately upon the employee's participation. The Museum's policy is to currently fund accrued pension cost. The total pension expense for the years ended June 30, 2013 and 2012, was \$818 and \$809, respectively, which is included as part of employee benefits expense. As of June 30, 2013 and 2012, the Museum has a deferred compensation agreement for senior staff. Deferred compensation was paid in the current year.

8. RELATED-PARTY TRANSACTIONS

The Museum bylaws incorporate a conflict of interest policy. The purpose of this article is to protect the Museum's interest when it is contemplating a transaction or arrangement that might benefit the private interest of a member of its Board of Trustees, officer, director, or associate director of the Museum or a voting member of a committee with board-delegated powers. A person who has a financial interest may have a conflict of interest only if the Board of Trustees or appropriate committee decides that a conflict of interest exists. All members of the board, professional staff, and committee consultants complete a conflict of interest document when joining the institution and/or annually and/or when changes occur.

9. COMMITMENTS

The Museum has various noncancelable operating lease commitments as of June 30, 2013, payable as follows:

Years Ending June 30	
2014	\$ 813
2015	635
2016	134
2017	57

Rental expense under these leases for the years ended June 30, 2013 and 2012, was \$1,183 and \$1,095, respectively.

10. NET ASSETS

Temporarily and permanently restricted net assets as of June 30, 2013 and 2012, were restricted for the following uses:

	<u>2013</u>		<u>2012</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Operations and operations endowment	\$ 107,485	\$ 416,844	\$ 102,280	\$ 416,635
Accessions and accessions endowment	141,852	268,309	121,164	267,056
Plant	<u>138,293</u>	<u>-</u>	<u>2,865</u>	<u>-</u>
Total	<u>\$ 387,630</u>	<u>\$ 685,153</u>	<u>\$ 226,309</u>	<u>\$ 683,691</u>

Included in operations and accession endowments are various contributions and other inflows of assets that are maintained in donor accounts, which are restricted by donor-imposed stipulations to be used, or income from such assets to be used, for various operations and accession activities of the Museum, including activities of Bayou Bend Collection and Gardens, Glassell School of Art, and Rienzi. Included in plant accounts are various pledges received that are temporarily restricted to be used by the Museum for various plant activities.

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