

The Museum of Fine Arts, Houston

Financial Statements as of and for the Years Ended
June 30, 2017 and 2016, and Independent
Auditors' Report

THE MUSEUM OF FINE ARTS, HOUSTON

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7-24



Deloitte & Touche LLP
1111 Bagby St.
Suite 4500
Houston, TX 77002-2591
USA
Tel: +1 713 982 2000
Fax: +1 713 982 2001
www.deloitte.com

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, 2017, 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, 2017, 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 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Deloitte & Touche LLP

November 7, 2017

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2017 AND 2016

(Dollars in thousands)

	2017	2016
ASSETS		
TEMPORARILY RESTRICTED CASH AND CASH EQUIVALENTS	\$ 80,478	\$ 88,553
RECEIVABLES:		
Pledges	104,909	131,064
Grants	383	351
Accounts	8,258	10,791
Interest/dividends	1,783	1,768
Total receivables	<u>115,333</u>	<u>143,974</u>
INVENTORY	<u>597</u>	<u>493</u>
PREPAID EXPENSES	<u>1,500</u>	<u>1,116</u>
INVESTMENTS	<u>1,244,897</u>	<u>1,158,461</u>
PROPERTY—Net	<u>217,486</u>	<u>157,022</u>
OTHER ASSETS	<u>1,345</u>	<u>1,371</u>
TOTAL	<u>\$ 1,661,636</u>	<u>\$ 1,550,990</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 32,987	\$ 38,603
Deferred revenue	<u>16,620</u>	<u>16,830</u>
Total liabilities	<u>49,607</u>	<u>55,433</u>
COMMITMENTS (Note 3, 9)		
NET ASSETS:		
Unrestricted	372,746	269,221
Temporarily restricted	533,053	521,802
Permanently restricted	<u>706,230</u>	<u>704,534</u>
Total net assets	<u>1,612,029</u>	<u>1,495,557</u>
TOTAL	<u>\$ 1,661,636</u>	<u>\$ 1,550,990</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2016)

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
OPERATING REVENUES:					
Contributions and grants	\$ 13,189	\$ 4,003	\$ -	\$ 17,192	\$ 15,501
Investment returns designated for current use	34,062	149	-	34,211	34,184
Membership revenue	3,162	-	-	3,162	2,920
Admission revenue	4,775	-	-	4,775	3,152
Tuition revenue	2,031	-	-	2,031	2,070
Auxiliary revenue	2,845	-	-	2,845	2,703
Other	2,184	-	-	2,184	1,997
Net assets released from restriction	4,714	(4,714)	-	-	-
Total operating support and revenue	<u>66,962</u>	<u>(562)</u>	<u>-</u>	<u>66,400</u>	<u>62,527</u>
OPERATING EXPENSES:					
Program services:					
Curatorial and collections	9,096	-	-	9,096	9,294
Exhibitions	4,102	-	-	4,102	2,749
Education and public programs	7,586	-	-	7,586	7,638
Glassell School	3,487	-	-	3,487	3,910
Bayou Bend	4,212	-	-	4,212	4,407
Rienzi	1,193	-	-	1,193	1,586
Membership activities	1,191	-	-	1,191	1,104
Buildings and grounds and security	12,033	-	-	12,033	12,681
Subtotal program services	<u>42,900</u>	<u>-</u>	<u>-</u>	<u>42,900</u>	<u>43,369</u>
Supporting services:					
Management and general	11,306	-	-	11,306	11,469
Auxiliary activities	3,167	-	-	3,167	3,055
Fundraising	4,425	-	-	4,425	4,166
Subtotal supporting services	<u>18,898</u>	<u>-</u>	<u>-</u>	<u>18,898</u>	<u>18,690</u>
Total operating expenses before depreciation and amortization	<u>61,798</u>	<u>-</u>	<u>-</u>	<u>61,798</u>	<u>62,059</u>
OPERATING SURPLUS (DEFICIT) BEFORE DEPRECIATION AND AMORTIZATION	5,164	(562)	-	4,602	468
DEPRECIATION AND AMORTIZATION	<u>6,757</u>	<u>-</u>	<u>-</u>	<u>6,757</u>	<u>6,995</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(1,593)	(562)	-	(2,155)	(6,527)
CHANGES IN NONOPERATING ACTIVITIES:					
Contributions designated for capital expenditures and long term investment	-	19,523	1,696	21,219	29,826
Contributions for the purchase of art	7,103	1,410	-	8,513	8,907
Investment returns designated for art acquisition	13,895	6,292	-	20,187	20,168
Acquisition of art objects net of proceeds from the sale of art	(27,576)	-	-	(27,576)	(43,255)
Investment return in excess of amounts designated for current use and art acquisition	18,729	78,790	-	97,519	(42,872)
Net assets released from restriction to fund non-operating activities	94,609	(94,609)	-	-	-
Endowment related expenses (net)	(1,642)	407	-	(1,235)	(1,579)
Other—gain on sale of building	-	-	-	-	3,676
CHANGE IN NET ASSETS	103,525	11,251	1,696	116,472	(31,656)
NET ASSETS—Beginning of year	<u>269,221</u>	<u>521,802</u>	<u>704,534</u>	<u>1,495,557</u>	<u>1,527,213</u>
NET ASSETS—End of year	<u>\$ 372,746</u>	<u>\$ 533,053</u>	<u>\$ 706,230</u>	<u>\$ 1,612,029</u>	<u>\$ 1,495,557</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2016)

(Dollars in thousands)

Area	Program Services													Total Expenses before Depreciation for the Year Ended June 30, 2017	Total Expenses before Depreciation for the Year Ended June 30, 2016
	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	\$ 5,317	\$ 10	\$ 4,156	\$ 1,911	\$ 1,781	\$ 491	\$ 348	\$ 6,501	\$ 20,515	\$ 5,549	\$ 1,088	\$ 1,919	\$ 8,556	\$ 29,071	\$ 29,578
EMPLOYEE BENEFITS	1,045	-	727	351	186	46	61	1,223	3,639	1,362	165	338	1,865	5,504	5,568
PAYROLL TAXES	<u>380</u>	<u>-</u>	<u>299</u>	<u>138</u>	<u>64</u>	<u>15</u>	<u>25</u>	<u>567</u>	<u>1,488</u>	<u>347</u>	<u>79</u>	<u>128</u>	<u>554</u>	<u>2,042</u>	<u>2,165</u>
Total	6,742	10	5,182	2,400	2,031	552	434	8,291	25,642	7,258	1,332	2,385	10,975	36,617	37,311
PROFESSIONAL FEES	771	153	483	169	77	7	42	5	1,707	953	429	288	1,670	3,377	2,650
CONTRACT SERVICES	58	5	138	136	441	233	42	394	1,447	1,045	73	725	1,843	3,290	2,806
OCCUPANCY	19	-	88	25	277	111	-	1,743	2,263	727	68	-	795	3,058	4,315
PROGRAMS AND PREVIEWS	56	1,688	65	134	636	64	1	-	2,644	19	4	12	35	2,679	2,432
POSTAGE AND SHIPPING	355	1,906	40	22	11	4	81	-	2,419	64	78	72	214	2,633	2,023
INSURANCE	509	63	-	32	54	18	-	607	1,283	204	3	6	213	1,496	1,440
PROMOTION	6	2	605	34	36	19	417	-	1,119	34	35	259	328	1,447	1,476
MISCELLANEOUS	180	9	245	271	178	64	19	(81)	885	302	32	114	448	1,333	1,708
SUPPLIES	142	8	78	136	147	18	2	335	866	126	95	150	371	1,237	1,473
REPAIRS AND MAINTENANCE	5	3	4	6	160	79	-	719	976	92	-	-	92	1,068	914
COST OF GOODS SOLD	-	-	-	-	76	-	-	-	76	-	993	-	993	1,069	929
TRAVEL	237	241	102	46	18	3	2	8	657	118	22	188	328	985	937
PRINTING AND PUBLICATIONS	7	14	347	74	61	15	150	-	668	19	2	199	220	888	930
DUES AND SUBSCRIPTIONS	9	-	60	2	3	6	1	12	93	272	1	27	300	393	411
LIBRARY	-	-	149	-	6	-	-	-	155	-	-	-	-	155	211
INTEREST AND TAXES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73</u>	<u>-</u>	<u>-</u>	<u>73</u>	<u>73</u>	<u>93</u>
TOTAL	<u>\$9,096</u>	<u>\$4,102</u>	<u>\$7,586</u>	<u>\$3,487</u>	<u>\$4,212</u>	<u>\$1,193</u>	<u>\$1,191</u>	<u>\$12,033</u>	<u>\$42,900</u>	<u>\$11,306</u>	<u>\$3,167</u>	<u>\$4,425</u>	<u>\$18,898</u>	<u>\$61,798</u>	<u>\$62,059</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (Dollars in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 116,472	\$ (31,656)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	6,757	6,995
Gains on sale of property—net	-	(3,240)
Gains on sale of investments	(50,623)	(37,700)
Net unrealized (appreciation) depreciation on investments	(80,011)	48,800
Distributions from investing activities	39,842	20,855
Contributions restricted by donors	(26,632)	(33,810)
Decrease in receivables	28,641	23,973
Increase in inventory	(104)	(232)
Increase in prepaid expenses	(384)	(755)
(Decrease) increase in liabilities	<u>(13,954)</u>	<u>7,202</u>
Net cash provided by operating activities	<u>20,004</u>	<u>432</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(59,093)	(32,310)
Proceeds from sale of property	-	4,900
Return of capital on investments	52,310	30,389
Purchases of investments	(119,862)	(212,092)
Proceeds from sale of investments	71,908	192,501
Decrease (increase) in temporarily restricted cash and cash equivalents	8,075	(17,641)
Decrease in other assets	<u>26</u>	<u>11</u>
Net cash used in investing activities	<u>(46,636)</u>	<u>(34,242)</u>
CASH FLOWS FROM FINANCING ACTIVITY—Contributions restricted by donors		
	<u>26,632</u>	<u>33,810</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>

NONCASH ACTIVITIES:

Property purchases totaling \$8,128 are included in accounts payable as of June 30, 2017.

There were no such purchases included in accounts payable as of June 30, 2016.

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (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 69,306 works at June 30, 2017, 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 \$22,689 and \$37,035 for the years ended June 30, 2017 and 2016, respectively. The value of art objects obtained by gifts is reported as contributions and collection expense in the statements of activities and totaled \$4,887 and \$6,220 for the years ended June 30, 2017 and 2016, respectively. Deaccessions made during the years 2017 and 2016 had a fair market value of \$19 and \$24, 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, 2017 and 2016, the Museum received donated legal services valued at \$89 and \$34, respectively. In the years ended June 30, 2017 and 2016, the Museum received donated technology advisory and implementation services valued at \$34 and \$80, respectively.

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 7, 2017, which is the date the financial statements were available for issuance. In late August 2017, Hurricane Harvey made landfall on the Texas coast, dropping record amounts of rain and causing severe flooding in the Houston area. The Museum was closed to the public for 10 days, and the Bayou Bend Collection and Gardens is expected to remain closed through mid-November. Although there was no damage to the Museum's art collection, the Museum experienced damage to certain buildings, equipment, and gardens as a result of the flooding. The Museum expects to incur significant costs to replace, repair, and remediate damage to its property. The Museum maintains flood insurance and property

insurance on all affected properties and expects a substantial amount of the cost to be covered by insurance proceeds. At this time, the total estimated cost of the damage and therefore specific amounts recoverable through the Museum's various insurance programs have not yet been determined.

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 determined that implementation of ASU 2015-07 will not affect the Museum's basic financial statements, but will require revisions to the disclosures in Note 3.

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, 2017 and 2016, are as follows:

	<u>2017</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets—beginning of year	<u>\$131,934</u>	<u>\$275,713</u>	<u>\$704,534</u>	<u>\$1,112,181</u>
Investment return:				
Investment income	9,589	10,320		19,909
Net realized gains	25,167	25,924		51,091
Net unrealized gains	<u>38,214</u>	<u>42,102</u>		<u>80,316</u>
Total investment return	<u>72,970</u>	<u>78,346</u>	<u>-</u>	<u>151,316</u>
Contributions				
Other	396	407	1,696	803
Appropriated for expenditures	(3,056)			(3,056)
Transfers to other funds	(53,223)			(53,223)
Net assets released from restrictions	<u>21,107</u>	<u>(21,107)</u>		<u>-</u>
Endowment net assets—end of year	<u>\$170,128</u>	<u>\$333,359</u>	<u>\$706,230</u>	<u>\$1,209,717</u>

	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>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>	—	—
Endowment net assets—end of year	<u>\$131,934</u>	<u>\$275,713</u>	<u>\$704,534</u>	<u>\$1,112,181</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 \$247,286 (15% of 2017 net assets) and \$281,418 (19% of 2016 net assets) as of June 30, 2017 and 2016, 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 \$398,597 and \$318,586 as of June 30, 2017 and 2016, respectively.

The Museum has made capital commitments of \$612,523 and \$597,523 for purchases of limited partnership interests, of which the total net amount funded was \$435,768 and \$402,709 as of June 30, 2017 and 2016, respectively. Subsequent to June 30, 2017, the Museum funded an additional \$22,229.

Subsequent to June 30, 2017, the Museum made no additional commitments to investment managers in other asset classes.

A summary of investments as of June 30, 2017 and 2016, is as follows:

	2017		
	Cost	Market Value	Unrealized Appreciation
At fair value:			
Equity and equity mutual funds	\$ 423,929	\$ 789,820	\$ 365,891
U.S. treasuries, bonds, and bond mutual funds	94,406	97,808	3,402
Alternative investments	222,569	247,286	24,717
Real estate and REITS	15,590	20,177	4,587
Money market mutual funds	<u>89,806</u>	<u>89,806</u>	<u>-</u>
Total investments	<u>\$ 846,300</u>	<u>\$ 1,244,897</u>	<u>\$ 398,597</u>
	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	<u>55,991</u>	<u>55,991</u>	<u>-</u>
Total investments	<u>\$ 839,875</u>	<u>\$ 1,158,461</u>	<u>\$ 318,586</u>

Investment income earned by the Museum and its allocation among net asset classifications for the years ended June 30, 2017 and 2016, are as follows:

	2017	2016
Investment income	\$ 21,283	\$ 22,580
Net realized gains on investments reported at fair value	50,623	37,700
Net unrealized gains (losses) on investments reported at fair value	<u>80,011</u>	<u>(48,800)</u>
Total investment income	<u>\$ 151,917</u>	<u>\$ 11,480</u>
Net asset classification of investment income:		
Unrestricted	\$ 66,686	\$ 186
Temporarily restricted	<u>85,231</u>	<u>11,294</u>
Total investment income	<u>\$ 151,917</u>	<u>\$ 11,480</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, 2017 and 2016, the Museum valued, using Level 1 inputs, \$950,438 and \$819,972, 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, 2017 and 2016, using Level 2 inputs, the Museum valued \$45,733 and \$72,854, 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, 2017 and 2016, using Level 3 inputs, the Museum valued \$248,726 and \$265,635, 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, 2017 and 2016 were as follows:

2017				
Assets at Fair Value				
	Level 1	Level 2	Level 3	Total
Equity and equity mutual funds	\$ 788,380	\$ -	\$ 1,440	\$ 789,820
U.S. treasuries, bonds, and bond mutual funds	52,075	45,733		97,808
Alternative investments			247,286	247,286
Real estate and REITS	20,177			20,177
Money market mutual funds	<u>89,806</u>			<u>89,806</u>
Total	<u>\$950,438</u>	<u>\$45,733</u>	<u>\$248,726</u>	<u>\$1,244,897</u>

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	<u>55,991</u>			<u>55,991</u>
Total	<u>\$819,972</u>	<u>\$72,854</u>	<u>\$265,635</u>	<u>\$1,158,461</u>

The following table includes a rollforward for the year ended June 30, 2017 and 2016, 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.

	Level 3 Investments	
	2017	2016
Balance—beginning of fiscal year	\$265,635	\$268,533
Purchases	48,632	43,822
Distributions	(98,632)	(51,244)
Net operating (loss) income	(16,217)	894
Net realized gains	38,243	19,569
Net unrealized gains (losses)	<u>11,065</u>	<u>(15,939)</u>
Balance—end of fiscal year	<u>\$248,726</u>	<u>\$265,635</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, 2017 and 2016:

		2017			
Category		Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Hedge Funds	(a)	\$ 6,681	\$ -	Quarterly–Annually	30–100 days
Private Equity Funds	(b)	110,204	56,101	N/A	N/A
Venture Capital Funds	(c)	14,585	700	N/A	N/A
Energy/Natural Resources Funds	(d)	85,467	86,264	N/A	N/A
Distressed Debt Funds	(e)	709		N/A	N/A
Real Estate Funds	(f)	<u>29,640</u>	<u>33,690</u>	N/A	N/A
Total		<u>\$247,286</u>	<u>\$176,755</u>		

		2016			
Category		Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Hedge Funds	(a)	\$ 26,611	\$ -	Quarterly–Annually	30–100 days
Private Equity Funds	(b)	125,413	64,505	N/A	N/A
Venture Capital Funds	(c)	16,419	1,015	N/A	N/A
Energy/Natural Resources Funds	(d)	83,603	85,077	N/A	N/A
Distressed Debt Funds	(e)	2,828		N/A	N/A
Real Estate Funds	(f)	<u>26,544</u>	<u>44,217</u>	N/A	N/A
Total		<u>\$281,418</u>	<u>\$194,814</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, 2017, is as follows:

	Cost	Market Value
Operations endowment investment accounts:		
Museum:		
The Caroline Wiess Law Operating Endowment	\$ 339,291	\$ 374,001
Brown Foundation Maintenance Endowment	39,408	130,214
Alice Pratt Brown, "Brown Wing" Endowment	8,190	32,270
The General and Mrs. Maurice Hirsch Library Endowment	10,123	22,064
Permanent Endowment	4,083	19,801
Alfred C. Glassell, Jr. Endowment Fund for The Museum of Fine Arts, Houston	12,001	18,490
Jesse H. and Mary Gibbs Jones Exhibition Endowment	3,166	9,203
Cornelia and Meredith Long Operating Endowment	6,332	6,872
Robert A. Welch—Works of Art Restoration Endowment	1,800	5,690
The Wortham Foundation Audrey Jones Beck Building Endowment	4,368	5,164
W. T. and Louise J. Moran Education Director Endowment	3,612	4,339
Gus and Lyndall Wortham Curatorial Chair Endowment	1,326	3,843
Audrey Jones Beck Capital Campaign Endowment	3,184	2,960
Cullinan Wing Endowment	676	2,919
Lora Jean Kilroy Wilson American Art Curator	2,712	2,814
The Caroline Wiess Law Education Endowment	1,602	2,429
The Carol Crow Photography Conservator Chair Endowment	1,618	2,073
Audrey Jones Beck European Art Curator Endowment	2,123	1,973
Latin American and Latino Art Curator Endowment	1,606	1,884
Fayez Shalaby Sarofim and Meredith J. Long Endowment Fund for Exhibitions	1,070	1,243
William Randolph Hearst Educational Outreach Endowment	582	1,106
Harry C. Wiess Memorial Endowment	234	1,021
National Endowment for the Humanities—Education Endowment	652	887
The Fondren Foundation Education Endowment	549	655
B.M.C. Software, Inc. Education Endowment	541	626
The Wallace Foundation Education Endowment	584	603
John Blodgett Davis Endowment Fund	567	584
The Isabel Brown Wilson Endowment for the Curator of Modern and Contemporary Art	540	563
Shell Companies Exhibition Endowment	118	344
Neal Myers and Ken Black Children's Art Fund	212	339
National Endowment for the Arts—Planning and Stabilization	328	332
The Margaret Cooke Skidmore Endowed Exhibition Fund	264	326
Frank and Eleanor Freed Lecture Series Endowment	148	274
The Cyvia and Melvyn Wolff Endowment for Exhibitions	232	232
The Virginia and Ira Jackson Lecture on Prints and Drawings Endowment	198	219
Houston Antiques Dealers Association Endowment	124	161
Alice Pratt Brown Garden Endowment	54	123
Favrot Education Endowment Fund	107	108
Campaign for the MFAH Campus Operating Endowment	83	83
Garden Endowment	24	69
Michael W. Dale Decorative Arts Exhibition Endowment	58	57

(Continued)

	Cost	Market Value
The John C. Wynne Memorial Lecture Series for Arts Education	\$ 40	\$ 42
Ralph S. O'Connor Statue Maintenance Endowment	33	38
Beth B. Schneider Endowed Summer Internship Fund	23	22
Neiman Marcus Youth Arts Education Endowment	10	11
Samuel F. Gorman Endowment Fund for Exhibitions	<u>1</u>	<u>1</u>
 Total Museum	 <u>454,597</u>	 <u>659,072</u>
 Bayou Bend Collection and Gardens:		
Bayou Bend Trust Endowment	4,193	14,337
Bayou Bend Endowments	3,813	10,327
David B. Warren Symposium Endowment	286	346
The Carol and Les Ballard Endowed Lecture Series	273	299
Underwood Bayou Bend Annual Gift Endowment	77	181
The Judy and Charles Tate Education Endowment	110	121
Bayou Bend 50th Anniversary Endowment	118	113
O.B. Dyer Endowment at Bayou Bend	52	54
The Twinkle Fund in support of operations for Bayou Bend Collection and Gardens	22	23
The Sparkle Fund in support of education programs for the docents at Bayou Bend Collection and Gardens	<u>6</u>	<u>6</u>
 Total Bayou Bend Collection and Gardens	 <u>8,950</u>	 <u>25,807</u>
 Glassell School of Art:		
Alfred C. Glassell, Jr. Endowment Fund	10,722	16,554
Glassell School Endowments	2,189	6,009
Glassell Scholarship Endowments	2,522	3,733
Laura Lee Blanton Endowment for the Core Program at the Glassell School of Art	982	960
Glassell School Special Endowment	<u>1</u>	<u>1</u>
 Total Glassell School of Art	 <u>16,416</u>	 <u>27,257</u>
 Rienzi:		
The Carroll Sterling and Harris Masterson III Endowment	6,569	13,097
The Caroline Wiess Law Endowment	5,954	10,692
Rienzi Garden Endowment Fund	<u>542</u>	<u>493</u>
 Total Rienzi	 <u>13,065</u>	 <u>24,282</u>
 Total Operations Endowment Investment Accounts	 <u>493,028</u>	 <u>736,418</u>
 Accessions Endowment Investment Accounts:		
Caroline Wiess Law Accessions Endowment	217,538	242,170
Alfred C. Glassell, Jr. Endowment Fund for Accessions	36,002	55,470
Brown Foundation Accessions Endowment	15,015	51,907
Alice Pratt Brown Museum Endowment	11,904	47,991
Agnes Cullen Arnold Endowment	5,710	26,734
Director's Accessions Endowment	2,911	15,171
Audrey Jones Beck Accessions Endowment	9,524	11,715

(Continued)

	Cost	Market Value
Alvin S. Romansky Print Accessions Endowment	\$ 1,184	\$ 2,755
Long American Art Endowment	293	1,211
The Cyvia and Melvyn Wolff Endowment for American Art	933	928
S. I. and Susie Morris Photography Endowment	383	950
Lora Jean Kilroy Accessions Endowment	848	874
W. H. Keenan Family Endowment Fund	424	482
Rienzi Collections Endowment Fund	440	431
The Marjorie G. and Evan C. Horning Print Fund	125	388
Jack R. McGregor Endowment Fund for Glass	289	318
Myron Bonham Deily Endowment Fund for Latin American Art	268	268
Alice C. Simkins Drawing Endowment Fund	192	219
The Ann Gordon Trammell American Art Endowment Fund	192	212
Marian and Speros Martel Early Americana Accessions Endowment Fund Honoring William S. Kilroy	161	168
Mundy Photography Department Endowment	161	166
The Pamela and David Ott American Art Endowment	145	153
Elizabeth S. and Marjorie G. Horning Asian Art Accessions Endowment Fund	113	146
Michael K. Brown Metals Endowment Fund	131	143
The Ira and Virginia Jackson Endowment Fund	129	134
The Gloria Garic Anderson Endowment Fund For Accessions for Bayou Bend	116	131
Bayou Bend Docent Organization Endowment Fund	114	126
Houston Junior Woman's Club Charitable Fund—An Endowment Fund for Bayou Bend Accessions	119	121
Decorative Arts Accessions Endowment Fund	70	90
The Anne Wilkes Tucker Young Photographers Endowment	80	76
The Carol Jean and Michael Moehlman Bayou Bend Accessions Endowment Fund	56	64
The Alice C. Simkins Endowment for Southern Art for Bayou Bend	57	58
The Toni and Ralph Wallingford Accessions Endowment for Bayou Bend	54	52
Marjorie & Evan Horning Endowment for Decorative Arts	38	47
Lynn and Marcel Mason Photography Endowment Fund	45	45
Duncan W. Corbett Endowment for Southwestern American Art Photography Endowment	19	23
Linda and Ronny Finger Endowment Fund	16	21
Samuel F. Gorman Endowment Fund for Accessions	1	1
	<u>305,829</u>	<u>461,988</u>
Total Accessions Endowment Investment Accounts		
	<u>(2,071)</u>	<u>(2,071)</u>
Total investments within operations, accessions, and plant accounts		
	<u>49,514</u>	<u>48,562</u>
Total investments within plant account		
Total investments	<u>\$ 846,300</u>	<u>\$ 1,244,897</u>

(Concluded)

5. PLEDGES RECEIVABLE

As of June 30, 2017 and 2016, the Museum had unconditional pledges receivable of \$108,796 and \$136,210, respectively. Pledges receivable—net represents the present value of future cash flows, discounted at the average five-year Treasury bill rate (1.77% and 1.17% as of June 30, 2017 and 2016, respectively), and are as follows:

	2017	2016
Due within one year	\$ 38,584	\$ 37,295
Due within two to five years	52,609	79,155
Due after five years	<u>17,603</u>	<u>19,760</u>
Total	108,796	136,210
Less present value discount	(3,278)	(4,537)
Less allowance for uncollectible pledges	<u>(609)</u>	<u>(609)</u>
Pledges receivable—net	<u>\$104,909</u>	<u>\$131,064</u>

6. PROPERTY

Property as of June 30, 2017 and 2016, is as follows:

	2017	2016
Land	\$ 27,877	\$ 27,877
Construction in progress	73,259	49,195
Buildings and capital improvements	196,917	155,521
Equipment, furniture, and fixtures	<u>21,901</u>	<u>20,140</u>
Total	319,954	252,733
Less accumulated depreciation	<u>(102,468)</u>	<u>(95,711)</u>
Total	<u>\$ 217,486</u>	<u>\$157,022</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, 2017 and 2016, was \$909 and \$953, 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 \$33,000 and \$47,093 as of June 30, 2017 and 2016, respectively.

9. CAPITAL AND OPERATING LEASE COMMITMENTS

The Museum financed the purchase of certain equipment through capital lease obligations with a principal amount of \$1,588 for the year ended June 30, 2017, compared to \$2,444 for the year ended June 30, 2016. 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, 2014, and has an estimated useful life of 3 to 5 years. The cost and accumulated amortization of such equipment totaled \$4,382 and \$4,103, respectively, as of June, 30 2017 and \$4,382 and \$3,824, respectively, as of June, 30 2016. 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	
2018	\$ 780
2019	584
2020	358
Less interest	<u>(134)</u>
Total capital lease obligation	<u>\$1,588</u>

The Museum has various noncancelable operating lease commitments as of June 30, 2017, payable as follows:

Years Ending June 30	
2018	\$ 131
2019	121
2020	<u>22</u>
Total lease commitments	<u>\$274</u>

Rental expense under these leases for the years ended June 30, 2017 and 2016, was \$128 and \$129, respectively.

10. NET ASSETS

Temporarily and permanently restricted net assets as of June 30, 2017 and 2016, were restricted for the following uses:

	2017		2016	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Operations and operations endowment	\$156,932	\$437,058	\$134,356	\$435,538
Accessions and accessions endowment	198,551	269,172	160,930	268,996
Plant	<u>177,570</u>	<u> </u>	<u>226,516</u>	<u> </u>
Total	<u>\$533,053</u>	<u>\$706,230</u>	<u>\$521,802</u>	<u>\$704,534</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.

* * * * *