

The Museum of Fine Arts, Houston

Financial Statements as of and for the
Years Ended June 30, 2016 and 2015, 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, 2016, 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, 2016, 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 2015 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 18, 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.

Deloitte & Touche LLP

November 17, 2016

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2016 AND 2015 (Dollars in thousands)

	2016	2015
ASSETS		
TEMPORARILY RESTRICTED CASH AND CASH EQUIVALENTS	\$ 88,553	\$ 70,912
RECEIVABLES:		
Pledges	131,064	153,191
Grants	351	414
Accounts	10,791	12,562
Interest/dividends	1,768	1,780
Total receivables	<u>143,974</u>	<u>167,947</u>
INVENTORY	<u>493</u>	<u>261</u>
PREPAID EXPENSES	<u>1,116</u>	<u>361</u>
INVESTMENTS	<u>1,158,461</u>	<u>1,201,214</u>
PROPERTY—Net	<u>157,022</u>	<u>133,367</u>
OTHER ASSETS	<u>1,371</u>	<u>1,382</u>
TOTAL	<u>\$ 1,550,990</u>	<u>\$ 1,575,444</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 38,603	\$ 30,843
Deferred revenue	16,830	17,388
Total liabilities	<u>55,433</u>	<u>48,231</u>
COMMITMENTS (Note 3, 9)		
NET ASSETS:		
Unrestricted	269,221	267,971
Temporarily restricted	521,802	562,531
Permanently restricted	704,534	696,711
Total net assets	<u>1,495,557</u>	<u>1,527,213</u>
TOTAL	<u>\$ 1,550,990</u>	<u>\$ 1,575,444</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
OPERATING REVENUES:					
Contributions and grants	\$ 12,421	\$ 3,080	\$ -	\$ 15,501	\$ 13,379
Investment returns designated for current use	34,030	154		34,184	33,400
Membership revenue	2,920			2,920	3,048
Admission revenue	3,152			3,152	2,531
Tuition revenue	2,070			2,070	2,129
Auxiliary revenue	2,703			2,703	3,335
Other	1,997			1,997	1,654
Net assets released from restriction	4,247	(4,247)		-	-
Total operating support and revenue	63,540	(1,013)	-	62,527	59,476
OPERATING EXPENSES:					
Program services:					
Curatorial and collections	9,294			9,294	9,348
Exhibitions	2,749			2,749	4,262
Education and public programs	7,638			7,638	6,911
Glassell School	3,910			3,910	3,902
Bayou Bend	4,407			4,407	3,510
Rienzi	1,586			1,586	1,580
Membership activities	1,104			1,104	1,022
Buildings and grounds and security	12,681			12,681	11,711
Sub-total program services	43,369	-	-	43,369	42,246
Supporting services:					
Management and general	11,469			11,469	10,788
Auxiliary activities	3,055			3,055	3,363
Fundraising	4,166			4,166	4,673
Sub-total supporting services	18,690	-	-	18,690	18,824
Total operating expenses before depreciation and amortization	62,059	-	-	62,059	61,070
OPERATING SURPLUS (DEFICIT) BEFORE DEPRECIATION AND AMORTIZATION	1,481	(1,013)	-	468	(1,594)
DEPRECIATION AND AMORTIZATION	6,995			6,995	7,459
CHANGES IN NET ASSETS FROM OPERATIONS	(5,514)	(1,013)	-	(6,527)	(9,053)
CHANGES IN NONOPERATING ACTIVITIES:					
Contributions designated for capital expenditures and long term investment		22,003	7,823	29,826	85,928
Contributions for the purchase of art	8,002	905		8,907	8,069
Investment returns designated for art acquisition	15,381	4,787		20,168	19,832
Acquisition of art objects net of proceeds from the sale of art	(43,255)			(43,255)	(27,340)
Investment return in excess of amounts designated for current use and art acquisition	(49,225)	6,353		(42,872)	(45,706)
Net assets released from restriction to fund non-operating activities	73,842	(73,842)		-	-
Endowment related expenses (net)	(1,657)	78		(1,579)	(1,345)
Other - gain on sale of building	3,676			3,676	-
CHANGE IN NET ASSETS	1,250	(40,729)	7,823	(31,656)	30,385
NET ASSETS—Beginning of year	267,971	562,531	696,711	1,527,213	1,496,828
NET ASSETS—End of year	\$269,221	\$521,802	\$704,534	\$1,495,557	\$1,527,213

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2015) (Dollars in thousands)

Area	Program Services												Total Expenses before Depreciation for the Year Ended June 30, 2016	Total Expenses before Depreciation for the Year Ended June 30, 2015	
	Curatorial and Collections	Exhibitions	Education and Public Programs	Glassell School	Bayou Bend	Rienzi	Membership Activities	Buildings & Grounds/ Security	Total	Management and General	Auxiliary Activities	Fund-Raising			Total
SALARIES	\$5,653	\$ -	\$4,218	\$2,279	\$1,938	\$ 520	\$ 343	\$ 6,320	\$21,271	\$ 5,514	\$ 979	\$1,814	\$ 8,307	\$29,578	\$28,029
EMPLOYEE BENEFITS	989		701	427	247	53	54	1,817	4,288	870	144	266	1,280	5,568	4,649
PAYROLL TAXES	<u>411</u>	<u> </u>	<u>312</u>	<u>169</u>	<u>94</u>	<u>25</u>	<u>27</u>	<u>566</u>	<u>1,604</u>	<u>364</u>	<u>75</u>	<u>122</u>	<u>561</u>	<u>2,165</u>	<u>2,138</u>
Total	7,053	-	5,231	2,875	2,279	598	424	8,703	27,163	6,748	1,198	2,202	10,148	37,311	34,816
OCCUPANCY	27		83	80	329	292		2,386	3,197	980	138		1,118	4,315	4,288
CONTRACT SERVICES	82	6	61	109	452	197	34	387	1,328	676	102	700	1,478	2,806	2,178
PROFESSIONAL FEES	620	174	239	96	85	9	42	5	1,270	903	213	264	1,380	2,650	3,333
PROGRAMS AND PREVIEWS	59	1,094	362	179	651	46	2		2,393	17	22		39	2,432	1,693
POSTAGE AND SHIPPING	317	1,270	34	29	17	4	144		1,815	61	62	85	208	2,023	3,139
MISCELLANEOUS	95	1	32	197	49	242	20	(133)	503	987	76	142	1,205	1,708	1,442
PROMOTION	12	4	678	20	53	14	364		1,145	27	77	227	331	1,476	1,799
SUPPLIES	168	10	132	179	141	32		246	908	158	260	147	565	1,473	1,773
INSURANCE	516	12		29	45	17		635	1,254	179	2	5	186	1,440	1,571
TRAVEL	312	106	81	37	20	12	4	5	577	182	25	153	360	937	833
PRINTING AND PUBLICATIONS	7	66	424	71	57	14	68		707	22	2	199	223	930	849
COST OF GOODS SOLD					51				51		878		878	929	1,345
REPAIRS AND MAINTENANCE	17	6	7	6	164	107		435	742	172			172	914	1,280
DUES AND SUBSCRIPTIONS	9		74	3	3	2	2	12	105	264		42	306	411	339
LIBRARY			200		11				211				-	211	275
INTEREST AND TAXES	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>-</u>	<u>93</u>	<u> </u>	<u> </u>	<u>93</u>	<u>93</u>	<u>117</u>
TOTAL	<u>\$9,294</u>	<u>\$2,749</u>	<u>\$7,638</u>	<u>\$3,910</u>	<u>\$4,407</u>	<u>\$1,586</u>	<u>\$1,104</u>	<u>\$12,681</u>	<u>\$43,369</u>	<u>\$11,469</u>	<u>\$3,055</u>	<u>\$4,166</u>	<u>\$18,690</u>	<u>\$62,059</u>	<u>\$61,070</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (Dollars in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	(31,656)	30,385
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	6,995	7,459
Gains on sale of property, net	(3,240)	
Gains on sale of investments	(37,700)	(76,310)
Net unrealized depreciation on investments	48,800	91,735
Distributions from investing activities	20,855	34,803
Contributions restricted by donors	(33,810)	(89,131)
Decrease (increase) in receivables	23,973	(51,820)
(Increase) decrease in inventory	(232)	459
(Increase) decrease in prepaid expenses	(755)	1,167
Increase in liabilities	7,202	24,050
	<u>432</u>	<u>(27,203)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(32,310)	(16,757)
Proceeds from sale of property	4,900	
Return of capital on investments	30,389	47,246
Purchases of investments	(212,092)	(232,314)
Proceeds from sale of investments	192,501	141,322
Increase in temporarily restricted cash and cash equivalents	(17,641)	(1,447)
Decrease in other assets	11	22
	<u>(34,242)</u>	<u>(61,928)</u>
CASH FLOWS FROM FINANCING ACTIVITY—Contributions restricted by donors		
	<u>33,810</u>	<u>89,131</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 YEARS ENDED JUNE 30, 2016 AND 2015 (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.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles in the United States (“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. An allowance is made for uncollectible pledges based on the Museum’s analysis of past collection experience and other judgmental factors.

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 5.0% 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 (80% weight) and an amount determined by applying the target rate to the current endowment market value as of December 31 (20% weight), subject to collar limits of 4.75-5.75%.

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 2 separate lease terms through 2064.

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 68,559 works at June 30, 2016, 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 acquisition of art objects net of proceeds from the sale of art. In accordance with policies followed by many art museums, no value has been assigned in the statements of financial position to the Museum's art collection.

Purchases for the art collection were \$37,035 and \$22,255 for the years ended June 30, 2016 and 2015, respectively. The value of art objects obtained by gifts is reported as contributions and collection expense in the statements of activities and totaled \$6,220 and \$5,085 for the years ended June 30, 2016 and 2015, respectively. Deaccessions made during the years 2016 and 2015 had a fair market value of \$24 and \$67, respectively, 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, 2016 and 2015, the Museum received donated legal services valued at \$34 and \$67, respectively. In the year ended June 30, 2016, the Museum received donated technology advisory and implementation services valued at \$80.

Allocation of Functional Expenses—Expenses are allocated to various programs and supporting services based on the ultimate use of the product or services.

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 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.

Subsequent Events—We have evaluated subsequent events through November 17, 2016, which is the date the financial statements were available for issuance.

New Accounting Pronouncements—In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” ASU 2014-09 and the related amendments are effective for the year beginning July 1, 2019. Management has not yet determined the impact, if any, that implementation of ASU 2014-09 will have on the Museum’s financial statements.

Subsequent to the issuance of ASU 2014-09, various ASU amendments to the revenue guidance have been issued. These updates address 1) Principal versus Agent Considerations (Reporting Revenue Gross versus Net); 2) Identifying Performance Obligations and Licensing; 3) Rescission of Certain SEC Staff Observer Comments upon Adoption of Topic 606; and 4) Narrow-Scope Improvements and Practical

Expedients. The effective date for each of these revenue amendments is concurrent with the effective date of ASU 2014-09, as referenced above. Management has not yet determined the impact, if any, that implementation of these ASUs will have on the Museum's financial statements.

In April 2015, the FASB issued ASU No. 2015-07 (ASU 2015-07), *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (Issue 14-B)*, which removes the requirement to categorize within the fair value hierarchy investments for which the practical expedient is used to measure fair value at net asset value (NAV). Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. Further, entities must provide the disclosures in ASC 820-10-50-6A, *Fair Value Measurement*, only for investments for which they elect to use the NAV practical expedient to determine fair value. ASU 2015-07 is effective for the year beginning July 1, 2017, with early adoption permitted. Management has not yet determined the impact, if any, that implementation of ASU 2015-07 will have on the Museum's financial statements.

In February 2016, the FASB issued ASU No. 2016-02 (ASU 2016-02), *Leases*, which requires lease obligations to be recognized on the balance sheet. ASU 2016-02 is effective for the year beginning July 1, 2020. Management has not yet determined the impact, if any, that implementation of ASU 2016-02 will have on the Museum's financial statements.

In August 2016, the FASB issued ASU No. 2016-14, (ASU 2016-14), *Presentation of Financial Statements of Not-For-Profit Entities*, which significantly changes the presentation requirements for financial statements of not-for-profit entities (NFPs). The amendments are intended to improve the guidance on net asset classification as well as the information presented in the financial statements and financial statement notes regarding liquidity, financial performance, and cash flows for NFPs. Specifically, the ASU addresses (1) the complexity and understandability of net asset classifications, (2) the lack of consistency in the type of information provided about expenses, and (3) inconsistencies in the reporting of (a) operating information in the statement of activities and (b) operating cash flows in the statement of cash flows. ASU 2016-14 is effective for the Museum for the year beginning July 1, 2018. Management has not yet determined the impact, if any, that implementation of ASU 2016-14 will have on the Museum's financial statements.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations. Because of the tentative and preliminary nature of such proposed standards, the Museum has not yet determined the effect, if any, that the implementation of such proposed standards would have on its financial statements.

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

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

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets—beginning of year	<u>\$ 155,821</u>	<u>\$ 297,381</u>	<u>\$ 696,711</u>	<u>\$ 1,149,913</u>
Investment return:				
Investment income	10,317	11,012		21,329
Net realized gains	18,698	19,297		37,995
Net unrealized losses	<u>(23,926)</u>	<u>(24,691)</u>		<u>(48,617)</u>
Total investment return	<u>5,089</u>	<u>5,618</u>	<u>-</u>	<u>10,707</u>
Contributions			7,823	7,823
Other	76	78		154
Appropriated for expenditures	(2,921)			(2,921)
Transfers to other funds	(53,495)			(53,495)
Net assets released from restrictions	<u>27,364</u>	<u>(27,364)</u>		<u>-</u>
Endowment net assets—end of year	<u>\$ 131,934</u>	<u>\$ 275,713</u>	<u>\$ 704,534</u>	<u>\$ 1,112,181</u>
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—beginning of year	\$ 200,439	\$ 300,569	\$ 685,726	\$ 1,186,734
Clarification in donor intent			<u>5,652</u>	<u>5,652</u>
	<u>200,439</u>	<u>300,569</u>	<u>691,378</u>	<u>1,192,386</u>
Investment return:				
Investment income	10,768	11,334		22,102
Net realized gains	37,617	38,451		76,068
Net unrealized losses	<u>(44,638)</u>	<u>(45,779)</u>		<u>(90,417)</u>
Total investment return	<u>3,747</u>	<u>4,006</u>	<u>-</u>	<u>7,753</u>
Contributions			5,333	5,333
Other	459	462		921
Appropriated for expenditures	(3,412)			(3,412)
Transfers to other funds	(53,068)			(53,068)
Net assets released from restrictions	<u>7,656</u>	<u>(7,656)</u>		<u>-</u>
Endowment net assets—end of year	<u>\$ 155,821</u>	<u>\$ 297,381</u>	<u>\$ 696,711</u>	<u>\$ 1,149,913</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 \$281,418 (19% of 2016 net assets) and \$284,083 (18% of 2015 net assets) as of June 30, 2016 and 2015, respectively, 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 \$318,586 and \$367,386 as of June 30, 2016 and 2015, respectively.

The Museum has made capital commitments of \$597,523 and \$523,758 for purchases of limited partnership interests, of which the total net amount funded was \$402,709 and \$361,903 as of June 30, 2016 and 2015, respectively. Subsequent to June 30, 2016, the Museum funded an additional \$17,817.

Subsequent to June 30, 2016, the Museum made no additional commitments to investment managers in other asset classes.

A summary of investments as of June 30, 2016 and 2015, is as follows:

	2016		
	Cost	Market Value	Unrealized Appreciation
At fair value:			
Equity and equity mutual funds	\$409,903	\$ 686,594	\$276,691
U.S. treasuries, bonds, and bond mutual funds	107,906	113,172	5,266
Alternative investments	250,905	281,418	30,513
Real estate and REITS	15,170	21,286	6,116
Money market mutual funds	55,991	55,991	-
Total investments	<u>\$839,875</u>	<u>\$1,158,461</u>	<u>\$318,586</u>
	2015		
	Cost	Market Value	Unrealized Appreciation
At fair value:			
Equity and equity mutual funds	\$383,590	\$ 697,738	\$314,148
U.S. treasuries, bonds, and bond mutual funds	108,593	112,254	3,661
Alternative investments	237,472	284,083	46,611
Real estate and REITS	15,307	18,273	2,966
Money market mutual funds	88,866	88,866	-
Total investments	<u>\$833,828</u>	<u>\$1,201,214</u>	<u>\$367,386</u>

Investment income earned by the Museum and its allocation among net asset classifications for the years ended June 30, 2016 and 2015, are as follows:

	2016	2015
Investment income	\$ 22,580	\$ 22,951
Net realized gains on investments reported at fair value	37,700	76,310
Net unrealized losses on investments reported at fair value	<u>(48,800)</u>	<u>(91,735)</u>
Total investment income	<u>\$ 11,480</u>	<u>\$ 7,526</u>
Net asset classification of investment income (loss):		
Unrestricted	\$ 186	\$ (982)
Temporarily restricted	<u>11,294</u>	<u>8,508</u>
Total investment income	<u>\$ 11,480</u>	<u>\$ 7,526</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, 2016 and 2015, the Museum valued, using Level 1 inputs, \$819,972 and \$859,433, 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, 2016 and 2015, using Level 2 inputs, the Museum valued \$72,854 and \$73,248, 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, 2016 and 2015, using Level 3 inputs, the Museum valued \$265,635 and \$268,533, 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 in the statement of financial position by caption and by level within the valuation hierarchy as of June 30, 2016 and 2015 were as follows:

	2016			
	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Equity and equity mutual funds	\$686,594	\$ -	\$ -	\$ 686,594
U.S. treasuries, bonds, and bond mutual funds	53,599	59,574		113,173
Alternative investments	2,503	13,280	265,635	281,418
Real estate and REITS	21,285			21,285
Money market mutual funds	55,991			55,991
Total	<u>\$819,972</u>	<u>\$72,854</u>	<u>\$265,635</u>	<u>\$1,158,461</u>

	2015			
	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Equity and equity mutual funds	\$697,738	\$ -	\$ -	\$ 697,738
U.S. treasuries, bonds, and bond mutual funds	51,776	60,478		112,254
Alternative investments	2,780	12,770	268,533	284,083
Real estate and REITS	18,273			18,273
Money market mutual funds	88,866			88,866
Total	<u>\$859,433</u>	<u>\$73,248</u>	<u>\$268,533</u>	<u>\$1,201,214</u>

The following table includes a rollforward for the year ended June 30, 2016 and 2015, 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. The Museum records transfers between levels of the fair value hierarchy at the end of the reporting period. As of June 30, 2015, the Museum recorded transfers of \$2,780 from Level 3 to Level 1 as a result of the public issuance

of one of its Level 3 investments. The common share value related to this public issuance is readily observable, resulting in a Level 1 classification.

	Level 3 Investments	
	2016	2015
Balance—beginning of fiscal year	\$ 268,533	\$ 302,278
Purchases	43,822	37,621
Distributions	(51,244)	(82,051)
Net operating income	894	2,332
Net realized gains	19,569	44,766
Net unrealized losses	(15,939)	(33,633)
Transfers to Level 1	<u> </u>	<u>(2,780)</u>
Balance—end of fiscal year	<u><u>\$ 265,635</u></u>	<u><u>\$ 268,533</u></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 as of June 30, 2016 and 2015:

		2016			
	Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(a)	\$ 26,611	\$ -	Quarterly–Annually	30–100 days
	(b)	125,413	64,505	N/A	N/A
	(c)	16,419	1,015	N/A	N/A
	(d)	83,603	85,077	N/A	N/A
	(e)	2,828	<u> </u>	N/A	N/A
	(f)	<u>26,544</u>	<u>44,217</u>	N/A	N/A
	Total	<u>\$281,418</u>	<u>\$194,814</u>		
		2015			
	Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(a)	\$ 25,974	\$ -	Quarterly–Annually	30–100 days
	(b)	139,697	62,850	N/A	N/A
	(c)	18,372	1,225	N/A	N/A
	(d)	72,295	77,527	N/A	N/A
	(e)	4,696	<u> </u>	N/A	N/A
	(f)	<u>23,049</u>	<u>20,253</u>	N/A	N/A
	Total	<u>\$284,083</u>	<u>\$161,855</u>		

- (a) 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.
- (b) 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.

- (c) 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.
- (d) 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.
- (e) 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.
- (f) 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, 2016, is as follows:

	Cost	Market Value
Operations endowment investment accounts:		
Museum:		
The Caroline Wiess Law Operating Endowment	\$ 334,331	\$ 345,602
Brown Foundation Maintenance Endowment	37,682	120,326
Alice Pratt Brown, "Brown Wing" Endowment	7,762	29,820
The General and Mrs. Maurice Hirsch Library Endowment	9,773	20,341
Permanent Endowment	3,821	18,297
Alfred C. Glassell, Jr. Endowment Fund for The Museum of Fine Arts, Houston	11,959	16,333
Jesse H. and Mary Gibbs Jones Exhibition Endowment	3,044	8,504
Cornelia and Meredith Long Operating Endowment	5,920	5,402
Robert A. Welch—Works of Art Restoration Endowment	1,725	5,258
The Wortham Foundation Audrey Jones Beck Building Endowment	4,300	4,772
W. T. and Louise J. Moran Education Director Endowment	3,555	4,010
Gus and Lyndall Wortham Curatorial Chair Endowment	1,271	3,551
Audrey Jones Beck Capital Campaign Endowment	3,145	2,735
Cullinan Wing Endowment	637	2,698
The Caroline Wiess Law Education Endowment	1,569	2,245
Lora Jean Kilroy Wilson American Art Curator	2,060	2,028
The Carol Crow Photography Conservator Chair Endowment	1,591	1,915
Audrey Jones Beck European Art Curator Endowment	2,097	1,824
Latin American and Latino Art Curator Endowment	1,581	1,741
Fayez Shalaby Sarofim and Meredith J. Long Endowment Fund for Exhibitions	1,054	1,149
William Randolph Hearst Educational Outreach Endowment	567	1,022
Harry C. Wiess Memorial Endowment	220	944
National Endowment for the Humanities—Education Endowment	640	819
The Fondren Foundation Education Endowment	541	605
B.M.C. Software, Inc. Education Endowment	533	578
The Wallace Foundation Education Endowment	576	557
John Blodgett Davis Endowment Fund	559	539
The Isabel Brown Wilson Endowment for the Curator of Modern and Contemporary Art	506	507
Shell Companies Exhibition Endowment	114	318
Neal Myers and Ken Black Children's Art Fund	207	314
National Endowment for the Arts—Planning and Stabilization	324	306
The Margaret Cooke Skidmore Endowed Exhibition Fund	260	301
Frank and Eleanor Freed Lecture Series Endowment	145	253
The Cyvia and Melvyn Wolff Endowment for Exhibitions	229	215
The Virginia and Ira Jackson Lecture on Prints and Drawings Endowment	195	202
Houston Antiques Dealers Association Endowment	122	149
Alice Pratt Brown Garden Endowment	52	114
Favrot Education Endowment Fund	105	100
Garden Endowment	23	64
Michael W. Dale Decorative Arts Exhibition Endowment	54	49
The John C. Wynne Memorial Lecture Series for Arts Education	37	37
Ralph S. O'Connor Statue Maintenance Endowment	33	35
Beth B. Schneider Endowed Summer Internship Fund	23	20
	<u>444,942</u>	<u>606,599</u>
Total Museum		

	Cost	Market Value
Bayou Bend Collection and Gardens:		
Bayou Bend Trust Endowment	\$ 4,003	\$ 13,249
Bayou Bend Endowments	3,671	9,538
David B. Warren Symposium Endowment	281	320
The Carol and Les Ballard Endowed Lecture Series	269	276
Underwood Bayou Bend Annual Gift Endowment	75	167
The Judy and Charles Tate Education Endowment	109	112
Bayou Bend 50th Anniversary Endowment	116	104
O.B. Dyer Endowment at Bayou Bend	25	25
The Twinkle Fund in support of operations for Bayou Bend Collection and Gardens	22	21
The Sparkle Fund in support of education programs for the docents at Bayou Bend Collection and Gardens	<u>6</u>	<u>5</u>
Total Bayou Bend Collection and Gardens	<u>8,577</u>	<u>23,817</u>
Glassell School of Art:		
Alfred C. Glassell, Jr. Endowment Fund	10,685	14,626
Glassell School Endowments	2,110	5,552
Glassell Scholarship Endowments	2,472	3,450
Laura Lee Blanton Endowment for the Core Program at the Glassell School of Art	805	724
Glassell School Special Endowment	<u>1</u>	<u>1</u>
Total Glassell School of Art	<u>16,073</u>	<u>24,353</u>
Rienzi:		
The Carroll Sterling and Harris Masterson III Endowment	6,181	11,892
The Caroline Wiess Law Endowment	5,813	9,880
Rienzi Garden Endowment Fund	<u>493</u>	<u>419</u>
Total Rienzi	<u>12,487</u>	<u>22,191</u>
Total Operations Endowment Investment Accounts	<u>482,079</u>	<u>676,960</u>
Accessions Endowment Investment Accounts:		
Caroline Wiess Law Accessions Endowment	214,327	223,780
Alfred C. Glassell, Jr. Endowment Fund for Accessions	35,878	48,998
Brown Foundation Accessions Endowment	14,327	47,966
Alice Pratt Brown Museum Endowment	11,268	44,347
Agnes Cullen Arnold Endowment	5,356	24,704
Director's Accessions Endowment	2,709	14,019
Audrey Jones Beck Accessions Endowment	9,369	10,825
Alvin S. Romansky Print Accessions Endowment	1,148	2,546
Long American Art Endowment	276	1,119
The Cyvia and Melvyn Wolff Endowment for American Art	921	858
S. I. and Susie Morris Photography Endowment	301	812
Lora Jean Kilroy Accessions Endowment	736	715
W. H. Keenan Family Endowment Fund	417	445
Rienzi Collections Endowment Fund	430	398

	Cost	Market Value
The Marjorie G. and Evan C. Horning Print Fund	\$ 120	\$ 359
Jack R. McGregor Endowment Fund for Glass	285	293
Myron Bonham Deily Endowment Fund for Latin American Art	265	248
Alice C. Simkins Drawing Endowment Fund	190	202
The Ann Gordon Trammell American Art Endowment Fund	189	196
Marian and Speros Martel Early Americana Accessions Endowment Fund Honoring William S. Kilroy	159	156
Mundy Photography Department Endowment	151	147
The Pamela and David Ott American Art Endowment	143	141
Elizabeth S. and Marjorie G. Horning Asian Art Accessions Endowment Fund	111	135
Michael K. Brown Metals Endowment Fund	128	132
The Ira and Virginia Jackson Endowment Fund	127	124
The Gloria Garic Anderson Endowment Fund For Accessions for Bayou Bend	114	121
Bayou Bend Docent Organization Endowment Fund	109	113
Houston Junior Woman's Club Charitable Fund—An Endowment Fund for Bayou Bend Accessions	109	104
Decorative Arts Accessions Endowment Fund	69	83
The Anne Wilkes Tucker Young Photographers Endowment	77	70
The Carol Jean and Michael Moehlman Bayou Bend Accessions Endowment Fund	55	59
The Alice C. Simkins Endowment for Southern Art for Bayou Bend	56	53
The Toni and Ralph Wallingford Accessions Endowment for Bayou Bend	54	47
Marjorie & Evan Horning Endowment for Decorative Arts	37	43
Lynn and Marcel Mason Photography Endowment Fund	44	42
Duncan W. Corbett Endowment for Southwestern American Art Photography Endowment	26	26
	18	21
Linda and Ronny Finger Endowment Fund	16	20
	<u>300,115</u>	<u>424,467</u>
Total Accessions Endowment Investment Accounts		
	<u>(3,399)</u>	<u>(3,399)</u>
Total investments within operations, accessions, and plant accounts		
	<u>61,080</u>	<u>60,433</u>
Total investments within plant account		
Total investments	<u>\$ 839,875</u>	<u>\$ 1,158,461</u>

5. PLEDGES RECEIVABLE

As of June 30, 2016 and 2015, the Museum had unconditional pledges receivable of \$136,210 and \$159,505, respectively. Pledges receivable—net represents the present value of future cash flows, discounted at the average five-year Treasury bill rate (1.17% as of June 30, 2016 and 2015), and are as follows:

	2016	2015
Due within one year	\$ 37,295	\$ 38,503
Due within two to five years	79,155	100,975
Due after five years	<u>19,760</u>	<u>20,027</u>
Total	136,210	159,505
Less present value discount	(4,537)	(5,705)
Less allowance for uncollectible pledges	<u>(609)</u>	<u>(609)</u>
Pledges receivable—net	<u>\$ 131,064</u>	<u>\$ 153,191</u>

6. PROPERTY

Property as of June 30, 2016 and 2015, is as follows:

	2016	2015
Land	\$ 27,877	\$ 28,362
Construction in progress	49,195	19,738
Buildings and capital improvements	155,521	159,884
Equipment, furniture, and fixtures	<u>20,140</u>	<u>17,765</u>
Total	252,733	225,749
Less accumulated depreciation	<u>(95,711)</u>	<u>(92,382)</u>
Total	<u>\$ 157,022</u>	<u>\$ 133,367</u>

7. PENSION PLAN

The Museum has a money-purchase defined contribution pension plan (the “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 expense for the employer contributions to the Plan for the year ended June 30, 2016 and 2015, was \$953 and \$852, respectively, which is included as part of employee benefits expense.

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.

The outstanding balances of pledges receivable from members of the Museum's Board of Trustees total \$47,093 and \$60,875 as of June 30, 2016 and 2015, respectively.

9. CAPITAL AND OPERATING LEASE COMMITMENTS

The Museum financed the purchase of certain equipment through capital lease obligations with a principal amount of \$2,444 for the year ended June 30, 2016, compared to \$3,284 for the year ended June 30, 2015. Amounts are included in "accounts payable and accrued liabilities" in the accompanying statements of financial position. The equipment was placed in service during the year ended June 30, 2015, and has an estimated useful life of 3 to 5 years. The cost and accumulated amortization of such equipment totaled \$4,382 and \$2,625, respectively, as of June 30, 2016 and \$4,382 and \$1,512, respectively, as of June 30, 2015. These amounts are included in "property" in the accompanying statements of financial position.

The capital leases will be repaid as follows:

Years Ending June 30	
2017	\$ 929
2018	780
2019	584
2020	358
Less interest	<u>(207)</u>
Total capital lease obligation	<u>\$ 2,444</u>

The Museum has various noncancelable operating lease commitments as of June 30, 2016, payable as follows:

Years Ending June 30	
2017	\$ 129
2018	131
2019	121
2020	<u>22</u>
Total lease commitments	<u>\$ 403</u>

Rental expense under these leases for the years ended June 30, 2016 and 2015, was \$129 and \$294, respectively.

10. NET ASSETS

Temporarily and permanently restricted net assets as of June 30, 2016 and 2015, were restricted for the following uses:

	2016		2015	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Operations and operations endowment	\$ 134,356	\$ 435,538	\$ 139,160	\$ 427,843
Accessions and accessions endowment	160,930	268,996	190,537	268,868
Plant	<u>226,516</u>	<u>-</u>	<u>232,834</u>	<u>-</u>
Total	<u>\$ 521,802</u>	<u>\$ 704,534</u>	<u>\$ 562,531</u>	<u>\$ 696,711</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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